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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

Commission file number 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

28212
(Zip Code)

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

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

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

As of August 11, 2003, there were 28,896,526 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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PART I—FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements.
SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	2002	2003
Revenues:		
New vehicles	\$ 1,104,943	\$ 1,208,471
Used vehicles	314,994	316,902
Wholesale vehicles	134,129	109,697
Total vehicles	1,554,066	1,635,070
Parts, service and collision repair	232,373	251,601
Finance & insurance and other	50,596	54,920
Total revenues	1,837,035	1,941,591
Cost of sales	1,553,797	1,648,889
Gross profit	283,238	292,702
Selling, general and administrative expenses	215,263	230,584
Depreciation	2,132	2,753
Operating income	65,843	59,365
Other income / (expense):		
Interest expense, floor plan	(6,195)	(5,925)
Interest expense, other	(9,496)	(9,896)
Other income	151	10
Total other expense	(15,540)	(15,811)
Income from continuing operations before income taxes	50,303	43,554
Provision for income taxes	(19,141)	(15,740)
Income from continuing operations	31,162	27,814
Discontinued operations:		
Income from operations of discontinued dealerships	495	1,239
Income tax expense	(169)	(537)
Income from discontinued operations	326	702
Net income	\$ 31,488	\$ 28,516
Basic net income per share:		
Income per share from continuing operations	\$ 0.73	\$ 0.68
Income per share from discontinued operations	0.01	0.02
Net income per share	\$ 0.74	\$ 0.70
Weighted average common shares outstanding	42,652	40,718
Diluted net income per share:		
Income per share from continuing operations	\$ 0.70	\$ 0.66
Income per share from discontinued operations	0.01	0.02
Net income per share	\$ 0.71	\$ 0.68
Weighted average common shares outstanding	44,537	42,071

See notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2002	2003
Revenues:		
New vehicles	\$ 2,000,548	\$ 2,220,304
Used vehicles	568,183	599,741
Wholesale vehicles	232,902	213,679
Total vehicles	2,801,633	3,033,724
Parts, service and collision repair	428,935	489,918
Finance & insurance and other	94,938	104,153
Total revenues	3,325,506	3,627,795
Cost of sales	2,806,469	3,067,504
Gross profit	519,037	560,291
Selling, general and administrative expenses	398,486	451,771
Depreciation	4,024	5,215
Operating income	116,527	103,305
Other income / (expense):		
Interest expense, floor plan	(11,252)	(11,985)
Interest expense, other	(17,621)	(19,649)
Other income	236	80
Total other expense	(28,637)	(31,554)
Income from continuing operations before taxes and cumulative effect of change in accounting principle	87,890	71,751
Provision for income taxes	(33,484)	(26,139)
Income from continuing operations before cumulative effect of change in accounting principle	54,406	45,612
Discontinued operations:		
Income (loss) from operations of discontinued dealerships	(1,482)	336
Income tax benefit (expense)	644	(127)
Income (loss) from discontinued operations	(838)	209
Income before cumulative effect of change in accounting principle	53,568	45,821
Cumulative effect of change in accounting principle, net of tax benefit of \$3,325	—	(5,619)
Net income	\$ 53,568	\$ 40,202
Basic net income (loss) per share:		
Income per share from continuing operations	\$ 1.31	\$ 1.12
Loss per share from discontinued operations	(0.02)	—
Income per share before cumulative effect of change in accounting principle	1.29	1.12
Cumulative effect of change in accounting principle	—	(0.14)
Net income per share	\$ 1.29	\$ 0.98
Weighted average common shares outstanding	41,645	40,824
Diluted net income (loss) per share:		
Income per share from continuing operations	\$ 1.25	\$ 1.09
Income (loss) per share from discontinued operations	(0.02)	0.01
Income per share before cumulative effect of change in accounting principle	1.23	1.10
Cumulative effect of change in accounting principle	—	(0.14)
Net income per share	\$ 1.23	\$ 0.96
Weighted average common shares outstanding	43,555	41,915

See notes to unaudited consolidated financial statements.

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

	December 31, 2002	June 30, 2003 (Unaudited)
ASSETS		
Current Assets:		
Cash	\$ 10,576	\$ 32,071
Receivables, net	297,859	295,890
Inventories	929,450	939,826
Assets held for sale	53,786	69,258
Other current assets	9,956	17,917
Total current assets	1,301,627	1,354,962
Property and equipment, net	121,936	119,150
Goodwill, net	875,894	892,055
Other intangible assets, net	61,800	69,100
Other assets	14,051	18,156
Total assets	\$ 2,375,308	\$ 2,453,423
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable—floor plan	\$ 850,162	\$ 873,226
Trade accounts payable	58,560	64,193
Accrued interest	13,306	13,205
Other accrued liabilities	113,592	144,972
Current maturities of long-term debt	2,764	2,764
Total current liabilities	1,038,384	1,098,360
Long-term debt	637,545	621,929
Other long-term liabilities	16,085	18,233
Payable to the Company's Chairman	5,500	5,500
Deferred income taxes	40,616	40,329
Stockholders' Equity:		
Class A Common Stock; \$.01 par value; 100,000,000 shares authorized; 37,245,706 shares issued and 29,111,542 shares outstanding at December 31, 2002; 37,585,967 shares issued and 28,696,703 shares outstanding at June 30, 2003	371	375
Class B Common Stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2002 and June 30, 2003	121	121
Paid-in capital	396,813	400,994
Retained earnings	339,457	379,659
Accumulated other comprehensive loss	(6,447)	(6,896)
Treasury Stock, at cost (8,134,164 shares held at December 31, 2002 and 8,889,264 shares held at June 30, 2003)	(93,137)	(105,181)
Total stockholders' equity	637,178	669,072
Total liabilities and stockholders' equity	\$ 2,375,308	\$ 2,453,423

See notes to unaudited consolidated financial statements.

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

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2002	37,246	\$ 371	12,029	\$ 121	\$ 396,813	\$ 339,457	\$ (93,137)	\$ (6,447)	\$ 637,178
Comprehensive Income:									
Net Income						40,202			40,202
Change in fair value of interest rate swap, net of tax benefit of \$287								(449)	(449)
Total comprehensive loss, net of tax									39,753
Shares awarded under stock compensation plans	340	4			3,541				3,545
Income tax benefit associated with stock compensation plans					640				640
Purchase of treasury stock							(12,044)		(12,044)
Balance at June 30, 2003	37,586	\$ 375	12,029	\$ 121	\$ 400,994	\$ 379,659	\$ (105,181)	\$ (6,896)	\$ 669,072

See notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 53,568	\$ 40,202
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,292	5,371
Cumulative effect of change in accounting principle, net of tax	—	5,619
Deferred income taxes	69	16
Equity interest in earnings of investees	(162)	(286)
Gain on disposal of assets	(2,917)	(5,654)
Income tax benefit associated with stock compensation plans	3,780	640
Changes in assets and liabilities that relate to operations:		
Receivables	(17,010)	3,112
Inventories	(37,810)	(36,532)
Other assets	(3,790)	(7,919)
Notes payable—floor plan	24,339	38,331
Trade accounts payable and other liabilities	31,722	36,540
Total adjustments	2,513	39,238
Net cash provided by operating activities	56,081	79,440
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(136,913)	(30,070)
Purchases of property and equipment	(29,805)	(35,011)
Proceeds from sales of property and equipment	20,381	7,664
Proceeds from sale of dealerships	10,742	24,164
Net cash used in investing activities	(135,595)	(33,253)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on revolving credit facilities	(61,403)	(15,508)
Proceeds from long-term debt	145,146	56
Payments on long-term debt	(4,989)	(741)
Purchases of Class A Common Stock	(2,048)	(12,044)
Issuance of shares under stock compensation plans	9,598	3,545
Net cash provided by (used in) financing activities	86,304	(24,692)
NET INCREASE IN CASH	6,790	21,495
CASH, BEGINNING OF PERIOD	—	10,576
CASH, END OF PERIOD	\$ 6,790	\$ 32,071
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Class A Common Stock issued for acquisitions	\$ 38,000	\$ —
Change in fair value of cash flow hedging instrument (net of tax benefit of \$1,000 for the six months ended June 30, 2002 and \$287 for the six months ended June 30, 2003)	\$ (1,564)	\$ 449
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 26,717	\$ 34,060
Cash paid for income taxes	\$ 8,979	\$ 9,759

See notes to unaudited consolidated financial statements.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited financial information for the six months ended June 30, 2003 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of Sonic Automotive, Inc. (“Sonic”) for the year ended December 31, 2002, which were included in Sonic’s Annual Report on Form 10-K and furnished in Current Report on Form 8-K filed on August 4, 2003 in order to reflect the subsequent reclassifications of dealership franchises between discontinued and continuing operations in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”.

Stock-Based Compensation—Sonic accounts for its stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. In accordance with those provisions, because the exercise price of all options granted under those plans equaled the market value of the underlying stock at the grant date, no stock-based employee compensation cost is recorded. Using the Black-Scholes option pricing model for all options granted, the following table illustrates the effect on 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 June 30,	
	2002	2003
	(Dollars in thousands except per share amounts)	
Net income as reported	\$ 31,488	\$ 28,516
Fair value compensation cost, net of tax benefit of \$1,323 and \$1,989 for the three months ended June 30, 2002 and 2003, respectively	(2,158)	(3,245)
Pro forma net income	\$ 29,330	\$ 25,271
Basic income (loss) per share:		
Net income as reported	\$ 0.74	\$ 0.70
Fair value compensation cost, net of tax	(0.05)	(0.08)
Pro forma net income	\$ 0.69	\$ 0.62
Diluted income (loss) per share:		
Net income as reported	\$ 0.71	\$ 0.68
Fair value compensation cost, net of tax	(0.05)	(0.08)
Pro forma net income	\$ 0.66	\$ 0.60

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

	Six Months Ended June 30,	
	2002	2003
	(Dollars in thousands except per share amounts)	
Income before cumulative effect of change in accounting principle as reported	\$ 53,568	\$ 45,821
Fair value compensation cost, net of tax benefit of \$2,152 and \$3,179, respectively, for the six months ended June 30, 2002 and 2003	(3,511)	(5,246)
Pro forma income before cumulative effect of change in accounting principle	50,057	40,575
Cumulative effect of change in accounting principle, net of tax	—	(5,619)
Pro forma net income	\$ 50,057	\$ 34,956
Basic income (loss) per share:		
Income before cumulative effect of change in accounting principle as reported	\$ 1.29	\$ 1.12
Fair value compensation cost, net of tax	(0.09)	(0.12)
Pro forma income before cumulative effect of change in accounting principle	1.20	1.00
Cumulative effect of change in accounting principle, net of tax	—	(0.14)
Pro forma net income	\$ 1.20	\$ 0.86
Diluted income (loss) per share:		
Income before cumulative effect of change in accounting principle as reported	\$ 1.23	\$ 1.10
Fair value compensation cost, net of tax	(0.08)	(0.13)
Pro forma income before cumulative effect of change in accounting principle	1.15	0.97
Cumulative effect of change in accounting principle, net of tax	—	(0.14)
Pro forma net income	\$ 1.15	\$ 0.83

Derivative Instruments and Hedging Activities—In order to reduce our exposure to market risks from fluctuations in interest rates, we entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2002 (the “Swaps”) to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The Swaps have a notional principal amount of \$100.0 million each and mature on October 31, 2004 and June 6, 2006, respectively. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of the Swaps was \$3.8 million for the first six months of 2003 and has been included in interest expense, other in the accompanying unaudited consolidated statement of income. The Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the Swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders’ equity. The fair value of the Swaps as of June 30, 2003 is recorded in other long-term liabilities on the accompanying balance sheet. The change in fair value of the Swaps during the six months ended June 30, 2003, recorded in accumulated other comprehensive loss, was approximately \$0.7 million (\$0.4 million, net of tax). Because the critical terms of the Swaps and the underlying debt obligations were the same, no ineffectiveness was recorded.

Cumulative Effect of a Change in Accounting Principle—The Emerging Issues Task Force (“EITF”) of the FASB reached a consensus on Issue No. 02-16, “Accounting by a Customer for Certain Consideration Received from a Vendor.” In accordance with Issue No. 02-16, which was effective January 1, 2003, payments received from manufacturers for floor plan assistance and certain types of advertising allowances should be recorded as a reduction of the cost of inventory and recognized as a reduction of cost of sales when the inventory is sold. Previous practice was to recognize such payments as a reduction of cost of sales at the time of vehicle purchase. The cumulative effect of the adoption of Issue No. 02-16 resulted in a decrease to income of \$5.6 million, net of applicable income taxes of \$3.3 million for the six months ended June 30, 2003. Had the guidance from Issue No. 02-16 been retroactively applied, results of operations and net income per share for the six months ended June 30, 2002 would not have been materially different from the previously reported results.

Reclassifications—Loss from operations of discontinued dealerships for the six months ended June 30, 2002 reflects reclassifications from the prior year presentation to include additional dealerships sold or identified for sale subsequent to June 30, 2002 which had not been classified as held for sale as of June 30, 2002. In addition, in accordance with Issue No. 02-16, certain incentives received from manufacturers not intended to reimburse specific, incremental, identifiable costs incurred in selling manufacturers’ products which had previously been classified as a reduction of selling, general and administrative expenses are now recorded as a reduction of inventory cost and are included in cost of sales when the associated vehicles are sold.

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

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

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

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

Dealership Acquisitions:

During the first six months of 2003, Sonic acquired five automotive dealerships located in Colma, California; Oklahoma City, Oklahoma; Denver, Colorado and Calabasas, California and three collision centers for an aggregate purchase price of approximately \$30.1 million in cash. The unaudited consolidated balance sheet includes preliminary allocations of the purchase price of these acquisitions to the assets and liabilities acquired based on their estimated fair market values at the dates of acquisition and are subject to final adjustment. As a result of these allocations, we have recorded \$5.4 million of intangible assets representing rights acquired under franchise agreements, and \$17.3 million of goodwill, of which approximately \$14.1 million is expected to be tax deductible.

Dealership Dispositions:

During the first six months of 2003, Sonic disposed of nine franchises, resulting in the closing of seven dealerships and six collision centers. These disposals generated cash of \$24.2 million. The sale of these dealerships resulted in a net gain of \$5.7 million, which is included in loss from discontinued operations on the accompanying unaudited consolidated statement of income for the six months ended June 30, 2003. The net gain included a disposal of \$15.0 million in goodwill.

In conjunction with dealership dispositions in the first six months of 2003, Sonic has indemnified 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 estimated maximum liability associated with current year dispositions was \$43.3 million. These indemnifications expire within a period of one to two years following the date of the sale. The estimated fair value of the guarantees associated with these indemnifications was not material.

In addition to the dispositions described above, as of June 30, 2003, Sonic had approved the sale of four additional dealership franchises, which will result in the closing of two dealerships. These franchises are generally smaller franchises with unprofitable operations. Long lived assets to be disposed of in connection with dealerships not yet sold, consisting primarily of property, equipment, goodwill and other intangible assets, totaled approximately \$1.8 million at June 30, 2003 and have been classified in other current assets in the accompanying unaudited consolidated balance sheet. Other assets and liabilities to be disposed in connection with these dispositions include inventories and related notes payable—floor plan.

Subsequent Acquisitions:

Subsequent to June 30, 2003, we have closed on three dealership acquisitions for approximately \$17.2 million in cash. In addition, we have entered into an agreement to purchase fifteen dealerships. The acquisitions of the fifteen dealerships are expected to close in the third and fourth quarters of 2003 and will be paid for in cash and shares of Sonic’s Class A common stock.

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

3. INVENTORIES

Inventories consist of the following:

	December 31, 2002	June 30, 2003
	(Dollars in thousands)	
New vehicles	\$ 733,757	\$716,126
Used vehicles	111,884	133,062
Parts and accessories	50,860	48,721
Other	32,949	41,917
Total	\$ 929,450	\$939,826

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2002	June 30, 2003
	(Dollars in thousands)	
Land	\$ 5,983	\$ 6,265
Building and improvements	42,201	58,173
Office equipment and fixtures	31,616	32,360
Parts and service equipment	22,485	26,036
Company vehicles	8,211	8,382
Construction in progress	33,637	14,886
Total, at cost	144,133	146,102
Less accumulated depreciation	(22,197)	(26,952)
Property and equipment, net	\$ 121,936	\$119,150

Interest capitalized in conjunction with construction projects was approximately \$0.7 million and \$1.6 million for the three and six months ended June 30, 2003, respectively, and approximately \$0.5 million and \$0.9 million for the three and six months ended June 30, 2002, respectively.

In addition to the amounts shown above, Sonic incurred approximately \$67.4 million in real estate and construction costs as of June 30, 2003 and \$39.2 million as of December 31, 2002 on facilities that are or were expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs are included in assets held for sale on the accompanying unaudited consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the properties to an unaffiliated third party and enters into long-term operating leases on the facilities. During the first six months of 2003, Sonic sold \$1.3 million in dealership properties in sale-leaseback transactions.

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

5. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>December 31,</u> <u>2002</u>	<u>June 30,</u> <u>2003</u>
(Dollars in thousands)		
Senior Subordinated Notes bearing interest at 11%, maturing August 1, 2008	\$ 182,360	\$182,360
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009	130,100	130,100
\$500 million revolving credit facility bearing interest at 2.55 percentage points above LIBOR and maturing in October 2006, collateralized by all assets of Sonic	330,718	312,192
\$50 million revolving construction line of credit with Toyota Credit bearing interest at 2.25 percentage points above LIBOR and maturing December 31, 2007, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets (1)	—	3,018
\$100 million revolving real estate acquisition line of credit with Toyota Credit bearing interest at 2.00 percentage points above LIBOR and maturing December 31, 2012, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets (1)	—	—
Other notes payable (primarily equipment notes)	4,137	3,567
	<u>\$ 647,315</u>	<u>\$631,237</u>
Less unamortized discount	(7,006)	(6,544)
Less current maturities	(2,764)	(2,764)
Long-term debt	<u>\$ 637,545</u>	<u>\$621,929</u>

(1) Total combined borrowings under the construction and real estate lines of credit are limited to \$100.0 million.

On August 12, 2003, Sonic issued \$200.0 million in aggregate principal amount of 8.625% senior subordinated notes (the "8.625% Notes") with net proceeds, before expenses, of approximately \$196.7 million. The net proceeds will be used to redeem Sonic's 11% senior subordinated notes (the "11% Notes") plus accrued but unpaid interest and the redemption premium of 5.5% in the third quarter of 2003. The 8.625% Notes are unsecured obligations that rank equal in right of payment to all of Sonic's existing and future senior subordinated indebtedness, mature on August 15, 2013 and are redeemable at Sonic's option after August 15, 2008. In addition, up to 35% of the aggregate principal amount of the 8.625% Notes may be redeemed on or before August 15, 2006 with net cash proceeds from certain equity offerings. Sonic's obligations under the 8.625% Notes are guaranteed by Sonic's operative domestic subsidiaries.

The 11% Notes may not be redeemed prior to a 30-day notice period. Sonic issued a 30-day redemption notice to holders of the 11% Notes promptly after the closing of the sale of the 8.625% Notes to the initial purchasers. Before the 11% Notes are redeemed, both the 8.625% Notes and the 11% Notes will be outstanding. Pending our redemption of the 11% Notes, Sonic intends to apply the net proceeds from the sale of the 8.625% Notes that will be used to redeem the 11% Notes to repay temporarily amounts outstanding under our revolving credit facility and/or to invest in short-term fixed income securities.

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

6. PER SHARE DATA

The calculation of diluted net income per share considers the potential dilutive effect of options and shares under Sonic's stock compensation plans, and Class A common stock purchase warrants. The following table illustrates the dilutive effect of such items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
	(Shares in thousands)		(Shares in thousands)	
Basic weighted average number of common shares outstanding	42,652	40,718	41,645	40,824
Dilutive effect of stock options	1,882	1,351	1,908	1,090
Dilutive effect of warrants	3	2	2	1
Weighted average number of common shares outstanding, including effect of dilutive securities	44,537	42,071	43,555	41,915

In addition to the stock options included in the table above, options to purchase 962,550 shares and 1,119,050 shares of Class A common stock were outstanding during the six months ended June 30, 2002 and 2003, respectively, but were not included in the computation of diluted net income per share because the options were antidilutive.

The total amount of stock options outstanding at June 30, 2002 and 2003 were 5,563,032 and 7,316,058, respectively.

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in our Annual Report for the year ended December 31, 2002 on Form 10-K and furnished in Current Report filed on Form 8-K dated August 4, 2003 in order to reflect the subsequent reclassifications of dealership franchises between discontinued and continuing operations in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

Overview

We are one of the largest automotive retailers in the United States. As of August 14, 2003 we operated 190 dealership franchises, representing 36 different brands of cars and light trucks at 145 locations, and 42 collision repair centers in 15 states. Our dealerships provide comprehensive services including sales of both new and used cars and light trucks, sales of replacement parts, performance of vehicle maintenance, warranty, paint and collision repair services, and arrangement of extended warranty contracts, financing and insurance for our customers. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower priced, or economy vehicles, to luxury vehicles. We believe that this diversity reduces the risk of changes in customer preferences, product supply shortages and aging products. In addition, although vehicle sales are cyclical and are affected by many factors, including general economic conditions, consumer confidence, levels of discretionary personal income, interest rates and available credit, our parts, service and collision repair services are not closely tied to vehicle sales and are not dependent upon near-term vehicle sales volume. As a result, we believe the diversity of these products and services reduces the risk of periodic economic downturns.

The following table depicts the breakdown of our new vehicle revenues by brand for the three and six months ended June 30, 2002 and 2003:

	Percentage of New Vehicle Revenues		Percentage of New Vehicle Revenues	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Brand (1)				
Honda	13.1%	14.5%	13.6%	15.1%
Ford	18.0%	14.3%	18.9%	14.6%
Toyota	10.7%	12.4%	11.3%	11.7%
Cadillac	11.6%	10.2%	8.2%	11.0%
General Motors (2)	11.0%	11.6%	11.0%	11.0%
BMW	10.3%	9.5%	10.7%	9.2%
Lexus	4.6%	4.7%	4.9%	4.5%
Chrysler (3)	4.6%	3.7%	4.7%	3.8%
Volvo	2.7%	3.8%	2.9%	3.5%
Mercedes	2.9%	2.8%	3.3%	2.9%
Other Luxury (4)	2.3%	3.8%	2.3%	3.9%
Other (5)	8.2%	8.7%	8.2%	8.8%
Total	100.0%	100.0%	100.0%	100.0%

- (1) In accordance with the provisions of SFAS No. 144, revenue data in prior years reflects the reclassification of the results of operations of dealerships sold or identified for sale subsequent to June 30, 2002 which were not previously included in discontinued operations but have been included during the three and six months ended June 30, 2003
- (2) Includes Buick, Chevrolet, GMC, Oldsmobile, and Pontiac
- (3) Includes Chrysler, Dodge, Jeep, and Plymouth
- (4) Includes Acura, Audi, Hummer, Infiniti, Land Rover, Maybach, Porsche and Saab
- (5) Includes Hino, Hyundai, Isuzu, KIA, Lincoln, Mazda, Mercury, Mini Cooper, Mitsubishi, Nissan, Subaru and Volkswagen

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

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our consolidated financial statements the results of operations of these dealerships prior to the date they were acquired. Our consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to June 30, 2003. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is not necessarily indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Results of Operations

Revenues

New Vehicles:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	Units or \$ Change	% Change	6/30/2002	6/30/2003	Units or \$ Change	% Change
New Vehicle Units								
Same Store	39,812	39,327	(485)	(1.2%)	71,776	69,556	(2,220)	(3.1%)
Acquisitions	104	3,102	2,998	2882.7%	1,011	8,855	7,844	775.9%
Total As Reported	39,916	42,429	2,513	6.3%	72,787	78,411	5,624	7.7%
New Vehicle Revenues (in thousands)								
Same Store	\$ 1,102,630	\$ 1,125,313	\$ 22,683	2.1%	\$ 1,964,653	\$ 1,942,063	\$ (22,590)	(1.1%)
Acquisitions	2,313	83,158	80,845	3495.2%	35,895	278,241	242,346	675.2%
Total As Reported	\$ 1,104,943	\$ 1,208,471	\$ 103,528	9.4%	\$ 2,000,548	\$ 2,220,304	\$ 219,756	11.0%
New Vehicle Unit Price								
Same Store	\$ 27,696	\$ 28,614	\$ 918	3.3%	\$ 27,372	\$ 27,921	\$ 549	2.0%

The decline in same store new vehicle units was principally driven by lower unit sales volumes of domestic models for both the three and six month periods ended June 30, 2003. These domestic decreases were partially offset by increases in same store new vehicle units in our import brands for both the three and six month periods ended June 30, 2003. Regionally, Houston and Oklahoma experienced a total unit sales decrease of 8.5% for the three months ended June 30, 2003, and 11.2% for the six months ended June 30, 2003, due to the predominance of domestic brands in those markets. In addition, the Los Angeles region experienced unit sales decreases of 22.9% and 17.8% for the three and six months ended June 30, 2003, respectively, primarily due to the performance of domestic brands. These decreases were partially offset by increases in regions dominated with import brands such as San Diego/Nevada, Georgia/Tennessee and North/South Carolina where total unit sales volumes increased 11.2% for the three months ended June 30, 2003, and 14.7% for the six months ended June 30, 2003. Although same store new retail units were down when compared with 2002, we experienced improving volume and pricing trends throughout the three months ended June 30, 2003.

Generally all brands experienced increases in sales price per unit. However, our BMW stores experienced lower sales prices per unit due to increased luxury sport utility competition. Honda and Ford stores experienced higher sales prices per unit increases primarily due to the shift of sales from cars to trucks and sport-utility vehicles which generally have higher selling prices.

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Used Vehicles:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	Units or \$ Change	% Change	6/30/2002	6/30/2003	Units or \$ Change	% Change
Used Vehicle Units								
Same Store	19,719	18,777	(942)	(4.8%)	36,246	33,273	(2,973)	(8.2%)
Acquisitions	211	1,417	1,206	571.6%	697	5,405	4,708	675.5%
Total As Reported	19,930	20,194	264	1.3%	36,943	38,678	1,735	4.7%
Used Vehicle Revenues (in thousands)								
Same Store	\$ 312,513	\$ 297,140	\$ (15,373)	(4.9%)	\$ 558,019	\$ 509,714	\$ (48,305)	(8.7%)
Acquisitions	2,481	19,762	17,281	696.5%	10,164	90,027	79,863	785.7%
Total As Reported	\$ 314,994	\$ 316,902	\$ 1,908	0.6%	\$ 568,183	\$ 599,741	\$ 31,558	5.6%
Used Vehicle Unit Price								
Same Store	\$ 15,848	\$ 15,825	\$ (23)	(0.1%)	\$ 15,395	\$ 15,319	\$ (76)	(0.5%)

The withdrawal of certain lenders and the continued tightening of credit standards from remaining lenders continued to negatively affect same store used retail activity in 2003. Our Central division, which includes regions such as Oklahoma and Colorado which are heavily dependent on used vehicle sales, continues to be negatively impacted by these trends. For the three months ended June 30, 2003, the Central division experienced a decrease of 678 units, or 11.0% over the three months ended June 30, 2002. For the first half of 2003, the Central division experienced a decrease of 1,650 units, or 14.8% compared to the same period last year. The Central division accounted for 72.0% and 55.5% of the total same store declines in used vehicle unit sales for the quarter and year to date periods, respectively. Although same store used retail activity was down when compared with 2002, we experienced improving volume and pricing trends throughout the three months ended June 30, 2003.

Wholesale Vehicles:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	Units or \$ Change	% Change	6/30/2002	6/30/2003	Units or \$ Change	% Change
Wholesale Vehicle Units								
Same Store	16,410	13,754	(2,656)	(16.2%)	30,441	24,948	(5,493)	(18.0%)
Acquisitions	549	1,843	1,294	235.7%	1,165	4,504	3,339	286.6%
Total As Reported	16,959	15,597	(1,362)	(8.0%)	31,606	29,452	(2,154)	(6.8%)
Wholesale Vehicle Revenues (in thousands)								
Same Store	\$ 125,720	\$ 95,975	\$ (29,745)	(23.7%)	\$ 217,863	\$ 174,960	\$ (42,903)	(19.7%)
Acquisitions	8,409	13,722	5,313	63.2%	15,039	38,719	23,680	157.5%
Total As Reported	\$ 134,129	\$ 109,697	\$ (24,432)	(18.2%)	\$ 232,902	\$ 213,679	\$ (19,223)	(8.3%)
Wholesale Unit Price								
Same Store	\$ 7,661	\$ 6,978	\$ (683)	(8.9%)	\$ 7,157	\$ 7,013	\$ (144)	(2.0%)

The decrease in same store wholesale vehicle revenues in both the three and six month periods ended June 30, 2003, were primarily attributable to a decrease in units sold as well as a decline in the average price per unit compared to last year. This was primarily due to our continued efforts to maintain appropriate inventory levels associated with new and used retail activity in addition to being more selective with auction purchases.

Parts, Service and Collision Repair:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	\$ Change	% Change	6/30/2002	6/30/2003	\$ Change	% Change
Parts, Service and Collision Repair (in thousands)								
Same Store	\$ 231,583	\$ 235,359	\$ 3,776	1.6%	\$ 422,946	\$ 424,654	\$ 1,708	0.4%
Acquisitions	790	16,242	15,452	1955.9%	5,989	65,264	59,275	989.7%
Total As Reported	\$ 232,373	\$ 251,601	\$ 19,228	8.3%	\$ 428,935	\$ 489,918	\$ 60,983	14.2%

Increases in same store parts, service and collision repair revenues resulted partially from increases at our BMW stores of \$2.9 million, or 12.3% for the three months ended June 30, 2003, and \$4.4 million, or 9.6% for the six months ended June 30, 2003.

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In addition, revenue at our Honda stores increased \$3.1 million, or 10.9%, for the three months ended June 30, 2003, and \$3.8 million for the six months ending June 30, 2003, resulting from Honda extending factory warranty coverage on two models. These increases were partially offset by declines in our Ford stores of \$3.7 million, or 10.7%, for the three months ended June 30, 2003, and \$7.5 million, or 11.5%, for the six months ended June 30, 2003. These declines primarily resulted from a significant decrease in wholesale parts sales in our Houston market resulting from Ford Motor Company's decision to open a parts depot in that area in the second half of 2002, as well as unusually high parts and service sales in the first quarter of 2002 generated by the Firestone tire recall.

Finance and Insurance:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	\$ Change	% Change	6/30/2002	6/30/2003	\$ Change	% Change
Finance & Insurance Revenue (in thousands)								
Same Store	\$ 49,922	\$ 50,410	\$ 488	1.0%	\$ 92,850	\$ 91,360	\$ (1,490)	(1.6%)
Acquisitions	674	4,510	3,836	569.1%	2,088	12,793	10,705	512.7%
Total As Reported	\$ 50,596	\$ 54,920	\$ 4,324	8.5%	\$ 94,938	\$ 104,153	\$ 9,215	9.7%
Total F&I per Unit								
Same Store	\$ 839	\$ 868	\$ 29	3.5%	\$ 860	\$ 888	\$ 28	3.3%

Finance and insurance remained relatively flat for the three months ended June 30, 2003, compared to the prior year. Regional per unit fluctuations followed the same movement experienced in new vehicle revenues. The majority of our brands experienced increases which were partially offset by decreases in our BMW and General Motors brands. These same regions and brands also drove the per unit increase experienced for the first six months of 2003.

Gross Profit and Gross Margins

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	\$ Change	% Change	6/30/2002	6/30/2003	\$ Change	% Change
Gross Profit (in thousands)								
Same Store	\$ 281,024	\$ 272,453	\$ (8,571)	(3.0%)	\$ 509,069	\$ 487,406	\$ (21,663)	(4.3%)
Acquisitions	2,214	20,249	18,035	814.6%	9,968	72,885	62,917	631.2%
Total As Reported	\$ 283,238	\$ 292,702	\$ 9,464	3.3%	\$ 519,037	\$ 560,291	\$ 41,254	7.9%

Overall gross margins declined in the second quarter of 2003 to 15.1% from 15.4% in the prior year. We experienced a decrease in margins earned on our new vehicles to 6.9% in the second quarter 2003 from 7.8% in the second quarter 2002 primarily as a result of challenging market conditions as well as management's aggressive effort to grow market share as part of our long-term growth strategy and maintain appropriate new vehicle inventory levels. This was offset by an increase in the percentage of revenues contributed by parts, service and collision repair services to 13.0% in the second quarter 2003 from 12.6% in the second quarter 2002. In addition, the gross profit percentage earned on our parts, service, and collision repair services increased to 48.4% in the second quarter 2003 from 47.9% in the second quarter 2002, primarily attributable to manufacturer's extending warranty periods on certain models and operational efficiencies realized through headcount reductions and reallocation of service personnel.

During the first six months of 2003, gross margins declined to 15.4% from 15.6% in the prior year. The decline is principally attributed to the decline experienced in overall vehicle gross margins from 7.9% in the first six months of 2002 to 7.2% in the first six months of 2003. This decrease was partially offset by increases experienced in the parts, service and collision repair services gross margins increasing from 47.4% in the first six months of 2002 to 48.2% in the first six months of 2003 and additional margin generated from F&I which increased to 18.6% as a percentage of total gross margin in the first six months of 2003 from 18.3% in the first six months of 2002.

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Selling, General and Administrative Expenses

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	\$ Change	% Change	6/30/2002	6/30/2003	\$ Change	% Change
SG&A (in thousands)								
Same Store	\$ 208,420	\$ 207,469	\$ (951)	(0.5%)	\$ 378,235	\$ 377,105	\$ (1,130)	(0.3%)
Acquisitions	6,843	23,115	16,272	237.8%	20,251	74,666	54,415	268.7%
Total As Reported	\$ 215,263	\$ 230,584	\$ 15,321	7.1%	\$ 398,486	\$ 451,771	\$ 53,285	13.4%

Of our total selling, general and administrative expenses, approximately 59.0% in both the second quarter and the first half of 2003 were variable or semi-variable, comprised primarily of non-salaried sales compensation and advertising. Approximately 41.0% in both the second quarter and the first half of 2003 were fixed, comprised primarily of fixed compensation and rent expense. We manage these variable expenses so that they are generally related to gross profit and can be adjusted to changes in sales levels. The majority of dealership personnel are paid either a commission or a modest salary plus commission. In addition, dealership management compensation is tied to individual dealership profitability.

Total selling, general and administrative expenses as a percentage of gross profit increased to 78.8% in the second quarter of 2003 from 76.0% in the second quarter of 2002, and to 80.6% in the first half of 2003 from 76.8% in the first half of 2002. This resulted from an increase in fixed expenses as a percentage of gross profit to 32.3% in the second quarter 2003 from 30.1% in the second quarter of 2002, and to 33.0% in the first half of 2003 from 31.0% in the first half of 2002 due primarily to significant declines in gross profit at some of our domestic line dealerships which resulted in fewer gross profit dollars to cover fixed expenses. Fixed expenses as a percentage of gross profit also increased as a result of increases in rent and rent related expenses of \$2.5 million and \$9.9 million in the second quarter and first half of 2003, respectively, related to new facilities and facilities improvement. In addition, increases in employee benefits negatively impacted the second quarter of 2003 and the first half of 2003 compared to the same periods last year. The second quarter of 2003 included a charge of \$1.0 million due to hail damage in several Texas stores.

Variable expenses as a percentage of gross profit increased to 46.5% in the second quarter of 2003 from 45.9% in the second quarter of 2002, and to 47.6% in the first half of 2003 from 45.8% in the first half of 2002. This was primarily due to increases in compensation expense as a percentage of gross profits to 36.1% in the second quarter of 2003 from 35.7% in the second quarter of 2002, and to 37.1% in the first half of 2003 from 36.0% in the first half of 2002 resulting from sales incentives by management designed to increase sales volume.

Depreciation

	For the Three Months Ended				For the Six Months Ended			
	6/30/2002	6/30/2003	\$ Change	% Change	6/30/2002	6/30/2003	\$ Change	% Change
Depreciation (in thousands)								
Same Store	\$ 1,875	\$ 2,299	\$ 424	22.6%	\$ 3,479	\$ 4,196	\$ 717	20.6%
Acquisitions	257	454	197	76.7%	545	1,019	474	87.0%
Total As Reported	\$ 2,132	\$ 2,753	\$ 621	29.1%	\$ 4,024	\$ 5,215	\$ 1,191	29.6%

Depreciation expense increased as a result of capital expenditures made in the previous twelve months. During the twelve months ending June 30, 2003, the balance of depreciable property and equipment related to continuing operations increased approximately \$30.8 million, or 32.8% with \$28.2 million of this increase relating to leasehold improvements. As a percentage of total revenues, depreciation expense was 0.1% in both the second quarter of 2003 and the second quarter of 2002.

Floor Plan Interest Expense

Floor plan interest expense decreased by \$0.3 million, or 4.4% in the second quarter of 2003 compared to the same period last year. The change reflects a decrease of \$1.1 million due to lower interest rates, partially offset by an increase of \$0.9 million related to higher outstanding balances primarily related to acquisitions. Floor plan interest expense increased by \$0.7 million or 6.5% in the first six months of 2003 compared to the same period last year. The change reflects an increase of \$2.5 million due to higher outstanding balances primarily related to acquisitions offset partially by a decrease of \$1.8 million due to lower interest rates.

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Other Interest Expense

Other interest expense increased by \$0.4 million, or 4.2% in the second quarter of 2003 and \$2.0 million or 11.5% in the first six months of 2003 compared to the same periods last year. Interest expense increased \$0.4 million and \$2.3 million in the three and six months ended June 30, 2003, respectively, as a result of the issuance of \$149.5 million in 5.25% convertible senior subordinated notes in May 2002. Benefits realized of approximately \$1.0 million and \$1.5 million in the three and six months ended June 30, 2003, respectively, as a result of debt repurchases at the end of fiscal 2002 and lower revolver interest expense were offset by approximately \$0.9 million of additional interest expense incurred in both comparable periods as a result of our interest rate swap positions.

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 flow and ability to service debt depends to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash. Uncertainties in the economic environment as well as uncertainties associated with the ultimate resolution of geopolitical conflicts may therefore affect our overall liquidity.

8.625% Senior Subordinated Notes

On August 12, 2003, Sonic issued \$200.0 million in aggregate principal amount of 8.625% senior subordinated notes (the "8.625% Notes") with net proceeds, before expenses, of approximately \$196.7 million. The net proceeds will be used to redeem Sonic's 11% senior subordinated notes (the "11% Notes") plus accrued but unpaid interest and the redemption premium of 5.5% in the third quarter of 2003. The 8.625% Notes are unsecured obligations that rank equal in right of payment to all of Sonic's existing and future senior subordinated indebtedness, mature on August 15, 2013 and are redeemable at Sonic's option after August 15, 2008. In addition, up to 35% of the aggregate principal amount of the 8.625% Notes may be redeemed on or before August 15, 2006 with net cash proceeds from certain equity offerings. Sonic's obligations under the 8.625% Notes are guaranteed by our operative domestic subsidiaries.

The 11% Notes may not be redeemed prior to a 30-day notice period. Sonic issued a 30-day redemption notice to holders of the 11% Notes promptly after the closing of the sale of the 8.625% Notes to the initial purchasers. Before the 11% Notes are redeemed, both the 8.625% Notes and the 11% Notes will be outstanding. Pending our redemption of the 11% Notes, Sonic intends to apply the net proceeds from the sale of the 8.625% Notes that will be used to redeem the 11% Notes to repay temporarily amounts outstanding under our revolving credit facility and/or to invest in short-term fixed income securities.

Floor Plan Facilities

The weighted average interest rate for our floor plan facilities was 3.45% and 2.80% for the three months ended June 30, 2002 and 2003, respectively, and 3.60% and 2.98% for the six months ended June 30, 2002 and 2003, respectively. Our floor plan interest expense is substantially offset by amounts received from manufacturers, in the form of floor plan assistance. Prior to January 1, 2003, floor plan assistance was recorded as a reduction of cost of sales when received. In accordance with guidance from Emerging Issues Task Force Issue No. 02-16, beginning January 1, 2003, floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. In the first half of 2003, we received approximately \$18.8 million in manufacturer assistance, which resulted in an effective borrowing rate under our floor plan facilities of 0%. Interest payments under each of our floor plan facilities are due monthly, and we are generally not required to make principal repayments prior to the sale of the vehicles. We were in compliance with all restrictive covenants as of June 30, 2003.

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Long-Term Debt and Credit Facilities

At June 30, 2003, the outstanding balance and availability on our credit facilities were as follows (in thousands):

	<u>Interest Rate (1)</u>	<u>Outstanding Balance</u>	<u>Additional Borrowing Availability</u>
Revolving Credit Facility (matures October 2006)	LIBOR + 2.55%	\$ 312,192	\$ 164,456
Senior Subordinated Notes (mature August 2008)	11.00%	\$ 182,360	\$ —
Convertible Senior Subordinated Notes (2) (mature May 2009)	5.25%	\$ 130,100	\$ —
Mortgage Facility (3):			
Construction Loan (matures December 2007)	LIBOR + 2.25%	\$ 3,018	\$ 46,982
Permanent Loan (matures December 2012)	LIBOR + 2.00%	\$ —	\$ 100,000

- (1) LIBOR was 1.12% at June 30 2003.
(2) Notes were not convertible at any time during the six months ended June 30, 2003.
(3) Total combined borrowings under the Construction and Permanent Loans is limited to \$100,000.

We were in compliance with all of the restrictive and financial covenants under all our long-term debt and credit facilities at June 30, 2003.

Dealership Acquisitions and Dispositions

In the first six months of 2003, we acquired five dealerships and three collision centers for a combined purchase price of \$30.1 million in cash. The total purchase price for acquisitions was based on our internally determined valuation of the dealerships and their assets. The purchase price was financed by cash generated from operations and by borrowings under our Revolving Credit Facility.

During the first six months of 2003, we disposed of nine franchises, resulting in the closing of seven dealerships and six collision centers. These disposals generated cash of \$24.2 million.

Subsequent to June 30, 2003, we have closed on three dealership acquisitions for approximately \$17.2 million in cash. In addition, we have entered into an agreement to purchase fifteen dealerships. The acquisitions of the fifteen dealerships are expected to close in the third and fourth quarters of 2003 and will be paid for in cash and shares of Sonic's Class A common stock.

Sale-Leaseback Transaction

In an effort to generate additional cash flow, we typically seek to structure our operations to minimize the ownership of real property. As a result, facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback transactions. The resulting leases generally have initial terms of 10-15 years and include a series of five-year renewal options. We have no continuing obligations under these arrangements other than lease payments. The majority of our sale-leaseback transactions are completed with Capital Automotive REIT. During the first six months of 2003, we sold \$1.3 million in dealership properties in sale-leaseback transactions.

Capital Expenditures

Our capital expenditures include the construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. Capital expenditures in the first six months of 2003 were approximately \$35.0 million, of which approximately \$26.8 million related to the construction of new dealerships and collision repair centers. Once completed, these new dealerships and collision repair centers are generally sold in sale-leaseback transactions. Capital expenditures incurred during the first six months of 2003 expected to be sold within a year in sale-leaseback transactions were \$20.2 million. We do not expect any significant gains or losses from these sales.

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Stock Repurchase Program

Our Board of Directors has authorized Sonic to expend up to \$145.0 million to repurchase shares of its Class A common stock or redeem securities convertible into Class A common stock. In the first six months of 2003, we repurchased 755,100 shares for approximately \$12.0 million. At June 30, 2003, we had approximately \$26.0 million remaining under our Board authorization.

Dividends

Our Board of Directors has approved a quarterly cash dividend program beginning with a dividend of \$0.10 per share for shareholders of record on September 15, 2003 which will be payable October 15, 2003. Our dividend program reflects our intent to reallocate to dividends a portion of the capital previously allocated to security repurchases.

Cash Flows

For the six month period ended June 30, 2003, net cash provided by operating activities was approximately \$79.4 million, which was generated primarily by net income plus non-cash items such as depreciation, amortization and deferred income taxes. Increases in notes payable – floor plan, accounts payable and accrued liabilities of \$74.9 million was offset partially by an increase in inventories of \$36.5 million. Cash used for investing activities in the first six months of 2003 was approximately \$33.3 million, the majority of which was related to dealership acquisitions and capital expenditures on construction in progress projects offset by proceeds received from dealership dispositions. In the first six months of 2003, net cash used by financing activities was approximately \$24.7 million and primarily related to net borrowings on our revolving credit facility of approximately \$15.5 million and repurchases of Class A common stock of \$12.0 million.

Future Liquidity Outlook

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

Guarantees

In conjunction with dealership dispositions in the current quarter, we have indemnified 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 estimated maximum liability associated with dispositions for the six months ended June 30, 2003 was \$43.3 million. These indemnifications expire within a period of one to two years following the date of the sale. The estimated fair value of the guarantees associated with these indemnifications was not material.

Seasonality

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

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 June 30, 2003 and approximately \$1.1 billion at June 30, 2002. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$5.2 million in the first half of 2003 and approximately \$4.4 million in the first half of 2002. Of the total change in interest expense, approximately \$4.1 million in the first half of 2003 and approximately \$3.0 million in the first half of 2002 would have resulted from notes payable—floor plan.

Our exposure with respect to notes payable—floor plan is mitigated by floor plan assistance payments received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. These payments are capitalized as inventory and charged against cost of sales when the associated inventory is sold. During the six months ended June 30, 2002 and 2003, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately \$3.9 million and \$4.4 million, respectively. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to 0% after considering these incentives. A change of 100 basis points in the underlying interest rate would have caused an estimated change in floor plan assistance of approximately \$3.5 million in the first half of 2003.

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

In order to reduce our exposure to market risks from fluctuations in interest rates, we entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2002 (the “Swaps”) to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The Swaps each have a notional principal amount of \$100.0 million each and mature on October 31, 2004 and June 6, 2006, respectively. Under the terms of the swap agreement entered into on January 15, 2002, 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 3.88%. Under the terms of the swap agreement entered into on June 6, 2002, 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%. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of the Swaps was \$3.8 million in for the first six months of 2003 and has been included in interest expense, other in the accompanying unaudited consolidated statement of income. The Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the Swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders’ equity.

Item 4: Controls and Procedures

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. There were no significant changes in our internal controls over financial reporting or in other factors over the past fiscal quarter that could significantly affect these controls subsequent to the date the evaluation was completed.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Forward Looking Statements

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

- future acquisitions;
- industry trends;
- general economic trends, including employment rates and consumer confidence levels;
- vehicle sales rates and same store sales growth;
- our financing plans; and
- our business and growth strategies.

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

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

PART II—OTHER INFORMATION

Item 4: Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders held on April 22, 2003, O. Bruton Smith, Jeffrey C. Rachor, William R. Brooks and Thomas P. Capo were elected directors by Sonic's stockholders. Directors whose terms of office continued after the meeting were B. Scott Smith, Theodore M. Wright, William P. Benton, William I. Belk, H. Robert Heller, Maryann N. Keller and Robert L. Rewey. In addition to the election of four directors, the stockholders approved the following:

1. An amendment of the Sonic Automotive, Inc. 1997 Stock Option Plan (the "Stock Option Plan") which effected an increase in the number of shares of Class A Common Stock that may be issued under the Stock Option Plan pursuant to stock options granted thereunder from 8,000,000 to 9,000,000;
2. The appointment of Deloitte & Touche LLP as Sonic's independent public auditors for the fiscal year ending December 31, 2003.

	<u>Votes For</u>	<u>Votes Withheld</u>	<u>Broker Non-Votes</u>	
Election of O. Bruton Smith	141,602,342	919,136		0
Election of Jeffrey C. Rachor	141,629,065	892,413		0
Election of William R. Brooks	141,630,437	891,041		0
Election of Thomas P. Capo	141,469,212	1,052,266		0
	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>	<u>Broker Non-Votes</u>
Approval of Amendment of Stock Option Plan	138,943,546	3,573,328	4,604	0
Ratification of Deloitte & Touche as independent public auditors	142,176,792	278,605	66,081	0

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

(a) Exhibits:

10.10*	Sonic Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of April 22, 2003 (incorporated by reference to Exhibit 10.10 to Sonic's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
31.1	Certification of Mr. E. Lee Wyatt, Jr. pursuant to Rule 13a – 14 (a).
31.2	Certification of Mr. O. Bruton Smith pursuant to Rule 13a – 14 (a).
32.1	Certification of Mr. E. Lee Wyatt, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Risk Factors.

* Filed Previously

(b) Reports on Form 8-K:

On April 29, 2003, we filed a Current Report on Form 8-K with the SEC to announce pursuant to Item 9 and Item 12 of Form 8-K certain information regarding our company's results of operations and financial performance during the quarter ended March 31, 2003. A copy of the press release issued in connection with this announcement was attached as an exhibit to the Current Report on Form 8-K.

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: August 14, 2003

By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

Date: August 14, 2003

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

E. Lee Wyatt, Jr.
*Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)*

CERTIFICATION

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

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

-
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

By: /s/ E. LEE WYATT JR.

E. Lee Wyatt, Jr.
Senior Vice President and Chief Financial 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)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

-
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

By: /s/ O. BRUTON SMITH

O. Bruton Smith,
Chairman and Chief Executive Officer

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Lee Wyatt, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ E. LEE WYATT, JR.

E. Lee Wyatt, Jr.
Chief Financial Officer

August 14, 2003

**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 June 30, 2003 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 result of operations of the Company.

/s/ O. BRUTON SMITH

O. Bruton Smith
Chief Executive Officer

August 14, 2003

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1

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 June 30, 2003, our total outstanding indebtedness was approximately \$1,503.4 million, including the following:

- \$312.2 million under a revolving credit facility;
- \$873.2 million under standardized secured inventory floor plan facilities;
- \$126.7 million in 5 1/4% convertible senior subordinated notes due 2009 representing \$130.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$3.4 million;
- \$179.2 million in 11% senior subordinated notes due 2008 representing \$182.4 million in aggregate principal amount outstanding less unamortized discount of approximately \$3.2 million;
- \$6.6 million of other secured debt, including \$3.0 million under a revolving real estate acquisition and new dealership construction line of credit and a related mortgage financing facility; and
- \$5.5 million of subordinated debt owed to our chairman and chief executive officer, Mr. O. Bruton Smith.

As of June 30, 2003, we had approximately \$164.5 million available for additional borrowings under the revolving credit facility. We also had approximately \$97.0 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.

On August 12, 2003, Sonic issued \$200.0 million in aggregate principal amount of 8.625% senior subordinated notes with net proceeds, after expenses, of approximately \$194.1 million (the "Notes"). The net proceeds, together with cash on hand, will be used to redeem in full all of our outstanding indebtedness, plus accrued but unpaid interest and applicable redemption premium, under our 11% senior subordinated notes due 2008. The Notes are unsecured obligations that rank equal in right of payment to all of Sonic's existing and future senior subordinated indebtedness, mature on August 15, 2013 and are redeemable at Sonic's option after August 15, 2008. In addition, up to 35% of the aggregate principal amount of the Notes may be redeemed on or before August 15, 2006 with the net cash proceeds from certain equity offerings.

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;

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

- the indebtedness outstanding under our revolving credit facility and floor plan facilities are secured by a pledge of substantially all the assets of our dealerships; and
- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

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

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

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

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

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

Risks Related to Our Relationships with Vehicle Manufacturers

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

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

Manufacturers exercise a great degree of control over the operations of our dealerships through the franchise agreements. The franchise agreements govern, among other things, our ability to purchase vehicles from the manufacturer and to sell vehicles to customers. Each of our franchise agreements provides for termination or non-renewal for a variety of causes, including any

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

unapproved change of ownership or management. Manufacturers may also have a right of first refusal if we seek to sell dealerships.

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

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

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

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

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

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

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

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

During the first six months of 2003, approximately 76.5% of our new vehicle revenue was derived from the sale of new vehicles manufactured by Ford, Honda, Chrysler, General Motors (including Cadillac), BMW and Toyota. Our success depends to a great extent on these manufacturers':

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

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

- reputation; and
- labor relations.

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

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

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

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

Manufacturers' restrictions on acquisitions could limit our future growth.

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

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

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

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

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

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

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

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

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

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or nonrenewal. Some state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or nonrenewal. Though unsuccessful to date, manufacturers' lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealers to renew their franchise agreements upon expiration. In addition, these laws restrict the ability of automobile manufacturers to directly enter the retail market in the future. If manufacturers obtain the ability to directly retail vehicles and do so in our markets, such competition could have a material adverse effect on us.

Risks Related to Our Acquisition Strategy

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

Our future operating results depend on our ability to integrate the operations of recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to integrate our management information systems, procedures and organizational structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 11 in 2000, 12 in 2001, 31 in 2002 and five in the six months ended June 30, 2003.

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

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

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

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

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

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

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

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

- the availability of suitable acquisition candidates;
- competition with other dealer groups for suitable acquisitions;
- the negotiation of acceptable terms;
- our financial capabilities;
- our stock price; and
- the availability of skilled employees to manage the acquired companies.

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

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

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understanding of the historical financial condition and performance of our acquired entities. Until we actually assume control of business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations.

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

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

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

Risks Related to the Automotive Retail Industry

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

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

Our financing and insurance (“F&I”) business and other related businesses, which have higher margins than sales of new and used vehicles, are subject to strong competition from various financial institutions and other third parties. This competition is increasing as these products are now being marketed and sold over the Internet.

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

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

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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. The economic outlook appears uncertain in the aftermath of the terrorist attacks in the U.S. on September 11, 2001, the subsequent war on terrorism and other geopolitical conflicts. Future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury and sport utility vehicle models (which typically provide high margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

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

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

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economic conditions or similar adverse conditions, our revenues for the year could be disproportionately adversely affected.

General Risks Related to Investing in Our Securities

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

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

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

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

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

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

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

The two dealership subsidiaries have entered into agreements with the Florida Department of Insurance, n/k/a the Florida Department of Financial Affairs, which will, after the completion of a refund program, resolve the investigation by this

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Department. Under the program, certain customers will have the opportunity to apply for refunds for the purchase of specified finance and insurance products from the two dealerships. The Florida Attorney General's Office, being aware of the above refund program, has entered into an agreement with the two dealerships to conclude its investigation of those dealerships.

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

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

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

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

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

Finally, we are involved, and expect to continue to be involved, in numerous other legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits and actions brought by governmental authorities. The results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters, including the matters specifically

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discussed above, could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

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

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

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

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented approximately 16.2% of our sales for the six months ended June 30, 2003. We may not be able to expand geographically and any geographic expansion may not adequately insulate us from the adverse effects of local or regional economic conditions.

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

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

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

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

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, retail financing and consumer protection laws and regulations, and wage-hour, anti-discrimination and other employment practices laws and regulations. Our facilities and operations are also subject to federal, state and local laws and regulations relating to environmental

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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.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report 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.

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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 this report, as well as:

- our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures and general operating activities;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers which may affect our ability to complete additional acquisitions;
- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements and environmental laws;
- general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, and the level of consumer spending;
- significant changes in the assumptions used to estimate various self-funded insurance reserves;
- 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.