SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported): October 2, 2003

SONIC AUTOMOTIVE, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware	**1-13395**	**56-201079**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

5401 E. Independence Boulevard, Charlotte, North Carolina	**28212**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Item 9. Regulation FD Disclosure and Item 12. Results of Operations and Financial Condition

Sonic Automotive, Inc. (“Sonic”) is filing this Current Report on Form 8-K to reflect the reclassifications of franchises between discontinued and continuing operations in accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS No. 144”). Although the information in this Current Report is being furnished to the Securities and Exchange Commission (the “Commission”) under Items 9 and 12 of Form 8-K, we are hereby incorporating this Current Report by reference into our existing and future prospectuses, registration statements and other filings with the Commission under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

During 2002, Sonic completed the disposal of 16 automobile franchises and as of December 31, 2002 had approved, but not yet completed, the disposition of ten additional franchises. In accordance with the provisions of SFAS No. 144, the results of operations of these franchises for the years ended December 31, 2000, 2001 and 2002 were reported as discontinued operations in Sonic’s Annual Report on Form 10-K filed for the year ended December 31, 2002.

As of March 31, 2003, Sonic had approved, but not yet completed, the disposition of seven additional franchises that had not been identified for disposition as of December 31, 2002. In accordance with the provisions of SFAS No. 144, the results of operations of these franchises for the three months ended March 31, 2003 and 2002 were removed from the results of continuing operations and included in the results of discontinued operations in Sonic’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003. In addition, as of March 31, 2003, Sonic decided to retain three franchises that had previously been identified for disposition as of December 31, 2002. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships for the three months ended March 31, 2003 and 2002 were removed from the results of discontinued operations and included in the results of continuing operations in Sonic’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003. The five additional franchises approved for disposition and the three franchises retained for future operations were included in, and removed from, respectively, reported discontinued operations for the years ended December 31, 2002, 2001 and 2000 in Sonic’s Current Report on Form 8-K filed August 4, 2003.

As of June 30, 2003, Sonic had approved, but not yet completed, the disposition of one additional franchise that had not been identified for disposition as of March 31, 2003. In accordance with the provisions of SFAS No. 144, the results of operations of this franchise for the three and six month periods ended June 30, 2003 and 2002 were removed from the results of continuing operations and included in the results of discontinued operations in Sonic’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003. In addition, as of June 30, 2003, Sonic decided to retain two franchises that had previously been identified for disposition as of March 31, 2003. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships for the three and six month periods ended June 30, 2003 and 2002 were removed from the results of discontinued operations and included in the results of continuing operations in Sonic’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003.

This Current Report on Form 8-K updates certain financial information for the years ended December 31, 2002, 2001 and 2000 presented in Exhibit No. 99.1 in Sonic’s Current Report on Form 8-K filed August 4, 2003 to reflect the reclassifications of franchises between discontinued and continuing operations during the three month periods ended June 30, 2002 and 2003 as discussed above. This reclassification has no effect on Sonic’s:

- reported net income or net income per share;
- consolidated balance sheets;
- statements of stockholders’ equity;
- statements of cash flows; or
- the discussion of liquidity and capital resources for these periods.

The updated financial information is set forth in Exhibit 99.1 to this Current Report.

Item 7: Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits

Exhibit No.	Description
23.1	Consent of Deloitte & Touche LLP
99.1	Reclassified financial information for the years ended December 31, 2002, 2001 and 2000 in accordance with the provisions of SFAS No. 144
99.2	Risk Factors

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

SONIC AUTOMOTIVE, INC.

By: /s/ E. LEE WYATT, JR.

E. Lee Wyatt, Jr.
Senior Vice President, Chief Financial Officer and Treasurer

Dated: October 2, 2003

EXHIBIT INDEX

Attached as exhibits to this form are the documents listed below:

Exhibit	Document
23.1	Consent of Deloitte & Touche LLP
99.1	Reclassified financial information for the years ended December 31, 2002, 2001 and 2000 in accordance with the provisions of SFAS No. 144
99.2	Risk Factors

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Sonic Automotive, Inc.:

- Registration Statement No. 333-82615 on Form S-3;
- Registration Statement No. 333-81059 on Form S-8;
- Registration Statement No. 333-81053 on Form S-8;
- Registration Statement No. 333-71803 on Form S-3;
- Registration Statement No. 333-69907 on Form S-8;
- Registration Statement No. 333-69899 on Form S-8;
- Registration Statement No. 333-68183 on Form S-3;
- Registration Statement No. 333-65447 on Form S-8;
- Registration Statement No. 333-49113 on Form S-8;
- Registration Statement No. 333-96023 on Form S-3;
- Registration Statement No. 333-51978 on Form S-4;
- Registration Statement No. 333-50430 on Form S-3;
- Post-Effective Amendment No. 2 to the Registration Statement No. 333-69901 on Form S-8;
- Post-Effective Amendment No. 1 to the Registration Statement No. 333-95791 on Form S-8;
- Post-Effective Amendment No. 1 to the Registration Statement No. 333-46272 on Form S-8;
- Post-Effective Amendment No. 1 to the Registration Statement No. 333-46274 on Form S-8;
- Amendment No. 1 to the Registration Statement No. 333-75220 and Nos. 333-75220-01 through 333-75220-I2 on Form S-4;
- Amendment No. 3 to the Registration Statement No. 333-86672 and Nos. 333-86672-01 through 333-86672-216 on Form S-3;
- Registration Statement No. 333-102052 on Form S-8; and
- Registration Statement No. 333-102053 on Form S-8,

of our report dated February 24, 2003 (October 2, 2003 as to the fourth and fifth paragraphs of Note 1), (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*,) appearing in this Current Report on Form 8-K of Sonic Automotive, Inc. dated October 2, 2003.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
October 2, 2003

Exhibit 99.1

Item 6: Selected Financial Data.

This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Form 8-K.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired by us. The selected consolidated financial data of Sonic discussed on the following page reflect the results of operations and financial positions of each of our dealerships acquired prior to December 31, 2002. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in selected consolidated financial data is not necessarily indicative of the results of operations and financial position of Sonic in the future or the results of operations and financial position that would have resulted had such acquisitions occurred at the beginning of the periods presented in the selected consolidated financial data.

	Year Ended December 31,		
	2000	2001	2002(2)
	(dollars in thousands except per share amounts)		
Income Statement Data (1):			
Total revenues	$ 5,278,921	$ 5,762,729	$ 6,981,718
Operating income	194,711	196,982	236,273
Income from continuing operations before income taxes	$ 114,192	$ 131,095	$ 176,986
Net income from continuing operations	$ 70,873	$ 79,999	$ 109,567
Basic net income per share from continuing operations	$ 1.67	$ 1.97	$ 2.63
Diluted net income per share from continuing operations	$ 1.62	$ 1.92	$ 2.54
Consolidated Balance Sheet Data (3):			
Total assets	$ 1,782,993	$ 1,810,369	$ 2,375,308
Long-term debt (4)	493,309	519,963	645,809
Total liabilities	1,332,071	1,293,108	1,738,130
Stockholders' equity (5)	450,922	517,261	637,178

(1) In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, adopted January 1, 2002, income statement data in prior years reflects the reclassification of the results of operations of all franchises sold during 2002 and the first half of 2003 and held for sale as of June 30, 2003 to income from discontinued operations and the reclassification of all franchises previously identified as held for sale (which Sonic decided to retain) to income from continuing operations.

(2) In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002, goodwill is no longer amortized. See Note 1 to the accompanying consolidated financial statements contained herein.

(3) Certain prior year amounts have been reclassified to conform with the current year presentation. See Note 1 to our Consolidated Financial Statements.

(4) Long-term debt includes current maturities of long-term debt and the note payable to Sonic's Chairman. See Sonic's Consolidated Financial Statements and related notes included elsewhere in this Form 8-K.

(5) No cash dividends were paid in the three years presented.

Item 7: ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report. The financial data contained in the following discussion for all periods presented reflects our June 30, 2003 classification of dealerships between continuing and discontinued operations in accordance with SFAS No. 144.

Overview

We are one of the largest automotive retailers in the United States. As of March 11, 2003 we operated 186 dealership franchises, representing 34 different brands of cars and light trucks, at 139 locations and 45 collision repair centers in 15 states. Our dealerships provide comprehensive services including sales of both new and used cars and light trucks, sales of replacement parts, performance of vehicle maintenance, warranty, paint and collision repair services, and arrangement of extended warranty contracts, financing and insurance for our customers. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower priced, or economy vehicles, to luxury vehicles. We believe that this diversity reduces the risk of changes in customer preferences, product supply shortages and aging products. In addition, although vehicle sales are cyclical and are affected by many factors, including general economic conditions, consumer confidence, levels of discretionary personal income, interest rates and available credit, our parts, service and collision repair services are not closely tied to vehicle sales and are not dependent upon near-term sales volume. As a result, we believe the diversity of these products and services reduces the risk of periodic economic downturns.

The following table depicts the breakdown of our new vehicle revenues by brand for each of the past three years:

	Percentage of New Vehicle Revenues Year Ended December 31,		
	2000	**2001**	**2002**
Brand (1)			
General Motors (2)	11.2%	12.2%	21.9%
Ford	14.2%	19.4%	17.5%
Honda	16.1%	14.1%	13.9%
Toyota	9.3%	12.2%	10.8%
BMW	11.6%	11.6%	10.3%
Chrysler (3)	8.0%	5.3%	4.6%
Lexus	5.9%	5.8%	4.5%
Nissan	5.8%	4.9%	3.1%
Other Luxury (4)	11.4%	9.6%	8.8%
Other (5)	6.5%	4.9%	4.6%
Total	100.0%	100.0%	100.0%

(1) In accordance with the provisions of SFAS No. 144, adopted January 1, 2002, revenue data in prior years reflects the reclassification of the results of operations of all franchises sold and in the first six months of 2003 or held for sale as of June 30, 2003 to discontinued operations and the reclassification of all franchises previously identified as held for sale (which Sonic decided to retain) to income from continuing operations.

(2) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile, and Pontiac.

(3) Includes Chrysler, Dodge, Jeep, and Plymouth.

We sell similar products and services, use similar processes in selling our products and services and sell our products and services to similar classes of customers. As a result of this and the way we manage our business, we have aggregated our results into a single segment for purposes of reporting financial condition and results of operations.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our consolidated financial statements the results of operations of these dealerships prior to the date they were acquired. Our consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to December 31, 2002. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” is not necessarily indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Use of Estimates and Critical Accounting Policies

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

Critical accounting policies are those that are both most important to the portrayal of our financial position and results of operations and require the most subjective and complex judgments. Following is a discussion of what we believe are our critical accounting policies and estimates. See Note 1 to our consolidated financial statements for additional discussion regarding our accounting policies.

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

In the event a customer terminates a financing, insurance or warranty contract prior to the original termination date, we may be required to return a portion of the commission revenue originally recorded to the third party provider ("chargebacks"). The commission revenue for the sale of these products and services is recorded net of estimated chargebacks at the time of sale. Our estimate of future chargebacks is established based on our historical chargeback rates and the termination provisions of the applicable contracts. While chargeback rates vary depending on the type of contract sold, a 100 basis point increase in the estimated chargeback rates used in determining our estimates of future chargebacks would have resulted in an additional $0.6 million in recorded chargebacks.

Goodwill – Goodwill and other intangible assets having indefinite useful lives are tested for impairment at least annually, or more frequently when events or circumstances indicate that impairment might have occurred. In evaluating goodwill for impairment, we compare the carrying value to the fair value of the underlying businesses. We use various assumptions in determining fair value, including estimates of future earnings, future growth rates, earnings multiples and discount factors. We are subject to financial statement risk to the extent goodwill balances are impaired due to decreases in the fair market value of the related underlying businesses.

Insurance Reserves- We have various self-insured and high deductible insurance programs which require us to make estimates in determining the ultimate liability we 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 the case of reserves for workers' compensation claims, a discount factor. At December 31, 2002, we had $10.6 million reserved for such programs. For each one percentage point increase in the assumed medical trend rate, the reserve for our medical insurance program would increase by $52,000. Each one day increase in the average claim lag would cause the reserve to increase by $87,000. We used an experience modification factor in estimating reserves for workers' compensation claims of 0.73. A change of five basis points in this factor would change the reserve by $300,000. We also used a discount rate of 5.0% to calculate the present value of our estimated workers' compensation claims. A change of 100 basis points in the discount rate would change the reserve by $150,000.

Legal Proceedings- Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought about by governmental authorities. Currently, no legal proceedings are pending against or involve Sonic that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more if these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Assets"* in June 2001. Among other things, SFAS No. 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced with a charge against operations if it is found to be impaired. SFAS No. 142 also requires the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. Intangible assets determined to have a finite life are required to be reviewed for impairment in accordance with SFAS No. 144, "*Accounting for Impairment or Disposal of Long-Lived Assets."* Intangible assets that are determined to have an indefinite economic life are not amortized and must be reviewed for impairment in accordance with the terms of SFAS No. 142. We have not recognized any impairment related to the goodwill or other intangible assets recorded on our balance sheet.

The provisions of SFAS No. 142 applied immediately to all acquisitions completed after June 30, 2001. Goodwill and intangible assets with indefinite lives existing at June 30, 2001 were amortized until December 31, 2001. Effective January 1, 2002, such amortization ceased, as all of the provisions became effective on that date.

We also adopted the provisions of SFAS No. 144 as of January 1, 2002. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance in asset valuation and measuring impairment. The results of operations of those dealerships disposed of and those dealerships held for sale are now required to be reflected in discontinued operations as shown in the accompanying consolidated statements of income.

In April 2002, the FASB issued SFAS No. 145, "*Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*." Prior to adoption, gains or losses resulting from extinguishment of debt were required to be classified as extraordinary items, net of related tax effects. Upon adoption of SFAS No. 145, however, the classification of such gains or losses as extraordinary must be evaluated based on the criteria established in APB Opinion No. 30. Gains and losses not meeting that criterion, including gains and losses classified as extraordinary in prior periods, must be classified in income from operations. We adopted the provisions of SFAS No. 145 effective July 1, 2002. Accordingly, gains or losses incurred on the early extinguishment of debt (debt repurchases) have been included in other income in the accompanying consolidated statements of income.

In June 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities."* SFAS No. 146 requires the recognition of a liability for costs associated with an exit or disposal activity at the time the liability is incurred, rather than at the date of the entity's commitment to the exit or disposal plan. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS No. 146 to have a material effect on our consolidated operating results, financial position, or cash flows.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others*." FIN 45 requires the recognition of a liability for certain guarantees, issued guarantees, after December 31, 2002, or for modifications made after December 31, 2002 to previously issued guarantees, and clarifies disclosure requirements for certain guarantees. The disclosure provisions of FIN 45 are effective for fiscal years ended after December 15, 2002. We have adopted the disclosure provisions of FIN 45 as of December 31, 2002.

In January 2003, the FASB issued FIN 46, "*Consolidation of Variable Interest Entities, an Interpretation of APB No. 50*." FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary if the equity investors do not have a controlling financial interest or sufficient equity at risk to finance the entities' activities without additional subordinated financial support of other parties. The provisions of FIN 46 are effective for all variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to that date, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In April 2003, the FASB issued SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities."* SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133 generally entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003. We do not expect SFAS No. 149 to have a material effect on our consolidated operating results, financial position, or cash flows.

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."* SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity and is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect SFAS No. 150 to have a material effect on our consolidated operating results, financial position, or cash flows.

Results of Operations

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

	Percentage of Total Revenues for the Year Ended December 31,		
	2000	2001	2002
Revenues(1):			
New vehicles	59.4%	60.4%	60.8%
Used vehicles	19.0%	17.7%	16.8%
Wholesale vehicles	7.0%	6.4%	6.6%
Parts, service and collision repair	11.8%	12.5%	13.0%
Finance and insurance and other	2.8%	3.0%	2.8%
Total revenues	100.0%	100.0%	100.0%
Cost of sales	84.9%	84.5%	84.5%
Gross profit	15.1%	15.5%	15.5%
Selling, general and administrative	11.0%	11.7%	12.0%
Depreciation	0.1%	0.1%	0.1%
Goodwill amortization	0.3%	0.3%	0.0%
Operating income	3.7%	3.4%	3.4%
Interest expense, floor plan	0.8%	0.5%	0.3%
Interest expense, other	0.8%	0.6%	0.6%
Income from continuing operations before income taxes	2.1%	2.3%	2.5%
Income tax expense	0.8%	0.9%	0.9%
Net income from continuing operations	1.3%	1.4%	1.6%

(1) In accordance with the provisions of SFAS No. 144, income statement data in prior years reflects the reclassification of the results of operations of all franchises sold during 2002, and in the first six months of 2003 and held for sale as of June 30, 2003, to income from discontinued operations and the reclassification of all franchises previously identified as held for sale (which Sonic decided to retain) to income from continuing operations.

During the year ended December 31, 2002, we disposed of 16 franchises and had approved, but not completed, the disposition of ten additional franchises. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition, have been included in net income from discontinued operations in the accompanying Consolidated Statements of Income for all periods presented. In addition to these dispositions, during the year ended December 31, 2001 and 2000, we disposed of 15 and 8 franchises, respectively. However, because the provisions of SFAS No. 144 do not permit retroactive application to dispositions occurring before January 1, 2002, the results of operations of these dealerships have been included in net income from continuing operations in the accompanying Consolidated Statements of Income. As a result, a comparison of the results of operations based on the information presented in the accompanying Consolidated Statements of Income is not meaningful since the information presented for 2001 and 2000 includes results of operations for dealerships disposed of in those years that were not in existence in 2002. Therefore, in order to provide a more meaningful comparison, the tables included within the discussion below disaggregate the impact of the dealerships disposed of in prior years in order to arrive at a comparison of only the results of operations of “ongoing” operations.

Annual “same store” results of operations represent the aggregate of the same store results for each quarter. Same store results for each quarter include dealerships that were owned and operated for the entire quarter in both periods.

Revenues

	For the Year Ended		$ Change	% Change	For the Year Ended		$ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total Revenues (in thousands)								
Same Store	$ 5,376,918	$ 5,519,628	$ (142,710)	(2.6)%	$ 4,830,982	$ 4,957,212	$ (126,230)	(2.5)%
Acquisitions	1,604,800	158,101	1,446,699	915.0%	846,747	138,360	708,387	512.0%
Total Ongoing Dealerships	6,981,718	5,677,729	1,303,989	23.0%	5,677,729	5,095,572	582,157	11.4%
Disposed prior to 2002	—	85,000	(85,000)		85,000	183,349	(98,349)	
Total As Reported	$ 6,981,718	$ 5,762,729	$ 1,218,989	21.2%	$ 5,762,729	$ 5,278,921	$ 483,808	9.2%

Revenues from ongoing dealerships increased in 2002 as a result of acquired dealerships. Same store revenues declined compared to 2001, which was the second best year in history for sales of light vehicles in the United States. The primary factor causing this decline was reduced consumer spending resulting from a downturn in economic conditions (as described in more detail below). Reduced consumer spending may continue to affect future revenues as economic conditions remain uncertain. In addition, uncertainty associated with U.S. military action in the Middle East may also affect future revenues.

Revenues from ongoing dealerships increased in 2001 as a result of acquired dealerships. Same store revenues declined compared to 2000, driven by lower vehicle revenues primarily in our Northern California and Carolina regions.

New Vehicles

	For the Year Ended		Units or $ Change	% Change	For the Year Ended		Units or $ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total New Vehicle Units								
Same Store	121,422	126,446	(5,024)	(4.0)%	108,094	115,436	(7,342)	(6.4)%
Acquisitions	30,652	2,964	27,688	934.1%	21,316	2,633	18,683	709.6%
Total Ongoing Dealerships	152,074	129,410	22,664	17.5%	129,410	118,069	11,341	9.6%
Disposed prior to 2002	—	1,902	(1,902)		1,902	3,447	(1,545)	
Total As Reported	152,074	131,312	20,762	15.8%	131,312	121,516	9,796	8.1%
Total New Vehicle Revenues (in thousands)								
Same Store	$ 3,313,691	$ 3,363,488	$ (49,797)	(1.5)%	$ 2,907,860	$ 2,981,110	$ (73,250)	(2.5)%
Acquisitions	933,768	76,971	856,797	1113.1%	532,599	64,779	467,820	722.2%
Total Ongoing Dealerships	4,247,459	3,440,459	807,000	23.5%	3,440,459	3,045,889	394,570	13.0%
Disposed prior to 2002	—	43,680	(43,680)		43,680	92,359	(48,679)	
Total As Reported	$ 4,247,459	$ 3,484,139	$ 763,320	21.9%	$ 3,484,139	$ 3,138,248	$ 345,891	11.0%
Total New Vehicle Unit Price								
Same Store	$ 27,291	$ 26,600	$ 691	2 .6%	$ 26,901	$ 25,825	$ 1,076	4.2%
Total Ongoing Dealerships	$ 27,930	$ 26,586	$ 1,344	5.1%	$ 26,586	$ 25,798	$ 788	3.1%

The decline in same store unit sales during the year ended December 31, 2002 was consistent with an industry-wide decline in new vehicle sales. This decline was particularly evident in domestic brands, which are generally more sensitive to economic conditions than import and luxury brands. Sales of domestic non-luxury brands declined approximately 5.8% for the year ended December 31, 2002 and accounted for approximately 61.4% of the total decline in same store unit sales. Regional performance continued to be negatively affected by weaker economic conditions in our Northern California region, evidenced by significantly higher unemployment rates compared to the rest of the country. Same store unit sales in that region declined by 3,712 units, or 12.5%. Similar economic conditions in the Dallas market resulted in same store unit sales declines of 2,309 units or 15.7%. Our Ohio region experienced same store declines of 21.2%, due primarily to a predominance of domestic brand stores in that region. These decreases were partially offset by increases in unit sales in regions whose portfolios are dominated by import and luxury brands, primarily San Diego/Nevada, where units sales increased 1,048 units, or 15.2%, and South Carolina/Georgia, where units sales increased 710 units, or 11.9%, compared to the same period last year. We expect declines in same store new vehicle sales when comparing to the prior year's quarter to continue during 2003.

In 2001, the decline in same store unit sales was primarily isolated to domestic brands. Sales of domestic brands on a same store basis declined by 5,977 units, or 13.1%, and accounted for 81.4% of the total decline in same store unit sales. As such, our regions dominated by domestic brands, such as Northern California and Carolinas, were particularly affected. Same store unit sales declined by 3,532 units or, 10.9%, and by 1,925 units, or 19.7%, in those two regions respectively, compared to 2000. Sales of import brands on a same store basis declined by only 1,365 units, or 2.0%, in 2001.

Used Vehicles

	For the Year Ended		Units or $ Change	% Change	For the Year Ended		Units or $ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total Used Vehicle Units								
Same Store	57,461	65,654	(8,193)	(12.5)%	58,187	62,093	(3,906)	(6.3)%
Acquisitions	17,265	2,348	14,917	635.3 %	9,815	1,937	7,878	406.7 %
Total Ongoing Dealerships	74,726	68,002	6,724	9.9 %	68,002	64,030	3,972	6.2 %
Disposed prior to 2002	—	1,366	(1,366)		1,366	3,022	(1,656)	
Total As Reported	74,726	69,368	5,358	7.7 %	69,368	67,052	2,316	3.5 %
Total Used Vehicle Revenues (in thousands)								
Same Store	$ 876,736	$ 968,777	$ (92,041)	(9.5)%	$ 866,480	$ 931,760	$ (65,280)	(7.0)%
Acquisitions	294,133	32,161	261,972	814.6 %	134,458	27,402	107,056	390.7 %
Total Ongoing Dealerships	1,170,869	1,000,938	169,931	17.0 %	1,000,938	959,162	41,776	4.4 %
Disposed prior to 2002	—	18,679	(18,679)		18,679	42,764	(24,085)	
Total As Reported	$ 1,170,869	$ 1,019,617	$ 151,252	14.8 %	$ 1,019,617	$ 1,001,926	$ 17,691	1.8 %
Total Used Vehicle Unit Price								
Same Store	$ 15,258	$ 14,756	$ 502	3.4 %	$ 14,891	$ 15,006	$ (115)	(0.8)%
Total Ongoing Dealerships	$ 15,669	$ 14,719	$ 950	6.5 %	$ 14,719	$ 14,980	$ (261)	(1.7)%

During 2002, used vehicle unit sales were negatively affected by a lack of adequate consumer credit availability. This was caused by many of the manufacturers' captive finance companies focusing their financing of new vehicle sales and, to a lesser extent, used vehicle sales only at those dealerships selling their brands and tightening of credit standards by other finance companies. These factors have adversely affected consumers' ability to finance used vehicle purchases, which reduces retail activity. Also contributing to the decline in used vehicle sales were competitive pressures from strong manufacturer incentives and interest rate subsidies on new vehicles. Our Oklahoma region, which has historically been heavily dependent on used vehicle sales, especially the sub-prime market, was particularly affected by these trends. Same store unit sales declined 1,533 units, or 23.7%. Unit sales in our Southeast division declined 2,720 units, or 13.8%. These regions accounted for 51.9% of the total decline in same store unit sales for 2002.

During 2001, 74.3% of the decline in same store unit sales was the Southeast Division, primarily the Carolinas region which declined 1,077 units, or 17.4%, the South Carolina/Georgia region which declined 1,264 units, or 21.8%, and the Birmingham/Tennessee region which declined 845 units, or 18.3%, compared to 2000.

Wholesale Vehicles

	For the Year Ended		Units or $ Change	% Change	For the Year Ended		Units or $ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total Wholesale Vehicle Units								
Same Store	48,427	52,349	(3,922)	(7.5)%	45,699	48,133	(2,434)	(5.1)%
Acquisitions	14,316	2,185	12,131	555.2 %	8,835	4,796	4,039	84.2 %
Total Ongoing Dealerships	62,743	54,534	8,209	15.1 %	54,534	52,929	1,605	3.0 %
Disposed prior to 2002	—	1,663	(1,663)		1,663	3,381	(1,718)	
Total As Reported	62,743	56,197	6,546	11.6 %	56,197	56,310	(113)	(0.2)%
Total Wholesale Vehicle Revenues (in thousands)								
Same Store	$ 330,218	$ 333,719	$ (3,501)	(1.0)%	$ 295,217	$ 327,898	$ (32,681)	(10.0)%
Acquisitions	129,288	25,399	103,889	409.0 %	63,901	22,997	40,904	177.9 %
Total Ongoing Dealerships	459,506	359,118	100,388	28.0 %	359,118	350,895	8,223	2.3 %
Disposed prior to 2002	—	9,251	(9,251)		9,251	17,638	(8,387)	
Total As Reported	$ 459,506	$ 368,369	$ 91,137	24.7 %	$ 368,369	$ 368,533	$ (164)	(0.0)%
Total Wholesale Unit Price								
Same Store	$ 6,819	$ 6,375	$ 444	7.0 %	$ 6,460	$ 6,812	$ (352)	(5.2)%
Total Ongoing Dealerships	$ 7,324	$ 6,585	$ 739	11.2 %	$ 6,585	$ 6,630	$ (45)	(0.7)%

During 2002, the decrease in same store wholesale vehicle revenues is due to a decrease in units sold, offset by an increase in average price per unit, primarily resulting from wholesaling higher end models in order to liquidate aged units and maintain appropriate inventory levels.

During 2001, the majority of the decline in same store sales resulted from a decline in units sold, coupled with a lower selling price caused by the declines in values of used units at the wholesale level, especially in the fourth quarter.

Fixed Operations

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	$ Change	% Change	12/31/2001	12/31/2000	$ Change	% Change
Total Parts, Service and Collision Repair (in thousands)								
Same Store	$ 699,665	$ 690,798	$ 8,867	1.3%	$ 615,143	$ 581,231	$ 33,912	5.8%
Acquisitions	205,511	15,134	190,377	1257.9%	90,789	16,307	74,482	456.7%
Total Ongoing Dealerships	905,176	705,932	199,244	28.2%	705,932	597,538	108,394	18.1%
Disposed prior to 2002	—	11,737	(11,737)		11,737	26,928	(15,191)	
Total As Reported	$ 905,176	$ 717,669	$ 187,507	26.1%	$ 717,669	$ 624,466	$ 93,203	14.9%

Same store parts, service and collision repair revenues increased during 2002, resulting primarily from increases in warranty sales arising in part from BMW expanding their warranty to cover all new vehicle maintenance and Honda extending its warranty on two models due to problems with its V6 engines. In addition, we continued implementation of our best practices and investments in real estate and construction projects on collision facilities, which allowed us to increase our overall service and parts capacity. These increases were partially offset by significant declines in our Ford stores of $10.9 million, or 8.7%, resulting from unusually high parts and service sales generated in 2001 by the Firestone tire recall and other recalls. In addition, collision revenues were adversely affected by rising insurance premiums that have caused consumers to obtain higher deductible policies. Lower collision revenues in 2002 are a result of customers choosing not to perform minor repair work that historically would have been covered by lower deductible policies, as well as a change in insurance company trends whereby vehicles are being declared totaled rather than repaired at a greater percentage than in prior years.

Same store revenues increased during 2001, resulting in part from investments in real estate and construction projects on collision facilities, which allowed us to increase our overall service and parts capacity, as well as an increase at our Ford stores of $7.6 million or 9.2%, resulting in part from unusually high parts and service sales generated in 2001 by the Firestone tire recall and other recalls.

Finance and Insurance and Other

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	$ Change	% Change	12/31/2001	12/31/2000	$ Change	% Change
Total Finance & Insurance Revenue (in thousands)								
Same Store	$ 156,609	$ 162,845	$ (6,236)	(3.8)%	$ 146,283	$ 135,213	$ 11,070	8.2%
Acquisitions	42,099	8,437	33,662	399.0%	24,999	6,874	18,125	263.7%
Total Ongoing Dealerships	198,708	171,282	27,426	16.0%	171,282	142,087	29,195	20.5%
Disposed prior to 2002	—	1,653	(1,653)		1,653	3,661	(2,008)	
Total As Reported	$ 198,708	$ 172,935	$ 25,773	14.9%	$ 172,935	$ 145,748	$ 27,187	18.7%
Total F&I per Unit								
Same Store	$ 875	$ 848	$ 27	3.2%	$ 880	$ 762	$ 118	15.5%
Total Ongoing Dealerships	$ 876	$ 868	$ 8	0.9%	$ 868	$ 780	$ 88	11.3%

Same store finance and insurance revenues decreased during 2002 primarily due to lower retail vehicle unit sales. Unit sales were negatively impacted by the decline in retail vehicle unit sales in our Northern California market, and our Ohio, Carolinas and Dallas regions. Finance and insurance revenues in these markets declined $3.1 million or 7.8%, $1.8 million or 17.1%, $0.7 million or 7.2% and $1.7 million or 9.5%, respectively, compared to 2001. These declines were offset by strong performance in our San Diego/Nevada region, driven by a higher import and luxury brand mix, where revenues increased $2.3 million or 23.2% compared to 2001.

During 2001, the increase in same store finance and insurance revenues was primarily due to an increase in per unit revenue, which reflected our continued focus on training programs for finance and insurance sales people along with our ability to negotiate higher commissions on the origination of customer vehicle financing, insurance polices and extended warranty contracts.

Gross Profit and Gross Margins

	For the Year Ended		$ Change	% Change	For the Year Ended		$ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total Gross Profit (in thousands)								
Same Store	$ 841,124	$ 854,736	$ (13,612)	(1.6)%	$ 762,048	$ 744,515	$ 17,533	2.4%
Acquisitions	240,962	27,068	213,894	790.2%	119,756	27,036	92,720	343.0%
Total Ongoing Dealerships	1,082,086	881,804	200,282	22.7%	881,804	771,551	110,253	14.3%
Disposed prior to 2002	—	10,504	(10,504)		10,504	26,585	(16,081)	
Total As Reported	$ 1,082,086	$ 892,308	$ 189,778	21.3%	$ 892,308	$ 798,136	$ 94,172	11.8%

Our overall gross profit and gross profit as a percentage of revenues ("gross margins") generally vary depending on changes in our revenue mix. Although sales of new vehicles comprise the majority of our total revenues, new vehicles generally carry the lowest margin of any product or service we offer, generally averaging between 7.5% and 8.5%. As a result, sales of new vehicles comprise a relatively small portion of total gross profits. Retail sales of used vehicles generally carry a slightly higher gross margin than new vehicles, averaging between 11% and 11.5%. Parts, service, and collision repair carry the next highest margins, averaging between 45% and 47%. Commission revenues from the sale of finance, insurance and extended warranty products carry the highest margin at 100%. As a result, as our mix of revenues shifts between lower margin products and services to higher margin products and services, overall gross margins fluctuate accordingly.

During 2002, gross margins from ongoing dealerships remained stable at 15.5%. We experienced an increase during 2002 in the percentage of revenues contributed by parts, service and collision repair services. In addition, the gross profit percentage earned on our parts, service, and collision repair services increased to 47.6% in 2002 from 46.1% in 2001. This was offset by a slight decrease in the percentage of revenues contributed by our finance and insurance products to 2.8% in 2002 from 3.0% in 2001, and an increase in the percentage of revenues contributed by new vehicle sales to 60.8% in 2002 from 60.6% in 2001.

Ongoing dealership gross margin during 2001 increased to 15.5% from 15.1% due primarily to an increase in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products. Parts, service and collision repair revenues as a percentage of total revenues increased to 12.4% in 2001 from 11.7% in 2000. Finance and insurance revenues as a percentage of total revenues increased to 3.0% in 2001 from 2.8% in 2000. In addition, the gross profit percentage earned on our parts, service, and collision repair and finance and insurance products increased to 56.6% in 2001 from 55.1% in 2000.

Selling, General & Administrative Expenses

	For the Year Ended		$ Change	% Change	For the Year Ended		$ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total SG&A (in thousands)								
Same Store	$ 624,292	$ 611,354	$ 12,938	2.1%	$ 547,476	$ 518,587	$ 28,889	5.6%
Acquisitions	213,016	46,365	166,651	359.4%	110,243	37,651	72,592	192.8%
Total Ongoing Dealerships	837,308	657,719	179,589	27.3%	657,719	556,238	101,481	18.2%
Disposed prior to 2002	—	13,892	(13,892)		13,892	26,718	(12,826)	
Total As Reported	$ 837,308	$ 671,611	$ 165,697	24.7%	$ 671,611	$ 582,956	$ 88,655	15.2%

Of our total selling, general and administrative expenses from ongoing dealerships in 2002, approximately 59.3% were variable or semi-variable, comprised primarily of non-salaried sales compensation and advertising, and approximately 40.7% were fixed, comprised primarily of fixed compensation and rent expense. We manage these variable and semi-variable expenses so that they are generally related to vehicle sales gross profit and can be adjusted in response to changes in vehicle sales gross profit. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and all other non-clerical dealership personnel are paid either a commission or a modest salary plus commissions. In addition, dealership management compensation is tied to individual dealership profitability.

As a percentage of gross profits, variable expenses from ongoing dealerships increased to 45.9% in 2002 from 45.7% in 2001. This was primarily due to increases in advertising expense as a percentage of gross profits to 5.7% in 2002, from 5.2% in 2001. This resulted from a determined effort, primarily in the first half of 2002, to stimulate consumer traffic into our dealerships through advertising. Our advertising expenditures began to stabilize in the second half of 2002.

Fixed expenses from ongoing dealerships increased as a percentage of gross profits to 31.5% in 2002 from 28.9% in 2001. This was primarily the result of significant investments in regional and divisional management personnel in advance of our recent acquisitions, including the Massey acquisition, in order to support our acquisition growth and integration plans, and was also impacted by a softer vehicle sales environment which led to reduced gross profit dollars, especially in the fourth quarter.

Of our total selling, general and administrative expenses in 2001, approximately 61.3% were variable or semi-variable, and approximately 38.7% were fixed. As a percentage of gross profits, variable expenses declined slightly in 2001 to 45.7% from 45.8% in 2000. These declines were offset by fixed expenses, which increased as a percentage of gross profits to 28.9% in 2001 from 26.3% in 2000, primarily as a result of increases in rent expense due to investments in dealership facilities and increases in medical insurance costs.

Depreciation and Amortization

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	$ Change	% Change	12/31/2001	12/31/2000	$ Change	% Change
Total depreciation (in thousands)								
Same Store	$ 5,998	$ 5,742	$ 256	4.5%	$ 5,306	$ 5,052	$ 254	5.0%
Acquisitions	2,507	785	1,722	219.4%	1,221	123	1,098	892.7%
Total Ongoing Dealerships	8,505	6,527	1,978	30.3%	6,527	5,175	1,352	26.1%
Disposed prior to 2002	—	181	(181)		181	115	66	
Total As Reported	$ 8,505	$ 6,708	$ 1,797	26.8%	$ 6,708	$ 5,290	$ 1,418	26.8%

During 2002, the balance of gross property and equipment, excluding land and construction in process, increased $11.6 million, or 12.5%. Approximately $20.3 million of this increase resulted from additional capital expenditures and approximately $8.9 million from dealership acquisitions. These increases were offset by $17.6 million of disposals and other adjustments, including transfers to assets held for sale of $5.8 million. As a percentage of total revenues depreciation expense was 0.1% in both 2002 and 2001.

During 2001, the balance of gross property and equipment, excluding land and construction in process, increased approximately $17.6 million. Approximately $7.4 million of this increase resulted from dealership acquisitions and approximately $9.5 million from additional capital expenditures. As a percentage of total revenues, depreciation expense was at 0.1% in 2000 and 2001.

In accordance with SFAS No. 142, beginning January 1, 2002, goodwill is no longer amortized. Accordingly, no amortization expense was recorded during 2002. Amortization expense from ongoing operations in 2001 was $17.3 million, an increase of 17.3% compared to 2000. The increase was primarily attributable to additional goodwill arising from acquisitions completed prior to July 1, 2001.

Floor Plan Interest Expense

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	$ Change	% Change	12/31/2001	12/31/2000	$ Change	% Change
Interest Expense, floor plan (in thousands)								
Total Ongoing Dealerships	$ 23,959	$ 30,727	(6,768)	(22.0)%	$ 30,727	$ 37,897	(7,170)	(18.9)%
Disposed prior to 2002	—	701	(701)		701	1,976	(1,275)	
Total As Reported	$ 23,959	$ 31,428	$ (7,469)	(23.8)%	$ 31,428	$ 39,873	$ (8,445)	(21.2)%

The average interest rate incurred by ongoing dealerships was 3.5% for the year ended December 31, 2002, compared to 5.7% for the year ended December 31, 2001, which reduced interest expense by approximately $11.8 million. This decrease was partially offset by an increase in floor plan balances during 2002. The average floor plan balance increased from $535.6 million at December 31, 2001 to $679.0 million at December 31, 2002, resulting in an increase in expense of approximately $5.1 million.

The average interest rate incurred by ongoing dealerships was 5.7% for the year ended December 31, 2001, compared to 8.0% for the year ended December 31, 2000, which reduced interest expense by approximately $10.7 million. This decrease was partially offset by an increase in floor plan balances during 2001. The average floor plan balance increased from $474.2 million at December 31, 2000 to $535.6 million at December 31, 2001, resulting in an increase in expense of approximately $3.5 million.

Our floor plan expenses are substantially offset by amounts received from manufacturers in the form of floor plan assistance. These payments are credited against our cost of sales. During the year ended December 31, 2002, the amounts we received from floor plan assistance exceeded our floor plan interest expense by approximately $15.0 million. Conversely, in the year ended December 31, 2001, floor plan interest expense exceeded amounts received for floor plan assistance by approximately $1.7 million.

Other Interest Expense

During 2002, other interest expense from ongoing operations increased $4.0 million, or 11.7%, compared to the same period last year. Interest expense increased $12.8 million as a result of the issuance of an additional $75.0 million in 11% senior subordinated notes in November 2001 and an additional $149.5 million in 5.25% convertible senior subordinated notes in May 2002, but was offset partially by a $10.6 million decrease in interest expense on our revolving credit facility. Of this decrease, approximately $7.8 million was due to a decrease in the average interest rate from 6.9% in 2001 to 4.6% in 2002, and approximately $2.8 million was due to a decrease in the average outstanding balance resulting from the refinancing of a portion of our revolving facility using proceeds from the issuance of convertible senior subordinated notes discussed above, offset partially by borrowings used to finance acquisition activities. The decrease in the weighted average interest rates and average balances was offset by the effective conversion of $200.0 million of our variable rate debt to a fixed rate through two separate $100.0 million interest rate swap agreements entered into on January 15, 2002 and June 6, 2002, whereby we receive interest payments based on LIBOR and make interest payments at fixed rates of 3.88% and 4.50%, respectively. The effect of the swaps resulted in an additional $3.6 million in interest expense in 2002. In addition, the increase in interest expense was partially offset by an increase in the capitalization of interest cost on construction projects of $1.1 million in 2002.

During 2001, other interest expense from ongoing operations decreased by $6.2 million, or 15.2%, compared to 2000. Of the total decrease, approximately $7.0 million was attributable to the decrease in the average interest rate incurred on our revolving credit facility to approximately 6.9% in 2001 from 9.0% in 2000. This decrease was partially offset by an increase in the average outstanding balance of the revolving credit facility to $341.9 million in 2001 from $331.8 million in 2000 due to additional borrowings for acquisitions.

Liquidity and Capital Resources

We require cash to finance acquisitions and fund debt service and working capital requirements. We rely on cash flows from operations, borrowings under our various credit facilities and offerings of debt and equity securities to meet these requirements. Although not required under the terms of any credit agreement, our practice has been to apply all of our available cash to reduce the outstanding balance on our revolving credit facility for the purpose of maximizing the return on these funds and minimizing interest expense.

Because the majority of our consolidated assets are held by our subsidiaries, the majority of our cash flow from operations is generated by these subsidiaries. As a result, our cash flow and ability to service debt depends to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash. Uncertainties in the economic environment as well as uncertainties associated with U.S. military action in the Middle East may affect our overall liquidity.

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 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. Based on our experience, there is minimal risk of these contracts in transit not being approved and funded by the initial finance source. In rare instances where the pre-approving initial finance source does not give final approval of the loan or lease agreement, we are typically able to arrange for financing through another third-party finance source. Because contracts in transit are typically funded within ten days after the initial approval given by the finance source, we do not believe that they have any meaningful impact on our liquidity.

Floor Plan Facilities:

We finance all of our new and certain of our used vehicle inventory through standardized floor plan credit facilities with Chrysler Financial Company, LLC ("Chrysler Financial"), Ford Motor Credit Company ("Ford Credit"), General Motors Acceptance Corporation ("GMAC"), Toyota Motor Credit Corporation ("Toyota Credit") and Bank of America, N.A. These floor plan facilities bear interest at variable rates based on prime and LIBOR. The weighted average interest rate for our floor plan facilities was 3.58% for 2002 and 5.83% for 2001. Interest payments under each of our floor plan facilities are due monthly, and we are generally not required to make principal repayments prior to the sale of the vehicles.

The balances outstanding are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including, among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We were in compliance with all restrictive covenants as of December 31, 2002.

Long-Term Debt and Credit Facilities:

The Revolving Facility: At December 31, 2002 Sonic's revolving credit facility with Ford Credit, Chrysler Financial and Toyota Credit (the "Revolving Facility") had a borrowing limit of $600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately $490.5 million at December 31, 2002). The amounts outstanding under the Revolving Facility bore interest during 2002 at 2.50 percentage points above LIBOR. The Revolving Facility includes an annual commitment fee equal to 0.25% of the unused portion of the facility. The total outstanding balance was approximately $330.7 million as of December 31, 2002. Balances under our Revolving Facility are guaranteed by Sonic's operating subsidiaries.

On February 5, 2003 we amended certain terms of our Revolving Facility. We added Bank of America, N.A. to the lending group and extended the term of the facility from October 31, 2004 to October 31, 2006. In addition, the overall borrowing limit was reduced to $500 million and the interest rate was changed to LIBOR plus 2.55 percentage points. The reduction in the overall limit had no impact on our borrowing base and thus, no effect on our borrowing availability at December 31, 2002. All of the other substantive provisions, including covenants, remained the same. We were in compliance with all of the restrictive and financial covenants under the Revolving Facility at December 31, 2002.

Senior Subordinated Notes: Our outstanding senior subordinated notes mature on August 1, 2008 and bear interest at a fixed rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Our obligations under these notes are guaranteed by our operating subsidiaries. Interest payments are due semi-annually on February 1 and August 1. The notes are subordinated to all of our present and future senior indebtedness, including borrowing under the Revolving Facility. Redemption prices during the 12-month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter.

During 2002, we repurchased $17.6 million in aggregate principal amount of the senior subordinated notes on the open market for approximately $18.2 million. A resulting loss of $1.1 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statement of income for the year ended December 31, 2002. The outstanding principal balance of the senior subordinated notes at December 31, 2002 was $182.4 million. We were in compliance with all of the restrictive covenants under the indentures governing the senior subordinated notes at December 31, 2002.

Convertible Senior Subordinated Notes: On May 7, 2002, we issued $149.5 million in aggregate principal amount of 5.25% convertible senior subordinated notes with net proceeds, before expenses, of approximately $145.1 million. The net proceeds were used to repay a portion of the amounts outstanding under our Revolving Facility. The notes are unsecured obligations that rank equal in right of payment to all of Sonic's existing and future senior subordinated indebtedness, mature on May 7, 2009, and are redeemable at Sonic's option after May 7, 2005. Sonic's obligations under these notes are not guaranteed by any of its subsidiaries. We were in compliance with all restrictive covenants under the indenture governing the convertible senior subordinated notes at December 31, 2002.

The notes are convertible into shares of Class A common stock, at the option of the holder, if as of the last day of the preceding fiscal quarter, the closing sale price of our Class A common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter is more than 110% of the conversion price per share of Class A common stock on the last day of such preceding fiscal quarter. If this condition is satisfied, then the notes will be convertible at any time, at the option of the holder, through maturity. The initial conversion price per share is $46.87, which is subject to adjustment for certain distributions on, or changes in our Class A common stock, if any, prior to the conversion date. In addition, on or before May 7, 2007, a holder also may convert his notes into shares of our Class A common stock at any time after a 10 consecutive trading day period in which the average of the trading day prices for the notes for that 10 trading day period is less than 103% of the average conversion value for the notes during that period. The conversion value is equal to the product of the closing sale price for our Class A common stock on a given day multiplied by the then current conversion rate, which is the number of shares of Class A common stock into which each $1,000 principal amount of notes is then convertible. These notes were not convertible as of December 31, 2002.

In 2002, we repurchased $19.4 million in aggregate principal amount of the convertible notes on the open market for approximately $14.5 million. A resulting gain of $4.3 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statement of income for the year ended December 31, 2002. The outstanding principal balance of the convertible notes at December 31, 2002 was $130.1 million.

The Mortgage Facility: Prior to December 31, 2002, we had a $50 million revolving construction line of credit with Ford Credit bearing interest at 2.25 percentage points above LIBOR. In addition, we had a $50 million real estate acquisition line of credit with Ford Credit bearing interest at 2.00 percentage points above LIBOR. On December 31, 2002, we replaced the Ford Credit facilities with a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Toyota Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to $50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until November 2007. All advances will mature on December 31, 2007, bear interest at 2.25 percentage points above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets.

Under the Permanent Loan, we can refinance up to $100.0 million in advances under the Construction Loan once the projects are completed and can finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. Advances can be made under the Permanent Loan until December 2007. All advances under the Permanent Loan mature on December 31, 2012, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan.

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

We were in compliance with all of the restrictive and financial covenants under the Mortgage Facility at December 31, 2002.

Dealership acquisitions:

During 2002, we acquired 31 dealerships for a combined purchase price of $213.5 million in cash and 1,336,151 shares of Class A common stock valued at approximately $34.5 million. The total purchase price for the acquisitions was based on our internally determined valuation of the dealerships and their assets. The cash portion of the purchase price was financed by cash generated from our existing operations and by borrowings under our Revolving Facility.

Sale-Leaseback Transactions:

In an effort to generate additional capital, we typically seek to structure our operations to minimize the ownership of real property. As a result, facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback transactions. The resulting leases generally have initial terms of 10-15 years and include a series of five-year renewal options. We have no continuing obligations under these arrangements other than lease payments. The majority of our sale-leaseback transactions are done with Capital Automotive REIT, which is not affiliated with Sonic. In 2002, we sold $26.4 million in dealership properties in sale-leaseback transactions. There were no material gains or losses on these sales.

Capital Expenditures:

Our capital expenditures include the construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. Capital expenditures in 2002 were approximately $92.5 million, of which approximately $72.2 million related to the construction of new dealerships and collision repair centers and real estate acquired in connection with such construction. Once completed, these new dealerships and collision repair centers are generally sold in sale-leaseback transactions. After considering proceeds from real estate sales and sale-leaseback transactions, as well as the balance of projects in progress expected to be sold in sale-leaseback transactions, capital expenditures were $18.2 million. We do not expect any significant gains or losses from these sales.

Stock Repurchase Program:

Our board of directors has authorized Sonic to expend up to $145.0 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. During 2002, we repurchased 1,803,900 shares of Class A common stock totaling approximately $33.8 million. Subsequent to December 31, 2002, we have repurchased an additional 432,800 shares of our Class A common stock for approximately $6.7 million. As of March 11, 2002 we had $31.4 million remaining under the board authorization.

Cash Flows:

Cash provided by operating activities includes net income adjusted for the effects of non-cash items such as depreciation and amortization, and the effects of changes in working capital. During 2002, net cash provided by operating activities was approximately $138.9 million. Changes in inventory in 2002, net of notes payable floor plan, resulted primarily from an increase in inventory levels created by lower demand. Changes in other working capital balances, including accounts receivable, accounts payable and other accrued liabilities, are attributed to differences in timing of payments.

Cash used for investing activities in 2002 was approximately $235.0 million, the majority of which was related to dealership acquisitions. Our other principal investing activities include capital expenditures and dealership dispositions.

During 2002, net cash provided by financing activities was approximately $106.7 million and primarily related to $145.1 million of proceeds received from the issuance of 5.25% convertible senior subordinated notes offset by repurchases of Class A common stock and repayments on our revolving credit facilities.

Guarantees:

In accordance with the terms of our real estate lease agreements, our dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. Sonic's exposure with respect to these items is difficult to quantify. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the dealership subsidiary.

In accordance with the terms of agreements entered into for the sale of our dealership franchises, Sonic generally agrees to indemnify the buyer from certain liabilities and costs arising from operations or events that occur prior to the sale but which may or may not be known at the time of sale, including environmental liabilities and liabilities resulting from the breach of representations or warranties made under the agreement. These indemnifications generally expire within a period of one to two years following the date of sale, and Sonic's exposure is generally limited to dollar amounts ranging from $25,000 to $5.0 million as specified within the agreements.

In connection with dealership dispositions, certain of our dealership subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments, environmental remediation, and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, the total estimated rent payments remaining under such leases as of December 31, 2002 was approximately $17.1 million based on lease expiration dates ranging from October 31, 2007 to July 15, 2015. However, in accordance with the terms of the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance.

Future Liquidity Outlook:

Our obligations under our existing credit facilities, indentures and leasing programs are as follows:

	(Amounts in thousands)						
	2003	2004	2005	2006	2007	Thereafter	Total
Floorplan Financing	$ 850,162	$ —	$ —	$ —	$ —	$ —	$ 850,162
Long-Term Debt	2,764	1,011	142	330,799	76	312,523	647,315
Operating Leases	77,005	73,326	69,858	65,520	62,619	357,387	705,715

We believe our best source of liquidity for future growth remains cash flows generated from operations combined with our availability of borrowings under our floor plan financing (or any replacements thereof) and other credit arrangements. Though uncertainties in the economic environment as well as uncertainties associated with U.S. military action in the Middle East may affect our ability to generate cash from operations, we expect to generate more than sufficient cash flow to fund our debt service and working capital requirements and any seasonal operating requirements, including our currently anticipated internal growth for our existing businesses, for the foreseeable future. Once these needs are met, we may use remaining cash flow to support our acquisition strategy or repurchase shares of our Class A common stock or publicly traded debt securities, as market conditions warrant.

Seasonality:

Our operations are subject to seasonal variations. The first and fourth quarters generally contribute less revenue and operating profits than the second and third quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality in new vehicle demand. Parts and service demand remains more stable throughout the year.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Sonic Automotive, Inc.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Sonic Automotive, Inc. and Subsidiaries (the "Company") as of December 31, 2001 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002 the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
February 24, 2003 (October 2, 2003 as to the fourth and fifth paragraphs of Note 1)

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2002
(Dollars in thousands)

	December 31, 2001	December 31, 2002
ASSETS		
Current Assets:		
Cash	$ —	$ 10,576
Receivables, net	270,307	297,859
Inventories	661,305	929,450
Other current assets	29,127	63,742
Total current assets	960,739	1,301,627
Property and Equipment, net	98,972	121,936
Goodwill, net	727,503	875,894
Other Intangible Assets, net	10,600	61,800
Other Assets	12,555	14,051
Total Assets	$ 1,810,369	$ 2,375,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable—floor plan	$ 587,914	$ 850,162
Trade accounts payable	52,198	58,560
Accrued interest	9,676	13,306
Other accrued liabilities	89,322	113,592
Current maturities of long-term debt	2,586	2,764
Total current liabilities	741,696	1,038,384
Long-Term Debt	511,877	637,545
Other Long-Term Liabilities	5,836	16,085
Payable to the Company's Chairman	5,500	5,500
Deferred Income Taxes	28,199	40,616
Commitments and Contingencies		
Stockholders' Equity :		
Class A Convertible Preferred Stock, none issued		
Class A Common Stock, 34,850,738 shares issued at December 31, 2001 and 37,245,706 shares issued at December 31, 2002	348	371
Class B Common Stock, 12,029,375 shares at December 31, 2001 and December 31, 2002, issued and outstanding	121	121
Paid-in capital	343,256	396,813
Retained earnings	232,893	339,457
Accumulated other comprehensive loss	—	(6,447)
Treasury Stock, at cost (6,330,264 shares held at December 31, 2001 and 8,134,164 at December 31, 2002)	(59,357)	(93,137)
Total stockholders' equity	517,261	637,178
Total Liabilities and Stockholders' Equity	$ 1,810,369	$ 2,375,308

See notes to consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2000, 2001 and 2002
(Dollars and shares in thousands, except per share amounts)

	Year Ended December 31,		
	2000	2001	2002
Revenues:			
New vehicles	$ 3,138,248	$ 3,484,139	$ 4,247,459
Used vehicles	1,001,926	1,019,617	1,170,869
Wholesale vehicles	368,533	368,369	459,506
Total vehicles	4,508,707	4,872,125	5,877,834
Parts, service and collision repair	624,466	717,669	905,176
Finance & insurance and other	145,748	172,935	198,708
Total revenues	5,278,921	5,762,729	6,981,718
Cost of sales	4,480,785	4,870,421	5,899,632
Gross profit	798,136	892,308	1,082,086
Selling, general and administrative expenses	582,956	671,611	837,308
Depreciation	5,290	6,708	8,505
Goodwill amortization	15,179	17,007	—
Operating income	194,711	196,982	236,273
Other income / (expense):			
Interest expense, floor plan	(39,873)	(31,428)	(23,959)
Interest expense, other	(40,761)	(34,595)	(38,634)
Other income, net	115	136	3,306
Total other expense	(80,519)	(65,887)	(59,287)
Income from continuing operations before taxes	114,192	131,095	176,986
Provision for income taxes	43,319	51,096	67,419
Net income from continuing operations	70,873	79,999	109,567
Discontinued operations:			
Income/(loss) from operations of discontinued dealerships	5,680	(1,051)	(5,068)
Income tax benefit/(expense)	(2,381)	381	2,065
Net income/(loss) from discontinued operations	3,299	(670)	(3,003)
Net income	$ 74,172	$ 79,329	$ 106,564
Basic net income (loss) per share:			
Net income per share from continuing operations	$ 1.67	$ 1.97	$ 2.63
Net income/(loss) per share from discontinued operations	$ 0.07	$ (0.01)	$ (0.08)
Net income per share	$ 1.74	$ 1.96	$ 2.55
Weighted average common shares outstanding	42,518	40,541	41,728
Diluted net income (loss) per share:			
Net income per share from continuing operations	$ 1.62	$ 1.92	$ 2.54
Net income/(loss) per share from discontinued operations	0.07	$ (0.01)	(0.07)
Net income per share	$ 1.69	$ 1.91	$ 2.47
Weighted average common shares outstanding	43,826	41,609	43,158

See notes to consolidated financial statements

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2000, 2001 and 2002
(Dollars and shares in thousands)

	Preferred Stock		Class A Common Stock		Class B Common Stock							
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
BALANCE AT DECEMBER 31, 1999	28	$ 27,191	29,075	$ 291	12,250	$ 123	$ 301,934	$ 79,392	$ (6,358)	$ —	$ 402,573	$ —
Issuance of Preferred Stock	11	11,589	—	—	—	—	—	—	—	—	11,589	—
Issuance of Class A Common Stock	—	—	809	8	—	—	(8)	—	—	—	—	—
Shares awarded under stock compensation plans	—	—	441	4	—	—	2,615	—	—	—	2,619	—
Conversion of Preferred Stock	(26)	(25,947)	2,967	30	—	—	25,917	—	—	—	—	—
Redemption of Preferred Stock	(13)	(12,582)	—	—	—	—	(969)	—	—	—	(13,551)	—
Purchase of Treasury Stock	—	—	—	—	—	—	—	—	(26,480)	—	(26,480)	—
Net income	—	—	—	—	—	—	—	74,172	—	—	74,172	74,172
BALANCE AT DECEMBER 31, 2000	—	251	33,292	333	12,250	123	329,489	153,564	(32,838)	—	450,922	74,172
Shares awarded under stock compensation plans	—	—	1,257	12	—	—	9,970	—	—	—	9,982	—
Conversion of Class B Common Stock	—	—	221	2	(221)	(2)	—	—	—	—	—	—
Redemption of Preferred Stock	—	(251)	—	—	—	—	—	—	—	—	(251)	—
Exercise of Warrants	—	—	81	1	—	—	(1)	—	—	—	—	—
Purchase of Treasury Stock	—	—	—	—	—	—	—	—	(26,519)	—	(26,519)	—
Income tax benefit associated with stock compensation plans	—	—	—	—	—	—	3,798	—	—	—	3,798	—
Net Income	—	—	—	—	—	—	—	79,329	—	—	79,329	79,329
BALANCE AT DECEMBER 31, 2001	—	—	34,851	348	12,029	121	343,256	232,893	(59,357)	—	517,261	79,329
Shares awarded under stock compensation plans	—	—	1,059	10	—	—	12,246		—	—	12,256	—
Issuance of Class A Common Stock for Acquisitions	—	—	1,336	13	—	—	34,496	—	—	—	34,509	—
Purchase of Treasury Stock	—	—	—	—	—	—	—	—	(33,780)	—	(33,780)	—
Income tax benefit associated with stock compensation plans	—	—	—	—	—	—	6,815	—	—	—	6,815	—
Fair value of interest rate swap agreement, net of tax benefit of $ 4,122	—	—	—	—	—	—	—	—	—	(6,447)	(6,447)	(6,447)
Net income	—	—	—	—	—	—	—	106,564	—	—	106,564	106,564
BALANCE AT DECEMBER 31, 2002	—	—	37,246	$ 371	12,029	$ 121	$ 396,813	$ 339,457	$ (93,137)	$ (6,447)	$ 637,178	$ 100,117

See notes to consolidated financial statements

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2000, 2001, 2002
(Dollars in Thousands)

	Years Ended December 31,		
	2000	**2001**	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 74,172	$ 79,329	$ 106,564
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,714	25,790	8,974
Amortization of debt issue costs	293	314	785
Deferred income taxes	12,384	11,788	15,048
Equity interest in (earnings) losses of investees	119	(264)	(354)
(Gain)/Loss on disposal of assets	317	(897)	(3,470)
Gain on retirement of debt	—	—	(3,144)
Income tax benefit associated with stock compensation plans	—	3,798	6,815
Changes in assets and liabilities that relate to operations:			
Receivables	(50,114)	(11,505)	(26,888)
Inventories	(72,080)	219,135	(27,254)
Other assets	2,225	(2,572)	(688)
Notes payable – floor plan	105,809	(203,840)	43,224
Trade accounts payable and other liabilities	(14,590)	5,593	19,271
Total adjustments	7,077	47,340	32,319
Net cash provided by operating activities	81,249	126,669	138,883
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of businesses, net of cash acquired	(91,554)	(120,158)	(202,365)
Purchases of property and equipment	(73,171)	(43,600)	(92,516)
Proceeds from sales of property and equipment	47,943	12,810	42,320
Proceeds from sale of dealerships	7,148	14,068	17,575
Net cash used in investing activities	(109,634)	(136,880)	(234,986)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings/(repayments) on revolving credit facilities	69,342	(45,885)	18,257
Proceeds from long-term debt	1,418	74,583	145,074
Payments on long-term debt	(3,696)	(2,966)	(2,382)
Repurchase of debt securities	—	—	(32,746)
Redemptions of Preferred Stock	(13,551)	(251)	—
Purchases of Class A Common Stock	(26,480)	(26,519)	(33,780)
Issuance of shares under stock compensation plans	2,619	9,982	12,256
Net cash provided by financing activities	29,652	8,944	106,679
NET INCREASE (DECREASE) IN CASH	1,267	(1,267)	10,576
CASH, BEGINNING OF YEAR	—	1,267	—
CASH, END OF YEAR	$ 1,267	$ —	$ 10,576
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 90,678	$ 71,972	$ 65,019
Income taxes	$ 36,821	$ 30,553	$ 42,239
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Class A Convertible Preferred Stock issued for acquisitions and contingent consideration	$ 11,589	$ —	$ —
Conversion of Class A Convertible Preferred Stock	$ 25,947	$ —	$ —
Class A Common Stock issued for acquisitions	$ —	$ —	$ 34,509
Change in fair value of cash flow hedging instrument (net of tax benefit of $4,122)	$ —	$ —	$ (6,447)

See notes to consolidated financial statements.

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") is one of the largest automotive retailers in the United States (as measured by total revenue), operating 186 dealership franchises and 44 collision repair centers throughout the United States as of December 31, 2002. Sonic sells new and used cars and light trucks, sells replacement parts, provides vehicle maintenance, warranty, paint and repair services, and arranges related financing and insurance for its automotive customers. As of December 31, 2002, Sonic sold a total of 34 foreign and domestic brands of new vehicles.

Principles of Consolidation—All material intercompany balances and transactions have been eliminated in the consolidated financial statements. In addition, Sonic has a 50% ownership interest in two joint ventures where the partners are not affiliated with Sonic. These investments are accounted for under the equity method whereby we record our share of each respective joint venture's pretax profit or loss. We recorded $0.4 million in net income in 2002 and $0.3 million in net income in 2001 related to these investments. These entities are not consolidated into Sonic's financial statements because Sonic does not have operating control of the entities. However, Sonic has guaranteed $6.0 million in indebtedness between North Point Volvo, LLC, one of the joint ventures, and Bank of America, N.A., including a $5.5 million revolving floor plan agreement expiring in 2003, of which $2.0 million was outstanding at December 31, 2002, and a $0.4 million term loan expiring in 2007. We have guaranteed no other obligations of either company.

Reclassifications—Effective January 1, 2002, Sonic adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 broadened the definition of items which qualify as discontinued operations. As a result, individual dealerships sold or classified as held for sale after December 31, 2001 are now required to be reported as discontinued operations. During 2002, Sonic completed the disposal of 16 automobile franchises and as of December 31, 2002 had approved, but not yet completed, the disposition of ten additional franchises. In accordance with the provisions of SFAS No. 144, the results of operations of these franchises for the years ended December 31, 2002, 2001 and 2000 were reported as discontinued operations in Sonic's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

As of March 31, 2003, Sonic had approved, but not yet completed, the disposition of seven additional franchises that had not been identified for disposition as of December 31, 2002. In accordance with the provisions of SFAS No. 144, the results of operations of these franchises for the years ended December 31, 2002, 2001, and 2000 were removed from the results from continuing operations and included in the results from discontinued operations. In addition, as of March 31, 2003, Sonic decided to retain three franchises that had previously been identified for disposition as of December 31, 2002. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships for the years ended December 31, 2002, 2001, and 2000 were removed from discontinued operations and included in the results from continuing operations.

As of June 30, 2003, Sonic had approved, but not yet completed, the disposition of one additional franchise that had not been identified for disposition as of March 31, 2003. In accordance with the provisions of SFAS No. 144, the results of operations of this franchise for the years ended December 31, 2002, 2001, and 2000 were removed from the results from continuing operations and included in the results from discontinued operations on the accompanying statements of income. In addition, as of June 30, 2003, Sonic decided to retain two franchises that had previously been identified for disposition as of March 31, 2003. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships for the years ended December 31, 2002, 2001, and 2000 were removed from discontinued operations and included in the results from continuing operations on the accompanying statements of income. As a result of these additions to and removals from discontinued operations, certain amounts have been reclassified within Notes 1, 2, 6, 8 and 11.

The Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue No. 02-16, "Accounting by a Customer for Certain Consideration Received from a Vendor." In accordance with Issue No. 02-16, certain incentives received from manufacturers not intended to reimburse specific, incremental, identifiable costs incurred in selling manufacturers' products which had previously been classified as a reduction of selling, general and administrative expenses have now been reclassified as a reduction of cost of sales for all periods presented.

In addition, in order to maintain consistency and comparability between periods, certain other amounts in our consolidated balance sheets have been reclassified from previously reported balances to conform to the current year presentation. These reclassifications relate primarily to contracts-in-transit which are now classified in receivables, net rather than cash.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates particularly related to allowance for credit loss, realization of inventory, intangible asset and deferred tax asset values, reserves for future chargebacks, insurance reserves and certain accrued expenses.

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

Sonic arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution. Sonic also receives commissions from the sale of 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.

Floor Plan Assistance—Floor plan assistance payments received from manufacturers are generally based on rates similar to those incurred under our floor plan financing arrangements. This assistance is considered a subsidy of the carrying cost of our new vehicle inventory. Sonic recognizes this assistance as a reduction of cost of sales in the accompanying consolidated statements of income. Amounts included in cost of sales were $31.3 million, $29.9 million and $38.0 million for the years ended December 31, 2000, 2001 and 2002, respectively.

Cash—Although not required under the terms of any credit agreement, Sonic's practice has been to apply all of its available cash to reduce the outstanding balance on Sonic's revolving credit facility for the purpose of maximizing the return on these funds and minimizing interest expense.

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, net on the accompanying consolidated balance sheets and totaled $127.9 million at December 31, 2001 and $135.4 million at December 31, 2002.

Accounts receivable—Our accounts receivable consist primarily 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. We believe that there is a minimal risk of uncollectability on warranty receivables. We evaluate parts and other receivables for collectablity based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts receivable is not significant.

Inventories—Inventories of new 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, which primarily include rental and service vehicles, are stated at the lower of specific cost or market.

Sonic assesses the valuation of all of 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, Sonic primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, Sonic considers recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are primarily assessed considering excess quantity and continued usefulness of the part. The risk with parts inventories is minimized by the fact that excess or obsolete parts can generally be returned to the manufacturer. We have not recorded any significant reserves on any of our inventory balances.

Property and Equipment—Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The range of estimated useful lives is as follows:

Building and improvements.	5-40 years
Office equipment and fixtures.	5-15 years
Parts and service equipment.	15 years
Company vehicles	5 years

As discussed above, effective January 1, 2002, Sonic adopted the provisions of SFAS No. 144 regarding the accounting for the impairment of long-lived assets which requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance in asset valuation and measuring impairment. Accordingly, Sonic reviews the carrying value of property and equipment and other long-term assets (other than goodwill) 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. No impairment has been determined or recorded in any of the periods presented.

Derivative Instruments and Hedging Activities—Sonic utilizes derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks being hedged are those relating to the variability of future earnings and 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. The only derivatives currently being used are interest rate swaps used for the purpose of hedging cash flows of variable rate debt. These derivatives are used only for that purpose, not for speculation or trading purposes. The derivatives, which have been designated and qualify as cash flow hedging instruments, are reported at fair value in the accompanying balance sheets. The gain or loss on the effective portion of the hedge is initially reported as a component of accumulated other comprehensive loss.

Goodwill and Other Intangible Assets—Effective July 1, 2001, Sonic adopted the provisions of SFAS No. 141, “Business Combinations.” Among other provisions, SFAS No. 141 provides guidance regarding the recognition and measurement of goodwill and other acquired intangible assets. For acquisitions after July 1, 2001, the provisions of SFAS No. 141 require separate recognition of intangible assets acquired if the benefit of the asset is obtained through contractual or other legal rights, or if the asset can be sold, transferred, licensed, rented, or exchanged. 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. The principal identifiable intangible assets other than goodwill acquired in an acquisition are rights under franchise agreements with manufacturers. The economic useful lives of these franchise agreements have been determined to be indefinite. Franchise agreements acquired after July 1, 2001 have been included in Other Intangible Assets on the accompanying consolidated balance sheets. Prior to the adoption of SFAS No. 141, franchise agreements were recorded and amortized as part of goodwill.

Effective January 1, 2002, Sonic also adopted the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets.” Among other things, SFAS No. 142 no longer permits the amortization of goodwill or intangible assets with indefinite lives, but requires that the carrying amount of such assets be reviewed for impairment and reduced against operations if they are found to be impaired. Prior to the adoption of SFAS No. 142, goodwill and intangible assets acquired prior to July 1, 2002 were amortized over a 40 year period. Effective January 1, 2002, such amortization ceased. The following table shows the effect on net income and net income per share for the years ending December 31, 2000 and 2001 as if the provisions of SFAS No. 142 eliminating goodwill amortization had been applied as of January 1, 2000.

	For the Year ended December 31,		
	2000	2001	2002
Reported net income	$ 74,172	$ 79,329	$ 106,564
Goodwill amortization, net of tax	9,702	13,509	—
Adjusted net income	$ 83,874	$ 92,838	$ 106,564
Basic net income per share:			
Reported net income	$ 1.74	$ 1.96	$ 2.55
Goodwill amortization, net of tax	0.23	0.33	—
Adjusted net income	$ 1.97	$ 2.29	$ 2.55
Diluted net income per share:			
Reported net income	$ 1.69	$ 1.91	$ 2.47
Goodwill amortization, net of tax	0.22	0.33	—
Adjusted net income	$ 1.91	$ 2.24	$ 2.47

We have completed the impairment tests required by SFAS No. 142 for goodwill and other intangible assets with indefinite lives. In order to evaluate goodwill for impairment, we compared the carrying value to the fair value of the underlying businesses. Based on the results of our tests, no impairment was indicated for goodwill or other intangible assets. We will continue to test goodwill and other intangible assets with indefinite lives for impairment annually, or more frequently if events or circumstances indicate possible impairment.

Income Taxes—Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided at currently 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 in the financial statements. A valuation allowance is provided when it is more likely than not that taxable income will not be sufficient to fully realize the benefits of deferred tax assets. No valuation allowance has been recorded in any period presented.

Stock-Based Compensation—In December 2002, the FASB issued Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". SFAS No. 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to provide alternate methods of transition for companies electing to voluntarily change to the fair value method of accounting for stock-based compensation and also amends the disclosure provisions of SFAS No. 123. The provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. Sonic has adopted the disclosure provisions of SFAS No. 148.

At December 31, 2002, we had three stock-based employee compensation plans, which are described more fully in Note 9. Sonic accounts for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. In accordance with those provisions, because the exercise price of all options granted under those plans equaled the market value of the underlying stock at the grant date, no stock-based employee compensation cost is recorded. Using the Black-Scholes option pricing model for all options granted, the following table illustrates the effect on net income and earnings per share if Sonic had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation:

	For the Year ended December 31,		
	2000	2001	2002
Reported net income	$ 74,172	$ 79,329	$ 106,564
Fair value compensation cost, net of tax	(3,399)	(5,685)	(7,933)
Pro forma net income	$ 70,773	$ 73,644	$ 98,631
Basic net income per share:			
Reported net income	$ 1.74	$ 1.96	$ 2.55
Fair value compensation cost, net of tax	(0.08)	(0.14)	(0.19)
Pro forma net income	$ 1.66	$ 1.82	$ 2.36
Diluted net income per share:			
Reported net income	$ 1.69	$ 1.91	$ 2.47
Fair value compensation cost, net of tax	(0.08)	(0.14)	(0.18)
Pro forma net income	$ 1.61	$ 1.77	$ 2.29

The weighted average fair value of options granted or assumed was $4.41, $3.79, and $15.12 per share in 2000, 2001 and 2002, respectively. The fair value of each option granted during 2000, 2001 and 2002 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2000	2001	2002
Employee Stock Purchase Plan			
Dividend yield	n/a	n/a	n/a
Risk free interest rates	5.32 – 6.74%	2.17 – 4.30%	1.51 – 2.76%
Expected lives	0.25 – 1.0 year	0.25 – 1.0 year	0.25 –1.0 year
Volatility	44.85%	55.21%	52.36%
Stock Option Plans			
Dividend yield	n/a	n/a	n/a
Risk free interest rates	5.92% – 6.53%	3.47 – 5.07%	3.26 – 4.58%
Expected lives	5 years	5 years	5 years
Volatility	44.85%	55.21%	53.27%

Concentrations of Credit 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 may exceed FDIC insurance limits. Concentrations of credit risk with respect to receivables are limited primarily to automobile manufacturers and financial institutions. The large number of customers comprising the trade receivables balances reduces credit risk arising from trade receivables from commercial customers.

As of December 31, 2002, Sonic has outstanding notes receivable from finance contracts of $12.4 million, net of an allowance for credit losses of $1.9 million. Outstanding notes receivable at December 31, 2001 were $12.0 million, net of an allowance of $1.8 million. These notes have average terms of approximately 30 months and are secured by the related vehicles. The assessment of our allowance for credit losses considers historical loss ratios and the performance of the current portfolio with respect to past due accounts. These notes are recorded in other current and long-term assets on the accompanying consolidated balance sheets.

Financial Instruments and Market Risks—As of December 31, 2001 and 2002, the fair values of Sonic's financial instruments, including receivables, notes receivable from finance contracts, notes payable-floor plan, trade accounts payable, payables to Sonic's Chairman, payables for acquisitions and long-term debt, excluding Sonic's senior subordinated 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 of Sonic's senior subordinated notes based on the quoted bid price as of December 31, 2001 and 2002 was approximately $207.0 million and $189.7 million, respectively. The carrying value of Sonic's senior subordinated notes as of December 31, 2001 and 2002 was approximately $195.7 million and $179.0 million, respectively.

The fair value of Sonic's convertible senior subordinated notes based on the quoted bid price as of December 31, 2002 was approximately $100.4 million. The carrying value of Sonic's convertible senior subordinated notes as of December 31, 2002 was approximately $126.5 million.

Sonic has variable rate floor plan note facilities, revolving credit facilities and other variable rate notes that expose it to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such facilities was approximately $911.3 million at December 31, 2001 and $1,190.5 million at December 31, 2002.

In order to reduce its exposure to market risks from fluctuations in interest rates, Sonic entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2002 to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The swaps each have a notional principal amount of $100 million and mature on October 31, 2004 and June 6, 2006, respectively. Under the terms of the swap agreement entered into on January 15, 2002, Sonic receives interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and makes interest payments at a fixed rate of 3.88%. Under the terms of the swap agreement entered into on June 6, 2002, Sonic receives interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and makes interest payments at a fixed rate of 4.50%. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of these interest rate swaps was $3.6 million for year ended December 31, 2002, and has been included in interest expense, other in the accompanying consolidated statements of income.

The interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the interest rate swaps have been recorded in accumulated other comprehensive loss, net of related income taxes, in our statements of stockholders' equity. The fair value of the interest rate swaps as of December 31, 2002 is recorded in other long-term liabilities on the accompanying balance sheet. The change in fair value of the swaps during the year ended December 31 2002, recorded in accumulated other comprehensive loss, was approximately $10.6 million ($6.4 million, net of tax). Because the critical terms of the interest rate swaps and the underlying debt obligations were the same, no ineffectiveness was recorded.

Advertising—Sonic expenses advertising costs in the period incurred, net of earned manufacturer credits for advertising. Advertising expense amounted to $47.7 million, $47.1 million and $61.9 million for the years ended December 31, 2000, 2001 and 2002, respectively.

Segment Information—Sonic sells similar products and services (new and used vehicles, parts, service and collision repair services), uses similar processes in selling products and services, and sells its products and services to similar classes of customers. As a result of this and the way Sonic manages its business, Sonic has aggregated its results into a single segment for purposes of reporting financial condition and results of operations.

Recent Accounting Pronouncements—In April 2002, the FASB issued SFAS No. 145: "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Prior to adoption, gains or losses resulting from extinguishment of debt were required to be classified as extraordinary items, net of related tax effects. Upon adoption of SFAS No. 145, however, the classification of such gains or losses as extraordinary must be evaluated based on the criteria established in APB Opinion No. 30. Gains and losses not meeting that criteria, including gains and losses classified as extraordinary in prior periods, must be classified in income from operations. Sonic adopted the provisions of SFAS No. 145 effective July 1, 2002. Gains or losses incurred on the early extinguishment of debt (debt repurchases) have been included in other income in the accompanying consolidated statements of income.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of a liability for costs associated with an exit or disposal activity at the time the liability is incurred, rather than at the date of the entity's commitment to the exit or disposal plan. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS No. 146 to have a material effect on our consolidated operating results, financial position, or cash flows.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others." FIN 45 requires the recognition of a liability for certain guarantees issued after December 31, 2002, or for modifications made after December 31, 2002 to previously issued guarantees, and clarifies disclosure requirements for certain guarantees. The disclosure provisions of FIN 45 are effective for fiscal years ended after December 15, 2002. We have adopted the disclosure provisions of FIN 45 as of December 31, 2002. See Note 10.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary if the equity investors do not have a controlling financial interest or sufficient equity at risk to finance the entities' activities without additional subordinated financial support of other parties. The provisions of FIN 46 are effective for all variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to that date, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133 generally entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003. We do not expect SFAS No. 149 to have a material effect in our consolidated operating results, financial position, or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity and is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect SFAS No. 150 to have a material effect on our consolidated operating results, financial position, or cash flows.

2. Business Acquisitions and Dispositions

Completed Acquisitions

Sonic generally seeks to acquire larger, well managed dealerships or multiple franchise dealership groups located in metropolitan or high growth suburban markets. Sonic also looks to acquire single franchise dealerships that will allow Sonic to capitalize on professional management practices and provide greater breadth of products and services in existing markets.

Occasionally, Sonic acquires dealerships that have under performed the industry average, but represent attractive franchises or have attractive locations that would immediately benefit from our professional management.

On March 25, 2002, Sonic acquired 15 dealerships, and on May 20, 2002 acquired one additional dealership, owned directly or indirectly by Donald E. Massey (the "Massey Acquisition") for approximately $117.5 million in cash and 1,336,151 shares of Class A common stock valued at approximately $34.5 million, based on the average closing price as quoted by the New York Stock Exchange for several days before and after the acquisition was announced. The acquired dealerships are located in California, Colorado, Florida, North Carolina, Michigan, Tennessee and Texas. The purchase price of this acquisition has been allocated to the assets and liabilities acquired based on their estimated fair market value at the acquisition date as shown in the table below:

Inventories	$ 162,492
Floor plan notes payable	(143,659)
Other working capital	1,776
Property and equipment	4,719
Goodwill	93,523
Other intangible assets	35,426
Non-current liabilites assumed	(2,240)
Total purchase price	$ 152,037

The tax deductible goodwill associated with the above acquisitions was approximately $68.5 million.

During 2002, Sonic also acquired the following dealerships for approximately $96.0 million in cash:

- On January 21, 2002, Sonic acquired Park Place Audi located in Dallas, Texas;
- On February 25, 2002, Sonic acquired five dealerships owned by Don Kott located in the metropolitan area of Los Angeles, California;
- On March 18, 2002, Sonic acquired Philpott Motors Hyundai located in the metropolitan area of Houston, Texas;
- On July 2, 2002, Sonic acquired three dealerships owned by Frank Parra located in the metropolitan area of Dallas, Texas;

- On July 15, 2002, Sonic acquired Acura 101 located in the metropolitan area of Los Angeles, California;
- On August 26, 2002, Sonic acquired Stone Mountain Chevrolet located in the metropolitan area of Atlanta, Georgia;
- On September 19, 2002, Sonic acquired Riverside Toyota located in Tulsa, Oklahoma;
- On September 30, 2002, Sonic acquired Capital Imports located in Columbia, South Carolina; and
- On December 12, 2002, Sonic acquired Mountain States Motors located in Denver, Colorado.

Goodwill recognized in these transactions amounted to approximately $67.9 million of which approximately $18.6 million is expected to be fully deductible for tax purposes.

During 2001, Sonic acquired 12 dealerships for approximately $129.9 million in cash.

During 2000, Sonic acquired 11 dealerships for approximately $92.0 million in cash and 11,589 shares of Sonic's Class A convertible preferred stock, Series II, recorded at an estimated value of approximately $11.6 million.

All of our acquisitions have been accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying consolidated financial statements from their respective acquisition dates. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of our recent acquisitions. As a result, the values of assets and liabilities acquired in 2002 reflect preliminary estimates where values have not yet been determined and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of assets and liabilities will be recorded against goodwill.

Pro Forma Results of Operations

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

	Year Ended December 31,	
	2001	2002
Total revenues	$ 8,213,354	$ 7,451,083
Gross profit	$ 1,182,566	$ 1,138,019
Net income	$ 89,780	$ 109,519
Diluted net income per share	$ 2.16	$ 2.54

Sale of Dealership Subsidiaries

During 2002, Sonic disposed of 16 franchises, resulting in the closing of nine dealerships and three collision repair centers, and approved, but had not completed the sale of, ten additional franchises, which will result in the closing of nine additional dealerships. In addition, as of June 30, 2003, Sonic had approved, but not yet completed, the disposition of seven additional franchises that had not been identified for disposition as of December 31, 2002. Also as of June 30, 2003, Sonic decided to retain five franchises that had previously been identified for disposition as of December 31, 2002. These were generally smaller franchises with unprofitable operations. The franchises disposed of and held for sale as of June 30, 2003, generated combined revenues of $432.9 million during 2002 and $574.6 million in 2001, and generated a combined pre-tax loss of $5.1 million and $1.1 million in 2002 and 2001, respectively. In accordance with the provisions of SFAS No. 144, the results of operations of these franchises, including gains or losses on disposition, have been included in the loss from operations of discontinued franchises in the accompanying consolidated statements of income. Long lived assets to be disposed in connection with the dealerships not yet sold as of December 31, 2002, consisting primarily of property plant and equipment and goodwill, totaled approximately $14.5 million at December 31, 2002 and have been classified in other current assets in the accompanying audited consolidated balance sheet. Other assets and liabilities to be disposed in connection with these dispositions include inventories, and related floor plan notes payable.

In addition to the dispositions discussed above, during the year ended December 31, 2001, Sonic sold or otherwise disposed of assets from 15 other dealership franchises, resulting in the closing of nine dealerships. These dealerships generated combined revenues of $81.6 million and incurred pretax losses of $4.4 million in the year ended December 31, 2001. The results of operations of these dealerships have been included in net income from continuing operations in the accompanying consolidated statements of income.

3. Inventories and Related Notes Payable—Floor Plan

Inventories consist of the following:

	December 31,	
	2001	2002
New vehicles	$476,628	$733,757
Used vehicles	110,152	111,884
Parts and accessories	48,705	50,860
Other	25,820	32,949
Total	$661,305	$929,450

We finance our new vehicle inventory through standardized floor plan credit facilities with Chrysler Financial Company, LLC (“Chrysler Financial”), Ford Motor Credit Company (“Ford Credit”), General Motors Acceptance Corporation (“GMAC”), Toyota Motor Credit Corporation (“Toyota Credit”) and Bank of America, NA. These floor plan facilities bear interest at variable rates based on prime and LIBOR. The weighted average interest rate for our floor plan facilities was 3.58% for the year ended December 31, 2002 and 5.83% for the year ended December 31, 2001. Our floor plan interest expenses are substantially offset by amounts received from manufacturers, in the form of floor plan assistance, which is recorded as a reduction of cost of sales. During the year ended December 31, 2002, the amounts we received from floor plan assistance exceeded our floor plan interest expense by approximately $15.0 million.

The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of December 31, 2002.

4. Property and Equipment

Property and equipment is comprised of the following:

	December 31,	
	2001	2002
Land	$ 10,863	$ 5,983
Building and improvements	34,387	42,201
Office equipment and fixtures	29,492	31,616
Parts and service equipment	21,917	22,485
Company vehicles	7,078	8,211
Construction in progress	16,003	33,637
Total, at cost	119,740	144,133
Less accumulated depreciation	(20,768)	(22,197)
Property and equipment, net	$ 98,972	$121,936

Interest capitalized in conjunction with construction projects was approximately $1.1 million, $1.4 million and $2.5 million for the years ended December 31, 2000, 2001, and 2002, respectively.

In addition to the amounts shown above, Sonic incurred approximately $39.2 million in real estate and construction costs as of December 31, 2002 and $18.0 million as of December 31, 2001 on facilities that are or were expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs are included in other current assets on the accompanying consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the properties to a third party entity and enters into long-term operating leases on the facilities.

5. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2001	2002
Senior Subordinated Notes bearing interest at 11%, maturing August 1, 2008	$ 200,000	$ 182,360
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009	—	130,100
$600 million revolving credit facility bearing interest at 2.50 percentage points above LIBOR and maturing in October 2004, collateralized by all assets of Sonic (1)	299,193	330,718
$50 million revolving construction line of credit with Ford Credit	8,533	—
$50 million revolving real estate acquisition line of credit with Ford Credit	4,735	—
$50 million revolving construction line of credit with Toyota Credit bearing interest at 2.25 percentage points above LIBOR and maturing December 31, 2007, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets.	—	—
$100 million revolving real estate acquisition line of credit with Toyota Credit bearing interest at 2.00 percentage points above LIBOR and maturing December 31, 2012, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets	—	—
Other notes payable (primarily equipment notes)	6,306	4,137
	$ 518,767	$ 647,315
Less unamortized discount	(4,304)	(7,006)
Less current maturities	(2,586)	(2,764)
Long-term debt	$ 511,877	$ 637,545

(1) Certain terms have been amended subsequent to December 31, 2002. See further discussion below.

Future maturities of debt are as follows:

Year ending December 31,	
2003	$ 2,764
2004	1,011
2005	142
2006	330,799
2007	76
Thereafter	312,523
Total	$647,315

The Revolving Facility

As of December 31, 2002 Sonic has a revolving credit facility (the "Revolving Facility") with Ford Credit, Chrysler Financial and Toyota Credit with a borrowing limit of $600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately $490.5 million at December 31, 2002). The amounts outstanding under the Revolving Facility bore interest at 2.50% above LIBOR (LIBOR was 1.38% at December 31, 2002) and had an original maturity date of October 31, 2004 (terms have been amended subsequent to December 31, 2002; see discussion below).

The Revolving Facility includes a commitment fee equal to 0.25% of the unused portion of the facility. This fee was approximately $0.2 million in 2001 and approximately $0.8 million in 2002.

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

Covenant	Required
Current ratio	>1.23
Fixed charge coverage	>1.41
Interest coverage	>2.00
Adjusted debt to EBITDA	<2.25

Sonic was in compliance with all of the above financial covenants as of December 31, 2002.

In addition, the loss of voting control over Sonic by O. Bruton Smith, Chairman and Chief Executive Office, Scott Smith, Chief Strategic Officer and Vice Chairman, and their spouses or immediate family members or our failure, with certain exceptions, to own all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default under the Revolving Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2002.

On February 5, 2003, Sonic amended the Revolving Facility to add Bank of America, N.A. to the lending group and extended the term of the facility from October 31, 2004 to October 31, 2006. In addition, the overall limit was reduced to $500 million and the interest rate was changed to LIBOR plus 2.55 percentage points. Because the calculation of the borrowing base (as described above) did not change, the total availability under the Revolving Facility remained the same. All other significant covenants and terms of the Revolving Facility remained the same.

Convertible Senior Subordinated Notes

On May 7, 2002, Sonic issued $149.5 million in aggregate principal amount of 5.25% convertible senior subordinated notes with net proceeds, before expenses, of approximately $145.1 million. The net proceeds were used to repay a portion of the amounts outstanding under the Revolving Credit Facility. The notes are unsecured obligations that rank equal in right of payment to all of Sonic's existing and future senior subordinated indebtedness, mature on May 7, 2009 and are redeemable at Sonic's option after May 7, 2005. Sonic's obligations under these notes are not guaranteed by any of its subsidiaries.

The notes are convertible into shares of Class A common stock, at the option of the holder, if as of the last day of the preceding fiscal quarter, the closing sale price of our Class A common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading-day of such preceding fiscal quarter is more than 110% of the conversion price per share of Class A common stock on the last day of such preceding fiscal quarter. If this condition is satisfied, then the notes will be convertible at any time, at the option of the holder, through maturity. The initial conversion price per share is $46.87, and will be subject to adjustment for certain distributions on, or other changes in our Class A Common Stock, if any, prior to the conversion date. In addition, on or before May 7, 2007, a holder also may convert notes into shares of our Class A common stock at any time after a 10 consecutive trading-day period in which the average of the trading day prices for the notes for that 10 trading-day period is less than 103% of the average conversion value for the notes during that period. The conversion value is equal to the product of the closing sale price for our Class A common stock on a given day multiplied by the then current conversion rate, which is the number of shares of Class A common stock into which each $1,000 principal amount of notes is then convertible. These notes were not convertible as of December 31, 2002.

In the year ended December 31, 2002, Sonic repurchased $19.4 million in aggregate principal amount of the convertible notes on the open market for approximately $14.5 million. A resulting gain of $4.3 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statements of income for the year ended December 31, 2002.

Senior Subordinated Notes

The senior subordinated notes are subordinated to all present and future senior indebtedness of Sonic, including the revolving credit facility discussed above. The senior subordinated notes are unsecured, mature on August 1, 2008, and are redeemable at Sonic's option after August 1, 2003. Interest payments are due semi-annually on February 1 and August 1. Redemption prices during the 12-month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter. The discount on the senior subordinated notes is being amortized over the term of the notes using the effective interest method.

In the year ended December 31, 2002, Sonic repurchased $17.6 million in aggregate principal amount of the senior subordinated notes on the open market for approximately $18.2 million. A resulting loss of $1.1 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statements of income for the year ended December 31, 2002.

The indentures governing the senior subordinated notes contain certain specified restrictive and required financial covenants. Sonic has agreed not to pledge its assets to any third party except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to shareholders, distributions and redemptions. Sonic was in compliance with all restrictive covenants as of December 31, 2002.

The Mortgage Facility

Prior to December 31, 2002, we had a $50.0 million revolving construction line of credit with Ford Credit bearing interest at 2.25 percentage points above LIBOR. In addition, we had a $50.0 million real estate acquisition line of credit with Ford Credit bearing interest at 2.00 percentage points above LIBOR. On December 31, 2002, we replaced the Ford Credit facilities with a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Toyota Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to $50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until November 2007. All advances will mature on December 31, 2007, bear interest at 2.25 percentage points above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets.

Under the Permanent Loan, we can borrow up to $100.0 million to refinance advances under the Construction Loan once the projects are completed or to finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. Advances can be made under the Permanent Loan until December 2007. All advances under the Permanent Loan mature on December 31, 2012, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan.

The Mortgage Facility allows us to borrow up to $100.0 million in the aggregate under the Construction Loan and the Permanent Loan. The Mortgage Facility is not cross-collateralized with the Revolving Facility; however, a default under one will cause a default under the other. Among other customary covenants, the borrowing subsidiaries under the Mortgage Facility agreed not to incur any other liens on their property (except for existing encumbrances on property acquired) and not to transfer their property or more than 20% of their ownership interests to any third party. In addition, the loss of voting control by Bruton Smith, Scott Smith and their spouses or immediate family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2002.

Subsidiary Guarantees

Balances outstanding under Sonic's revolving credit facilities and senior subordinated notes are guaranteed by all of Sonic's operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations and subsidiaries that are not guarantors are not material.

6. Income Taxes

The provision for income taxes from continuing operations consists of the following:

	2000	2001	2002
Current:			
Federal	$ 28,876	$ 34,470	$ 44,002
State	3,935	4,473	5,566
	32,811	38,943	49,568
Deferred	10,508	12,153	17,851
Total provision for income taxes from continuing operations	$ 43,319	$ 51,096	$ 67,419

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:

	2000	2001	2002
Statutory federal rate	35.00%	35.00%	35.00%
Effective state income tax rate	1.63	1.82	2.63
Nondeductible goodwill amortization	1.43	1.53	—
Other	(0.13)	0.63	0.46
Effective tax rate	37.93%	38.98%	38.09%

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 as of December 31 are as follows:

	2001	2002
Deferred tax assets:		
Allowance for bad debts	$ 720	$ 715
Inventory	829	—
Accruals and reserves	4,049	11,173
Fair value of interest rate swaps	—	4,122
Net operating loss carryforwards	6,028	7,778
Other	—	326
Total deferred tax assets	11,626	24,114
Deferred tax liabilities:		
Basis difference in inventory	—	(6,585)
Basis difference in property and equipment	(5,913)	(7,594)
Basis difference in goodwill	(28,315)	(44,924)
Other	(3,265)	(3,612)
Total deferred tax liability	(37,493)	(62,715)
Net deferred tax liability	$(25,867)	$(38,601)

Net current deferred tax assets are recorded in other current assets on the accompanying consolidated balance sheets. At December 31, 2002, Sonic had state net operating loss carryforwards of $134.3 million that will expire between 2012 and 2022.

7. Related Parties

Registration Rights Agreement

Prior to its initial public offering, Sonic signed a Registration Rights Agreement dated as of June 30, 1997 with Sonic Financial Corporation ("SFC"), O. Bruton Smith, Scott Smith and William S. Egan (collectively, the "Class B Registration Rights Holders"). SFC currently owns 8,881,250 shares of Class B common stock; Bruton Smith, 2,171,250 shares; Scott Smith, 976,402 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 473 shares, all of which are covered by the Registration Rights Agreement. The Egan Group also owns certain shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

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

Payable to Company's Chairman

Sonic has a note payable to O. Bruton Smith in the amount of $5.5 million (the “Subordinated Smith Loan”). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus 0.5% (prime rate was 4.25% at December 31, 2002) and has a stated maturity date of November 30, 2000. Under the terms of a subordination agreement currently in effect, however, the principal amount owed by Sonic to Mr. Smith under the Subordinated Smith Loan is to be paid only after all amounts owed by Sonic under the senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

Dealership Leases:

Sonic leases three dealership properties in Northern California from the Price Trust. Tom Price, who served as Sonic's Vice Chairman until October 2002 and as director of Sonic until December 31, 2002 and, and his wife are the sole beneficiaries of the Price Trust. Lease costs associated with these leases was approximately $2.2 million in 2000, $2.8 million 2001 and $2.6 million in 2002.

Sonic leases three dealership properties in Northern California from Bay Automotive, LLC, in which Mr. Price owns a 50% interest. Annual aggregate rent under these leases was approximately $0.9 million in 2000, $2.2 million in 2001 and $2.6 million in 2002.

Sonic leases office space in Charlotte from a subsidiary of SFC for a majority of its headquarters personnel. Annual aggregate rent under this lease was approximately $0.2 million in 2000, $0.3 million in 2001, and $0.4 million in 2002.

Other Transactions:

Sonic rents various aircraft owned by SFC, subject to their availability, for business-related travel by Sonic employees. Sonic incurred costs of approximately $1.1 million in 2000, $0.6 million in 2001 and $1.2 million in 2002 for the use of these aircrafts.

Certain of Sonic's dealerships purchase the Z-Max oil additive product from Oil Chem Research Company, a subsidiary of Speedway Motorsports, Inc. (“SMI”), for resale to service customers of the dealerships in the ordinary course of business. Total purchases from Oil Chem by Sonic dealerships totaled approximately $0.4 million in 2000, $0.7 million in 2001 and $1.8 million in 2002.

Sonic and its dealerships frequently purchase apparel items, which are screen-printed with Sonic and dealership logos, as part of internal marketing and sales promotions. Sonic and its dealerships purchase such items from several companies, including Speedway Systems, LLC, a company owned by SMI. Total purchases from Speedway Systems by Sonic and its dealerships, either directly from Oil Chem or indirectly through an Oil Chem distributor, totaled approximately $0.2 million in 2000, $0.2 million in 2001 and $0.4 million in 2002.

In 2001, Las Vegas Motor Speedway, a subsidiary of SMI, leased a fleet of new vehicles for use by its employees from a Sonic dealership for approximately $0.2 million. In 2002, this fleet was purchased by Las Vegas Motor Speedway for approximately $0.7 million. No significant gain or loss resulted from this transaction.

In connection with the supervision and management of significant construction and renovation projects at Sonic dealerships in 2000, Sonic paid approximately $0.1 million to SMI in 2000 for project management services provided to Sonic by SMI employees.

8. Capital Structure and Per Share Data

Preferred Stock – Sonic has 3 million shares of “blank check” preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value $0.10 per share (the “Preferred Stock”) which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. There were no shares of Preferred Stock issued or outstanding at December 31, 2002 and 2001.

Common Stock – Sonic has two classes of common stock. Sonic has authorized 100 million shares of Class A common stock at a par value of 0.01 per share. Class A common stock entitles its holder to one vote per share. There were 28,520,474 and 29,111,542 shares of Class A common stock outstanding at December 31, 2001 and 2002, respectively. Sonic has also authorized 30 million shares of Class B common stock at a par value of $.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter.

Share Repurchases – Sonic’s Board of Directors has authorized Sonic to expend up to $145.0 million to repurchase shares of its Class A common stock or redeem securities convertible into Class A common stock. As of December 31, 2002, Sonic had repurchased a total of 8,134,164 shares of Class A common stock at an average price per share of approximately $11.45 and had redeemed 13,801.5 shares of Class A convertible preferred stock at an average price of $1,000 per share. Subsequent to December 31, 2002, Sonic repurchased an additional 432,800 shares of Class A common stock for approximately $6.7 million.

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

The following table illustrates the dilutive effect of such items on net income per share:

	For the Year Ended December 31, 2002						
		Net Income From Continuing Operations		Net Loss From Discontinued Operations		Net Income	
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	41,728	$ 109,567	$ 2.63	$ (3,003)	$ (0.08)	$ 106,564	$ 2.55
Effect of Dilutive Securities:							
Stock Compensation Plans	1,428						
Warrants	2						
Diluted Net Income Per Share	43,158	$ 109,567	$ 2.54	$ (3,003)	$ (0.07)	$ 106,564	$ 2.47

	For the Year Ended December 31, 2001						
		Net Income From Continuing Operations		Net Loss From Discontinued Operations		Net Income	
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	40,541	$ 79,999	$ 1.97	$ (670)	$ (0.01)	$ 79,329	$ 1.96
Effect of Dilutive Securities:							
Stock Compensation Plans	1,048						
Warrants	14						
Convertible Preferred	6						
Diluted Net Income Per Share	41,609	$ 79,999	$ 1.92	$ (670)	$ (0.01)	$ 79,329	$ 1.91

	For the Year Ended December 31, 2000						
		Net Income From Continuing Operations		Net Income From Discontinued Operations		Net Income	
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	42,518	$ 70,873	$ 1.67	$ 3,299	$ 0.07	$ 74,172	$ 1.74
Effect of Dilutive Securities:							
Stock Compensation Plans	455						
Warrants	31						
Convertible Preferred	822						
Diluted Net Income Per Share	43,826	$ 70,873	$ 1.62	$ 3,299	$ 0.07	$ 74,172	$ 1.69

In addition to the stock options included in the table above, options to purchase 2,688,676 and 2,138,050 shares of Class A common stock were outstanding during the years ended December 31, 2000 and 2002, respectively, but were not included in the computation of diluted net income per share because the options were antidilutive. There were no antidilutive options at December 31, 2001.

9. Employee Benefit Plans

Substantially all of the employees of Sonic are eligible to participate in a 401(k) plan. Contributions by Sonic to the plan were $1.2 million in 2000, $2.0 million in 2001 and $4.0 million in 2002.

Stock Option Plans

Sonic currently has three option plans, the Sonic Automotive, Inc. 1997 Stock Option Plan (the “Stock Option Plan”), the Sonic Automotive, Inc. Formula Stock Option Plan (the “Directors' Plan”), and the FirstAmerica Automotive, Inc. 1997 Stock Option Plan (the “First America Plan”).

The Stock Option Plan was adopted by the Board of Directors in order to attract and retain key personnel and currently authorizes the issuance of options to purchase 8.0 million shares of Class A common stock. Subsequent to December 31, 2002, Sonic's Board of Directors approved an increase in the shares authorized for issuance under Stock Option Plan from 8.0 million shares to 9.0 million shares. This increase is pending stockholder approval at Sonic's Annual Meeting. Under the Stock Option 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, vest over a three year period, are exercisable upon vesting and expire ten years from the date of grant.

The Directors' Plan authorizes options to purchase up to an aggregate of 600,000 shares of Class A common stock. Under the plan, each outside director shall be awarded on or before March 31st of each year an option to purchase 10,000 shares at an exercise price equal to the fair market value of the Class A common stock at the date of the award. Options granted under the Directors' Plan become exercisable after six months, and expire ten years from their date of grant.

The following table summarizes information about stock options outstanding at December 31, 2002:

	Number of Options	Exercise Price Per Share	Weighted average Exercise Price
	(shares in thousands)		
Outstanding at December 31, 1999	4,187	$ 2.85 – 15.44	$ 10.35
Granted	1,868	7.94 – 11.19	9.15
Exercised	(300)	2.85 – 13.12	5.95
Forfeited	(694)	2.85 – 15.44	10.33
Outstanding at December 31, 2000	5,061	2.85 – 15.44	10.06
Granted	1,156	7.01 – 16.51	12.79
Exercised	(990)	2.85 – 15.44	8.88
Forfeited	(379)	7.94 – 15.44	10.57
Outstanding at December 31, 2001	4,848	2.85 – 16.51	10.91
Granted	1,763	16.20 – 37.50	29.68
Exercised	(794)	2.85 – 16.51	9.70
Forfeited	(232)	7.25 – 37.50	18.04
Outstanding at December 31, 2002	5,585	2.85 – 37.50	16.57

A summary of the status of Sonic's stock option plans is presented below:

Range of Exercise Prices	Shares Outstanding at 12/31/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable at 12/31/02	Weighted Average Exercise Price
			(shares in thousands)		
$2.85	50	4.5	$2.85	50	$2.85
$2.86 – 7.50	289	5.0	6.25	283	6.23
$7.51 – 11.25	2,265	6.2	9.47	1,654	9.21
$11.26 – 15.00	102	6.6	13.34	83	13.42
$15.01 – 18.75	1,757	7.8	15.98	969	15.86
$26.25 – $30.00	248	9.1	27.78	70	29.98
$37.50	874	9.2	37.50	—	—
	5,585	7.3	$16.57	3,109	$11.49

Employee Stock Purchase Plan

The Board of Directors and stockholders of Sonic adopted the Sonic Automotive, Inc. Employee Stock Purchase Plan (the "ESPP") to attract and retain key personnel. The ESPP authorizes the issuance of options to purchase 3.0 million shares of Class A common stock. Under the terms of the ESPP, on January 1 of each year all eligible employees electing to participate will be granted an option to purchase shares of Class A common stock. Sonic's Compensation Committee will annually determine the number of shares of Class A common stock available for purchase under each option. The purchase price at which Class A common stock will be purchased through the ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted.

Nonqualified Employee Stock Purchase Plan

The Board of Directors of Sonic adopted the Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan (the "Nonqualified ESPP") to provide options to purchase Class A common stock to employees of Sonic's subsidiaries that are not eligible to participate in the ESPP. Employees of Sonic who are eligible to participate in the ESPP are not eligible to participate in the Nonqualified ESPP. Under the terms of the Nonqualified ESPP, on January 1 of each year all employees eligible to participate in the Nonqualified ESPP and who elect to participate in the Nonqualified ESPP will be granted an option to purchase shares of Class A common stock. Sonic's Compensation Committee will annually determine the number of shares of Class A common stock available for purchase under each option.

The purchase price at which Class A common stock will be purchased through the Nonqualified ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted. In adopting the Nonqualified ESPP the Board of Directors authorized options for 300,000 shares of Class A common stock to be granted under the Nonqualified ESPP.

Under both the ESPP and the Nonqualified ESPP, we issued options exercisable for approximately 524,000, 456,000 and 931,500 shares in 2000, 2001 and 2002, respectively. We issued approximately 148,000, 282,000 and 237,000 shares to employees in 2000, 2001 and 2002 at a weighted average purchase price of $7.27, $5.84 and $17.78 per share, respectively. The weighted average fair value of shares granted under both plans was $2.95, $10.94 and $4.92 per share in 2000, 2001 and 2002, respectively.

10. Commitments and Contingencies

Minimum future rental payments required under noncancelable operating leases are as follows:

Year ending December 31,	
2003	$ 77,005
2004	73,326
2005	69,858
2006	65,520
2007	62,619
Thereafter	357,387
Total	$705,715

Total rent expense for the years ended December 31, 2000, 2001 and 2002 was approximately $49.8 million, $59.8 million and $73.6 million, respectively.

Other Matters

In accordance with the terms of our real estate lease agreements, our dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. Sonic's exposure with respect to these items is difficult to quantify. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the dealership subsidiary.

In accordance with the terms of agreements entered into for the sale of our dealership franchises, Sonic generally agrees to indemnify the buyer from certain liabilities and costs arising subsequent to the date of sale, including environmental liabilities and liabilities resulting from the breach of representations or warranties made in accordance with the agreement. These indemnifications generally expire within a period of one to two years following the date of sale, and Sonic's exposure is generally limited to dollar amounts ranging from $25,000 to $5.0 million as specified within the agreements.

In connection with dealership dispositions certain of our dealership subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments, environmental remediation, and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify the total estimated rent payments remaining under such leases are approximately $17.1 million based on lease expiration dates ranging from October 31, 2007 to July 15, 2015. However, in accordance with the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance.

Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. Currently, no legal proceedings are pending against or involve Sonic that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

11. Summary of Quarterly Financial Data (Unaudited)

The following table summarizes Sonic's results of operations as presented in the Consolidated Statements of Income by quarter for 2001 and 2002.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2001:				
Total revenues	$ 1,365,778	$ 1,464,242	$ 1,392,245	$ 1,540,464
Gross profit	$ 206,819	$ 227,674	$ 220,754	$ 237,061
Net income	$ 13,484	$ 22,486	$ 22,118	$ 21,241
Net income per share – Basic	$ 0.33	$ 0.56	$ 0.55	$ 0.53
Net income per share – Diluted	$ 0.33	$ 0.55	$ 0.53	$ 0.51
Year Ended December 31, 2002:				
Total revenues	$ 1,488,471	$ 1,837,035	$ 1,935,652	$ 1,720,560
Gross profit	$ 235,800	$ 283,238	$ 293,528	$ 269,520
Net income	$ 22,079	$ 31,488	$ 31,590	$ 21,406
Net income per share – Basic	$ 0.54	$ 0.74	$ 0.75	$ 0.52
Net income per share – Diluted	$ 0.52	$ 0.71	$ 0.73	$ 0.51

(1) Our operations are subject to seasonal variations. The first and fourth quarters generally contribute less revenue and operating profits than the second and third quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality in new vehicle demand. Parts and service demand remains more stable throughout the year.

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

Note: Amounts presented differ from amounts previously reported on our Form 10-Q due to classification of certain franchises in discontinued operations.

Exhibit 99.2

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.2

RISK FACTORS

Risks Related to Our Indebtedness

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

As of August 31, 2003, our total outstanding indebtedness was approximately $1,399.8 million, including the following:

- $100.0 million under a revolving credit facility;
- $781.1 million under standardized secured inventory floor plan facilities;
- $179.3 million in 11% senior subordinated notes due 2008 representing $182.4 million in aggregate principal amount outstanding less unamortized discount of approximately $3.1 million;
- $126.8 million in 5 1/4% convertible senior subordinated notes due 2009 representing $130.1 million in aggregate principal amount outstanding less unamortized discount of approximately $3.3 million;
- $194.3 million in 8 5/8% senior subordinated notes due 2013 representing $200.0 million in aggregate principal amount outstanding less unamortized discount of approximately $5.7 million;
- $12.8 million of other secured debt, including $8.5 million under our construction/mortgage credit facility; and
- $5.5 million of subordinated debt owed to our chairman and chief executive officer, Mr. O. Bruton Smith.

As of August 31, 2003, we had approximately $376.6 million available for additional borrowings under the revolving credit facility. We also had approximately $91.5 million available under a construction/mortgage credit facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the floor plan facilities. In addition, the indentures relating to our senior subordinated notes, convertible senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

On September 10, 2003, we redeemed all of our outstanding 11% senior subordinated notes due 2008 with the net proceeds from our private offering of 8 5/8% senior subordinated notes due 2013, Series A, and borrowings under our credit facility. We paid $194.6 million to redeem the 11% senior subordinated notes due 2008, which included the outstanding principal amount, accrued interest and the redemption premium of 5.5%.

The degree to which we are leveraged could have important consequences to the holders of our securities, including the following:

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for our operations and other purposes;
- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates;
- the indebtedness outstanding under our revolving credit facility and floor plan facilities are secured by a pledge of substantially all the assets of our dealerships; and

- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

In addition, our debt agreements contain numerous covenants that limit our discretion with respect to business matters, including mergers or acquisitions, paying dividends, incurring additional debt, making capital expenditures or disposing of assets.

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

Our revolving credit facility, floor plan facilities and the indenture governing our senior subordinated notes contain numerous financial and operating covenants. A breach of any of these covenants could result in a default under the applicable agreement or indenture. If a default were to occur, we may be unable to adequately finance our operations and the value of our common stock would be materially adversely affected. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures, including the indenture governing our outstanding convertible senior subordinated notes, under the cross default provisions in those agreements or indentures. If a cross default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

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

Substantially all of our consolidated assets are held by our subsidiaries and substantially all of our consolidated cash flow and net income are generated by our subsidiaries. Accordingly, our cash flow and ability to service debt depends to a substantial degree on the results of operations of subsidiaries and upon the ability of our subsidiaries to provide us with cash. We may receive cash from our subsidiaries in the form of dividends, loans or otherwise. We may use this cash to service our debt obligations or for working capital. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to distribute cash to us or to make funds available to service debt. In addition, the ability of our subsidiaries to pay dividends or make loans to us are subject to contractual limitations under the floor plan facilities, minimum net capital requirements under manufacturer franchise agreements and laws of the state in which a subsidiary is organized and depend to a significant degree on the results of operations of our subsidiaries and other business considerations.

Risks Related to Our Relationships with Vehicle Manufacturers

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

Each of our dealerships operates under a franchise agreement with the applicable automobile manufacturer or distributor. Without a franchise agreement, we cannot obtain new vehicles from a manufacturer. As a result, we are significantly dependent on our relationships with these manufacturers.

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

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

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

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

- customer rebates or below market financing on new vehicles;
- dealer incentives on new vehicles;
- warranties on new and used vehicles; and
- sponsorship of used vehicle sales by authorized new vehicle dealers.

Manufacturers are currently offering very favorable incentives to potential customers. A reduction or discontinuation of a manufacturer’s incentive programs may materially and adversely affect our profitability.

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

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

Adverse conditions affecting one or more key manufacturers may negatively impact our profitability.

During the first eight months of 2003, approximately 73.0% of our new vehicle revenue was derived from the sale of new vehicles manufactured by Ford, Honda, General Motors (including Cadillac), BMW and Toyota. Our success depends to a great extent on these manufacturers’:

- financial condition;
- marketing;
- vehicle design;
- publicity concerning a particular manufacturer or vehicle model;
- production capabilities;
- management;
- reputation; and

- labor relations.

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

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

Some of our franchise agreements prohibit transfers of any ownership interests of a dealership and, in some cases, its parent. A number of manufacturers impose restrictions on the transferability of our Class A common stock and our ability to maintain franchises if a person acquires a significant percentage of the voting power of our common stock. Our existing franchise agreements could be terminated if a person or entity acquires a substantial ownership interest in us or acquires voting power above certain levels without the applicable manufacturer's approval. Violations of these levels by an investor are generally outside of our control and may result in the termination or non-renewal of existing franchise agreements or impair our ability to negotiate new franchise agreements for dealerships we acquire. In addition, if we cannot obtain any requisite approvals on a timely basis, we may not be able to issue additional equity or otherwise raise capital on terms acceptable to us. These restrictions may also prevent or deter a prospective acquiror from acquiring control of us. This could adversely affect the market price of our Class A common stock.

The current holders of our Class B common stock maintain voting control over us. However, we are unable to prevent our stockholders from transferring shares of our common stock, including transfers by holders of the Class B common stock. If such transfer results in a change in control, it could result in the termination or non-renewal of one or more of our existing franchise agreements, the triggering of provisions in our agreements with certain manufacturers requiring us to sell our dealerships franchised with such manufacturers and/or a default under our credit arrangements.

Manufacturers' restrictions on acquisitions could limit our future growth.

We are required to obtain the approval of the applicable manufacturer before we can acquire an additional dealership franchise of that manufacturer. In determining whether to approve an acquisition, manufacturers may consider many factors such as our financial condition and manufacturer-determined consumer satisfaction index, or "CSI" scores. Obtaining manufacturer approval of acquisitions also takes a significant amount of time, typically three to five months. We cannot assure you that manufacturers will approve future acquisitions or do so on a timely basis, which could impair the execution of our growth strategy.

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

A manufacturer may condition approval of an acquisition on the implementation of material changes in our operations or extraordinary corporate transactions, facilities improvements or other capital expenditures. If we are unable or unwilling to comply with these conditions, we may be required to sell the assets of that manufacturer's dealerships or terminate our franchise agreement.

On July 31, 2003, we announced several pending acquisitions, including the pending acquisition of Momentum BMW, Momentum MINI and Advantage BMW, subject to normal closing conditions, including manufacturer approval.

In September 2003, BMW of North America, LLC ("BMW NA") notified us that it would not approve our acquisition of the Momentum BMW, Momentum MINI and Advantage BMW dealerships located in Houston, Texas, and BMW NA filed a complaint against us in New Jersey state court seeking an injunction prohibiting our acquisition of Momentum BMW and Advantage BMW. Subsequently, Momentum BMW and Advantage BMW filed a protest and complaint against BMW NA with the Texas Motor Vehicle Board asserting that BMW NA has violated Texas franchise law by wrongfully rejecting the proposed transfer to us. We have filed a motion to intervene in the Texas Motor Vehicle Board proceedings on behalf of Momentum BMW and Advantage BMW. On September 24, 2003, the Texas Motor Vehicle Board imposed a statutory stay requiring that all parties to the protest and complaint refrain from any act or omission that would affect a legal right, duty or privilege of any party to the proceeding or which would tend to render ineffectual a Board order in the pending proceeding. We are vigorously defending our right to acquire these dealerships, and are asserting additional claims against BMW NA because it refused to approve the acquisition in contravention of Texas franchise law. If we are unsuccessful, we may not be able to acquire Momentum BMW, Momentum MINI and Advantage BMW, and possibly may also not be able to acquire any of the 7 other dealerships included in the Momentum and Advantage automotive groups. The outcome of the litigation and our request for approval of the acquisition from BMW NA will have no effect on our results of operations or financial position. However, if we are unsuccessful in the litigation, it will reduce the amount of anticipated revenues from acquisitions previously reported in our Current Report on Form 8-K filed with the SEC on July 31, 2003.

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

The success of our dealerships depends in large part on the overall success of the vehicle lines they carry. New vehicle sales generate the majority of our total revenue and lead to sales of higher-margin products and services such as finance and insurance products and parts and service operations. Although we have sought to limit our dependence on any one vehicle brand, we have focused our new vehicle sales operations in mid-line import and luxury brands.

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

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

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

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or nonrenewal. Some state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or nonrenewal. Though unsuccessful to date, manufacturers' lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealers to renew their franchise agreements upon expiration.

In addition, these laws restrict the ability of automobile manufacturers to directly enter the retail market in the future. If manufacturers obtain the ability to directly retail vehicles and do so in our markets, such competition could have a material adverse effect on us.

Risks Related to Our Acquisition Strategy

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

Our future operating results depend on our ability to integrate the operations of recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to integrate our management information systems, procedures and organizational structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 11 in 2000, 12 in 2001, 31 in 2002 and eight in the eight months ended August 31, 2003.

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

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

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

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

The automobile retailing industry is considered a mature industry in which minimal growth is expected in total unit sales. Accordingly, our ability to generate higher revenue and earnings in future periods depends in large part on our ability to acquire additional dealerships, manage geographic expansion, control costs in our operations and consolidate both past and future dealership acquisitions into our existing operations. In pursuing a strategy of acquiring other dealerships, we face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

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

- impairing relationships with employees, manufacturers and customers as a result of changes in management;
- increased expenses for accounting and computer systems, as well as integration difficulties;
- failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises or renew the franchise agreement on terms acceptable to us; and
- incorrectly valuing entities to be acquired.

We may not adequately anticipate all of the demands that growth will impose on our systems, procedures and structures.

We may not be able to capitalize on acquisition opportunities because our financial resources available for acquisitions are limited.

We intend to finance our acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements. We may not be able to obtain additional financing by issuing stock or debt securities due to the market price of our Class A common stock, overall market conditions or the need for manufacturer consent to the issuance of equity securities. Using cash to complete acquisitions could substantially limit our operating or financial flexibility. If we are unable to obtain financing on acceptable terms, we may be required to reduce the scope of our presently anticipated expansion, which could materially adversely affect our overall growth strategy.

In addition, we are dependent to a significant extent on our ability to finance our new vehicle inventory with "floor plan financing." Floor plan financing arrangements allow us to borrow money to buy a particular vehicle from the manufacturer and pay off the loan when we sell that particular vehicle. We must obtain new floor plan financing or obtain consents to assume existing floor plan financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure our floor plan indebtedness and the indebtedness under the revolving credit facility. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our construction/mortgage facility with Toyota Credit. These pledges may impede our ability to borrow from other sources. Moreover, because Toyota Credit is associated with Toyota Motor Sales, U.S.A., Inc., any deterioration of our relationship with one could adversely affect our relationship with the other. The same is true of our relationships with Chrysler, GM and Ford and the floor plan financing divisions of each of these manufacturers.

We may not be able to continue executing our acquisition strategy without the costs of future acquisitions escalating.

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

- the availability of suitable acquisition candidates;
- competition with other dealer groups for suitable acquisitions;
- the negotiation of acceptable terms;

- our financial capabilities;
- our stock price; and
- the availability of skilled employees to manage the acquired companies.

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

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

Although O. Bruton Smith, our chairman and chief executive officer, has previously assisted us with obtaining acquisition financing, we cannot assure you that he will be willing or able to do so in the future.

Our obligations under the revolving credit facility are secured with a pledge of shares of common stock of Speedway Motorsports, Inc., a publicly traded owner and operator of automobile racing facilities. These shares of Speedway Motorsports common stock are beneficially owned by Sonic Financial Corporation, an entity controlled by Mr. Smith. Presently, the $500 million borrowing limit of the revolving credit facility is subject to a borrowing base calculation that is based, in part, on the value of the Speedway Motorsports shares pledged by Sonic Financial. Consequently, a withdrawal of this pledge by Sonic Financial or a significant decrease in the value of Speedway Motorsports common stock could reduce the amount we can currently borrow under the revolving credit facility.

Mr. Smith has also guaranteed additional indebtedness incurred to complete certain dealership acquisitions. Mr. Smith may not be willing or able to provide similar guarantees or credit support in the future. This could impair our ability to obtain acquisition financing on favorable terms.

Risks Related to the Automotive Retail Industry

Increasing competition among automotive retailers reduces our profit margins on vehicle sales and related businesses. Further, the use of the Internet in the car purchasing process could materially adversely affect us.

Automobile retailing is a highly competitive business. Our competitors include publicly and privately owned dealerships, some of which are larger and have greater financial and marketing resources than we do. Many of our competitors sell the same or similar makes of new and used vehicles that we offer in our markets at competitive prices. We do not have any cost advantage in purchasing new vehicles from manufacturers due to economies of scale or otherwise. In addition, the popularity of short-term vehicle leasing in the past few years also has resulted, as these leases expire, in a large increase in the number of late model used vehicles available in the market, which puts added pressure on new and used vehicle margins. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if manufacturers decide to enter the retail market directly.

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

This competition is increasing as these products are now being marketed and sold over the Internet.

The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for cars and related F&I services, which may further reduce margins for new and used cars and profits for related F&I services. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with Internet car sellers or are investing heavily in the development of their own Internet capabilities, which could materially adversely affect our business.

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

As we seek to acquire dealerships in new markets, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. Our gross margins may decline over time as we expand into markets where we do not have a leading position.

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

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. The economic outlook appears uncertain in the aftermath of the terrorist attacks in the U.S. on September 11, 2001, the subsequent war on terrorism and other geopolitical conflicts. Future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury and sport utility vehicle models (which typically provide high margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

A decline of available financing in the sub-prime lending market has, and may continue to, adversely affect our sales of used vehicles.

A significant portion of vehicle buyers, particularly in the used car market, finance their purchases of automobiles. Sub-prime lenders have historically provided financing for consumers who, for a variety of reasons including poor credit histories and lack of down payment, do not have access to more traditional finance sources. Our recent experience suggests that sub-prime lenders have tightened their credit standards and may continue to apply these higher standards in the future. This has adversely affected our used vehicle sales. If sub-prime lenders continue to apply these higher standards or if there is any further tightening of credit standards used by sub-prime lenders or if there is any additional decline in the overall availability of credit in the sub-prime lending market, the ability of these consumers to purchase vehicles could be limited which could have a material adverse effect on our used car business, revenues and profitability.

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

A significant portion of our new vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in other countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.

The seasonality of our business magnifies the importance of second and third quarter operating results.

Our business is subject to seasonal variations in revenues. In our experience, demand for automobiles is generally lower during the first and fourth quarters of each year. We therefore receive a disproportionate amount of revenues generally in the second and third quarters and expect our revenues and operating results to be generally lower in the first and fourth quarters. Consequently, if conditions surface during the second and third quarters that impair vehicle sales, such as higher fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year could be disproportionately adversely affected.

General Risks Related to Investing in Our Securities

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

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

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

The holders of Class B common stock currently hold less than a majority of our outstanding common stock, but a majority of our voting power. This may prevent or discourage a change of control of us even if the action was favored by holders of Class A common stock.

Our charter and bylaws make it more difficult for our stockholders to take corporate actions at stockholders’ meetings. In addition, options under our 1997 Stock Option Plan become immediately exercisable on a change in control. Delaware law also makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business combination transaction with the company against its directors’ wishes. Finally, restrictions imposed by our dealer agreements may impede or prevent any potential takeover bid. Generally, our franchise agreements allow the manufacturers the right to terminate the agreements upon a change of control of our company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity who may be unqualified, as defined by the manufacturer, to own one of its dealerships. The inability of a person or entity to qualify with one or more of our manufacturers may prevent or seriously impede a potential takeover bid. In addition, provisions of our lending arrangements create an event of default on a change in control. These agreements, corporate governance documents and laws may have the effect of delaying or preventing a change in control or preventing stockholders from realizing a premium on the sale of their shares if we were acquired.

The outcome of legal and administrative proceedings we are or may become involved in could have an adverse effect on our business, results of operations and profitability.

In 2001, the Florida Attorney General's Office notified two of our wholly-owned dealership subsidiaries located in Florida that the Florida Attorney General was investigating whether the manner in which finance and insurance products were sold to certain customers violated Chapter 501 of Florida Statutes. In April 2002, the Florida Department of Insurance informed the same two dealership subsidiaries that it had also initiated an investigation into whether the same conduct that was the subject of the Attorney General's investigation violated certain provisions of Florida's insurance code.

The two dealership subsidiaries have entered into agreements with the Florida Department of Insurance, n/k/a the Florida Department of Financial Affairs, which will, after the completion of a refund program, resolve the investigation by this Department. Under the program, certain customers will have the opportunity to apply for refunds for the purchase of specified finance and insurance products from the two dealerships. The Florida Attorney General's Office, being aware of the above refund program, has entered into an agreement with the two dealerships to conclude its investigation of those dealerships.

Additionally, several private civil actions have been filed against these dealership subsidiaries stating allegations similar to those underlying the original investigations by the Attorney General's Office and the Department of Insurance. One private civil action filed against one of the dealership subsidiaries purports to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed. Another private civil action has been filed against Sonic Automotive, Inc., which purports to represent a class of customers of all of our Florida dealership subsidiaries, although no motion for class certification has been filed.

In addition, in September of 2002, the Los Angeles County District Attorney's office served a search warrant on one of our wholly-owned dealership subsidiaries located in Los Angeles County relating to alleged deceptive practices of the dealership's finance and insurance department. Our dealership is cooperating with the District Attorney in its investigation. No charges have been filed and no proceedings have been instituted to date by the District Attorney. A private civil action has also been filed against the dealership stating allegations similar to those underlying the District Attorney's investigation. The plaintiffs in this private civil action purport to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed.

Because the refund program entered into with the Florida Department of Financial Affairs is ongoing, the investigation by the Los Angeles County District Attorney's Office is continuing and has not resulted in formal charges to date, and because the private civil actions described above are also in the early stages of litigation, we cannot assure you as to the outcomes of these proceedings. We intend to vigorously defend ourselves and assert available defenses with respect to each of the foregoing matters, and do not believe that the ultimate resolution of these matters will have a material adverse affect on our business, results of operations, financial condition, cash flows or prospects.

Furthermore, several of our Texas dealership subsidiaries have been named in three class action lawsuits brought against the Texas Automobile Dealers Association ("TADA") and new vehicle dealerships in Texas that are members of the TADA. Approximately 630 Texas dealerships are named as defendants in two of the actions, and approximately 700 Texas dealerships are named as defendants in the other action. The three actions allege that since January 1994, Texas automobile dealerships have deceived customers with respect to a vehicle inventory tax and violated federal antitrust and other laws. In April 2002, in two actions the Texas state court certified two classes of consumers on whose behalf the actions would proceed. In October 2002, the Texas Court of Appeals affirmed the trial court's order of class certification in the state actions. Our dealership subsidiary defendants and the other Texas dealership defendants are appealing that ruling to the Texas Supreme Court. In March 2003, the federal court conditionally certified a class of consumers in the federal antitrust case. Our dealership subsidiary defendants and the other Texas dealership defendants are also appealing that ruling to the U.S. Court of Appeals, Fifth Circuit.

We intend to vigorously defend ourselves and assert available defenses with respect to the TADA matter discussed above. In addition, we may have rights of indemnification with respect to certain aspects of the TADA matter. However, a settlement or an adverse resolution of this matter may result in the payment of significant costs and damages, which could have a material adverse affect on our business, financial condition, results of operations, cash flows or prospects.

Finally, we are involved, and expect to continue to be involved, in numerous other legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits and actions brought by governmental authorities. The results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters, including the matters specifically discussed above, could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

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

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

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

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented approximately 16.3% of our sales for the eight months ended August 31, 2003. We may not be able to expand geographically and any geographic expansion may not adequately insulate us from the adverse effects of local or regional economic conditions.

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

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

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers could have a material adverse effect on our results of operations. In addition, the lack of qualified management or employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

Governmental regulation and environmental regulation compliance costs may adversely affect our profitability.

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, retail financing and consumer protection laws and regulations, and wage-hour, anti-discrimination and other employment practices laws and regulations. Our facilities and operations are also subject to federal, state and local laws and regulations relating to environmental protection and human health and safety, including those governing wastewater discharges, air emissions, the operation and removal of underground and aboveground storage tanks, the use, storage, treatment, transportation, release, recycling and disposal of solid and hazardous materials and wastes and the cleanup of contaminated property or water. The violation of these laws and regulations can result in administrative, civil or criminal penalties against us or in a cease and desist order against our operations that are not in compliance. Our future acquisitions may also be subject to regulation, including antitrust reviews. We believe that we comply in all material respects with all laws and regulations applicable to our business, but future regulations may be more stringent and require us to incur significant additional compliance costs.

Our past and present business operations are subject to environmental laws and regulations. We may be required by these laws to pay the full amount of the costs of investigation and/or remediation of contaminated properties, even if we are not at fault for disposal of the materials or if such disposal was legal at the time. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with these laws and regulations. In addition, soil and groundwater contamination exists at certain of our properties. We cannot assure you that our other properties have not been or will not become similarly contaminated. In addition, we could become subject to potentially material new or unforeseen environmental costs or liabilities because of our acquisitions.

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

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

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