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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

5401 E. Independence Blvd., Charlotte, North Carolina
(Address of principal executive offices)

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

28212
(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2004, there were 29,285,115 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

INDEX TO FORM 10-Q

	<u>PAGE</u>
<u>PART I - FINANCIAL INFORMATION</u>	
ITEM 1. Consolidated Financial Statements (Unaudited)	
Consolidated Statements of Income – Three-month periods ended March 31, 2003 and March 31, 2004	3
Consolidated Balance Sheets – December 31, 2003 and March 31, 2004	4
Consolidated Statement of Stockholders' Equity – Three-month period ended March 31, 2004	5
Consolidated Statements of Cash Flows – Three-month periods ended March 31, 2003 and March 31, 2004	6
Notes to Unaudited Consolidated Financial Statements	7-11
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-20
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	21
ITEM 4. Controls and Procedures	21
<u>PART II - OTHER INFORMATION</u>	
ITEM 1. Legal Proceedings	21
ITEM 2. Change in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	23
ITEM 6. Exhibits and Reports on Form 8-K	24-26
SIGNATURES	27

[Table of Contents](#)

PART I - FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2003	2004
Revenues:		
New vehicles	\$ 931,330	\$ 1,008,352
Used vehicles	276,527	290,191
Wholesale vehicles	98,631	114,458
Total vehicles	1,306,488	1,413,001
Parts, service and collision repair	223,304	246,897
Finance, insurance and other	46,183	43,895
Total revenues	1,575,975	1,703,793
Cost of sales	1,324,578	1,436,180
Gross profit	251,397	267,613
Selling, general and administrative expenses	203,938	214,079
Depreciation	2,274	3,720
Operating income	45,185	49,814
Other income / (expense):		
Interest expense, floor plan	(5,522)	(5,955)
Interest expense, other	(9,525)	(8,335)
Other income, net	71	27
Total other expense	(14,976)	(14,263)
Income from continuing operations before taxes and cumulative effect of change in accounting principle	30,209	35,551
Provision for income taxes	11,148	13,171
Income from continuing operations before cumulative effect of change in accounting principle	19,061	22,380
Discontinued operations:		
Loss from operations and the sale of discontinued franchises	(2,915)	(375)
Income tax benefit	1,158	180
Loss from discontinued operations	(1,757)	(195)
Income before cumulative effect of change in accounting principle	17,304	22,185
Cumulative effect of change in accounting principle, net of tax benefit of \$3,325	(5,619)	—
Net income	\$ 11,685	\$ 22,185
Basic net income (loss) per share:		
Income per share from continuing operations	\$ 0.47	\$ 0.54
Loss per share from discontinued operations	(0.05)	—
Income per share before cumulative effect of change in accounting principle	0.42	0.54
Cumulative effect of change in accounting principle	(0.14)	—
Net income per share	\$ 0.28	\$ 0.54
Weighted average common shares outstanding	40,931	41,193
Diluted net income (loss) per share:		
Income per share from continuing operations	\$ 0.46	\$ 0.53
Loss per share from discontinued operations	(0.04)	(0.01)
Income per share before cumulative effect of change in accounting principle	0.42	0.52
Cumulative effect of change in accounting principle	(0.14)	—
Net income per share	\$ 0.28	\$ 0.52
Weighted average common shares outstanding	41,757	42,599
Dividends declared per common share	\$ —	\$ 0.10

See notes to unaudited consolidated financial statements.

[Table of Contents](#)

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

	December 31, 2003	March 31, 2004 (Unaudited)
ASSETS		
Current Assets:		
Cash	\$ 82,082	\$ 39,475
Receivables, net	306,498	310,613
Inventories	1,046,909	1,096,550
Assets held for sale	88,990	83,941
Other current assets	29,718	35,949
Total current assets	1,554,197	1,566,528
Property and equipment, net	125,356	133,003
Goodwill, net	909,091	932,801
Other intangible assets, net	75,230	77,087
Other assets	22,355	31,227
Total assets	\$ 2,686,229	\$ 2,740,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan	\$ 996,370	\$ 1,021,752
Trade accounts payable	63,577	64,635
Accrued interest	13,851	9,569
Other accrued liabilities	121,744	133,072
Current maturities of long-term debt	1,387	1,123
Total current liabilities	1,196,929	1,230,151
Long-term debt	694,898	698,656
Other long-term liabilities	19,136	20,025
Deferred income taxes	76,933	76,882
Stockholders' Equity:		
Class A Common Stock; \$.01 par value; 100,000,000 shares authorized; 38,588,913 shares issued and 29,192,549 shares outstanding at December 31, 2003; 38,785,782 shares issued and 29,192,618 shares outstanding at March 31, 2004	384	386
Class B Common Stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2003 and March 31, 2004	121	121
Paid-in capital	416,892	419,975
Retained earnings	402,799	420,864
Accumulated other comprehensive loss	(4,419)	(4,499)
Treasury Stock, at cost (9,396,364 shares held at December 31, 2003 and 9,593,164 shares held at March 31, 2004)	(117,444)	(121,915)
Total stockholders' equity	698,333	714,932
Total liabilities and stockholders' equity	\$ 2,686,229	\$ 2,740,646

See notes to unaudited consolidated financial statements.

[Table of Contents](#)

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

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2003	38,589	\$ 384	12,029	\$ 121	\$ 416,892	\$ 402,799	\$ (117,444)	\$ (4,419)	\$ 698,333
Comprehensive Income:									
Net Income						22,185			22,185
Change in fair value of interest rate swap, net of tax benefit of \$51							(80)		(80)
Total comprehensive income, net of tax									22,105
Shares issued under stock compensation plans	197	2			2,405				2,407
Income tax benefit associated with stock compensation plans					678				678
Dividends declared (\$0.10 per share)						(4,120)			(4,120)
Purchase of treasury stock							(4,471)		(4,471)
Balance at March 31, 2004	38,786	\$ 386	12,029	\$ 121	\$ 419,975	\$ 420,864	\$ (121,915)	\$ (4,499)	\$ 714,932

See notes to unaudited consolidated financial statements.

[Table of Contents](#)

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

	Three Months Ended March 31,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 11,685	\$ 22,185
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,561	3,732
Cumulative effect of change in accounting principle, net of tax	5,619	—
Amortization of debt issue costs	228	182
Equity interest in losses of investees	106	164
Gain on disposal of assets	(1,899)	(708)
Income tax benefit associated with stock compensation plans	61	678
Changes in assets and liabilities that relate to operations:		
Receivables	29,981	(4,452)
Inventories	6,779	(54,006)
Other assets	(8,360)	(12,437)
Notes payable - floor plan	(16,346)	30,781
Trade accounts payable and other liabilities	(3,912)	11,647
Total adjustments	14,818	(24,419)
Net cash provided by (used in) operating activities	26,503	(2,234)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(20,076)	(58,569)
Purchases of property and equipment	(18,074)	(21,338)
Proceeds from sales of property and equipment	2,629	15,066
Proceeds from sales of dealerships	5,185	30,462
Net cash used in investing activities	(30,336)	(34,379)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on revolving credit facilities	17,357	588
Proceeds from long-term debt	47	—
Payments on long-term debt	(385)	(398)
Purchases of Class A Common Stock	(7,943)	(4,471)
Issuance of shares under stock compensation plans	749	2,407
Dividends paid	—	(4,120)
Net cash provided by (used in) financing activities	9,825	(5,994)
NET INCREASE (DECREASE) IN CASH	5,992	(42,607)
CASH, BEGINNING OF PERIOD	10,576	82,082
CASH, END OF PERIOD	\$ 16,568	\$ 39,475
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Change in fair value of cash flow hedging instrument (net of tax benefit of of \$50 for the three months ended March 31, 2003 and \$51 for the three months ended March 31, 2004)	\$ 78	\$ 80
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest, net of amount capitalized	\$ 20,139	\$ 20,076
Cash paid for income taxes	\$ 4,365	\$ 299

See notes to unaudited consolidated financial statements.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited financial information for the three months ended March 31, 2004 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of Sonic for the year ended December 31, 2003, which were included in Sonic's Annual Report on Form 10-K.

Stock-Based Compensation - Sonic accounts for stock-based compensation 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 in the accompanying unaudited financial statements. 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, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

	Three Months Ended March 31,	
	2003	2004
	(Dollars in thousands except per share amounts)	
Net income as reported	\$ 11,685	\$ 22,185
Fair value compensation cost, net of tax benefit of \$1,075 and \$1,148	(1,807)	(1,960)
Pro forma net income	\$ 9,878	\$ 20,225
Basic income (loss) per share:		
Net income as reported	\$ 0.28	\$ 0.54
Fair value compensation cost, net of tax	(0.04)	(0.05)
Pro forma net income	\$ 0.24	\$ 0.49
Diluted income (loss) per share:		
Net income as reported	\$ 0.28	\$ 0.52
Fair value compensation cost, net of tax	(0.04)	(0.05)
Pro forma net income	\$ 0.24	\$ 0.47

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

Cumulative Effect of a Change in Accounting Principle - The Emerging Issues Task Force ("EITF") of the 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, which was effective January 1, 2003, payments received from manufacturers for floor plan assistance and certain types of advertising allowances should be recorded as a reduction of the cost of inventory and recognized as a reduction of cost of sales when the inventory is sold. Previous practice was to recognize such payments as a reduction of cost of sales at the time of vehicle purchase. The cumulative effect of the adoption of Issue No. 02-16 resulted in a decrease to income of \$5.6 million, net of income taxes of \$3.3 million for the three months ended March 31, 2003.

Reclassifications - Loss from operations of discontinued franchises for the three months ended March 31, 2003 reflects reclassifications from the prior year presentation to include additional franchises sold or identified for sale subsequent to March 31, 2003 which had not been classified as held for sale as of March 31, 2003.

Recent Accounting Pronouncements - In July 2003, the EITF reached a consensus on Issue No. 03-10, "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers." Issue No. 03-10 requires certain consideration offered directly from manufacturers to consumers to be recorded as a reduction of cost of sales. Issue No. 03-10 was effective January 1, 2004. The adoption of Issue No. 03-10 had no effect on Sonic's consolidated operating results, financial position or cash flows.

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

Acquisitions:

During the first three months of 2004, Sonic acquired two franchises located in Ontario, California for an aggregate purchase price of approximately \$58.6 million in cash, net of cash acquired. The unaudited consolidated balance sheet as of March 31, 2004 includes preliminary allocations of the purchase price of these acquisitions to the assets and liabilities acquired based on their estimated fair market values at the dates of acquisition and are subject to final adjustment. As a result of these allocations and adjustments for previously recorded acquisitions, Sonic has recorded the following:

- \$3.7 million of intangible assets representing rights acquired under franchise agreements;
- \$47.7 million of goodwill, all of which is expected to be tax deductible; and
- \$(0.3) million of goodwill related to the final adjustment of purchase price allocations for prior year acquisitions.

On April 1, 2004, Sonic purchased eight franchises for approximately \$68.2 million comprised of \$41.7 million in cash on hand and by borrowings under our Revolving Facility and the assumption of \$26.6 million in debt.

Dispositions:

During the first three months of 2004, Sonic sold two franchises. These disposals generated cash of \$30.5 million. The sale of these franchises resulted in a net gain of \$0.7 million, which is included in discontinued operations on the accompanying unaudited consolidated statement of income for the three month period ended March 31, 2004. The gain was net of \$25.5 million in goodwill associated with these franchises.

In conjunction with the dispositions in the first three months of 2004, Sonic has agreed to indemnify the buyers from certain liabilities and costs arising from operations or events that occurred prior to sale but which may or may not be known at the time of sale, including environmental liabilities and liabilities associated from the breach of representations or warranties made under the agreements. There is no additional liability associated with current year dispositions related to subleases. However, Sonic's maximum liability associated with general indemnifications increased by \$30.9 million as a result of these dispositions. These indemnifications expire within a period of one to three years following the date of the sale. The estimated fair value of these indemnifications was not material.

In addition to the dispositions described above, as of March 31, 2004, Sonic had approved the sale of 14 dealerships, representing 21 franchises. These dealerships are generally franchises with unprofitable operations. The operating results of these franchises are included in discontinued operations on the accompanying unaudited consolidated statements of income. Long lived

[Table of Contents](#)

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

assets to be disposed of in connection with franchises not yet sold, consisting primarily of property, equipment, goodwill and other intangible assets, totaled approximately \$23.4 million at March 31, 2004 and have been classified in assets held for sale in the accompanying unaudited consolidated balance sheet. Goodwill classified as assets held for sale totaled approximately \$9.4 million and \$11.2 million at March 31, 2004 and December 31, 2003, respectively. Other assets and liabilities to be disposed in connection with these dispositions include inventories and related notes payable - floor plan. Revenues associated with franchises classified as discontinued operations were \$164.1 million and \$124.8 million for the three months ended March 31, 2003 and 2004, respectively. The pre-tax loss (before gains or losses on the sale of disposed franchises) associated with franchises classified as discontinued operations were \$4.8 and \$1.1 million for the three months ended March 31, 2003 and 2004, respectively.

3. INVENTORIES

Inventories consist of the following:

	December 31, 2003	March 31, 2004
	(Dollars in thousands)	
New vehicles	\$ 825,189	\$ 863,334
Used vehicles	126,872	135,012
Parts and accessories	49,782	50,250
Other	45,066	47,954
Total	\$ 1,046,909	\$ 1,096,550

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2003	March 31, 2004
	(Dollars in thousands)	
Land	\$ 7,653	\$ 7,538
Building and improvements	68,936	71,270
Office equipment and fixtures	35,061	36,883
Parts and service equipment	26,689	27,898
Company vehicles	8,050	8,338
Construction in progress	9,262	14,711
Total, at cost	155,651	166,638
Less accumulated depreciation	(30,295)	(33,635)
Property and equipment, net	\$ 125,356	\$ 133,003

In addition to the amounts shown above, Sonic incurred approximately \$65.5 million in real estate and construction costs as of December 31, 2003 and \$62.3 million as of March 31, 2004 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 assets held for sale on the accompanying unaudited consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the properties to unaffiliated third parties and enters into long-term operating leases on the facilities. During the first three months of 2004, Sonic sold \$12.8 million in dealership properties in sale-leaseback transactions.

[Table of Contents](#)

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

5. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2003	March 31, 2004
(Dollars in thousands)		
\$550 million revolving credit facility bearing interest at 2.55 percentage points above LIBOR and maturing October 31, 2006, collateralized by all of Sonic's assets (1)	\$ 285,523	\$ 286,203
Senior Subordinated Notes bearing interest at 8.625%, maturing August 15, 2013	275,000	275,000
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009	130,100	130,100
\$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 (2)	4,568	4,568
\$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 (2)	5,470	5,378
Other notes payable (primarily equipment notes)	2,201	1,803
	\$ 702,862	\$ 703,052
Less unamortized discount, net of unamortized premium	(6,420)	(6,239)
Plus (less) fair value of variable interest rate swaps	(157)	2,966
Less current maturities	(1,387)	(1,123)
Long-term debt	\$ 694,898	\$ 698,656

- (1) During the first quarter of 2004, Sonic increased the borrowing limit on the revolving credit facility from \$500.0 million to \$550.0 million. In connection with this increase in the borrowing limit, Sonic added two lenders to the revolving credit facility.
- (2) Total combined borrowings under the construction and real estate lines of credit are limited to \$100.0 million.

6. 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, and Class A common stock purchase warrants. The following table illustrates the dilutive effect of such items:

	Three Months Ended March 31,	
	2003	2004
(Shares in thousands)		
Basic weighted average number of common shares outstanding	40,931	41,193
Dilutive effect of stock options	825	1,406
Dilutive effect of warrants	1	—
Weighted average number of common shares outstanding, including effect of dilutive securities	41,757	42,599

In addition to the stock options included in the table above, options to purchase 2,725,712 shares and 1,703,050 shares of Class A common stock were outstanding during the three month periods ended March 31, 2003 and 2004, respectively, but were not included in the computation of diluted net income per share because the options were antidilutive. The total amount of stock options outstanding at March 31, 2003 and 2004 were 5,461,693 and 6,975,703, respectively.

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

7. CONTINGENCIES

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, class actions, purported class actions and actions brought by governmental authorities.

Several of Sonic's 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 two of the actions, the Texas state court certified two classes of consumers on whose behalf the actions would proceed. The Texas Court of Appeals has 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 April 2004, the Texas Supreme Court issued an order stating that it would not hear the merits of the defendants' appeal. Sonic's dealership subsidiary defendants and the other Texas dealership defendants intend to file a motion for reconsideration to the Texas Supreme Court by May 10, 2004 asking the Texas Supreme Court to hear the merits of the defendants' appeal regarding the class certification. The federal court has 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.

If the TADA matters are not settled, Sonic and its dealership subsidiaries intend to vigorously defend themselves and assert available defenses. In addition, Sonic or its dealership subsidiaries may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters may result in the payment of significant costs and damages, which could have a material adverse effect on Sonic's future results of operations and cash flows.

In addition to the TADA matters described above, Sonic is involved in numerous other legal proceedings arising out of the conduct of Sonic's business. Sonic's management does not believe that the ultimate resolution of these legal proceedings will have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects. However, the results of these legal proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these legal proceedings could have a material adverse effect on Sonic's business, financial condition, results of operations cash flows and prospects.

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

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in our Annual Report for the year ended December 31, 2003 on Form 10-K.

Overview

We are one of the largest automotive retailers in the United States. As of April 30, 2004 we operated 194 dealership franchises, representing 38 different brands of cars and light trucks at 155 locations, and 39 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 vehicle sales volume. As a result, we believe the diversity of these products and services reduces the risk of periodic economic downturns.

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

The following is a detail of our new vehicle revenues by brand for the three months ended March 31, 2003 and 2004:

	Percentage of New Vehicle Revenues Three Months Ended March 31,	
	2003	2004
Brand (1)		
Honda	16.7%	13.1%
Cadillac	12.9%	12.9%
Toyota	11.3%	12.1%
General Motors (2)	10.9%	11.5%
BMW	9.6%	10.3%
Ford	12.5%	10.2%
Lexus	4.5%	6.1%
Volvo	3.4%	3.9%
Mercedes	3.2%	3.4%
Chrysler (3)	3.0%	3.2%
Nissan	2.6%	2.8%
Other (4)	5.3%	5.7%
Other Luxury (5)	4.1%	4.8%
Total	100.0%	100.0%

-
- (1) In accordance with the provisions of SFAS No. 144, revenue data in 2003 reflects the reclassification of the results of operations of dealerships sold or identified for sale subsequent to March 31, 2003 which were not previously included in discontinued operations
- (2) Includes Buick, Chevrolet, GMC, Oldsmobile, Saturn and Pontiac
- (3) Includes Chrysler, Dodge and Jeep
- (4) Includes Hino, Hyundai, Isuzu, KIA, Lincoln, Mercury, Minicooper, Mitsubishi, Scion, Subaru and Volkswagen
- (5) Includes Acura, Audi, Bentley, Hummer, Infiniti, Land Rover, Maybach, Porsche, Rolls Royce and Saab

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 unaudited consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to March 31, 2004. 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.

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

Results of Operations

Revenues

New Vehicles:

	For the Three Months Ended		Units or \$ Change	% Change
	3/31/2003	3/31/2004		
New Vehicle Units				
Same Store	33,343	32,567	(776)	(2.3)%
Acquisitions	301	2,215	1,914	635.9%
Total As Reported	33,644	34,782	1,138	3.4%
New Vehicle Revenues (in thousands)				
Same Store	\$ 923,326	\$ 945,420	\$22,094	2.4%
Acquisitions	8,004	62,932	54,928	686.3%
Total As Reported	\$ 931,330	\$ 1,008,352	\$77,022	8.3%
New Vehicle Unit Price				
Same Store	\$ 27,692	\$ 29,030	\$ 1,338	4.8%

During the first quarter of 2004, total same store new vehicle unit sales declined slightly. Our domestic dealerships' unit sales decreased 501 units, or 3.6%, while our import dealerships decreased 275 units, or 1.4%, as compared to the same period last year. The industry experienced an increase of 2.2% at domestic dealerships and an increase of 6.6% at import dealerships. Our strongest performing dealerships were GM (excluding Cadillac) (up 302 units, or 7.1%), BMW (up 252 units, or 10.9%) and Lexus (216 units, or 21.3%) as compared to last year. These increases can be attributed to a higher percentage of truck and sports-utility sales and recently released popular new models. These increases were offset by large declines at Honda (down 959 units, or 13.3%) and Ford (down 791 units, or 14.4%). The declines in both Ford and Honda are due to mature product offerings with relatively fewer new models. In addition, our Honda dealerships experienced increased competition and changes in dealership management in several key markets. The strong performing regions included North Los Angeles (up 403 units, or 26.5%), Birmingham/Tennessee (up 259 units, or 17.1%) and North Bay (up 195 units, or 7.8%), all of which have a high concentration of import brands. The under performing regions were Dallas (down 313 units, or 8.1%), Oklahoma (down 285 units, or 18.0%) and Ohio (down 282 units, or 19.3%), all of which have a significant number of domestic brands. Additionally, Dallas and Oklahoma continued to have unemployment rates that exceed the national average.

All of our dealerships, except Honda, experienced price per unit increases during the first quarter of 2004 as compared to the same period in 2003. Volkswagen, Cadillac, Volvo, Infiniti, Nissan, GM (excluding Cadillac) and Lexus experienced significant increases in price per unit due to an increase in truck and sports-utility sales. Honda's price per unit decreased due to declining demand for a relatively mature product line and increased competition and changes in dealership management in several key markets.

Used Vehicles:

	For the Three Months Ended		Units or \$ Change	% Change
	3/31/2003	3/31/2004		
Used Vehicle Units				
Same Store	16,845	16,359	(486)	(2.9)%
Acquisitions	93	1,019	926	995.7%
Total As Reported	16,938	17,378	440	2.6%
Used Vehicle Revenues (in thousands)				
Same Store	\$ 275,082	\$ 275,290	\$ 208	0.1%
Acquisitions	1,445	14,901	13,456	931.2%
Total As Reported	\$ 276,527	\$ 290,191	\$13,664	4.9%
Used Vehicle Unit Price				
Same Store	\$ 16,330	\$ 16,828	\$ 498	3.0%

During the first quarter of 2004, we continued to see challenging economic conditions in the Central Division (Houston, Dallas and Oklahoma regions). The Central Division accounted for 68.5% of the total same store unit decline. The Central Division

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

historically depends heavily on used vehicle sales, with a significant number of the used car sales generated from sub-prime credit customers. The availability of credit in the sub-prime category continued to be tight due to certain national lenders reducing their exposure in this area and other lenders increasing credit standards. We are continuing to mitigate the effect of this tightening by utilizing regional finance sources to replace the national lenders. Our strong performing regions in the first quarter of 2004, as compared to the same period last year, included Birmingham/Tennessee (up 259 units, or 33.9%), North Carolina/South Carolina (up 165 units, or 10.2%) and our Las Vegas market (up 124 units, or 36.8%). These increases were offset by decreases in our Colorado market (down 285 units, or 26.1%), Oklahoma (down 275 units, or 20.0%), and Alabama/Atlanta (down 176 units, or 10.9%).

Despite the unit sales decline, both used vehicle revenue and the used vehicle price per unit increased. The increases were due to an increase in higher priced, certified pre-owned sales. Certified pre-owned ("CPO") sales represented 33.3% of total used unit sales in the first quarter of 2004, as compared to 23.4% in the first quarter of 2003, an increase of 42.3%. From 2003 to 2004, the industry CPO increase was 8.8%.

Wholesale Vehicles:

	For the Three Months Ended		Units or \$ Change	% Change
	3/31/2003	3/31/2004		
Wholesale Vehicle Units				
Same Store	12,642	13,089	447	3.5%
Acquisitions	196	344	148	75.5%
Total As Reported	12,838	13,433	595	4.6%
Wholesale Vehicle Revenues (in thousands)				
Same Store	\$93,001	\$ 102,271	\$ 9,270	10.0%
Acquisitions	5,630	12,187	6,557	116.5%
Total As Reported	\$98,631	\$ 114,458	\$15,827	16.0%
Wholesale Unit Price				
Same Store	\$ 7,357	\$ 7,813	\$ 456	6.2%

During the first quarter of 2004, total same store wholesale unit sales increased due to increased sales at our import dealerships. Our import dealerships' wholesale unit volume increased 556 units, or 8.3%, for the three months ended March 31, 2004 as compared to the same period last year. The import dealerships' increases were primarily attributable to Volvo (up 151 units, or 47.3%), Toyota (up 136 units, or 8.8%) and Volkswagen (up 123 units, or 69.1%). Import dealership increases were partially offset by unit sales decreases at our domestic dealerships of 109 units, or 1.8%, for the quarter ended March 31, 2004 as compared to March 31, 2003. These declines were due to Ford's wholesale unit sales decreasing 213 units, or 11.0%.

The wholesale price per unit increase can be attributed to luxury dealerships (which receive higher priced trade-ins) representing 20.0% of total wholesale units sold in the first quarter of 2004, and only 17.6% in the first quarter of 2003. In addition, industry wholesale prices have begun to trend upward over the last six months.

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

	For the Three Months Ended		\$ Change	% Change
	3/31/2003	3/31/2004		
Parts, Service and Collision Repair (in thousands)				
Same Store	\$ 221,680	\$ 232,386	\$10,706	4.8%
Acquisitions	1,624	14,511	12,887	793.5%
Total As Reported	\$ 223,304	\$ 246,897	\$23,593	10.6%

Same store parts, service, and collision revenues increased primarily from strong performance at our import dealerships. Parts and service revenues at our import dealerships increased \$11.5 million, or 10.3%, while our domestic dealerships declined \$1.5 million, or 1.6% for the quarter ended March 31, 2004. Our BMW, Honda and Volvo dealerships all experienced significant increases of \$4.3 million, or 18.0%, \$1.3 million, or 4.3% and \$1.1 million, or 10.6%, respectively, for the quarter ended March 31, 2004 as compared to the same period last year. All of these increases were the result of an increase in warranty sales. Our Ford stores were the only brand that experienced significant declines in parts and service revenues, decreasing \$2.0 million, or 10.0%, in the first quarter of 2004 as compared to 2003.

[Table of Contents](#)

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

Same store collision repairs increased \$0.4 million, or 3.1%, to \$14.0 million from the first quarter 2003 to the first quarter 2004. This can be attributed to the addition of experienced national personnel solely focused on collision center operations.

Finance and Insurance:

	For the Three Months Ended		\$ Change	% Change
	3/31/2003	3/31/2004		
Finance & Insurance Revenue (in thousands)				
Same Store	\$45,201	\$40,445	\$(4,756)	(10.5)%
Acquisitions	982	3,450	2,468	251.3%
Total As Reported	\$46,183	\$43,895	\$(2,288)	(5.0)%
Total F&I per Unit				
Same Store	\$ 901	\$ 827	\$ (74)	(8.2)%

Same store finance and insurance revenues declined due to a decline in retail unit volume, a restructuring of product offerings, and an industry-wide trend in financing practices. Finance contract revenues decreased \$2.1 million, or 10.6%, in the first quarter of 2004, as compared to the same period last year. The decline in finance contract income represented 44.5% of the total same store finance and insurance decline. This decrease was due to an industry-wide trend in which finance companies are basing an increased number of commissions on a flat (per contract) rate, instead of as a percentage of the interest rate spread, thus minimizing the potential commission. Aftermarket income declines, attributable to a restructuring of product offerings, accounted for 30.3% of the total finance and insurance decline as it decreased 16.7% in the first quarter of 2004 from the first quarter of 2003. Service contract income decreased \$0.8 million, or 8.9%. This decrease was due to CPO sales being a greater percentage of used unit sales. Certified pre-owned vehicles include a manufacturers' warranty, thus it is not necessary for the customer to purchase a separate service contract.

Our single brand which experienced a significant increase in finance and insurance revenues was BMW (up 11.5%) due to an increase in unit volume. Our dealerships that experienced the largest declines were Honda (down 25.7%) and Ford (down 23.7%). Both of these declines were due to unit volume decreases.

Gross Profit and Gross Margins

	For the Three Months Ended		\$ Change	% Change
	3/31/2003	3/31/2004		
Gross Profit (in thousands)				
Same Store	\$ 248,643	\$ 250,947	\$ 2,304	0.9%
Acquisitions	2,754	16,666	13,912	505.2%
Total As Reported	\$ 251,397	\$ 267,613	\$16,216	6.5%

The overall same store gross profit as a percentage of revenues ("gross margin") declined to 15.7% for the quarter ended March 31, 2004 from 16.0% for the quarter ended March 31, 2003. This decrease was primarily attributable to the decline in finance and insurance revenues which have a 100% gross margin. Finance and insurance revenues as a percent of total revenues declined to 2.5% from 2.9% for the same period last year. Used vehicle margins also declined to 10.8% from 11.0%, for the quarters ended March 31, 2004 and 2003, respectively. Used margins have declined because our dealerships have been receiving trade-ins requiring additional reconditioning thus reducing profitability. The gross margin declines were partially offset by increases in Fixed Operations margins, which increased to 48.3% from 48.0% during the first quarter of 2004 as compared to the first quarter of 2003. Total gross profit increased because the percent of total revenue that was contributed by Fixed Operations increased to 14.6% from 14.2% for the quarters ended March 31, 2004 and 2003, respectively. New vehicle margins remained stable at 7.4% for the quarters ended March 31, 2004 and 2003.

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

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

	For the Three Months Ended		\$ Change	% Change
	3/31/2003	3/31/2004		
SG&A (in thousands)				
Same Store	\$ 196,222	\$ 192,528	\$ (3,694)	(1.9)%
Acquisitions	7,716	21,551	13,835	179.3%
Total As Reported	\$ 203,938	\$ 214,079	\$10,141	5.0%

For the three months ended March 31, 2004, total SG&A as a percentage of gross profits declined to 80.0% from 81.1% in the prior year quarter. This decrease was due to lower advertising and sales compensation expense which were somewhat offset by increases in rent and rent related expenses.

Advertising expenses in the first three months of 2004 and 2003 represented 6.3% and 7.5%, respectively, of total SG&A costs. Overall advertising expenses declined \$1.8 million resulting in a ratio of expense to gross profit of 5.1% in the three months ended March 31, 2004, versus 6.1% in the three months ended March 31, 2003. This decrease was the direct result of new centralized procedures to allocate advertising expenditures. As a result of these procedures, we expect future advertising expenses to be less than comparable prior periods.

Compensation expense in the first three months of 2004 and 2003 represented 59.9% and 60.5%, respectively, of total SG&A costs. Compensation expense as a percentage of gross profits declined to 47.9% in 2004 from 49.1% in 2003. In the first quarter of 2004, we began the process of standardizing sales compensation plans. Since this process has not been fully implemented, we expect to realize continued improvement in compensation expense as a percentage of gross profit.

Rent and rent related expenses in the first three months of 2004 and 2003 comprised 14.0% and 12.9%, respectively, of total SG&A costs. Rent and rent related expenses in 2004 increased \$3.6 million over the same period last year and as a percentage of gross profits increased to 11.2% from 10.5%. Increases of \$2.3 million as a result of dealership acquisitions and \$0.8 million related to facility improvement projects contributed to the increase.

Depreciation

	For the Three Months Ended		\$ Change	% Change
	3/31/2003	3/31/2004		
Depreciation (in thousands)				
Same Store	\$ 1,898	\$ 3,057	\$1,159	61.1%
Acquisitions	376	663	287	76.3%
Total As Reported	\$ 2,274	\$ 3,720	\$1,446	63.6%

The balance of gross property and equipment related to continuing operations, excluding land and construction in progress, increased \$32.5 million, or 29.1%, in the first quarter of 2004 compared to the same period in 2003. Of this increase, \$18.3 million were related to leasehold improvements. This increase in depreciable property has driven the corresponding increase in depreciation expense.

Floor Plan Interest Expense

The average floor plan interest rate incurred by continuing dealerships was 2.60% for the quarter ended March 31, 2004, compared to 3.24% for the quarter ended March 31, 2003, which reduced interest expense by approximately \$1.0 million. This decrease in expense was offset by the effect of an increase in floor plan balances. The average floor plan balance from continuing dealerships increased to \$919.3 million during 2004 from \$691.7 million during 2003, resulting in increased expense of approximately \$1.5 million. Approximately \$6.1 million of the increase in the average floor plan balance was due to additional dealerships we acquired in 2004. The remaining increase in the floor plan balance was due to inventory seasonality and inventory optimization efforts.

[Table of Contents](#)

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

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 upon the sale of the vehicle. During the quarter ended March 31, 2004, the amounts we recognized from floor plan assistance exceeded our floor plan interest expense by approximately \$3.2 million. In the quarter ended March 31, 2003, floor plan assistance exceeded floor plan interest expense by approximately \$2.0 million.

Interest Expense, Other

Changes in interest expense, other in 2004 compared to 2003 are summarized in the schedule below:

	<u>Increase/(decrease)</u> <u>(in millions)</u>
Interest rates –	
• Decrease in the weighted average interest rate on the Revolving Facility from 4.2% to 3.9%	\$ (0.1)
• Refinancing \$182.4 million of our 11% Senior Subordinated Notes with \$200.0 million of 8.625% Senior Subordinated Notes in Q3 2003	(0.7)
Debt balances –	
• Lower average balance of the Revolving Facility	(0.6)
• Issuance of an additional \$75.0 million of 8.625% Senior Subordinated Notes in Q4 2003	1.6
Other factors –	
• Decrease in capitalized interest in first quarter 2004	0.2
• Interest expense related to floating to fixed interest rate swaps	0.1
• Interest savings related to fixed to floating interest rate swaps	(1.3)
• Increase in interest income	(0.5)
• Increase in other interest	0.1
	<u>\$ (1.2)</u>

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.

Because the majority of our consolidated assets are held by our dealership subsidiaries, the majority of our cash flows from operations is generated by these subsidiaries. As a result, our cash flows and ability to service debt depends to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash. Uncertainties in the economic environment as well as uncertainties associated with the ultimate resolution of geopolitical conflicts may therefore affect our overall liquidity.

Floor Plan Facilities

The weighted average interest rate for our floor plan facilities was 2.61% and 3.12% for the three months ended March 31, 2004 and 2003, respectively. Our floor plan interest expense is substantially offset by amounts received from manufacturers, in the form of floor plan assistance. In the first three months of 2004, we received approximately \$9.7 million in manufacturer assistance, which resulted in an effective borrowing rate under our floor plan facilities of 0%. 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. We were in compliance with all restrictive covenants as of March 31, 2004.

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

Long-Term Debt and Credit Facilities

The Revolving Facility: In the first quarter of 2004, we added two lenders to our Revolving Facility and increased our borrowing limit by \$50.0 million. At March 31, 2004 our Revolving Facility had a borrowing limit of \$550 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by one of our affiliates (the borrowing base and availability were approximately \$555.3 million and \$234.8 million at March 31, 2004, respectively). The amount available to be borrowed under the Revolving Facility is reduced on a dollar-for-dollar basis by the cumulative face amount of outstanding letters of credit. At March 31, 2004, we had \$29.0 million in letters of credit outstanding. The amounts outstanding under the Revolving Facility bore interest during the first quarter of 2004 at 2.55 percentage points above LIBOR. The total outstanding balance was approximately \$286.2 million as of March 31, 2004.

Senior Subordinated 11% and 8.625% Notes: On August 12, 2003, we issued \$200.0 million in aggregate principal amount of 8.625% senior subordinated notes due 2013 (the "8.625% Notes"). The net proceeds, before expenses, of approximately \$194.3 million together with an advance from Revolving Facility, were used to redeem all of the 11% senior subordinated notes due 2008 (the "11% Notes"). On November 19, 2003 we issued an additional \$75.0 million in aggregate principal amount of the 8.625% Notes. The net proceeds, before expenses, were approximately \$78.9 million, and were used to pay down our Revolving Facility. This \$75.0 million issuance contains the same provisions and terms as the \$200.0 million issuance on August 15, 2003.

At March 31, 2004, the outstanding balance and availability on our long-term credit facilities were as follows (in thousands):

	Interest Rate (1)	Outstanding Balance	Additional Borrowing Availability
Revolving Facility (matures October 2006)	LIBOR + 2.55%	\$ 286,203	\$ 234,754
Senior Subordinated Notes (mature August 2013)	8.625%	\$ 275,000	\$ —
Convertible Senior Subordinated Notes (2) (mature May 2009)	5.25%	\$ 130,100	\$ —
Mortgage Facility:			
Construction Loan (matures December 2007)	LIBOR + 2.25%	\$ 4,568	\$ 45,432(3)
Permanent Loan (matures December 2012)	LIBOR + 2.00%	\$ 5,378	\$ 94,622(3)

- (1) Three-month LIBOR was 1.11% at March 31, 2004.
- (2) Notes were not convertible at any time during the three months ended March 31, 2004.
- (3) Total combined borrowings under the Construction and Permanent Loans is limited to \$100,000.

We were in compliance with all of the restrictive and financial covenants under all our long-term credit facilities as of March 31, 2004.

Dealership Acquisitions and Dispositions

In the first three months of 2004, we acquired two franchises for a combined purchase price of \$58.6 million in cash. The total purchase price for these acquisitions was based on our internally determined valuation of the franchises and their assets. The purchase price was financed by cash generated from operations and by borrowings under our Revolving Facility.

During the first three months of 2004, we sold two franchises. These disposals generated cash of \$30.5 million.

On April 1, 2004, Sonic purchased eight franchises for approximately \$68.2 million comprised of \$41.7 million in cash on hand and by borrowings under our Revolving Facility and the assumption of \$26.6 million in debt.

Sale-Leaseback Transactions

In an effort to generate additional cash flow, 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

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

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. During the first three months of 2004, we sold \$12.8 million in dealership properties in sale-leaseback transactions.

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 the first three months of 2004 were approximately \$21.3 million, of which approximately \$16.3 million related to the construction of new dealerships and collision repair centers. Once completed, these new dealerships and collision repair centers are generally sold in sale-leaseback transactions. Capital expenditures incurred during the first three months of 2004 expected to be sold within a year in sale-leaseback transactions were \$10.1 million. We do not expect any significant gains or losses from these sales. As of March 31, 2004, commitments for facilities construction projects totaled approximately \$41.0 million. We expect \$26.9 million of this amount to be financed through future sale-leaseback transactions.

Stock Repurchase Program

Our Board of Directors has authorized us to expend up to \$165.0 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. In the first three months of 2004, we repurchased 196,800 shares for approximately \$4.5 million which was somewhat offset by proceeds received from the exercise of stock options under stock compensation plans of \$2.4 million. Subsequent to March 31, 2004, we have purchased an additional 223,100 shares of Class A common stock for approximately \$5.3 million. As of April 30, 2004, we had \$24.0 million remaining under our Board authorization.

Dividends

Our Board of Directors approved a quarterly cash dividend of \$0.10 per share for shareholders of record on March 15, 2004, which was paid on April 15, 2004.

Cash Flows

For the three months ended March 31, 2004, net cash used by operating activities was approximately \$2.2 million, which was driven primarily by changes in working capital accounts (primarily impacted by inventory seasonality and inventory optimization efforts somewhat offset by an increase in notes payable floorplan) and net income adjusted for non-cash items such as depreciation, amortization and gains on disposals of assets. Cash used for investing activities in the first three months of 2004 was \$34.4 million, the majority of which related to dealership acquisitions and capital expenditures on construction in progress projects offset by proceeds received from dealership dispositions and the sales of property and equipment in sale-leaseback transactions. In the first three months of 2004, net cash used by financing activities was \$6.0 million and related primarily to repurchases of Class A common stock of \$4.5 million and dividends paid of \$4.1 million somewhat offset by the exercise of shares under stock compensation plans of \$2.4 million.

Future Liquidity Outlook

We believe our best source of liquidity for future growth remains cash flows generated from operations combined with the 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 geopolitical conflicts 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, based on market conditions.

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.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. Our variable rate notes payable—floor plan, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately \$1.3 billion at March 31, 2004 and approximately \$1.0 billion at March 31, 2003. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$3.1 million in the first three months of 2004 and approximately \$3.2 million in the first three months of 2003. Of the total change in interest expense, approximately \$2.3 million in the first three months of 2004 and approximately \$2.6 million in first three months of 2003 would have resulted from notes payable—floor plan.

Our exposure with respect to notes payable—floor plan is mitigated by floor plan assistance payments received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. These payments are capitalized as inventory and charged against cost of sales when the associated inventory is sold. During the three months ended March 31, 2004 and 2003, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately \$3.2 million and \$2.0 million, respectively. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to 0% after considering these incentives. A change of 100 basis points in the underlying interest rate would have caused an estimated change in floor plan assistance of approximately \$2.0 million in the first three months of 2004.

In addition to our variable rate debt, we also have lease agreements on a portion of our dealership facilities where the monthly lease payment fluctuates based on LIBOR interest rates. Many of our lease agreements have interest rate floors whereby our lease expense would not fluctuate significantly in periods when LIBOR is relatively low.

In order to reduce our exposure to market risks from fluctuations in interest rates, we have two separate interest rate swap agreements (the “Fixed Swaps”) to effectively convert a portion of the LIBOR-based variable rate debt to a fixed rate. The Fixed Swaps each have a notional principal amount of \$100.0 million and mature on October 31, 2004 and June 6, 2006, respectively. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of the Fixed Swaps was \$1.5 million and \$1.4 million for the three month periods ended March 31, 2004 and 2003, respectively. The Fixed Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the Fixed Swaps have been recorded in other comprehensive loss, net of related income taxes, in the statements of stockholders’ equity with offsetting amounts in other accrued and long-term liabilities. In addition, we have four separate interest rate swaps each at \$25.0 million and a fifth interest rate swap for \$50.0 million (\$150.0 million total) (collectively, the “Variable Swaps”) to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. The Variable Swaps expire on August 15, 2013 and have been designated and qualify as fair value hedges and, as a result, changes in the fair value of the Variable Swaps have been recorded against the associated fixed rate long-term debt with offsetting amounts recorded as a derivative asset within other assets. Incremental interest savings incurred as a result of the Variable Swaps was \$1.3 million for the three month period ended March 31, 2004.

Item 4: Controls and Procedures.

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

PART II – OTHER INFORMATION

Item 1: Legal Proceedings.

We are involved, and expect to 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, class actions, purported class actions and actions brought by governmental authorities.

Several of our Texas dealership subsidiaries have been named in three class action lawsuits 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 dealerships are named as defendants in the other action. The three actions allege that since 1994, Texas automobile dealerships have deceived customers with respect to a vehicle

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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 dealerships and the other defendants appealed that ruling to the Texas Supreme Court. In April 2004, the Texas Supreme Court issued an order stating that it would not hear the merits of the defendants' appeal. Our dealerships and the other defendants intend to file a motion for reconsideration to the Texas Supreme Court by May 10, 2004, asking the Texas Supreme Court to hear the merits of the defendants' appeal regarding the class certification. 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 for the Fifth Circuit.

If the TADA matters are not settled, Sonic and its dealership subsidiaries intend to vigorously defend themselves and assert available defenses. In addition, Sonic or its dealership subsidiaries may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters may result in the payment of significant costs and damages, which could have a material adverse effect on Sonic's future results of operations and cash flows.

In addition to the TADA matters described above, we are also involved in numerous other legal proceedings arising out of the conduct of our business. We do not believe that the ultimate resolution of these legal proceedings will have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects. However, the results of these legal proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these legal proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 2: Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

The following table sets forth information about the shares of Class A Common Stock we repurchased during the first quarter of 2004.

	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</u>
				(Amounts in Thousands, Except Per Share Amounts)
January 1, 2004 - January 31, 2004	92.3	\$ 22.83	92.3	\$ 31,610.0
February 1, 2004 - February 29, 2004	94.5	22.59	94.5	29,476.0
March 1, 2004 - March 31, 2004	10.0	22.83	10.0	29,248.0
Total	<u>196.8</u>	<u>\$ 22.71</u>	<u>196.8</u>	<u>\$ 29,248.0</u>

- (1) All shares repurchased were part of publicly announced share repurchase programs.
(2) This column discloses the number of shares purchased pursuant to the publicly announced share repurchase programs during the indicated time periods. Our Class A Common Stock repurchase authorizations were publicly announced as follows:

	<u>(Amounts in Thousands)</u>
November 1999	\$ 25,000
January 2000	25,000
December 2000	25,000
May 2001	25,000
August 2002	25,000
February 2003	20,000
December 2003	20,000
Total	<u>\$ 165,000</u>

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 6: Exhibits and Reports on Form 8-K.

(a) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
10.1	First Amendment to Credit Agreement dated March 26, 2004 among Sonic Automotive, Inc., as Borrower, Ford Motor Credit Company (“Ford Credit”), as Agent and Lender, DaimlerChrysler Services North America, LLC (“Chrysler Financial”), as Lender, Toyota Motor Credit Corporation (“Toyota Credit”), as Lender, Bank of America, N.A. (“Bank of America”), as Lender, Merrill Lynch Capital Corporation (“ML Capital”), as Lender, and JPMorgan Chase Bank (“JPMorgan”), as Lender, amending the Second Amended and Restated Credit Agreement dated February 5, 2003 among Sonic, Ford Credit, Chrysler Financial, Toyota Credit and Bank of America (as amended, the “Credit Agreement”).
10.2	Third Amended and Restated Promissory Note dated March 26, 2004 executed by Sonic in favor of Ford Credit pursuant to the Credit Agreement.
10.3	Promissory Note dated March 26, 2004 executed by Sonic in favor of ML Capital pursuant to the Credit Agreement.
10.4	Promissory Note dated March 26, 2004 executed by Sonic in favor of JPMorgan pursuant to the Credit Agreement.
10.5	Reaffirmation of Guaranties and Collateral Documents dated March 26, 2004 by the subsidiaries of Sonic named therein, as Guarantors, in favor of the Lenders under the Credit Agreement.
31.1	Certification of Mr. E. Lee Wyatt, Jr. pursuant to Rule 13a – 14 (a).
31.2	Certification of Mr. O. Bruton Smith pursuant to Rule 13a – 14 (a).
32.1	Certification of Mr. E. Lee Wyatt, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Risk Factors.

(b) Current Reports on Form 8-K:

None.

Forward Looking Statements

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

- future acquisitions;
- industry trends;
- general economic trends, including employment rates and consumer confidence levels;

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

- vehicle sales rates and same store sales growth;
- our financing plans; and
- our business and growth strategies.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in Exhibit 99.1 to this quarterly report on Form 10-Q and elsewhere in this report, as well as:

- our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures, our share repurchase program, and general operating activities;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers, which may affect our ability to complete additional acquisitions;
- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements, and environmental laws;
- general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, and the level of consumer spending;
- high competition in the automotive retailing industry which not only creates pricing pressures on the products and services we offer, but on businesses we seek to acquire; and
- our ability to successfully integrate recent and potential future acquisitions.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.1	First Amendment to Credit Agreement dated March 26, 2004 among Sonic Automotive, Inc., as Borrower, Ford Motor Credit Company (“Ford Credit”), as Agent and Lender, DaimlerChrysler Services North America, LLC (“Chrysler Financial”), as Lender, Toyota Motor Credit Corporation (“Toyota Credit”), as Lender, Bank of America, N.A. (“Bank of America”), as Lender, Merrill Lynch Capital Corporation (“ML Capital”), as Lender, and JPMorgan Chase Bank (“JPMorgan”), as Lender, amending the Second Amended and Restated Credit Agreement dated February 5, 2003 among Sonic, Ford Credit, Chrysler Financial, Toyota Credit and Bank of America (as amended, the “Credit Agreement”).
10.2	Third Amended and Restated Promissory Note dated March 26, 2004 executed by Sonic in favor of Ford Credit pursuant to the Credit Agreement.
10.3	Promissory Note dated March 26, 2004 executed by Sonic in favor of ML Capital pursuant to the Credit Agreement.
10.4	Promissory Note dated March 26, 2004 executed by Sonic in favor of JPMorgan pursuant to the Credit Agreement.
10.5	Reaffirmation of Guaranties and Collateral Documents dated March 26, 2004 by the subsidiaries of Sonic named therein, as Guarantors, in favor of the Lenders under the Credit Agreement.
31.1	Certification of Mr. E. Lee Wyatt, Jr. pursuant to Rule 13a-14(a).
31.2	Certification of Mr. O. Bruton Smith pursuant to Rule 13a-14(a).
32.1	Certification of Mr. E. Lee Wyatt, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Risk Factors.

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT, dated March 26, 2004 (this "Amendment"), is among SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Borrower"), FORD MOTOR CREDIT COMPANY, a Delaware corporation ("Ford Credit"), DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC, a Michigan limited liability company ("Chrysler Financial"), TOYOTA MOTOR CREDIT CORPORATION, a California corporation ("Toyota Credit"), BANK OF AMERICA, N.A., a national banking association organized and existing under the laws of the United States of America ("Bank of America"), MERRILL LYNCH CAPITAL CORPORATION, a Delaware corporation ("Merrill Lynch"), and JPMORGAN CHASE BANK, a New York state chartered bank ("JPMorgan"), and Ford Credit, as Agent, and amends the Second Amended and Restated Credit Agreement, dated February 5, 2003, among Borrower, Ford Credit, Chrysler Financial, Toyota Credit and Bank of America (the "Agreement").

The Agreement provides for the Loan to Borrower in the aggregate principal amount of \$500,000,000.00, to be made severally by Ford Credit, Chrysler Financial, Toyota Credit and Bank of America in accordance with the terms thereof. By this Amendment the parties wish to increase the aggregate principal amount of the Loan to \$550,000,000.00, to add Merrill Lynch and JPMorgan as Lenders under the Agreement, and to incorporate certain waivers and amendments requested by Borrower in its letter dated July 28, 2003 and agreed to by Agent and Lenders then party to the Agreement.

In consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. Definitions. Except as defined herein, all capitalized terms shall have the meanings set forth in the Agreement. Since the Wholesale Agreement has been terminated, the definition of "Wholesale Agreement" in Article I of the Agreement is deleted.

2. Increase in the Loan. The aggregate principal amount of the Loan is increased to \$550,000,000.00. Accordingly, the definitions of "Aggregate Commitments" and "Loan" in Article I of the Agreement are modified in their entirety, as follows:

"Aggregate Commitments" means \$550,000,000.00 or such lesser amount as may from time to time be in effect pursuant to Section 2.3 hereof."

"Loan" means, collectively, the revolving credit loans from Lender to Borrower in the aggregate principal amount of \$550,000,000.00, evidenced by the Notes and secured by the Loan Documents."

3. Additional Lenders. JPMorgan and Merrill Lynch will become Lenders under the Agreement with Commitments as set forth on the Schedule 1.1.4 attached hereto and incorporated herein by reference, which supersedes and replaces the Schedule 1.1.4 to the Agreement. Further, the definitions of "JPMorgan" and "Merrill Lynch" are added to Article I of the Agreement and the definition of "Lenders" in Article I of the Agreement is modified in its entirety, as set forth below:

"JPMorgan" means JPMorgan Chase Bank, a New York state chartered bank, and its successors and assignees."

“Merrill Lynch” means Merrill Lynch Capital Corporation, a Delaware corporation, and its successors and assignees.”

“Lenders” means collectively, Ford Credit, Chrysler Financial, Toyota Credit, Bank of America, Merrill Lynch and JPMorgan, and their respective successors and Eligible Assignees; each of the Lenders may be referred to individually as “Lender”. ”

Since JPMorgan will also provide Sonic Dealerships with Wholesale Lines, the definition of Wholesale Line in Article I of the Agreement is amended in its entirety to state as follows:

“Wholesale Line” means any automotive floor plan wholesale credit line, service loaner, daily rental or demonstrator line and/or arrangements for the purchase of chattel paper made by Ford Credit, Chrysler Financial, General Motors Acceptance Corporation, Toyota Credit, Bank of America, JPMorgan, any Lender and any affiliate or subsidiary thereof to a Sonic Dealership. ”

4. Increase in Letter of Credit Sublimit. The Letter of Credit Sublimit is increased to \$82,000,000.00. Accordingly, the definition of “Letter of Credit Sublimit” in Article I of the Agreement is amended in its entirety to state as follows:

“Letter of Credit Sublimit” means an amount equal to \$82,000,000.00. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.”

5. Repayments and Requests for Advance. (a) Borrower will provide Agent with notice of any optional payments over \$50,000,000.00 at least two Business Days prior to such payments. Accordingly, Subsection 2.2 (A) of the Agreement is modified in its entirety as follows:

“(A) Optional Payments. The Borrower may from time to time repay or prepay without penalty or premium all or any part of the outstanding Advances; provided, however, that any such payment must be at least \$500,000.00, and that the Borrower must provide Agent with notice by 12:00 noon (Eastern Standard Time) two Business Days prior to such payment for payments over \$50,000,000.00 and by 12:00 noon on the day of such payment for payments of \$50,000,000.00 or less.”

(b) Borrower will provide Agent with notice of any Advances over \$50,000,000.00 at least two Business Days prior to such Advance. Accordingly, the first sentence of Section 2.4 of the Agreement is modified in its entirety as follows:

“The Borrower shall give Agent irrevocable notice in substantially the form of Exhibit B hereto (a “Borrowing Notice”) not later than 12:00 noon (Eastern Standard Time) two Business Days prior to the Borrowing Date for any Advance over \$50,000,000.00 and by 12:00 noon (Eastern Standard Time) on the Borrowing Date for any other Advance, specifying: (i) the Borrowing Date (which must be a Business Day) of such Advance; (ii) the aggregate amount of such Advance; (iii) the use of proceeds of such Advance, and (iv) the account or accounts into which the Advances should be funded.”

(c) Further, the reference to “Section 2.1 (B) (ii) (c)” in the first sentence of Section 2.1 (B) (ii) (a) of the Agreement is amended to refer to “Section 2.1 (B) (ii) (d)”.

6. Termination/Reduction Fee; Termination Date. (a) Subsection 2.3 (iii) of the Agreement is amended to state as follows:

“(iii) one-quarter of one percent (0.25%), if Borrower terminates/reduces the Aggregate Commitments after October 31, 2004, but on or before October 31, 2005; or”

(b) The second sentence of Section 2.10 of the Agreement is amended in its entirety to state as follows:

“The Borrower shall deliver the Extension Notice to Agent on or before the date that is at least 45 and not more than 90 days prior to October 31 for the calendar year 2004 and each subsequent calendar year in which such option is available.”

7. Reports. The Lenders and Borrower have clarified the reporting requirements with respect to the BHPH Collateral. Therefore, Subsection 5.1 (A) (v) of the Agreement is amended in its entirety to state as follows:

“(v) BHPH Collateral Reports. Within twenty (20) Business Days after the end of each fiscal quarter, or at such frequency as Agent may request from time to time, reports covering BHPH Collateral, which include (a) summary of the BHPH Collateral receivables and reserves by branch; (b) HMC Finance static pool reports (by percentage and by gross numbers); (c) charge off reports, including a repossession summary; and (d) a balance sheet for HMC Finance by branch office and by account. Such reports shall contain a summary of customer contract trial balances, delinquency and aging reports, loss experience analysis, paid off contracts information, charged off accounts, repossessions and auction information. All reports shall be certified as true and accurate by an authorized corporate officer of HMC Finance.”

Subsection (vi) of Section 5.1 (A) of the Agreement is deleted in its entirety, and subsections (vii) and (viii) of Section 5.1 (A) are re-numbered to reflect the deletion of this subsection.

8. Restricted Payments. Borrower will be allowed to make certain cash dividend payments on Equity Interests in Borrower so long as certain conditions are satisfied. Accordingly, Section 5.3 (E) of the Agreement is amended in its entirety to state as follows:

“(E) Restricted Payments. Neither the Borrower nor any of its Subsidiaries shall declare or make any Restricted Payments, except:

“(i) where the consideration therefore consists solely of Equity Interests (but excluding Disqualified Stock) of the Borrower or its Subsidiaries provided no Change of Control would occur as a result thereof;

“(ii) in connection with the payment of dividends by a Subsidiary to its parent provided such parent is a Guarantor;

“(iii) the redemption or repurchase by Borrower of any Equity Interests of the Borrower or a Subsidiary of Borrower, now or hereafter outstanding, provided that after giving effect to such redemption or repurchase, Borrower remains in compliance with the Financial Covenants set forth in Section 5.4 hereof; and

“(iv) cash dividend payments on Equity Interests in Borrower, so long as no Event of Default or Unmatured Default has occurred and is continuing and provided that, after giving effect to the payment of such dividends, Borrower remains in compliance with the terms and conditions of this Agreement.”

9 Additional Financial Covenant. The Adjusted Fixed Charge Coverage Ratio is added as an additional financial covenant to the Agreement. Therefore, the following Subsection (E) is added to Section 5.4 of the Agreement:

“(E) Adjusted Fixed Charge Coverage Ratio. The Borrower shall maintain a ratio (the “Adjusted Fixed Charge Coverage Ratio”) of (i) EBITDAR less Capital Expenditures, to (ii) the sum of (a) Interest Expense, plus (b) scheduled amortization of the principal portion of all Indebtedness for money borrowed, plus (c) Rentals, plus (d) taxes paid in cash, plus (e) any cash dividends paid by Borrower, plus (f) any amounts paid by Borrower pursuant to the exception allowed by 5.3 (E) (iii), during such period of the Borrower and its Subsidiaries of at least 1.15:1. In each case the Adjusted Fixed Charge Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.”

Also, the following definition is added to Article I of the Agreement:

“Adjusted Fixed Charge Coverage Ratio” is defined in Section 5.4 (E).”

10. Conditions Precedent. This Amendment shall not become effective unless and until all of the following conditions precedent are either satisfied by Borrower or waived by all of the Lenders (the date upon which all such conditions precedent are either satisfied or waived is referred to herein as the “Amendment Effective Date”):

(a) no law, regulation, order, judgment or decree of any Governmental Authority shall, and no Lender shall have received any notice that litigation is pending or threatened which is likely to, (1) enjoin, prohibit or restrain the making of an Advance under the Agreement, or (2) impose or result in the imposition of a Material Adverse Effect;

(b) all due diligence materials requested by the Lenders from the Borrower shall have been delivered to the Lenders and such due diligence materials shall be in form and substance satisfactory to the Lenders;

(c) the Borrower has furnished to the Agent each of the following, all in form and substance satisfactory to the Agent:

(1) this Amendment, duly executed by the Borrower;

(2) the Third Amended and Restated Promissory Note in the principal amount of \$550,000,000.00 from the Borrower to other order of Ford Credit, duly executed by the Borrower;

(3) the Promissory Note in the principal amount of \$20,000,000.00 from Borrower to other order of Merrill Lynch, duly executed by the Borrower;

(4) the Promissory Note in the principal amount of \$30,000,000.00 from Borrower to other order of JPMorgan, duly executed by the Borrower;

(5) the Reaffirmation of Guaranty and Collateral Documents executed by each Guarantor;

(6) the Third Amended and Restated Contribution Agreement, duly executed by each Guarantor;

(7) the Third Amended and Restated Cross Default Agreement, duly executed by the parties thereto;

(8) to the extent any Sonic Dealership, Non-Dealership Guarantor or Subsidiary Holding Company has any Indebtedness other than Permitted Indebtedness, pay-out letters, releases and UCC-3 Termination Statements, where applicable, from all third-party creditors releasing all Liens securing any such Indebtedness;

(9) Certificate of good standing for the Borrower from its jurisdiction of incorporation;

(10) a Secretary's Certificate from the Borrower and each Guarantor certifying that since the most recent submission of such information/documents to Agent, including any newly acquired entities by Borrower, there has been no change in (1) each such entity's jurisdiction of incorporation, (2) Articles of Incorporation, (3) By-Laws, (4) each such entity's good standing with its state of incorporation/jurisdiction, and (5) each such entity's legal name and certifying the incumbency of the officers of the Borrower and each Guarantor;

(11) a certificate signed by the chief financial officer of the Borrower stating that as of the Amendment Effective Date, no Event of Default or Unmatured Default has occurred and is continuing and setting forth the calculation of the Sonic Group's Scaled Assets as of most recent quarterly report of Scaled Assets published by Borrower prior to the date of this Amendment, and the representations and warranties of the Borrower as set forth in the Credit Agreement are true and correct with full force and effect as if made on the Amendment Effective Date;

(12) the Third Amended and Restated Master Intercreditor Agreement executed by all parties thereto;

(13) an opinion of counsel to the Agent for the benefit of the Lenders in form and substance acceptable to the Lenders; and

(14) such consents, waivers or other documents as the Lender or its counsel may have reasonably requested.

11. Amendment Effective Date. Up and until the Amendment Effective Date, the terms and conditions of the Agreement and all Loan Documents shall be in full force and effect and shall control the obligations and requirements among the Borrower, Guarantors, Ford Credit, as Agent and Lender, and Chrysler Financial, Toyota Credit and Bank of America, as Lenders.

12. General. Borrower reaffirms its agreements and obligations under the Collateral Documents with respect to the Loan and the Agreement, as amended by this Amendment. On and after the Amendment Effective Date, the Agreement, as amended by this Amendment, shall be in full force and effect in accordance with the terms thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the Borrower, the Agent and each Lender have executed this Agreement as of the date first above written.

SONIC AUTOMOTIVE, INC.,
as the Borrower

By: /s/ E. Lee Wyatt, Jr. _____

Name: E. Lee Wyatt, Jr.
Title: Senior Vice President, Chief Financial Officer

Address:
6415 Idlewild Road
Suite 109
Charlotte, North Carolina 28212
Attention: E. Lee Wyatt
Telephone No.: (704) 566-2400
Facsimile No.: (704) 566-6031

[SIGNATURE PAGE TO AMENDMENT]

FORD MOTOR CREDIT COMPANY,
as Lender and as Agent

By: /s/ Steve Gracz

Name: Steve Gracz
Title: National Account Manager

Address:
One American Road
Mail Drop 7140
Dearborn, Michigan 48126

Attention: Major Accounts
Telephone No.: (313) 594-3841
Facsimile No.: (313) 390-5459

[SIGNATURE PAGE TO AMENDMENT]

**DAIMLERCHRYSLER SERVICES NORTH
AMERICA LLC, as Lender**

By /s/ Janet Toronski

Name: Janet Toronski
Title: Vice President, National Accounts

Address:
27777 Inkster Road
Farmington Hills, MI 48334-5326
Attention: Michele Nowak
Telephone No.: (248) 948-4860
Facsimile No.: (248) 248-6550

[SIGNATURE PAGE TO AMENDMENT]

TOYOTA MOTOR CREDIT CORPORATION, as Lender

By: /s/ P. Reid Boozer

Name: P. Reid Boozer

Title: National Accounts Development Manager

Address:

19001 South Western Avenue

Torrance, California 90501

Attention: Tom Brubaker

Telephone No.: (310) 468-3756

Facsimile No.: (310) 468-3501

[SIGNATURE PAGE TO AMENDMENT]

BANK OF AMERICA, N.A.,
as Lender

By: /s/ M. Patricia Kay

Name: M. Patricia Kay
Title: Senior Vice President

Address:
Bank of America Auto Group-National Accounts
800 Hingham Street, Suite 200 North
Rockland, Massachusetts 02370
Attention: M. Patricia Kay, Senior Vice President
Telephone No.: (781) 878-2109
Facsimile No.: (781) 878-1136

With copy to:

Bank of America, N.A.
CLSC Automotive Group
NC4-105-03-17
4161 Piedmont Parkway
Greensboro, North Carolina 27410
Attention: M. Patricia Kay
Telephone No.: (336) 805-3991
Facsimile No.: (336) 805-3249

[SIGNATURE PAGE TO AMENDMENT]

By: /s/ Stephanie Vallillo

Name: Stephanie Vallillo

Title: Vice President

Address:

4 World Financial Center Floor 16

New York, New York 10080

Telephone No.: (212) 449-4839

Facsimile No.: (212) 738-1186

With copy to:

Mr. Jake Bailey

15 W. South Temple, Suite 300

Salt Lake City, Utah 84101

Telephone No.: (801) 526-6824

Facsimile No.: (801) 933-8642

[SIGNATURE PAGE TO AMENDMENT]

JPMORGAN CHASE BANK, as Lender

By: /s/ Karen May Sharf

Name: Karen May Sharf
Title: Vice President

Address:

270 Park Avenue, 4th Floor
New York, New York 10017
Attention: Karen May Sharf, Vice President
Telephone No.: (212) 270-5659
Facsimile No.: (212) 270-5127

With copy to:

JPMorgan Chase Bank
Loan & Agency Services
1111 Fannin-10th Floor
Houston, TX 77002
Attention: Clifford Trapani
Telephone No. (713) 750-7913
Facsimile No. (713) 750-2938

With copy to:

Jeffery Calder
Dealer Financial Services
Chase Manhattan Automotive Finance Corporation
900 Stewart Avenue, 3rd Floor
Garden City, New York 11530

Telephone No.: (516) 745-3698
Facsimile No.: (516) 745-4094

[SIGNATURE PAGE TO AMENDMENT]

THIRD AMENDED AND RESTATED PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$550,000,000.00

Charlotte, North Carolina
March 26, 2004

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **FORD MOTOR CREDIT COMPANY**, a Delaware corporation, ("**Lender**"), or order, at 6302 Fairview Road, Suite 500, Charlotte, North Carolina 28210, or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **FIVE HUNDRED FIFTY MILLION AND 00/100 DOLLARS (\$550,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Third Amended and Restated Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means March 29, 2004.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. Dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and (iii) contains provisions for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ E. Lee Wyatt (SEAL)

Name: E. Lee Wyatt, Jr.
Title: Senior Vice President,
Chief Financial Officer

[SIGNATURE PAGE TO PROMISSORY NOTE (FORD CREDIT)]

PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$20,000,000.00

Charlotte, North Carolina
March 26, 2004

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **MERRILL LYNCH CAPITAL CORPORATION**, a Delaware corporation ("**Lender**"), or order, at 4 World Financial Center, Floor 16, New York, New York 10080 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means March 29, 2004.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ E. Lee Wyatt (SEAL)

Name: E. Lee Wyatt, Jr.
Title: Senior Vice President,
Chief Financial Officer

[SIGNATURE PAGE TO PROMISSORY NOTE (MERRILL LYNCH)]

PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$30,000,000.00

Charlotte, North Carolina
March 26, 2004

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **JPMORGAN CHASE BANK**, a New York state chartered bank ("**Lender**"), or order, at 270 Park Avenue, 4th Floor, New York, New York 10017 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **THIRTY MILLION AND 00/100 DOLLARS (\$30,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means March 29, 2004.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ E. Lee. Wyatt (SEAL)

Name: E. Lee Wyatt, Jr.
Title: Senior Vice President,
Chief Financial Officer

[SIGNATURE PAGE TO PROMISSORY NOTE (JPMORGAN)]

**REAFFIRMATION OF GUARANTIES
AND COLLATERAL DOCUMENTS**

THIS REAFFIRMATION OF GUARANTIES AND COLLATERAL DOCUMENTS, dated March 26, 2004 (this "Reaffirmation") is by the undersigned guarantors (individually, a "Guarantor", and collectively, the "Guarantors"). Each Guarantor has guaranteed the Indebtedness and Obligations of Sonic Automotive, Inc., a Delaware corporation ("Borrower"), under the Second Amended and Restated Credit Agreement, dated February 5, 2003, among Borrower, Ford Motor Credit Company, as agent (the "Agent") and the Lenders, as such agreement may be amended and/or restated from time to time (the "Credit Agreement"), and each Guarantor has provided a security interest in its assets and/or pledges of other collateral to secure its Guaranty.

The Credit Agreement provides for the Loan to Borrower in the aggregate principal amount of \$500,000,000.00 to be made severally by Ford Credit, Chrysler Financial, Toyota Credit and Bank of America in accordance with the terms thereof. In accordance with the First Amendment to Credit Agreement dated as of even date herewith (the "Amendment"), the Credit Agreement will be amended to add Merrill Lynch Capital Corporation, a Delaware corporation, and JPMorgan Chase Bank, a New York state chartered bank, as Lenders and to increase the principal amount of the Loan to \$550,000,000.00.

NOW, THEREFORE, in consideration of the promises and other valuable consideration, receipt of which is hereby acknowledged, and to induce each of the Lenders to amend the Credit Agreement in accordance with the Amendment, the Guarantors, and each of them, agree as follows:

1. Definitions. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement. As used herein, the following terms shall have the following meanings:

2. Reaffirmation. Each Guarantor reaffirms its liabilities, obligations and agreements under the Guaranties and the Collateral Documents with respect to the Credit Agreement, including the increase in the principal amount of the Loan, the addition of additional Lenders and any other changes to the other terms and conditions as set forth in the Amendment. Guarantor acknowledges and agrees that every right, power and remedy of Agent and Lenders under the Guaranties and Collateral Documents are in full force and effect, including without limitation, such right, powers and remedies relating to the Credit Agreement, as amended, and the payment of the Indebtedness and the performance of the Obligations.

3. No Defense or Set-Off. Each Guarantor acknowledges and declares that it has no defense, claim, charge, plea or set-off whatsoever in law or equity against the Lenders, the Agent, the Guaranties, the Collateral Documents, the Credit Agreement, the Amendment, or any other instrument or document executed by Guarantor or Borrower in connection with the Credit Agreement or the Amendment. Guarantor waives and releases any and all defenses that might accrue to Guarantor by the execution of the Amendment.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Reaffirmation under seal as of the date set forth above intending to be legally bound hereby.

SONIC - MONTGOMERY FLM, INC.,
COBB PONTIAC-CADILLAC, INC.,
ROYAL MOTOR COMPANY, INC.,
CAPITAL CHEVROLET AND IMPORTS, INC.,
SONIC AUTOMOTIVE - 21699 U.S. HWY 19 N., INC.,
HMC FINANCE ALABAMA, INC.
SONIC AUTOMOTIVE OF GEORGIA, INC.,
SONIC AUTOMOTIVE 5260 PEACHTREE INDUSTRIAL BLVD.,
LLC,
FRONTIER OLDSMOBILE-CADILLAC, INC.,
MARCUS DAVID CORPORATION,
SONIC AUTOMOTIVE - 9103 E. INDEPENDENCE, NC, LLC,
SONIC LAKE NORMAN CHRYSLER JEEP, LLC,
TOWN AND COUNTRY FORD, INCORPORATED,
SONIC AUTOMOTIVE-3700 WEST BROAD
STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1455 AUTOMALL DRIVE, COLUMBUS,
INC.,
SONIC AUTOMOTIVE-1495 AUTOMALL DRIVE, COLUMBUS,
INC.,
SONIC AUTOMOTIVE-4000 WEST BROAD
STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1500 AUTOMALL
DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1400 AUTOMALL DRIVE, COLUMBUS,
INC.,
SONIC-FORT MILL DODGE, INC.,
SONIC AUTOMOTIVE 2752 LAURENS RD., GREENVILLE,
INC.,
SONIC AUTOMOTIVE 2424 LAURENS RD., GREENVILLE,
INC.,
SONIC-FORT MILL CHRYSLER JEEP, INC.,
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC,
SONIC AUTOMOTIVE OF NASHVILLE, LLC,
SONIC AUTOMOTIVE - 6025
INTERNATIONAL DRIVE, LLC,
SONIC-CREST CADILLAC, LLC,
TOWN AND COUNTRY JAGUAR, LLC,
TOWN AND COUNTRY FORD OF CLEVELAND, LLC,
SONIC — 2185 CHAPMAN RD., CHATTANOOGA, LLC,
SONIC OF TEXAS, INC.,

[SIGNATURE PAGE TO REAFFIRMATION OF GUARANTIES]

SONIC - WILLIAMS IMPORTS, INC.,
SONIC - WILLIAMS BUICK, INC.,
SONIC - WILLIAMS CADILLAC, INC.,
SONIC - WILLIAMS MOTORS, LLC,
SONIC - NEWSOME CHEVROLET WORLD, INC.,
SONIC - NEWSOME OF FLORENCE, INC.,
SONIC - CLASSIC DODGE, INC.
SONIC - ROCKVILLE MOTORS, INC.,
SONIC - ROCKVILLE IMPORTS, INC.,
SONIC - MANHATTAN WALDORF, INC.,
SONIC - MANHATTAN FAIRFAX, INC.,
SONIC - NORTH CHARLESTON, INC.,
SONIC AUTOMOTIVE - 5585 PEACHTREE
INDUSTRIAL BLVD., LLC,
SONIC - NORTH CHARLESTON DODGE, INC.,
VILLAGE IMPORTED CARS, INC.,
FIRSTAMERICA AUTOMOTIVE, INC.,
FA SERVICE CORPORATION,
FAA AUTO FACTORY, INC.,
FAA BEVERLY HILLS, INC.,
FAA CAPITOL N, INC.,
FAA CONCORD H, INC.,
FAA CONCORD N, INC.,
FAA CONCORD T, INC.,
FAA DUBLIN N, INC.,
FAA MARIN D, INC.,
FAA POWAY D, INC.,
FAA POWAY G, INC.,
FAA SAN BRUNO, INC.,
FAA SERRAMONTE H, INC.,
FAA SERRAMONTE L, INC.,
FAA SERRAMONTE, INC.,
FAA STEVENS CREEK, INC.,
SONIC - COAST CADILLAC, INC.
FAA TORRANCE CPJ, INC.,
FAA DUBLIN VWD, INC.,
KRAMER MOTORS INCORPORATED,
FAA SANTA MONICA V, INC.,
FAA LAS VEGAS H, INC.,
L DEALERSHIP GROUP, INC.,
WINDWARD, INC.,
AUTOBAHN, INC.,
SONIC - STEVENS CREEK B, INC.,
FAA HOLDING CORP.,
FRANCISCAN MOTORS, INC.,

[SIGNATURE PAGE TO REAFFIRMATION OF GUARANTIES]

SANTA CLARA IMPORTED CARS, INC.,
STEVENS CREEK CADILLAC, INC.,
FAA MARIN F, INC.,
FAA POWAY H, INC.,
FAA POWAY T, INC.,
FAA MARIN LR, INC.,
SONIC-RIVERSIDE, INC.,
SONIC-GLOVER, INC.,
RIVERSIDE NISSAN, INC.,
SPEEDWAY CHEVROLET, INC.
FORT MILL FORD, INC.,
FREEDOM FORD, INC.,
SONIC AUTOMOTIVE - CLEARWATER, INC.,
SONIC AUTOMOTIVE COLLISION CENTER OF
CLEARWATER, INC.,
SONIC AUTOMOTIVE - 1919 N. DIXIE HWY.,
NSB, INC.,
SONIC AUTOMOTIVE - 1307 N. DIXIE HWY.,
NSB, INC.,
SONIC AUTOMOTIVE- 1720 MASON AVE., DB, INC.,
SONIC AUTOMOTIVE - 241 RIDGEWOOD AVE., HH, INC.,
SONIC AUTOMOTIVE OF NEVADA, INC.,
SONIC AUTOMOTIVE OF TENNESSEE, INC.,
SONIC AUTOMOTIVE - BONDESEN, INC.,
SONIC - LLOYD PONTIAC - CADILLAC, INC.,
SONIC - LLOYD NISSAN, INC.,
SONIC - SUPERIOR OLDSMOBILE, LLC,
SONIC - SHOTTENKIRK, INC.,
SONIC - INTEGRITY DODGE LV, LLC,
SONIC - VOLVO LV, LLC,
SONIC - FM AUTOMOTIVE, LLC,
SONIC - FM, INC.,
SONIC - FM VW, INC.,
SONIC - NORTH CADILLAC, INC.,
SONIC - FREELAND, INC.,
SONIC AUTOMOTIVE - 1720 MASON AVE., DB, LLC
SONIC AUTOMOTIVE SERVICING COMPANY, LLC
SONIC AUTOMOTIVE F & I, LLC
SONIC – RIVERSIDE AUTO FACTORY, INC.
TRANSCAR LEASING, INC.
SONIC AUTOMOTIVE – 2490 SOUTH LEE
HIGHWAY, L.L.C.
FAA CAPITOL F, INC.,

[SIGNATURE PAGE TO REAFFIRMATION OF GUARANTIES]

SONIC – LAS VEGAS C EAST, LLC,
SONIC – LAS VEGAS C EAST, LLC
SONIC – LAS VEGAS C WEST, LLC,
SONIC - CAPITOL CHEVROLET, INC.
SONIC DEVELOPMENT, LLC
SONIC – HARBOR CITY H, INC.
SONIC – BUENA PARK H, INC.
SONIC – WEST COVINA T, INC.
SONIC – BETHANY H, INC.
SONIC – WEST RENO CHEVROLET, INC.
AVALON FORD, INC.
SONIC-CARSON F, INC.
SONIC-CARSON LM, INC.
SONIC-DOWNEY CADILLAC, INC.
SONIC-MASSEY CHEVROLET, INC.
SONIC-LONE TREE CADILLAC, INC.
SONIC-ENGLEWOOD M, INC.
SONIC-MASSEY PONTIAC BUICK GMC, INC.
SONIC-SANFORD CADILLAC, INC.
SONIC-PLYMOUTH CADILLAC, INC.
SONIC-CAPITOL CADILLAC, INC.
ARNGAR, INC.
MASSEY CADILLAC, INC. (TX)
MASSEY CADILLAC, INC. (TN)
SMART NISSAN, INC.
SONIC-LS, LLC
SONIC-AUTOMOTIVE WEST, LLC
SONIC-RESOURCES, INC.
SONIC-LAKE NORMAN DODGE, LLC
SONIC-CREST H, LLC
SONIC – CALABASAS A, INC.
SONIC – OKLAHOMA T, INC.

SONIC – CAPITOL IMPORTS, INC.
FRANK PARRA AUTOPLEX, INC.
MOUNTAIN STATES MOTORS CO., INC.
Z MANAGEMENT, INC.
SONIC-SERRAMONTE I, INC.
SONIC CALABASAS V, INC.
SONIC DENVER T, INC.
SONIC ANN ARBOR IMPORTS, INC.
WRANGLER INVESTMENTS, INC.
SONIC – SATURN OF SILICON VALLEY, INC.
ONTARIO L, LLC
SONIC ONTARIO T, INC.
FAA MONTEREY F, INC.
SONIC — DENVER VOLKSWAGEN, INC.
FORT MYERS COLLISION CENTER, LLC
SONIC – SOUTH CADILLAC, INC.
SONIC AGENCY, INC.

[SIGNATURE PAGE TO REAFFIRMATION OF GUARANTIES]

SONIC AUTOMOTIVE SUPPORT, LLC
SONIC ESTORE, INC.
ADI OF THE SOUTHEAST, LLC
SONIC CHATTANOOGA D EAST, LLC
CASA FORD OF HOUSTON, INC.

By: /s/ E. Lee Wyatt (Seal)

Name: E. Lee Wyatt, Jr.
Title: Vice President of each of the above named entities

SONIC AUTOMOTIVE OF TEXAS, L.P.,
SONIC AUTOMOTIVE-4701 I-10 EAST, TX, L.P.,
SONIC AUTOMOTIVE - 3401 N. MAIN, TX, L.P.,
SONIC AUTOMOTIVE - 5221 I-10 EAST, TX, L.P.,
SONIC - SAM WHITE NISSAN, L.P.,
SONIC - LUTE RILEY, L.P.,
SONIC - READING, L.P.,
SONIC - CAMP FORD, L.P.,
SONIC-FORT WORTH T, L.P.,
PHILPOTT MOTORS, LTD.
SONIC – RICHARDSON F, L.P.
SONIC – CARROLLTON V, L.P.
SONIC – HOUSTON V, L.P.
SONIC – LS CHEVROLET, L.P.,
SONIC UNIVERSITY PARK A, L.P.
SONIC-MASSEY CADILLAC, L.P.
SONIC – FRANK PARRA AUTOPLEX, L.P.
SONIC – CADILLAC D, L.P.
SONIC SAM WHITE OLDSMOBILE, LP
SONIC — CLEAR LAKE VOLKSWAGEN, L.P.
SONIC – JERSEY VILLAGE VOLKSWAGEN, L.P.
SONIC – MESQUITE HYUNDAI, L.P.

By: Sonic of Texas, Inc.,
a Texas corporation, as General Partner of each of the above
entities

By: /s/ E. Lee Wyatt (SEAL)

Name: E. Lee Wyatt, Jr.
Title: Vice President

[SIGNATURE PAGE TO REAFFIRMATION OF GUARANTIES]

SONIC — GLOBAL IMPORTS, L.P.
SONIC – STONE MOUNTAIN CHEVROLET, L.P.
SONIC PEACHTREE INDUSTRIAL BLVD., L.P.
SONIC – STONE MOUNTAIN T, L.P.

By: Sonic Automotive of Georgia, Inc., a Georgia corporation, as
General Partner of each of the above entities

By: /s/ E. Lee Wyatt (SEAL)

Name: E. Lee Wyatt, Jr.

Title: Vice President

[SIGNATURE PAGE TO REAFFIRMATION OF GUARANTIES]

CERTIFICATION

I, E. Lee Wyatt, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Automotive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2004

By: /s/ E. Lee Wyatt, Jr.

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

CERTIFICATION

I, O. Bruton Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Automotive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2004

By: /s/ O. Bruton Smith

O. Bruton Smith,
Chairman and Chief Executive Officer

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Lee Wyatt, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Lee Wyatt, Jr.

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

May 5, 2004

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, O. Bruton Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

May 5, 2004

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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 March 31, 2004, our total outstanding indebtedness was approximately \$1,718.7 million, including the following:

- \$286.2 million under a revolving credit facility;
- \$1,021.8 million under standardized secured inventory floor plan facilities;
- \$127.1 million in 5¹/₄% convertible senior subordinated notes due 2009 representing \$130.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$3.0 million;
- \$271.8 million in 8⁵/₈% senior subordinated notes due 2013 representing \$275.0 million in aggregate principal amount outstanding less unamortized net discount of approximately \$3.2 million; and
- \$11.8 million of other secured debt, including \$9.9 million under our construction/mortgage credit facility.

As of March 31, 2004, we had approximately \$234.8 million available for additional borrowings under a revolving credit facility. We also had approximately \$90.1 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.

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 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 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 quarter of 2004, approximately 70.4% 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.

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 eleven dealerships in 2000, twelve in 2001, thirty-one in 2002, thirteen in 2003 and two in the first quarter of 2004.

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 \$550.0 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 Florida 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. The plaintiffs filed a motion for class certification in this proceeding in October 2003, but we are vigorously opposing this motion and the Florida court has not yet ruled on the motion.

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.

In December 2003, the North Carolina Attorney General's office notified us that it had initiated an inquiry into the sales practices of our North Carolina dealerships following a negative media report on our company. We are cooperating with the North Carolina Attorney General's office in its inquiry. No charges have been filed and no proceedings have been instituted to date by the North Carolina Attorney General's Office.

Because the refund program entered into with the Florida Department of Financial Affairs is ongoing, the respective investigations by the Los Angeles County District Attorney's Office and North Carolina Attorney General's Office are continuing and have 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 April 2004, the Texas Supreme Court issued an order stating that it would not hear the merits of the defendants' appeal. Our dealerships and the other defendants intend to file a

motion for reconsideration to the Texas Supreme Court by May 10, 2004, asking the Texas Supreme Court to hear the merits of the defendants' appeal regarding the class certification. 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.

If the TADA matters are not settled, Sonic and its dealership subsidiaries intend to vigorously defend themselves and assert available defenses. In addition, Sonic or its dealership subsidiaries may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters may result in the payment of significant costs and damages, which could have a material adverse effect on Sonic's future results of operations and cash flows.

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, contractual disputes, class actions, purported class actions 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 15.9% of our sales for the three months ended March 31, 2004. 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.

On April 27, 2004, we filed a Current Report on Form 8-K with the Securities Exchange Commission announcing that Mr. Theodore M. Wright had resigned as Sonic's President on April 26, 2004, and announcing that Mr. Jeffrey C. Rachor had been appointed as President of Sonic on that same day. Mr. Rachor will continue to serve as our Chief Operating Officer. We do not anticipate that Mr. Wright's resignation from our company will 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.

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

Pursuant to applicable accounting pronouncements, we test goodwill for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We describe the process for testing goodwill more thoroughly in our Annual Report on Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Use of Estimates and Critical Accounting Policies." If we determine that the amount of our goodwill is impaired at any point in time, we will be required to reduce goodwill on our balance sheet. A reduction in the amount of goodwill on our balance sheet will require us to record a non-cash impairment charge against our earnings for the period in which the impairment of goodwill occurred. This would have a material adverse impact on our earnings for that period.

Poor performance in one or more of our geographic divisions could constitute an event or change in circumstances for purposes of determining whether the fair value of our goodwill has been reduced below the carrying amount. We would therefore be required to test our goodwill for impairment. As of March 31, 2004, our balance sheet reflected a carrying amount of approximately \$942.2 million in goodwill, which was allocated between four geographic reporting units. If the goodwill in any of our reporting units is impaired, we will record a significant non-cash impairment charge that would very likely have a material adverse effect on our earnings.