PIONEER HIGH INCOME TRUST
Form SC 13G/A
April 09, 2014

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No.4)*

PIONEER HIGH INCOME TRUST

(Name of Issuer)

Auction Market Preferred

(Title of Class of Securities)

72369H205
(See Item 2E)

(CUSIP Number)

March 31, 2014

(Date Of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[x] Rule 13d-1(b)

[ ] Rule 13d-1(c)

[ ] Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1745 (3-06)



1. NAME OF REPORTING PERSON:
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON:

Morgan Stanley
I.R.S. #36-3145972

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a) [ ]

(b) [ ]

3. SEC USE ONLY:

4. CITIZENSHIP OR PLACE OF ORGANIZATION:

The state of organization is Delaware.

| | | |
|---|---|---|
| NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH: | 5. | SOLE VOTING POWER: 0 |
| | 6. | SHARED VOTING POWER: 0 |
| | 7. | SOLE DISPOSITIVE POWER: 0 |
| | 8. | SHARED DISPOSITIVE POWER: 0 |

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:
0

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES:

[ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9):
0%

12. TYPE OF REPORTING PERSON:
HC, CO



1. NAME OF REPORTING PERSON:
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON:

Morgan Stanley & Co. LLC
I.R.S. #13-2655998

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a) [ ]

(b) [ ]

3. SEC USE ONLY:

4. CITIZENSHIP OR PLACE OF ORGANIZATION:

The state of organization is Delaware.

| | | |
|---|---|---|
| NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH: | 5. | SOLE VOTING POWER: 0 |
| | 6. | SHARED VOTING POWER: 0 |
| | 7. | SOLE DISPOSITIVE POWER: 0 |
| | 8. | SHARED DISPOSITIVE POWER: 0 |

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:
0

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES:

[ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9):
0%

12. TYPE OF REPORTING PERSON:
BD, CO



Item 1. (a) Name of Issuer:

PIONEER HIGH INCOME TRUST

(b) Address of Issuer's Principal Executive Offices:

60 STATE ST.13TH FL.
BOSTON MA 02109

Item 2. (a) Name of Person Filing:

(1) Morgan Stanley
(2) Morgan Stanley & Co. LLC

(b) Address of Principal Business Office, or if None, Residence:

(1) 1585 Broadway
New York, NY 10036
(2) 1585 Broadway
New York, NY 10036

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(c) Citizenship:

(1) The state of organization is Delaware.
(2) The state of organization is Delaware.

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(d) Title of Class of Securities:

Auction Market Preferred

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(e) CUSIP Number:

72369H205, 72369H403, 72369H304

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Item 3. If this statement is filed pursuant to Sections 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(a) [x] Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o).
Morgan Stanley & Co. Incorporated

(b) [ ] Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) [ ] Insurance company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) [ ] Investment company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e) [ ] An investment adviser in accordance with Section 240.13d-1(b)(1)(ii)(E);

(f) [ ] An employee benefit plan or endowment fund in accordance with Section 240.13d-1(b)(1)(ii)(F);

(g) [x] A parent holding company or control person in accordance with Section 240.13d-1(b)(1)(ii)(G);
Morgan Stanley

(h) [ ] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) [ ] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) [ ] Group, in accordance with Section 240.13d-1(b)(1)(ii)(J).



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Item 4. Ownership as of March 31,2014.*

The number of shares reported herein represents combined holdings in multiple series of auction rate preferred securities of the Issuer, which are treated herein as one class of securities in accordance with the Securities and Exchange Commission's Auction Rate Securities -- Global Exemptive Relief no-action letter issued on September 22, 2008.

(a) Amount beneficially owned:
See the response(s) to Item 9 on the attached cover page(s).

(b) Percent of Class:
See the response(s) to Item 11 on the attached cover page(s).

(c) Number of shares as to which such person has:

(i) Sole power to vote or to direct the vote:
See the response(s) to Item 5 on the attached cover page(s).

(ii) Shared power to vote or to direct the vote:
See the response(s) to Item 6 on the attached cover page(s).

(iii) Sole power to dispose or to direct the disposition of:
See the response(s) to Item 7 on the attached cover page(s).

(iv) Shared power to dispose or to direct the disposition of:
See the response(s) to Item 8 on the attached cover page(s).

Item 5. Ownership of Five Percent or Less of a Class.

(1) As of the date hereof, Morgan Stanley has ceased to be the beneficial owner of more than five percent of the class of securities.

(2) As of the date hereof, Morgan Stanley & Co. LLC has ceased to be the beneficial owner of more than five percent of the class of securities.

Item 6. Ownership of More Than Five Percent on Behalf of Another Person.

Not Applicable

Item 7. Identification and Classification of the Subsidiary which Acquired the Security Being Reported on By the Parent Holding Company.

See Exhibit 99.2

Item 8. Identification and Classification of Members of the Group.

Not Applicable

Item 9. Notice of Dissolution of Group.

Not Applicable

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

* In Accordance with the Securities and Exchange Commission Release No. 34-39538 (January 12, 1998) (the "Release"), this filing reflects the securities beneficially owned, or that may be deemed to be beneficially owned, by certain operating units (collectively, the "MS Reporting Units") of Morgan Stanley and its subsidiaries and affiliates (collectively, "MS"). This filing does not reflect securities, if any, beneficially owned by any operating units of MS whose ownership of securities is disaggregated from that of the MS Reporting Units in accordance with the Release.



Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: April 9, 2014

Signature: /s/ Marielle Giudice

Name/Title: Marielle Giudice/Authorized Signatory, Morgan Stanley

MORGAN STANLEY

Date: April 9, 2014

Signature: /s/ Marielle Giudice

Name/Title: Marielle Giudice/Authorized Signatory, Morgan Stanley & Co. LLC

MORGAN STANLEY & CO. LLC

| EXHIBIT NO. | EXHIBITS | PAGE |
|---|---|---|
| 99.1 | Joint Filing Agreement | 7 |
| 99.2 | Item 7 Information | 8 |

* Attention. Intentional misstatements or omissions of fact constitute federal criminal violations (see 18 U.S.C. 1001).

EXHIBIT NO. 99.1 TO SCHEDULE 13G
JOINT FILING AGREEMENT

April 9, 2014

MORGAN STANLEY and MORGAN STANLEY & CO. LLC hereby agree that, unless differentiated, this Schedule 13G is filed on behalf of each of the parties.

MORGAN STANLEY

BY: /s/ Marielle Giudice

Marielle Giudice/Authorized Signatory, Morgan Stanley

MORGAN STANLEY & CO. LLC

BY: /s/ Marielle Giudice

Marielle Giudice/Authorized Signatory, Morgan Stanley & Co. LLC

* Attention. Intentional misstatements or omissions of fact constitute federal criminal violations (see 18 U.S.C. 1001).



EXHIBIT NO. 99.2

ITEM 7 INFORMATION

The securities being reported on by Morgan Stanley as a parent holding company are owned, or may be deemed to be beneficially owned, by Morgan Stanley & Co. LLC a broker dealer registered under Section 15 of the Securities Exchange Act of 1934, as amended. Morgan Stanley & Co. LLC is a wholly-owned subsidiary of Morgan Stanley.

ze:8pt;font-family:Times New Roman;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">

Dividends declared per common share

$

0.10

$

0.10

$

0.10

See Notes to Consolidated Financial Statements

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2014, 2013 and 2012

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (Dollars in thousands) | | |
| Net income (loss) | $97,217 | $81,618 | $89,101 |
| Other comprehensive income (loss) before taxes: | | | |
| Change in fair value of interest rate swap agreements | 4,655 | 17,143 | 2,722 |
| Change in pension actuarial income (loss) | (1,174 ) | 1,212 | (258 ) |
| Total other comprehensive income (loss) before taxes | 3,481 | 18,355 | 2,464 |
| Provision for income tax benefit (expense) related to components of other comprehensive income (loss) | (1,323 ) | (6,974 ) | (937 ) |
| Other comprehensive income (loss) | 2,158 | 11,381 | 1,527 |
| Comprehensive income (loss) | $99,375 | $92,999 | $90,628 |

See Notes to Consolidated Financial Statements

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2012, 2013 and 2014

| | Class A Common Stock | | Class A Treasury Stock | | Class B Common Stock | | Paid-In | Retained | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Earnings | | |
| | (Dollars and shares in thousands) | | | | | | | | | |
| Balance at December 31, 2011 | 56,378 | $564 | (15,778) | $(248,675) | 12,029 | $121 | $667,839 | $124,383 | $(21,490) | $522,742 |
| Shares awarded under stock compensation plans | 608 | 6 | - | - | - | - | 2,327 | - | - | 2,333 |
| Issuance of common stock | 4,075 | 41 | - | - | - | - | 67,495 | - | - | 67,536 |
| Purchases of treasury stock | - | - | (4,364 ) | (82,924 ) | - | - | - | - | - | (82,924 ) |
| Income tax benefit associated with stock compensation plans | - | - | - | - | - | - | 3,207 | - | - | 3,207 |
| Derecognition of equity component of 5.0% Convertible Notes (1), net of tax expense of $662 | - | - | - | - | - | - | (76,701 ) | - | - | (76,701 ) |
| Fair value of interest rate swap | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| agreements, net of tax expense of $1,035 | - | - | - | - | - | - | - | - | 1,687 | 1,687 |
| Change in pension actuarial loss, net of tax benefit of $98 | - | - | - | - | - | - | - | - | (160 ) | (160 ) |
| Stock-based compensation expense | - | - | - | - | - | - | 122 | - | - | 122 |
| Restricted stock amortization | - | - | - | - | - | - | 5,038 | - | - | 5,038 |
| Other | 291 | 3 | - | - | - | - | (3 ) | - | - | - |
| Net income (loss) | - | - | - | - | - | - | - | 89,101 | - | 89,101 |
| Dividends ($0.10 per share) | - | - | - | - | - | - | - | (5,436 ) | - | (5,436 ) |
| Balance at December 31, 2012 | 61,352 | $614 | (20,142) | $(331,599) | 12,029 | $121 | $669,324 | $208,048 | $(19,963) | $526,545 |
| Shares awarded under stock compensation plans | 209 | 2 | - | - | - | - | 2,169 | - | - | 2,171 |
| Purchases of treasury stock | - | - | (758 ) | (17,067 ) | - | - | - | - | - | (17,067 ) |
| Income tax benefit associated with stock compensation plans | - | - | - | - | - | - | 856 | - | - | 856 |
| Fair value of interest rate swap agreements, net of tax expense of $6,514 | - | - | - | - | - | - | - | - | 10,629 | 10,629 |
| Change in pension actuarial loss, net of tax expense of $460 | - | - | - | - | - | - | - | - | 752 | 752 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Restricted stock amortization | - | - | - | - | - | - | 7,208 | - | - | 7,208 |
| Other (2) | 23 | - | - | - | - | - | 6,225 | - | - | 6,225 |
| Net income (loss) | - | - | - | - | - | - | - | 81,618 | - | 81,618 |
| Dividends ($0.10 per share) | - | - | - | - | - | - | - | (5,298 ) | - | (5,298 ) |
| Balance at December 31, 2013 | 61,584 | $616 | (20,900) | $(348,666) | 12,029 | $121 | $685,782 | $284,368 | $(8,582 ) | $613,639 |
| Shares awarded under stock compensation plans | 440 | 4 | - | - | - | - | 3,270 | - | - | 3,274 |
| Purchases of treasury stock | - | - | (2,256 ) | (53,046 ) | - | - | - | - | - | (53,046 ) |
| Income tax benefit associated with stock compensation plans | - | - | - | - | - | - | 1,033 | - | - | 1,033 |
| Fair value of interest rate swap agreements, net of tax expense of $1,769 | - | - | - | - | - | - | - | - | 2,886 | 2,886 |
| Change in pension actuarial loss, net of tax benefit of $446 | - | - | - | - | - | - | - | - | (728 ) | (728 ) |
| Restricted stock amortization | - | - | - | - | - | - | 7,675 | - | - | 7,675 |
| Other | 23 | - | - | - | - | - | - | - | - | - |
| Net income (loss) | - | - | - | - | - | - | - | 97,217 | - | 97,217 |
| Dividends ($0.10 per share) | - | - | - | - | - | - | - | (5,232 ) | - | (5,232 ) |
| Balance at December 31, 2014 | 62,047 | $620 | (23,156) | $(401,712) | 12,029 | $121 | $697,760 | $376,353 | $(6,424 ) | $666,718 |

(1) 5.0% Convertible Senior Notes due 2029 which were extinguished during the third quarter ended September 30, 2012 (the “5.0% Convertible Notes”).
(2) Paid-in capital amount represents a tax benefit related to the 5.0% Convertible Notes.
See Notes to Consolidated Financial Statements

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014, 2013 and 2012

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (Dollars in thousands) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | $97,217 | $81,618 | $89,101 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization of property and equipment | 58,254 | 54,047 | 45,918 |
| Provision for bad debt expense | 516 | 249 | 453 |
| Other amortization | 1,165 | 1,561 | 1,561 |
| Debt issuance cost amortization | 2,135 | 2,787 | 3,053 |
| Debt discount amortization, net of premium amortization | 67 | (111) | 2,780 |
| Stock - based compensation expense | 7,675 | 7,208 | 5,160 |
| Deferred income taxes | 28,470 | 21,924 | 22,496 |
| Equity interest in earnings of investee | (283) | (406) | (481) |
| Asset impairment charges | 6,594 | 9,872 | 950 |
| Loss (gain) on disposal of dealerships and property and equipment | (13,323) | 267 | (10,623) |
| Loss (gain) on exit of leased dealerships | 302 | 2,915 | 4,286 |
| (Gain) loss on retirement of debt | - | 28,238 | 19,713 |
| Changes in assets and liabilities that relate to operations: | | | |
| Receivables | (2,436) | (9,092) | (42,093) |
| Inventories | (56,203) | (78,646) | (347,633) |
| Other assets | (278) | (9,834) | (69,157) |
| Notes payable - floor plan - trade | 30,588 | 25,835 | 186,168 |
| Trade accounts payable and other liabilities | 190 | (11,984) | 20,970 |
| Total adjustments | 63,433 | 44,830 | (156,479) |
| Net cash provided by (used in) operating activities | 160,650 | 126,448 | (67,378) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of businesses, net of cash acquired | (50,867) | (88,184) | - |
| Purchases of land, property and equipment | (146,432) | (157,617) | (95,376) |
| Proceeds from sales of property and equipment | 14,122 | 769 | 750 |
| Proceeds from sales of dealerships | 74,823 | - | 72,220 |
| Distributions from equity investee | 400 | 500 | 700 |
| Net cash provided by (used in) investing activities | (107,954) | (244,532) | (21,706) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net (repayments) borrowings on notes payable - floor plan - non-trade | (19,543) | 46,638 | 124,709 |
| Borrowings on revolving credit facilities | 179,791 | 231,698 | 143,577 |
| Repayments on revolving credit facilities | (179,791) | (237,874) | (137,401) |
| Proceeds from issuance of long-term debt | 44,454 | 353,693 | 223,920 |
| Debt issuance costs | (2,959) | (5,394) | (4,472) |
| Principal payments on long-term debt | (19,482) | (19,426) | (10,768) |
| Repurchase of debt securities | - | (233,573) | (164,896) |
| Purchases of treasury stock | (53,046) | (17,067) | (82,924) |

| | | | |
|---|---|---|---|
| Income tax benefit (expense) associated with stock compensation plans | 1,033 | 856 | 3,207 |
| Issuance of shares under stock compensation plans | 3,274 | 2,171 | 2,333 |
| Dividends paid | (5,261 ) | (3,993 ) | (6,743 ) |
| Net cash provided by (used in) financing activities | (51,530 ) | 117,729 | 90,542 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,166 | (355 ) | 1,458 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,016 | 3,371 | 1,913 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $4,182 | $3,016 | $3,371 |
| | | | |
| SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES: | | | |
| Change in fair value of cash flow hedging instruments (net of tax expense of $1,769, $6,514 and $1,035 in the years ended December 31, 2014, 2013 and 2012, respectively) | $2,886 | $10,629 | $1,687 |
| Issuance of common stock as consideration for extinguishment of debt securities | $- | $- | $(67,869 ) |
| | | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid (received) during the period for: | | | |
| Interest, including amount capitalized | $71,776 | $81,626 | $71,140 |
| Income taxes | $50,525 | $30,158 | $28,633 |

See notes to Consolidated Financial Statements

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tables in thousands except per share amounts)

1. Description of Business and Summary of Significant Accounting Policies

Organization and Business - Sonic Automotive, Inc. (“Sonic” or the “Company”) is one of the largest automotive retailers in the United States (as measured by total revenue). As of December 31, 2014, Sonic operated 118 franchises in 13 states (representing 25 different brands of cars and light trucks) and 19 collision repair centers. For management and operational reporting purposes, Sonic groups certain franchised dealerships together that share management and inventory (principally used vehicles) into “stores.” As of December 31, 2014, Sonic operated 100 stores. Sonic’s 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 its customers. In addition, during the fourth quarter of 2014, Sonic opened two stand-alone pre-owned specialty retail locations in Denver, Colorado under the EchoPark® brand.

Principles of Consolidation - All of Sonic’s dealership and non-dealership subsidiaries are wholly owned and consolidated in the accompanying Consolidated Financial Statements except for one fifty-percent owned dealership that is accounted for under the equity method. All material intercompany balances and transactions have been eliminated in the accompanying Consolidated Financial Statements.

Recent Accounting Pronouncements - In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-08, which amended the definition of and the reporting requirements for discontinued operations. The amendments in this ASU require that a disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial position in order to qualify as a discontinued operation. The ASU also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This ASU is effective for interim and annual filings beginning with the quarter ending March 31, 2015. Early adoption is permitted, and Sonic elected to adopt and apply the guidance beginning with its Quarterly Report on Form 10-Q for the period ended June 30, 2014. The adoption of this ASU impacts the presentation of certain items in Sonic’s consolidated financial position, results of operations and other disclosures. See Note 2, “Business Acquisitions and Dispositions,” for additional discussion.

In May 2014, the FASB issued ASU 2014-09 related to revenue recognition. This ASU provides a five-step analysis to use in determining the timing and method of revenue recognition. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 (early adoption is not permitted). Sonic does not expect this ASU to have a significant impact on its consolidated financial position, results of operations or cash flows.

Reclassifications – Prior to the adoption of ASU 2014-08 as discussed above, individual dealership franchises sold, terminated or classified as held for sale were reported as discontinued operations. The results of operations of these dealership franchises for the years ended December 31, 2014, 2013 and 2012 are reported as discontinued operations for all periods presented. Dealership franchises sold during the year ended December 31, 2014 have not been reclassified to discontinued operations since they were disposed of after March 31, 2014 and they did not meet the criteria in ASU 2014-08. If in future periods Sonic determines that a dealership franchise 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 the most recent classification.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Sonic’s 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 accompanying Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates particularly related to allowance for credit loss, realization of inventory, intangible asset and deferred tax asset values, reserves for tax contingencies, legal matters, reserves for future commission revenue to be returned to the third party provider for early termination of customer contracts (“chargebacks”), results reported as continuing and discontinued operations, insurance reserves, lease exit accruals and certain accrued expenses.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Cash and Cash Equivalents - Sonic classifies cash and all highly liquid investments with a maturity of three months or less at the date of purchase, including short-term time deposits and government agency and corporate obligations, as cash and cash equivalents. In the event that Sonic is in a book overdraft cash position as of a reporting date, the book overdraft position is reclassified from cash and cash equivalents to trade accounts payable in the accompanying Consolidated Balance Sheets and is reflected as activity in trade accounts payable and other liabilities in the accompanying Consolidated Statements of Cash Flows. Sonic was in a book overdraft position in an amount of approximately $37.1 million and $41.0 million as of December 31, 2014 and 2013, respectively.

Revenue Recognition - Sonic records revenue when vehicles are delivered to customers, when vehicle service work is performed and when parts are delivered. Conditions for completing a sale include having an agreement with the customer, including pricing, and the sales price must be reasonably expected to be collected.

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

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

As of December 31, 2014 and 2013, the amounts recorded as allowances for finance, insurance and service contract commission chargeback reserves were $15.4 million and $14.9 million, respectively, and were classified as other accrued liabilities and other long-term liabilities in the accompanying Consolidated Balance Sheets.

Floor Plan Assistance - Sonic receives floor plan assistance payments from certain manufacturers. This assistance reduces the carrying value of Sonic’s new vehicle inventory and is recognized as a reduction of cost of sales at the time the vehicle is sold. Amounts recognized as a reduction of cost of sales for continuing operations were $39.7 million, $37.9 million and $32.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. Sonic did not recognize any floor plan assistance related to discontinued operations for the years ended December 31, 2014 and 2013, and recognized floor plan assistance related to discontinued operations for the year ended December 31, 2012 of approximately $0.9 million.

Contracts in Transit - Contracts in transit represent customer finance contracts evidencing loan agreements or lease agreements between Sonic, as creditor, and the customer, as borrower, to acquire or lease a vehicle in situations where a third-party finance source has given Sonic initial, non-binding approval to assume Sonic’s position as creditor. Funding and final approval from the finance source is provided upon the finance source’s review of the loan or lease agreement and related documentation executed by the customer at the dealership. These finance contracts are typically funded within ten days of the initial approval of the finance transaction given by the third-party finance source. The finance source is not contractually obligated to make the loan or lease to the customer until it gives its final approval and funds the transaction, and until such final approval is given, the contracts in transit represent amounts due from the customer to Sonic. Contracts in transit are included in receivables on the accompanying Consolidated Balance

Sheets and totaled $194.0 million at December 31, 2014 and $190.0 million at December 31, 2013.

Accounts Receivable - In addition to contracts in transit, Sonic’s accounts receivable primarily consist of amounts due from the manufacturers for repair services performed on vehicles with a remaining factory warranty and amounts due from third parties from the sale of parts. Sonic evaluates receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts receivable was not significant at December 31, 2014 and 2013.

Inventories - Inventories of new vehicles, recorded net of manufacturer credits, and used vehicles, including demonstrators, are stated at the lower of specific cost or market. Inventories of parts and accessories are accounted for using the “first-in, first-out” (“FIFO”) method of inventory accounting and are stated at the lower of FIFO cost or market. Other inventories are primarily service loaner vehicles and, to a lesser extent, vehicle chassis, other supplies and capitalized customer work-in-progress (open customer vehicle repair orders). Other inventories are stated at the lower of specific cost (depreciated cost for service loaner vehicles) or market.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Sonic assesses the valuation of all its vehicle and parts inventories and maintains a reserve where the cost basis exceeds the fair market value. In making this assessment for new vehicles, used vehicles, service loaners and parts inventory, Sonic considers recent internal and external market data and the age of the vehicles to estimate the inventory's fair market value. The risk with vehicle inventory is minimized by the fact that vehicles can be transferred within Sonic's network of dealerships. The risk with parts inventories is minimized by the fact that excess or obsolete parts can also be transferred within Sonic's network of dealerships or can usually be returned to the manufacturer. Recorded inventory reserves were not significant at December 31, 2014 and 2013.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Sonic amortizes leasehold improvements over the shorter of the estimated useful life or the remaining lease life. This lease life includes renewal options if a renewal has been determined to be reasonably assured. The range of estimated useful lives is as follows:

| | |
|---|---|
| Leasehold and land improvements | 10-30 years |
| Buildings | 10-30 years |
| Parts and service equipment | 7-10 years |
| Office equipment and fixtures | 3-10 years |
| Company vehicles | 3-5 years |

Sonic reviews the carrying value of property and equipment and other long-term assets (other than goodwill and franchise assets) for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication is present, Sonic compares the carrying amount of the asset to the estimated undiscounted cash flows related to those assets. Sonic concludes that an asset is impaired if the sum of such expected future cash flows is less than the carrying amount of the related asset. If Sonic determines an asset is impaired, the impairment loss would be the amount by which the carrying amount of the related asset exceeds its fair value. The fair value of the asset would be determined based on the quoted market prices, if available. If quoted market prices are not available, Sonic determines fair value by using a discounted cash flow model. See Note 4, "Property and Equipment," for a discussion of impairment charges.

Derivative Instruments and Hedging Activities - Sonic utilizes derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. Commonly, the types of risks being hedged are those relating to the variability of cash flows caused by fluctuations in interest rates. Sonic documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. As of December 31, 2014, Sonic utilizes interest rate cash flow swap agreements to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. See Note 6, "Long-Term Debt," for further discussion of derivative instruments and hedging activities.

Goodwill - Goodwill is recognized to the extent that the purchase price of the acquisition exceeds the estimated fair value of the net assets acquired, including other identifiable intangible assets.

In accordance with "Intangibles – Goodwill and Other," in the Accounting Standards Codification (the "ASC"), goodwill is tested 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. Sonic concluded, based on the results of its step-one impairment test, as of October 1, 2014, that step two of the impairment evaluation was not necessary and no goodwill impairment was required.

For purposes of goodwill impairment testing, Sonic has two reporting units, its traditional franchised dealerships and its EchoPark® operations. All recorded goodwill was acquired through the purchase of franchised dealerships, accordingly, all recorded goodwill balances relate to Sonic’s franchised dealership reporting unit.

In evaluating goodwill for impairment, if the fair value of a reporting unit is less than its carrying value, Sonic is then required to proceed to the second step of the impairment test. The second step involves allocating the calculated fair value to all of the assets and liabilities of the reporting unit as if the calculated fair value was the purchase price in a business combination. This allocation would include assigning value to any previously unrecognized identifiable assets (including franchise assets) which means the remaining fair value that would be allocated to goodwill would be significantly reduced. See discussion regarding franchise and dealer agreements acquired prior to July 1, 2001 under the heading “Other Intangible Assets” below. Sonic would then compare the fair value of the goodwill resulting from this allocation process to the carrying value of the goodwill with the difference representing the amount of impairment. The purpose of this second step is only to determine the amount of goodwill that should be recorded at fair value on the balance sheet. The recorded amounts of other items on the balance sheet are not adjusted.

Sonic utilized a discounted cash flows (“DCF”) model to estimate its enterprise value. The significant assumptions in Sonic’s 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 Sonic to conduct the second step of the impairment test described above. In projecting the reporting unit’s earnings, Sonic develops many assumptions which may 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. Sonic’s expectation of new vehicle unit sales is in part driven by its expectation of the new vehicle seasonally adjusted annual rate of sales (“SAAR”). The estimate of the industry SAAR in future periods is partially the basis of Sonic’s assumptions related to revenue growth in its DCF model because Sonic believes 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 Sonic’s projection of earnings for 2015 was approximately 16.5 million units, remaining flat for the next few years.

Based on the results of Sonic’s step-one test as of October 1, 2014, its Franchised Dealerships’ fair value exceeds its carrying value. As a result, Sonic was not required to complete step-two of the impairment evaluation according to “Intangibles – Goodwill and Other,” in the ASC. The carrying value of Sonic’s goodwill (all of which is associated with its Franchised Dealers reporting unit) totaled approximately $475.9 million at December 31, 2014. See Note 5, “Intangible Assets and Goodwill,” for further discussion of goodwill.

Other Intangible Assets - The principal identifiable intangible assets other than goodwill acquired in an acquisition are rights under franchise or dealer agreements with manufacturers. Sonic classifies franchise and dealer agreements as indefinite lived intangible assets as it has been Sonic’s experience that renewals have occurred without substantial cost or material modifications to the underlying agreements. As such, Sonic believes that its franchise and dealer agreements will contribute to cash flows for an indefinite period, therefore the carrying amount of franchise rights is not amortized. Franchise and dealer agreements acquired after July 1, 2001 have been included in other intangible assets, net, on the accompanying Consolidated Balance Sheets. Prior to July 1, 2001, franchise and dealer agreements were recorded and amortized as part of goodwill and remain as part of goodwill on the accompanying Consolidated Balance Sheets. Other intangible assets acquired in acquisitions include favorable lease agreements with definite lives which are amortized on a straight-line basis over the remaining lease term. In accordance with “Intangibles – Goodwill and Other,” in the ASC, Sonic evaluates franchise assets for impairment annually or more frequently if indicators of impairment exist. During the year ended December 31, 2014 Sonic evaluated its franchise assets for impairment as of October 1, 2014.

Sonic utilized a DCF model to estimate the value of the franchise asset for each of its franchises with recorded franchise assets. The significant assumptions in Sonic’s DCF model include projected revenue, weighted average cost of capital (and estimates in the weighted average cost of capital inputs) and residual growth rates. In projecting the franchises’ revenue and growth rates, Sonic develops many assumptions which may 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. Sonic’s expectation of revenue growth is in part driven by its expectation of the new vehicle SAAR. The estimate of the industry SAAR in future periods is partially the basis of Sonic’s assumptions related to new vehicle unit sales volumes in its DCF model because Sonic believes the historic and projected SAAR level is the best indicator of growth or contraction in the retail automotive industry.

Sonic evaluates other intangible assets for impairment annually or more frequently if events or circumstances indicate possible impairment. Based on the results of Sonic’s testing as of October 1, 2014, Sonic determined that the fair value of the franchise assets exceeded the carrying value of the franchise assets for all but four of its franchises, resulting in a franchise asset impairment charge of $2.2 million during the year ended December 31, 2014, recorded in impairment charges in the accompanying Consolidated Statements of Income. See Note 5, “Intangible Assets and Goodwill,” for further discussion of franchise and dealer agreements.

Insurance Reserves - Sonic has various self-insured and high deductible casualty and other insurance programs which require the Company to make estimates in determining the ultimate liability it may incur for claims arising under these programs. These insurance reserves are estimated by management using actuarial evaluations based on historical claims experience, claims processing procedures, medical cost trends and, in certain cases, a discount factor. As of December 31, 2014 and 2013, Sonic had $23.9 million and $23.6 million, respectively, reserved for such programs.

Lease Exit Accruals - The majority of Sonic’s dealership properties are leased under long-term operating lease arrangements. When situations arise where the leased properties are no longer utilized in operations, Sonic records accruals for 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 the lease commitment to the landlord. These situations could include the relocation of an existing facility or the sale of a

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

dealership whereby the buyer will not be subleasing the property for either the remaining term of the lease or for an amount of rent equal to Sonic's obligation under the lease. See Note 12, "Commitments and Contingencies," for further discussion.

Income Taxes - Income taxes are provided for the tax effects of transactions reported in the accompanying Consolidated Financial Statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided at enacted tax rates for the tax effects of carryforward items and temporary differences between the tax basis of assets and liabilities and their reported amounts. As a matter of course, the Company is regularly audited by various taxing authorities and from time to time, these audits result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Sonic's management believes that the Company's tax positions comply with applicable tax law and that the Company has adequately provided for any reasonably foreseeable outcome related to these matters.

From time to time, Sonic engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. Sonic determines 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, Sonic presumes 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 of being realized upon ultimate settlement. Sonic adjusts its estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent. See Note 7, "Income Taxes," for further discussion of Sonic's uncertain tax positions.

Concentrations of Credit and Business Risk - Financial instruments that potentially subject Sonic to concentrations of credit risk consist principally of cash on deposit with financial institutions. At times, amounts invested with financial institutions exceed Federal Deposit Insurance Corporation ("FDIC") insurance limits. Concentrations of credit risk with respect to receivables are limited primarily to automobile manufacturers, totaling approximately $90.1 million and $82.6 million at December 31, 2014 and 2013, respectively, and financial institutions (which includes manufacturer-affiliated finance companies and contracts in transit), totaling approximately $215.4 million and $210.3 million at December 31, 2014 and 2013, respectively. Credit risk arising from trade receivables from commercial customers is reduced by the large number of customers comprising the trade receivables balances.

Sonic participates in a program with two of its manufacturer-affiliated finance companies wherein Sonic maintains a deposit balance with the lender that earns floor plan interest rebates based on the agreed upon rate. This deposit balance is not designated as a pre-payment of notes payable – floor plan, nor is it Sonic's intent to use this amount to offset principal amounts owed under notes payable – floor plan in the future, although Sonic has the right and ability to do so. The deposit balance of $57.5 million and $65.0 million as of December 31, 2014 and 2013, respectively, is classified in other current assets in the accompanying Consolidated Balance Sheets, because there are restrictions on Sonic's 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. In the years ended December 31, 2014, 2013 and 2012, the reduction in interest expense, floor plan, was approximately $2.1 million, $1.0 million and $0.3

million, respectively.

Sonic is subject to a concentration of risk in the event of financial distress or other adverse events related to any of the automobile manufacturers whose franchised dealerships are included in Sonic's brand portfolio. Sonic purchases its new vehicle inventory from various automobile manufacturers at the prevailing prices available to all franchised dealerships. In addition, Sonic finances a substantial portion of its new vehicle inventory with manufacturer-affiliated finance companies. Sonic's results of operations could be adversely affected by the manufacturers' inability to supply Sonic's dealerships with an adequate supply of new vehicle inventory and related floor plan financing. Sonic also has concentrations of risk related to geographic markets in which its dealerships operate. Changes in overall economic, retail automotive or regulatory environments in one or more of these markets could adversely impact Sonic's results of operations.

Financial Instruments and Market Risks - As of December 31, 2014 and 2013, the fair values of Sonic's financial instruments including receivables, notes receivable from finance contracts, notes payable-floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates. See Note 11, "Fair Value Measurements," for further discussion of the fair value and carrying value of Sonic's fixed rate long-term debt.

Sonic has variable rate notes payable - floor plan, revolving credit facilities and other variable rate notes that expose Sonic to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such facilities before the effects of interest rate swaps was approximately $1.4 billion and $1.3 billion at December 31, 2014 and 2013, respectively. The counterparties to Sonic's swap transactions consist of large financial institutions. Sonic could be exposed to loss in the event of non-performance by any of these counterparties.

Advertising - Sonic expenses advertising costs in the period incurred, net of earned cooperative manufacturer credits that represent reimbursements for specific, identifiable and incremental advertising costs. Advertising expense for continuing operations amounted to approximately $57.4 million, $56.6 million and $50.3 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is classified as selling, general and administrative expense in the accompanying Consolidated Statements of Income.

Sonic has cooperative advertising reimbursement agreements with certain automobile manufacturers it represents. These cooperative programs require Sonic to provide the manufacturer with support for qualified, actual advertising expenditures in order to receive reimbursement under these cooperative agreements. It is uncertain whether or not Sonic would maintain the same level of advertising expenditures if these manufacturers discontinued their cooperative programs. Cooperative manufacturer credits classified as an offset to advertising expenses were approximately $23.4 million, $21.8 million and $22.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Segment Information - Sonic has determined it has two reporting segments, Franchised Dealerships and EchoPark®, for purposes of reporting financial condition and results of operations. The Franchised Dealerships segment is comprised of traditional retail automotive franchises that sell new and used vehicles, replacement parts and vehicle repair and maintenance services, and finance and insurance products. The EchoPark® segment is comprised of stand-alone pre-owned specialty retail locations that provide customers an opportunity to search, buy, service and sell their pre-owned vehicles.

## 2. Business Acquisitions and Dispositions

### Acquisitions

Sonic's growth strategy is focused on metropolitan markets, predominantly in the Southeast, Southwest, Midwest and California. Under Sonic's amended and restated syndicated revolving credit agreement and syndicated floor plan credit facility (the "2014 Credit Facilities"), Sonic is restricted from making dealership acquisitions in any fiscal year if the aggregate cost of all such acquisitions occurring in any fiscal year is in excess of specific amounts without the written consent of the Required Lenders (as that term is defined in the 2014 Credit Facilities). With this restriction on Sonic's ability to make dealership acquisitions, its acquisition growth strategy may be limited. See Note 6, "Long-Term Debt," for further discussion of the 2014 Credit Facilities.

Sonic acquired two luxury franchises, one mid-line import franchise, and one domestic franchise during the year ended December 31, 2014, for an aggregate purchase price of approximately $50.9 million in cash, net of cash acquired, including the underlying assets and real estate. These cash outflows were funded by cash from operations and borrowings under Sonic's floor plan facilities and mortgage notes payable. The balance sheet as of December 31, 2014 includes preliminary allocations of the purchase price of these acquisitions to the assets and liabilities acquired based on their estimated fair market values at the date of acquisition and are subject to final adjustment, principally related to the finalization of the dealership valuations. As a result of these allocations, Sonic has recorded the following related to 2014 acquisition:

- $33.2 million of net assets relating to dealership operations (includes real estate);
- $7.5 million of indefinite life intangible assets representing rights acquired under franchise agreements, all of which is expected to be tax deductible; and
- $10.2 million of goodwill, all of which is expected to be tax deductible.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following unaudited pro forma financial information presents a summary of consolidated results from continuing operations as if all of the 2014 acquisitions had occurred at the beginning of 2013, after giving effect to certain adjustments, including interest expense on acquisition debt and related income tax effects. The pro forma financial information does not give effect to adjustments relating to net changes in floor plan interest expense resulting from renegotiated floor plan financing agreements or to reductions in salaries and fringe benefits of former owners or officers of acquired dealerships who have not been retained by Sonic or whose salaries have been reduced pursuant to employment agreements with Sonic. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that would have occurred had the 2014 acquisitions actually been completed at the beginning of the periods presented.

The following pro forma results from continuing operations are not necessarily indicative of the results of future operations:

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands, except per share amounts) | |
| Total revenues | $9,324,013 | $9,000,959 |
| Gross profit | $1,382,600 | $1,322,044 |
| Income from continuing operations before taxes | $164,493 | $131,594 |
| Net income from continuing operations | $100,245 | $86,367 |
| Diluted earnings per share from continuing operations | $1.90 | $1.62 |

Dispositions

As discussed in Note 1, “Summary of Significant Accounting Policies,” the FASB issued ASU 2014-08 which amended the definition of and reporting requirements for discontinued operations. Sonic elected to adopt and apply this guidance beginning with its Quarterly Report on Form 10-Q for the period ended June 30, 2014. The results of operations for those dealerships that were classified as discontinued operations as of March 31, 2014 are included in income (loss) from discontinued operations in the accompanying Consolidated Statements of Income and will continue to be reported within discontinued operations in the future. There were no unsold dealerships classified in discontinued operations at March 31, 2014. Beginning with disposals occurring during the second quarter ended June 30, 2014, only the operating results of disposals that represent a strategic shift that has (or will have) a major impact on Sonic’s results of operations and financial position will be included in the income (loss) from discontinued operations in the accompanying Consolidated Statements of Income.

Sonic disposed of nine dealership franchises during the year ended December 31, 2014 and 12 dealership franchises during the year ended December 31, 2012. Sonic did not dispose of any dealerships during the year ended December 31, 2013. The dispositions during the years ended December 31, 2014 and 2012 generated cash of approximately $ 74.8 million and $72.2 million, respectively. In conjunction with dealership dispositions, Sonic has agreed to indemnify the buyers from certain liabilities and costs arising from operations or events that occurred prior to sale but which may or may not be known at the time of sale, including environmental liabilities and liabilities associated from the breach of representations or warranties made under the agreements. See Note 12, “Commitments and Contingencies,” for further discussion.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Results associated with dealerships classified as discontinued operations were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Income (loss) from operations | $(2,515) | $(978) | $(9,946) |
| Gain (loss) on disposal | 199 | (457) | 10,265 |
| Lease exit accrual adjustments and charges | 152 | (2,582) | (4,293) |
| Property impairment charges | - | - | (510) |
| Pre-tax income (loss) | $(2,164) | $(4,017) | $(4,484) |
| Total revenues | $- | $- | $182,884 |

Sonic allocates corporate-level interest to discontinued operations based on the net assets of the discontinued operations group. Interest allocated to discontinued operations for the year ended December 31, 2012 was approximately $0.7 million. No interest was allocated to the discontinued operations group for the year ended December 31, 2013 and 2014.

Revenues and other activities associated with disposed dealerships that remain in continuing operations were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Income (loss) from operations | $(787) | $(485) | $(424) |
| Gain (loss) on disposal | 11,079 | - | 10 |
| Property impairment charges | - | (5,565) | - |
| Pre-tax income (loss) | $10,292 | $(6,050) | $(414) |
| Total revenues | $205,559 | $310,919 | $294,083 |

In the ordinary course of business, Sonic evaluates its dealership franchises for possible disposition based on various performance criteria, and the disposals during the year ended December 31, 2014 represent dealerships identified based on their unprofitable operations and other operational considerations. As of December 31, 2014, Sonic did not have any franchises classified as held for sale. In the future, however, Sonic may sell other franchises that are not currently held for sale.

3. Inventories and Related Notes Payable - Floor Plan

Inventories consist of the following:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| New vehicles | $924,818 | $938,263 |
| Used vehicles | 214,015 | 171,909 |
| Service loaners | 112,520 | 108,136 |
| Parts, accessories and other | 60,349 | 63,830 |
| Net inventories | $1,311,702 | $1,282,138 |

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Sonic finances all of its new and certain of its used vehicle inventory through standardized floor plan facilities with a syndicate of financial institutions and manufacturer-affiliated finance companies. The new and used floor plan facilities bear interest at variable rates based on prime and LIBOR. The weighted average interest rate for Sonic's new vehicle floor plan facilities, for continuing operations and discontinued operations, was 1.57%, 1.86% and 2.02% for the years ended December 31, 2014, 2013 and 2012, respectively. Sonic's floor plan interest expense related to the new vehicle floor plan arrangements is partially offset by amounts received from manufacturers in the form of floor plan assistance. Floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. For the years ended December 31, 2014, 2013 and 2012, for continuing operations and discontinued operations, Sonic recognized a reduction in cost of sales of approximately $39.7,  million, $37.9 million and $33.0 million, respectively, related to manufacturer floor plan assistance.

The weighted average interest rate for Sonic's used vehicle floor plan facilities, for continuing operations and discontinued operations, was 1.80%, 2.78% and 2.80% for the years ended December 31, 2014, 2013 and 2012, respectively.

The new and used floor plan facilities are collateralized by vehicle inventories and other assets, excluding franchise and dealer agreements, of the relevant dealership subsidiary. The new and used floor plan facilities contain a number of covenants, including, among others, covenants restricting Sonic with respect to the creation of liens and changes in ownership, officers and key management personnel. Sonic was in compliance with all of these restrictive covenants as of December 31, 2014.

4. Property and Equipment

Property and equipment consists of the following:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Land | $224,124 | $194,639 |
| Building and improvements | 582,261 | 569,619 |
| Office equipment and fixtures | 151,165 | 135,221 |
| Parts and service equipment | 68,248 | 70,950 |
| Company vehicles | 8,958 | 8,002 |
| Construction in progress | 81,180 | 27,716 |
| Total, at cost | 1,115,936 | 1,006,147 |
| Less accumulated depreciation | (316,617 ) | (300,035 ) |
| Subtotal | 799,319 | 706,112 |

| | | |
|---|---|---|
| Less assets held for sale | - | (4,101) |
| Property and equipment, net | $799,319 | $702,011 |

Interest capitalized in conjunction with construction projects and software development was approximately $1.9 million, $2.5 million and $1.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, commitments for facility construction projects totaled approximately $32.9 million. Assets held for sale at December 31, 2013 consist of land and buildings related to several properties that are not being used in operations. Amounts are included in other current assets in the accompanying Consolidated Balance Sheets.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

During the years ended December 31, 2014, 2013 and 2012, property and equipment impairment charges were recorded as noted in the following table:

| | Continuing Operations | Discontinued Operations |
|---|---|---|
| | (In thousands) | |
| Year ended December 31, | | |
| 2014 | $4,394 | $ - |
| 2013 | $9,272 | $ - |
| 2012 | $440 | $ 510 |

Impairment charges related to continuing operations were related to land and buildings held for sale, the abandonment of construction and software development projects, the abandonment and disposal of dealership equipment or Sonic's estimate that based on historical and projected operating losses for certain dealerships, these dealerships would not be able to recover recorded property and equipment asset balances.

5. Intangible Assets and Goodwill

The changes in the carrying amount of franchise assets and goodwill for the years ended December 31, 2014 and 2013 were as follows:

| | Franchise Assets | Net Goodwill | |
|---|---|---|---|
| | (In thousands) | | |
| Balance, December 31, 2012 | $60,635 | $454,224 | (1) |
| Additions through current year acquisitions | 19,500 | 22,091 | |
| Reductions from impairment | (600 ) | - | |
| Balance, December 31, 2013 | 79,535 | 476,315 | (1) |
| Additions through current year acquisitions | 7,500 | 10,176 | |
| Prior year acquisition allocations | - | (3 ) | |
| Reductions from dispositions | (7,735 ) | (10,559 ) | |
| Reductions from impairment | (2,200 ) | - | |
| Balance, December 31, 2014 | $77,100 | $475,929 | (1) |

(1) Balances are net of accumulated impairment losses of $796,725.

Goodwill

Pursuant to applicable accounting pronouncements, Sonic tests 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. If Sonic determines that the amount of its goodwill is impaired at any point in time, Sonic is required to reduce goodwill on its balance sheet. In completing step one of the impairment analyses, Sonic uses a discounted cash flow model in order to estimate its reporting unit's fair value. The result from this model is then analyzed to determine if an indicator of impairment exists.

Based on the results of Sonic's step-one test as of October 1, 2014, Sonic was not required to complete step two of the impairment evaluation. See the discussion under the heading "Goodwill" in Note 1, "Description of Business and Summary of Significant Accounting Policies," for further information about management's assessment. As a result of Sonic's impairment testing for the years ended December 31, 2014, 2013, and 2012, no goodwill impairment was required.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Intangible Assets

Franchise asset impairment charges of $2.2 and $0.6 million were recorded in continuing operations for the years ended December 31, 2014 and 2013, respectively, to reduce the carrying value of the franchise asset to its estimated fair value based on the impairment evaluations performed as of October 1, 2014 and 2013, respectively. As a result of Sonic's impairment testing for the year ended December 31, 2012, no franchise asset impairment was required.

Definite life intangible assets consist of the following:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Favorable lease agreements | $17,318 | $19,918 |
| Less accumulated amortization | (10,698) | (11,587) |
| Definite life intangibles, net | $6,620 | $8,331 |

Franchise assets and definite life intangible assets are classified as other intangible assets, net, on the accompanying Consolidated Balance Sheets.

Amortization expense for definite life intangible assets was approximately $1.2 million, $1.6 million and $1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The initial weighted-average amortization period for lease agreements and definite life intangible assets outstanding at December 31, 2014 is 17 years.

Future amortization expense is as follows:

| Year Ending December 31, | (In thousands) |
|---|---|
| 2015 | $ 644 |
| 2016 | 644 |
| 2017 | 644 |
| 2018 | 644 |
| 2019 | 644 |
| Thereafter | 3,400 |
| Total | $ 6,620 |

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

6. Long-Term Debt

Long-term debt consists of the following:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| 2011 Revolving Credit Facility (1) | $- | $- |
| 2014 Revolving Credit Facility (2) | - | - |
| 7.0% Senior Subordinated Notes due 2022 (the "7.0% Notes") | 200,000 | 200,000 |
| 5.0% Senior Subordinated Notes due 2023 (the "5.0% Notes") | 300,000 | 300,000 |
| Notes payable to a finance company bearing interest from 9.52% to 10.52% (with a weighted average of 10.19%) | 4,367 | 7,629 |
| Mortgage notes to finance companies-fixed rate, bearing interest from 3.51% to 7.03% | 147,554 | 157,571 |
| Mortgage notes to finance companies-variable rate, bearing interest at 1.25 to 3.50 percentage points above one-month LIBOR | 118,368 | 79,893 |
| Net debt discount and premium (3) | (1,761 ) | (1,800 ) |
| Other | 4,884 | 5,080 |
| Total debt | $773,412 | $748,373 |
| Less current maturities | (30,802 ) | (18,216 ) |
| Long-term debt | $742,610 | $730,157 |

(1) The interest rate on the 2011 Revolving Credit Facility was 2.00% above LIBOR at December 31, 2013.
(2) The interest rate on the 2014 Revolving Credit Facility was 2.25% above LIBOR at December 31, 2014.
(3) December 31, 2014 includes $1.5 million discount associated with the 7.0% Notes, $0.1 million premium associated with notes payable to a finance company and $0.4 million discount associated with mortgage notes payable. December 31, 2013 includes $1.6 million discount associated with the 7.0% Notes, $0.4 million premium associated with the notes payable to a finance company and $0.6 million discount associated with mortgage notes payable.

Future maturities of long-term debt are as follows:

| | Principal | Net of Discount/ Premium |
|---|---|---|
| Year Ending December 31, 2014 | (In thousands) | |

| | | |
|---|---|---|
| 2015 | $30,654 | $30,802 |
| 2016 | 48,190 | 48,036 |
| 2017 | 34,520 | 34,397 |
| 2018 | 46,898 | 46,898 |
| 2019 | 10,771 | 10,771 |
| Thereafter | 604,140 | 602,508 |
| Total | $775,173 | $773,412 |

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2011 Credit Facilities

Prior to July 23, 2014, Sonic had a syndicated revolving credit agreement (the “2011 Revolving Credit Facility”) and syndicated new and used vehicle floor plan credit facilities (the “2011 Floor Plan Facilities” and, together with the 2011 Revolving Credit Facility, the “2011 Credit Facilities”), which were scheduled to mature on August 15, 2016. On July 23, 2014, Sonic entered into an amendment to the 2011 Credit Facilities, which, among other things, extended the maturity to August 15, 2019. See the heading “2014 Credit Facilities” below for additional information.

Availability under the 2011 Revolving Credit Facility was 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 Floor Plan Facilities were comprised of a new vehicle revolving floor plan facility (the “2011 New Vehicle Floor Plan Facility”) and a used vehicle revolving floor plan facility (the “2011 Used Vehicle Floor Plan Facility”), subject to a borrowing base, in a combined amount up to $605.0 million. Outstanding obligations under the 2011 Floor Plan Facilities were guaranteed by Sonic and certain of its subsidiaries and were secured by a pledge of substantially all of the assets of Sonic and its subsidiaries.

2014 Credit Facilities

On July 23, 2014, Sonic entered into an amendment to the 2011 Credit Facilities, which, among other things, extended the maturity to August 15, 2019. The amended and extended syndicated revolving credit agreement (the “2014 Revolving Credit Facility”) and syndicated new and used vehicle floor plan credit facilities (the “2014 Floor Plan Facilities” and, together with the 2014 Revolving Credit Facility, the “2014 Credit Facilities”), are scheduled to mature on August 15, 2019.

Availability under the 2014 Revolving Credit Facility is calculated as the lesser of $225.0 million or a borrowing base calculated based on certain eligible assets, less the aggregate face amount of any outstanding letters of credit under the 2014 Revolving Credit Facility (the “2014 Revolving Borrowing Base”). The 2014 Revolving Credit Facility may be increased at Sonic’s option up to $275.0 million upon satisfaction of certain conditions. Based on balances as of December 31, 2014, the 2014 Revolving Borrowing Base was approximately $194.8 million. Sonic had no outstanding borrowings as of December 31, 2014 and $29.2 million in outstanding letters of credit under the 2014 Revolving Credit Facility, resulting in total borrowing availability of $165.6 million under the 2014 Revolving Credit Facility.

The 2014 Floor Plan Facilities are comprised of a new vehicle revolving floor plan facility (the “2014 New Vehicle Floor Plan Facility”) and a used vehicle revolving floor plan facility (the “2014 Used Vehicle Floor Plan Facility”), subject to a borrowing base, in a combined amount up to $800.0 million. Sonic may, under certain conditions, request an increase in the 2014 Floor Plan Facilities of up to $1.0 billion, which shall be allocated between the 2014 New Vehicle Floor Plan Facility and the 2014 Used Vehicle Floor Plan Facility as Sonic requests, with no more than 20% of the aggregate commitments allocated to the commitments under the 2014 Used Vehicle Floor Plan Facility. Outstanding obligations under the 2014 Floor Plan Facilities are guaranteed by Sonic and certain of its subsidiaries and are secured by a pledge of substantially all of the assets of Sonic and its subsidiaries. The amounts outstanding under the 2014 Credit Facilities bear interest at variable rates based on specified percentages above LIBOR.

Sonic agreed under the 2014 Credit Facilities not to pledge any assets to any third party, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2014 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 2014 Credit Facilities permit cash dividends on Sonic's Class A and Class B common stock so long as no event of default (as defined in the 2014 Credit Facilities) has occurred and is continuing and provided that Sonic remains in compliance with all financial covenants under the 2014 Credit Facilities.

7.0% Senior Subordinated Notes

On July 2, 2012, Sonic issued $200.0 million in aggregate principal amount of unsecured senior subordinated 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%. Sonic used the net proceeds from the issuance of the 7.0% Notes and issued approximately 4.1 million shares of its 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. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2013. Sonic may redeem the 7.0% Notes in

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

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

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

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

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

5.0% Senior Subordinated Notes

On May 9, 2013, Sonic issued $300.0 million in aggregate principal amount of unsecured senior subordinated 5.0% Notes which mature on May 15, 2023. The 5.0% Notes were issued at 100.0% of the principal amount thereof. Sonic used the net proceeds from the issuance of the 5.0% Notes to repurchase all of its outstanding 9.0% Notes. Remaining proceeds from the issuance of the 5.0% Notes were used for general corporate purposes. Interest is payable semi-annually in arrears on May 15 and November 15 of each year. Sonic may redeem the 5.0% Notes in whole or in part at any time after May 15, 2018 at the following redemption prices, which are expressed as percentages of the principal amount:

| | 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 | % |

In addition, on or before May 15, 2016, Sonic may redeem up to 35% of the aggregate principal amount of the 5.0% Notes at 105% of the par value of the 5.0% Notes plus accrued and unpaid interest with proceeds from certain equity offerings. On or before May 15, 2018, Sonic may redeem all or a part of the aggregate principal amount of the 5.0% Notes at a redemption price equal to 100% of the principal amount of the 5.0% Notes redeemed plus an applicable premium (as defined in the Indenture) and any accrued and unpaid interest as of the redemption date. The indenture also provides that holders of the 5.0% Notes may require Sonic to repurchase the 5.0% Notes at 101% of the par value of the 5.0% Notes, plus accrued and unpaid interest, if Sonic undergoes a Change of Control, as defined in the indenture.

The indenture governing the 5.0% Notes contains certain specified restrictive covenants. Sonic has agreed not to pledge any assets to any third party lender of senior subordinated debt except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing Sonic's 5.0% Notes limits Sonic's ability to pay quarterly cash dividends on Sonic's Class A and B common stock in excess of $0.10 per share. Sonic may only pay quarterly cash dividends on Sonic's Class A and B common stock if Sonic complies with the terms of the indenture governing the 5.0% Notes. Sonic was in compliance with all restrictive covenants as of December 31, 2014.

Balances outstanding under Sonic's 5.0% Notes are guaranteed by all of Sonic's operating domestic subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The subsidiaries that are not guarantors are considered to be minor.

Sonic's obligations under the 5.0% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 5.0% Notes then outstanding if certain events of default occur, including: (1) defaults in the payment of principal or interest when due; (2) defaults in the performance, or breach, of Sonic's covenants under the 5.0% Notes; and (3) certain defaults under other agreements under which Sonic or its subsidiaries have outstanding indebtedness in excess of $50.0 million.

Notes Payable to a Finance Company

Three notes payable (due October 2015 and August 2016) were assumed in connection with an acquisition in 2004 (the "Assumed Notes"). Sonic recorded the Assumed Notes at fair value using an interest rate of 5.35%. The interest rate used to calculate the fair value was based on a quoted market price for notes with similar terms as of the date of assumption. As a result of calculating the fair value, a premium of $7.3 million was recorded that will be amortized over the lives of the Assumed Notes. At December 31, 2014, the outstanding principal balance on the Assumed Notes was approximately $4.4 million with a remaining unamortized premium balance of approximately $0.1 million.

Mortgage Notes

During the year ended December 31, 2014, Sonic obtained approximately $44.4 million in mortgage financing related to three of its dealership properties. As of December 31, 2014, the weighted average interest rate was 3.74% and the total outstanding principal balance was approximately $265.9 million, related to approximately 30% of Sonic's dealership properties. These mortgage notes require monthly payments of principal and interest through maturity and are secured by the underlying properties and contain certain cross-default provisions. Maturity dates range between 2015 and 2033.

Covenants

Sonic agreed under the 2014 Credit Facilities not to pledge any assets to any third party (other than those explicitly allowed under the amended terms of the facility), including other lenders, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2014 Credit Facilities contain certain negative covenants, including covenants which could restrict or prohibit the payment of dividends, capital expenditures and material dispositions of assets as well as other customary covenants and default provisions.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Sonic was in compliance with the covenants under the 2014 Credit Facilities as of December 31, 2014. Financial covenants include required specified ratios (as each is defined in the 2014 Credit Facilities) of:

| | 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, 2014 actual | 1.20 | 1.61 | 4.12 |

The 2014 Credit Facilities contain events of default, including cross-defaults to other material indebtedness, change of control events and events of default customary for syndicated commercial credit facilities. Upon the future occurrence of an event of default, Sonic could be required to immediately repay all outstanding amounts under the 2014 Credit Facilities.

In addition, many of Sonic’s facility leases are governed by a guarantee agreement between the landlord and Sonic that contains financial and operating covenants. The financial covenants are identical to those under the 2014 Credit Facilities with the exception of one financial covenant related to the ratio of EBTDAR to Rent (as defined in the guarantee agreement) with a required ratio of no less than 1.50 to 1.00. As of December 31, 2014, the ratio was 3.56 to 1.00.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivative Instruments and Hedging Activities

Sonic has interest rate cash flow swap agreements to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. The fair value of these swap positions at December 31, 2014 was a net liability of approximately $11.1 million, with $8.2 million included in other accrued liabilities and $3.5 million included in other long-term liabilities, offset partially by an asset of approximately $0.6 million included in other assets in the accompanying Consolidated Balance Sheets. The fair value of these swap positions at December 31, 2013 was a liability of approximately $16.3 million, with $11.6 million included in other accrued liabilities and $8.4 million included in other long-term liabilities, offset partially by an asset of approximately $3.7 million included in other assets in the accompanying Consolidated Balance Sheets. Under the terms of these cash flow swaps, Sonic will receive and pay interest based on the following:

| Notional Amount (In millions) | | Pay Rate | Receive Rate (1) | Maturing Date |
|---|---|---|---|---|
| $2.7 | | 7.100% | one-month LIBOR + 1.50% | July 10, 2017 |
| $8.6 | | 4.655% | one-month LIBOR | December 10, 2017 |
| $7.4 | (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 |
| $6.4 | (2) | 6.410% | one-month LIBOR + 1.25% | September 12, 2017 |
| $50.0 | | 3.240% | one-month LIBOR | July 1, 2015 |
| $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 |
| $25.0 | (4) | 2.080% | one-month LIBOR | July 1, 2017 |
| $100.0 | (3) | 1.560% | one-month LIBOR | July 1, 2017 |

(1) The one-month LIBOR rate was approximately 0.170% at December 31, 2014.
(2) Changes in fair value are recorded through earnings.
(3) The effective date of these forward-starting swaps is July 1, 2015.
(4) The effective date of these forward-starting swaps is July 1, 2016.
(5) The effective date of this forward-starting swap is July 3, 2017.

During the second quarter ended June 30, 2014, Sonic entered into two forward-starting interest rate cash flow swap agreements with notional amounts of $25.0 million and $100.0 million. These swap agreements become effective in

July 2016 and July 2015, respectively, and terminate in July 2017. These interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of these swaps are recorded in other comprehensive income (loss) before taxes in the accompanying Consolidated Statements of Comprehensive Income

For interest rate swaps not designated as cash flow hedges (changes in the fair value are recognized through earnings) and amortization of amounts in accumulated other comprehensive income (loss) related to terminated cash flow swaps, certain benefits and charges were included in interest expense, other, net, in the accompanying Consolidated Statements of Income. For the years ended December 31, 2014, 2013 and 2012, these items were a benefit of approximately $0.5 million, $0.9 million and $0.7 million, respectively.

For the cash flow swaps that qualify as cash flow hedges, the changes in the fair value of these swaps have been recorded in other comprehensive income (loss), net of related income taxes, in the accompanying Consolidated Statements of Comprehensive Income and is disclosed in the supplemental schedule of non-cash financing activities in the accompanying Consolidated Statements of Cash Flows. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was approximately $10.7 million, $11.8 million and $13.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is included in interest expense, other, net, in the accompanying Consolidated Statements of Income and the interest paid amount disclosed in the supplemental disclosures of cash flow information in the accompanying Consolidated Statements of Cash

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Flows. The estimated net expense expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next twelve months is approximately $5.1 million.

## 7. Income Taxes

The provision for income tax (benefit) expense from continuing operations consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Current: | | | |
| Federal | $36,874 | $33,367 | $22,982 |
| State | 5,771 | 5,647 | 1,090 |
| Total current | 42,645 | 39,014 | 24,072 |
| Deferred | 20,523 | 5,329 | 25,900 |
| Total provision for income taxes - (benefit) expense | $63,168 | $44,343 | $49,972 |

The reconciliation of the statutory federal income tax rate with Sonic’s federal and state overall effective income tax rate from continuing operations is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Statutory federal rate | 35.00 % | 35.00 % | 35.00 % |
| Effective state income tax rate | 3.15 % | 3.22 % | 4.22 % |
| Valuation allowance adjustments | (0.14 %) | 0.33 % | (3.15 %) |
| Uncertain tax positions | (0.08 %) | (1.76 %) | (3.37 %) |
| Other | 1.13 % | (2.42 %) | 2.68 % |
| Effective tax rate | 39.06 % | 34.37 % | 35.38 % |

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of Sonic’s deferred tax assets and liabilities are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|

| | (In thousands) | |
|---|---|---|
| Deferred tax assets: | | |
| Accruals and reserves | $36,633 | $38,931 |
| State net operating loss carryforwards | 10,307 | 10,194 |
| Fair value of interest rate swaps | 4,203 | 6,185 |
| Interest and state taxes associated with the liability for uncertain income tax positions | 1,842 | 1,910 |
| Other | 792 | 701 |
| Total deferred tax assets | 53,777 | 57,921 |
| Deferred tax liabilities: | | |
| Basis difference in inventory | (1,597) | (1,636) |
| Basis difference in property and equipment | (9,655) | (1,978) |
| Basis difference in goodwill | (72,696) | (57,028) |
| Other | (3,861) | (2,328) |
| Total deferred tax liability | (87,809) | (62,970) |
| Valuation allowance | (6,534) | (6,758) |
| Net deferred tax asset (liability) | $(40,566) | $(11,807) |

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Net short-term deferred tax asset balances were approximately $13.2 million and $15.9 million at December 31, 2014 and 2013, respectively, and are recorded in other current assets on the accompanying Consolidated Balance Sheets. Net long-term deferred tax asset balances were approximately $3.8 million and $3.9 million at December 31, 2014 and 2013, respectively, and are recorded in other assets on the accompanying Consolidated Balance Sheets. Net long-term deferred tax liability balances were approximately $57.6 million and $31.6 million at December 31, 2014 and 2013, respectively, and are recorded in deferred income taxes on the accompanying Consolidated Balance Sheets.

Sonic has approximately $280.9 million in gross state net operating loss carryforwards that will expire between 2016 and 2034. Management reviews these carryforward positions, the time remaining until expiration and other opportunities to realize these carryforwards in making an assessment as to whether it is more likely than not that these carryforwards will be realized. The results of future operations, regulatory framework of the taxing authorities and other related matters cannot be predicted with certainty, and therefore, differences from the assumptions used in the development of management’s judgment could occur. As of December 31, 2014, Sonic had recorded a valuation allowance amount of approximately $6.5 million related to certain state net operating loss carryforward deferred tax assets as Sonic determined that it would not be able to generate sufficient state taxable income in the related entities to realize the accumulated net operating loss carryforward balances.

At January 1, 2014, Sonic had liabilities of approximately $7.8 million recorded related to unrecognized tax benefits. Included in the liabilities related to unrecognized tax benefits at January 1, 2014, was approximately $1.1 million related to interest and penalties which Sonic has estimated may be paid as a result of its tax positions. It is Sonic’s policy to classify the expense related to interest and penalties to be paid on underpayments of income taxes within income tax expense. A summary of the changes in the liability related to Sonic’s unrecognized tax benefits is presented below.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| | (In thousands) | | |
| Unrecognized tax benefit liability, January 1 (1) | $6,693 | $9,097 | $13,689 |
| Prior period positions: | | | |
| Increases | 181 | 409 | 35 |
| Decreases | (66 ) | (233 ) | (1,101 ) |
| Increases from current period positions | 195 | 799 | 1,155 |
| Settlements | (897 ) | (1,721) | (2,924 ) |
| Lapse of statute of limitations | (170 ) | (1,164) | (1,275 ) |
| Other | (196 ) | (494 ) | (482 ) |
| Unrecognized tax benefit liability, December 31 (2) | $5,740 | $6,693 | $9,097 |

(1) Excludes accrued interest and penalties of $1.1 million, $2.4 million and $4.9 million at January 1, 2014, 2013 and 2012, respectively.

(2) Excludes accrued interest and penalties of $1.2 million, $1.1 million and $2.4 million at December 31, 2014, 2013 and 2012, respectively. Amount presented is net of state net operating losses of $0.8 million, $1.0 million and $1.3 million at December 31, 2014, 2013 and 2012, respectively.

Approximately $2.8 million and $3.0 million of the unrecognized tax benefits as of December 31, 2014 and 2013, respectively, would ultimately affect the income tax rate if recognized. Included in the December 31, 2014 recorded liability is approximately $1.2 million related to interest and penalties which Sonic has estimated may be paid as a result of its tax positions. Sonic does not anticipate any significant changes in its unrecognized tax benefit liability within the next twelve months.

Sonic and its subsidiaries are subject to United States federal income tax as well as income tax of multiple state jurisdictions. Sonic’s 2011 through 2014 United States federal income tax returns remain open to examination by the Internal Revenue Service. Sonic and its subsidiaries’ state income tax returns are open to examination by state taxing authorities for years ranging from 2006 to 2014.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 8. Related Parties

Certain of Sonic's dealerships purchase the zMAX micro-lubricant from Oil-Chem Research Company ("Oil-Chem"), a subsidiary of Speedway Motorsports, Inc. ("SMI"), whose Chairman and Chief Executive Officer is O. Bruton Smith, also Sonic's Chairman and Chief Executive Officer, for resale to Fixed Operations customers of Sonic's dealerships in the ordinary course of business. Total purchases from Oil-Chem by Sonic dealerships were approximately $2.1 million, $2.0 million and $2.0 million in the years ended December 31, 2014, 2013 and 2012, respectively.

Sonic participates in various aircraft-related transactions with Sonic Financial Corporation ("SFC"), an entity controlled by Mr. O. Bruton Smith. Such transactions include, but are not limited to, the use of aircraft owned by SFC for business-related travel by Sonic executives, a management agreement with SFC for storage and maintenance of aircraft leased by Sonic from unrelated third parties, and use of Sonic's aircraft for business-related travel by certain affiliates of SFC. Sonic incurred net expenses of approximately $0.5 million, $0.9 million and $0.9 million in the years ended December 31, 2014, 2013 and 2012, respectively, in aircraft-related transactions with related parties.

Sonic incurred net expenses of approximately $0.6 million, $0.6 million and $0.4 million in the years ended December 31, 2014, 2013 and 2012, respectively, related to other transactions with various SMI subsidiaries, consisting primarily of merchandise and apparel purchases.

## 9. Capital Structure and Per Share Data

Preferred Stock - Sonic has 3,000,000 shares of "blank check" preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value $0.10 per share (the "Preferred Stock") which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. There were no shares of Preferred Stock issued or outstanding at December 31, 2014 and 2013.

Common Stock - Sonic has two classes of common stock. Sonic has authorized 100,000,000 shares of Class A common stock at a par value of $0.01 per share. Class A common stock entitles its holder to one vote per share. Sonic has also authorized 30,000,000 shares of Class B common stock at a par value of $0.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter. The two classes of stock share equally in dividends and in the event of liquidation.

Share Repurchases - Sonic's Board of Directors has authorized Sonic to expend up to $495.0 million to repurchase shares of its Class A common stock. As of December 31, 2014, Sonic had repurchased a total of approximately 23.2 million shares of Class A common stock at an average price per share of approximately $17.35 and had redeemed 13,801.5 shares of Class A convertible preferred stock at an average price of $1,000 per share. As of December 31, 2014, Sonic had approximately $79.5 million remaining under the Board's authorization.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Per Share Data - The calculation of diluted earnings per share considers the potential dilutive effect of options and shares under Sonic's stock compensation plans, Class A common stock purchase warrants and the 5.0% Convertible Notes. Certain of Sonic's non-vested restricted stock and restricted stock units contain rights to receive non-forfeitable dividends, and thus, are considered participating securities and are included in the two-class method of computing earnings per share. The following table illustrates the dilutive effect of such items on earnings per share for the years ended December 31, 2014, 2013 and 2012:

| | Year Ended December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Income (Loss) From Continuing Operations | | Income (Loss) From Discontinued Operations | | Net Income (Loss) | |
| | Weighted Average Shares | Amount | Per Share Amount | Amount | Per Share Amount | Amount | Per Share Amount |
| | (In thousands, except per share amounts) | | | | | | |
| Earnings (loss) and shares | 52,065 | $98,559 | | $(1,342) | | $97,217 | |
| Effect of participating securities: | | | | | | | |
| Non-vested restricted stock and stock units | | (311) | | - | | (311) | |
| Basic earnings (loss) and shares | 52,065 | $98,248 | $ 1.89 | $(1,342) | $ (0.03) | $96,906 | $ 1.86 |
| Effect of dilutive securities: | | | | | | | |
| Stock compensation plans | 498 | | | | | | |
| Diluted earnings (loss) and shares | 52,563 | $98,248 | $ 1.87 | $(1,342) | $ (0.03) | $96,906 | $ 1.84 |

| | Year Ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Income (Loss) From Continuing Operations | | Income (Loss) From Discontinued Operations | | Net Income (Loss) | |
| | Weighted Average Shares | Amount | Per Share Amount | Amount | Per Share Amount | Amount | Per Share Amount |
| | (In thousands, except per share amounts) | | | | | | |
| Earnings (loss) and shares | 52,556 | $84,678 | | $(3,060) | | $81,618 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Effect of participating securities: | | | | | | | |
| Non-vested restricted stock | | | | | | | |
| and stock units | | (601 ) | | - | | (601 ) | |
| Basic earnings (loss) and shares | 52,556 | $84,077 | $ 1.60 | $(3,060) | $ (0.06 ) | $81,017 | $ 1.54 |
| Effect of dilutive securities: | | | | | | | |
| Stock compensation plans | 385 | | | | | | |
| Diluted earnings (loss) and shares | 52,941 | $84,077 | $ 1.59 | $(3,060) | $ (0.06 ) | $81,017 | $ 1.53 |

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| | Year Ended December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Income (Loss) From Continuing Operations | | Income (Loss) From Discontinued Operations | | Net Income (Loss) | |
| | Weighted Average Shares | Amount | Per Share Amount | Amount | Per Share Amount | Amount | Per Share Amount |
| | (In thousands, except per share amounts) | | | | | | |
| Earnings (loss) and shares | 53,550 | $91,261 | | $(2,160) | | $89,101 | |
| Effect of participating securities: | | | | | | | |
| Non-vested restricted stock and stock units | | (1,381) | | - | | (1,381) | |
| Basic earnings (loss) and shares | 53,550 | $89,880 | $ 1.68 | $(2,160) | $ (0.04) | $87,720 | $ 1.64 |
| Effect of dilutive securities: | | | | | | | |
| Contingently convertible debt (5.0% Convertible Notes) | 6,411 | 4,617 | | 64 | | 4,681 | |
| Stock compensation plans | 445 | | | | | | |
| Diluted earnings (loss) and shares | 60,406 | $94,497 | $ 1.56 | $(2,096) | $ (0.03) | $92,401 | $ 1.53 |

In addition to the stock options included in the tables above, options to purchase approximately 0.4 million, 0.8 million and 1.0 million shares of Class A common stock were outstanding during the years ended December 31, 2014, 2013 and 2012, respectively, but were not included in the computation of diluted net income per share because the options were not dilutive.

## 10. Employee Benefit Plans

Substantially all of the employees of Sonic are eligible to participate in a 401(k) plan. Contributions by Sonic to the 401(k) plan were approximately $7.4 million, $7.2 million and $4.4 million in the years ended December 31, 2014, 2013 and 2012, respectively.

### Stock Compensation Plans

Sonic currently has three active stock compensation plans: the Sonic Automotive, Inc. 2004 Stock Incentive Plan (the “2004 Plan”), the Sonic Automotive, Inc. 2012 Stock Incentive Plan (the “2012 Plan”), and the Sonic Automotive, Inc.

2012 Formula Restricted Stock Plan for Non-Employee Directors (the “2012 Formula Plan”). Effective February 19, 2014, new grants of equity awards under the 2004 Plan were no longer permitted. Stock options outstanding, non-vested restricted stock awards and restricted stock units previously granted under the 2004 Plan were unaffected by this change in plan status. Sonic has one additional terminated plan with outstanding grants as of December 31, 2014: the Sonic Automotive, Inc. 1997 Stock Option Plan (the “1997 Plan”). Collectively, these are referred to as the “Stock Plans.” During the first quarter of 2012, Sonic’s stockholders voted to approve the 2012 Plan and the 2012 Formula Plan, with authorization for issuance of 300,000 shares and 2,000,000 shares for the 2012 Formula Plan and the 2012 Plan, respectively.

The Stock Plans were adopted by the Board of Directors in order to attract and retain key personnel. Under the 2012 Plan and the 2004 Plan, options to purchase shares of Class A common stock may be granted to key employees of Sonic and its subsidiaries and to officers, directors, consultants and other individuals providing services to Sonic. The options are granted at the fair market value of Sonic’s Class A common stock at the date of grant, typically vest over a period ranging from six months to three years, are exercisable upon vesting and expire ten years from the date of grant. The 2012 Plan and the 2004 Plan also authorized the issuance of restricted stock awards and restricted stock units. Restricted stock award and restricted stock unit grants under the 2012 Plan and the 2004 Plan typically vest over a period ranging from one to three years. The 2012 Formula Plan provides for grants of restricted stock awards to non-employee directors and restrictions on those shares expire on the earlier of the first anniversary of the grant date or the day before the next annual meeting of Sonic’s stockholders. Individuals holding non-vested restricted stock awards under the 2012 Plan, the 2012 Formula Plan and the 2004 Plan have voting rights and certain grants may receive dividends on non-vested shares. Individuals holding restricted stock units under the 2012 Plan and the 2004 Plan do not have voting rights and certain grants may receive dividends on non-vested shares. Sonic issues new shares of Class A common stock to employees and directors to satisfy its option exercise and stock grant obligations. To offset the effects of these transactions, Sonic has historically bought back shares of Class A common stock after considering cash flow, market conditions and other factors.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of the status of the options related to the Stock Plans is presented below:

| | Options Outstanding | Exercise Price Per Share | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| | (In thousands, except per share data, term in years) | | | | |
| Balance at December 31, 2013 | 1,518 | $1.81 - 30.07 | $ 18.83 | 2.5 | $ 9,831 |
| Exercised | (179 ) | 1.81 - 23.42 | 18.33 | | |
| Forfeited | (275 ) | 18.73 - 25.05 | 23.87 | | |
| Balance at December 31, 2014 | 1,064 | $1.81 - 25.05 | $ 17.62 | 2.2 | $ 10,444 |
| Exercisable | 1,064 | $1.81 - 23.42 | $ 17.62 | 2.2 | $ 10,444 |

| | Year Ended December 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| | (In thousands, except per option data) | | |
| Intrinsic value of options exercised | $1,187 | $1,657 | $7,427 |
| Fair value of options vested | $- | $- | $426 |

Sonic recognizes compensation expense within selling, general and administrative expenses related to the options in the Stock Plans. No stock option compensation expense was recognized during the years ended December 31, 2014 and 2013 as all previous option grants were completely vested prior to December 31, 2012. Sonic recognized compensation expense related to the options in the Stock Plans of approximately $0.1 million in the year ended December 31, 2012. Tax benefit recognized related to the stock option compensation expense was approximately $0.1 million for the year ended December 31, 2012.

A summary of the status of non-vested restricted stock award and restricted stock unit grants related to the Stock Plans is presented below:

| | Non-vested Restricted Stock Awards and Restricted Stock Units (Shares in thousands) | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance at December 31, 2013 | 805 | $ 20.42 |
| Granted | 504 | $ 21.24 |
| Forfeited | (10 ) | $ 21.17 |
| Vested | (410) | $ 19.43 |
| Balance at December 31, 2014 | 889 | $ 21.33 |

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

During the year ended December 31, 2014, approximately 481,000 restricted stock units were awarded to Sonic's executive officers and other key associates under the 2004 Plan and 2012 Plan. These awards were made in connection with establishing the objective performance criteria for the year ended December 31, 2014 incentive compensation and vest over one to three years. The majority of the restricted stock units awarded to executive officers and other key associates are subject to forfeiture, in whole or in part, based upon specified measures of Sonic's earnings per share performance for the year ended December 31, 2014, continuation of employment and compliance with any restrictive covenants contained in any agreement between Sonic and the respective officer and other key associates. Also in the year ended December 31, 2014, approximately 23,000 non-vested restricted stock awards were granted to Sonic's Board of Directors pursuant to the 2012 Formula Plan and typically vest on the earlier of the first anniversary of the grant date or the day before the next annual meeting of Sonic's stockholders. Sonic recognized compensation expense within selling, general and administrative expenses related to non-vested restricted stock awards and restricted stock units of approximately $7.7 million, $7.2 million and $5.0 million in the years ended December 31, 2014, 2013 and 2012, respectively. Tax benefits recognized related to the compensation expenses were approximately $2.9 million, $2.7 million and $1.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Total compensation cost related to non-vested restricted stock awards and restricted stock units not yet recognized at December 31, 2014 was approximately $12.5 million and is expected to be recognized over a weighted average period of approximately 1.8 years.

Supplemental Executive Retirement Plan

On December 7, 2009, the Compensation Committee of Sonic's Board of Directors approved and adopted the Sonic Automotive, Inc. Supplemental Executive Retirement Plan (the "SERP") to be effective as of January 1, 2010. The SERP is a nonqualified deferred compensation plan that is unfunded for federal tax purposes. The SERP includes 12 active or former members of senior management at December 31, 2014. The purpose of the SERP is to attract and retain key members of management by providing a retirement benefit in addition to the benefits provided by Sonic's tax-qualified and other nonqualified deferred compensation plans.

The following table sets forth the status of the SERP:

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Change in projected benefit obligation: | | |
| Obligation at January 1 | $5,263 | $4,411 |
| Service cost | 1,467 | 1,967 |
| Interest cost | 251 | 169 |
| Actuarial loss (gain) | 1,174 | (1,191) |
| Amendments/settlements/curtailments loss (gain) | - | - |
| Benefits paid | (179) | (93) |
| Obligation at December 31 (1) | $7,976 | $5,263 |

| | | |
|---|---|---|
| Accumulated benefit obligation | $6,002 | $4,089 |

(1) Included in other long-term liabilities in the accompanying Consolidated Balance Sheets.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| | (In thousands) | |
| Change in fair value of plan assets: | | |
| Plan assets at January 1 | $- | $- |
| Actual return on plan assets | - | - |
| Employer contributions | 179 | 93 |
| Benefits paid | (179) | (93) |
| Plan assets at December 31 | - | - |
| Funded status recognized | $(7,976) | $(5,263) |

The following table provides the cost components of the SERP:

| (In thousands) | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Service cost | $1,467 | $1,967 |
| Interest cost | 251 | 169 |
| Net Pension expense (benefit) | $1,718 | $2,136 |

The weighted average assumptions used to determine the benefit obligation and net periodic benefit costs consist of:

| | As of December 31, 2014 | 2013 |
|---|---|---|
| Discount rate | 3.88% | 4.85% |
| Rate of compensation increase | 3.00% | 3.00% |

The estimated future benefit payments expected to be paid for each of the next five years and the sum of the payments expected for the next five years thereafter are:

| Year Ending December 31, | Estimated Future Benefit Payments (In thousands) |
|---|---|
| 2015 | $ 131 |
| 2016 | $ 131 |

| | | |
|---|---|---|
| 2017 | $ | 131 |
| 2018 | $ | 131 |
| 2019 | $ | 131 |
| 2020 - 2024 | $ | 1,497 |

Multi-Employer Benefit Plan

Six of Sonic’s dealership subsidiaries currently make fixed-dollar contributions to the Automotive Industries Pension Plan (the “AI Pension Plan”) pursuant to collective bargaining agreements between Sonic’s 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 Sonic’s six dealership

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

subsidiaries are among approximately 200 employers that make contributions to the AI Pension Plan pursuant to collective bargaining agreements with the IAM and IBT. The risks of participating in this multi-employer pension plan are different from single-employer plans in the following aspects:

- assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers;
- if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- if Sonic chooses to stop participating in the multi-employer pension plan, Sonic may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Sonic's participation in the AI Pension Plan for the years ended December 31, 2014, 2013 and 2012 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (the "EIN"). Unless otherwise noted, the most recent Pension Protection Act of 2006 (the "PPA") zone status available in the years ended December 31, 2014 and 2013 is for the plan's year-end at December 31, 2013, and December 31, 2012, respectively. The zone status is based on information that Sonic received from the AI Pension Plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a Financial Improvement Plan (the "FIP") or a Rehabilitation Plan (the "RP") is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plan is subject. The number of employees covered by Sonic's multi-employer plans increased 7.1% from December 31, 2012 to December 31, 2013 and increased 2.8% from December 31, 2013 to December 31, 2014, affecting the period-to-period comparability of the contributions for years ended December 31, 2014, 2013 and 2012.

| Pension Fund | EIN/Pension Plan Number | Pension Protection Act Zone Status 2014 | 2013 | FIP/RP Status Pending / Implemented | Sonic Contributions Year Ended December 31, 2014 | 2013 | 2012 | Surcharge Imposed | Collective-Bargaining Agreement Expiration Date (1) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In thousands) | | | | |
| AI Pension Plan | 94-1133245 | Red | Red | RP Implemented | $ 148 | $ 135 | $ 120 | Yes | Between August 31, 2014 and November 29, 2017 |

(1) Collective bargaining agreement expiration dates vary by union and dealership. Dates shown represent the range of
the earliest and latest stated expirations for Sonic's union employees, noting certain of Sonic's collective bargaining agreements are expired as of December 31, 2014 and are currently under negotiation.

Sonic’s participating dealership subsidiaries were not listed in the AI Pension Plan’s Form 5500 as providing more than 5% of the total contributions for the plan years ended December 31, 2013 and December 31, 2012. In June 2006, Sonic received information that the AI Pension Plan was substantially underfunded as of December 31, 2005. In July 2007, Sonic received updated information that the AI Pension Plan continued to be substantially underfunded as of December 31, 2006, with the amount of such underfunding increasing versus year end 2005. In March 2008, the Board of Trustees of the AI Pension Plan notified participants, participating employers and local unions that the AI Pension Plan’s actuary, in accordance with the requirements of the PPA, had 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 adopted a rehabilitation plan that implements reductions or eliminations of certain adjustable benefits that were previously available under the AI Pension Plan (including some forms of early retirement benefits, and disability and death benefits, among other items), and also implemented a requirement on all participating employers to increase employer contributions to the AI Pension Plan for a seven year period which commenced 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. In addition, if the financial condition of the AI Pension Plan were to continue to deteriorate to the point that the AI

Pension Plan is forced to terminate and be administered by the Pension Benefit Guaranty Corporation (the “PBGC”), the participating employers could be subject to assessments by the PBGC to cover the participating employers’ assessed share of the unfunded vested benefits. If any of these adverse events were to occur in the future, it could result in a substantial withdrawal liability assessment to Sonic.

## 11. Fair Value Measurements

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

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

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

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

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

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets or liabilities recorded at fair value in the accompanying Consolidated Balance Sheets as of December 31, 2014 and 2013 are as follows:

| | Fair Value Based on Significant Other Observable Inputs (Level 2) | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| | (In thousands) | |
| Assets: | | |
| Cash surrender value of life insurance policies (1) | $27,552 | $ 25,301 |
| Cash flow swaps designated as hedges (1) | 618 | 3,707 |
| Total assets | $28,170 | $ 29,008 |
| Liabilities: | | |
| Cash flow swaps designated as hedges (2) | $10,251 | $ 17,995 |
| Cash flow swaps not designated as hedges (3) | 1,469 | 2,046 |
| Deferred compensation plan (4) | 15,863 | 14,842 |
| Total liabilities | $27,583 | $ 34,883 |

(1) Included in other assets in the accompanying Consolidated Balance Sheets.

(2) As of December 31, 2014, approximately $7.5 million and $2.8 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets.
As of December 31, 2013, approximately $10.6 million and $7.4 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets.

(3) As of December 31, 2014, approximately $0.7 million and $0.8 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets.
As of December 31, 2013, approximately $1.0 million was included in both other accrued liabilities

and other long-term liabilities in the accompanying Consolidated Balance Sheets.
(4) Included in other long-term liabilities in the accompanying Consolidated Balance Sheets.

The carrying value of assets or liabilities measured at fair value on a non-recurring basis but not completely adjusted to fair value in the in the accompanying Consolidated Balance Sheets as of December 31, 2014, are included in the table below. Certain components of long-lived assets held and used have been adjusted to fair value through impairment charges as discussed in Note 4, “Property and Equipment.”

| | Balance as of December 31, 2014 | Significant Unobservable Inputs (Level 3) as of December 31, 2014 | Total Gains / (Losses) for the Year Ended December 31, 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Long-lived assets held and used (1) | $799,319 | $ 799,319 | $ (4,394 ) |
| Goodwill (2) | $475,929 | $ 475,929 | $ - |
| Franchise assets (2) | $77,100 | $ 77,100 | $ (2,200 ) |

(1) See Notes 1 and 4 for discussion.
(2) See Notes 1 and 5 for discussion.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 31, 2014 and December 31, 2013, the fair values of Sonic's financial instruments including receivables, notes receivable from finance contracts, notes payable-floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

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

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| | (In thousands) | | | |
| 7.0% Notes (1) | $216,000 | $198,556 | $218,000 | $198,414 |
| 5.0% Notes (1) | $294,000 | $300,000 | $285,000 | $300,000 |
| Mortgage Notes (2) | $152,240 | $147,554 | $165,381 | $157,571 |
| Assumed Notes (2) | $4,365 | $4,474 | $7,636 | $7,993 |
| Other (2) | $4,588 | $4,884 | $4,774 | $5,080 |

(1) As determined by market quotations as of December 31, 2014 and December 31, 2013, respectively (Level 1).
(2) As determined by discounted cash flows (Level 3).

## 12. Commitments and Contingencies

### Facility and Equipment Leases

The $0.3 million of lease exit expense recorded for the year ended December 31, 2014, was due to $2.0 million of interest expense, offset partially by $1.7 million related to adjustments to lease exit accruals recorded in previous years for 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 the lease commitment to the landlord. A summary of the activity of these operating lease accruals consists of the following:

| | (In thousands) |
|---|---|
| Balance, December 31, 2013 | $ 27,234 |

| | |
|---|---|
| Lease exit expense (1) | 302 |
| Payments (2) | (7,018 ) |
| Lease buyout (3) | (1,556 ) |
| Balance, December 31, 2014 | $ 18,962 |

(1) Expense of approximately $0.2 million is recorded in interest expense, other, net, expense of approximately $0.3 million is recorded in selling, general and administrative expenses, and income of approximately $0.2 million is recorded in income (loss) from discontinued operations in the accompanying Consolidated Statements of Income.
(2) Amount is recorded as an offset to rent expense in selling, general and administrative expenses, with approximately $0.8 million in continuing operations and $6.2 million in income (loss) from discontinued operations in the accompanying Consolidated Statements of Income.
(3) Amount represents write-off of accrual related to an early lease buyout agreement which was completed and paid, relieving Sonic of any future lease obligation.

Sonic leases facilities for the majority of its 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. Sonic was in compliance with these covenants at December 31, 2014. Approximately 20% of these facility leases have payments that may vary based on interest rates.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Minimum future lease payments for facility leases and future receipts from subleases as required under non-cancelable operating leases for both continuing and discontinued operations based on current interest rates in effect are as follows:

| Year Ending December 31, | Minimum Lease Payments, Net | Future Receipts from Future Subleases |
|---|---|---|
| | (In thousands) | |
| 2015 | $99,939 | $(15,809) |
| 2016 | $91,042 | $(14,370) |
| 2017 | $76,620 | $(10,762) |
| 2018 | $64,124 | $(9,154) |
| 2019 | $51,267 | $(8,055) |
| Thereafter | $124,232 | $(32,935) |

Total lease expense for continuing operations for the years ended December 31, 2014, 2013 and 2012 was approximately $106.0 million, $99.6 million and $102.4 million, respectively. Total lease expense for discontinued operations for the years ended December 31, 2014, 2013 and 2012 was approximately $0.9 million, $1.1 million and $6.2 million, respectively. The total net contingent rent benefit related to a decrease in interest rates since the underlying leases commenced was approximately $2.0 million and $0.1 million for continuing and discontinued operations, respectively, for the year ended December 31, 2014 and was approximately $2.3 million and $0.6 million for continuing and discontinued operations, respectively, for each of the years ended December 31, 2013 and 2012.

Many of Sonic's facility operating leases are subject to affirmative and financial covenant provisions related to a subordination and guaranty agreement executed with the landlord of many of its facility properties. The required financial covenants related to certain lease agreements are as follows:

| Covenant | | | |
|---|---|---|---|
| Minimum Consolidated Liquidity | Minimum Consolidated Fixed Charge Coverage | Maximum Consolidated Total Lease | Minimum |

| | Ratio | Ratio | Adjusted Leverage Ratio | EBTDAR to Rent Ratio |
|---|---|---|---|---|
| Required ratio | 1.05 | 1.20 | 5.50 | 1.50 |
| December 31, 2014 actual | 1.20 | 1.61 | 4.12 | 3.56 |

Guarantees and Indemnifications

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

In connection with dealership dispositions and facility relocations, certain of Sonic's subsidiaries have assigned or sublet to the buyer its interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments, and repairs to leased property upon termination of the lease, to the extent that the assignee or sub-lessee does not perform. These obligations are included within the future minimum lease payments, net, in the table above. In the event the sub-lessees do not perform under their obligations Sonic remains liable for the lease payments. The total amount relating to this risk is approximately $91.1 million, which is the total of the receipts from future subleases in the table under the heading “Facility and Equipment Leases” above. However, there are situations where Sonic has assigned a lease to the buyer and Sonic was not able to obtain a release from the landlord. In these situations, although Sonic is no longer the primary obligor, Sonic is contingently liable if the buyer does not perform under the lease terms. The total estimated minimum lease payments remaining related to these leases totaled approximately $5.2 million at December 31, 2014. However, in accordance with the terms of the assignment and sublease agreements, the assignees and sub-lessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance. Additionally, in connection with certain dispositions, Sonic has obtained indemnifications from the parent company or owners of these assignees and sub-lessees in the event of non-performance.

In accordance with the terms of agreements entered into for the sale of Sonic’s dealerships, Sonic generally agrees 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 Sonic’s exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic’s maximum exposure associated with these general indemnifications was approximately $16.8 million at December 31, 2014. These indemnifications expire within a period of one to three 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, 2014.

Sonic also guarantees the floor plan commitments of its 50% owned joint venture, the amount of which was approximately $2.8 million at December 31, 2014.

Legal Matters

Sonic is involved, and expects to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of its business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic’s business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic’s business, financial condition, results of operations, cash flows or prospects.

Included in other accrued liabilities and other long-term liabilities at December 31, 2014 was approximately $2.0 million and $0.3 million, respectively, in reserves that Sonic was holding for pending proceedings. Included in other accrued liabilities at December 31, 2013 was approximately $1.2 million. Except as reflected in such reserves, Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

13. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) for the year ended December 31, 2014 are as follows:

| | Changes in Accumulated Other Comprehensive Income (Loss) by Component for the Year Ended December 31, 2014 | | |
|---|---|---|---|
| | Gains and Losses on Cash Flow Hedges | Defined Benefit Pension Plan | Total Accumulated Other Comprehensive Income (Loss) |
| | (In thousands) | | |
| Balance at December 31, 2013 | $(8,859) | $ 277 | $ (8,582) |
| Other comprehensive income (loss) before reclassifications (1) | (3,841) | (728) | (4,569) |
| Amounts reclassified out of accumulated other comprehensive income (loss) (2) | 6,727 | - | 6,727 |
| Net current-period other comprehensive income (loss) | 2,886 | (728) | 2,158 |
| Balance at December 31, 2014 | $(5,973) | $ (451) | $ (6,424) |

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(1) Net of tax benefit of $2,354 related to gains and losses on cash flow hedges, and $446 related to the defined benefit pension plan.
(2) Net of tax expense of $4,123.

See the heading "Derivative Instruments and Hedging Activities" in Note 6, "Long-Term Debt," for further discussion of Sonic's cash flow hedges. For further discussion of Sonic's defined benefit pension plan, see Note 10, "Employee Benefit Plans."

## 14. Segment Information

As of December 31, 2014, Sonic had two operating segments: Franchised Dealerships and EchoPark®. The Franchised Dealerships segment is comprised of traditional retail automotive franchises that sell new and used vehicles, replacement parts and vehicle repair and maintenance services, and finance and insurance products. The EchoPark® segment is comprised of stand-alone pre-owned specialty retail locations that provide customers an opportunity to search, buy, service and sell their pre-owned vehicles.

The operating segments identified above are the business activities of Sonic for which discrete financial information is available and for which operating results are regularly reviewed by Sonic's chief operating decision maker to assess operating performance and allocate resources. Sonic's chief operating decision maker is a group consisting of the Company's Chief Executive Officer, President and Chief Strategic Officer and the Chief Financial Officer. The Company has determined that its operating segments also represent its reportable segments.

Reportable segment revenue, segment income, floor plan interest expense, depreciation and amortization, capital expenditures and total assets are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Revenues: | | | |
| Franchised Dealerships | $9,191,661 | $8,843,168 | $8,365,468 |
| EchoPark | 5,438 | - | - |
| Total consolidated revenues | $9,197,099 | $8,843,168 | $8,365,468 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Segment income (loss) (1): | | | |
| Franchised Dealerships | $230,733 | $218,139 | $221,721 |
| EchoPark | (15,913 ) | (5,490 ) | (773 ) |

| | | | |
|---|---|---|---|
| Total segment income | 214,820 | 212,649 | 220,948 |
| Interest expense, other, net | (53,190 ) | (55,485 ) | (60,090 ) |
| Other income (expense), net | 97 | (28,143 ) | (19,625 ) |
| Income (loss) from continuing operations before taxes | $161,727 | $129,021 | $141,233 |

(1) Segment income (loss) for each segment is defined as operating income less floor plan interest expense

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Floorplan interest expense: | | | |
| Franchised Dealerships | $18,727 | $21,954 | $19,454 |
| EchoPark | 66 | - | - |
| Total floorplan interest expense | $18,793 | $21,954 | $19,454 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Depreciation and amortization: | | | |
| Franchised Dealerships | $58,001 | $54,007 | $45,285 |
| EchoPark | 259 | - | - |
| Total depreciation and amortization | $58,260 | $54,007 | $45,285 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (In thousands) | | |
| Capital expenditures: | | | |
| Franchised Dealerships | $117,129 | $151,947 | $95,376 |
| EchoPark | 29,303 | 5,670 | - |
| Total capital expenditures | $146,432 | $157,617 | $95,376 |

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Assets: | | |
| Franchised Dealerships | $1,841,962 | $1,877,433 |
| EchoPark | 42,115 | 5,670 |
| Corporate and other: | | |
| Cash and Cash Equivalents | 4,182 | 3,016 |
| Goodwill, Net | 475,929 | 476,315 |
| Other Intangible Assets, Net | 83,720 | 87,866 |
| Other Corporate and other assets | 735,227 | 600,870 |
| Total assets | $3,183,135 | $3,051,170 |

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 15. Summary of Quarterly Financial Data (Unaudited)

The following table summarizes Sonic's results of operations as presented in the accompanying Consolidated Statements of Income by quarter for the years ended December 31, 2014 and 2013:

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| Year Ended December 31, 2014 | | | | |
| Total revenues (1) | $2,136,387 | $2,353,280 | $2,355,604 | $2,351,828 |
| Gross profit (1) | $329,000 | $346,947 | $341,489 | $348,464 |
| Net income (loss) (2) | $19,386 | $26,993 | $24,712 | $26,126 |
| Earnings (loss) per common share - Basic (2) (3) | $0.37 | $0.51 | $0.47 | $0.51 |
| Earnings (loss) per common share - Diluted (2) (3) | $0.36 | $0.51 | $0.47 | $0.50 |
| Year Ended December 31, 2013 | | | | |
| Total revenues (1) | $2,083,166 | $2,202,436 | $2,242,197 | $2,315,369 |
| Gross profit (1) | $313,020 | $323,806 | $326,081 | $338,700 |
| Net income (loss) (2) | $21,291 | $8,916 | $23,327 | $28,084 |
| Earnings (loss) per common share - Basic (2) (3) | $0.40 | $0.17 | $0.44 | $0.53 |
| Earnings (loss) per common share - Diluted (2) (3) | $0.40 | $0.17 | $0.44 | $0.53 |

Note: Operations are subject to seasonal variations. The first quarter generally contributes less operating profits than the second,
third and fourth quarters. Parts and service demand remains more stable throughout the year. Amounts presented may differ from
amounts previously reported on Form 10-Q due to the classification of certain franchises in discontinued and continuing operations
in accordance with "Presentation of Financial Statements" in the ASC (see Note 2).

(1) Results are for continuing operations.

(2) Results include both continuing operations and discontinued operations.

(3) The sum of net income per common share for the quarters may not equal the full year amount due to weighted average
common shares being calculated on a quarterly versus annual basis.

Net income for the fourth quarter ended December 31, 2014 includes approximately $6.4 million of impairment charges, charges of approximately $1.0 million related to fire and storm damage and a $0.9 million tax expense item related to the disposition of dealership franchises.

Net income for the third quarter ended September 30, 2014 includes a gain of approximately $3.2 million from the sale of dealership franchises, offset partially by charges of approximately $2.0 million due to flood and hail damage and impairment charges of approximately $0.2 million.

Net income for the second quarter ended June 30, 2014 includes a gain of approximately $7.3 million from the sale of two dealership franchises, offset partially by charges of approximately $1.0 million due to hail damage and an approximately $0.3 million legal settlement reserve accrual.

Net income for the fourth quarter ended December 31, 2013 includes impairment charges of approximately $9.9 million.

Net income for the second quarter ended June 30, 2013 includes a loss on extinguishment of debt of approximately $28.2 million and a charge of approximately $0.8 million related to incremental interest incurred while both the 9.0% Notes and 5.0% Notes were outstanding.