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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

Commission file number 1-13395

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**SONIC AUTOMOTIVE, INC.**

(Exact name of registrant as specified in its charter)

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

**6415 Idlewild Road, Suite 109, 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)

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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

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

As of October 28, 2005, there were 29,881,855 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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INDEX TO FORM 10-Q

	<u>Page</u>
<b>PART I - FINANCIAL INFORMATION</b>	
ITEM 1. <a href="#">Condensed Consolidated Financial Statements (Unaudited)</a>	
<a href="#">Condensed Consolidated Statements of Income – Three and nine-month periods ended September 30, 2004 and September 30, 2005</a>	3
<a href="#">Condensed Consolidated Balance Sheets – December 31, 2004 and September 30, 2005</a>	4
<a href="#">Condensed Consolidated Statement of Stockholders' Equity – Nine-month period ended September 30, 2005</a>	5
<a href="#">Condensed Consolidated Statements of Cash Flows – Nine-month periods ended September 30, 2004 and September 30, 2005</a>	6
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	7
ITEM 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	16
ITEM 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	26
ITEM 4. <a href="#">Controls and Procedures</a>	26
<b>PART II - OTHER INFORMATION</b>	
ITEM 1. <a href="#">Legal Proceedings</a>	27
ITEM 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	28
ITEM 6. <a href="#">Exhibits</a>	29
<a href="#">SIGNATURES</a>	32

PART I - FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
<b>Revenues:</b>				
New vehicles	\$ 1,165,594	\$ 1,288,084	\$ 3,240,264	\$ 3,617,330
Used vehicles	299,219	324,841	854,041	933,543
Wholesale vehicles	133,451	142,033	363,477	408,627
<b>Total vehicles</b>	<b>1,598,264</b>	<b>1,754,958</b>	<b>4,457,782</b>	<b>4,959,500</b>
Parts, service and collision repair	257,125	279,702	736,543	813,366
Finance, insurance and other	50,316	52,834	138,739	148,378
<b>Total revenues</b>	<b>1,905,705</b>	<b>2,087,494</b>	<b>5,333,064</b>	<b>5,921,244</b>
Cost of sales	1,620,007	1,772,179	4,512,242	5,017,470
Gross profit	285,698	315,315	820,822	903,774
Selling, general and administrative expenses	229,189	242,669	642,670	704,600
Depreciation and amortization	3,942	4,822	11,468	13,086
Operating income	52,567	67,824	166,684	186,088
<b>Other income / (expense):</b>				
Interest expense, floor plan	(6,244)	(9,651)	(18,150)	(28,465)
Interest expense, other, net	(11,335)	(11,994)	(31,277)	(34,445)
Other income / (expense), net	66	(8)	62	22
<b>Total other expense</b>	<b>(17,513)</b>	<b>(21,653)</b>	<b>(49,365)</b>	<b>(62,888)</b>
Income from continuing operations before income taxes	35,054	46,171	117,319	123,200
Provision for income taxes	13,152	17,683	43,223	46,569
Income from continuing operations	21,902	28,488	74,096	76,631
<b>Discontinued operations:</b>				
Loss from operations and the sale of discontinued franchises	(4,175)	(2,738)	(4,208)	(9,181)
Income tax benefit	1,554	1,054	1,570	3,470
<b>Loss from discontinued operations</b>	<b>(2,621)</b>	<b>(1,684)</b>	<b>(2,638)</b>	<b>(5,711)</b>
<b>Net income</b>	<b>\$ 19,281</b>	<b>\$ 26,804</b>	<b>\$ 71,458</b>	<b>\$ 70,920</b>
<b>Basic earnings (loss) per share:</b>				
Earnings per share from continuing operations	\$ 0.53	\$ 0.68	\$ 1.79	\$ 1.83
Loss per share from discontinued operations	(0.06)	(0.04)	(0.06)	(0.13)
<b>Earnings per share</b>	<b>\$ 0.47</b>	<b>\$ 0.64</b>	<b>\$ 1.73</b>	<b>\$ 1.70</b>
Weighted average common shares outstanding	41,349	41,849	41,328	41,776
<b>Diluted earnings (loss) per share:</b>				
Earnings per share from continuing operations	\$ 0.51	\$ 0.65	\$ 1.71	\$ 1.76
Loss per share from discontinued operations	(0.06)	(0.04)	(0.05)	(0.13)
<b>Earnings per share</b>	<b>\$ 0.45</b>	<b>\$ 0.61</b>	<b>\$ 1.66</b>	<b>\$ 1.63</b>
Weighted average common shares outstanding	44,940	45,671	45,215	45,518
Dividends declared per common share	\$ 0.12	\$ 0.12	\$ 0.32	\$ 0.36

See notes to unaudited condensed consolidated financial statements.

[Table of Contents](#)

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

	December 31, 2004	September 30, 2005 (Unaudited)
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 9,991	\$ 6,453
Receivables, net	357,403	299,992
Inventories	1,024,342	894,701
Assets held for sale	98,530	91,501
Other current assets	101,277	116,970
Total current assets	1,591,543	1,409,617
Property and equipment, net	134,490	143,066
Goodwill, net	1,056,924	1,095,444
Other intangible assets, net	84,777	89,266
Other assets	33,877	43,555
Total assets	\$2,901,611	\$ 2,780,948
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Notes payable - floor plan - trade	\$ 609,422	\$ 465,802
Notes payable - floor plan - non-trade	375,127	327,788
Trade accounts payable	88,616	77,468
Accrued interest	15,421	12,465
Other accrued liabilities	175,510	186,981
Liabilities associated with assets held for sale - trade	54,513	41,714
Liabilities associated with assets held for sale - non-trade	11,796	17,908
Current maturities of long-term debt	2,970	2,872
Total current liabilities	1,333,375	1,132,998
Long-term debt	668,826	686,862
Other long-term liabilities	28,888	28,705
Deferred income taxes	100,835	101,530
Commitments and contingencies		
Stockholders' Equity:		
Class A Common Stock; \$.01 par value; 100,000,000 shares authorized; 39,979,567 shares issued and 29,631,703 shares outstanding at December 31, 2004; 40,427,960 shares issued and 29,842,596 shares outstanding at September 30, 2005	397	402
Class B Common Stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2004 and September 30, 2005	121	121
Paid-in capital	441,503	449,477
Retained earnings	470,663	526,456
Accumulated other comprehensive loss	(1,228)	(122)
Deferred compensation related to restricted stock	(3,408)	(2,185)
Treasury Stock, at cost (10,347,864 Class A shares held at December 31, 2004 and 10,585,364 Class A shares held at September 30, 2005)	(138,361)	(143,296)
Total stockholders' equity	769,687	830,853
Total liabilities and stockholders' equity	\$2,901,611	\$ 2,780,948

See notes to unaudited condensed consolidated financial statements.

[Table of Contents](#)

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

	Class A Common Stock		Class B Common Stock		Deferred Compensation Related to Restricted Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount						
<b>Balance at December 31, 2004</b>	<b>39,980</b>	<b>\$ 397</b>	<b>12,029</b>	<b>\$ 121</b>	<b>\$ (3,408)</b>	<b>\$ 441,503</b>	<b>\$ 470,663</b>	<b>\$ (138,361)</b>	<b>\$ (1,228)</b>	<b>\$ 769,687</b>
Comprehensive Income:										
Net income							70,920			70,920
Change in fair value of interest rate swap, net of tax expense of \$707									1,106	1,106
Total comprehensive income, net of tax										72,026
Shares issued under stock compensation plans	498	6			(651)	8,026				7,381
Restricted stock amortization					818					818
Restricted stock forfeiture	(50)	(1)			1,056	(1,055)				—
Stock-based compensation expense						28				28
Income tax benefit associated with stock compensation plans						975				975
Dividends declared							(15,127)			(15,127)
Purchases of treasury stock								(4,935)		(4,935)
<b>Balance at September 30, 2005</b>	<b>40,428</b>	<b>\$ 402</b>	<b>12,029</b>	<b>\$ 121</b>	<b>\$ (2,185)</b>	<b>\$ 449,477</b>	<b>\$ 526,456</b>	<b>\$ (143,296)</b>	<b>\$ (122)</b>	<b>\$ 830,853</b>

See notes to unaudited condensed consolidated financial statements.

[Table of Contents](#)

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

	Nine Months Ended September 30,	
	2004	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 71,458	\$ 70,920
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	12,235	13,622
Debt issue cost amortization	428	299
Debt discount / (premium) amortization, net	109	(69)
Other amortization	—	15
Restricted stock amortization	—	1,129
Restricted stock forfeiture	—	(311)
Stock-based compensation expense	—	28
Equity interest in earnings of investee	(549)	(474)
Loss on disposal of assets, including franchises	636	1,554
Impairment of property and equipment	800	1,531
Income tax benefit associated with stock compensation plans	4,349	975
Changes in assets and liabilities that relate to operations:		
Receivables	(23,930)	59,540
Inventories	107,937	147,548
Other assets	826	(13,133)
Notes payable - floor plan - trade	(8,358)	(138,678)
Trade accounts payable and other liabilities	57,030	(4,674)
Total adjustments	151,513	68,902
Net cash provided by operating activities	222,971	139,822
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of businesses, net of cash acquired	(194,012)	(52,629)
Purchases of property and equipment	(73,495)	(51,126)
Proceeds from sales of property and equipment	31,835	13,648
Proceeds from sales of franchises	32,477	11,978
Net cash used in investing activities	(203,195)	(78,129)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on revolving credit facilities	21,878	21,991
Net repayments on notes payable - floor plan - non-trade	(102,478)	(73,297)
Proceeds from long-term debt	164	158
Payments on long-term debt	(1,815)	(1,477)
Purchases of treasury stock	(20,917)	(4,935)
Issuance of shares under stock option and purchase plans	13,696	7,381
Dividends paid	(12,386)	(15,052)
Net cash used in financing activities	(101,858)	(65,231)
NET DECREASE IN CASH	(82,082)	(3,538)
CASH, BEGINNING OF PERIOD	82,082	9,991
CASH, END OF PERIOD	\$ —	\$ 6,453
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:</b>		
Change in accrual for purchases of property and equipment	\$ (229)	\$ (1,356)
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</b>		
Restricted stock issuance	\$ —	\$ 651
Restricted stock forfeiture	\$ —	\$ (1,056)
Long-term debt assumed in purchase of businesses, including premium of \$7,254	\$ 33,824	\$ —
Change in fair value of cash flow hedging instruments (net of tax expense of \$1,508 and \$707 for the nine months ended September 30, 2004 and 2005, respectively)	\$ 2,358	\$ 1,106
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest, net of amount capitalized	\$ 53,626	\$ 71,520
Cash paid for income taxes	\$ 12,871	\$ 23,190

See notes to unaudited condensed consolidated financial statements.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The accompanying unaudited financial information for the three and nine months ended September 30, 2005 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). All significant intercompany accounts and transactions have been eliminated. These unaudited condensed 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, 2004, 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 related to option grants is recorded in the accompanying unaudited condensed consolidated 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 September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(Dollars in thousands except per share amounts)			
Net income as reported	\$ 19,281	\$ 26,804	\$ 71,458	\$ 70,920
Fair value compensation cost, net of tax benefits of \$1,080 and \$810, for the three months ended September 30, 2004 and 2005, respectively, and \$3,505 and \$2,656 for the nine months ended September 30, 2004 and 2005, respectively	(1,795)	(1,311)	(6,014)	(4,371)
Pro forma net income	\$ 17,486	\$ 25,493	\$ 65,444	\$ 66,549
Basic earnings per share:				
Earnings as reported	\$ 0.47	\$ 0.64	\$ 1.73	\$ 1.70
Fair value compensation cost, net of tax benefit	(0.05)	(0.03)	(0.15)	(0.11)
Pro forma earnings per share	\$ 0.42	\$ 0.61	\$ 1.58	\$ 1.59
Diluted earnings per share:				
Earnings as reported	\$ 0.45	\$ 0.61	\$ 1.66	\$ 1.63
Fair value compensation cost, net of tax benefit	(0.04)	(0.03)	(0.14)	(0.09)
Pro forma earnings per share	\$ 0.41	\$ 0.58	\$ 1.52	\$ 1.54

**Reclassifications** - Loss from operations and the sale of discontinued franchises for the three and nine month periods ended September 30, 2004 reflects reclassifications from the prior year presentation to include additional franchises sold and terminated or identified for sale subsequent to September 30, 2004 which had not been previously included in discontinued operations and exclude franchises which had been identified for sale as of September 30, 2004 but which Sonic has decided to retain and operate as of September 30, 2005.

Certain prior year cash flows in the accompanying prior year period Condensed Consolidated Statements of Cash Flows have been reclassified in accordance with SFAS No. 95, "Statement of Cash Flows." Sonic's previous policy was to classify all of the cash flow activities associated with floor plan-notes payable as an operating activity in its Condensed Consolidated Statements of Cash Flows consistent with industry practice. Sonic has decided to classify borrowings and repayments on floor plan-notes payable for new vehicle inventory purchased from a manufacturer affiliated with floor plan lenders as an operating activity (floor plan-notes payable – trade) on the statement of cash flows. Borrowings and repayments on floor plan-notes payable for new vehicle inventory purchased from a manufacturer unaffiliated with the floor plan lender (floor plan-notes payable – non-trade) have been classified as a net financing activity on the statement of cash flows because these borrowings are due on demand from the floor plan lenders. The following table shows the effects of this reclassification and other reclassifications, which do not impact Sonic's beginning or ending cash positions or total change in cash, on the prior year nine month period condensed consolidated statement of cash flows, consistent with the nine months ended September 30, 2005 presentation.

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

	Nine Months Ended September 30, 2004
	(Dollars in thousands)
Net cash provided by operating activities as previously reported	\$ 119,775
Reclassification of floor plan-notes payable - non-trade	102,478
Other reclassifications	718
Revised net cash provided by operating activities	\$ 222,971
Net cash used in investing activities as previously reported	\$ (202,477)
Other reclassifications	(718)
Revised net cash used in investing activities	\$ (203,195)
Net cash provided by financing activities as previously reported	\$ 620
Reclassification of floor plan-notes payable - non-trade	(102,478)
Revised net cash used in financing activities	\$ (101,858)

Sonic has also decided to classify notes-payable for new vehicle inventory purchased from a manufacturer affiliated with a floor plan lender as "Notes payable – floor plan – trade" and the remaining floor plan notes payable have been renamed "Notes payable – floor plan – non-trade" on the accompanying condensed consolidated balance sheets. Further, notes payable – floor plan classified as "Liabilities associated with assets held for sale" (see Note 2) have been similarly split into "trade" and "non-trade" classifications on the accompanying condensed consolidated balance sheets.

In addition, in order to maintain consistency and comparability between periods, certain other amounts in Sonic's accompanying unaudited condensed consolidated financial statements have been reclassified from previously reported balances to conform to the current period classification. These reclassifications relate to the presentation of assets and liabilities for franchises classified as held for sale and real estate and construction costs expected to be sold in one year in sale-leaseback transactions in the accompanying unaudited condensed consolidated balance sheets.

**Derivative Instruments and Hedging Activities** - In the second quarter of 2005, Sonic canceled all interest rate swaps which paid a floating rate and received a fixed rate (collectively, the "Cancelled Variable Swaps"). The Cancelled Variable Swaps had a collective notional value of \$150.0 million, received a fixed rate of 8.625%, paid a variable rate equal to the six month LIBOR rate in arrears plus a spread ranging from 3.50% to 3.84% (with a weighted average spread of 3.64%), expired on August 15, 2013 and were designated and qualified as fair value hedges on Sonic's Senior Subordinated 8.625% Notes. The Cancelled Variable Swaps had a collective mark-to-market of \$0.4 million at cancellation. In connection with this cancellation, Sonic entered into five separate new interest rate swaps with identical terms to the Cancelled Variable Swaps except that Sonic pays a variable rate equal to the fixed six month LIBOR rate which will be fixed on February 15 and August 15 of each year plus a spread ranging from 3.825% to 3.85% (with a weighted average spread of 3.83%) (collectively, the "New Variable Swaps"). The New Variable Swaps have been designated and qualify as fair value hedges and, as a result, the fair value of the New Variable Swaps of \$2.4 million has been recorded against the associated fixed rate long-term debt with an equal offsetting amount of \$2.4 million recorded as a derivative liability within other long-term liabilities.

**Recent Accounting Pronouncements** - In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" which replaces SFAS No. 123 and supercedes APB 25. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Tax benefits associated with share-based payments will be recognized as an addition to paid-in capital. Cash retained as a result of these tax benefits will be presented in the statement of cash flows as financing cash inflows. Sonic is currently evaluating the provisions of SFAS No. 123R, which will be effective for the first quarter of 2006, and has not determined the impact on Sonic's consolidated operating results, financial position and cash flows.



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

In October 2005, the FASB staff issued FSP FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period*. FSP FAS 13-1 requires companies to expense real estate rental costs under operating leases during periods of construction beginning with periods commencing after December 15, 2005 with no requirement for retroactive application. Sonic is currently evaluating the provisions of FSP FAS 13-1 and has not determined the impact on Sonic's consolidated operating results, financial position and cash flows from FSP FAS 13-1.

**2. BUSINESS ACQUISITIONS AND DISPOSITIONS**

**Acquisitions:**

The aggregate purchase price for franchises acquired during the first nine months of 2005 totaled approximately \$52.6 million in cash, net of cash acquired, and was funded by cash from operations and borrowings under the revolving credit facility. The unaudited condensed consolidated balance sheet as of September 30, 2005 includes preliminary allocations of the purchase price of these acquisitions to the assets and liabilities acquired based on their estimated fair market values at the date of acquisition and are subject to final adjustment. As a result of these allocations, Sonic has recorded the following:

- \$2.9 million of net assets relating to dealership operations;
- \$1.0 million of liabilities assumed from prior owners;
- \$7.4 million of intangible assets representing rights acquired under franchise agreements; and
- \$43.3 million of goodwill, all of which is expected to be tax deductible.

**Dispositions:**

During the first nine months of 2005, Sonic sold 14 franchises. These disposals generated cash of \$12.0 million and resulted in a net loss of \$1.3 million, which is included in discontinued operations in the accompanying unaudited condensed consolidated statement of income for the nine months ended September 30, 2005. Subsequent to September 30, 2005, Sonic disposed of five franchises for approximately \$8.4 million.

In conjunction with franchise dispositions, Sonic generally agrees 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. The additional exposure associated with dispositions in the nine month period ended September 30, 2005 related to subleases was \$10.1 million. However, Sonic's maximum exposure associated with general indemnifications increased by \$13.8 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 September 30, 2005, Sonic had identified 22 additional franchises that were held for sale. These franchises have been identified as held for sale because of unprofitable operations or various strategic considerations. These franchises are expected to be sold within one year from September 30, 2005. The operating results of these franchises are included in discontinued operations in the accompanying unaudited condensed consolidated statements of income. Assets to be disposed of in connection with franchises not yet sold, which have been classified in assets held for sale in the accompanying unaudited condensed consolidated balance sheets, consist of the following:

	December 31, 2004	September 30, 2005
	(Dollars in thousands)	
Inventories	\$ 70,715	\$ 64,682
Property and equipment, net	14,056	11,603
Goodwill	8,259	9,716
Franchise assets	5,500	5,500
Assets held for sale	\$ 98,530	\$ 91,501

[Table of Contents](#)

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

Liabilities to be disposed in connection with these dispositions are comprised primarily of notes payable – floor plan (trade and non-trade) and are classified as liabilities associated with assets held for sale (trade and non-trade) on the accompanying unaudited condensed consolidated balance sheets. Results associated with franchises classified as discontinued operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(Dollars in thousands)			
Revenues	\$ 176,777	\$ 129,803	\$ 555,371	\$ 419,160
Pre-tax loss (before gains or loss on the sale of disposed franchises)	(2,797)	(2,503)	(3,460)	(7,931)

3. INVENTORIES

Inventories consist of the following:

	December 31, 2004	September 30, 2005
	(Dollars in thousands)	
New vehicles	\$ 848,197	\$ 692,256
Used vehicles	130,354	147,281
Parts and accessories	53,932	56,256
Other	62,574	63,590
	\$1,095,057	\$ 959,383
Less inventories classified as assets held for sale	(70,715)	(64,682)
<b>Inventories</b>	<b>\$1,024,342</b>	<b>\$ 894,701</b>

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2004	September 30, 2005
	(Dollars in thousands)	
Land	\$ 32,414	\$ 26,137
Building and improvements	90,236	97,397
Office equipment and fixtures	46,389	48,895
Parts and service equipment	34,478	37,198
Company vehicles	9,122	9,950
Construction in progress	57,759	80,075
	270,398	299,652
Less accumulated depreciation and amortization	(44,567)	(54,077)
<b>Subtotal</b>	<b>225,831</b>	<b>245,575</b>
Less assets held for sale	(14,056)	(11,603)
Less other current assets - construction in progress held for sale	(77,285)	(90,906)
<b>Property and equipment, net</b>	<b>\$ 134,490</b>	<b>\$ 143,066</b>

Sonic incurred approximately \$77.3 million in real estate and construction costs as of December 31, 2004 and \$90.9 million as of September 30, 2005 on dealership facilities that are or were expected to be completed and sold within one year in sale-leaseback transactions. Under the terms of the sale-leaseback transactions, Sonic sells the dealership facilities to unaffiliated third parties and enters into long-term operating leases on the dealership facilities. During the first nine months of 2005, Sonic sold dealership facilities with a carrying value of \$1.9 million in sale-leaseback transactions. Gains and losses from these sale-leaseback transactions were not material.

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

In the nine months ended September 30, 2005, property and equipment impairment charges totaling \$1.0 million were recorded in continuing operations (selling, general and administrative expenses) with \$0.6 million occurring in the three months ended September 30, 2005. The impairment charges relate to the estimated loss on sale of leasehold improvements, the abandonment of construction projects and the impairment of a parcel of land. The leasehold improvements impairment was recorded in connection with the sale of the franchise. The construction project impairment charge was recorded in connection with the decision to abandon the construction project. The impairment charge related to the parcel of land was recorded in connection with the decision to sell the land at a price below its carrying value.

In the three and nine months ended September 30, 2005, property and equipment impairment charges totaling \$0.5 million were recorded in discontinued operations. These impairment charges relate to property, equipment and leasehold improvements of franchises held for sale and are based on the anticipated time to dispose of these franchises. These impairment charges were calculated by taking the difference between the assets' estimated sales value and their recorded values.

In the three and nine month periods ended September 30, 2004, property and equipment impairment charges totaling \$0.8 million were recorded in discontinued operations relating to losses incurred on leasehold improvements in connection with the sale of the related dealership. The impairment charge relates to the difference between the discounted cash flows of sublease receipts for property where the leasehold improvements reside and the carrying value of the leasehold improvements. An impairment charge for the leasehold improvements was recorded when it was determined that Sonic would not recover the carrying value of the leasehold improvements when considering the lease costs net of sublease receipts.

#### 5. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of franchise agreements and goodwill for the nine months ended September 30, 2005 were as follows:

	<u>Franchise Agreements</u>	<u>Goodwill</u>
	(Dollars in thousands)	
Balance before assets held for sale classification, December 31, 2004	\$ 86,000	\$1,065,184
Amount classified as assets held for sale	(5,500)	(8,260)
Balance, December 31, 2004	80,500	1,056,924
Additions through current year acquisitions	7,400	43,281
Reductions from sales of franchises	(2,900)	(3,500)
Prior acquisition allocations	200	195
Sub-total, September 30, 2005	85,200	1,096,900
Increase in amount classified as assets held for sale	—	(1,456)
Balance, September 30, 2005	\$ 85,200	\$1,095,444

Franchise agreements and definite life intangible assets (\$4.1 million and \$4.3 million at September 30, 2005 and December 31, 2004, respectively) are classified as other intangible assets, net on the accompanying unaudited condensed consolidated balance sheets.

[Table of Contents](#)

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

6. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2004	September 30, 2005
	(Dollars in thousands)	
\$550 million revolving credit facility bearing interest at 2.55 percentage points above LIBOR and collateralized by all of Sonic's assets	\$ 238,633	\$ 260,625
Senior Subordinated Notes bearing interest at 8.625%, maturing August 15, 2013, net of net discount of \$3,065 and \$2,874, respectively	271,935	272,126
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009, net of discount of \$2,606 and \$2,202, respectively	127,494	127,898
Notes payable to a finance company bearing interest from 10.52% to 9.52% (with a weighted average of 10.19%), with combined monthly principal and interest payments of \$325, maturing November 1, 2015 through September 1, 2016, and collateralized by letters of credit with a commercial bank, including premiums of \$6,583 and \$5,919, respectively (2)	32,369	30,751
Offset to variable interest rate swaps net (liability) / asset	(145)	(2,379)
Other notes payable (primarily equipment notes)	1,510	713
	\$ 671,796	\$ 689,734
Less: current maturities	(2,970)	(2,872)
Long-term debt	\$ 668,826	\$ 686,862

- (1) On October 6, 2005, Sonic extended the maturity on the revolving credit agreement from October 31, 2006 to January 31, 2007.  
(2) Notes payable were assumed in connection with acquisitions during 2004 and were recorded at fair value using an interest rate of 5.35 %.

The indenture governing Sonic's 8.625% senior subordinated notes limits Sonic's ability to pay quarterly cash dividends in excess of \$0.10 per share. Sonic may only pay quarterly cash dividends in excess of this amount if Sonic complies with Section 1009 of the indenture governing these notes, which was filed as Exhibit 4.4 to the Registration Statement on Form S-4 (Reg. No. 333-109426). The indenture governing Sonic's convertible senior subordinated notes (the "Convertibles") does not limit Sonic's ability to pay dividends. Sonic's credit agreement for the revolving credit facility permits cash dividends so long as no event of default or unmatured default (as defined in the credit agreement) has occurred and is continuing and provided that, after giving effect to the payment of a dividend, Sonic remains in compliance with the other terms and conditions of the credit agreement.

Neither of the conversion features on the Convertibles were satisfied during the nine months ended September 30, 2005. Sonic was in compliance with all financial covenants under the above long-term debt and credit facilities as of September 30, 2005.

[Table of Contents](#)

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

7. PER SHARE DATA AND STOCKHOLDERS' EQUITY

The calculation of diluted earnings per share considers the potential dilutive effect of Sonic's contingently convertible debt and stock options to purchase shares of Class A common stock under Sonic's stock compensation plans. The following table illustrates the dilutive effect of such items:

For the Three Months Ended September 30, 2004							
	Shares	Income From Continuing Operations		Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
(Amounts in Thousands Except Per Share Amounts)							
Basic Earnings (Loss) Per Share	41,349	\$21,902	\$ 0.53	\$(2,621)	\$(0.06)	\$19,281	\$ 0.47
Effect of Dilutive Securities:							
Contingently Convertible Debt	2,776	1,186		46		1,232	
Stock Compensation Plans	815						
Diluted Earnings (Loss) Per Share	44,940	\$23,088	\$ 0.51	\$(2,575)	\$(0.06)	\$20,513	\$ 0.45
For the Three Months Ended September 30, 2005							
	Shares	Income From Continuing Operations		Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
(Amounts in Thousands Except Per Share Amounts)							
Basic Earnings (Loss) Per Share	41,849	\$28,488	\$ 0.68	\$(1,684)	\$(0.04)	\$26,804	\$ 0.64
Effect of Dilutive Securities:							
Contingently Convertible Debt	2,776	1,140		33		1,173	
Stock Compensation Plans	1,046						
Diluted Earnings (Loss) Per Share	45,671	\$29,628	\$ 0.65	\$(1,651)	\$(0.04)	\$27,977	\$ 0.61
For the Nine Months Ended September 30, 2004							
	Shares	Income From Continuing Operations		Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
(Amounts in Thousands Except Per Share Amounts)							
Basic Earnings (Loss) Per Share	41,328	\$74,096	\$ 1.79	\$(2,638)	\$(0.06)	\$71,458	\$ 1.73
Effect of Dilutive Securities:							
Contingently Convertible Debt	2,776	3,445		140		3,585	
Stock Compensation Plans	1,111						
Diluted Earnings (Loss) Per Share	45,215	\$77,541	\$ 1.71	\$(2,498)	\$(0.05)	\$75,043	\$ 1.66

	Income From Continuing Operations		Loss From Discontinued Operations		Net Income		
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(Amounts in Thousands Except Per Share Amounts)						
Basic Earnings (Loss) Per Share	41,776	\$76,631	\$ 1.83	\$(5,711)	\$ (0.13)	\$70,920	\$ 1.70
Effect of Dilutive Securities:							
Contingently Convertible Debt	2,776	3,396		96		3,492	
Stock Compensation Plans	966						
Diluted Earnings (Loss) Per Share	45,518	\$80,027	\$ 1.76	\$(5,615)	\$ (0.13)	\$74,412	\$ 1.63

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

In addition to the stock options included in the table above, options to purchase 1.9 million shares and 1.8 million shares of Class A common stock were outstanding during the nine month periods ended September 30, 2004 and 2005, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive. The total number of stock options to purchase shares of Class A common stock outstanding at September 30, 2004 and 2005 were 6.3 million and 6.6 million, respectively.

In the second quarter of 2005, 12,000 restricted shares of Class A common stock were awarded to an executive officer. This award is subject to the same restrictions and rights as the restricted stock granted to certain executive officers in the fourth quarter of 2004. In addition, in the second quarter of 2005, 16,470 restricted shares of Class A common stock were awarded to non-employee directors of Sonic's Board of Directors under the 2005 Formula Restricted Stock Plan for Non-Employee Directors (the "2005 Formula Plan"). In the third quarter of 2005, 2,660 restricted shares of Class A common stock were awarded to a new non-employee director of Sonic's Board of Directors under the 2005 Formula Plan. The restrictions on these shares generally expire one year from the grant date. Holders of these shares have voting rights and receive dividends prior to the time the restrictions lapse if, and to the extent, dividends are paid on Sonic's Class A common stock.

In the third quarter of 2005, our Chief Financial Officer forfeited his grant of 50,000 restricted shares of Class A common stock in connection with his resignation. As a result, previously recognized compensation expense relating to these 50,000 shares was reversed, resulting in a reduction of selling, general and administrative expenses of \$0.3 million in the quarter.

**8. COMPREHENSIVE INCOME**

Comprehensive income, comprised of net income and unrealized gains and losses on the fair value of interest rate swaps, was \$19.6 million and \$27.0 million for the third quarter of 2004 and 2005, respectively. Comprehensive income was \$73.8 million and \$72.0 million for the first nine months of 2004 and 2005, respectively.

**9. CONTINGENCIES**

**Legal and Administrative Proceedings:**

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 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. The Texas Court of Appeals subsequently affirmed the trial court's order of class certification in the state actions, and the Texas Supreme Court issued an order for the second time in September 2004 stating that it would not hear the merits of the defendant's appeal on class certification. The federal trial court conditionally certified a class of consumers in the federal antitrust case, but on appeal by the defendant dealerships, the U.S. Court of Appeals for the Fifth Circuit reversed the certification of the plaintiff class in October 2004 and remanded the case back to the federal trial court for further proceedings not inconsistent with the Fifth Circuit's ruling. The plaintiffs have appealed this ruling by the Fifth Circuit.

In June 2005, Sonic's Texas dealerships and several other dealership defendants entered into a settlement agreement with the plaintiffs in both the state and the federal cases that would settle each of the cases on behalf of Sonic's Texas dealerships. The settlements are contingent upon court approval, and the court has not yet scheduled a date for a hearing on that approval. The estimated expense of the proposed settlements is not a material amount to Sonic as a whole, and it includes Sonic's Texas dealerships issuing coupons for discounts off future vehicle purchases, refunding cash in certain circumstances, and paying attorneys' fees and certain costs. Under the terms of the settlements, Sonic's Texas dealerships would continue to itemize and pass through to the customer the cost of the inventory tax. If the TADA matters are not settled, Sonic's Texas dealership subsidiaries would then vigorously defend themselves and assert available defenses. In addition, Sonic may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters could result in the payment of significant costs and damages and negatively impact Sonic's Texas dealerships' ability to itemize and pass through to the customer the cost of the vehicle inventory tax in the future, which could have a material adverse effect on Sonic's future results of operations, financial condition and cash flows.

Sonic is also a defendant in the matter of *Galura, et al. v. Sonic Automotive, Inc.*, a private civil action filed in the Circuit Court of Hillsborough County, Florida. In this action, originally filed on December 30, 2002, the plaintiffs allege that Sonic and Sonic's

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

Florida dealerships sold an antitheft protection product in a deceptive or otherwise illegal manner, and further sought representation on behalf of any customer of any of Sonic's Florida dealerships who purchased the antitheft protection product since December 30, 1998. The plaintiffs are seeking monetary damages and injunctive relief on behalf of this class of customers. In June 2005, the court granted the plaintiffs' motion for certification of the requested class of customers, but the court has made no finding to date regarding actual liability in this lawsuit. Sonic subsequently filed a notice of appeal of the court's class certification ruling with the Florida Court of Appeals. Sonic intends to continue its vigorous defense of this lawsuit, including the aforementioned appeal of the trial court's class certification order, and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on Sonic's future results of operations, financial condition and cash flows.

Sonic is involved, and expects to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of Sonic's business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic's business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects. Included in other accrued liabilities at December 31, 2004 and September 30, 2005 are \$2.9 million and \$3.4 million, respectively, in reserves that Sonic has provided for pending proceedings.

**Guarantees:**

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

In connection with franchise dispositions, certain of Sonic's dealership subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. The total estimated rent payments remaining under such leases as of September 30, 2005 was approximately \$62.7 million. However, in accordance with the terms of the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance. Additionally, in connection with certain dispositions, Sonic has obtained indemnifications from the parent company or owners of these assignees and sublessees in the event of non-performance.

In accordance with the terms of agreements entered into for the sale of our franchises, Sonic generally agrees to indemnify the buyer from certain exposure and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic estimates that the maximum exposure associated with these general indemnifications was approximately \$20.7 million at September 30, 2005. These indemnifications generally expire within a period of one to three years following the date of sale. The estimated fair value of these indemnifications was not material.



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

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in our Annual Report on Form 10-K for the year ended December 31, 2004.

**Overview**

We are one of the largest automotive retailers in the United States. As of October 28, 2005, we owned dealership subsidiaries that operated 177 dealership franchises, representing 38 different brands of cars and light trucks at 151 locations, and 38 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 service contracts, financing and insurance, vehicle protection products and other aftermarket products (collectively, "F&I") for our automotive 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 and nine month periods ended September 30, 2004 and 2005:

Brand (1)	Percentage of New Vehicle Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Honda	12.7%	15.3%	13.1%	14.4%
BMW	12.7%	13.1%	11.7%	12.8%
Toyota	10.5%	10.5%	11.1%	10.6%
Cadillac	11.5%	9.4%	12.1%	10.4%
General Motors (2)	12.4%	9.2%	11.5%	10.0%
Ford	9.9%	8.4%	10.3%	9.3%
Lexus	5.8%	6.7%	6.1%	6.5%
Mercedes	2.8%	6.6%	3.1%	5.2%
Volvo	4.2%	3.1%	3.9%	3.5%
Nissan	2.5%	2.7%	2.7%	2.6%
Chrysler (3)	2.5%	2.5%	2.6%	2.4%
Hyundai	1.8%	1.8%	1.7%	1.7%
Volkswagen	1.9%	1.7%	1.9%	1.6%
Audi	1.5%	1.4%	1.4%	1.5%
Other Luxury (4)	5.2%	5.2%	4.9%	5.2%
Other (5)	2.1%	2.4%	1.9%	2.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- (1) In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", income statement data reflects reclassifications from the prior years presentation to (1) exclude additional franchises sold and terminated or identified for sale subsequent to September 30, 2004 which had not been previously included in discontinued operations and (2) include franchises which had been identified for sale as of September 30, 2004, but which we have now decided to retain and operate.
- (2) Includes Buick, Chevrolet, GMC, Oldsmobile, Pontiac and Saturn
- (3) Includes Chrysler, Dodge and Jeep
- (4) Includes Acura, Hummer, Infiniti, Jaguar, Land Rover, Maybach, Morgan, Porsche and Saab
- (5) Includes Isuzu, KIA, Mini, Scion and Subaru

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 condensed consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to September 30, 2005. 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 that 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**

Except where otherwise noted, the following discussions are on a same store basis.

Operating results were affected by four hurricanes in the third quarter of 2004 and by a hurricane disruption in the third quarter of 2005. While the hurricanes in 2004 mainly impacted our Florida dealerships, the effects of the hurricane in 2005 impacted our Houston region dealerships. As a result, higher revenues in our Florida region of \$28.1 million for the three months ended September 30, 2005 were offset by a \$21.3 million decrease in revenues in our Houston region. Although difficult to determine due to the element of business interruption, we believe the effect on profitability of the hurricane in 2005 was similar to the effect on profitability of the hurricanes in 2004.

**Revenues**

*New Vehicles:*

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2004	9/30/2005	Units or \$ Change	% Change	9/30/2004	9/30/2005	Units or \$ Change	% Change
<b>New Vehicle Units</b>								
Same Store	39,435	42,856	3,421	8.7%	109,476	114,916	5,440	5.0%
Acquisitions	—	893	893		1,030	4,580	3,550	
<b>Total as Reported</b>	<b>39,435</b>	<b>43,749</b>	<b>4,314</b>	<b>10.9%</b>	<b>110,506</b>	<b>119,496</b>	<b>8,990</b>	<b>8.1%</b>
<b>New Vehicle Revenue (in thousands)</b>								
Same Store	\$1,165,594	\$1,243,083	\$ 77,489	6.6%	\$3,197,335	\$3,407,295	\$209,960	6.6%
Acquisitions	—	45,001	45,001		42,929	210,035	167,106	
<b>Total as Reported</b>	<b>\$1,165,594</b>	<b>\$1,288,084</b>	<b>\$122,490</b>	<b>10.5%</b>	<b>\$3,240,264</b>	<b>\$3,617,330</b>	<b>\$377,066</b>	<b>11.6%</b>
<b>New Vehicle Revenue per Unit</b>								
Same Store	\$ 29,557	\$ 29,006	\$ (551)	(1.9%)	\$ 29,206	\$ 29,650	\$ 444	1.5%

New unit sales at our import dealerships increased by 3,402 units, or 13.7%, and 6,279 units, or 9.2%, for the three and nine months ended September 30, 2005, respectively, as compared to the same periods last year, which outpaced reported industry-wide import new unit sales increases of 10.1% and 6.0% for the same periods. Our domestic new unit sales remained relatively flat compared to the three month period last year, and decreased by 839 units, or 2.0%, over the previous year nine month period. The industry's domestic unit sales increased 0.7% and 0.6% during the same time periods, respectively. Our GM (excluding Cadillac) stores unit volume benefited from very strong fleet sales in the third quarter of 2005, which increased 1,332 units, or 121.4%, when compared to the third quarter of 2004. During the nine month period ended September 30, 2005, these stores experienced similar fleet unit volume increases (up 1,502 units, or 49.8%). Excluding fleet sales, our GM (excluding Cadillac) stores had the largest decrease in new retail units of our domestic brands for the three months ended September 30, 2005, decreasing by 563 units, or 12.4%. For the nine months ended September 30, 2005, our Ford stores experienced the largest decrease (down 1,111 units, or 12.3%), as compared to the prior year. These decreases can be primarily attributed to both the highly competitive truck and SUV market and the related impact of higher gasoline prices on customer vehicle preference. Lower demand as a result of the expiration of employee pricing programs also contributed to these decreases.

Our import dealerships had an average price per unit increase of 2.5% for the three and nine month periods ended September 30, 2005, respectively. The price increases were primarily due to the change in sales mix for the quarter compared to the same period in 2004. Specifically, our Honda dealerships had a greater percentage of truck and van sales. In addition, as newer models typically sell at higher prices than older models during the model change-over period, price per unit was also positively impacted due to selling more 2006 models in the third quarter of 2005 than 2005 models sold in the third quarter of 2004. Our domestic dealerships had an average unit price decrease of 9.5% for the three months ended September 30, 2005 and a slight increase for the nine months ended September 30, 2005, as compared to the prior year. The price decrease in the current quarter can be primarily attributed to a shift in sales from trucks and SUVs to cars, customers trading down to more fuel efficient vehicles and lower retail pricing offered by GM and Ford. Despite lower new retail prices at our Ford stores, fleet sales partially offset this overall decrease with an average price per unit increase of \$3,081 or 12.3%, and \$4,140 or 17.1%, for the quarter and year to date periods ended September 30, 2005, respectively.

[Table of Contents](#)

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

*Used Vehicles:*

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2004	9/30/2005	Units or \$ Change	% Change	9/30/2004	9/30/2005	Units or \$ Change	% Change
<b>Used Vehicle Units</b>								
Same Store	16,965	17,974	1,009	5.9%	48,761	49,977	1,216	2.5%
Acquisitions	—	265	265		390	2,026	1,636	
<b>Total as Reported</b>	<b>16,965</b>	<b>18,239</b>	<b>1,274</b>	<b>7.5%</b>	<b>49,151</b>	<b>52,003</b>	<b>2,852</b>	<b>5.8%</b>
<b>Used Vehicle Revenue (in thousands)</b>								
Same Store	\$ 299,219	\$ 316,772	\$17,553	5.9%	\$ 840,853	\$ 875,260	\$34,407	4.1%
Acquisitions	—	8,069	8,069		13,188	58,283	45,095	
<b>Total as Reported</b>	<b>\$ 299,219</b>	<b>\$ 324,841</b>	<b>\$25,622</b>	<b>8.6%</b>	<b>\$ 854,041</b>	<b>\$ 933,543</b>	<b>\$79,502</b>	<b>9.3%</b>
<b>Used Vehicle Revenue per Unit</b>								
Same Store	\$ 17,637	\$ 17,624	\$ (13)	(0.1%)	\$ 17,244	\$ 17,513	\$ 269	1.6%

Used vehicle unit sales increased despite lower activity at our domestic stores, which were down 356 units, or 4.8%, and 961 units, or 4.5%, for the three and nine months ended September 30, 2005, respectively. We expect the retail environment for used vehicles to remain stable for the remainder of 2005. The increase in the average price per unit of 1.6% for the nine months ended September 30, 2005 was mostly attributable to an increase in certified pre-owned ("CPO") sales as a percentage of total used vehicle sales and a continuing shift in our dealership mix towards more luxury dealerships. CPO sales as a percentage of total used vehicle sales increased from 44.2% to 48.2% during the three month period and from 44.0% to 48.1% during the nine month period ended September 30, 2005, as compared to the same periods in 2004.

*Wholesale Vehicles:*

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2004	9/30/2005	Units or \$ Change	% Change	9/30/2004	9/30/2005	Units or \$ Change	% Change
<b>Wholesale Vehicle Units</b>								
Same Store	15,003	15,823	820	5.5%	41,489	43,342	1,853	4.5%
Acquisitions	624	821	197		2,028	3,322	1,294	
<b>Total as Reported</b>	<b>15,627</b>	<b>16,644</b>	<b>1,017</b>	<b>6.5%</b>	<b>43,517</b>	<b>46,664</b>	<b>3,147</b>	<b>7.2%</b>
<b>Wholesale Vehicle Revenue (in thousands)</b>								
Same Store	\$ 123,916	\$ 130,688	\$ 6,772	5.5%	\$ 334,550	\$ 361,410	\$26,860	8.0%
Acquisitions	9,535	11,345	1,810		28,927	47,217	18,290	
<b>Total as Reported</b>	<b>\$ 133,451</b>	<b>\$ 142,033</b>	<b>\$ 8,582</b>	<b>6.4%</b>	<b>\$ 363,477</b>	<b>\$ 408,627</b>	<b>\$45,150</b>	<b>12.4%</b>
<b>Wholesale Revenue per Unit</b>								
Same Store	\$ 8,259	\$ 8,259	\$ —	0.0%	\$ 8,064	\$ 8,339	\$ 275	3.4%

Higher revenues realized in the third quarter of 2005 were driven solely by an increase in unit sales while the comparison of the nine month periods benefited from increased unit volume and a unit price increase. Wholesale pricing fluctuations followed those experienced in used retail sales and were consistent with the industry for both the three and nine months ended September 30, 2005.

Parts, Service and Collision Repair (“Fixed Operations”):

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2004	9/30/2005	\$ Change	% Change	9/30/2004	9/30/2005	\$ Change	% Change
Fixed Operations Revenue (in thousands)								
Same Store	\$ 257,008	\$ 266,826	\$ 9,818	3.8%	\$ 723,341	\$ 748,412	\$25,071	3.5%
Acquisitions	117	12,876	12,759		13,202	64,954	51,752	
Total as Reported	\$ 257,125	\$ 279,702	\$22,577	8.8%	\$ 736,543	\$ 813,366	\$76,823	10.4%

For the quarter and nine month periods ended September 30, 2005, parts and service revenue increased and collision repair revenue decreased over the same periods last year. Strong customer pay increases of \$6.0 million, or 6.5%, and \$11.1 million, or 4.2%, for the three and nine month periods ended September 30, 2005, respectively, were primarily responsible for these parts and service increases. Both import and luxury brands drove the majority of the increases in customer pay for the three month period ended

[Table of Contents](#)

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

September 30, 2005 (up \$2.5 million, or 10.4%, and \$3.5 million, or 10.2%, respectively). For the nine month period comparison, our BMW and Lexus stores accounted for an increase of \$5.7 million or, 17.0%, and \$1.9 million, or 11.4%, respectively, of the customer pay increase. Warranty revenues increased \$1.3 million, or 0.9%, in the three month period ended September 30, 2005, compared to the same period last year. The increase was due to strength in our BMW, Toyota and Ford stores. Warranty revenues were down slightly for the nine month period comparison. Collision revenues declined approximately \$0.4 million, or 2.4%, and \$0.5 million, or 1.2%, for the three and nine month period comparisons, respectively. Declines in collision revenues in both periods were primarily due to the closure of one collision repair facility in the fourth quarter of 2004.

*Finance, Insurance and Other:*

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2004	9/30/2005	\$ Change	% Change	9/30/2004	9/30/2005	\$ Change	% Change
<b>Finance, Insurance and Other Revenue</b> (in thousands)								
Same Store	\$ 49,553	\$ 51,275	\$1,722	3.5%	\$ 134,293	\$ 139,636	\$5,343	4.0%
Acquisitions	763	1,559	796		4,446	8,742	4,296	
<b>Total as Reported</b>	<b>\$ 50,316</b>	<b>\$ 52,834</b>	<b>\$2,518</b>	<b>5.0%</b>	<b>\$ 138,739</b>	<b>\$ 148,378</b>	<b>\$9,639</b>	<b>6.9%</b>
Total F&I Revenue per Unit Same Store, Excluding Fleet Units	\$ 930	\$ 901	\$ (29)	(3.1)%	\$ 905	\$ 902	\$ (4)	(0.4)%

An overall retail unit increase was primarily responsible for the increase in finance, insurance and other revenues for the quarter ended September 30, 2005 as compared to the same period last year. Also contributing to the overall increase was an increase in the sale of other aftermarket products as a result of a more managed approach with an emphasis on the balanced sale of a broader offering of these products.

**Gross Profit and Gross Margins**

Overall same store gross profit as a percentage of revenues ("gross margin") increased from 15.0% to 15.1% for the three months ended September 30, 2005 and decreased from 15.4% to 15.2% for the nine months ended September 30, 2005, as compared to the same periods last year. For the three and nine month periods ended September 30, 2005, new vehicle gross margins increased 10 basis points and decreased 30 basis points, respectively, while used vehicle gross margins increased 60 basis points and 20 basis points, respectively. Gross margins related to our Fixed Operations increased by 50 basis points and 20 basis points, respectively, over the same periods. We expect new vehicle margins to stabilize and remain competitive. Revenue mix also contributed to the decline in overall gross margin for the nine month period ended September 30, 2005 as shown in the following table:

	For the Three Months Ended			For the Nine Months Ended		
	9/30/2004	9/30/2005	Basis Point Change	9/30/2004	9/30/2005	Basis Point Change
<b>Revenues as a Percentage of Total Revenues</b>						
New Vehicles	61.5%	61.9%	40	61.1%	61.6%	50
Used Vehicles	15.8%	15.8%	—	16.1%	15.8%	(30)
Wholesale Vehicles	6.5%	6.5%	—	6.4%	6.5%	10
Fixed Operations	13.6%	13.3%	(30)	13.8%	13.5%	(30)
Finance, Insurance and Other	2.6%	2.5%	(10)	2.6%	2.6%	—
<b>Total Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>—</b>	<b>100.0%</b>	<b>100.0%</b>	<b>—</b>

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

For the three month and nine month periods ended September 30, 2005, respectively, reported SG&A expenses increased \$13.5 million, or 5.9%, and \$61.9 million, or 9.6%. Same store dealerships accounted for \$8.1 million and \$24.1 million of the increase for the quarter and year to date periods, respectively, while acquisitions made up \$5.4 million and \$37.8 million of the increase over the same periods. While SG&A expenses increased over each comparison period on a dollar basis, as a percentage of gross profit, SG&A expenses decreased in both the quarter and year to date periods (330 and 30 basis point decreases for the three and nine month periods, respectively) primarily due to increases in gross profit. The largest contributors to the 330 basis point decrease were relative reductions in sales compensation and other expenses.

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

Same store advertising expenses increased \$0.6 million and \$3.3 million for the three and nine month periods, respectively. Just as in the first half of the year, higher advertising expenses can be attributed primarily to a targeted approach to allocating advertising dollars to certain brands in key markets. Higher retail unit volume caused compensation expense to increase \$6.4 million and \$13.0 million for the quarter and year to date periods, respectively, on a same store basis. Compensation expense decreased 40 and 20 basis points, respectively, as a percentage of gross profit, for the three and nine month periods. Same store rent expense increased \$1.2 million and \$3.0 million for the three and nine month periods, respectively, due to consumer price-index increases and increases on variable rate dealership leases. Other expenses were flat on a dollar basis for the quarter and increased \$4.9 million for the year to date period ending September 30, 2005. However, as a percentage of gross profit, other expenses declined in both periods, 120 and 20 basis points, respectively, for the three and nine month periods.

***Depreciation and Amortization***

Reported depreciation and amortization expense increased over the comparable three and nine month periods by \$0.9 million, or 22.3%, and \$1.6 million, or 14.1%, respectively. This increase was due to acquisitions, the completion of leasehold improvement projects and other general capital expenditures.

***Interest Expense, Floor Plan***

The weighted average floor plan interest rate incurred by continuing dealerships was 4.43% for the quarter ended September 30, 2005, compared to 2.79% for the quarter ended September 30, 2004, which increased floor plan interest expense by approximately \$3.7 million. The average notes payable-floor plan balance from continuing dealerships decreased to \$863.4 million during the third quarter of 2005 from \$891.9 million during the third quarter of 2004, resulting in decreased floor plan interest expense of approximately \$0.3 million.

The weighted average floor plan interest rate incurred by continuing dealerships was 4.13% for the nine months ended September 30, 2005, compared to 2.68% for the nine months ended September 30, 2004, which increased floor plan interest expense by approximately \$9.8 million. The average notes payable-floor plan balance from continuing dealerships increased to \$920.8 million during the first nine months of 2005 from \$904.9 million during the first nine months of 2004, resulting in increased floor plan interest expense of approximately \$0.5 million.

Our floor plan interest expenses are substantially offset by amounts received from manufacturers in the form of floor plan assistance. These payments are credited against cost of sales upon the sale of the vehicle. During the three and nine months ended September 30, 2005, respectively, the amounts we recognized in our consolidated statements of income (for continuing dealerships) from floor plan interest assistance exceeded our floor plan interest expense by approximately \$0.3 million and \$0.6 million. In the three and nine months ended September 30, 2004, floor plan assistance exceeded floor plan interest expense by approximately \$3.1 million and \$9.3 million, respectively.

[Table of Contents](#)

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

**Interest Expense, Other**

Changes in interest expense, other in 2005 compared to 2004 are summarized in the table below:

	<b>For the Three Months Ended September 30, 2005</b>	<b>For the Nine Months Ended September 30, 2005</b>
	<b>Increase/(decrease) (in millions)</b>	<b>Increase/(decrease) (in millions)</b>
Interest rates –		
• Increase in the average interest rate on the Revolving Credit Facility from 4.10% to 6.06% and from 3.95% to 5.71% for the three and nine months ended September 30, 2005, respectively	\$ 1.6	\$ 3.7
Debt balances –		
• Decrease in balance in the average balance of the Revolving Credit Facility	(0.7)	(0.6)
• Notes Payable to a Finance Company assumed in 2004 acquisition	—	0.3
Other factors –		
• Decrease in capitalized interest	0.1	0.4
• Incremental interest savings related to floating to fixed interest rate swaps	(1.0)	(3.4)
• Incremental interest expense related to fixed to floating interest rate swaps	0.6	2.2
• Increase associated with interest allocated to discontinued operations	0.1	0.3
• Increase in other expense, net	—	0.3
	<b>\$ 0.7</b>	<b>\$ 3.2</b>

**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 depend to a substantial degree on the results of operations of our 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 all of our floor plan facilities (both continuing and discontinued operations) was 4.52% and 2.81% for the three months ended September 30, 2005 and 2004, respectively, and 4.20% and 2.71% for the nine months ended September 30, 2005 and 2004, respectively. In the third quarter of 2005, we received approximately \$9.4 million in manufacturer assistance, which was approximately \$1.1 million less than the amount we paid for floor plan interest. In the first nine months of 2005, we received approximately \$29.6 million in manufacturer assistance, which was approximately \$1.9 million less than the amount we paid for floor plan interest. 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 September 30, 2005.

**Long-Term Debt and Credit Facilities**

*The Revolving Credit Facility:* At September 30, 2005, our Revolving Credit Facility had a borrowing limit of \$550.0 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 was approximately \$556.7 million at September 30, 2005). The amount available to be borrowed under the Revolving Credit Facility is reduced on a dollar-for-dollar basis by the cumulative face amount of outstanding letters of credit. At September 30, 2005, we had \$60.4 million in letters of credit outstanding and \$229.0 million of borrowing availability. On October 6, 2005, we extended the maturity on the Revolving Credit Facility from October 31, 2006 to January 31, 2007.



## [Table of Contents](#)

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

*Notes Payable to a Finance Company:* Three notes payable totaling \$26.6 million in aggregate principal were assumed with the purchase of franchises during 2004 (the "Assumed Notes"). The Assumed Notes bear interest rates from 10.52% to 9.52% (with a weighted average of 10.19%), have a combined monthly principal and interest payment of \$0.3 million and are collateralized by letters of credit with a commercial bank. We recorded the Assumed Notes at fair value using an interest rate of 5.35%. The interest rate used to calculate the fair value was based on a quoted market price for notes with similar terms as of the date of assumption.

At September 30, 2005, the outstanding balance and availability on our long-term debt and credit facilities were as follows (in thousands):

	Interest Rate (1)	Outstanding Balance	Additional Borrowing Availability
Revolving Credit Facility (matures January 2007)	LIBOR + 2.55%	\$ 260,625	\$ 228,991
Senior Subordinated Notes (mature August 2013)	8.625%	\$ 272,126	
Convertible Senior Subordinated Notes (mature May 2009) (2)	5.25%	\$ 127,898	
Mortgage Facility:			
Construction Loan (matures December 2007) (3)	LIBOR + 2.25%	\$ —	\$ 50,000
Permanent Loan (matures December 2012) (3)	LIBOR + 2.00%	\$ —	\$ 100,000
Notes Payable to a Finance Company (mature November 2015 through September 2016)	10.19%(4)	\$ 30,751	

- (1) Six-month LIBOR was 4.23% at September 30, 2005.
- (2) Notes were not convertible at any time during the three months ended September 30, 2005.
- (3) Total combined borrowings under the Construction and Permanent Loans are limited to \$100,000. We do not currently intend to borrow on the Construction and Permanent Loans in the future.
- (4) Weighted average rate.

We were in compliance with all of the restrictive and financial covenants under all our long-term debt and credit facilities as of September 30, 2005.

#### ***Dealership Acquisitions and Dispositions***

In the first nine months of 2005, we acquired franchises for an aggregate purchase price of \$52.6 million in cash, net of cash acquired, using cash from operations and borrowings under the Revolving Credit Facility. During the first nine months of 2005, our disposition of 14 franchises generated cash of \$12.0 million.

#### ***Sale-Leaseback Transactions***

In an effort to generate additional cash flow, we typically seek to structure our operations to minimize the ownership of real estate. As a result, dealership facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback transactions. The resulting operating 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 nine months of 2005, we sold \$1.9 million in dealership facilities 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 nine months of 2005 were approximately \$51.1 million, of which approximately \$32.0 million related to the construction of new dealership facilities and collision repair centers. Once completed, these new dealership facilities and collision repair centers are generally sold in sale-leaseback transactions. Capital expenditures incurred during the first nine months of 2005 expected to be sold within a year in sale-leaseback transactions or sold in 2005 were \$15.7 million. We do not expect any significant gains or losses from these sales. As of September 30, 2005, commitments for facilities construction projects totaled approximately \$25.1 million. We expect \$12.0 million of this amount to be financed through future sale-leaseback transactions.

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

***Stock Repurchase Program***

As of September 30, 2005, our Board of Directors had authorized our management to expend up to \$185.0 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. In the first nine months of 2005, we repurchased 237,500 shares for approximately \$4.9 million, which was offset by proceeds received from the exercise of stock options under stock compensation plans of \$7.4 million. As of October 28, 2005, we had \$27.9 million remaining to repurchase shares under our Board authorization.

***Dividends***

During the third quarter of 2005, our Board of Directors approved a quarterly cash dividend of \$0.12 per share for shareholders of record on September 15, 2005, which was paid on October 15, 2005. Subsequent to September 30, 2005, our Board of Directors has also approved a quarterly cash dividend of \$0.12 per share for stockholders of record on December 15, 2005, which will be paid on January 15, 2006.

***Cash Flows***

For the nine months ended September 30, 2005, net cash provided by operating activities was approximately \$139.8 million, which consisted of net income in addition to proceeds from working capital accounts, offset by payments on notes payable-floor plan trade. Non-cash items such as depreciation and gains on disposals of assets also contributed to the positive operating cash flow. Net cash used in investing activities for the first nine months of 2005 was \$78.1 million, which consisted mostly of capital expenditures on property and equipment and dealership acquisitions, which was partially offset by proceeds received from dealership dispositions and sale-leaseback transactions. Net cash used in financing activities for the nine months ended September 30, 2005 was \$65.2 million, comprised mostly of the payment of notes payable-floor plan – non-trade, the payment of dividends of \$15.1 million and purchases of treasury stock of \$4.9 million, which was offset by borrowings under the Revolving Credit Facility of \$22.0 million and issuances of stock under our stock compensation plans of \$7.4 million.

***Guarantees***

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

In connection with franchise dispositions, certain of our dealership subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. The total estimated rent payments remaining under such leases as of September 30, 2005 was approximately \$62.7 million. However, in accordance with the terms of the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance. Additionally, in connection with certain dispositions, we have obtained indemnifications from the parent company or owners of these assignees and sublessees in the event of non-performance.

In accordance with the terms of agreements entered into for the sale of our franchises, we generally agree to indemnify the buyer from certain exposure and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While our exposure with respect to environmental remediation and repairs is difficult to quantify, we estimate our maximum exposure associated with these general indemnifications was approximately \$20.7 million at September 30, 2005. These indemnifications generally expire within a period of one to three years following the date of sale. The estimated fair value of these indemnifications was not material.

We expect the maximum exposure of these various guarantees to continue to fluctuate as indemnification periods lapse and we dispose of additional franchises.

***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 the Revolving Credit Facility. Though

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

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, quarterly cash dividends 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, operating profits and cash flows than the second and third quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality in, and may adversely affect, our profitability and 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 \$1.2 billion at September 30, 2005 and September 30, 2004. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$9.9 million in the first nine months of 2005. Of the total change in interest expense, approximately \$6.7 million would have resulted from notes payable—floor plan.

Our exposure 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 nine months ended September 30, 2005, the amounts we paid for floor plan interest expense for both our continuing and discontinued operations exceeded manufacturer floor plan assistance received by approximately \$1.9 million. During the nine month period ended September 30, 2004, amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately \$9.2 million. A change of 100 basis points in the underlying interest rate would have caused estimated changes in floor plan assistance of approximately \$5.8 million in the first nine months of 2005.

In addition to our variable rate debt, approximately 25% of our dealership facility lease agreements' monthly lease payments fluctuate 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. A change of 100 basis points in LIBOR would have caused estimated changes in our rent expense of approximately \$2.7 million in the first nine months of 2005.

In order to reduce our exposure to market risks from fluctuations in interest rates, we have one interest rate swap agreement (the "Fixed Swap") to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The Fixed Swap will mature June 6, 2006 and has a notional principal of \$100.0 million. Under the terms of the Fixed Swap, we receive interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 4.50%.

We also have five separate interest rate swaps with a total notional amount of \$150.0 million (collectively, the "Variable Swaps") to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. Under the Variable Swaps' agreements, we receive 8.625% on the respective notional amounts and pay interest payments on the respective notional amounts at a rate equal to the forward six month LIBOR (fixed on February 15 and August 15 of each year) plus a spread ranging from 3.825% to 3.85% with a weighted average spread of 3.83%. The Variable Swaps expire on August 15, 2013.

***Foreign Currency Risk***

We purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase our inventories in U.S. Dollars, our business is subject to foreign exchange rate risk, which may influence automobile manufacturers' ability to provide their products at competitive prices in the United States. To the extent this volatility negatively impacts consumer demand through higher retail prices for our products, this volatility could adversely affect our future operating results.

**Item 4: Controls and Procedures.**

Our management, under the supervision and with the participation of our principal executive officer and principal accounting officer, who is currently responsible for performing certain functions of our principal financial officer, evaluated the effectiveness 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 accounting officer, who is currently responsible for performing certain functions of our principal financial officer, have concluded that 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 control over financial reporting during the past fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During August 2005, we experienced the departure of our Chief Financial Officer. We have appointed our Chief Accounting Officer to serve as principal accounting officer and to perform certain of the functions of principal financial officer. At the end of the period covered by this report, the Chief Accounting Officer performed the evaluation of disclosure controls and procedures required to be conducted and performed the analysis necessary to provide the certifications to this quarterly report required to be given by the principal financial officer who recently departed.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

PART II – OTHER INFORMATION

**Item 1: Legal Proceedings.**

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 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. The Texas Court of Appeals subsequently affirmed the trial court’s order of class certification in the state actions, and the Texas Supreme Court issued an order for the second time in September 2004 stating that it would not hear the merits of the defendant’s appeal on class certification. The federal trial court conditionally certified a class of consumers in the federal antitrust case, but on appeal by the defendant dealerships, the U.S. Court of Appeals for the Fifth Circuit reversed the certification of the plaintiff class in October 2004 and remanded the case back to the federal trial court for further proceedings not inconsistent with the Fifth Circuit’s ruling. The plaintiffs have appealed this ruling by the Fifth Circuit.

In June 2005, our Texas dealerships and several other dealership defendants entered into a settlement agreement with the plaintiffs in both the state and the federal cases that would settle each of the cases on behalf of our Texas dealerships. The settlements are contingent upon court approval, and the court has not yet scheduled a date for a hearing on that approval. The estimated expense of the proposed settlements is not a material amount to our company as a whole, and it includes our Texas dealerships issuing coupons for discounts off future vehicle purchases, refunding cash in certain circumstances, and paying attorneys’ fees and certain costs. Under the terms of the settlements, our Texas dealerships would continue to itemize and pass through to the customer the cost of the inventory tax. If the TADA matters are not settled, our Texas dealership subsidiaries would then vigorously defend themselves and assert available defenses. In addition, we may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters could result in the payment of significant costs and damages and negatively impact our Texas dealerships’ ability to itemize and pass through to the customer the cost of the vehicle inventory tax in the future, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

Our company is also a defendant in the matter of *Galura, et al. v. Sonic Automotive, Inc.*, a private civil action filed in the Circuit Court of Hillsborough County, Florida. In this action, originally filed on December 30, 2002, the plaintiffs allege that we and our Florida dealerships sold an anti-theft protection product in a deceptive or otherwise illegal manner, and further sought representation on behalf of any customer of any of our Florida dealerships who purchased the anti-theft protection product since December 30, 1998. The plaintiffs are seeking monetary damages and injunctive relief on behalf of this class of customers. In June 2005, the court granted the plaintiffs’ motion for certification of the requested class of customers, but the court has made no finding to date regarding actual liability in this lawsuit. We subsequently filed a notice of appeal of the court’s class certification ruling with the Florida Court of Appeals. We intend to continue our vigorous defense of this lawsuit, including the aforementioned appeal of the trial court’s class certification order, and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

We did not repurchase any shares of our Class A Common Stock during the quarter ended September 2005. We currently have approximately \$27.9 million of authorization remaining under the publicly announced repurchase authorizations adopted by our Board of Directors. These repurchase authorizations occurred as follows:

	(Amounts in Thousands)
November 1999	\$ 25,000
February 2000	25,000
December 2000	25,000
May 2001	25,000
August 2002	25,000
February 2003	20,000
December 2003	20,000
July 2004	20,000
Total	\$ 185,000

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

**Item 6: Exhibits.**

**(a) Exhibits:**

<u>Exhibit No.</u>	<u>Description</u>
10.1	Consulting Agreement dated August 23, 2005 between Sonic and E. Lee Wyatt, Jr. (1)
31.1	Certification of Mr. Greg D. Young 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. Greg D. Young 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.

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

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**Forward Looking Statements**

This 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;
- 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 of this 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, the level of consumer spending and consumer credit availability;
- high competition in the automotive retailing industry which not only creates pricing pressures on the products and services we offer, but 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>
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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.

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

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SONIC AUTOMOTIVE, INC.**

Date: November 2, 2005

By: /s/ O. Bruton Smith

\_\_\_\_\_  
O. Bruton Smith  
*Chairman and Chief Executive Officer*

Date: November 2, 2005

By: /s/ Greg D. Young

\_\_\_\_\_  
Greg D. Young  
*Vice President and Chief Accounting Officer*

## AGREEMENT

THIS AGREEMENT (this "**Agreement**") made as of this 23<sup>rd</sup> day of August, 2005 between **SONIC AUTOMOTIVE, INC.**, a Delaware corporation (the "**Employer**"), and **E. LEE WYATT, JR.** (the "**Employee**").

WHEREAS, the Employee currently serves as Executive Vice President, Chief Financial Officer and Treasurer of the Employer, and as an officer, director, manager and/or governor of numerous direct and indirect subsidiaries and affiliates of the Employer; and

WHEREAS, the Employer and the Employee are parties to an Employment Agreement dated as of November 4, 2004 (the "**Employment Agreement**"); and

WHEREAS, the Employee has notified the Employer that he desires to voluntarily resign his employment with the Employer in order to pursue other interests; and

WHEREAS, the Employer and the Employee desire to enter into this Agreement for the purpose of effecting an orderly resignation by the Employee of his officer, director and employment relationships with the Employer and the subsidiaries and affiliates of the Employer.

NOW, THEREFORE, the parties intending to be legally bound agree as follows:

1. **Resignation.**

(a) The Employee hereby voluntarily resigns the following positions, such resignation to be effective 5:00 p.m., Eastern Time, on September 6, 2005 (the "**Termination Date**"): (i) Executive Vice President, Chief Financial Officer and Treasurer of the Employer; and (ii) officer, director, manager and/or governor of all direct and indirect subsidiaries of the Employer, as well as all affiliates of the Employer including, without limitation, North Point Imports LLC d/b/a North Point Volvo. If requested by the Employer, the Employee shall further evidence such resignations by executing formal resignation letters addressed to the Employer and such subsidiaries or affiliates.

(b) The Employer and the Employee acknowledge and agree that the Employee's resignation pursuant to this Agreement constitutes a termination by the Employer "without cause" pursuant to paragraph 5(c) of the Employment Agreement.

(c) Notwithstanding the provisions of paragraph 6(a) of the Employment Agreement, (i) the Employer shall pay the Employee for his accrued vacation pay through the Termination Date, and (ii) if the Employee elects continued coverage under the Employer's group medical and/or dental benefit plans for himself and/or his qualified dependants pursuant to COBRA, the Employer shall subsidize the costs of that continued COBRA coverage for a period of two (2) months following the termination of the Employee's employment such that the Employee shall not be required to pay more for COBRA coverage during such two-month period than he would be required to pay if he were still an active employee of the Employer.

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## **2. Retention as a Consultant.**

(a) During the period commencing with the Termination Date and ending at 5:00 pm, Eastern Time, on April 30, 2006 (the **“Consulting Term”**), the Employer shall retain the Employee, and the Employee shall serve, as a consultant to the Employer. In such capacity, the Employee shall be available to the Employer and shall perform such consulting services, as the Chief Executive Officer or the President of the Employer shall reasonably request; provided, however, that such requested consulting services shall be reasonable in scope and shall be performed at reasonable times that do not interfere with Employee’s full-time employment responsibilities owed to his new employer.

(b) As compensation for his consulting services during the Consulting Term, the Employee shall receive a consulting fee of \$12,500 per month, payable within ten business days following the completion of each calendar month during the Consulting Term. During the Consulting Term, the Employee will be reimbursed for all reasonable out-of-pocket business related expenses incurred by the Employee with the prior approval of the President of the Employer, in accordance with the policies, practices and procedures of the Employer in effect from time to time.

(c) During the Consulting Term, all outstanding stock options previously granted to the Employee pursuant to the Employer’s 1997 Stock Option Plan shall not be terminated and shall continue to vest, in accordance with such Plan and the terms of the applicable stock option agreements. All such stock options that vest prior to the expiration of the Consulting Term must be exercised by the Employee prior to the expiration of the Consulting Term, and all such stock options will expire immediately upon expiration of the Consulting Term in accordance with the terms of the Employer’s 1997 Stock Option Plan.

(d) Except as specifically provided in this Agreement, the Employee shall not be entitled to any benefits during the Consulting Term.

(e) The Employee acknowledges that the Restrictive Covenants contained in paragraphs 8 through 10 of the Employment Agreement shall continue to apply to the Employee during the Consulting Term and that, notwithstanding the provisions of the Employment Agreement, the “Restrictive Period” under the Employment Agreement shall not begin to run until the expiration of the Consulting Term.

(f) All taxes applicable to any amounts paid by the Employer to the Employee during the Consulting Term shall be paid by the Employee, and the Employer shall not withhold or pay any amount for federal, state or municipal income tax, social security, unemployment, workers compensation or any other tax or related tax or assessment.

(g) In the performance of his consulting services during the Consulting Term, the Employee acknowledges that he shall act solely as an independent contractor and nothing contained herein shall at any time be construed so as to create the relationship of employer and employee, partnership, principal and agent, or joint venturer, as between the Employer and the Employee.

3. **Non-Disparagement.** The Employer and the Employee each agree that, from the execution of this Agreement, they shall not, directly or indirectly, disparage the other party or his/its shareholders, directors, officers, representatives, agents, employees, heirs or family members, as applicable, and shall not, directly or indirectly, make any communication or comment, whether written or oral, which might cause injury or damage to the other party or his/its shareholders, directors, officers, representatives, agents, employees, heirs or family members, as applicable, or to their respective reputations.

4. **General Release.** In return for the mutual consideration specified in this Agreement, the Employer and the Employee each hereby release the other, and their respective shareholders, directors, officers, representatives, agents and employees, from any and all actions and causes of action, claims, demands and compensation whatsoever, arising out of the employment of the Employee by the Employer; provided, however, that this provision expressly shall not constitute a release of any continuing obligations of the Employee or the Employer pursuant to this Agreement, the Employment Agreement and any other existing written agreements between the Employee and the Employer.

**5. Termination for Breach; Effect on Employment Agreement and Other Agreements**

(a) In the event of a material breach by any party hereto of this Agreement or the Employment Agreement, the non-breaching party shall be entitled to terminate this Agreement by notice to the breaching party in writing.

(b) Except as expressly modified herein, this Agreement shall have no effect on the Employment Agreement or any other existing written agreements between the Employee and the Employer, and all other terms and conditions of the Employment Agreement and such other agreements shall remain in full force and effect, without modification.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement to be effective as of the date first written above.

**SONIC AUTOMOTIVE, INC.**

By: /s/ Jeffrey C. Rachor

\_\_\_\_\_  
Name: Jeffrey C. Rachor  
Title: President and Chief Operating Officer

/s/ E. Lee Wyatt, Jr.

\_\_\_\_\_  
E. Lee Wyatt, Jr.

CERTIFICATION

I, Greg D. Young, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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: November 2, 2005

By: /s/ Greg D. Young

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Greg D. Young  
Vice President and Chief Accounting Officer

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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: November 2, 2005

By: /s/ O. Bruton Smith

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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 September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg D. Young, Chief Accounting 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/ Greg D. Young

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Greg D. Young  
Vice President and Chief Accounting Officer

November 2, 2005



**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 September 30, 2005 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

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O. Bruton Smith  
Chairman and Chief Executive Officer

November 2, 2005

## 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 September 30, 2005, our total outstanding indebtedness was approximately \$1,542.9 million, including the following:

- \$260.6 million under a revolving credit facility;
- \$853.2 million under standardized secured inventory floor plan facilities, including \$59.6 million classified as liabilities held for sale;
- \$127.9 million in 5 1/4% convertible senior subordinated notes due 2009 representing \$130.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$2.2 million;
- \$272.1 million in 8 5/8% senior subordinated notes due 2013 representing \$275.0 million in aggregate principal amount outstanding less unamortized net discount of approximately \$2.9 million; and
- \$29.1 million of other secured debt, representing \$23.2 million in aggregate principal amount plus unamortized premium of approximately \$5.9 million.

As of September 30, 2005, we had approximately \$229.0 million available for additional borrowings under a revolving credit facility. We also had approximately \$100.0 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 indentures governing our outstanding convertible senior subordinated notes and our 8 5/8% 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

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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.

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

During the three and nine month periods ended September 30, 2005, approximately 65.9% and 67.4% of our new vehicle revenue was derived from the sale of new vehicles manufactured by Ford, Honda, General Motors (including Cadillac), BMW and Toyota, respectively. 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, without prior approval of the applicable manufacturer. 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 acquisition 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.

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**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, insurance, vehicle protection products and other aftermarket 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 acquisition strategy. In addition, we receive incentive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

**If state dealer laws are repealed or weakened, our dealerships will be more susceptible to termination, non-renewal or renegotiation of their franchise 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 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; our financing of our acquisitions may adversely affect us and our stock holders and convertible bond holders.**

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 issue equity, for acquisitions or other purposes, our stock price may be negatively impacted and the holders of our outstanding common stock may be diluted. 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, insurance, vehicle protection product and other aftermarket product (“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.

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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. 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 and 2004 Stock Incentive 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.**

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

In September 2002, the Los Angeles County District Attorney's office served a search warrant on one of our 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 Los Angeles County District Attorney in its investigation. No charges have been filed and no proceedings have been instituted to date by the Los Angeles County District Attorney's office against either our dealership or our company. However, in late September 2005, the Los Angeles County District Attorney's office filed felony criminal charges against six former employees of the dealership in connection with its investigation. The former employees who were indicted by the Los Angeles County District Attorney's office have not been employed by the dealership or our company for more than three years.

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 these regulatory investigations against our dealerships or our company are continuing, we cannot assure you as to the outcomes of these proceedings. Nevertheless, we do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, results of operations, financial condition, cash flows or prospects. We may be involved in other regulatory investigations from time to time in the future, the outcomes of which cannot be predicted. We vigorously defend ourselves and assert available defenses in regulatory investigations, but an unfavorable resolution of one or more regulatory investigations could have a material adverse effect on our business, results of operations, financial condition, cash flows or prospects.

Several private civil actions have been filed against Sonic Automotive, Inc. and several of our dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and make allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions has been filed in South Carolina state court against Sonic Automotive, Inc. and 10 of our South Carolina subsidiaries. We have been advised that the plaintiffs' attorneys in this South Carolina private civil action intend to file private civil class actions against Sonic Automotive, Inc. and certain of its subsidiaries in other states. This group of plaintiffs' attorneys has filed another one of these private civil class action lawsuits in state court in North Carolina seeking certification of a multi-state class of plaintiffs. Another one of these private civil actions has been filed in Tennessee state court against Sonic Automotive, Inc. and one of our Tennessee subsidiaries. Another one of these private civil actions has been filed in Florida state court against Sonic Automotive, Inc. and two of our Florida subsidiaries. This lawsuit also names as a defendant the administrator of the settlement agreement reached between two of our Florida subsidiaries, and the Florida Department of Financial Affairs and Attorney General's office. This private civil action alleges, among other things, that the settlement was unfair to the customers who were offered refunds through the settlement with the Florida Department of Financial Services and Attorney General's office. Finally, a private civil action has also been filed against one of our dealerships in Los Angeles County stating allegations similar to those underlying the Los Angeles County District Attorney's investigation described above. 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.

The outcomes of the civil actions brought by plaintiffs purporting to represent a class of customers, as well as other pending and future 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, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

In addition, 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 consumers 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. The Texas Court of Appeals subsequently affirmed the trial court’s order of class certification in the state actions, and the Texas Supreme Court issued an order for the second time in September 2004 stating that it would not hear the merits of the defendant’s appeal on class certification. The federal trial court conditionally certified a class of consumers in the federal antitrust case, but on appeal by the defendant dealerships, the U.S. Court of Appeals for the Fifth Circuit reversed the certification of the plaintiff class in October 2004 and remanded the case back to the federal trial court for further proceedings not inconsistent with the Fifth Circuit’s ruling. The plaintiffs have appealed this ruling by the Fifth Circuit.

In June 2005, our Texas dealerships and several other dealership defendants entered into a settlement agreement with the plaintiffs in both the state and the federal cases that would settle each of the cases on behalf of our Texas dealerships. The settlements are contingent upon court approval, and the court has not yet scheduled a date for a hearing on that approval. If the TADA matters are not settled, our Texas dealership subsidiaries would then vigorously defend themselves and assert available defenses. In addition, we may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters could result in the payment of significant costs and damages and negatively impact our Texas dealerships’ ability to itemize and pass through to the customer the cost of the vehicle inventory tax in the future, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

Our company is also a defendant in the matter of *Galura, et al. v. Sonic Automotive, Inc.*, a private civil action filed in the Circuit Court of Hillsborough County, Florida. In this action, originally filed on December 30, 2002, the plaintiffs allege that we and our Florida dealerships sold an anti-theft protection product in a deceptive or otherwise illegal manner, and further sought representation on behalf of any customer of any of our Florida dealerships who purchased the anti-theft protection product since December 30, 1998. The plaintiffs are seeking monetary damages and injunctive relief on behalf of this class of customers. In June 2005, the court granted the plaintiffs’ motion for certification of the requested class of customers, but the court has made no finding to date regarding actual liability in this lawsuit. We have subsequently filed a notice of appeal of the court’s class certification ruling with the Florida Court of Appeals. We intend to continue our vigorous defense of this lawsuit, including the aforementioned appeal of the trial court’s class certification order, and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

**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, weather 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 in our Northern California and Houston markets. Sales in our Northern California and Houston markets represented approximately 29.6% and 30.2% of our total revenues for the three and nine month periods ended September 30, 2005, respectively. 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 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

certain members of our senior management team, our dealership managers and other key dealership personnel. Consequently, the loss of the services of one or more of these key employees could have a material adverse effect on our results of operations.

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers 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 for the year ended December 31, 2004 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 September 30, 2005, our balance sheet reflected a carrying amount of approximately \$1,105.2 million in goodwill (including goodwill classified as assets held for sale), 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 likely have a material adverse effect on our earnings for the period in which the impairment of goodwill occurred.