

SONIC AUTOMOTIVE INC  
Form 10-Q  
April 26, 2013  
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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 March 31, 2013

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**4401 Colwick Road**  
**Charlotte, North Carolina**  
(Address of principal executive offices)

**(704) 566-2400**

**28211**  
(Zip Code)

(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 April 15, 2013, there were 40,932,510 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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|                                                           | <b>First Quarter Ended March 31,</b> |              |
|-----------------------------------------------------------|--------------------------------------|--------------|
|                                                           | <b>2013</b>                          | <b>2012</b>  |
| Revenues:                                                 |                                      |              |
| New vehicles                                              | \$ 1,143,056                         | \$ 1,031,390 |
| Used vehicles                                             | 526,182                              | 501,864      |
| Wholesale vehicles                                        | 51,792                               | 43,673       |
| Total vehicles                                            | 1,721,030                            | 1,576,927    |
| Parts, service and collision repair                       | 296,642                              | 292,555      |
| Finance, insurance and other                              | 65,494                               | 57,584       |
| Total revenues                                            | 2,083,166                            | 1,927,066    |
| Cost of Sales:                                            |                                      |              |
| New vehicles                                              | (1,076,586)                          | (967,673)    |
| Used vehicles                                             | (488,152)                            | (462,467)    |
| Wholesale vehicles                                        | (52,995)                             | (43,439)     |
| Total vehicles                                            | (1,617,733)                          | (1,473,579)  |
| Parts, service and collision repair                       | (152,413)                            | (149,733)    |
| Total cost of sales                                       | (1,770,146)                          | (1,623,312)  |
| Gross profit                                              | 313,020                              | 303,754      |
| Selling, general and administrative expenses              | (245,824)                            | (237,149)    |
| Impairment charges                                        | (15)                                 | (1)          |
| Depreciation and amortization                             | (12,134)                             | (10,895)     |
| Operating income (loss)                                   | 55,047                               | 55,709       |
| Other income (expense):                                   |                                      |              |
| Interest expense, floor plan                              | (5,213)                              | (4,263)      |
| Interest expense, other, net                              | (14,359)                             | (16,409)     |
| Other income (expense), net                               | 95                                   | 20           |
| Total other income (expense)                              | (19,477)                             | (20,652)     |
| Income (loss) from continuing operations before taxes     | 35,570                               | 35,057       |
| Provision for income taxes - benefit (expense)            | (13,873)                             | (13,912)     |
| Income (loss) from continuing operations                  | 21,697                               | 21,145       |
| Discontinued operations:                                  |                                      |              |
| Income (loss) from operations and the sale of dealerships | (738)                                | (1,176)      |
| Income tax benefit (expense)                              | 332                                  | 529          |
| Income (loss) from discontinued operations                | (406)                                | (647)        |

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|                                                                     |    |        |    |        |
|---------------------------------------------------------------------|----|--------|----|--------|
| Net income (loss)                                                   | \$ | 21,291 | \$ | 20,498 |
| Basic earnings (loss) per common share:                             |    |        |    |        |
| Earnings (loss) per share from continuing operations                | \$ | 0.41   | \$ | 0.40   |
| Earnings (loss) per share from discontinued operations              |    | (0.01) |    | (0.01) |
| Earnings (loss) per common share                                    | \$ | 0.40   | \$ | 0.39   |
| Weighted average common shares outstanding                          |    | 52,586 |    | 52,224 |
| Diluted earnings (loss) per common share:                           |    |        |    |        |
| Earnings (loss) per share from continuing operations                | \$ | 0.41   | \$ | 0.36   |
| Earnings (loss) per share from discontinued operations              |    | (0.01) |    | (0.01) |
| Earnings (loss) per common share                                    | \$ | 0.40   | \$ | 0.35   |
| Weighted average common shares outstanding                          |    | 52,931 |    | 64,420 |
| Dividends declared per common share                                 | \$ | 0.025  | \$ | 0.025  |
| 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)

|                                                        | <b>First Quarter Ended March 31,</b> |             |
|--------------------------------------------------------|--------------------------------------|-------------|
|                                                        | <b>2013</b>                          | <b>2012</b> |
| Net income (loss)                                      | \$ 21,291                            | \$ 20,498   |
| Other comprehensive income (loss) before taxes:        |                                      |             |
| Change in fair value of interest rate swap agreements  | 2,881                                | 2,807       |
| Provision for income tax benefit (expense) related to: |                                      |             |
| Change in fair value of interest rate swap agreements  | (1,094)                              | (1,066)     |
| Other comprehensive income (loss)                      | 1,787                                | 1,741       |
| Comprehensive income (loss)                            | \$ 23,078                            | \$ 22,239   |

See notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

|                                                                                                                                                                                                                                      | March 31, 2013 | December 31, 2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                        |                |                   |
| Current Assets:                                                                                                                                                                                                                      |                |                   |
| Cash and cash equivalents                                                                                                                                                                                                            | \$ 4,247       | \$ 3,371          |
| Receivables, net                                                                                                                                                                                                                     | 280,920        | 345,294           |
| Inventories                                                                                                                                                                                                                          | 1,142,023      | 1,177,966         |
| Other current assets                                                                                                                                                                                                                 | 47,396         | 84,402            |
| Total current assets                                                                                                                                                                                                                 | 1,474,586      | 1,611,033         |
| Property and Equipment, net                                                                                                                                                                                                          | 641,797        | 595,124           |
| Goodwill                                                                                                                                                                                                                             | 454,224        | 454,224           |
| Other Intangible Assets, net                                                                                                                                                                                                         | 70,133         | 70,521            |
| Other Assets                                                                                                                                                                                                                         | 47,224         | 45,820            |
| Total Assets                                                                                                                                                                                                                         | \$ 2,687,964   | \$ 2,776,722      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                          |                |                   |
| Current Liabilities:                                                                                                                                                                                                                 |                |                   |
| Notes payable - floor plan - trade                                                                                                                                                                                                   | \$ 613,078     | \$ 655,195        |
| Notes payable - floor plan - non-trade                                                                                                                                                                                               | 493,475        | 524,023           |
| Trade accounts payable                                                                                                                                                                                                               | 99,663         | 120,981           |
| Accrued interest                                                                                                                                                                                                                     | 7,986          | 16,643            |
| Other accrued liabilities                                                                                                                                                                                                            | 172,490        | 188,726           |
| Current maturities of long-term debt                                                                                                                                                                                                 | 19,555         | 18,587            |
| Total current liabilities                                                                                                                                                                                                            | 1,406,247      | 1,524,155         |
| Long-Term Debt                                                                                                                                                                                                                       | 619,742        | 610,798           |
| Other Long-Term Liabilities                                                                                                                                                                                                          | 102,081        | 104,456           |
| Deferred Income Taxes                                                                                                                                                                                                                | 18,675         | 10,768            |
| 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; 61,462,430 shares issued and 40,929,176 shares outstanding at March 31, 2013; 61,352,134 shares issued and 41,210,507 shares outstanding at December 31, 2012 | 615            | 614               |
| Class B common stock; \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at March 31, 2013 and December 31, 2012                                                                               | 121            | 121               |
| Paid-in capital                                                                                                                                                                                                                      | 671,382        | 669,324           |
| Retained earnings                                                                                                                                                                                                                    | 227,996        | 208,048           |
| Accumulated other comprehensive income (loss)                                                                                                                                                                                        | (18,176)       | (19,963)          |
| Treasury stock, at cost (20,533,254 Class A shares held at March 31, 2013 and 20,141,627 Class A shares held at December 31, 2012)                                                                                                   | (340,719)      | (331,599)         |
| Total stockholders' equity                                                                                                                                                                                                           | 541,219        | 526,545           |
| Total Liabilities and Stockholders' Equity                                                                                                                                                                                           | \$ 2,687,964   | \$ 2,776,722      |

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See notes to Unaudited Condensed Consolidated Financial Statements.

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

|                                                                                  | Class A<br>Common Stock |        | Class A<br>Treasury Stock |              | Class B<br>Common Stock |        | Paid-In<br>Capital | Retained<br>Earnings /<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Stockholders<br>Equity |
|----------------------------------------------------------------------------------|-------------------------|--------|---------------------------|--------------|-------------------------|--------|--------------------|----------------------------------------------------|-----------------------------------------------------------|---------------------------------|
|                                                                                  | Shares                  | Amount | Shares                    | Amount       | Shares                  | Amount |                    |                                                    |                                                           |                                 |
| BALANCE AT<br>DECEMBER 31, 2012                                                  | 61,352                  | \$ 614 | (20,142)                  | \$ (331,599) | 12,029                  | \$ 121 | \$ 669,324         | \$ 208,048                                         | \$ (19,963)                                               | \$ 526,545                      |
| Shares awarded under stock<br>compensation plans                                 | 110                     | 1      |                           |              |                         |        | 727                |                                                    |                                                           | 728                             |
| Purchases of treasury stock                                                      |                         |        | (391)                     | (9,120)      |                         |        |                    |                                                    |                                                           | (9,120)                         |
| Income tax benefit<br>associated with stock<br>compensation plans                |                         |        |                           |              |                         |        | 204                |                                                    |                                                           | 204                             |
| Fair value of interest rate<br>swap agreements, net of tax<br>expense of \$1,094 |                         |        |                           |              |                         |        |                    |                                                    | 1,787                                                     | 1,787                           |
| Restricted stock<br>amortization                                                 |                         |        |                           |              |                         |        | 1,127              |                                                    |                                                           | 1,127                           |
| Net income (loss)                                                                |                         |        |                           |              |                         |        |                    | 21,291                                             |                                                           | 21,291                          |
| Dividends (\$0.025 per<br>share)                                                 |                         |        |                           |              |                         |        |                    | (1,343)                                            |                                                           | (1,343)                         |
| BALANCE AT MARCH<br>31, 2013                                                     | 61,462                  | \$ 615 | (20,533)                  | \$ (340,719) | 12,029                  | \$ 121 | \$ 671,382         | \$ 227,996                                         | \$ (18,176)                                               | \$ 541,219                      |

See notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

|                                                                                          | <b>First Quarter Ended March 31,</b> |                 |
|------------------------------------------------------------------------------------------|--------------------------------------|-----------------|
|                                                                                          | <b>2013</b>                          | <b>2012</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                             |                                      |                 |
| Net income (loss)                                                                        | \$ 21,291                            | \$ 20,498       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                      |                 |
| Depreciation and amortization of property, plant and equipment                           | 12,133                               | 11,133          |
| Provision for bad debt expense                                                           | 19                                   | 91              |
| Other amortization                                                                       | 390                                  | 390             |
| Debt issuance cost amortization                                                          | 794                                  | 765             |
| Debt discount amortization, net of premium amortization                                  | (26)                                 | 1,309           |
| Stock - based compensation expense                                                       |                                      | 107             |
| Amortization of restricted stock, net of forfeitures                                     | 1,127                                | 1,023           |
| Deferred income taxes                                                                    | 6,811                                | (429)           |
| Equity interest in earnings of investee                                                  | (79)                                 | (101)           |
| Asset impairment charges                                                                 | 15                                   | 1               |
| Loss (gain) on disposal of dealerships and property and equipment                        | (12)                                 | (5,644)         |
| Loss on exit of leased dealerships                                                       | 788                                  | 3,321           |
| Non-cash adjustments - cash flow swaps                                                   | (195)                                | (22)            |
| Changes in assets and liabilities that relate to operations:                             |                                      |                 |
| Receivables                                                                              | 64,355                               | 48,562          |
| Inventories                                                                              | 35,992                               | (130,766)       |
| Other assets                                                                             | 34,885                               | (4,736)         |
| Notes payable - floor plan - trade                                                       | (42,117)                             | 20,552          |
| Trade accounts payable and other liabilities                                             | (47,334)                             | (5,222)         |
| <b>Total adjustments</b>                                                                 | <b>67,546</b>                        | <b>(59,666)</b> |
| <b>Net cash provided by (used in) operating activities</b>                               | <b>88,837</b>                        | <b>(39,168)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                             |                                      |                 |
| Purchases of land, property and equipment                                                | (59,337)                             | (11,958)        |
| Proceeds from sales of property and equipment                                            | 172                                  | 459             |
| Proceeds from sales of dealerships                                                       |                                      | 19,963          |
| Distributions from equity investee                                                       |                                      | 700             |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>(59,165)</b>                      | <b>9,164</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                             |                                      |                 |
| Net (repayments) borrowings on notes payable floor plan - non-trade                      | (30,548)                             | 23,090          |
| Borrowings on revolving credit facilities                                                | 45,819                               | 62,392          |
| Repayments on revolving credit facilities                                                | (51,995)                             | (62,392)        |
| Proceeds from issuance of long-term debt                                                 | 19,200                               | 10,700          |
| Principal payments on long-term debt                                                     | (3,084)                              | (2,547)         |
| Purchases of treasury stock                                                              | (9,120)                              | (1,799)         |
| Income tax benefit (expense) associated with stock compensation plans                    | 204                                  | 1,341           |
| Issuance of shares under stock compensation plans                                        | 728                                  | 1,000           |
| Dividends paid                                                                           |                                      | (1,334)         |

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|                                                                                                                                                                     |           |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Net cash provided by (used in) financing activities                                                                                                                 | (28,796)  | 30,451    |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                                                                                                                | 876       | 447       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR                                                                                                                        | 3,371     | 1,913     |
| CASH AND CASH EQUIVALENTS, END OF YEAR                                                                                                                              | \$ 4,247  | \$ 2,360  |
| SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:                                                                                                             |           |           |
| Change in fair value of cash flow hedging instruments (net of tax expense of \$1,094 and \$1,066 in the first quarters ended March 31, 2013 and 2012, respectively) | \$ 1,787  | \$ 1,741  |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:                                                                                                                  |           |           |
| Cash paid (received) during the year for:                                                                                                                           |           |           |
| Interest, including amount capitalized                                                                                                                              | \$ 29,608 | \$ 23,172 |
| Income taxes                                                                                                                                                        | \$ 10,685 | \$ 6,243  |
| See notes to Unaudited Condensed Consolidated Financial Statements.                                                                                                 |           |           |

**Table of Contents****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 first quarters ended March 31, 2013 and 2012 have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) 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, because the first quarter normally contributes less operating profit than the second, third and fourth quarters. 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, 2012, which were included in Sonic's Annual Report on Form 10-K.

**Reclassifications** The Unaudited Condensed Consolidated Statements of Income for the first quarter ended March 31, 2012 reflect the reclassification of balances from continuing operations to discontinued operations from the prior year presentation for additional dealerships sold or terminated subsequent to March 31, 2012.

**Recent Accounting Pronouncements** In February 2013, the Financial Accounting Standards Board (the FASB ) issued an accounting standard update that amended the reporting requirements for amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The amendments in this accounting standard update are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2012. See Note 10, Accumulated Other Comprehensive Income (Loss), for the impact of this accounting standard update on Sonic's required 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 operating lease exit accruals consists of the following:

|                            | (In thousands) |
|----------------------------|----------------|
| Balance, December 31, 2012 | \$ 32,983      |
| Lease exit expense (1)     | 788            |
| Payments (2)               | (2,197)        |
| Balance, March 31, 2013    | \$ 31,574      |

- (1) Expense of approximately \$0.1 million is recorded in interest expense, other, net, and expense of approximately \$0.7 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 an offset to rent expense in selling, general and administrative expenses, with approximately \$0.3 million in continuing operations and \$1.9 million as a reduction of income (loss) from operations and the sale of dealerships in the accompanying Unaudited Condensed Consolidated Statements of Income.

**Income Tax Expense** The overall effective tax rate from continuing operations was 39.0% and 39.7% in the first quarters ended March 31, 2013 and 2012, respectively. The effective rate in the first quarter ended March 31, 2013 was lower than the prior year period due to the level of overall taxable income and the shift in the distribution of taxable income between states in which Sonic operates.



**Table of Contents****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 the accompanying Unaudited Condensed Consolidated Statements of Income. As of March 31, 2013, there were no dealerships held for sale.

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

| (In thousands)                             | First Quarter Ended March 31, |            |
|--------------------------------------------|-------------------------------|------------|
|                                            | 2013                          | 2012       |
| Income (loss) from operations              | \$ (34)                       | \$ (3,673) |
| Gain (loss) on disposal                    | (37)                          | 5,660      |
| Lease exit accrual adjustments and charges | (667)                         | (3,163)    |
| Pre-tax income (loss)                      | \$ (738)                      | \$ (1,176) |
|                                            |                               |            |
| Total revenues                             | \$                            | \$ 71,070  |

Lease exit charges recorded during the first quarters ended March 31, 2013 and 2012 relate to interest charges and the revision of estimates on previously established lease exit accruals. 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)        | March 31, 2013 | December 31, 2012 |
|-----------------------|----------------|-------------------|
| New vehicles          | \$ 828,548     | \$ 866,442        |
| Used vehicles         | 175,472        | 175,957           |
| Service loaners       | 82,188         | 81,384            |
| Parts and accessories | 55,383         | 53,723            |
| Other                 | 432            | 460               |
| Inventories           | \$ 1,142,023   | \$ 1,177,966      |

**4. Property and Equipment**

Property and equipment consists of the following:

| (In thousands) | March 31, 2013 | December 31, 2012 |
|----------------|----------------|-------------------|
|----------------|----------------|-------------------|

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|                               |            |            |
|-------------------------------|------------|------------|
| Land                          | \$ 160,490 | \$ 142,730 |
| Building and improvements     | 506,734    | 476,846    |
| Office equipment and fixtures | 118,658    | 115,509    |
| Parts and service equipment   | 65,589     | 62,678     |
| Company vehicles              | 7,916      | 7,750      |
| Construction in progress      | 43,543     | 39,139     |
| Total, at cost                | 902,930    | 844,652    |
| Less accumulated depreciation | (261,133)  | (249,528)  |
| Property and equipment, net   | \$ 641,797 | \$ 595,124 |

In the first quarters ended March 31, 2013 and 2012, capital expenditures were approximately \$59.3 million and \$12.0 million, respectively, and were primarily related to real estate acquisitions, construction of new dealerships, building improvements and equipment purchased for use in Sonic's dealerships.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****5. Goodwill and Intangible Assets**

| (In thousands)               | Franchise<br>Agreements | Net Goodwill   |
|------------------------------|-------------------------|----------------|
| Balance, December 31, 2012   | \$ 60,635               | \$ 454,224 (1) |
| Reductions from dispositions |                         |                |
| Balance, March 31, 2013      | \$ 60,635               | \$ 454,224 (1) |

(1) Net of accumulated impairment losses of \$796,725.

At December 31, 2012, Sonic had approximately \$9.9 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 March 31, 2013 was approximately \$9.5 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)                                                                                                              | March 31, 2013 | December 31, 2012 |
|-----------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
| 2011 Revolving Credit Facility (1)                                                                                          | \$             | \$ 6,176          |
| 9.0% Senior Subordinated Notes due 2018 (the 9.0% Notes )                                                                   | 210,000        | 210,000           |
| 7.0% Senior Subordinated Notes due 2022 (the 7.0% Notes )                                                                   | 200,000        | 200,000           |
| Notes payable to a finance company bearing interest from 9.52% to 10.52% (with a weighted average of 10.19%)                | 9,861          | 10,572            |
| Mortgage notes to finance companies-fixed rate, bearing interest from 4.07% to 7.03%                                        | 136,328        | 137,791           |
| Mortgage notes to finance companies-variable rate, bearing interest at 1.25 to 3.50 percentage points above one-month LIBOR | 80,574         | 62,229            |
| Net debt discount and premium (2)                                                                                           | (2,812)        | (2,814)           |
| Other                                                                                                                       | 5,346          | 5,431             |
| Total debt                                                                                                                  | \$ 639,297     | \$ 629,385        |
| Less current maturities                                                                                                     | (19,555)       | (18,587)          |
| Long-term debt                                                                                                              | \$ 619,742     | \$ 610,798        |

(1) The interest rate on the revolving credit facility was 2.00% above LIBOR at March 31, 2013 and 2.25% above LIBOR at December 31, 2012.

(2)

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March 31, 2013 includes \$1.0 million discount associated with the 9.0% Notes, \$1.7 million discount associated with the 7.0% Notes, \$0.6 million premium associated with notes payable to a finance company and \$0.7 million discount associated with mortgage notes payable. December 31, 2012 includes \$1.1 million discount associated with the 9.0% Notes, \$1.7 million discount associated with the 7.0% Notes, \$0.7 million premium associated with notes payable to a finance company and \$0.7 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 Facilities ). The 2011 Revolving Credit Facility and 2011 Floor Plan Facilities (collectively the 2011 Credit Facilities ) are scheduled to mature on August 15, 2016. On March 14, 2013, Sonic finalized an amendment to its 2011 Credit Facilities that, among other things, removed the pledge of 5,000,000 shares of common stock of Speedway Motorsports, Inc. ( SMI ) that were previously pledged as collateral to the 2011 Credit Facilities.

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, 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.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Based on balances as of March 31, 2013, the 2011 Revolving Borrowing Base was approximately \$133.9 million and Sonic had approximately \$32.3 million in outstanding letters of credit resulting in total borrowing availability of approximately \$101.6 million under the 2011 Revolving Credit Facility.

***Covenants***

Sonic was in compliance with the covenants under the 2011 Credit Facilities as of March 31, 2013. Financial covenants include required specified ratios (as each is defined in the 2011 Credit Facilities) of:

|                       | <b>Covenant</b>                                         |                                                                         |                                                                                 |
|-----------------------|---------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------------|
|                       | <b>Minimum<br/>Consolidated<br/>Liquidity<br/>Ratio</b> | <b>Minimum<br/>Consolidated<br/>Fixed Charge<br/>Coverage<br/>Ratio</b> | <b>Maximum<br/>Consolidated<br/>Total Lease<br/>Adjusted Leverage<br/>Ratio</b> |
| Required ratio        | 1.05                                                    | 1.20                                                                    | 5.50                                                                            |
| March 31, 2013 actual | 1.12                                                    | 1.68                                                                    | 3.90                                                                            |

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 EBTDA to Rent (as defined in the lease agreements) with a required ratio of no less than 1.50 to 1.00. As of March 31, 2013, the ratio was 3.24 to 1.00.

***7.0% Senior Subordinated Notes***

The 7.0% Notes are unsecured senior subordinated obligations of Sonic that mature on July 15, 2022 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. 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:

|                                           | <b>Redemption<br/>Price</b> |
|-------------------------------------------|-----------------------------|
| 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. On or before July 15, 2017, Sonic may redeem all or a part of the aggregate principal amount of the 7.0% Notes at a redemption price equal to 100% of the principal amount of the 7.0% Notes redeemed plus an applicable premium (as defined in the Indenture) and any accrued and unpaid interest as of the redemption date. 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

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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. Sonic was in compliance with all restrictive covenants as of March 31, 2013.

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.

***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:

|                                            | <b>Redemption<br/>Price</b> |
|--------------------------------------------|-----------------------------|
| 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, 2014, Sonic may redeem all or a part of the aggregate principal amount of the 9.0% Notes at a redemption price equal to 100% of the principal amount of the 9.0% Notes redeemed plus an applicable premium (as defined in the Indenture) and any accrued and unpaid interest as of the redemption date. 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 March 31, 2013.

Sonic's obligations under the 9.0% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 9.0% 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 9.0% Notes; and (3) certain defaults under other agreements under which Sonic or its subsidiaries have outstanding indebtedness in excess of \$35.0 million.

***Mortgage Notes***

Sonic has mortgage financing totaling approximately \$216.9 million in aggregate, related to 22 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 4.37% at March 31, 2013.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*****Derivative Instruments and Hedging Activities***

Sonic has interest rate cash flow swap agreements (the "Cash Flow Swaps") to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. The fair value of these swap positions at March 31, 2013 was a liability of approximately \$31.2 million, with \$11.9 million included in other accrued liabilities and \$19.3 million included in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. The fair value of these swap positions at December 31, 2012 was a liability of approximately \$34.3 million, with \$12.1 million included in other accrued liabilities and \$22.2 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:

| <b>Notional Amount<br/>(In millions)</b> | <b>Pay Rate</b> | <b>Receive Rate (1)</b> | <b>Maturing Date</b> |
|------------------------------------------|-----------------|-------------------------|----------------------|
| \$ 3.1                                   | 7.100%          | one-month LIBOR + 1.50% | July 10, 2017        |
| \$ 9.8                                   | 4.655%          | one-month LIBOR         | December 10, 2017    |
| \$ 8.0 (2)                               | 6.860%          | one-month LIBOR + 1.25% | August 1, 2017       |
| \$ 6.0                                   | 4.330%          | one-month LIBOR         | July 1, 2013         |
| \$ 100.0                                 | 3.280%          | one-month LIBOR         | July 1, 2015         |
| \$ 100.0                                 | 3.300%          | one-month LIBOR         | July 1, 2015         |
| \$ 6.8 (2)                               | 6.410%          | one-month LIBOR + 1.25% | September 12, 2017   |
| \$ 50.0                                  | 2.767%          | one-month LIBOR         | July 1, 2014         |
| \$ 50.0                                  | 3.240%          | one-month LIBOR         | July 1, 2015         |
| \$ 50.0                                  | 2.610%          | one-month LIBOR         | July 1, 2014         |
| \$ 50.0                                  | 3.070%          | one-month LIBOR         | July 1, 2015         |
| \$ 100.0 (3)                             | 2.065%          | one-month LIBOR         | June 30, 2017        |
| \$ 100.0 (3)                             | 2.015%          | one-month LIBOR         | June 30, 2017        |

(1) The one-month LIBOR rate was 0.204% at March 31, 2013.

(2) Changes in fair value are recorded through earnings.

(3) The effective date of these forward-starting swaps is July 1, 2015.

For the Cash Flow Swaps not designated as hedges (changes in the fair value are recognized through earnings), certain benefits were included in interest expense, other, net, 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 and are disclosed in the supplemental schedule of non-cash financing activities in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows. The incremental interest expense (the difference between interest paid and interest received) related to these Cash Flow Swaps was approximately \$2.9 million and \$4.4 million in the first quarters ended March 31, 2013 and 2012, respectively, and is included in interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income. The estimated expense (net of tax) expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next twelve months is approximately \$7.4 million. See Note 10, "Accumulated Other Comprehensive Income (Loss)," for further discussion of the impact of the Cash Flow Swaps on accumulated other comprehensive income (loss).

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****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 and the 5.0% Convertible Senior Notes due 2029 (the "5.0% Convertible Notes"), which were extinguished in 2012. Sonic's non-vested restricted stock and certain of its non-vested 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 first quarters ended March 31, 2013 and 2012:

|                                             | First Quarter Ended March 31, 2013       |                                                |                        |                                                     |                        |                        |                        |
|---------------------------------------------|------------------------------------------|------------------------------------------------|------------------------|-----------------------------------------------------|------------------------|------------------------|------------------------|
|                                             |                                          | Income (Loss)<br>From Continuing<br>Operations |                        | Income (Loss)<br>From<br>Discontinued<br>Operations |                        | Net Income (Loss)      |                        |
|                                             | Weighted<br>Average<br>Shares            | Per<br>Share<br>Amount                         | Per<br>Share<br>Amount | Per<br>Share<br>Amount                              | Per<br>Share<br>Amount | Per<br>Share<br>Amount | Per<br>Share<br>Amount |
|                                             | (In thousands, except per share amounts) |                                                |                        |                                                     |                        |                        |                        |
| Earnings (loss) and shares                  | 52,586                                   | \$ 21,697                                      |                        | \$ (406)                                            |                        | \$ 21,291              |                        |
| Effect of participating securities:         |                                          |                                                |                        |                                                     |                        |                        |                        |
| Non-vested restricted stock and stock units |                                          | (170)                                          |                        |                                                     |                        | (170)                  |                        |
| Basic earnings (loss) and shares            | 52,586                                   | \$ 21,527                                      | \$ 0.41                | \$ (406)                                            | \$ (0.01)              | \$ 21,121              | \$ 0.40                |
| Effect of dilutive securities:              |                                          |                                                |                        |                                                     |                        |                        |                        |
| Stock compensation plans                    | 345                                      |                                                |                        |                                                     |                        |                        |                        |
| Diluted earnings (loss) and shares          | 52,931                                   | \$ 21,527                                      | \$ 0.41                | \$ (406)                                            | \$ (0.01)              | \$ 21,121              | \$ 0.40                |

|                                                        | First Quarter Ended March 31, 2012 |                                                |         |                                                     |           |                   |         |
|--------------------------------------------------------|------------------------------------|------------------------------------------------|---------|-----------------------------------------------------|-----------|-------------------|---------|
|                                                        | Weighted<br>Average<br>Shares      | Income (Loss)<br>From Continuing<br>Operations |         | Income (Loss)<br>From<br>Discontinued<br>Operations |           | Net Income (Loss) |         |
|                                                        |                                    | Per                                            |         | Per                                                 |           | Per               |         |
|                                                        |                                    | Share                                          |         | Share                                               |           | Share             |         |
|                                                        |                                    | Amount                                         | Amount  | Amount                                              | Amount    | Amount            | Amount  |
|                                                        |                                    | (In thousands, except per share amounts)       |         |                                                     |           |                   |         |
| Earnings (loss) and shares                             | 52,224                             | \$ 21,145                                      |         | \$ (647)                                            |           | \$ 20,498         |         |
| Effect of participating securities:                    |                                    |                                                |         |                                                     |           |                   |         |
| Non-vested restricted stock and stock units            |                                    | (329)                                          |         |                                                     |           | (329)             |         |
| Basic earnings (loss) and shares                       | 52,224                             | \$ 20,816                                      | \$ 0.40 | \$ (647)                                            | \$ (0.01) | \$ 20,169         | \$ 0.39 |
| Effect of dilutive securities:                         |                                    |                                                |         |                                                     |           |                   |         |
| Contingently convertible debt (5.0% Convertible Notes) | 11,676                             | 2,125                                          |         | 47                                                  |           | 2,172             |         |
| Stock compensation plans                               | 520                                |                                                |         |                                                     |           |                   |         |

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|                                    |        |           |         |          |           |           |         |
|------------------------------------|--------|-----------|---------|----------|-----------|-----------|---------|
| Diluted earnings (loss) and shares | 64,420 | \$ 22,941 | \$ 0.36 | \$ (600) | \$ (0.01) | \$ 22,341 | \$ 0.35 |
|------------------------------------|--------|-----------|---------|----------|-----------|-----------|---------|

In addition to the stock options included in the table above, options to purchase approximately 0.9 million shares and 1.6 million shares of Class A common stock were outstanding at March 31, 2013 and March 31, 2012, 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*

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

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### **SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

#### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects.

Included in other accrued liabilities and other long-term liabilities at March 31, 2013 was approximately \$1.1 million and \$1.2 million, respectively, in reserves for pending proceedings. Included in other accrued liabilities and other long-term liabilities at December 31, 2012 was approximately \$2.1 million and \$1.3 million, respectively, in reserves 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 their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments, and repairs to leased property upon termination of the lease, to the extent that the assignee or 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 \$113.9 million as of December 31, 2012.

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 \$19.3 million at both March 31, 2013 and December 31, 2012. 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 March 31, 2013. Sonic also guarantees the floor plan commitments of its 50% owned joint venture, the amount of which was approximately \$2.8 million at both March 31, 2013 and December 31, 2012.

#### **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 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 and deferred compensation plan balances.

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

valuation in the annual goodwill impairment evaluation.

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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.

As of March 31, 2013 and December 31, 2012, there were no Level 1 or Level 3 assets or liabilities recorded at fair value in the accompanying Unaudited Condensed Consolidated Balance Sheets. Level 2 assets and liabilities recorded at fair value in the accompanying Unaudited Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012 are as follows:

| (In millions)                                       | Fair Value Based on<br>Significant Other<br>Observable Inputs<br>(Level 2) |                      |
|-----------------------------------------------------|----------------------------------------------------------------------------|----------------------|
|                                                     | March 31,<br>2013                                                          | December 31,<br>2012 |
| <b>Assets:</b>                                      |                                                                            |                      |
| Cash surrender value of life insurance policies (1) | \$ 23.7                                                                    | \$ 21.4              |
| <b>Liabilities:</b>                                 |                                                                            |                      |
| Cash flow swaps designated as hedges (2)            | \$ 28.5                                                                    | \$ 31.4              |
| Cash flow swaps not designated as hedges (3)        | 2.7                                                                        | 2.9                  |
| Deferred compensation plan (4)                      | 14.7                                                                       | 13.8                 |
| <b>Total liabilities</b>                            | <b>\$ 45.9</b>                                                             | <b>\$ 48.1</b>       |

- (1) Included in other assets in the accompanying Unaudited Condensed Consolidated Balance Sheets.
- (2) As of March 31, 2013, approximately \$11.2 million and \$17.3 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets. As of December 31, 2012, approximately \$11.4 million and \$20.0 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets.
- (3) As of March 31, 2013, approximately \$0.7 million and \$2.0 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets. As of December 31, 2012, approximately \$0.7 million and \$2.2 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets.
- (4) Included in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets.

There were no instances in the first quarter ended March 31, 2013 which required a fair value measurement of assets ordinarily measured at fair value on a non-recurring basis. Therefore, the carrying value of assets measured at fair value on a non-recurring basis in the accompanying

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Unaudited Condensed Consolidated Balance Sheets as of March 31, 2013 have not changed since December 31, 2012.

As of March 31, 2013 and December 31, 2012, 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:

| (In thousands)     | March 31, 2013 |                | December 31, 2012 |                |
|--------------------|----------------|----------------|-------------------|----------------|
|                    | Fair Value     | Carrying Value | Fair Value        | Carrying Value |
| 9.0% Notes (1)     | \$ 231,525     | \$ 208,963     | \$ 231,525        | \$ 208,923     |
| 7.0% Notes (1)     | \$ 222,500     | \$ 198,314     | \$ 222,000        | \$ 198,282     |
| Mortgage Notes (2) | \$ 148,973     | \$ 136,328     | \$ 148,244        | \$ 137,791     |
| Assumed Notes (2)  | \$ 9,877       | \$ 10,469      | \$ 10,592         | \$ 11,289      |
| Other (2)          | \$ 4,923       | \$ 5,284       | \$ 4,971          | \$ 5,341       |

(1) As determined by market quotations as of March 31, 2013 and December 31, 2012, respectively (Level 1).

(2) As determined by discounted cash flows (Level 3).

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

The changes in accumulated other comprehensive income (loss) for the first quarter ended March 31, 2013 are as follows:

| Changes in Accumulated Other Comprehensive Income (Loss) by Component for the First Quarter Ended March 31, 2013 |                                      |                                             |                                                     |
|------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------|-----------------------------------------------------|
|                                                                                                                  | Gains and Losses on Cash Flow Hedges | Defined Benefit Pension Plan (In thousands) | Total Accumulated Other Comprehensive Income (Loss) |
| Beginning balance at December 31, 2012                                                                           | \$ (19,488)                          | \$ (475)                                    | \$ (19,963)                                         |
| Other comprehensive income (loss) before reclassifications (1)                                                   | 31                                   |                                             | 31                                                  |
| Amounts reclassified out of accumulated other comprehensive income (loss) (2)                                    | 1,756                                |                                             | 1,756                                               |
| Net current-period other comprehensive income (loss)                                                             | 1,787                                |                                             | 1,787                                               |
| Ending balance at March 31, 2013                                                                                 | \$ (17,701)                          | \$ (475)                                    | \$ (18,176)                                         |

(1) Net of tax expense of \$18.

(2) Net of tax expense of \$1,076.

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See the heading **Derivative Instruments and Hedging Activities** in Note 6, **Long-Term Debt**, for further discussion of Sonic's cash flow hedges. For further discussion of Sonic's defined benefit pension plan, see Note 10, **Employee Benefit Plans**, to the Consolidated Financial Statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2012.

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**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, 2012.

**Overview**

We are one of the largest automotive retailers in the United States. As of March 31, 2013, we operated 111 dealerships in 14 states (representing 25 different brands of cars and light trucks) and 20 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 March 31, 2013, we operated 100 stores. As a result of the way we manage our business, we have a single operating segment for purposes of reporting financial condition and results of operations. 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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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a detail of our new vehicle revenues by brand for the first quarters ended March 31, 2013 and 2012:

| Brand                 | Percentage of New Vehicle Revenue (1) |        |
|-----------------------|---------------------------------------|--------|
|                       | First Quarter Ended March 31, 2013    | 2012   |
| Luxury                |                                       |        |
| BMW                   | 20.1%                                 | 17.0%  |
| Mercedes              | 8.3%                                  | 8.6%   |
| Cadillac              | 4.6%                                  | 4.8%   |
| Lexus                 | 4.5%                                  | 4.5%   |
| Audi                  | 3.9%                                  | 4.0%   |
| Land Rover            | 2.5%                                  | 2.4%   |
| Mini                  | 2.4%                                  | 2.7%   |
| Porsche               | 1.9%                                  | 1.7%   |
| Volvo                 | 0.9%                                  | 1.0%   |
| Infiniti              | 0.8%                                  | 0.9%   |
| Acura                 | 0.7%                                  | 0.7%   |
| Jaguar                | 0.6%                                  | 1.0%   |
| Total Luxury          | 51.2%                                 | 49.3%  |
| Mid-line Import       |                                       |        |
| Honda                 | 15.1%                                 | 15.9%  |
| Toyota                | 10.1%                                 | 10.1%  |
| Volkswagen            | 2.8%                                  | 3.3%   |
| Hyundai               | 2.0%                                  | 2.4%   |
| Other (2)             | 1.4%                                  | 2.1%   |
| Nissan                | 1.1%                                  | 0.9%   |
| Total Mid-line Import | 32.5%                                 | 34.7%  |
| Domestic              |                                       |        |
| Ford                  | 8.9%                                  | 8.2%   |
| General Motors (3)    | 7.4%                                  | 7.8%   |
| Total Domestic        | 16.3%                                 | 16.0%  |
| Total                 | 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 March 31, 2012 that had not been included in discontinued operations as of that date or (ii) include franchises previously held for sale that subsequently were reclassified to held and used. See Note 1 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 Kia, Scion and Subaru.

(3) Includes Buick, Chevrolet and GMC.

**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 annual amount of expected 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.

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| (in millions of vehicles) | First Quarter Ended March 31, |      | % Change |
|---------------------------|-------------------------------|------|----------|
|                           | 2013                          | 2012 |          |
| SAAR                      | 15.3                          | 14.1 | 8.5%     |

Source: Bloomberg Financial Markets, via Stephens Inc.

New vehicle revenues include the sale of new vehicles to retail customers, as well as the sale of fleet vehicles. New vehicle revenues can be influenced by manufacturer incentives for consumers, which vary from cash-back incentives to low interest rate financing. New vehicle revenues are also dependent on manufacturers providing adequate vehicle allocations to our dealerships to meet customer demands and the availability of consumer credit. Our reported new vehicle (including fleet) results are as follows:

|                                | First Quarter Ended March 31,                  |              | Better / (Worse) |          |
|--------------------------------|------------------------------------------------|--------------|------------------|----------|
|                                | 2013                                           | 2012         | Change           | % Change |
|                                | (In thousands, except units and per unit data) |              |                  |          |
| Revenue                        | \$ 1,143,056                                   | \$ 1,031,390 | \$ 111,666       | 10.8%    |
| Gross profit                   | \$ 66,470                                      | \$ 63,717    | \$ 2,753         | 4.3%     |
| Unit sales                     | 32,083                                         | 30,173       | 1,910            | 6.3%     |
| Revenue per unit               | \$ 35,628                                      | \$ 34,183    | \$ 1,445         | 4.2%     |
| Gross profit per unit          | \$ 2,072                                       | \$ 2,112     | \$ (40)          | (1.9%)   |
| Gross profit as a % of revenue | 5.8%                                           | 6.2%         | (40)             | bps      |

The increase in new vehicle revenue in the first quarter ended March 31, 2013 was primarily driven by a 6.3% increase in our new unit sales volume compared to the prior year period, consistent with the actual industry new unit sales volume increase of 6.4% compared to the prior year. Excluding fleet volume, our retail new vehicle volume growth increased 7.4% during the first quarter ended March 31, 2013.

Our new unit volume increase in the first quarter ended March 31, 2013 was led by our BMW and Toyota/Scion dealerships, which combined to account for 76.1% of the year-over-year increase. These dealerships experienced low levels of inventory in the prior year, which affected sales volume in the first quarter ended March 31, 2012. Gross profit per new unit decreased 1.9% in the first quarter ended March 31, 2013, primarily due to declines in gross profit per new unit at our Honda and Lexus dealerships. Our Honda and Lexus dealerships experienced high gross profit per unit in the first quarter of 2012 due to lack of available inventory as a result of the natural disasters in Japan during 2011. As new vehicle inventory in these brands has returned to normal levels, gross profit per unit has also returned to normal levels, resulting in the decrease in our gross profit per new unit during the first quarter ended March 31, 2013, compared to the prior year period. Total gross profit dollars increased 4.3% during the first quarter ended March 31, 2013 as a result of increased new unit sales volume, which more than offset the decline in gross profit per new unit. In addition, this incremental unit sales volume contributed to additional F&I gross profit in the first quarter ended March 31, 2013, discussed under the heading Finance, Insurance and Other ( F&I ) below.

Our luxury dealerships (which include Cadillac) experienced a 14.9% increase in new vehicle revenue in the first quarter ended March 31, 2013, compared to the prior year period, primarily due to a 13.0% increase in new unit sales volume. Luxury dealership new vehicle gross profit increased 10.4% compared to the prior year period, primarily due to new unit sales volume increases at our BMW, Lexus, Cadillac and Audi dealerships. Luxury dealership gross profit per new unit decreased 2.3% in the first quarter ended March 31, 2013, driven primarily by decreases in gross profit per new unit at our Lexus and BMW dealerships.

Our mid-line import dealerships experienced a 4.1% increase in new vehicle revenue in the first quarter ended March 31, 2013, due to a 1.2% increase in new unit volume and a 2.8% increase in revenue per new unit. Mid-line import gross profit per new unit decreased 12.9% during the first quarter ended March 31, 2013 and total mid-line import new vehicle gross profit decreased 11.9% in the first quarter ended March 31, 2013, compared to the prior year, attributable in part to higher gross profit per unit in the first quarter of 2012 due to reduced inventory availability in our Japanese brands, resulting in comparative declines in the first quarter ended March 31, 2013.



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OPERATIONS**

Excluding fleet sales, our domestic dealerships experienced a 19.7% increase in new retail vehicle revenue, a 9.1% increase in new retail vehicle gross profit and a 14.3% increase in new retail unit sales volume during the first quarter ended March 31, 2013, compared to the prior year period. New retail unit sales volume at our Ford dealerships increased 22.4%, driving increases at our Ford dealerships of 29.4% and 19.3% in new retail vehicle revenue and new retail vehicle gross profit, respectively. Our GM dealerships (excluding Cadillac) experienced a 5.9% increase in new retail unit sales volume, resulting in a 9.8% increase in new retail vehicle revenue. These GM dealerships experienced a 0.6% decrease in new retail vehicle gross profit, due to a 6.1% decrease in gross profit per new retail unit, offset partially by higher unit sales volume. Including fleet sales, our domestic dealerships experienced a 12.6% increase in new vehicle revenue and a 7.3% increase in new unit sales volume in the first quarter ended March 31, 2013, compared to the prior year period. Domestic fleet unit sales volume decreased 9.8% compared to the prior year period, resulting in an 8.0% decrease in total fleet revenue.

***Used Vehicles***

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

|                                | <b>First Quarter Ended March 31,</b>                  |             | <b>Better / (Worse)</b> |                 |
|--------------------------------|-------------------------------------------------------|-------------|-------------------------|-----------------|
|                                | <b>2013</b>                                           | <b>2012</b> | <b>Change</b>           | <b>% Change</b> |
|                                | <b>(In thousands, except units and per unit data)</b> |             |                         |                 |
| Revenue                        | \$ 526,182                                            | \$ 501,864  | \$ 24,318               | 4.8%            |
| Gross profit                   | \$ 38,030                                             | \$ 39,397   | \$ (1,367)              | (3.5%)          |
| Unit sales                     | 26,469                                                | 25,478      | 991                     | 3.9%            |
| Revenue per unit               | \$ 19,879                                             | \$ 19,698   | \$ 181                  | 0.9%            |
| Gross profit per unit          | \$ 1,437                                              | \$ 1,546    | \$ (109)                | (7.1%)          |
| Gross profit as a % of revenue | 7.2%                                                  | 7.9%        | (70)                    | bps             |

In the first quarter ended March 31, 2013, our used vehicle unit volume increased 3.9% compared to the prior year period, 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 and overall revenue.

The decrease in gross profit per used unit for the quarter ended March 31, 2013 was due in part to unusually higher gross profit per unit in the prior year period. Used vehicle gross profit per unit was higher in the prior year period as a result of the natural disasters in Japan during 2011, which limited new vehicle production and resulted in increased demand for used vehicle inventory in certain brands. Although we experienced declines in used vehicle gross profit and gross profit per unit for the quarter ended March 31, 2013, the incremental unit sales volume contributed to higher gross profit experienced in our F&I and Fixed Operations areas.

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Wholesale vehicle revenues are highly correlated with new and used vehicle retail sales and the associated trade-in volume. Wholesale revenues are also significantly affected by our corporate inventory management policies, which are designed to optimize our total used vehicle inventory. Following is information related to wholesale vehicle sales:

|                                       | <b>First Quarter Ended March 31,</b>                  |             | <b>Better / (Worse)</b> |                 |
|---------------------------------------|-------------------------------------------------------|-------------|-------------------------|-----------------|
|                                       | <b>2013</b>                                           | <b>2012</b> | <b>Change</b>           | <b>% Change</b> |
|                                       | <b>(In thousands, except units and per unit data)</b> |             |                         |                 |
| Revenue                               | \$ 51,792                                             | \$ 43,673   | \$ 8,119                | 18.6%           |
| Gross profit (loss)                   | \$ (1,203)                                            | \$ 234      | \$ (1,437)              | 614.1%          |
| Unit sales                            | 8,393                                                 | 7,175       | 1,218                   | 17.0%           |
| Revenue per unit                      | \$ 6,171                                              | \$ 6,087    | \$ 84                   | 1.4%            |
| Gross profit (loss) per unit          | \$ (143)                                              | \$ 33       | \$ (176)                | 533.3%          |
| Gross profit (loss) as a % of revenue | (2.3%)                                                | 0.5%        | (280)                   | bps             |

In the first quarter ended March 31, 2013, there was an increase in wholesale revenue and wholesale unit sales, compared to the prior year period, which increased as a result of increases in new and used retail vehicle unit volumes. These higher retail volumes generate additional trade-in vehicle volume that we are not always able to sell as retail used vehicles and choose to sell at auction. In addition, as a result of the natural disasters in Japan during 2011, which limited new vehicle production, used vehicle inventory in certain brands faced high demand and we were able to retail certain used vehicles that we might have typically sold through wholesale channels, resulting in reduced wholesale volume and higher gross profit per unit on those wholesale vehicles during the first quarter ended March 31, 2012. See previous heading, *Used Vehicles*, for further discussion.

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

Parts and service revenue consists of customer requested repairs ( customer pay ), warranty repairs, retail parts, wholesale parts and collision repairs. Parts and service revenue is driven by the mix of warranty repairs versus customer pay repairs, available service capacity, vehicle quality, customer loyalty and manufacturer warranty programs. Our reported Fixed Operations results are as follows:

|                  | <b>First Quarter Ended March 31,</b> |             | <b>Better / (Worse)</b> |                 |
|------------------|--------------------------------------|-------------|-------------------------|-----------------|
|                  | <b>2013</b>                          | <b>2012</b> | <b>Change</b>           | <b>% Change</b> |
|                  | <b>(In thousands)</b>                |             |                         |                 |
| Revenue          |                                      |             |                         |                 |
| Parts            | \$ 157,492                           | \$ 155,499  | \$ 1,993                | 1.3%            |
| Service          | 127,675                              | 124,880     | 2,795                   | 2.2%            |
| Collision repair | 11,475                               | 12,176      | (701)                   | (5.8%)          |
| Total            | \$ 296,642                           | \$ 292,555  | \$ 4,087                | 1.4%            |
| Gross profit     |                                      |             |                         |                 |
| Parts            | \$ 49,629                            | \$ 49,473   | \$ 156                  | 0.3%            |
| Service          | 88,256                               | 86,602      | 1,654                   | 1.9%            |
| Collision repair | 6,344                                | 6,747       | (403)                   | (6.0%)          |

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|                                |            |            |          |      |
|--------------------------------|------------|------------|----------|------|
| Total                          | \$ 144,229 | \$ 142,822 | \$ 1,407 | 1.0% |
| Gross profit as a % of revenue |            |            |          |      |
| Parts                          | 31.5%      | 31.8%      | (30)     | bps  |
| Service                        | 69.1%      | 69.3%      | (20)     | bps  |
| Collision repair               | 55.3%      | 55.4%      | (10)     | bps  |
| Total                          | 48.6%      | 48.8%      | (20)     | bps  |

In the first quarter ended March 31, 2013, there were 63 Fixed Operations selling days, compared to 65 Fixed Operations selling days in the first quarter ended March 31, 2012. Adjusted for two fewer Fixed Operations selling days in

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the first quarter ended March 31, 2013, overall Fixed Operations revenue increased 4.6% and gross profit increased 4.2% compared to the prior year period. The Fixed Operations results discussed below, as well as those reported in the table above, have not been adjusted for the difference in selling days.

Overall Fixed Operations customer pay revenue increased 1.5% during the first quarter ended March 31, 2013, compared to the prior year period. Wholesale parts revenue increased 4.2% during the first quarter ended March 31, 2013, compared to the prior year period. Warranty revenue also contributed to the year-over-year improvement, increasing 2.6% during the first quarter ended March 31, 2013. Overall used vehicle reconditioning revenue decreased 2.3% during the first quarter ended March 31, 2013, compared to the prior year period. Fixed Operations customer pay revenue at our domestic, mid-line import and luxury dealerships increased 1.3%, 8.6%, and 15.8%, respectively, in the first quarter ended March 31, 2013, compared to the prior year.

In the first quarter ended March 31, 2013, an increase in Fixed Operations revenue contributed approximately \$2.0 million in gross profit increase, partially offset by a \$0.6 million decrease in gross profit due to a 20 basis point decline in the gross margin rate caused primarily by a shift in revenue mix towards lower margin wholesale parts sales, and a decline in the wholesale parts margin rate compared to the prior year.

As of March 31, 2013, we operated 20 collision repair centers. Collision repair revenues decreased 5.8% in the first quarter ended March 31, 2013, compared to the prior year period, primarily due to the closure of one collision center during the first quarter of 2013 and related decreases in customer pay and sublet revenues of 4.0% and 14.6%, respectively.

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

Finance, insurance and other revenues include commissions for arranging vehicle financing and insurance, sales of third-party extended service contracts for vehicles and other aftermarket products. In connection with vehicle financing, service contracts, other aftermarket products and insurance contracts, we receive commissions from the providers for originating contracts. Our reported F&I results are as follows:

|  | First Quarter Ended March 31,<br>2013 | 2012 | Better / (Worse)<br>Change | % Change |
|--|---------------------------------------|------|----------------------------|----------|
|  | (In thousands, except per unit data)  |      |                            |          |

|                                               |           |           |          |       |
|-----------------------------------------------|-----------|-----------|----------|-------|
| Revenue                                       | \$ 65,494 | \$ 57,584 | \$ 7,910 | 13.7% |
| Gross profit per retail unit (excludes fleet) | \$ 1,148  | \$ 1,067  | \$ 81    | 7.6%  |

F&I revenues increased during the first quarter ended March 31, 2013 compared to the prior year period, primarily due to an increase in total new and used retail (excluding fleet) unit volume of 3,091 units, or 5.7%. F&I gross profit per unit improved 7.6% in the first quarter ended March 31, 2013, compared to the prior year period, primarily due to improved penetration on service contracts and aftermarket products as a result of increased management emphasis in this area. Finance contract gross revenue improved 13.0% in the first quarter ended March 31, 2013, compared to the prior year period, driven by the 5.7% increase in unit volume, offset partially by a 180 basis point decrease in the finance contract penetration rate. Finance contract gross revenue may be under pressure if manufacturers offer attractive financing rates from their captive finance affiliates because we tend to earn lower commissions under these programs. Compared to the prior year period, service contract revenue increased 22.4% and aftermarket contract revenue increased 7.1% in the first quarter ended March 31, 2013, and total service contract volume and aftermarket contract volume increased 17.7% and 8.7%, respectively.

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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. Commissions paid to dealership personnel typically vary depending on gross profits realized. 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 and number of dealerships owned. Rent and rent related expense typically varies with the number of dealerships owned, investments made for facility improvements and interest rates. Although not completely correlated, we believe the best way to measure SG&A expenses are as a percentage of gross profit. Following is information related to our SG&A expenses:

|                             | <b>First Quarter Ended March 31,<br/>2013</b> | <b>2012</b>       | <b>Better / (Worse)<br/>Change</b> | <b>% Change</b> |
|-----------------------------|-----------------------------------------------|-------------------|------------------------------------|-----------------|
|                             | <b>(In thousands)</b>                         |                   |                                    |                 |
| Compensation                | \$ 148,580                                    | \$ 142,184        | \$ (6,396)                         | (4.5%)          |
| Advertising                 | \$ 13,431                                     | \$ 12,055         | (1,376)                            | (11.4%)         |
| Rent and rent related       | 26,396                                        | 26,786            | 390                                | 1.5%            |
| Other                       | 57,417                                        | 56,124            | (1,293)                            | (2.3%)          |
| <b>Total</b>                | <b>\$ 245,824</b>                             | <b>\$ 237,149</b> | <b>\$ (8,675)</b>                  | <b>(3.7%)</b>   |
| SG&A as a % of gross profit |                                               |                   |                                    |                 |
| Compensation                | 47.5%                                         | 46.8%             | (70)                               | bps             |
| Advertising                 | 4.3%                                          | 4.0%              | (30)                               | bps             |
| Rent and rent related       | 8.4%                                          | 8.8%              | 40                                 | bps             |
| Other                       | 18.3%                                         | 18.5%             | 20                                 | bps             |
| <b>Total</b>                | <b>78.5%</b>                                  | <b>78.1%</b>      | <b>(40)</b>                        | <b>bps</b>      |

Overall SG&A expense dollars increased in the first quarter ended March 31, 2013 compared to the prior year, primarily due to increases in revenue, gross profit and unit sales volume driving higher variable compensation costs and the other SG&A expenses discussed below. Overall SG&A expense as a percentage of gross profit increased 40 basis points during the first quarter ended March 31, 2013, due partially to lower overall gross margins.

Compensation costs as a percentage of gross profit increased 70 basis points in the first quarter ended March 31, 2013, primarily due to increases in sales compensation expense, driven by higher sales commissions associated with higher unit sales volume compared to the prior year as well as an increase in the Company's matching portion of employee 401(k) contributions. Lower overall gross profit per unit compounded the effect of the increase in sales compensation expense on compensation costs as a percentage of gross profit.

Compared to the first quarter ended March 31, 2012, total advertising expense in the first quarter ended March 31, 2013 increased both in dollar amount and as a percentage of gross profit as a result of our retail advertising strategy to increase traffic and sales activity at our dealerships.

In the first quarter ended March 31, 2013, rent and rent related expenses decreased in dollar amount and as a percentage of gross profit compared to the prior year, primarily due to the higher gross profit levels and the purchase of certain properties that were previously leased.

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Other SG&A expenses increased in dollar amount during the first quarter ended March 31, 2013, compared to the prior year period, primarily due to customer related costs as a result of the higher level of sales activity, IT spending, increased services by outside contractors and higher professional fees.

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OPERATIONS*****Depreciation and Amortization***

Depreciation and amortization expense increased approximately \$1.2 million, or 11.4%, during the first quarter ended March 31, 2013, compared to the prior year period. The increase is primarily related to completed construction projects that were placed in service subsequent to March 31, 2012 and the purchase of dealership properties that were previously leased.

***Interest Expense, Floor Plan***

Interest expense, floor plan for new vehicles incurred by continuing operations increased approximately \$1.0 million, or 25.5%, in the first quarter ended March 31, 2013, compared to the prior year period. The average new vehicle floor plan notes payable balance for continuing operations increased approximately \$282.6 million in the first quarter ended March 31, 2013, resulting in an increase in new vehicle floor plan interest expense of approximately \$1.5 million compared to the prior year period. The average new vehicle floor plan interest rate incurred by continuing dealerships was 1.89% in the first quarter ended March 31, 2013, compared to 2.10% in the first quarter ended March 31, 2012, which resulted in a decrease in interest expense of approximately \$0.5 million, partially offsetting the increase due to higher average floor plan notes payable balances discussed above.

Interest expense, floor plan for used vehicles incurred by continuing operations was flat in the first quarter ended March 31, 2013, compared to the prior year period. The average used vehicle floor plan notes payable balance for continuing operations increased approximately \$0.7 million in the first quarter ended March 31, 2013, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.1 million compared to the prior year period. The average used vehicle floor plan interest rate incurred by continuing dealerships was 2.64% in the first quarter ended March 31, 2013, compared to 2.71% in the first quarter ended March 31, 2012, which resulted in a decrease in interest expense of approximately \$0.1 million, resulting in flat expense compared to the prior year period.

***Interest Expense, Other, Net***

Interest expense, other, net, includes both cash and non-cash interest charges, and is summarized in the schedule below:

| (In millions)                                 | First Quarter Ended March 31, |           | Better / (Worse) |          |
|-----------------------------------------------|-------------------------------|-----------|------------------|----------|
|                                               | 2013                          | 2012      | Change           | % Change |
| Stated/coupon interest                        | \$ 11,262                     | \$ 9,836  | \$ (1,426)       | (14.5%)  |
| Discount/premium amortization                 | 72                            | 1,430     | 1,358            | 95.0%    |
| Deferred loan cost amortization               | 676                           | 765       | 89               | 11.6%    |
| Cash flow swap interest                       | 2,703                         | 4,378     | 1,675            | 38.3%    |
| Interest allocated to discontinued operations |                               | (290)     | (290)            | (100.0%) |
| Capitalized interest                          | (544)                         | (31)      | 513              | 1654.8%  |
| Other interest                                | 190                           | 321       | 131              | 40.8%    |
| Total                                         | \$ 14,359                     | \$ 16,409 | \$ 2,050         | 12.5%    |

The decrease in interest expense, other, net, was primarily due to a \$1.7 million reduction in cash flow swap interest related to the expiration of several Cash Flow Swaps and the replacement of those swaps with Cash Flow Swaps at a lower fixed rate, combined with a \$0.5 million increase in interest capitalized in conjunction with construction projects. The effect of higher coupon interest on the 7.0% Notes was offset by a decrease in discount amortization as a result of the extinguishment of the 5.0% Convertible Notes.

***Income Taxes***

The overall effective tax rate from continuing operations was 39.0% and 39.7% in the first quarters ended March 31, 2013 and 2012, respectively. The effective rate in the first quarter ended March 31, 2013 was lower than the same prior year period due to the shift in the distribution of taxable income between states in which we operate. We expect the effective tax rate for continuing operations in future periods to fall within a range of 38.0% to 40.0%.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS*****Discontinued Operations***

Significant components of results from discontinued operations were as follows:

| (In thousands)                             | First Quarter Ended March 31,<br>2013 | 2012       |
|--------------------------------------------|---------------------------------------|------------|
| Income (loss) from operations              | \$ (34)                               | \$ (3,673) |
| Gain (loss) on disposal                    | (37)                                  | 5,660      |
| Lease exit accrual adjustments and charges | (667)                                 | (3,163)    |
| Pre-tax income (loss)                      | \$ (738)                              | \$ (1,176) |
|                                            |                                       |            |
| Total revenues                             | \$                                    | \$ 71,070  |

Loss from discontinued operations improved in the first quarter ended March 31, 2013 compared to the prior year due to the disposal of under-performing dealerships in 2012 that incurred significant operating losses prior to their disposal. No dealerships were disposed of during the first quarter ended March 31, 2013. A gain of approximately \$5.7 million was recorded on the disposition of three dealerships during the first quarter ended March 31, 2012. Lease exit charges recorded in the first quarters ended March 31, 2013 and 2012 relate to interest charges and the revision of estimates on previously established lease exit accruals. 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 restrictive covenants under our 2011 Credit Facilities and other debt obligations and lease arrangements. Nevertheless, 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.

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.

During the fourth quarter of 2012, we entered into a program with one of our manufacturer-affiliated finance companies wherein we maintain a deposit balance with the lender that earns interest based on the lowest interest rate charged on new vehicle floor plan balances held with the lender. This deposit balance is not designated as a pre-payment of notes payable floor plan, nor is it our intent to use this amount to offset principal amounts owed under notes payable floor plan in the future, although we have the right and ability to do so. The deposit balance of \$20.0 million and \$60.0 million as of March 31, 2013 and December 31, 2012, respectively, is classified in other current assets in the

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accompanying Unaudited Condensed Consolidated Balance Sheets, because there are restrictions on our availability to withdraw these funds under certain circumstances. Changes in this deposit balance are classified as changes in other assets in the cash flows from operating activities section of the accompanying Unaudited Condensed Consolidated Statements of Cash Flows. The interest rebate as a result of this deposit balance is classified as a reduction of interest expense, floor plan, in the accompanying Unaudited Condensed Consolidated Statements of Income. In the first quarter ended March 31, 2013, the reduction in interest expense, floor plan, was approximately \$0.2 million.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS**

***Floor Plan Facilities***

We finance our new and certain of our used vehicle inventory through standardized floor plan facilities with manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. These floor plan facilities are due on demand and bear interest at variable rates based on LIBOR and the prime rate. The weighted average interest rate for our new and used floor plan facilities for continuing operations was 1.95% and 2.14% in the first quarters ended March 31, 2013 and 2012, respectively.

We receive floor plan assistance from certain manufacturers. Floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. We received approximately \$7.4 million and \$8.0 million in the first quarters ended March 31, 2013 and 2012, respectively, and recognized in cost of sales for continuing operations approximately \$8.1 million and \$6.8 million in the first quarters ended March 31, 2013 and 2012, respectively, in manufacturer assistance. Interest payments under each of our floor plan facilities are due monthly and we are not required to make principal repayments prior to the sale of the vehicles.

***Long-Term Debt and Credit Facilities***

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

***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 in the first quarter ended March 31, 2013 were approximately \$59.3 million. Of this amount, approximately \$22.2 million was related to facility construction projects, \$32.7 million was related to real estate acquisitions and \$4.4 million was for fixed assets utilized in our dealership operations. Of the capital expenditures in the first quarter ended March 31, 2013, approximately \$19.2 million was funded through mortgage financing and approximately \$40.1 million was funded through cash from operations and use of our credit facilities. As of March 31, 2013, commitments for facilities construction projects totaled approximately \$35.1 million. We expect investments related to capital expenditures to be partly dependent upon the availability of mortgage financing to fund significant capital projects.

***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 and to maintain our desired capital structure. During the first quarter ended March 31, 2013, we repurchased approximately 0.4 million shares of our Class A common stock for approximately \$9.1 million in open-market transactions and in connection with tax withholdings on the vesting of restricted stock. During the first quarter ended March 31, 2012, we repurchased approximately 0.1 million shares of our Class A common stock in connection with approximately \$1.8 million of tax withholdings on the vesting of restricted stock. During the first quarter of 2013, our Board of Directors authorized an additional \$100.0 million to repurchase shares of our Class A common stock. As of March 31, 2013, our total remaining repurchase authorization was approximately \$140.5 million. 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

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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.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Dividends***

During the first quarter ended March 31, 2013, 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 March 15, 2013 to be paid on April 15, 2013. Subsequent to March 31, 2013, 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 June 14, 2013 to be paid on July 15, 2013. 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***

In the first quarter ended March 31, 2013, net cash provided by operating activities was approximately \$88.8 million. This provision of cash was comprised primarily of cash inflows related to operating profits, decreases in receivables and decreases in inventories, offset partially by a decrease in notes payable floor plan trade. In the first quarter ended March 31, 2012, net cash used by operating activities was approximately \$39.2 million. This use of cash was comprised primarily of cash outflows related to the purchase of inventories, partially offset by operating profits, an increase in notes payable floor plan trade and decreases in receivables.

Net cash used in investing activities in the first quarter ended March 31, 2013 was approximately \$59.2 million. This use of cash was primarily comprised of purchases of land, property and equipment, including the purchase of four dealership facilities that were previously leased. Net cash provided by investing activities in the first quarter ended March 31, 2012 was approximately \$9.2 million. This provision of cash was primarily comprised of proceeds from the sale of dealerships, offset partially by purchases of land, property and equipment.

Net cash used in financing activities in the first quarter ended March 31, 2013 was approximately \$28.8 million. This use of cash was primarily related to a decrease in notes payable floor plan non-trade, repayments on revolving credit facilities and purchases of treasury stock, offset partially by proceeds from issuance of mortgage-related long-term debt. Net cash provided by financing activities in the first quarter ended March 31, 2012 was approximately \$30.5 million. This provision of cash was primarily related to proceeds from issuance of long-term debt and an increase in notes payable floor plan non-trade, offset partially by purchases of treasury stock and payments of dividends.

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 used in combined trade and non-trade floor plan financing was approximately \$72.7 million in the first quarter ended March 31, 2013, and net cash provided was approximately \$43.6 million in the first quarter ended March 31, 2012. 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 \$58.3 million and net cash used of approximately \$16.1 million in the first quarters ended March 31, 2013 and 2012, respectively.



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**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, 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. We expect to generate sufficient cash flow to fund our debt service, working capital requirements and operating requirements for the next twelve months and for the foreseeable future.

***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, 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 stable throughout the year.

**Table of Contents****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 \$753.4 million at March 31, 2013 and approximately \$813.5 million at December 31, 2012. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$1.9 million in the first quarter ended March 31, 2013. Of the total change in interest expense, approximately \$1.8 million in the first quarter ended March 31, 2013 would have resulted from the floor plan facilities.

In addition to our variable rate debt, as of March 31, 2013 and December 31, 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 first quarter ended March 31, 2013 due to the leases containing LIBOR floors which were above the LIBOR rate during the first quarter ended March 31, 2013.

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 March 31, 2013 was a liability of approximately \$31.2 million, with \$11.9 million included in other accrued liabilities and \$19.3 million recorded to other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. The fair value of these swap positions at December 31, 2012 was a liability of approximately \$34.3 million, with \$12.1 million included in other accrued liabilities and \$22.2 million recorded to other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. We will receive and pay interest based on the following:

| <b>Notional Amount<br/>(In millions)</b> | <b>Pay Rate</b> | <b>Receive Rate (1)</b> | <b>Maturing Date</b> |
|------------------------------------------|-----------------|-------------------------|----------------------|
| \$ 3.1                                   | 7.100%          | one-month LIBOR + 1.50% | July 10, 2017        |
| \$ 9.8                                   | 4.655%          | one-month LIBOR         | December 10, 2017    |
| \$ 8.0 (2)                               | 6.860%          | one-month LIBOR + 1.25% | August 1, 2017       |
| \$ 6.0                                   | 4.330%          | one-month LIBOR         | July 1, 2013         |
| \$ 100.0                                 | 3.280%          | one-month LIBOR         | July 1, 2015         |
| \$ 100.0                                 | 3.300%          | one-month LIBOR         | July 1, 2015         |
| \$ 6.8 (2)                               | 6.410%          | one-month LIBOR + 1.25% | September 12, 2017   |
| \$ 50.0                                  | 2.767%          | one-month LIBOR         | July 1, 2014         |
| \$ 50.0                                  | 3.240%          | one-month LIBOR         | July 1, 2015         |
| \$ 50.0                                  | 2.610%          | one-month LIBOR         | July 1, 2014         |
| \$ 50.0                                  | 3.070%          | one-month LIBOR         | July 1, 2015         |
| \$ 100.0 (3)                             | 2.065%          | one-month LIBOR         | June 30, 2017        |
| \$ 100.0 (3)                             | 2.015%          | one-month LIBOR         | June 30, 2017        |

(1) The one-month LIBOR rate was 0.204% at March 31, 2013.

(2) Changes in fair value are recorded through earnings.

(3) 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 that may influence automobile manufacturers' ability to provide their products at competitive prices in the United States. To the extent that we cannot recapture this 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.



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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**Item 4: Controls and Procedures.**

***Disclosure Controls and Procedures*** Under the supervision and with the participation of our management, including our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2013. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of March 31, 2013, because of the material weakness in internal control over financial reporting described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2012.

Notwithstanding the material weakness that existed as of December 31, 2012, our CEO and CFO have each concluded that the consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the financial position, results of operations and cash flows of the Company and its subsidiaries in conformity with U.S. GAAP. We are in the process of remediating such material weakness as described below.

***Remediation of Material Weakness*** Management is in the process of remediating the internal control deficiencies described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2012, and the audit committee of the Company's Board of Directors will monitor the remediation plan and progress. Management's remediation efforts include hiring additional personnel, implementing training programs for our existing accounting and reporting personnel, revising the Company's policies and providing appropriate training on the policies and engaging a third-party firm to assist it in developing appropriate remedial measures.

In addition, under the direction of the audit committee, management will continue to review and make necessary changes to the overall design of the Company's internal control environment, as well as to policies and procedures to improve the overall effectiveness of internal control over financial reporting. As the Company continues to evaluate and work to improve its internal control over financial reporting, management may determine to take additional measures to address control deficiencies.

***Changes in Internal Control over Financial Reporting*** Except as discussed above, there has been no change in our internal control over financial reporting during the first quarter ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**PART II OTHER INFORMATION**

**Item 1: Legal Proceedings.**

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 ourselves in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. 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. Included in other accrued liabilities and other long-term liabilities at March 31, 2013 was approximately \$1.1 million and \$1.2 million, respectively, in reserves for pending proceedings. Included in other accrued liabilities and other long-term liabilities at December 31, 2012 was approximately \$2.1 million and \$1.3 million, respectively, in reserves for pending proceedings. Except as reflected in such reserves, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**RISK FACTORS**

**Item 1A: Risk Factors**

In addition to the 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, 2012, which could materially affect our business, financial condition or future results.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth information about the shares of Class A Common Stock we repurchased during the first quarter ended March 31, 2013:

|               | (In thousands, except per share data)         |                                       |                                                                                                        |                                                                                                      |
|---------------|-----------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
|               | Total<br>Number<br>of Shares<br>Purchased (1) | Average<br>Price Paid<br>per<br>Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Plans<br>or Programs<br>(2) | Approximate Dollar<br>Value of Shares<br>That May Yet Be<br>Purchased Under<br>the Plans or Programs |
| January 2013  | 135                                           | \$ 22.97                              | 135                                                                                                    | \$ 46,499                                                                                            |
| February 2013 | 169                                           | 23.53                                 | 169                                                                                                    | 142,522                                                                                              |
| March 2013    | 88                                            | 23.22                                 | 88                                                                                                     | 140,479                                                                                              |
| Total         | 392                                           | \$ 23.27                              | 392                                                                                                    | \$ 140,479                                                                                           |

- (1) All shares repurchased were part of publicly announced share repurchase programs.  
(2) Our active publicly announced Class A common stock repurchase authorization plans and current remaining availability are as follows:

|                                                     | (amounts in thousands) |
|-----------------------------------------------------|------------------------|
| July 2012 authorization                             | \$ 100,000             |
| February 2013 authorization                         | 100,000                |
| Total authorization                                 | 200,000                |
| Total active plan repurchases                       | (59,521)               |
| Current remaining availability as of March 31, 2013 | \$ 140,479             |

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.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**Item 6: Exhibits.**

**(a) Exhibits:**

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>10.1*</b>           | Amendment No. 2, dated as of March 14, 2013, 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 Current Report on Form 8-K filed on March 18, 2013). |
| <b>10.2*</b>           | Amendment No. 2, dated as of March 14, 2013, 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 Current Report on Form 8-K filed on March 18, 2013).                                                                               |
| <b>31.1</b>            | Certification of Mr. Heath R. Byrd pursuant to rule 13a-14(a)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>31.2</b>            | Certification of Mr. O. Bruton Smith pursuant to rule 13a-14(a)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>32.1</b>            | Certification of Mr. Heath R. Byrd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>32.2</b>            | 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>101.INS**</b>       | XBRL Instance Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>101.SCH**</b>       | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>101.CAL**</b>       | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>101.DEF**</b>       | XBRL Taxonomy Definition Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>101.LAB**</b>       | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>101.PRE**</b>       | 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.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**Forward Looking Statements**

This Quarterly Report on Form 10-Q contains, and written or oral statements made from time to time by us or by our authorized officers may contain, 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, results and events, and can generally be identified by words such as may, will, should, believe, expect, anticipate, 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;

industry trends;

our financing plans and our ability to repay or refinance existing debt when due;

future acquisitions or dispositions;

level of fuel prices;

general economic trends, including employment rates and consumer confidence levels; and

remediation plans related to our internal control over financial reporting.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward-looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, Item 1A of this Quarterly Report on 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;

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our ability to generate sufficient cash flows or obtain additional financing to fund capital expenditures, our share repurchase program, dividends on our common stock, acquisitions 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;

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

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.

These forward-looking statements speak only as of the date of this report or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances.

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**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: April 26, 2013

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

Date: April 26, 2013

By: */s/ HEATH R. BYRD*  
Heath R. Byrd  
*Executive Vice President and Chief Financial Officer*  
  
*(Principal Financial Officer)*

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>10.1*</b>           | Amendment No. 2, dated as of March 14, 2013, 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 Current Report on Form 8-K filed on March 18, 2013). |
| <b>10.2*</b>           | Amendment No. 2, dated as of March 14, 2013, 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 Current Report on Form 8-K filed on March 18, 2013).                                                                               |
| <b>31.1</b>            | Certification of Mr. Heath R. Byrd pursuant to rule 13a-14(a)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>31.2</b>            | Certification of Mr. O. Bruton Smith pursuant to rule 13a-14(a)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>32.1</b>            | Certification of Mr. Heath R. Byrd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>32.2</b>            | 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>101.INS**</b>       | XBRL Instance Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>101.SCH**</b>       | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>101.CAL**</b>       | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>101.DEF**</b>       | XBRL Taxonomy Definition Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>101.LAB**</b>       | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>101.PRE**</b>       | 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.