SONIC AUTOMOTIVE INC
Form 10-K
March 03, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission file number 001-13395

SONIC AUTOMOTIVE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware *(State or Other Jurisdiction of Incorporation or Organization)*	**56-2010790** *(I.R.S. Employer Identification No.)*
4401 Colwick Road **Charlotte, North Carolina** *(Address of Principal Executive Offices)*	**28211** *(Zip Code)*

(704) 566-2400

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Class A common stock, $0.01 par value	**New York Stock Exchange**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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

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

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 files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately $833.5 million based upon the closing sales price of the registrant s Class A common stock on June 28, 2013 of $21.14 per share.

As of February 18, 2014, there were 40,463,897 shares of Class A common stock, par value $0.01 per share, and 12,029,375 shares of Class B common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference. Portions of the registrant s Proxy Statement for the Annual Meeting of Stockholders to be held April 16, 2014 are incorporated by reference into Part III of this Form 10-K.

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This Annual Report on Form 10-K contains, and written or oral statements made from time to time by us or by our authorized officers may contain, 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, including references to our stand-alone pre-owned store initiative and customer experience initiative;
- 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: Risk Factors of this Annual Report on Form 10-K and elsewhere in this report, as well as:

- the number of new and used cars sold in the United States as compared to our expectations and the expectations of the market;

our ability to generate sufficient cash flows or obtain additional financing to fund 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;

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;

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- our ability to successfully integrate potential future acquisitions, roll out our stand-alone pre-owned stores and customer experience initiative; and
- the rate and timing of overall economic recovery or decline.

These forward-looking statements speak only as of the date or 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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PART I

Item 1: ***Business*.**

Sonic Automotive, Inc. was incorporated in Delaware in 1997. We are one of the largest automotive retailers in the United States. As of December 31, 2013, we operated 123 franchises in 14 states (representing 25 different brands of cars and light trucks) and 21 collision repair centers. For management and operational reporting purposes, we group certain franchises together that share management and inventory (principally used vehicles) into stores. As of December 31, 2013, we operated 102 stores. Our dealerships provide comprehensive services including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts, performance of vehicle maintenance, manufacturer warranty repairs, paint and collision repair services (collectively, Fixed Operations); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, F&I) for our customers.

The following charts depict the multiple sources of continuing operations revenue and gross profit for the year ended December 31, 2013:

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As of December 31, 2013, we operated franchises in the following markets:

Market	Number of Franchises	Percent of 2013 Total Revenue
Houston	25	22.9%
Alabama/Tennessee	22	12.6%
North Carolina/South Carolina/Georgia	13	9.5%
South Bay (San Francisco)	7	7.7%
Los Angeles North	6	7.6%
North Bay (San Francisco)	8	6.5%
Florida	9	6.3%
Los Angeles South	7	6.2%
Dallas	4	5.7%
Mid-Atlantic	6	5.0%
Colorado	4	3.4%
Ohio	5	2.8%
Las Vegas	3	2.0%
Michigan	4	1.8%
Total	123	100.0%

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

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

Business Strategy

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

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

Improve Capital Structure. As we generate cash through operations, we will opportunistically repurchase our Class A common stock in open-market or structured transactions.

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Diverse Revenue Streams. We have multiple revenue streams. In addition to new vehicle sales, our revenue sources include used vehicle sales, which we believe are less sensitive to economic cycles and seasonal influences that exist with new vehicle sales. Our Fixed Operations sales carry a higher gross margin than new and used vehicle sales and, in the past, have not been as economically sensitive as new vehicle sales. We also offer customers assistance in obtaining financing and a range of automobile related insurance products.

Portfolio Management. Our long-term growth and acquisition strategy is focused on large metropolitan markets, predominantly in the Southeast, Southwest, Midwest and California. We seek to add like-branded dealerships to our portfolio that exist in regions in which we already operate. A majority of our dealerships are either luxury or mid-line import brands. For the year ended December 31, 2013, approximately 85.0% of our new vehicle revenue was generated by mid-line import and luxury dealerships, which usually have higher operating margins, more stable Fixed Operations departments, lower associate turnover and lower inventory levels.

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

	Percentage of New Vehicle Revenue Year Ended December 31,		
	2013	2012	2011
Brand			
Luxury:			
BMW	19.6%	19.0%	19.4%
Mercedes	9.1%	8.7%	8.9%
Lexus	5.0%	5.0%	4.6%
Cadillac	4.6%	4.8%	5.3%
Audi	4.4%	4.0%	3.8%
Land Rover	2.7%	2.2%	2.3%
Mini	2.4%	2.7%	3.0%
Porsche	2.1%	1.9%	1.7%
Infiniti	0.9%	1.0%	1.2%
Volvo	0.9%	1.1%	1.1%
Acura	0.8%	0.9%	0.9%
Jaguar	0.7%	0.7%	0.9%
Other Luxury(1)	0.0%	0.0%	0.1%
Total Luxury	53.2%	52.0%	53.2%
Mid-line Import:			
Honda	15.0%	15.3%	13.2%
Toyota	10.1%	10.3%	8.8%
Volkswagen	2.3%	3.0%	3.0%
Hyundai	1.8%	2.2%	2.4%
Other(2)	1.5%	1.8%	1.5%
Nissan	1.1%	0.9%	1.2%
Total Mid-line Import	31.8%	33.5%	30.1%
Domestic:			
Ford	8.8%	7.8%	9.1%
General Motors(3)	6.2%	6.7%	7.6%
Total Domestic	15.0%	14.5%	16.7%
Total	100.0%	100.0%	100.0%

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(1) Includes Smart and Saab.

(2) Includes Kia, Scion and Subaru.

(3) Includes Buick, Chevrolet and GMC.

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

Execute our Stand-Alone Pre-Owned Store Initiative. As we announced during the fourth quarter of 2013, we plan to augment our manufacturer-franchised dealership operations with stand-alone pre-owned specialty retail sales locations. This pre-owned business will operate independently from the existing new and used dealership sales operations and introduce consumers to an exciting shopping and buying experience. The first target market is planned for Denver, Colorado and we expect operations to begin in late 2014.

Customer Experience Initiative. In the fourth quarter of 2013, we also announced our customer experience initiative known as One Sonic-One Experience. This initiative includes several new processes and proprietary technologies from inventory management and pricing tools to a fully developed customer-centric Customer Relationship Management (CRM) tool. The development of these processes and tools will allow us to better serve our customers across our entire platform of stores. Our goal is to allow our guests to control the buying process and move at their pace so that once the vehicle has been selected our team can go to work using these processes and technologies to get our guests on the road in their new vehicle in less than an hour.

Achieve High Levels of Customer Satisfaction. We focus on maintaining high levels of customer satisfaction. Our personalized sales process is designed to satisfy customers by providing high-quality vehicles and service in a positive, consumer friendly buying environment. Several manufacturers offer specific financial incentives on a per vehicle basis if certain Customer Satisfaction Index (CSI) levels (which vary by manufacturer) are achieved by a dealership. In addition, all manufacturers consider CSI scores in approving acquisitions or awarding new dealership open-points. In order to keep dealership and executive management focused on customer satisfaction, we include CSI results as a component of our incentive-based compensation programs.

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

Increase Sales of Higher Margin Products and Services. We continue to pursue opportunities to increase our sales of higher-margin products and services by expanding the following:

Finance, Insurance and Other Aftermarket Products. Each sale of a new or used vehicle gives us an opportunity to provide our customers with financing and insurance options and earn financing fees and insurance commissions. We also offer our customers the opportunity to purchase extended warranties,

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service contracts and other aftermarket products. We currently offer a wide range of non-recourse financing, leasing, other aftermarket products, extended warranties, service contracts and insurance products to our customers. We emphasize menu-selling techniques and other best practices to increase our sales of F&I products at our dealerships.

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

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

Relationships with Manufacturers

Each of our dealerships operates under a separate franchise or dealer agreement that governs the relationship between the dealership and the manufacturer. Each franchise or dealer agreement specifies the location of the dealership for the sale of vehicles and for the performance of certain approved services in a specified market area. The designation of such areas generally does not guarantee exclusivity within a specified territory. In addition, most manufacturers allocate vehicles on a turn and earn basis that rewards high unit sales volume. A franchise or dealer agreement incentivizes the dealer to meet specified standards regarding showrooms, facilities and equipment for servicing vehicles, inventories, minimum net working capital, personnel training and other aspects of the business. Each franchise or dealer agreement also gives the related manufacturer the right to approve the dealer operator and any material change in management or ownership of the dealership. Each manufacturer may terminate a franchise or dealer agreement under certain circumstances, such as a change in control of the dealership without manufacturer approval, the impairment of the reputation or financial condition of the dealership, the death, removal or withdrawal of the dealer operator, the conviction of the dealership or the dealership s owner or dealer operator of certain crimes, the failure to adequately operate the dealership or maintain new vehicle financing arrangements, insolvency or bankruptcy of the dealership or a material breach of other provisions of the applicable franchise or dealer agreement.

Many automobile manufacturers have developed policies regarding public ownership of dealerships. Policies implemented by manufacturers include the following restrictions:

- the ability to force the sale of their respective franchises upon a change in control of our company or a material change in the composition of our Board of Directors;

- the ability to force the sale of their respective franchises if an automobile manufacturer or distributor acquires more than 5% of the voting power of our securities; and

- the ability to force the sale of their respective franchises if an individual or entity (other than an automobile manufacturer or distributor) acquires more than 20% of the voting power of our securities, and the manufacturer disapproves of such individual s or entity s ownership interest.

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

Many states have placed limitations upon manufacturers and distributors ability to sell new motor vehicles directly to customers in their respective states in an effort to protect dealers from practices they believe constitute unfair competition. In general, these statutes make it unlawful for a manufacturer or distributor to compete with a new motor vehicle dealer in the same brand operating under an agreement or franchise from the manufacturer or distributor in the relevant market area. Certain states, including Florida, Georgia, South Carolina, North Carolina and Virginia, limit the amount of time that a manufacturer may temporarily operate a dealership.

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

Competition

The retail automotive industry is highly competitive. Depending on the geographic market, we compete both with dealers offering the same brands and product lines as ours and dealers offering other manufacturers vehicles. We also compete for vehicle sales with auto brokers, leasing companies and services offered on the internet that provide customer referrals to other dealerships or who broker vehicle sales between customers and other dealerships. We compete with small, local dealerships and with large multi-franchise automotive dealership groups.

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

In addition to competition for vehicle sales, we also compete with other auto dealers, service stores, auto parts retailers and independent mechanics in providing parts and service. We believe that the principal competitive factors in parts and service sales are price, the use of factory-approved replacement parts, factory-trained technicians, the familiarity with a manufacturer s makes and models and the quality of customer service. A number of regional and national chains offer selected parts and services at prices that may be lower than our prices.

In arranging or providing financing for our customers vehicle purchases, we compete with a broad range of financial institutions. In addition, financial institutions are now offering F&I products through the internet. We believe the principal competitive factors in providing financing are convenience, interest rates and contract terms.

Our success depends, in part, on national and regional automobile-buying trends, local and regional economic factors and other regional competitive pressures. Conditions and competitive pressures affecting the markets in which we operate, such as price-cutting by dealers in these areas, or in any new markets we enter, could adversely affect us, even though the retail automobile industry as a whole might not be affected.

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Governmental Regulations and Environmental Matters

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

Under the laws of the states in which we currently operate as well as the laws of other states into which we may expand, we must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. These laws also regulate our conduct of business, including our sales, operating, advertising, financing and employment practices, including federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to federal truth-in-lending, consumer privacy, consumer leasing and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Some states regulate finance fees that may be paid as a result of vehicle sales.

Federal, state and local environmental regulations, including regulations governing air and water quality, the clean-up of contaminated property and the use, storage, handling, recycling and disposal of gasoline, oil and other materials, also apply to us and our dealership properties.

As with automobile dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes and other environmentally sensitive materials. Our business also involves the past and current operation and/or removal of above ground and underground storage tanks containing such substances or wastes. Accordingly, we are subject to regulation by federal, state and local authorities that establish health and environmental quality standards, provide for liability related to those standards and provide penalties for violations of those standards. We are also subject to laws, ordinances and regulations governing remediation of contamination at facilities we own or operate or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

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

Executive Officers of the Registrant

Our executive officers as of the date of this Form 10-K, are as follows:

Name	Age	Position(s) with Sonic
Mr. O. Bruton Smith	87	Chairman, Chief Executive Officer and Director
Mr. B. Scott Smith	46	President, Chief Strategic Officer and Director
Mr. David B. Smith	39	Vice Chairman and Director
Mr. Heath R. Byrd	47	Executive Vice President and Chief Financial Officer
Mr. Jeff Dyke	46	Executive Vice President of Operations

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Mr. O. Bruton Smith is our Founder, Chairman, Chief Executive Officer and a director and has served as such since our formation in January 1997, and Mr. Smith is currently a director and executive officer of many of our subsidiaries. Mr. Smith has worked in the retail automobile industry since 1966. Mr. Smith is also the Chairman and Chief Executive Officer, a director and controlling stockholder of Speedway Motorsports, Inc. (SMI). SMI is a public company traded on the New York Stock Exchange (the NYSE). Among other things, SMI owns and operates the following NASCAR racetracks: Atlanta Motor Speedway, Bristol Motor Speedway, Charlotte Motor Speedway, Sonoma Raceway, Las Vegas Motor Speedway, New Hampshire Motor Speedway, Texas Motor Speedway and Kentucky Speedway. Mr. Smith is also an executive officer or a director of most of SMI s operating subsidiaries.

Mr. B. Scott Smith is our Co-Founder, President, Chief Strategic Officer and a director. Prior to his appointment as President in March 2007, Mr. Smith served as our Vice Chairman and Chief Strategic Officer since October 2002. Mr. Smith held the position of President and Chief Operating Officer from April 1997 to October 2002. Mr. Smith has been a director of our company since our organization was formed in January 1997. Mr. Smith also serves as a director and executive officer of many of our subsidiaries. Mr. Smith has been an executive officer of Town & Country Ford since 1993, and was a minority owner of both Town & Country Ford and Fort Mill Ford before our acquisition of these dealerships in 1997. Mr. Smith became the General Manager of Town & Country Ford in November 1992 where he remained until his appointment as President and Chief Operating Officer in April 1997. Mr. Smith has over 24 years of experience in the automobile dealership industry. Mr. Smith is a son of O. Bruton Smith and brother of David B. Smith.

Mr. David B. Smith was appointed to the office of Vice Chairman on March 31, 2013. Mr. Smith has served as Executive Vice President until his appointment to Vice Chairman on March 31, 2013, as a director since October 2008 and has served in our organization since 1998. Prior to being named a director and Executive Vice President in October 2008, Mr. Smith served as our Senior Vice President of Corporate Development. Mr. Smith served as Vice President of Corporate Strategy of the company from October 2005 to March 2007, and also served prior to that time as Dealer Operator of several of our dealerships. Mr. Smith is a son of O. Bruton Smith and brother of B. Scott Smith.

Mr. Heath R. Byrd became our Executive Vice President and Chief Financial Officer effective March 31, 2013. Mr. Byrd was previously a Vice President and our Chief Information Officer, and has served our organization since 2007. Prior to joining Sonic, Mr. Byrd served in a variety of management positions at HRAmerica, Inc., a workforce management firm that provided customized human resource and workforce development through co-sourcing arrangements, including as a director, as President and Chief Operating Officer and as Chief Financial Officer and Chief Information Officer.

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

Employees

As of December 31, 2013, we employed approximately 9,100 associates. We believe that our relationships with our associates are good. Approximately 200 of our associates, primarily service technicians in our Northern California markets, are represented by a labor union. Although a small percentage of our associates are

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represented by a labor union, we may be affected by labor strikes, work slowdowns and walkouts at automobile manufacturers manufacturing facilities.

Company Information

Our website is located at www.sonicautomotive.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as proxy statements and other information we file with, or furnish to, the Securities and Exchange Commission (SEC) are available free of charge on our website. We make these documents available as soon as reasonably practicable after we electronically transmit them to the SEC. Except as otherwise stated in these documents, the information contained on our website or available by hyperlink from our website is not incorporated into this Annual Report on Form 10-K or other documents we transmit to the SEC.

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RISK FACTORS

Item 1A: ***Risk Factors***

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

Risks Related to Our Sources of Financing and Liquidity

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

As of December 31, 2013, our total outstanding indebtedness was approximately $2.0 billion, which includes floor plan notes payable, long-term debt and short-term debt.

We have $175.0 million of maximum borrowing availability under a syndicated revolving credit facility (the 2011 Revolving Credit Facility) and up to $605.0 million in maximum borrowing availability for combined syndicated new and used vehicle inventory floor plan financing (the 2011 Floor Plan Facilities). We refer to the 2011 Revolving Credit Facility and 2011 Floor Plan Facilities collectively as our 2011 Credit Facilities. Based on balances as of December 31, 2013, we had approximately $126.0 million available for additional borrowings under the 2011 Revolving Credit Facility based on the borrowing base calculation, which is affected by numerous factors including eligible asset balances. We are able to borrow under our 2011 Revolving Credit Facility only if, at the time of the borrowing, we have met all representations and warranties and are in compliance with all financial and other covenants contained therein. We also have capacity to finance new and used vehicle inventory purchases under floor plan agreements with various manufacturer-affiliated finance companies and other lending institutions (the Silo Floor Plan Facilities) as well as our 2011 Floor Plan Facilities. In addition, the indentures relating to our 5.0% Senior Subordinated Notes due 2023 (the 5.0% Notes), 7.0% Senior Subordinated Notes due 2022 (the 7.0% Notes) and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness, as long as we comply with the terms thereunder.

In addition, the majority of our dealership properties are leased under long-term operating lease arrangements that commonly have initial terms of fifteen to twenty years with renewal options ranging from five to ten years. These operating leases require compliance with financial and operating covenants similar to those under our 2011 Credit Facilities, and monthly payments of rent that may fluctuate based on interest rates and local consumer price indices. The total future minimum lease payments related to these operating leases and certain equipment leases are significant and are disclosed in Note 12, Commitments and Contingencies, to the accompanying Consolidated Financial Statements.

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

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

Our 2011 Credit Facilities, the indentures governing our 5.0% Notes and 7.0% Notes and many of our operating leases contain numerous financial and operating covenants. A breach of any of these covenants could

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result in a default under the applicable agreement or indenture. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures, including the indentures governing our outstanding 5.0% Notes and 7.0% Notes. If a cross default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. If a default were to occur, we may be unable to adequately finance our operations and the value of our common stock would be materially adversely affected because of acceleration and cross default provisions. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

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

Our ability to meet our debt obligations and other expenses will depend on our future performance, which will be affected by financial, business, domestic and foreign economic conditions, the regulatory environment and other factors, many of which we are unable to control. Substantially all of our consolidated assets are held by our subsidiaries and substantially all of our consolidated cash flow and net income are generated by our subsidiaries. Accordingly, our cash flow and ability to service debt depends to a substantial degree on the results of operations of our subsidiaries and upon the ability of our subsidiaries to provide us with cash. We may receive cash from our subsidiaries in the form of dividends, loans or distributions. We may use this cash to service our debt obligations or for working capital. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to distribute cash to us or to make funds available to service debt.

If our cash flow is not sufficient to service our debt as it becomes due, we may be required to refinance the debt, sell assets or sell shares of our common stock on terms that we do not find attractive. Further, our failure to comply with the financial and other restrictive covenants relating to the 2011 Credit Facilities and the indentures pertaining to our outstanding notes could result in a default under these agreements that would prevent us from borrowing under the 2011 Revolving Credit Facility, which could materially adversely affect our business, financial condition and results of operations. If a default and acceleration of repayment were to occur, we may be unable to adequately finance our operations and the value of our Class A common stock could be materially adversely affected.

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

Many of our mortgage notes principal and interest payments are based on an amortization period longer than the actual terms (maturity dates) of the notes. We will be required to repay or refinance the remaining principal balances for certain of our mortgages with balloon payments at the notes maturity dates, which range from 2014 to 2022. The amounts to be repaid or refinanced at the maturity dates could be significant. We may not have sufficient liquidity to make such payments at the notes maturity dates. In the event we do have sufficient liquidity to completely repay the remaining principal balances at maturity, we may not be able to refinance the notes at interest rates that are acceptable to us, or depending on market conditions, refinance the notes at all. Our inability to repay or refinance these notes could have a material adverse effect on our business, financial condition and results of operations.

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

In most cases, when we sell a dealership, the buyer of the dealership will sublease the dealership property from us, but we are not released from the underlying lease obligation to the primary landlord. We rely on the

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

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

To reduce our exposure to fluctuations in cash flow due to interest rate fluctuations, we have entered into, and in the future expect to enter into, certain derivative instruments (or hedging agreements). No hedging activity can completely insulate us from the risks associated with changes in interest rates. As of December 31, 2013, we had interest rate swap agreements to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. See the heading Derivative Instruments and Hedging Activities under Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements. We intend to hedge as much of the interest rate risk as management determines is in our best interests given the cost of such hedging transactions.

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

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

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

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

Upon the occurrence of a change in control or a fundamental change, as defined in our 5.0% Notes and 7.0% Notes, holders of these instruments will have the right to require us to purchase all or any part of such holders notes at a price equal to 101% of principal amount thereof, plus accrued and unpaid interest, if any. The events that constitute a change of control under these indentures may also constitute a default under our 2011 Credit Facilities. Any future debt instruments that we may incur may contain similar provisions regarding repurchases in the event of a change in control or fundamental change triggering event. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under these debt instruments in the event of a change in control or fundamental change. In the event we were unable to satisfy these obligations, it could have a material adverse impact on our business and our common stock holders.

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Risks Related to Our Relationships with Vehicle Manufacturers

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

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

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

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

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

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

In addition, many manufacturers attempt to measure customers satisfaction with their sales and warranty service experiences through manufacturer-determined CSI scores. The components of CSI vary by manufacturer and are modified periodically. Franchise and dealer agreements may also impose financial and sales performance standards. Under our agreements with certain manufacturers, a dealership s CSI scores, sales and financial performance may be considered a factor in evaluating applications for additional dealership acquisitions. From time to time, some of our dealerships have had difficulty meeting various manufacturers CSI requirements or performance standards. We cannot assure you that our dealerships will be able to comply with these requirements in the future. A manufacturer may refuse to consent to an acquisition of one of its franchises if it determines our dealerships do not comply with its CSI requirements or performance standards, which could impair the execution of our acquisition strategy. In addition, we receive incentive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

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

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise or dealer agreement unless it has first provided the dealer with written notice setting forth good cause and stating

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the grounds for termination or non-renewal. Some state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer s criteria within the notice period to avoid the termination or non-renewal. Though unsuccessful to date, manufacturers lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealerships to renew their franchise or dealer agreements upon expiration.

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

Our sales volume and profit margin on each sale may be materially adversely affected if manufacturers discontinue or change their incentive programs.

Our dealerships depend on the manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support dealership new vehicle sales. Manufacturers routinely modify their incentive programs in response to changing market conditions. Some of the key incentive programs include:

- customer rebates or below market financing on new and used vehicles;
- employee pricing;
- dealer incentives on new vehicles;
- manufacturer floor plan interest and advertising assistance;
- warranties on new and used vehicles; and
- sponsorship of certified pre-owned vehicle sales by authorized new vehicle dealers.

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

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

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

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

Franchised automotive retailers perform factory authorized service work and sell original replacement parts on vehicles covered by warranties issued by the automotive manufacturer. Dealerships which perform work

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covered by a manufacturer warranty are reimbursed at rates established by the manufacturer. For the year ended December 31, 2013, approximately 15.3% of our parts, service and collision repair revenue was for work covered by manufacturer warranties. To the extent a manufacturer reduces the labor rates or markup of replacement parts for such warranty work, our Fixed Operations sales volume and margins could be adversely affected.

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

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

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

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

- a manufacturer in bankruptcy could attempt to terminate all or certain of our franchises, in which case we may not receive adequate compensation for our franchises;
- consumer demand for such manufacturer s products could be substantially reduced;
- a lender in bankruptcy could attempt to terminate our floor plan financing and demand repayment of any amounts outstanding;
- we may be unable to arrange financing for our customers for their vehicle purchases and leases through such lender, in which case we would be required to seek financing with alternate financing sources, which may be difficult to obtain on similar terms, if at all;
- we may be unable to collect some or all of our significant receivables that are due from such manufacturer or lender, and we may be subject to preference claims relating to payments made by such manufacturer or lender prior to bankruptcy; and
- such manufacturer may be relieved of its indemnification obligations with respect to product liability claims.

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

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

Some of our franchise and dealer agreements prohibit transfers of any ownership interests of a dealership and, in some cases, its parent, without prior approval of the applicable manufacturer. Our existing franchise and dealer

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agreements could be terminated if a person or entity acquires a substantial ownership interest in us or acquires voting power above certain levels without the applicable manufacturer s approval. While the holders of our Class B common stock currently maintain voting control of Sonic, their future investment decisions as well as those of holders of our Class A common stock are generally outside of our control and could result in the termination or non-renewal of existing franchise or dealer agreements or impair our ability to negotiate new franchise or dealer agreements for dealerships we acquire in the future. In addition, if we cannot obtain any requisite approvals on a timely basis, we may not be able to issue additional equity or otherwise raise capital on terms acceptable to us. These restrictions may also prevent or deter a prospective acquirer from acquiring control of us.

We depend on manufacturers to supply us with sufficient numbers of popular new models.

Manufacturers typically allocate their vehicles among dealerships based on the sales history of each dealership. Supplies of popular new vehicles may be limited by the applicable manufacturer s production capabilities. Popular new vehicles that are in limited supply typically produce the highest profit margins. We depend on manufacturers to provide us with a desirable mix of popular new vehicles. Our operating results may be materially adversely affected if we do not obtain a sufficient supply of these vehicles on a timely basis.

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

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

Risks Related to Our Growth Strategy

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

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

Our ability to make acquisitions, execute our stand-alone pre-owned initiative and grow organically may be restricted by the terms and limits of the 2011 Credit Facilities.

The amount of capital available to us is limited to the liquidity available under our 2011 Credit Facilities and capital generated through operating activities. Pursuant to the 2011 Credit Facilities, we are restricted from making dealership acquisitions in any fiscal year if the aggregate cost of all such acquisitions is in excess of certain amounts, without the written consent of the Required Lenders (as that term is defined in the 2011 Credit Facilities). Our pace and scale of growing our recently announced stand-alone pre-owned initiative may be limited in the event other sources of capital are unavailable. These restrictions may limit our growth strategy.

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

We intend to finance future real estate and dealership acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements. We may not be able to obtain additional financing by issuing stock or debt securities due to the market price of our Class A common stock, overall market conditions or covenants under our 2011 Credit Facilities that restrict our ability to issue additional indebtedness, or the need for manufacturer consent to the issuance of equity securities. Using cash to complete acquisitions could substantially limit our operating or financial flexibility.

In addition, we are dependent to a significant extent on our ability to finance our new and certain of our used vehicle inventory under the 2011 Floor Plan Facilities or the Silo Floor Plan Facilities (floor plan financing). Floor plan financing arrangements allow us to borrow money to buy a particular new vehicle from the manufacturer or a used vehicle on trade-in or at auction and pay off the loan when we sell that particular vehicle. We must obtain floor plan financing or obtain consents to assume existing floor plan financing in connection with our acquisition of dealerships. In the event that we are unable to obtain such financing, our ability to complete dealership acquisitions could be limited.

Substantially all the assets of our dealerships are pledged to secure the indebtedness under our Silo Floor Plan Facilities and the 2011 Credit Facilities. These pledges may impede our ability to borrow from other sources. Moreover, because certain lending institutions are either owned by or affiliated with an automobile manufacturer, any deterioration of our relationship with the particular manufacturer-affiliated finance subsidiary could adversely affect our relationship with the affiliated manufacturer, and vice-versa.

Manufacturers restrictions on acquisitions could limit our future growth.

We are required to obtain the approval of the applicable manufacturer before we can acquire an additional franchise of that manufacturer. In determining whether to approve an acquisition, manufacturers may consider many factors such as our financial condition and CSI scores.

Certain manufacturers also limit the number of its dealerships that we may own, our national market share of that manufacturer s products or the number of dealerships we may own in a particular geographic area. In addition, under an applicable franchise or dealer agreement or under state law, a manufacturer may have a right of first refusal to acquire a dealership that we seek to acquire.

A manufacturer may condition approval of an acquisition on the implementation of material changes in our operations or extraordinary corporate transactions, facilities improvements or other capital expenditures. If we are unable or unwilling to comply with these conditions, we may be required to sell the assets of that manufacturer s dealerships or terminate our franchise or dealer agreement. We cannot assure you that manufacturers will approve future acquisitions or do so on a timely basis, which could impair the execution of our acquisition strategy.

Failure to effectively integrate acquired dealerships with our existing operations could adversely affect our future operating results.

Our future operating results depend on our ability to integrate the operations of acquired dealerships with our existing operations. In particular, we need to integrate our management information systems, procedures and organizational structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business.

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We cannot assure you that we will effectively and profitably integrate the operations of these dealerships without substantial costs, delays or operational or financial problems, due to:

- the difficulties of managing operations located in geographic areas where we have not previously operated;
- the management time and attention required to integrate and manage newly acquired dealerships;
- the difficulties of assimilating and retaining employees;
- the challenges of keeping customers; and
- the challenge of retaining or attracting appropriate dealership management personnel.

These factors could have a material adverse effect on our financial condition and results of operations.

We may not adequately anticipate all of the demands that growth through acquisitions will impose.

We face risks growing through acquisitions or expansion. These risks include, but are not limited to:

- incurring significantly higher capital expenditures and operating expenses;
- failing to assimilate the operations and personnel of acquired dealerships;
- entering new markets with which we are unfamiliar;
- potential undiscovered liabilities and operational difficulties at acquired dealerships;
- disrupting our ongoing business;
- diverting our management resources;
- failing to maintain uniform standards, controls and policies;

impairing relationships with employees, manufacturers and customers as a result of changes in management;

increased expenses for accounting and computer systems, as well as integration difficulties;

failure to obtain a manufacturer s consent to the acquisition of one or more of its franchises or renew the franchise or dealer agreement on terms acceptable to us; and

incorrectly valuing entities to be acquired or assessing markets entered.

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

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

We have grown our business primarily through acquisitions in the past. We may not be able to consummate any future acquisitions at acceptable prices and terms or identify suitable candidates. In addition, increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. The magnitude, timing, pricing and nature of future acquisitions or growth opportunities will depend upon various factors, including:

the availability of suitable acquisition candidates;

competition with other dealer groups for suitable acquisitions;

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- the negotiation of acceptable terms with the seller and with the manufacturer;
- our financial capabilities and ability to obtain financing on acceptable terms;
- our stock price; and
- the availability of skilled employees to manage the acquired companies.

We may not be able to determine the actual financial condition of dealerships we acquire until after we complete the acquisition and take control of the dealerships.

The operating and financial condition of acquired businesses cannot be determined accurately until we assume control. Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Similarly, many of the dealerships we acquire, including some of our largest acquisitions, do not have financial statements audited or prepared in accordance with generally accepted accounting principles. We may not have an accurate understanding of the historical financial condition and performance of our acquired entities. Until we actually assume control of business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations.

Risks Related to the Automotive Retail Industry

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

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

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The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the CFPB), a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In March 2013, the CFPB issued supervisory guidance highlighting its concern that the practice of automotive dealers being compensated for arranging customer financing through discretionary markup of wholesale rates offered by financial institutions (dealer markup) results in a significant risk of pricing disparity in violation of The Equal Credit Opportunity Act (the ECOA). The CFPB recommended that financial institutions under its jurisdiction take steps to ensure compliance with the ECOA, which may include imposing controls on dealer markup, monitoring and addressing the effects of dealer markup policies, and eliminating dealer discretion to markup buy rates and fairly compensating dealers using a different mechanism that does not result in discrimination. In addition, we expect that the Patient Protection and Affordable Care Act (the Affordable Care Act), which was signed into law on March 23, 2010, will increase our annual employee health care costs that we fund, with the most significant increases commencing in 2014, and significantly increase our cost of compliance and compliance risk related to offering health care benefits.

Furthermore, we expect that new laws and regulations, particularly at the federal level, in other areas may be enacted, which could also materially adversely impact our business. The labor policy of the current administration could lead to increased unionization efforts, which could lead to higher labor costs, disrupt our store operations, and adversely affect our results of operations.

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

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

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

Automobile retailing is a highly competitive business. Our competitors include publicly and privately owned dealerships, some of which are larger and have greater financial and marketing resources than we do. Many of our competitors sell the same or similar makes of new and used vehicles that we offer in our markets at competitive prices. We do not have any cost advantage in purchasing new vehicles from manufacturers due to economies of scale or otherwise. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if laws permit manufacturers to enter the retail market directly.

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

Moreover, customers are using the internet to compare pricing for vehicles and related F&I services, which may further reduce margins for new and used vehicles and profits for related F&I services. If internet new

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vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other dealership groups have aligned themselves with services offered on the internet or are investing heavily in the development of their own internet capabilities, which could materially adversely affect our business.

Our franchise and dealer agreements do not grant us the exclusive right to sell a manufacturer s product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate or if existing franchised dealers increase their market share in our markets.

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

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

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

Our business will be harmed if overall consumer demand suffers from a severe or sustained downturn.

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

In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury and sport utility vehicle models (which typically provide higher margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

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

A significant portion of vehicle buyers, particularly in the used car market, finance their purchases of automobiles. Sub-prime lenders have historically provided financing for consumers who, for a variety of reasons including poor credit histories and lack of down payment, do not have access to more traditional finance sources. In the event lenders tighten their credit standards or there is a decline in the availability of credit in the lending market, the ability of these consumers to purchase vehicles could be limited which could have a material adverse effect on our business, revenues and profitability.

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

A significant portion of our new vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in other

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countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.

Natural disasters and adverse weather events can disrupt our business.

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

In addition, the automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters and adverse weather events may affect the flow of inventory or parts to us or our manufacturing partners. Such disruptions could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

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

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

These cyber-security risks include:

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

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

payroll and human resources management systems, including expense reimbursement management;

customer relationship management, e-commerce hosting and marketing campaign management;

dealer management, inventory management and financial reporting systems;

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- consumer credit application management, fund transfers/ACH/online banking; and
- IP telephony and WAN/LAN administration (switch & router configuration).

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

General Risks Related to Investing in Our Securities

Concentration of voting power and anti-takeover provisions of our charter, bylaws, Delaware law and our franchise and dealer agreements may reduce the likelihood of any potential change of control.

Our common stock is divided into two classes with different voting rights. This dual class stock ownership allows the present holders of the Class B common stock to control us. Holders of Class A common stock have one vote per share on all matters. Holders of Class B common stock have 10 votes per share on all matters, except that they have only one vote per share on any transaction proposed or approved by the Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a:

- going private transaction;
- disposition of substantially all of our assets;
- transfer resulting in a change in the nature of our business; or
- merger or consolidation in which current holders of common stock would own less than 50% of the common stock following such transaction.

The holders of Class B common stock (which include O. Bruton Smith, Sonic s Chairman, Chief Executive Officer and Director, his family members and entities they control) currently hold less than a majority of our outstanding common stock, but a majority of our voting power. This may prevent or discourage a change of control of us even if the action was favored by holders of Class A common stock.

Our charter and bylaws make it more difficult for our stockholders to take corporate actions at stockholders meetings. In addition, stock options, restricted stock and restricted stock units granted under our 2004 Stock Incentive Plan (the 2004 Plan) and 2012 Stock Incentive Plan (the 2012 Plan) become immediately exercisable or automatically vest upon a change in control. Delaware law also makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business combination transaction with the company against its directors wishes. Finally, restrictions imposed by our franchise and dealer agreements may impede or prevent any potential takeover bid. Our franchise and dealer agreements allow the manufacturers the right to terminate the agreements upon a change of control of our company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity that may be unqualified, as defined by the manufacturer, to own one of its dealerships. The inability of a person or entity to qualify with one or more of our manufacturers may prevent or seriously impede a potential takeover bid. In addition, there may be provisions of our lending arrangements that create an event of default upon a change in control. These agreements, corporate governance documents and laws may have the effect of delaying or preventing a change in control or preventing stockholders from realizing a premium on the sale of their shares if we were acquired.

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

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

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

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

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

Our business may be adversely affected by unfavorable conditions in our local markets, even if those conditions are not prominent nationally.

Our performance is subject to local economic, competitive, weather and other conditions prevailing in geographic areas where we operate. We may not be able to expand geographically and any geographic expansion may not adequately insulate us from the adverse effects of local or regional economic conditions. In addition, due to the provisions and terms contained in our operating lease agreements, we may not be able to relocate a dealership operation to a more favorable location without incurring significant costs or penalties.

The loss of key personnel and limited management and personnel resources could adversely affect our operations and growth.

Our success depends to a significant degree upon the continued contributions of our management team, particularly our senior management, and service and sales personnel. Additionally, franchise or dealer agreements may require the prior approval of the applicable manufacturer before any change is made in dealership general managers. We do not have employment agreements with certain members of our senior management team, our dealership managers and other key dealership personnel. Consequently, the loss of the services of one or more of these key employees could have a material adverse effect on our results of operations.

In addition, as we expand, we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers

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could have a material adverse effect on our results of operations. In addition, the lack of qualified management or employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

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

Mr. O. Bruton Smith serves as the chairman and chief executive officer of SMI. Accordingly, we compete with SMI for the management time of Mr. Smith.

We have in the past and will likely in the future enter into transactions with Mr. Smith, entities controlled by Mr. Smith or our other affiliates. We believe that all of our existing arrangements with affiliates are as favorable to us as if the arrangements were negotiated between unaffiliated parties, although the majority of these transactions have neither been verified by third parties in that regard nor are likely to be so verified in the future. Potential conflicts of interest could arise in the future between us and our officers or directors in the enforcement, amendment or termination of arrangements existing between them.

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

Six of our dealership subsidiaries in Northern California currently make fixed-dollar contributions to the Automotive Industries Pension Plan (the AI Pension Plan) pursuant to collective bargaining agreements between our subsidiaries and the International Association of Machinists (the IAM) and the International Brotherhood of Teamsters (the IBT). The AI Pension Plan is a multi-employer pension plan as defined under the Employee Retirement Income Security Act of 1974, as amended, and our six dealership subsidiaries are among approximately 200 employers that make contributions to the AI Pension Plan pursuant to collective bargaining agreements with the IAM and IBT. In March 2008, the AI Pension Plan s actuary, in accordance with the requirements of the federal Pension Protection Act of 2006, issued a certification that the AI Pension Plan is in Critical Status effective with the plan year commencing January 1, 2008. In conjunction with the AI Pension Plan s Critical Status, the Board of Trustees of the AI Pension Plan implemented a requirement on all participating employers to increase employer contributions to the AI Pension Plan for a seven year period commencing in 2013. Under applicable federal law, any employer contributing to a multi-employer pension plan that completely ceases participating in the plan while the plan is underfunded is subject to payment of such employer s assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can be assessed withdrawal liability for a partial withdrawal from a multi-employer pension plan. If any of these adverse events were to occur in the future, it could result in a substantial withdrawal liability assessment that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

Our internal control over financial reporting may not be effective.

If we fail to maintain the adequacy of our internal controls, including any failure to implement or difficulty in implementing required new or improved controls, our business and results of operations could be harmed, the

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results of operations we report could be subject to adjustments, we could incur remediation costs, we could fail to be able to provide reasonable assurance as to our financial results or the effectiveness of our internal controls, or fail to meet our reporting obligations under SEC regulations and the terms of our debt agreements on a timely basis and there could be a material adverse effect on the price of our Class A common stock.

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

Pursuant to applicable accounting pronouncements, we evaluate goodwill for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We describe the process for testing goodwill more thoroughly in Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Use of Estimates and Critical Accounting Policies. If we determine that the amount of our goodwill is impaired at any point in time, we are required to reduce goodwill on our balance sheet. If goodwill of our single reporting unit is impaired based on a future impairment test, we will be required to record a significant non-cash impairment charge that may also have a material adverse effect on our results of operations for the period in which the impairment of goodwill occurs. As of December 31, 2013, our balance sheet reflected a carrying amount of approximately $476.3 million in goodwill.

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Item 1B: ***Unresolved Staff Comments***

None.

Item 2: ***Properties.***

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

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

We lease the majority of the properties utilized by our dealership operations from affiliates of Capital Automotive REIT and other individuals and entities. Under the terms of our franchise and dealer agreements, each of our dealerships must maintain an appropriate appearance and design of its dealership facility and is restricted in its ability to relocate. The properties utilized by our dealership operations that are owned by us or one of our subsidiaries are pledged as security for our 2011 Credit Facilities or mortgage financing arrangements. We believe that our facilities are adequate for our current needs.

Item 3: ***Legal Proceedings.***

We are involved, and expect to continue to be involved, in 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 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 at December 31, 2013 was approximately $1.2 million in reserves that we were holding for pending proceedings. Except as reflected in such reserves, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

Item 4: ***Mine Safety Disclosures.***

Not applicable.

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PART II

Item 5: ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***
Our Class A common stock is currently traded on the NYSE under the symbol SAH. Our Class B common stock is not traded on a public market.

As of February 18, 2014, there were 40,463,897 shares of our Class A common stock and 12,029,375 shares of our Class B common stock outstanding. As of February 18, 2014, there were 82 record holders of the Class A common stock and three record holders of the Class B common stock. The closing stock price for the Class A common stock on February 18, 2014 was $22.13.

Our Board of Directors approved four quarterly cash dividends on all outstanding shares of common stock totaling $0.10 per share during each of the years ended December 31, 2013, 2012 and 2011. Subsequent to December 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 March 14, 2014 to be paid on April 15, 2014. The declaration and payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historic and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered by our Board of Directors to be relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements and Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, for additional discussion of dividends and for a description of restrictions on the payment of dividends.

The following table sets forth the high and low closing sales prices for our Class A common stock for each calendar quarter during the periods indicated as reported by the NYSE Composite Tape and the dividends declared during such periods:

	Market Price		Cash Dividend Declared
	High	Low	
2013			
Fourth Quarter	$ 24.69	$ 21.78	$ 0.025
Third Quarter	$ 24.60	$ 21.19	$ 0.025
Second Quarter	$ 23.91	$ 20.11	$ 0.025
First Quarter	$ 25.15	$ 21.51	$ 0.025
2012			
Fourth Quarter	$ 20.89	$ 17.91	$ 0.025
Third Quarter	$ 19.50	$ 14.05	$ 0.025
Second Quarter	$ 18.73	$ 12.16	$ 0.025
First Quarter	$ 18.55	$ 14.50	$ 0.025

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Issuer Purchases of Equity Securities

The following table sets forth information about the shares of Class A common stock we repurchased during the fourth quarter ended December 31, 2013:

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
	(In thousands, except per share data)			
October 2013	94	$ 22.23	94	$ 133,030
November 2013	23	21.65	23	132,532
December 2013				132,532
Total	117	$ 22.12	117	$ 132,532

(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 active plan repurchases prior to December 31, 2013	(67,468)
Current remaining availability as of December 31, 2013	$ 132,532

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Item 6: ***Selected Financial Data.***

This selected consolidated financial data should be read in conjunction with Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our Consolidated Financial Statements the results of operations of these dealerships prior to the date we acquired them. Our selected consolidated financial data reflect the results of operations and financial positions of each of our dealerships acquired prior to December 31, 2013. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in selected consolidated financial data is not necessarily indicative of the results of our operations and financial position in the future or the results of operations and financial position that would have resulted had such acquisitions occurred at the beginning of the periods presented in the selected consolidated financial data.

	Year Ended December 31, (In millions, except per share data)				
	2013	2012	2011	2010	2009
Income Statement Data(1):					
Total revenues	$ 8,843.2	$ 8,365.5	$ 7,520.8	$ 6,578.1	$ 5,760.0
Impairment charges	$ 9.9	$ 0.4	$ 0.2	$ 0.2	$ 22.3
Income (loss) from continuing operations before income taxes	$ 129.0	$ 141.2	$ 133.3	$ 83.1	$ 32.5
Income (loss) from continuing operations	$ 84.7	$ 91.3	$ 81.5	$ 98.9	$ 60.0
Basic earnings (loss) per share from continuing operations	$ 1.60	$ 1.68	$ 1.54	$ 1.88	$ 1.37
Diluted earnings (loss) per share from continuing operations	$ 1.59	$ 1.56	$ 1.37	$ 1.62	$ 1.13
Consolidated Balance Sheet Data(1):					
Total assets	$ 3,051.2	$ 2,776.7	$ 2,335.2	$ 2,250.8	$ 2,068.9
Current maturities of long-term debt	$ 18.2	$ 18.6	$ 11.6	$ 9.1	$ 24.0
Total long-term debt	$ 748.4	$ 629.4	$ 547.6	$ 555.5	$ 576.1
Total long-term liabilities (including long-term debt)	$ 861.2	$ 744.6	$ 673.2	$ 689.5	$ 717.2
Cash dividends declared per common share	$ 0.10	$ 0.10	$ 0.10	$ 0.025	$

(1) As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, and Notes 2, 5 and 6 to the accompanying Consolidated Financial Statements, impairment charges, business combinations and dispositions and debt refinancings have had a material impact on our reported historical consolidated financial information.

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

Item 7: ***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 Consolidated Financial Statements and the related Notes thereto appearing elsewhere in this Annual Report on Form 10-K. The financial and statistical data contained in the following discussion for all periods presented reflects our December 31, 2013 classification of dealerships between continuing and discontinued operations in accordance with Presentation of Financial Statements in the Accounting Standards Codification (the ASC).

2013 Events

On May 9, 2013, we issued $300.0 million in aggregate principal amount of unsecured senior subordinated 5.0% Notes which mature on May 15, 2023 and repurchased the remaining outstanding principal amount of the 9.0% Senior Subordinated Notes due in 2018 (the 9.0% Notes). See Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements for further discussion of the 5.0% Notes and 9.0% Notes. During the year ended December 31, 2013, we recorded a loss on extinguishment of debt of approximately $28.2 million related to the 9.0% Notes, recorded in other income (expense), net, in the accompanying Consolidated Statements of Income. In addition to the loss on debt extinguishment, we incurred a charge of approximately $0.8 million recorded in interest expense, other, net, related to the incremental interest incurred while both the 9.0% Notes and 5.0% Notes were outstanding.

In the third quarter ended September 30, 2013, we acquired two luxury franchise operations and underlying assets, including real estate, for an aggregate purchase price, net of cash acquired, of $88.2 million. See Note 2, Business Acquisitions and Dispositions, to the accompanying Consolidated Financial Statements for further discussion of these acquisitions.

During the fourth quarter of 2013, we announced that we plan to augment our manufacturer-franchised dealership operations with stand-alone pre-owned specialty retail sales locations. This pre-owned business will operate independently from the existing new and used dealership sales operations and introduce consumers to an exciting shopping and buying experience. The first target market is planned for Denver, Colorado, and we expect operations to begin in late 2014.

In the fourth quarter of 2013, we also announced our customer experience initiative known as One Sonic-One Experience. This initiative includes several new processes and proprietary technologies from inventory management and pricing tools to a fully developed customer-centric Customer Relationship Management (CRM) tool. The development of these processes and tools will allow us to better serve our customers across our entire platform of stores. Our goal is to allow our guests to control the buying process and move at their pace so that once the vehicle has been selected our team can go to work using these processes and technologies to get our guests on the road in their new vehicle in less than an hour.

Overview

We are one of the largest automotive retailers in the United States. As of December 31, 2013, we operated 123 franchises in 14 states (representing 25 different brands of cars and light trucks) and 21 collision repair centers. For management and operational reporting purposes, we group certain franchises together that share management and inventory (principally used vehicles) into stores. As of December 31, 2013, we operated 102 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.

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

Our dealerships provide comprehensive services including sales of both new and used cars and light trucks, sales of replacement parts, performance of vehicle maintenance, manufacturer warranty repairs, paint and collision repair services, and arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products for our customers. Although vehicle sales and sales of associated finance, insurance and other aftermarket products are cyclical and are affected by many factors, including overall economic conditions, consumer confidence, levels of discretionary personal income, interest rates and available credit, our parts, service and collision repair services are not closely tied to vehicle sales and are not as dependent upon near-term sales volume.

The United States retail automotive industry s new vehicle seasonally adjusted annual rate of sales (SAAR) in 2013 increased by 7.6%, to 15.5 million vehicles, from 14.4 million vehicles in 2012, according to Bloomberg Financial Markets, via Stephens Inc. From an industry perspective, new vehicle unit sales on a year-over-year basis increased 6.4% for import brands and 8.8% for domestic brands. For 2014, the average industry expectations for new vehicle SAAR is between 15.5 million and 16.5 million vehicles, an increase of up to 6.5% from the SAAR in 2013. We estimate the 2014 new vehicle SAAR will be between 15.75 million and 16.25 million vehicles. Changes in consumer confidence, availability of consumer financing or changes in the financial stability of the automotive manufacturers could cause actual 2014 new vehicle SAAR to vary from expectations. Many factors such as brand and geographic concentrations have caused our past results to differ from the industry s overall trend.

Results of Operations

The following table summarizes the percentages of total revenues represented by certain items reflected in our Consolidated Statements of Income:

	Percentage of Total Revenue Year Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
New vehicles	56.4%	56.4%	54.4%
Used vehicles	24.6%	24.5%	25.7%
Wholesale vehicles	2.0%	2.2%	2.2%
Parts, service and collision repair	13.9%	13.9%	15.0%
Finance, insurance and other, net	3.1%	3.0%	2.7%
Total revenues	100.0%	100.0%	100.0%
Cost of Sales(1)	85.3%	85.2%	84.6%
Gross profit	14.7%	14.8%	15.4%
Selling, general and administrative expenses	11.3%	11.3%	12.0%
Impairment charges	0.1%	0.0%	0.0%
Depreciation and amortization	0.6%	0.6%	0.5%
Operating income (loss)	2.7%	2.9%	2.9%
Interest expense, floor plan	0.2%	0.2%	0.2%
Interest expense, other, net	0.6%	0.7%	0.9%
Other (income) expense, net	0.4%	0.3%	0.0%
Income (loss) from continuing operations before taxes	1.5%	1.7%	1.8%
Provision for income taxes (benefit) expense	0.5%	0.6%	0.7%

Income (loss) from continuing operations	1.0%	1.1%	1.1%

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

(1) The cost of sales line item includes the cost of new and used vehicles, vehicle parts and all costs directly linked to servicing customer vehicles.

As of December 31, 2013, we had no dealerships held for sale. We did not dispose of any dealerships during the years ended December 31, 2013 or 2011. We terminated or disposed of ten dealerships during the year ended December 31, 2012. The results of operations of these dealerships, including gains or losses on disposition, are included in discontinued operations on the accompanying Consolidated Statements of Income for all periods presented.

Unless otherwise noted, all discussion of increases or decreases are compared to the same prior year period, as applicable. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair and finance, insurance and other are on a same store basis, except where otherwise noted. All continuing operations stores are included within the same store group in the first full month following the first anniversary of the store s opening or acquisition. During the year ended December 31, 2013, we acquired two luxury franchise operations which are included in reported figures but are excluded from same store reporting. There were no franchise acquisitions during the years ended December 31, 2012 or 2011.

New Vehicles

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.

The automobile manufacturing industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. As an automotive retailer, we seek to mitigate the effects of this cyclicality by maintaining a diverse brand mix of dealerships. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower priced, or economy vehicles, to luxury vehicles. For the year ended December 31, 2013, 84.9% of our new vehicle revenue was generated by mid-line import and luxury dealerships, compared to 85.5% and 83.3% for the years ended December 31, 2012 and 2011, respectively.

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

	Year Ended December 31,			**Year Ended December 31,**		
(in millions of vehicles)	**2013**	**2012**	**% Change**	**2012**	**2011**	**% Change**
SAAR	15.5	14.4	7.6%	14.4	12.8	12.5%

Source: Bloomberg Financial Markets, via Stephens Inc.

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According to public sources, average industry volume expectations for the year ending December 31, 2014 are currently between 15.5 million and 16.5 million vehicles, which would be an increase of up to 6.5% from the industry volume for the year ended December 31, 2013. Following is information related to our new vehicle sales:

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$ 4,989,185	$ 4,715,924	$ 273,261	5.8%
Gross profit	$ 289,603	$ 278,349	$ 11,254	4.0%
Unit sales	138,274	134,564	3,710	2.8%
Revenue per unit	$ 36,082	$ 35,046	$ 1,036	3.0%
Gross profit per unit	$ 2,094	$ 2,069	$ 25	1.2%
Gross profit as a % of revenue	5.8%	5.9%	(10)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$ 4,715,924	$ 4,088,098	$ 627,826	15.4%
Gross profit	$ 278,349	$ 261,359	$ 16,990	6.5%
Unit sales	134,564	117,072	17,492	14.9%
Revenue per unit	$ 35,046	$ 34,920	$ 126	0.4%
Gross profit per unit	$ 2,069	$ 2,232	$ (163)	(7.3%)
Gross profit as a % of revenue	5.9%	6.4%	(50)bps	

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$ 4,954,737	$ 4,715,924	$ 238,813	5.1%
Gross profit	$ 287,394	$ 279,648	$ 7,746	2.8%
Unit sales	137,649	134,564	3,085	2.3%
Revenue per unit	$ 35,995	$ 35,046	$ 949	2.7%
Gross profit per unit	$ 2,088	$ 2,078	$ 10	0.5%
Gross profit as a % of revenue	5.8%	5.9%	(10)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$ 4,715,924	$ 4,088,098	$ 627,826	15.4%
Gross profit	$ 279,648	$ 261,022	$ 18,626	7.1%
Unit sales	134,564	117,072	17,492	14.9%
Revenue per unit	$ 35,046	$ 34,920	$ 126	0.4%
Gross profit per unit	$ 2,078	$ 2,230	$ (152)	(6.8%)
Gross profit as a % of revenue	5.9%	6.4%	(50)bps	

The increase in new vehicle revenue for the year ended December 31, 2013 was driven by a 2.3% increase in our new unit sales volume and a 2.7% increase in our new vehicle price per unit as compared to the prior year.

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Our increase in new unit sales lagged the industry new unit sales volume increase of 7.6% compared to the prior year, due primarily to differences in brand mix between our dealership portfolio and the industry, particularly impacted by brands which we do not sell. Excluding fleet volume, our retail new vehicle volume growth increased 2.4% during the year ended December 31, 2013. The incremental unit sales volume contributed to additional F&I gross profit for the year ended December 31, 2013, discussed under the heading Finance, Insurance and Other, Net (F&I) below.

Our new unit volume increase for the year ended December 31, 2013 was led by our Ford and Audi dealerships, which experienced volume growth increases of 16.7% and 11.7%, respectively. Gross profit per new unit increased 0.5% during the year ended December 31, 2013, primarily due to increases in gross profit per new unit at many of our luxury brand stores, partially offset by declines in gross profit per new unit at a number of our mid-line import and domestic brand stores. Combined, our Ford and Audi dealerships contributed $4.1 million of additional new vehicle gross profit for the year ended December 31, 2013, accounting for 52.8% of the year-over-year increase.

Total gross profit dollars increased 2.8% during the year ended December 31, 2013. This increase is due primarily to a shift in brand mix towards our luxury dealerships, which experienced a 5.3% increase in new unit sales during the year ended December 31, 2013. Our luxury dealerships (which include Cadillac) typically experience higher gross profit margins than our mid-line import or domestic dealerships.

Implementation of our True Price® strategy was rolled out throughout the year ended December 31, 2013. True Price® provides consumers with market-based pricing to create transparency and limit negotiation. This strategy requires different processes to be followed in order to price our vehicles effectively to increase our retail vehicle unit volume and total gross profit. We believe that the initial transition to this new strategy contributed to lower retail vehicle unit sales volume and gross profit per unit (as compared to the industry results) in the first six months of 2013. Unit volume and gross profit per unit have since normalized to historical levels as the processes were more fully implemented in the second half of 2013.

Our luxury dealerships (which include Cadillac) experienced a 6.8% increase in new vehicle revenue in the year ended December 31, 2013, compared to the prior year, primarily due to a 5.3% increase in new unit sales volume. New vehicle gross profit increased 7.9% compared to the prior year, primarily due to new unit sales volume increases at our Audi, BMW and Lexus dealerships. Luxury store gross profit per new unit increased 2.5% overall during the year ended December 31, 2013, driven primarily by increases in gross profit per new unit at our Mercedes and Audi dealerships.

Our mid-line import dealerships experienced a 0.6% increase in new vehicle revenue during the year ended December 31, 2013 overcoming a 1.4% decline in new unit volume. The new vehicle revenue increase was driven primarily by new vehicle model mix and price levels at our Honda and Toyota/Scion dealerships, which experienced a 2.7% and 1.3% increase, respectively, in new vehicle revenue per unit in the year ended December 31, 2013. Gross profit decreased 8.9% during the year ended December 31, 2013 at our mid-line import dealerships, due in part to higher gross profit per unit in the year ended December 31, 2012 due to reduced inventory availability in our Japanese brands.

Excluding fleet sales, our domestic dealerships experienced a 9.8% increase in new retail vehicle revenue, a 4.1% increase in new retail vehicle gross profit and a 6.1% increase in new retail unit sales volume during the year ended December 31, 2013, compared to the prior year. New retail unit sales volume at our Ford dealerships increased 14.8%, driving a 17.8% increase in new retail vehicle revenue and a 14.4% increase in new retail vehicle

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gross profit. Our General Motors (GM) dealerships (excluding Cadillac) experienced a 0.7% increase in new retail vehicle revenue in spite of a 3.5% decrease in new retail unit sales volume as a result of increased pricing that drove a 4.4% increase in revenue per unit. These GM dealerships experienced a 6.7% decrease in new retail vehicle gross profit, due to a 3.3% decrease in gross profit per new retail unit and a decrease in new vehicle unit sales volume. Including fleet sales, our domestic dealerships experienced a 9.3% increase in new vehicle revenue in the year ended December 31, 2013 due primarily to a 6.4% increase in unit sales volume. Total fleet revenue and unit sales volume was flat and fleet gross profit per unit decreased 9.2% compared to the prior year.

The increase in total new vehicle revenue for the year ended December 31, 2012 was primarily driven by a 14.9% increase in our new unit sales volume. Our new unit volume increase for the year ended December 31, 2012 was led by our Honda, Toyota/Scion, and Lexus dealerships, which combined to account for 78.7% of the increase compared to the prior year. Our major Japanese brands (Honda, Toyota/Scion and Lexus) suffered in the year ended December 31, 2011 as a result of inventory supply reductions caused by the impact of the earthquake, tsunami and severe flooding that struck Japan in March 2011. As production returned to normal levels in 2012, we saw these brands make significant contributions to our new unit sales growth. Gross profit per new unit decreased 6.8% during the year ended December 31, 2012, primarily due to declines in gross profit per new unit at our Honda and Toyota/Scion dealerships. Our Honda and Toyota/Scion dealerships experienced high gross profit per unit during the year ended December 31, 2011 due to lack of available inventory as a result of the natural disasters in Japan during 2011. As new vehicle inventory in these brands returned to normal levels in early 2012, gross profit per unit also returned to normal levels, resulting in the decrease in our gross profit per new unit during the year ended December 31, 2012, compared to the prior year.

Our luxury dealerships (including Cadillac) new vehicle revenue increased 13.0% primarily due to an 11.1% increase in new unit sales volume for the year ended December 31, 2012, compared to the prior year. New vehicle gross profit increased 8.4% due primarily to higher unit sales volume, compared to the year ended December 31, 2011. The increase in gross profit for the year ended December 31, 2012 was led by our Mercedes, Lexus and BMW dealerships, which combined to account for 72.0% of the increase in gross profit from our luxury dealerships.

For the year ended December 31, 2012, our mid-line import dealerships experienced a 27.6% increase in new unit sales volume, which resulted in a 27.8% increase in new vehicle revenue compared to the prior year. New vehicle inventory availability for our major Japanese brands (Honda and Toyota/Scion) has recovered from the effects of inventory supply reductions caused by the natural disasters in Japan during 2011, which was a primary contributor to the unit sales volume increases in 2012 discussed above. Mid-line import gross profit per new unit decreased 15.9% during the year ended December 31, 2012, however, as a result of increased new unit sales volume, total mid-line import new vehicle gross profit increased 7.3% for the year ended December 31, 2012, compared to the prior year.

Excluding fleet sales, our domestic dealerships experienced a 10.5% increase in new retail vehicle revenue, a 9.8% increase in new retail vehicle gross profit and a 7.8% increase in new retail unit sales volume during the year ended December 31, 2012, compared to the prior year. New retail unit sales volume at our Ford dealerships increased 14.5%, driving a 17.9% increase in new retail vehicle revenue and an 11.2% increase in new retail vehicle gross profit. Our General Motors dealerships (excluding Cadillac) experienced a 3.3% increase in new retail revenue, driven by a 1.3% increase in new retail unit sales and a 2.0% in new retail revenue per unit. These GM dealerships experienced an 8.3% increase in new retail gross profit. Including fleet sales, our domestic dealerships experienced a 0.4% increase in new vehicle revenue in the year ended December 31, 2012 driven by a 6.4% increase in new vehicle price per unit, partially offset by a 5.6% decrease new unit sales volume. Total fleet unit sales volume decreased by 30.3% compared to the prior year, partially offset by a 10.7% increase in price per unit, resulting in a decrease in total fleet revenue of 22.9%.

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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:

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$ 2,176,034	$ 2,053,477	$ 122,557	6.0%
Gross profit	$ 150,400	$ 143,454	$ 6,946	4.8%
Unit sales	107,054	102,556	4,498	4.4%
Revenue per unit	$ 20,327	$ 20,023	$ 304	1.5%
Gross profit per unit	$ 1,405	$ 1,399	$ 6	0.4%
Gross profit as a % of revenue	6.9%	7.0%	(10)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$ 2,053,477	$ 1,930,852	$ 122,625	6.4%
Gross profit	$ 143,454	$ 139,858	$ 3,596	2.6%
Unit sales	102,556	96,355	6,201	6.4%
Revenue per unit	$ 20,023	$ 20,039	$ (16)	(0.1%)
Gross profit per unit	$ 1,399	$ 1,451	$ (52)	(3.6%)
Gross profit as a % of revenue	7.0%	7.2%	(20)bps	

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$ 2,157,213	$ 2,053,477	$ 103,736	5.1%
Gross profit	$ 148,683	$ 143,759	$ 4,924	3.4%
Unit sales	106,397	102,556	3,841	3.7%
Revenue per unit	$ 20,275	$ 20,023	$ 252	1.3%
Gross profit per unit	$ 1,397	$ 1,402	$ (5)	(0.4%)
Gross profit as a % of revenue	6.9%	7.0%	(10)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$ 2,053,477	$ 1,930,852	$ 122,625	6.4%
Gross profit	$ 143,759	$ 140,034	$ 3,725	2.7%
Unit sales	102,556	96,355	6,201	6.4%
Revenue per unit	$ 20,023	$ 20,039	$ (16)	(0.1%)

Gross profit per unit	$ 1,402	$ 1,453	$ (51)	(3.5%)
Gross profit as a % of revenue	7.0%	7.3%	(30)bps	

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For the years ended December 31, 2013 and 2012, our used vehicle revenue, gross profit and unit volume increased compared to the respective prior years, primarily due to the continued implementation of our standardized used vehicle merchandising process. We believe this process allows us to purchase and price our used vehicles more competitively and market them more effectively than our competition, resulting in higher unit sales volume, overall revenue and overall gross profit levels.

During 2013, we implemented our True Price® strategy, which provides consumers with market-based pricing to increase transparency and limit negotiation. This strategy requires different processes to be followed in order to price our vehicles to increase our used vehicle unit volume and total gross profit. We believe that the initial transition to this new strategy contributed to lower used vehicle unit sales volume and gross profit per unit (as compared to the industry results) in the first six months of 2013. Unit volume and gross profit per unit have since normalized as the processes were more fully implemented in the second half of 2013.

Wholesale Vehicles

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:

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$ 175,328	$ 183,326	$ (7,998)	(4.4%)
Gross profit (loss)	$ (7,931)	$ (5,975)	$ (1,956)	(32.7%)
Unit sales	29,961	31,188	(1,227)	(3.9%)
Revenue per unit	$ 5,852	$ 5,878	$ (26)	(0.4%)
Gross profit (loss) per unit	$ (265)	$ (192)	$ (73)	(38.0%)
Gross profit (loss) as a % of revenue	(4.5%)	(3.3%)	(120)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$ 183,326	$ 167,075	$ 16,251	9.7%
Gross profit (loss)	$ (5,975)	$ (5,206)	$ (769)	(14.8%)
Unit sales	31,188	25,180	6,008	23.9%
Revenue per unit	$ 5,878	$ 6,635	$ (757)	(11.4%)
Gross profit (loss) per unit	$ (192)	$ (207)	$ 15	7.2%
Gross profit (loss) as a % of revenue	(3.3%)	(3.1%)	(20)bps	

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	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$ 173,612	$ 183,325	$ (9,713)	(5.3%)
Gross profit (loss)	$ (7,830)	$ (5,976)	$ (1,854)	(31.0%)
Unit sales	29,785	31,188	(1,403)	(4.5%)
Revenue per unit	$ 5,829	$ 5,878	$ (49)	(0.8%)
Gross profit (loss) per unit	$ (263)	$ (192)	$ (71)	(37.0%)
Gross profit (loss) as a % of revenue	(4.5%)	(3.3%)	(120)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$ 183,325	$ 167,076	$ 16,249	9.7%
Gross profit (loss)	$ (5,976)	$ (5,205)	$ (771)	(14.8%)
Unit sales	31,188	25,180	6,008	23.9%
Revenue per unit	$ 5,878	$ 6,635	$ (757)	(11.4%)
Gross profit (loss) per unit	$ (192)	$ (207)	$ 15	7.2%
Gross profit (loss) as a % of revenue	(3.3%)	(3.1%)	(20)bps	

For the year ended December 31, 2013, wholesale revenue and unit sales volume decreased as a result of improvements in our used vehicle inventory management process. Overall wholesale gross loss increased due primarily to a 37.0% increase in gross loss per unit due primarily to changes in auction prices and vehicle model mix. For the year ended December 31, 2012, there was an increase in wholesale revenue and wholesale unit sales, as well as a decrease in wholesale gross loss per unit, compared to the prior year. Wholesale gross loss increased primarily as a result of the increased gross loss per unit, due primarily to a shift in the mix of wholesaled vehicles and significant 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. Wholesale gross loss at this level is acceptable to us as a necessary result of higher new and used retail volume, which drives additional gross profit in excess of these wholesale losses. See previous heading, Used Vehicles, for further discussion.

Parts, Service and Collision Repair (Fixed Operations)

Parts and service revenue consists of customer requested parts and service orders (customer pay), warranty repairs, 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, manufacturer recalls, customer loyalty and manufacturer warranty programs.

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

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Following is information related to our Fixed Operations:

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands)			
Reported:				
Revenue				
Customer pay	$ 546,695	$ 525,674	$ 21,021	4.0%
Warranty	188,061	167,964	20,097	12.0%
Wholesale parts	169,338	153,827	15,511	10.1%
Internal, sublet and other	326,084	314,854	11,230	3.6%
Total	$ 1,230,178	$ 1,162,319	$ 67,859	5.8%
Gross profit				
Customer pay	$ 300,800	$ 289,427	$ 11,373	3.9%
Warranty	101,351	88,287	13,064	14.8%
Wholesale parts	31,242	29,494	1,748	5.9%
Internal, sublet and other	163,699	161,695	2,004	1.2%
Total	$ 597,092	$ 568,903	$ 28,189	5.0%
Gross profit as a % of revenue				
Customer pay	55.0%	55.1%	(10)bps	
Warranty	53.9%	52.6%	130bps	
Wholesale parts	18.4%	19.2%	(80)bps	
Internal, sublet and other	50.2%	51.4%	(120)bps	
Total	48.5%	48.9%	(40)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands)			
Reported:				
Revenue				
Customer pay	$ 525,674	$ 505,960	$ 19,714	3.9%
Warranty	167,964	178,416	(10,452)	(5.9%)
Wholesale parts	153,827	144,783	9,044	6.2%
Internal, sublet and other	314,854	296,513	18,341	6.2%
Total	$ 1,162,319	$ 1,125,672	$ 36,647	3.3%
Gross profit				
Customer pay	$ 289,427	$ 279,956	$ 9,471	3.4%
Warranty	88,287	94,167	(5,880)	(6.2%)
Wholesale parts	29,494	28,747	747	2.6%
Internal, sublet and other	161,695	150,621	11,074	7.4%

Total	$ 568,903	$ 553,491	$ 15,412	2.8%
Gross profit as a % of revenue				
Customer pay	55.1%	55.3%	(20)bps	
Warranty	52.6%	52.8%	(20)bps	
Wholesale parts	19.2%	19.9%	(70)bps	
Internal, sublet and other	51.4%	50.8%	60bps	
Total	48.9%	49.2%	(30)bps	

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	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
		(In thousands)		
Same Store:				
Revenue				
Customer pay	$ 539,331	$ 525,674	$ 13,657	2.6%
Warranty	185,864	167,964	17,900	10.7%
Wholesale parts	167,452	153,827	13,625	8.9%
Internal, sublet and other	323,543	314,854	8,689	2.8%
Total	$ 1,216,190	$ 1,162,319	$ 53,871	4.6%
Gross profit				
Customer pay	$ 296,956	$ 289,427	$ 7,529	2.6%
Warranty	100,574	88,287	12,287	13.9%
Wholesale parts	30,766	29,494	1,272	4.3%
Internal, sublet and other	161,629	160,764	865	0.5%
Total	$ 589,925	$ 567,972	$ 21,953	3.9%
Gross profit as a % of revenue				
Customer pay	55.1%	55.1%	0bps	
Warranty	54.1%	52.6%	150bps	
Wholesale parts	18.4%	19.2%	(80)bps	
Internal, sublet and other	50.0%	51.1%	(110)bps	
Total	48.5%	48.9%	(40)bps	

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
		(In thousands)		
Same Store:				
Revenue				
Customer pay	$ 525,674	$ 505,960	$ 19,714	3.9%
Warranty	167,964	178,416	(10,452)	(5.9%)
Wholesale parts	153,827	144,783	9,044	6.2%
Internal, sublet and other	314,854	296,513	18,341	6.2%
Total	$ 1,162,319	$ 1,125,672	$ 36,647	3.3%
Gross profit				
Customer pay	$ 289,427	$ 279,956	$ 9,471	3.4%
Warranty	88,287	94,167	(5,880)	(6.2%)
Wholesale parts	29,494	28,747	747	2.6%
Internal, sublet and other	160,764	148,702	12,062	8.1%
Total	$ 567,972	$ 551,572	$ 16,400	3.0%

Gross profit as a % of revenue			
Customer pay	55.1%	55.3%	(20)bps
Warranty	52.6%	52.8%	(20)bps
Wholesale parts	19.2%	19.9%	(70)bps
Internal, sublet and other	51.1%	50.2%	90bps
Total	48.9%	49.0%	(10)bps

Overall Fixed Operations customer pay revenue increased 2.6% in the year ended December 31, 2013, compared to the prior year. Warranty revenue increased 10.7% during the year ended December 31, 2013, as

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compared to the prior year, led by increases in warranty activity at our Audi, BMW, Honda and Toyota dealerships. Used vehicle reconditioning revenue increased 2.7% and wholesale parts revenue increased 8.9%, contributing to the year-over-year improvement. Fixed Operations customer pay revenue at our domestic dealerships decreased 1.4% and increased 2.8% and 4.0% at our mid-line import and luxury dealerships, respectively, compared to the prior year.

Overall Fixed Operations customer pay revenue increased 3.9% in the year ended December 31, 2012, compared to the prior year. Warranty revenue decreased 5.9% during the year ended December 31, 2012, as compared to the prior year, primarily driven by decreases in warranty activity at our Lexus and Toyota dealerships. Used vehicle reconditioning revenue increased 6.3% and wholesale parts revenue increased 6.2%, contributing to the year-over-year improvement. For the year ended December 31, 2012, our mid-line import dealerships experienced a fixed operations customer pay decrease of 0.2% and our domestic and luxury dealerships experienced increases of 2.3% and 5.8%, respectively.

For the year ended December 31, 2013, an increase in Fixed Operations revenue contributed approximately $26.1 million in gross profit increase, partially offset by a $4.1 million decrease in gross profit due to a 40 basis point decline in the gross margin rate due primarily to a shift in revenue mix away from higher margin customer pay to lower margin sublet sales compared to the prior year.

For the year ended December 31, 2012, an increase in Fixed Operations revenue contributed approximately $17.9 million in gross profit increase, partially offset by a $1.5 million decrease in gross profit due to a 10 basis point decline in the gross margin rate due primarily to a shift in revenue mix away from higher margin warranty sales to lower margin wholesale parts sales and declines in customer pay and wholesale parts margin rates compared to the prior year.

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

Finance, insurance and other net revenues include commissions for arranging vehicle financing and insurance, sales of extended warranties, manufacturer and third-party extended service contracts for vehicles and other aftermarket products. In connection with vehicle financing, extended warranties, service contracts, other aftermarket products and insurance contracts, we receive commissions from the providers for originating contracts.

Rate spread is another term for the commission earned by our dealerships for arranging vehicle financing for consumers. The amount of the commission could be zero, a flat fee or an actual spread between the interest rate charged to the consumer and the interest rate provided by the direct financing source (bank, credit union or manufacturers captive finance company). We have established caps on the potential rate spread our dealerships can earn with all finance sources. We believe the rate spread we earn for arranging financing represents value to the consumer in numerous ways, including the following:

- lower cost, below-market financing is often available only from the manufacturers captives and franchised dealers;
- generally easy access to multiple high-quality lending sources;
- lease-financing alternatives are largely available only from manufacturers captives or other indirect lenders;
- customers with substandard credit frequently do not have direct access to potential sources of sub-prime financing; and

customers with significant negative equity in their current vehicle (i.e., the customer s current vehicle is worth less than the balance of their vehicle loan or lease obligation) frequently are unable to pay off the loan on their current vehicle and finance the purchase or lease of a replacement new or used vehicle without the assistance of a franchised dealer.

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F&I revenues are driven by the level of new and used vehicle unit sales, manufacturer financing or leasing incentives and our F&I penetration rate. The F&I penetration rate represents the number of finance contracts, extended warranties and service contracts, other aftermarket products or insurance contracts that we are able to originate per vehicle sold, expressed as a percentage. Our extended service contract penetration rates increased 260 basis points, to 31.0%, while our finance penetration rates decreased 60 basis points, to 71.1%, for the year ended December 31, 2013. Our aftermarket product penetration rate increased 430 basis points, to 124.5%, for the year ended December 31, 2013, meaning that we sold more than one aftermarket product per vehicle, on average, in the years ended December 31, 2013 and 2012. Our finance penetration rates increased 170 basis points, to 71.6%, and our extended service contract penetration rates increased 260 basis points, to 28.4%, for the year ended December 31, 2012. Further, the aftermarket product penetration rate increased 890 basis points, to 120.2%, for the year ended December 31, 2012. Penetration rates were positively impacted by a strengthening economy and increasing consumer confidence, combined with continued positive results from the effective roll-out of our F&I playbook.

Following is information related to F&I:

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except per unit data)			
Reported:				
Revenue	$ 272,443	$ 250,422	$ 22,021	8.8%
Gross profit per retail unit (excludes fleet)	$ 1,138	$ 1,083	$ 55	5.1%

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except per unit data)			
Reported:				
Revenue	$ 250,422	$ 209,109	$ 41,313	19.8%
Gross profit per retail unit (excludes fleet)	$ 1,083	$ 1,020	$ 63	6.2%

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except per unit data)			
Same Store:				
Revenue	$ 270,708	$ 249,779	$ 20,929	8.4%
Gross profit per retail unit (excludes fleet)	$ 1,137	$ 1,080	$ 57	5.3%

	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except per unit data)			
Same Store:				
Revenue	$ 249,779	$ 207,720	$ 42,059	20.2%
Gross profit per retail unit (excludes fleet)	$ 1,080	$ 1,014	$ 66	6.5%

F&I revenues increased during the year ended December 31, 2013 compared to the prior year, primarily due to an increase in total F&I revenue per unit of 5.3% and a 3.0% increase in total new and used retail (excluding fleet) unit volume in the year ended December 31, 2013. Finance contract gross profit improved 9.6% for the year ended December 31, 2013, due primarily to the 3.0% increase in retail unit volume and a 7.2% increase in gross profit per finance contract. Finance contract gross profit 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 year ended December 31, 2012, service contract revenue increased 10.8% and

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aftermarket contract revenue increased 5.0% in the year ended December 31, 2013, and total service contract volume increased 12.3% and aftermarket contract volume increased 6.7%.

F&I revenues increased during the year ended December 31, 2012 compared to the prior year primarily due to a 12.8% increase in total new and used retail (excluding fleet) unit volume. F&I gross profit per retail unit increased 6.5% in the year ended December 31, 2012, primarily due to improved penetration. Finance contract gross profit improved 17.2% for the year ended December 31, 2012, due to the 12.8% increase in unit volume and an increase in the finance contract penetration rate of 170 basis points. Compared to the year ended December 31, 2011, service contract revenue increased 25.5%, aftermarket contract revenue increased 22.5%, total service contract volume increased 24.0% and aftermarket contract volume increased 21.8%.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses are comprised of four major groups: compensation expense, advertising expense, rent 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 expense typically varies with the number of dealerships owned, investments made for facility improvements and interest rates. Other expense includes various fixed and variable expenses, including certain customer-related costs, insurance, training, legal and IT expenses. 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:

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands)			
Compensation	$ 601,495	$ 566,886	$ (34,609)	(6.1%)
Advertising	56,609	50,349	(6,260)	(12.4%)
Rent	73,976	76,484	2,508	3.3%
Other	271,045	255,307	(15,738)	(6.2%)
Total	$ 1,003,125	$ 949,026	$ (54,099)	(5.7%)
SG&A expenses as a % of gross profit				
Compensation	46.2%	45.9%	(30)bps	
Advertising	4.3%	4.1%	(20)bps	
Rent	5.7%	6.2%	50bps	
Other	20.9%	20.6%	(30)bps	
Total	77.1%	76.8%	(30)bps	

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	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands)			
Compensation	$ 566,886	$ 527,146	$ (39,740)	(7.5%)
Advertising	50,349	49,128	(1,221)	(2.5%)
Rent	76,484	83,829	7,345	8.8%
Other	255,307	239,321	(15,986)	(6.7%)
Total	$ 949,026	$ 899,424	$ (49,602)	(5.5%)
SG&A expenses as a % of gross profit				
Compensation	45.9%	45.5%	(40)bps	
Advertising	4.1%	4.2%	10bps	
Rent	6.2%	7.2%	100bps	
Other	20.6%	20.7%	10bps	
Total	76.8%	77.6%	80bps	

Overall SG&A expense dollars increased in the year ended December 31, 2013 compared to the prior year, primarily due to increases in unit sales volume driving higher variable compensation costs and other SG&A expenses. Overall SG&A expense as a percentage of gross profit increased by 30 basis points from the prior year, driven primarily by higher levels of compensation and advertising spending, as discussed below.

Compensation costs as a percentage of gross profit increased 30 basis points for the year ended December 31, 2013, primarily due to increases in fixed compensation headcount and sales compensation expense, driven by higher sales commissions associated with higher unit sales volume compared to the prior year.

Compared to the year ended December 31, 2012, total advertising expense in the year ended December 31, 2013 increased 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.

For the year ended December 31, 2013, rent expense 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.

Other SG&A expenses increased in the year ended December 31, 2013, compared to the prior year, primarily due to customer related costs as a result of the higher level of sales activity, IT spending and increased services by outside contractors.

Included in total SG&A expenses are certain costs related to our recently announced stand-alone pre-owned and customer experience initiatives, which combined to increase SG&A expenses by 110 basis points as a percentage of gross profit for the year ended December 31, 2013. In addition, SG&A expenses include certain costs related to the remediation of internal control deficiencies identified as of December 31, 2012, which increased SG&A expenses by 40 basis points as a percentage of gross profit for the year ended December 31, 2013. Please see Item 9A: Controls and Procedures, for further discussion of our internal control remediation efforts. Excluding the combined effect of these initiatives, SG&A as a percentage of gross profit would have decreased by 120 basis points for the year ended December 31, 2013, compared to the prior year.

Overall SG&A expense dollars increased in the year ended December 31, 2012 compared to the prior year, due to increases in revenue, gross profit and unit sales volume driving higher variable compensation costs and

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other SG&A expenses. Overall SG&A expense as a percentage of gross profit decreased by 80 basis points compared to the prior year, driven primarily by our ability to leverage our fixed costs (primarily fixed compensation and rent) with higher gross profit dollars.

Compensation costs as a percentage of gross profit increased 40 basis points for the year ended December 31, 2012, primarily due to increases in sales compensation expense, driven by higher sales commissions associated with higher unit sales volume compared to the comparable prior year. 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 year ended December 31, 2011, total advertising expense in the year ended December 31, 2012 increased in dollar amount as a result of efforts to increase traffic and sales activity, but decreased as a percentage of gross profit as a result of higher gross profit levels.

For the year ended December 31, 2012, rent expense decreased in dollar amount and as a percentage of gross profit compared to the prior year, primarily due to higher gross profit levels and the purchase of certain properties that were previously leased, in addition to the write-off of favorable lease assets during the year ended December 31, 2011.

Other SG&A expenses increased in the year ended December 31, 2012, compared to the prior year, primarily due to customer related costs as a result of the higher level of sales activity, IT spending, increased services by outside contractors, and training costs.

Impairment Charges

Impairment charges increased $9.4 million for the year ended December 31, 2013 due to approximately $9.3 million of property and equipment impairment charges related to land and buildings held for sale, the abandonment of construction projects and our estimate that certain dealerships would not be able to recover recorded property and equipment asset balances, in addition to a $0.6 million franchise asset impairment charge recorded in the year ended December 31, 2013. Impairment charges increased $0.2 million for the year ended December 31, 2012 compared to the prior year, and consisted of property and equipment impairment charges related to the abandonment of certain construction projects.

Depreciation and Amortization

Depreciation expense increased $8.7 million, or 19.3%, in the year ended December 31, 2013, compared to prior year, and $5.8 million, or 14.8%, in the year ended December 31, 2012, compared to the prior year. The increases were primarily related to continuing operations net additions to gross property and equipment (excluding land and construction in progress) of approximately $118.9 million and $56.3 million in the years ended December 31, 2013 and 2012, respectively.

Interest Expense, Floor Plan

Interest expense, floor plan for new vehicles incurred by continuing operations increased approximately $2.6 million, or 15.0%, for the year ended December 31, 2013, compared to the prior year. The average new vehicle floor plan notes payable balance for continuing operations increased approximately $213.1 million in the year ended December 31, 2013, resulting in an increase in new vehicle floor plan interest expense of approximately $4.3 million compared to the prior year. The average new vehicle floor plan interest rate incurred by continuing dealerships was 1.86% for the year ended December 31, 2013, compared to 2.02% for the year ended December 31, 2012, which resulted in a decrease in interest expense of approximately $1.7 million, partially offsetting the increase due to higher average floor plan notes payable balances discussed above.

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Interest expense, floor plan for used vehicles incurred by continuing operations decreased approximately $0.1 million, or 4.9%, for the year ended December 31, 2013, compared to the prior year. The average used vehicle floor plan notes payable balance for continuing operations decreased approximately $6.6 million in the year ended December 31, 2013, resulting in a decrease in used vehicle floor plan interest expense of approximately $0.2 million compared to the prior year. The average used vehicle floor plan interest rate incurred by continuing dealerships was 2.78% for the year ended December 31, 2013, compared to 2.68% for the year ended December 31, 2012, which resulted in an increase in interest expense of approximately $0.1 million, partially offsetting the decrease due to lower average floor plan notes payable balances discussed above.

Interest expense, floor plan for new vehicles incurred by continuing operations increased approximately $1.3 million, or 8.0%, for the year ended December 31, 2012, compared to the prior year. The average new vehicle floor plan notes payable balance for continuing operations increased approximately $184.9 million in the year ended December 31, 2012, resulting in an increase in new vehicle floor plan interest expense of approximately $4.4 million compared to the prior year. The average new vehicle floor plan interest rate incurred by continuing dealerships was 2.02% for the year ended December 31, 2012, compared to 2.38% for the year ended December 31, 2011, which resulted in a decrease in interest expense of approximately $3.1 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 decreased approximately $0.2 million, or 10.1%, for the year ended December 31, 2012, compared to the prior year. The average used vehicle floor plan notes payable balance for continuing operations decreased approximately $14.4 million in the year ended December 31, 2012, resulting in a decrease in used vehicle floor plan interest expense of approximately $0.4 million compared to the prior year. The average used vehicle floor plan interest rate incurred by continuing dealerships was 2.68% for the year ended December 31, 2012, compared to 2.51% for the year ended December 31, 2011, which resulted in an increase in interest expense of approximately $0.2 million, partially offsetting the decrease due to lower average floor plan notes payable balances discussed above.

Interest Expense, Other, Net

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

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands)			
Stated/coupon interest	$ 43,464	$ 42,081	$ (1,383)	(3.3%)
Discount/premium amortization	197	3,229	3,032	93.9%
Deferred loan cost amortization	2,642	2,868	226	7.9%
Cash flow swap interest	10,874	12,697	1,823	14.4%
Interest allocated to discontinued operations		(656)	(656)	(100.0%)
Capitalized interest	(2,484)	(1,198)	1,286	107.3%
Other interest	792	1,069	277	25.9%
Total	$ 55,485	$ 60,090	$ 4,605	7.7%

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	Year Ended December 31,		Better / (Worse)	
	2012	2011	Change	% Change
		(In thousands)		
Stated/coupon interest	$ 42,081	$ 41,482	$ (599)	(1.4%)
Discount/premium amortization	3,229	5,660	2,431	43.0%
Deferred loan cost amortization	2,868	3,725	857	23.0%
Cash flow swap interest	12,697	18,492	5,795	31.3%
Interest allocated to discontinued operations	(656)	(1,230)	(574)	(46.7%)
Capitalized interest	(1,198)	(2,290)	(1,092)	(47.7%)
Other interest	1,069	1,018	(51)	(5.0%)
Total	$ 60,090	$ 66,857	$ 6,767	10.1%

Interest expense, other, net, decreased approximately $4.6 million for the year ended December 31, 2013, compared to the prior year. The decrease was primarily due to a $3.0 million reduction in discount/premium amortization (as a result of the extinguishment of debt) and the expiration of several interest rate cash flow swaps (cash flow swaps) that were replaced with cash flow swaps at a lower fixed rate, resulting in a $1.8 million decrease in cash flow swap interest.

Interest expense, other, net, decreased approximately $6.8 million for the year ended December 31, 2012, compared to the prior year. The decrease was primarily due to the expiration of several cash flow swaps that were replaced with cash flow swaps at a lower fixed rate, resulting in a $5.8 million decrease in cash flow swap interest. In addition, there was a $2.4 million reduction in discount/premium amortization (as a result of the extinguishment of debt), offset partially by a $1.1 million decrease in the amount of capitalized interest related to construction projects.

Other Income (Expense), Net

Other income (expense), net, was an expense of approximately $28.1 million, $19.6 million and $1.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. We recorded a loss on extinguishment of debt of approximately $28.2 million in the year ended December 31, 2013, related to the retirement of the 9.0% Notes. We recorded a loss extinguishment of debt of approximately $19.7 million in the year ended December 31, 2012, related to the extinguishment of the 5.0% Convertible Senior Notes due 2029 (the 5.0% Convertible Notes). During the year ended December 31, 2011, we recorded a loss on extinguishment of debt of approximately $1.1 million, related to the retirement of $17.4 million and $42.9 million in aggregate principal amount of the 5.0% Convertible Notes and 8.625% Senior Subordinated Notes due 2013 (the 8.625% Notes), respectively. See Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements for further discussion.

Provision for Income Taxes

The effective tax rate from continuing operations was 34.4%, 35.4% and 38.8% for the years ended December 31, 2013, 2012 and 2011, respectively. The effective tax rate for the years ended December 31, 2013 and 2012 was lower compared to the respective prior years, primarily due to the favorable resolution of previously outstanding tax matters during the years ended December 31, 2013 and 2012. Our effective tax rate varies from year to year based on the distribution of taxable income between states in which we operate and other tax adjustments. We expect the effective tax rate in future periods to fall within a range of 38.0% to 40.0% before the impact, if any, of changes in valuation allowances related to deferred income tax assets or unusual discrete tax adjustments.

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Discontinued Operations

The pre-tax losses from discontinued operations and the sale of dealerships were as follows:

	Year Ended December 31,		
	2013	2012	2011
		(In thousands)	
Income (loss) from operations	$ (978)	$ (9,946)	$ (8,593)
Gain (loss) on disposal	(457)	10,265	(386)
Lease exit accrual adjustments and charges	(2,582)	(4,293)	(171)
Property impairment charges		(510)	(951)
Pre-tax income (loss)	$ (4,017)	$ (4,484)	$ (10,101)
Total revenues	$	$ 182,884	$ 350,369

The loss from discontinued operations continued to decline, primarily due to the disposition of under-performing dealerships in 2012 which incurred significant operating losses in the years ended December 31, 2012 and 2011 prior to their disposal. A gain of approximately $10.3 million was recorded on the disposition of these ten dealerships during the year ended December 31, 2012.

Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Finance, Insurance and Service Contracts

We arrange financing for customers through various financial institutions and receive a commission from the lender either in a flat fee amount or in an amount equal to the difference between the actual interest rates charged to customers and the predetermined base rates set by the financing institution. We also receive commissions from the sale of various insurance contracts and non-recourse third party extended service contracts to customers. Under these contracts, the applicable manufacturer or third party warranty company is directly liable for all warranties provided within the contract.

In the event a customer terminates a financing, insurance or extended service contract prior to the original termination date, we may be required to return a portion of the commission revenue originally recorded to the third party provider (chargebacks). The commission revenue for the sale of these products and services is recorded net of estimated chargebacks at the time of sale. Our estimate of future chargebacks is established based on our historical chargeback rates, termination provisions of the applicable contracts and industry data. While chargeback rates vary depending on the type of contract sold, a 100 basis point change in the estimated chargeback rates used in determining our estimates of future chargebacks would have changed our estimated reserve for chargebacks at December 31, 2013 by approximately $1.0 million. Our estimate of chargebacks (approximately $14.9 million as of December 31, 2013) is influenced by early contract termination events such

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as vehicle repossessions, refinancings and early pay-offs. If these factors negatively change, the resulting impact would affect our future estimate for chargebacks and could have a material adverse impact on our operations, financial position and cash flows. Our actual chargeback experience has not been materially different from our recorded estimates.

Goodwill and Franchise Assets

In accordance with Intangibles Goodwill and Other, in the ASC, we test goodwill for impairment at least annually, or more frequently when events or circumstances indicate that impairment might have occurred. The ASC also states that if an entity determines, based on an assessment of certain qualitative factors, that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test are unnecessary. Even though the ASC allows companies to assess qualitative factors to determine whether goodwill is impaired, we believe that it is prudent to conduct a quantitative step one assessment at least every three years, or as circumstances require. For our annual impairment assessment as of October 1, 2013, we elected to perform a quantitative step-one assessment.

We utilized a Discounted Cash Flows (DCF) model to estimate Sonic s enterprise value. The significant assumptions in our DCF model include projected earnings, weighted average cost of capital (and estimates in the weighted average cost of capital inputs) and residual growth rates. To the extent the reporting unit s earnings decline significantly or there are changes in one or more of these assumptions that would result in lower valuation results, it could cause the carrying value of the reporting unit to exceed its fair value and thus require us to conduct the second step of the impairment test described under the heading Goodwill, in Note 1, Description of Business and Summary of Significant Accounting Policies, to the accompanying Consolidated Financial Statements. In projecting our reporting unit s earnings, we develop many assumptions which include, but are not limited to, revenue growth, internal revenue enhancement initiatives, cost control initiatives, internal investment programs (such as training, technology and infrastructure) and inventory floor plan borrowing rates. Our expectation of revenue growth is in part driven by our expectation of the new vehicle SAAR. The estimate of the industry SAAR in future periods is the basis of our assumptions related to new vehicle unit sales volumes in our DCF model because we believe the historic and projected SAAR level is the best indicator of growth or contraction in the retail automotive industry. The level of SAAR assumed in our projection of earnings for 2014 was approximately 15.5 million units with a step-up to 16.0 million units for the next few years.

Based on the results of our step-one test as of October 1, 2013, Sonic s fair value exceeds its carrying value. Our DCF model is dependent on the assumptions used and is sensitive to changes in those assumptions. In order to determine the effects of changes in our assumptions on our DCF model, and consequently our goodwill valuation, we ran multiple scenarios adjusting our assumed earnings before interest and taxes (EBIT) growth factors and weighted average cost of capital assumptions. In the event the weighted average cost of capital increased by 100 basis points, assuming all other factors remain the same, the calculated fair value estimate as of October 1, 2013 would change by approximately $177.0 million. Although we assumed a 2.0% EBIT growth factor in our model, in the event residual EBIT is flat, assuming all other factors remain the same, the calculated fair value estimate as of October 1, 2013 would change by approximately $246.1 million. In the event residual EBIT is flat and the weighted average cost of capital increased by 100 basis points, assuming all other factors remain the same, the calculated fair value estimate as of October 1, 2013 would change by approximately $370.3 million. Based on our DCF model, none of the scenarios tested, if realized, would have resulted in lowering the fair value of the reporting unit below the reporting unit s carrying value. As such, we were not required to complete step-two of the impairment evaluation according to Intangibles Goodwill and Other, in the ASC. See Note 1, Description of Business and Summary of Significant Accounting Policies, to the accompanying Consolidated Financial Statements for further discussion. The carrying value of our goodwill totaled approximately $476.3 million at December 31, 2013.

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In accordance with Intangibles Goodwill and Other, in the ASC, we evaluate franchise assets for impairment annually or more frequently if indicators of impairment exist. We estimate the value of our franchise assets using a DCF model. The DCF model used contains inherent uncertainties, including significant estimates and assumptions related to growth rates, projected earnings and cost of capital. We are subject to financial risk to the extent that our franchise assets become impaired due to deterioration of the underlying businesses. The risk of a franchise asset impairment loss may increase to the extent the underlying businesses earnings or projected earnings decline. As a result of our impairment testing for the year ended December 31, 2013, a $0.6 million impairment charge was recorded in impairment charges in the accompanying Consolidated Statements of Income. The carrying value of our franchise assets totaled approximately $79.5 million at December 31, 2013, and is included in other intangible assets, net, in the accompanying Consolidated Balance Sheets.

Insurance Reserves

We have various high deductible retention and insurance policies that require us to make estimates in determining the ultimate liability we may incur for claims arising under these policies. We accrue for insurance reserves throughout the year based on current information available. As of December 31, 2013, we estimated the ultimate liability under these programs to be between $22.5 million and $24.8 million, and had approximately $23.6 million reserved for such programs. Changes in significant assumptions used in the development of the ultimate liability for these programs could have a material impact on the level of reserves, our operating results, financial position and cash flows. These significant assumptions would include the volume of claims, medical cost trends, claims handling and reporting patterns, historical claims experience, the effect of related court rulings and current or projected changes in state laws. From a sensitivity analysis perspective, it is difficult to quantify the effect of changes in any of these significant assumptions with the exception of the volume of claims. We believe a 10% change in the volume of claims would have a proportional effect on our reserves. Our actual loss experience has not been materially different from our recorded estimates.

Lease Exit Accruals

The majority of our dealership properties are leased under long-term operating lease arrangements. When leased properties are no longer utilized in operations, we record lease exit accruals. These situations could include the relocation of an existing facility or the sale of a dealership where the buyer will not be subleasing the property for either the remaining term of the lease or for an amount equal to our obligation under the lease, or in situations where a store is closed as a result of the associated franchise being terminated by the manufacturer and no other operations continue on the leased property. The lease exit accruals represent the present value of the lease payments, net of estimated sublease rentals, for the remaining life of the operating leases and other accruals necessary to satisfy lease commitments to the landlords. As of December 31, 2013, we had $27.2 million accrued for lease exit costs. In addition, based on the terms and conditions negotiated in the sale of dealerships in the future, additional accruals may be necessary if the purchaser of the dealership does not assume any associated lease, or we are unable to negotiate a sublease with the buyer of the dealership on terms that are identical to or better than those associated with the original lease.

Legal Proceedings

We are involved, and expect to continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. As of December 31, 2013, we had accrued approximately $1.2 million in legal reserves. 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.

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Classification of Dealerships in Continuing and Discontinued Operations

We classify the results from operations of our continuing and discontinued operations in our Consolidated Statements of Income based on the provisions of Presentation of Financial Statements in the ASC. Many of these provisions involve judgment in determining whether a dealership will be reported as continuing or discontinued operations. Such judgments include whether a dealership will be sold or terminated, the period required to complete the disposition and the likelihood of changes to a plan for sale. If in future periods we determine that a dealership should be either reclassified from continuing operations to discontinued operations or from discontinued operations to continuing operations, previously reported Consolidated Statements of Income will be reclassified in order to reflect that classification. At December 31, 2013, there were no dealerships classified as held for sale.

Income Taxes

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

At December 31, 2013, there was approximately $7.8 million in reserves that we have provided for these matters (including estimates related to possible interest and penalties) included in accrued liabilities and other long-term liabilities in the accompanying Consolidated Balance Sheets. The effects on our financial statements of income tax uncertainties are discussed in Note 7, Income Taxes, to the accompanying Consolidated Financial Statements.

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

As of December 31, 2013 and 2012, we had a valuation allowance recorded totaling approximately $6.8 million and $6.3 million, respectively, related to certain state net operating loss carryforwards because we concluded it was likely that we would not be able to generate sufficient state taxable income in the related entities to realize the accumulated net operating loss carryforward balances.

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

Recent Accounting Pronouncements

In February 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 accounting principles generally accepted in the United States of America (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 13, Accumulated Other Comprehensive Income (Loss), to the accompanying Consolidated Financial Statements for the impact of this accounting standard update on our required disclosures.

In July 2013, the FASB issued an accounting standard update to reduce the diversity in practice regarding the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this accounting standard update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (early adoption is permitted). We were already in compliance with this accounting standard and do not expect it to have an impact on our consolidated financial position, results of operations or cash flows.

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. However, our liquidity could be negatively affected if we fail to comply with the financial covenants in our existing debt or lease arrangements. Cash flows provided by our dealerships are derived from various sources. The primary sources include individual consumers, automobile manufacturers, automobile manufacturers captive finance subsidiaries and finance companies. Disruptions in these cash flows can have a material and adverse impact on our operations and overall liquidity.

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 year ended December 31, 2013, we issued $300.0 million in aggregate principal amount of 5.0% Notes and repurchased all of our outstanding 9.0% Notes. See Note 6, Long-Term Debt, to the accompanying

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Consolidated Financial Statements for further discussion of the 5.0% Notes and 9.0% Notes. As a result of these refinancing and repurchase activities, other than principal payments due on mortgage notes and certain term notes, we do not have another significant non-floor plan debt maturity until the maturity of the 2011 Credit Facilities in 2016 and the maturity of the aggregate principal amount outstanding of the 7.0% Notes in 2022.

In the year ended December 31, 2013, our operational performance continued to rebound as the economy and the automotive retail industry environment improved coming out of the economic crisis that began in the fourth quarter ended December 31, 2008. According to public sources, average industry expectations for new vehicle SAAR in the year ending December 31, 2014 are between 15.5 million and 16.5 million vehicles which, if realized, would be an increase of up to 6.5% from the new vehicle SAAR in the year ended December 31, 2013. We believe our current capital structure and the expected results of our operating activities will enable us to continue to service our liquidity requirements during the year ending December 31, 2014.

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 amounts owed under notes payable floor plan in the future, although we have the right and ability to do so. The deposit balance of $65.0 million and $60.0 million as of December 31, 2013 and 2012, respectively, is classified in other current assets in the accompanying 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 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 Consolidated Statements of Income. For the years ended December 31, 2013 and 2012, the reduction in interest expense, floor plan, was approximately $1.0 million and $0.3 million, respectively.

Long-Term Debt and Credit Facilities

2011 Credit Facilities

Our 2011 Credit Facilities, which are scheduled to mature on August 15, 2016, consist of the 2011 Revolving Credit Facility and the 2011 Floor Plan 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 our option to $225.0 million upon satisfaction of certain conditions.

Based on balances as of December 31, 2013, the 2011 Revolving Borrowing Base was approximately $158.0 million. We had no outstanding borrowings as of December 31, 2013 and $32.0 million in outstanding letters of credit under the 2011 Revolving Credit Facility, resulting in total borrowing availability of $126.0 million under the 2011 Revolving Credit Facility based on balances as of December 31, 2013.

Outstanding obligations under the 2011 Revolving Credit Facility are secured by a pledge of substantially all of the assets of Sonic and its subsidiaries. The collateral also includes a pledge of the franchise and dealer agreements and stock or equity interests of our dealership subsidiaries, except for those dealership subsidiaries where the applicable manufacturer prohibits such a pledge, in which cases the stock or equity interests of the dealership subsidiary is subject to an escrow arrangement with the administrative agent. Substantially all of our subsidiaries also guarantee our obligations under the 2011 Revolving Credit Facility.

The 2011 Floor Plan Facilities are comprised of a new vehicle revolving floor plan facility (the 2011 New Vehicle Floor Plan Facility) and a used vehicle revolving floor plan facility, subject to a borrowing base (the

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2011 Used Vehicle Floor Plan Facility), in a combined amount up to $605.0 million. We may, under certain conditions, request an increase in the 2011 Floor Plan Facilities of up to $175.0 million, which shall be allocated between the 2011 New Vehicle Floor Plan Facility and the 2011 Used Vehicle Floor Plan Facility as we request, with no more than 15% of the aggregate commitments allocated to the commitments under the 2011 Used Vehicle Floor Plan Facility. Outstanding obligations under the 2011 Floor Plan Facilities are guaranteed by us and certain of our subsidiaries and are secured by a pledge of substantially all of the assets of Sonic and its subsidiaries. The amounts outstanding under the 2011 Credit Facilities bear interest at variable rates based on specified percentages above LIBOR.

We agreed under the 2011 Credit Facilities not to pledge any assets to any third party, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2011 Credit Facilities contain certain negative covenants, including covenants which could restrict or prohibit indebtedness, liens, the payment of dividends, capital expenditures and material dispositions and acquisitions of assets as well as other customary covenants and default provisions. Specifically, the 2011 Credit Facilities permit cash dividends on our Class A and Class B common stock so long as no event of default (as defined in the 2011 Credit Facilities) has occurred and is continuing and provided that we remain in compliance with all financial covenants under the 2011 Credit Facilities.

9.0% Notes

During the year ended December 31, 2013, we repurchased all of our outstanding unsecured senior subordinated 9.0% Notes using net proceeds from the issuance of the 5.0% Notes (discussed below). We paid approximately $237.2 million in cash, including accrued and unpaid interest, to extinguish the 9.0% Notes and recognized a loss of approximately $28.2 million on the repurchase of the 9.0% Notes, recorded in other income (expense), net. In addition to the loss on debt extinguishment, we incurred a charge of approximately $0.8 million recorded in interest expense, other, net, related to the incremental interest incurred while both the 9.0% Notes and the 5.0% Notes were outstanding. See Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements for further discussion of the 9.0% Notes.

7.0% Notes

On July 2, 2012, we issued $200.0 million in aggregate principal amount of 7.0% Notes which mature on July 15, 2022. The 7.0% Notes were issued at a price of 99.11% of the principal amount thereof, resulting in a yield to maturity of 7.125%. We used the net proceeds from the issuance of the 7.0% Notes and issued 4.1 million shares of Class A common stock to repurchase all of the outstanding 5.0% Convertible Notes. Remaining proceeds from the issuance of the 7.0% Notes were used for general corporate purposes, including repurchases of shares of Class A common stock. The 7.0% Notes are unsecured senior subordinated obligations and are guaranteed by our domestic operating subsidiaries. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2013. We may redeem the 7.0% Notes in whole or in part at any time after July 15, 2017 at the redemption prices in the following table, which are expressed as percentages of the principal amount. See Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements for further discussion of the 7.0% Notes.

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

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5.0 % Notes

On May 9, 2013, we issued $300.0 million in aggregate principal amount of 5.0% Notes which mature on May 15, 2023. The 5.0% Notes were issued at 100.0% of the principal amount thereof. We used the net proceeds from the issuance of the 5.0% Notes to repurchase all of our outstanding 9.0% Notes. Remaining proceeds from the issuance of the 5.0% Notes were used for general corporate purposes. The 5.0% Notes are unsecured senior subordinated obligations of ours that mature on May 15, 2023 and are guaranteed by our domestic operating subsidiaries. Interest is payable semi-annually in arrears on May 15 and November 15 of each year. We may redeem the 5.0% Notes in whole or in part at any time after May 15, 2018 at the redemption prices in the following table, which are expressed as percentages of the principal amount. See Note 6, Long-Term Debt, to the accompanying Consolidated Financial Statements for further discussion of the 5.0% Notes.

	Redemption Price
Beginning on May 15, 2018	102.500%
Beginning on May 15, 2019	101.667%
Beginning on May 15, 2020	100.833%
Beginning on May 15, 2021 and thereafter	100.000%

Notes Payable to a Finance Company

Three notes payable (due October 2015 and August 2016) totaling $26.6 million in aggregate principal were assumed with the purchase of certain dealerships during the year ended December 31, 2004 (the Assumed Notes). We recorded the Assumed Notes at fair value using an interest rate of 5.35%. Although the Assumed Notes allow for prepayment, the penalties and fees are disproportionately burdensome relative to the Assumed Notes principal balance. Therefore, we do not currently intend to prepay the Assumed Notes. The outstanding aggregate principal amount of the Assumed Notes was $7.6 million as of December 31, 2013.

Mortgage Notes

During the year ended December 31, 2013, we obtained $53.7 million in mortgage financing related to four of our dealership properties. During the year ended December 31, 2012, we obtained $25.7 million in net mortgage financing related to three of our dealership properties. During the year ended December 31, 2011, we obtained $54.4 million in mortgage financing related to five of our dealership properties. Since implementing our strategy of owning more of our dealership properties in late 2007, we have added $276.6 million in mortgage financing to our capital structure on 25 of our dealership properties. These mortgage notes require monthly payments of principal and interest through maturity, are secured by the underlying properties and contain certain cross-default provisions. Maturity dates range between 2014 and 2033. As of December 31, 2013, the weighted average interest rate on our mortgages was 4.09% and the total outstanding principal balance of our mortgages was approximately $237.5 million.

Operating Leases

We lease facilities for the majority of our dealership operations under operating lease arrangements. These facility lease arrangements normally have fifteen to twenty year terms with one or two ten year renewal options and do not contain provisions for contingent rent related to dealership s operations. Many of the leases are subject to the provisions of a guaranty and subordination agreement that contains financial and affirmative covenants. Approximately 20% of these facility leases have payments that vary based on interest rates. See the table under the heading Future Liquidity Outlook below for our future minimum lease payment obligations, net of sublease proceeds.

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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 prime. The weighted average interest rate for our new and used floor plan facilities for continuing operations was 1.92%, 2.08% and 2.40% for the years ended December 31, 2013, 2012 and 2011, 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 $37.9 million, $35.3 million and $26.9 million in the years ended December 31, 2013, 2012 and 2011, respectively, and recognized in cost of sales for continuing operations approximately $37.9 million, $32.1 million and $25.3 million in the years ended December 31, 2013, 2012 and 2011, 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.

Covenants and Default Provisions

Non-compliance with covenants, including a failure to make any payment when due, under our 2011 Credit Facilities, our Silo Floor Plan Facilities, operating lease agreements, mortgage notes, 5.0% Notes and 7.0% Notes (collectively, our Significant Debt Agreements) could result in a default and an acceleration of our repayment obligation under our 2011 Credit Facilities. A default under our 2011 Credit Facilities would constitute a default under our Silo Floor Plan Facilities and could entitle these lenders to accelerate our repayment obligations under one or more of the floor plan facilities. Certain defaults under our 2011 Credit Facilities and one or more Silo Floor Plan Facilities, or certain other debt obligations would not result in a default under our 5.0% Notes or 7.0% Notes unless our repayment obligations under the 2011 Credit Facilities and/or one or more of the Silo Floor Plan Facilities or such other debt obligations were accelerated. An acceleration of our repayment obligation under any of our Significant Debt Agreements could result in an acceleration of our repayment obligations under our other Significant Debt Agreements. The failure to repay principal amounts of the Significant Debt Agreements when due would create cross-default situations related to other indebtedness. The 2011 Credit Facilities include the following financial covenants:

		Covenant	
	Minimum Consolidated Liquidity Ratio	**Minimum Consolidated Fixed Charge Coverage Ratio**	**Maximum Consolidated Total Lease Adjusted Leverage Ratio**
Required ratio	1.05	1.20	5.50
December 31, 2013 actual	1.16	1.83	3.96

In addition, many of our facility leases are governed by a guarantee agreement between the landlord and us that contains financial and operating covenants. The financial covenants are identical to those under the 2011 Credit Facilities with the exception of one financial covenant related to the ratio of EBTDAR to Rent (as such term is defined in the guarantee agreement) with a required ratio of no less than 1.50 to 1.00. As of December 31, 2013, the ratio was 3.59 to 1.00.

We were in compliance with all of the restrictive and financial covenants on all of our floor plan, long-term debt facilities and lease agreements as of December 31, 2013. We expect to be in compliance with all of our long-term debt agreements for the foreseeable future.

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Acquisitions and Dispositions

During the year ended December 31, 2013, we acquired two luxury franchise operations and underlying assets, including real estate, for an aggregate purchase price, net of cash acquired, of $88.2 million. These acquisitions were funded using cash from operations, and borrowings under our floor plan facilities. There were no dispositions in the year ended December 31, 2013.

Under the 2011 Credit Facilities, we are restricted from making dealership acquisitions in any fiscal year if the aggregate cost of all such acquisitions occurring in any fiscal year is above specific amounts, or if the aggregate cost of such acquisitions is in excess of $175.0 million during the term of the agreement, without the written consent of the Required Lenders (as that term is defined in the 2011 Credit Facilities).

Capital Expenditures

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

Capital expenditures for the year ended December 31, 2013 were approximately $157.6 million. Of this amount, approximately $78.2 million was related to facility construction projects, $52.5 million was related to real estate acquisitions and $26.9 million was for fixed assets utilized in our dealership operations. Of the capital expenditures in the year ended December 31, 2013, approximately $53.7 million was funded through mortgage financing and approximately $103.9 million was funded through cash from operations and use of our credit facilities. We expect to receive approximately $40.4 million of additional mortgage funding in the year ending December 31, 2014 related to capital expenditures that occurred prior to December 31, 2013. As of December 31, 2013, commitments for facilities construction projects totaled approximately $13.4 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 awards and to maintain our desired capital structure. During the year ended December 31, 2013, we repurchased approximately 0.8 million shares of our Class A common stock for approximately $17.1 million in open-market transactions and in connection with tax withholdings on the vesting of equity compensation awards. 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 December 31, 2013, our total remaining repurchase authorization was approximately $132.5 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 2011 Credit Facilities, as defined therein.

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

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Dividends

Our Board of Directors approved four quarterly cash dividends on all outstanding shares of Class A and Class B common stock totaling $0.10 per share during the year ended December 31, 2013. Subsequent to December 31, 2013, our Board of Directors approved a cash dividend on all outstanding shares of common stock of $0.025 per share for shareholders of record on March 14, 2014 to be paid on April 15, 2014. 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 contained therein. The indentures governing our outstanding 5.0% Notes and 7.0% Notes also 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 Consolidated Financial Statements for a description of restrictions on the payment of dividends.

Cash Flows

Cash Flows from Operating Activities Net cash provided by operating activities was approximately $126.4 million for the year ended December 31, 2013, net cash used in operating activities was approximately $67.4 million for the year ended December 31, 2012, and net cash provided by operating activities was approximately $153.6 million for the year ended December 31, 2011. The net cash provided by operations for the year ended December 31, 2013 consisted primarily of net income (less non-cash items) and an increase in notes payable floor plan trade, offset partially by an increase in inventory. The net cash used in operations for the year ended December 31, 2012 consisted primarily of an increase in inventory, offset partially by net income (less non-cash items) and an increase in notes payable floor plan trade. The net cash provided by operations for the year ended December 31, 2011 consisted primarily of net income (less non-cash items), a reduction in inventory, and an increase in accounts payable and other liabilities offset partially by an increase in accounts receivable.

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

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

Net cash provided by combined trade and non-trade floor plan financing was approximately $72.5 million, $310.9 million and $6.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. 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 $173.1 million, $57.3 million and $169.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Cash Flows from Investing Activities Cash used in investing activities during the years ended December 31, 2013, 2012 and 2011 was $244.5 million, $21.7 million, and $157.0 million, respectively. The use

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of cash during the year ended December 31, 2013 was primarily comprised of the acquisition of two luxury franchise operations and purchases of land, property and equipment, including the purchase of dealership facilities that were previously leased. During the year ended December 31, 2012, the majority of the investing activities cash outflow was related to capital expenditures, offset partially by proceeds received from dealership dispositions. During the year ended December 31, 2011, cash used in investing activities was primarily related to capital expenditures.

The significant components of capital expenditures relate primarily to dealership renovations, the purchase of certain existing dealership facilities which had previously been financed under long-term operating leases, and the purchase and development of new real estate parcels for the relocation of existing dealerships. During the years ended December 31, 2013, 2012 and 2011, we used net proceeds from mortgage financing in the amount of approximately $53.7 million, $25.7 million and $54.4 million, respectively, to purchase certain existing dealership facilities and to fund certain capital expenditures.

Cash Flows from Financing Activities Net cash provided by financing activities was approximately $117.7 million and $90.5 million for the years ended December 31, 2013 and 2012, respectively, and net cash used in financing activities was approximately $16.5 million for the year ended December 31, 2011. For the year ended December 31, 2013, cash flow provided by financing activities was comprised primarily of net borrowings on notes payable floor plan non-trade and proceeds from the issuance of the 5.0% Notes and mortgage notes, offset partially by the extinguishment of the 9.0% Notes, scheduled principal payments on mortgage and term notes and repurchases of treasury stock.

During the year ended December 31, 2012, cash flow provided by financing activities was comprised primarily of net borrowings on notes payable floor plan non-trade and proceeds from the issuance of the 7.0% Notes, offset partially by the extinguishment of the 5.0% Convertible Notes, scheduled principal payments on mortgage and term notes and repurchases of treasury stock.

During the year ended December 31, 2011, cash flow used in financing activities was comprised primarily of repurchases of debt securities, repurchases of treasury stock and principal payments on long-term debt, offset partially by proceeds from mortgage financing and net borrowings on notes payable floor plan non-trade.

Cash Flows from Discontinued Operations The accompanying Consolidated Statements of Cash Flows include both continuing and discontinued operations. Net cash provided by operating activities associated with discontinued operations for the year ended December 31, 2013 was approximately $13.3 million and was substantially comprised of changes in deferred income taxes. Cash flows from investing and financing activities for the year ended December 31, 2013 were not material to total cash flows.

Net cash used in operating activities associated with discontinued operations for the year ended December 31, 2012 was approximately $32.9 million. This was substantially comprised of changes in assets and liabilities that relate to dealership operations. Net cash provided by investing activities associated with discontinued operations for the year ended December 31, 2012 was approximately $66.4 million. This was substantially comprised of the proceeds received from dealership dispositions. Cash flows from financing activities for the year ended December 31, 2012 were not material to total cash flows.

Net cash used in operating activities associated with discontinued operations for the year ended December 31, 2011 was approximately $9.5 million. This was substantially comprised of changes in assets and liabilities that relate to dealership operations. Cash flows from investing and financing activities for the year ended December 31, 2011 were not material to total cash flows.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

Future Liquidity Outlook

Our future contractual obligations are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
				(In thousands)			
Floor Plan Facilities	$ 1,251,691	$	$	$	$	$	$ 1,251,691
Long-Term Debt(1)	18,092	28,394	45,959	32,299	44,554	580,875	750,173
Letters of Credit	32,065						32,065
Estimated Interest Payments on Floor Plan Facilities(2)	3,859						3,859
Estimated Interest Payments on Long-Term Debt(3)	51,739	44,800	38,268	36,610	34,093	136,866	342,376
Operating Leases (Net of Sublease Rentals)	102,792	90,972	85,601	73,700	60,742	183,232	597,039
Construction Contracts	13,399						13,399
Other Purchase Obligations(4)	27,406						27,406
FIN 48 Liability(5)	500					7,341	7,841
Total	$ 1,501,543	$ 164,166	$ 169,828	$ 142,609	$ 139,389	$ 908,314	$ 3,025,849

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

(2) Floor plan facilities balances are correlated with the amount of vehicle inventory and are generally due at the time that a vehicle is sold. Estimated interest payments were calculated using the December 31, 2013 floor plan facilities balance, the weighted average interest rate for the fourth quarter ended December 31, 2013 of 1.85% and the assumption that floor plan facilities balances at December 31, 2013 would be relieved within 60 days in connection with the sale of the associated vehicle inventory.

(3) Estimated interest payments include payments related to interest rate swaps.

(4) Other Purchase Obligations include contracts for real estate purchases, office supplies, utilities and various other items or services.

(5) Amount represents recorded liability, including interest and penalties, related to Accounting for Uncertain Income Tax Positions in the ASC. See Notes 1 and 7 to the accompanying Consolidated Financial Statements.

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.

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.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

Off-Balance Sheet Arrangements

Guarantees and Indemnification Obligations

In connection with the operation and disposition of our dealerships, we have entered into various guarantees and indemnification obligations. When we sell dealerships, we attempt to assign any related lease to the buyer of the dealership to eliminate any future liability. However, if we are unable to assign the related leases to the buyer, we will attempt to sublease the leased properties to the buyer at a rate equal to the terms of the original leases. In the event we are unable to sublease the properties to the buyer with terms at least equal to our lease, we may be required to record lease exit accruals. As of December 31, 2013, our future gross minimum lease payments related to properties subleased to buyers of sold dealerships totaled approximately $88.2 million. Future sublease payments expected to be received related to these lease payments were approximately $72.2 million at December 31, 2013.

In accordance with the terms of agreements entered into for the sale of our dealerships, we generally agree to indemnify the buyer from certain liabilities and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While our exposure with respect to environmental remediation and repairs is difficult to quantify, our maximum exposure associated with these general indemnifications was approximately $14.0 million at December 31, 2013. These indemnifications expire within a period of one to two years following the date of sale. The estimated fair value of these indemnifications was not material and the amount recorded for this contingency was not significant at December 31, 2013. We also guarantee the floor plan commitments of our 50% owned joint venture, the amount of which was approximately $2.8 million at December 31, 2013. We expect the aggregate amount of the obligations we guarantee to fluctuate based on dealership disposition activity. Although we seek to mitigate our exposure in connection with these matters, these guarantees and indemnification obligations, including environmental exposures and the financial performance of lease assignees and sub-lessees, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our liquidity and capital resources. See Note 12, Commitments and Contingencies, to the accompanying Consolidated Financial Statements for further discussion regarding these guarantees and indemnification obligations.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 7A: ***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 $905.0 million at December 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 $8.0 million in the year ended December 31, 2013 and approximately $6.4 million in the year ended December 31, 2012. Of the total change in interest expense, approximately $7.6 million and $6.1 million in the years ended December 31, 2013 and 2012, respectively, would have resulted from the floor plan facilities.

In addition to our variable rate debt, as of December 31, 2013 and 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 year ended December 31, 2013 due to the leases containing LIBOR floors which were above the LIBOR rate during the year ended December 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 December 31, 2013 was a net liability of approximately $16.3 million, with $11.6 million included in other accrued liabilities and $8.4 million recorded to other long-term liabilities, offset partially by an asset of approximately $3.7 million included in other assets in the accompanying 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 Consolidated Balance Sheets. We will receive and pay interest based on the following:

Notional Amount (In millions)	Pay Rate	Receive Rate(1)	Maturing Date
$ 2.9	7.100%	one-month LIBOR + 1.50%	July 10, 2017
$ 9.3	4.655%	one-month LIBOR	December 10, 2017
$ 7.8(2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
$100.0	3.280%	one-month LIBOR	July 1, 2015
$100.0	3.300%	one-month LIBOR	July 1, 2015
$ 6.6(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
$200.0(3)	0.788%	one-month LIBOR	July 1, 2016
$ 50.0(4)	1.320%	one-month LIBOR	July 1, 2017
$250.0(5)	1.887%	one-month LIBOR	June 30, 2018

(1) The one-month LIBOR rate was 0.168% at December 31, 2013.

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

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

(4) The effective date of this forward-starting swap is July 1, 2016.

(5) The effective date of this forward-starting swap is July 3, 2017.

During the year ended December 31, 2011, we entered into four $50.0 million notional amount interest rate swap agreements which became effective in July 2012 and terminate between July 2014 and July 2015. During the year ended December 31, 2012, we entered into two $100.0 million notional amount forward-starting interest rate swap agreements which will become effective in July 2015 and terminate in June 2017. During the year ended December 31, 2013, we entered into three forward-starting interest rate swap agreements with notional amounts of $250.0 million, $200.0 million and $50.0 million, which will become effective in June 2018, July 2016, and July 2017, respectively. These interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of these swaps are recorded in accumulated other comprehensive income (loss), net of related income taxes, in the Consolidated Statements of Stockholders Equity.

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

	2014	2015	2016	2017	2018	Thereafter	Total	Liability Fair Value
				(In thousands)				
Long-term debt:								
Fixed rate maturities	$ 13,637	$ 17,480	$ 26,227	$ 15,368	$ 30,373	$ 567,195	$ 670,280	
Fixed rate outstanding(1)	$ 670,280	$ 656,643	$ 639,163	$ 612,936	$ 597,568	$ 567,195		$ 680,791
Average rate on fixed outstanding debt(1)	5.78%	5.75%	5.75%	5.76%	6.03%	5.76%		
Variable rate maturities	$ 4,455	$ 10,914	$ 19,732	$ 16,931	$ 14,181	$ 13,680	$ 79,893	
Variable rate outstanding(1)	$ 79,893	$ 75,438	$ 64,524	$ 44,792	$ 27,861	$ 13,680		$ 79,696
Average rate on variable outstanding debt(1)	2.17%	2.17%	2.02%	1.87%	2.08%	2.12%		
Cash flow interest rate swaps:								
Variable to fixed maturities	$ 101,426	$ 301,426	$ 201,426	$ 272,313	$ 250,000	$	$ 1,126,591	
Variable to fixed outstanding(1)	$ 325,166	$ 423,740	$ 272,315	$ 250,000	$	$		$ 16,334
Average pay rate on outstanding swaps(1)	3.46%	1.67%	2.24%	1.89%	0.00%	0.00%		

(1) Based on amounts outstanding at December 31 of each respective period.

Foreign Currency Risk

We purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase our inventories in United States 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.

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

See Consolidated Financial Statements and Notes that appears on page F-1 herein.

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

None.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2013. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2013.

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

Management s Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework in *Internal Control Integrated Framework* published in 1992 by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2013. The attestation report of our independent registered public accounting firm on the Company s internal control over financial reporting is set forth in Part II, Item 8: Financial Statements and Supplementary Data in this Annual Report on Form 10-K for the year ended December 31, 2013.

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

Remediation of Material Weakness. As of December 31, 2012, management had identified control deficiencies that, in the aggregate, represented a material weakness at December 31, 2012 related to the inadequate design and operating effectiveness of controls related to the recording of new and used vehicle revenues and related accounts receivable and the design of vehicle inventory valuation controls. Management determined that the Company s design and implementation of controls over the new and used vehicle revenue process, including those related to accounts receivable, were inadequate. Specifically, the Company did not have an appropriate level of preventive and detective controls to approve and accurately record new and used vehicle revenue transactions and the resulting accounts receivable. In addition, the Company did not have an adequate level of controls in place to verify the proper valuation of vehicle inventory in conjunction with the inventory stock in process. Although the amount of new and used vehicle revenue, accounts receivable, and vehicle inventory adjustments identified were deemed immaterial, the absence of sufficient controls created the risk that a material error in the Company s new and used vehicle revenue, accounts receivable or vehicle inventory accounts would not be prevented or detected.

During 2013, management completed the following remediation plan:

- reviewed, redesigned, and performed testing of the key controls within the recording of new and used vehicle revenues and related accounts receivable, vehicle inventory valuation, and inventory stock in processes;
- hired additional personnel to monitor key dealership financial processes and related key controls;
- implemented training programs and conducted seminars for existing dealership accounting and reporting personnel; and
- revised the Company s policies and provided appropriate training on the policies.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

Item 9B: ***Other Information.***
None.

PART III

Item 10: ***Directors, Executive Officers and Corporate Governance.***
Information required by this item is furnished by incorporation by reference to the information under the captions entitled Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, and Additional Corporate Governance and Other Information Corporate Governance Guidelines, Code of Business Conduct and Ethics and Committee Charters in the Proxy Statement (to be filed hereafter) for our Annual Meeting of the Stockholders to be held on April 16, 2014 (the Proxy Statement). The information required by this item with respect to our executive officers appears in Part I of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant.

Item 11: ***Executive Compensation.***
The information required by this item is furnished by incorporation by reference to the information under the captions entitled Executive Compensation and Director Compensation for 2013 in the Proxy Statement.

Item 12: ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***
The information required by this item is furnished by incorporation by reference to the information under the caption General Ownership of Voting Stock and Equity Compensation Plan Information in the Proxy Statement.

Item 13: ***Certain Relationships and Related Transactions and Director Independence***
The information required by this item is furnished by incorporation by reference to all information under the captions Certain Transactions and Election of Directors Board and Committee Member Independence in the Proxy Statement.

Item 14: ***Principal Accountant Fees and Services.***
The information required by this item is furnished by incorporation by reference to the information under the caption Ratification of Independent Registered Public Accounting Firm in the Proxy Statement.

PART IV

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

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

(1) Financial Statements: Consolidated Balance Sheets as of December 31, 2013 and 2012. Consolidated Statements of Income for the Years Ended December 31, 2013, 2012 and 2011. Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011. Consolidated Statements of Stockholders Equity for the Years Ended December 31, 2011, 2012 and 2013. Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011.

(2) Financial Statement Schedules: No financial statement schedules are required to be filed (no respective financial statement captions) as part of this Annual Report on Form 10-K.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

(3) Exhibits: Exhibits required in connection with this Annual Report on Form 10-K are listed below. Certain of such exhibits, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the SEC with which they are physically filed, to be a part hereof as of their respective dates.

EXHIBIT NO.	DESCRIPTION
3.1*	Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic s Registration Statement on Form S-1 (Reg. No. 333-33295) (the Form S-1)).
3.2*	Certificate of Amendment to Sonic s Amended and Restated Certificate of Incorporation effective June 18, 1999 (incorporated by reference to Exhibit 3.2 to Sonic s Annual Report on Form 10-K for the year ended December 31, 1999).
3.3*	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to Sonic s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
3.4*	Amended and Restated Bylaws of Sonic (as amended February 9, 2006) (incorporated by reference to Exhibit 3.1 to Sonic s Current Report on Form 8-K filed February 13, 2006).
4.1*	Specimen Certificate representing Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Form S-1).
4.2*	Registration Rights Agreement dated as of July 2, 2012 by and among Sonic Automotive, Inc., the guarantors set forth on the signature page thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.1 to ort on Form 8-K filed July 9, 2012).
4.3*	Indenture dated as of July 2, 2012 by an among Sonic Automotive, Inc., the guarantors named therein, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to Sonic s Current Report on Form 8-K filed July 9, 2012).
4.4*	Form of 7.0% Senior Subordinated Notes due 2022 (incorporated by reference to Exhibit 4.3 to Sonic s Current Report on Form 8-K filed July 9, 2012).
4.5*	Registration Rights Agreement dated as of May 9, 2013, by and among Sonic Automotive, Inc., the Guarantors set forth on the signature page thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.2 to Sonic s Current Report on Form 8-K filed May 13, 2013).
4.6*	Indenture dated as of May 9, 2013 by and among Sonic Automotive, Inc., the Guarantors named therein, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Sonic s Current Report on Form 8-K filed May 13, 2013).
4.7*	Form of 5.0% Senior Subordinated Notes due 2023 (incorporated by reference to Exhibit 4.3 to Sonic s Current Report on Form 8-K filed May 13, 2013).
10.1*	Sonic Automotive, Inc. 2004 Stock Incentive Plan, Amended and Restated as of February 11, 2009 (incorporated by reference to Exhibit 4 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-159674)).(1)
10.2*	Sonic Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of April 22, 2003 (incorporated by reference to Exhibit 10.10 to Sonic s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).(1)
10.3*	Sonic Automotive, Inc. Employee Stock Purchase Plan, Amended and Restated as of May 8, 2002 (incorporated by reference to Exhibit 10.15 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2002 (the 2002 Annual Report)).(1)

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.4*	Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan, Amended and Restated as of October 23, 2002 (incorporated by reference to Exhibit 10.16 to the 2002 Annual Report).(1)
10.5*	Sonic Automotive, Inc. 2005 Formula Restricted Stock Plan for Non-Employee Directors, Amended and Restated as of May 11, 2009 (incorporated by reference to Exhibit 4 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-159675))(1)
10.6*	Employment Agreement dated January 30, 2006 between Sonic and Mr. David P. Cosper (incorporated by reference to Exhibit 10.1 to Sonic s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the March 2006 Form 10-Q)).(1)
10.7*	First Amendment to Employment Agreement dated January 30, 2006 between Sonic and Mr. David P. Cosper. (incorporated by reference to Exhibit 10.12 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2008).(1)
10.8*	Sonic Automotive, Inc. 2004 Stock Incentive Plan Form of Performance-Based Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.33 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2006).(1)
10.9*	Sonic Automotive, Inc. 2004 Stock Incentive Plan Form of Performance-Based Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.34 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2006).(1)
10.10*	Sonic Automotive, Inc. Incentive Compensation Plan, Amended and Restated as of December 4, 2008 (incorporated by reference to Appendix B to Sonic s Definitive Proxy Statement on Schedule 14A filed April 9, 2009).(1)
10.11*	Standard form of lease executed with Capital Automotive, L.P. or its affiliates (incorporated by reference to Exhibit 10.38 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Annual Report)).
10.12*	Standard form of guaranty executed with Capital Automotive, L.P. or its affiliates (incorporated by reference to Exhibit 10.39 to Sonic s 2008 Annual Report).
10.13*	Amendment to Guaranty and Subordination Agreements, dated as of January 1, 2005, by Sonic as Guarantor, to Capital Automotive, L.P. and affiliates, as Landlord (incorporated by reference to Exhibit 10.40 to Sonic s 2008 Annual Report).
10.14*	Second Amendment to Guaranty and Subordination Agreements, dated as of March 11, 2009, by Sonic as Guarantor, to Capital Automotive, L.P. and affiliates, as Landlord (incorporated by reference to Exhibit 10.41 to Sonic s 2008 Annual Report).
10.15*	Side letter to Second Amendment to Guaranty and Subordination Agreements, dated as of March 11, 2009, by Sonic as Guarantor, to Capital Automotive, L.P. and affiliates, as Landlord (incorporated by reference to Exhibit 10.42 to Sonic s 2008 Annual Report).
10.16*	Sonic Automotive, Inc. 2004 Stock Incentive Plan, Amended and Restated as of February 11, 2009 (incorporated by reference to Exhibit 4 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-159674)).(1)
10.17*	Amendment No. 1 to Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors (incorporated by reference to Exhibit 10.45 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2009).(1)

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EXHIBIT NO.	DESCRIPTION
10.18*	Second Amended and Restated Credit Agreement, dated as of July 8, 2011, among Sonic Automotive, Inc.; each lender a party thereto; Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer;, and Wells Fargo Bank, National Association, as an L/C Issuer (incorporated by reference to Exhibit 10.1 to Sonic s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the June 2011 Quarterly Report)).
10.19*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Sonic s June 2011 Quarterly Report).
10.20*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.3 to Sonic s June 2011 Quarterly Report).
10.21*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of BMW Financial Services NA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.4 to Sonic s June 2011 Quarterly Report).
10.22*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Toyota Motor Credit Corporation, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.5 to Sonic s June 2011 Quarterly Report).
10.23*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.6 to Sonic s June 2011 Quarterly Report).
10.24*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.7 to Sonic s June 2011 Quarterly Report).
10.25*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.8 to Sonic s June 2011 Quarterly Report).
10.26*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of World Omni Financial Corp., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.9 to Sonic s June 2011 Quarterly Report).
10.27*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.10 to Sonic s June 2011 Quarterly Report).
10.28*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of VW Credit, Inc., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.11 to Sonic s June 2011 Quarterly Report).
10.29*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.12 to Sonic s June 2011 Quarterly Report).
10.30*	Second Amended and Restated Subsidiary Guaranty Agreement, Dated as of July 8, 2011, by the Revolving Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.13 to Sonic s June 2011 Quarterly Report).

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.31*	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.14 to Sonic s June 2011 Quarterly Report).
10.32*	Second Amended and Restated Escrow and Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.15 to Sonic s June 2011 Quarterly Report).
10.33*	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Financial Corporation and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.16 to Sonic s June 2011 Quarterly Report).
10.34*	Second Amended and Restated Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.17 to Sonic s June 2011 Quarterly Report).
10.35*	Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement, dated July 8, 2011, among Sonic Automotive, Inc.; certain subsidiaries of the Company; each lender; Bank of America, N.A., as Administrative Agent, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender; and Bank of America, N.A., as Revolving Administrative Agent (incorporated by reference to Exhibit 10.18 to Sonic s June 2011 Quarterly Report).
10.36*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.19 to Sonic s June 2011 Quarterly Report).
10.37*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.20 to Sonic s June 2011 Quarterly Report).
10.38*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.21 to Sonic s June 2011 Quarterly Report).
10.39*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.22 to Sonic s June 2011 Quarterly Report).
10.40*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.23 to Sonic s June 2011 Quarterly Report).
10.41*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.24 to Sonic s June 2011 Quarterly Report).
10.42*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.25 to Sonic s June 2011 Quarterly Report).

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.43*	Amended and Restated Company Guaranty Agreement, dated July 8, 2011, by Sonic Automotive, Inc. and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.26 to Sonic s June 2011 Quarterly Report).
10.44*	Amended and Restated Subsidiary Guaranty Agreement, dated as of July 8, 2011, by the Floor Plan Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.27 to Sonic s June 2011 Quarterly Report).
10.45*	Sonic Automotive, Inc. Supplemental Executive Retirement Plan effective January 1, 2010 (incorporated by reference to Exhibit 10.46 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2011).(1)
10.46*	First Amendment to Sonic Automotive, Inc. Supplemental Executive Retirement Plan effective December 29, 2010 (incorporated by reference to Exhibit 10.47 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2011).(1)
10.47*	Amendment No. 1, dated as of April 19, 2012, to Second Amended and Restated Credit Agreement dated July 8, 2011 with Bank of America, N.A., as administrative agent, swing line lender and a lender and Mercedes-Benz Financial Services USA LLC, BMW Financial Services NA, LLC, Toyota Motor Credit Corporation, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Comerica Bank, US Bank, National Association, Capital One, N.A., VW Credit, Inc. and World Omni Financial Corp., as lenders and Bank of America, N.A., and Wells Fargo Bank, National Association, as letter of credit issuer (incorporated by reference to Exhibit 10.1 to Sonic s Current Report on Form 8-K filed April 23, 2012).
10.48*	Amendment No. 1, dated as of April 19, 2012, to Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement with Bank of America, N.A., as administrative agent, a lender, new vehicle swingline lender and used vehicle swingline lender, and JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, US Bank, National Association, Capital One, N.A., Mercedes-Benz Financial Services USA LLC and Comerica Bank, as lenders, and Wells Fargo Bank, National Association as letter of credit issuer (incorporated by reference to Exhibit 10.2 to Sonic s Current Report on Form 8-K filed April 23, 2012).
10.49*	Sonic Automotive, Inc. 2012 Stock Incentive Plan (incorporated by reference to Exhibit 4.5 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-180814)).(1)
10.50*	Sonic Automotive, Inc. 2012 Formula Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 4.5 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-180815)).(1)
10.51*	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 Sonic s Current Report on Form 8-K filed on March 18, 2013).

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.52*	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 Sonic s Current Report on Form 8-K filed on March 18, 2013).
10.53*	Amendment No. 3, dated as of July 31, 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 99.1 to Sonic s Current Report on Form 8-K filed on August 5, 2013).
10.54	Employment agreement of Heath R. Byrd dated October 18, 2007, as amended December 19, 2008.(1)
10.55	Amendment No. 3, dated as of February 12, 2014, 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, JP Morgan 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.
10.56	Amendment No. 4, dated as of February 12, 2014, 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.
12.1	Computation of Ratio of Earnings to Fixed Charges.
18.1*	Preferability Letter of Independent Registered Public Accounting Firm dated November 8, 2013.
21.1	Subsidiaries of Sonic.
23.1	Consent of Ernst & Young LLP.
31.1	Certification of Mr. Heath R. Byrd pursuant to Rule 13a-14(a).
31.2	Certification of Mr. O. Bruton Smith pursuant to Rule 13a-14(a).
32.1	Certification of Mr. Heath R. Byrd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed Previously

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

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

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BY /s/ HEATH R. BYRD
Mr. Heath R. Byrd
Executive Vice President and Chief Financial Officer
Date: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ O. BRUTON SMITH O. Bruton Smith	Chairman, Chief Executive Officer (principal executive officer) and Director	February 28, 2014
/s/ B. SCOTT SMITH B. Scott Smith	President, Chief Strategic Officer and Director	February 28, 2014
/s/ HEATH R. BYRD Heath R. Byrd	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	February 28, 2014
/s/ DAVID B. SMITH David B. Smith	Vice Chairman	February 28, 2014
/s/ WILLIAM R. BROOKS William R. Brooks	Director	February 28, 2014
/s/ WILLIAM I. BELK William I. Belk	Director	February 28, 2014
/s/ BERNARD C. BYRD, JR. Bernard C. Byrd, Jr.	Director	February 28, 2014
/s/ H. ROBERT HELLER	Director	February 28, 2014

H. Robert Heller		
/s/ ROBERT L. REWEY	Director	February 28, 2014
Robert L. Rewey		
/s/ VICTOR H. DOOLAN	Director	February 28, 2014
Victor H. Doolan		

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1*	Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic s Registration Statement on Form S-1 (Reg. No. 333-33295) (the Form S-1)).
3.2*	Certificate of Amendment to Sonic s Amended and Restated Certificate of Incorporation effective June 18, 1999 (incorporated by reference to Exhibit 3.2 to Sonic s Annual Report on Form 10-K for the year ended December 31, 1999).
3.3*	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to Sonic s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
3.4*	Amended and Restated Bylaws of Sonic (as amended February 9, 2006) (incorporated by reference to Exhibit 3.1 to Sonic s Current Report on Form 8-K filed February 13, 2006).
4.1*	Specimen Certificate representing Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Form S-1).
4.2*	Registration Rights Agreement dated as of July 2, 2012 by and among Sonic Automotive, Inc., the guarantors set forth on the signature page thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.1 to Sonic s Current Report on Form 8-K filed July 9, 2012).
4.3*	Indenture dated as of July 2, 2012 by an among Sonic Automotive, Inc., the guarantors named therein, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to Sonic s Current Report on Form 8-K filed July 9, 2012).
4.4*	Form of 7.0% Senior Subordinated Notes due 2022 (incorporated by reference to Exhibit 4.3 to Sonic s Current Report on Form 8-K filed July 9, 2012).
4.5*	Registration Rights Agreement dated as of May 9, 2013, by and among Sonic Automotive, Inc., the Guarantors set forth on the signature page thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.2 to Sonic s Current Report on Form 8-K filed May 13, 2013).
4.6*	Indenture dated as of May 9, 2013 by and among Sonic Automotive, Inc., the Guarantors named therein, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Sonic s Current Report on Form 8-K filed May 13, 2013).
4.7*	Form of 5.0% Senior Subordinated Notes due 2023 (incorporated by reference to Exhibit 4.3 to Sonic s Current Report on Form 8-K filed May 13, 2013).
10.1*	Sonic Automotive, Inc. 2004 Stock Incentive Plan, Amended and Restated as of February 11, 2009 (incorporated by reference to Exhibit 4 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-159674)).(1)
10.2*	Sonic Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of April 22, 2003 (incorporated by reference to Exhibit 10.10 to Sonic s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).(1)
10.3*	Sonic Automotive, Inc. Employee Stock Purchase Plan, Amended and Restated as of May 8, 2002 (incorporated by reference to Exhibit 10.15 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2002 (the 2002 Annual Report)).(1)

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.4*	Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan, Amended and Restated as of October 23, 2002 (incorporated by reference to Exhibit 10.16 to the 2002 Annual Report).(1)
10.5*	Sonic Automotive, Inc. 2005 Formula Restricted Stock Plan for Non-Employee Directors, Amended and Restated as of May 11, 2009 (incorporated by reference to Exhibit 4 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-159675))(1)
10.6*	Employment Agreement dated January 30, 2006 between Sonic and Mr. David P. Cosper (incorporated by reference to Exhibit 10.1 to Sonic s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the March 2006 Form 10-Q)).(1)
10.7*	First Amendment to Employment Agreement dated January 30, 2006 between Sonic and Mr. David P. Cosper. (incorporated by reference to Exhibit 10.12 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2008).(1)
10.8*	Sonic Automotive, Inc. 2004 Stock Incentive Plan Form of Performance-Based Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.33 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2006).(1)
10.9*	Sonic Automotive, Inc. 2004 Stock Incentive Plan Form of Performance-Based Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.34 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2006).(1)
10.10*	Sonic Automotive, Inc. Incentive Compensation Plan, Amended and Restated as of December 4, 2008 (incorporated by reference to Appendix B to Sonic s Definitive Proxy Statement on Schedule 14A filed April 9, 2009).(1)
10.11*	Standard form of lease executed with Capital Automotive, L.P. or its affiliates (incorporated by reference to Exhibit 10.38 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Annual Report)).
10.12*	Standard form of guaranty executed with Capital Automotive, L.P. or its affiliates (incorporated by reference to Exhibit 10.39 to Sonic s 2008 Annual Report).
10.13*	Amendment to Guaranty and Subordination Agreements, dated as of January 1, 2005, by Sonic as Guarantor, to Capital Automotive, L.P. and affiliates, as Landlord (incorporated by reference to Exhibit 10.40 to Sonic s 2008 Annual Report).
10.14*	Second Amendment to Guaranty and Subordination Agreements, dated as of March 11, 2009, by Sonic as Guarantor, to Capital Automotive, L.P. and affiliates, as Landlord (incorporated by reference to Exhibit 10.41 to Sonic s 2008 Annual Report).
10.15*	Side letter to Second Amendment to Guaranty and Subordination Agreements, dated as of March 11, 2009, by Sonic as Guarantor, to Capital Automotive, L.P. and affiliates, as Landlord (incorporated by reference to Exhibit 10.42 to Sonic s 2008 Annual Report).
10.16*	Sonic Automotive, Inc. 2004 Stock Incentive Plan, Amended and Restated as of February 11, 2009 (incorporated by reference to Exhibit 4 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-159674)).(1)
10.17*	Amendment No. 1 to Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors (incorporated by reference to Exhibit 10.45 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2009).(1)

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.18*	Second Amended and Restated Credit Agreement, dated as of July 8, 2011, among Sonic Automotive, Inc.; each lender a party thereto; Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer;, and Wells Fargo Bank, National Association, as an L/C Issuer (incorporated by reference to Exhibit 10.1 to Sonic s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the June 2011 Quarterly Report)).
10.19*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Sonic s June 2011 Quarterly Report).
10.20*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.3 to Sonic s June 2011 Quarterly Report).
10.21*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of BMW Financial Services NA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.4 to Sonic s June 2011 Quarterly Report).
10.22*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Toyota Motor Credit Corporation, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.5 to Sonic s June 2011 Quarterly Report).
10.23*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.6 to Sonic s June 2011 Quarterly Report).
10.24*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.7 to Sonic s June 2011 Quarterly Report).
10.25*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.8 to Sonic s June 2011 Quarterly Report).
10.26*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of World Omni Financial Corp., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.9 to Sonic s June 2011 Quarterly Report).
10.27*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.10 to Sonic s June 2011 Quarterly Report).
10.28*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of VW Credit, Inc., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.11 to Sonic s June 2011 Quarterly Report).
10.29*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.12 to Sonic s June 2011 Quarterly Report).
10.30*	Second Amended and Restated Subsidiary Guaranty Agreement, Dated as of July 8, 2011, by the Revolving Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.13 to Sonic s June 2011 Quarterly Report).

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.31*	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.14 to Sonic s June 2011 Quarterly Report).
10.32*	Second Amended and Restated Escrow and Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.15 to Sonic s June 2011 Quarterly Report).
10.33*	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Financial Corporation and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.16 to Sonic s June 2011 Quarterly Report).
10.34*	Second Amended and Restated Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.17 to Sonic s June 2011 Quarterly Report).
10.35*	Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement, dated July 8, 2011, among Sonic Automotive, Inc.; certain subsidiaries of the Company; each lender; Bank of America, N.A., as Administrative Agent, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender; and Bank of America, N.A., as Revolving Administrative Agent (incorporated by reference to Exhibit 10.18 to Sonic s June 2011 Quarterly Report).
10.36*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.19 to Sonic s June 2011 Quarterly Report).
10.37*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.20 to Sonic s June 2011 Quarterly Report).
10.38*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.21 to Sonic s June 2011 Quarterly Report).
10.39*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.22 to Sonic s June 2011 Quarterly Report).
10.40*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.23 to Sonic s June 2011 Quarterly Report).
10.41*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.24 to Sonic s June 2011 Quarterly Report).
10.42*	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.25 to Sonic s June 2011 Quarterly Report).

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
10.43*	Amended and Restated Company Guaranty Agreement, dated July 8, 2011, by Sonic Automotive, Inc. and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.26 to Sonic s June 2011 Quarterly Report).
10.44*	Amended and Restated Subsidiary Guaranty Agreement, dated as of July 8, 2011, by the Floor Plan Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.27 to Sonic s June 2011 Quarterly Report).
10.45*	Sonic Automotive, Inc. Supplemental Executive Retirement Plan effective January 1, 2010 (incorporated by reference to Exhibit 10.46 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2011).(1)
10.46*	First Amendment to Sonic Automotive, Inc. Supplemental Executive Retirement Plan effective December 29, 2010 (incorporated by reference to Exhibit 10.47 to Sonic s Annual Report on Form 10-K for the year ended December 31, 2011).(1)
10.47*	Amendment No. 1, dated as of April 19, 2012, to Second Amended and Restated Credit Agreement dated July 8, 2011 with Bank of America, N.A., as administrative agent, swing line lender and a lender and Mercedes-Benz Financial Services USA LLC, BMW Financial Services NA, LLC, Toyota Motor Credit Corporation, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Comerica Bank, US Bank, National Association, Capital One, N.A., VW Credit, Inc. and World Omni Financial Corp., as lenders and Bank of America, N.A., and Wells Fargo Bank, National Association, as letter of credit issuer (incorporated by reference to Exhibit 10.1 to Sonic s Current Report on Form 8-K filed April 23, 2012).
10.48*	Amendment No. 1, dated as of April 19, 2012, to Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement with Bank of America, N.A., as administrative agent, a lender, new vehicle swingline lender and used vehicle swingline lender, and JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, US Bank, National Association, Capital One, N.A., Mercedes-Benz Financial Services USA LLC and Comerica Bank, as lenders, and Wells Fargo Bank, National Association as letter of credit issuer (incorporated by reference to Exhibit 10.2 to Sonic s Current Report on Form 8-K filed April 23, 2012).
10.49*	Sonic Automotive, Inc. 2012 Stock Incentive Plan (incorporated by reference to Exhibit 4.5 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-180814)).(1)
10.50*	Sonic Automotive, Inc. 2012 Formula Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 4.5 to Sonic s Registration Statement on Form S-8 (Reg. No. 333-180815)).(1)
10.51*	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 Sonic s Current Report on Form 8-K filed on March 18, 2013).

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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10.52*	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 Sonic s Current Report on Form 8-K filed on March 18, 2013).
10.53*	Amendment No. 3, dated as of July 31, 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 99.1 to Sonic s Current Report on Form 8-K filed on August 5, 2013).
10.54	Employment agreement of Heath R. Byrd dated October 18, 2007, as amended December 19, 2008.(1)
10.55	Amendment No. 3, dated as of February 12, 2014, 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, JP Morgan 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.
10.56	Amendment No. 4, dated as of February 12, 2014, 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.
12.1	Computation of Ratio of Earnings to Fixed Charges.
18.1*	Preferability Letter of Independent Registered Public Accounting Firm dated November 8, 2013.
21.1	Subsidiaries of Sonic.
23.1	Consent of Ernst & Young LLP.
31.1	Certification of Mr. Heath R. Byrd pursuant to Rule 13a-14(a).
31.2	Certification of Mr. O. Bruton Smith pursuant to Rule 13a-14(a).
32.1	Certification of Mr. Heath R. Byrd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT NO.	DESCRIPTION
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed Previously

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

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sonic Automotive, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Sonic Automotive, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sonic Automotive, Inc. and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sonic Automotive, Inc. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina

March 3, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sonic Automotive, Inc. and subsidiaries

We have audited Sonic Automotive, Inc. and subsidiaries internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Sonic Automotive, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Sonic Automotive, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2013 of Sonic Automotive, Inc. and subsidiaries and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina

March 3, 2014

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,016	$ 3,371
Receivables, net	354,138	345,294
Inventories	1,282,138	1,177,966
Other current assets	92,893	84,402
Total current assets	1,732,185	1,611,033
Property and Equipment, net	702,011	595,124
Goodwill	476,315	454,224
Other Intangible Assets, net	87,866	70,521
Other Assets	52,793	45,820
Total Assets	$ 3,051,170	$ 2,776,722
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable floor plan trade	$ 681,030	$ 655,195
Notes payable floor plan non-trade	570,661	