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 September 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)**	**56-2010790** **(I.R.S. Employer Identification No.)**
5401 E. Independence Blvd., Charlotte, North Carolina **(Address of principal executive offices)**	**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 November 4, 2003, there were 29,000,951 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 September 30, 2002	Three Months Ended September 30, 2003
Revenues:		
New vehicles	$ 1,194,168	$ 1,275,077
Used vehicles	316,285	320,365
Wholesale vehicles	126,592	125,389
Total vehicles	1,637,045	1,720,831
Parts, service and collision repair	242,012	260,478
Finance & insurance and other	56,595	56,778
Total revenues	1,935,652	2,038,087
Cost of sales	1,640,795	1,735,732
Gross profit	294,857	302,355
Selling, general and administrative expenses	225,162	240,654
Depreciation	2,454	3,209
Operating income	67,241	58,492
Other income / (expense):		
Interest expense, floor plan	(5,798)	(5,103)
Interest expense, other	(10,524)	(10,455)
Other	1,302	(13,936)
Total other expense	(15,020)	(29,494)
Income from continuing operations before income taxes	52,221	28,998
Provision for income taxes	(20,290)	(10,466)
Income from continuing operations	31,931	18,532
Discontinued operations:		
Loss from operations of discontinued dealerships	(536)	(1,641)
Income tax benefit	195	650
Loss from discontinued operations	(341)	(991)
Net income	$ 31,590	$ 17,541
Basic net income per share:		
Income per share from continuing operations	$ 0.76	$ 0.45
Loss per share from discontinued operations	(0.01)	(0.02)
Net income per share	$ 0.75	$ 0.43
Weighted average common shares outstanding	42,163	40,926
Diluted net income per share:		
Income per share from continuing operations	$ 0.74	$ 0.43
Loss per share from discontinued operations	(0.01)	(0.02)
Net income per share	$ 0.73	$ 0.41
Weighted average common shares outstanding	43,334	43,022

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2003
Revenues:		
New vehicles	$ 3,194,716	$ 3,495,399
Used vehicles	884,467	920,488
Wholesale vehicles	359,494	339,371
Total vehicles	4,438,677	4,755,258
Parts, service and collision repair	670,947	750,423
Finance & insurance and other	151,533	160,952
Total revenues	5,261,157	5,666,633
Cost of sales	4,445,457	4,801,913
Gross profit	815,700	864,720
Selling, general and administrative expenses	625,453	694,798
Depreciation	6,478	8,439
Operating income	183,769	161,483
Other income / (expense):		
Interest expense, floor plan	(17,050)	(17,100)
Interest expense, other	(28,136)	(30,066)
Other	1,537	(13,857)
Total other expense	(43,649)	(61,023)
Income from continuing operations before taxes and cummulative effect of change in accounting principle	140,120	100,460
Provision for income taxes	(53,778)	(36,490)
Income from continuing operations before cummulative effect of change in accounting principle	86,342	63,970
Discontinued operations:		
Loss from operations of discontinued dealerships	(2,027)	(1,016)
Income tax benefit	843	408
Loss from discontinued operations	(1,184)	(608)
Income before cumulative effect of change in accounting principle	85,158	63,362
Cumulative effect of change in accounting principle, net of tax benefit of $3,325	—	(5,619)
Net income	$ 85,158	$ 57,743
Basic net income (loss) per share:		
Income per share from continuing operations	$ 2.06	$ 1.57
Loss per share from discontinued operations	(0.02)	(0.02)
Income per share before cumulative effect of change in accounting principle	2.04	1.55
Cumulative effect of change in accounting principle	—	(0.14)
Net income per share	$ 2.04	$ 1.41
Weighted average common shares outstanding	41,819	40,858
Diluted net income (loss) per share:		
Income per share from continuing operations	$ 1.99	$ 1.51
Loss per share from discontinued operations	(0.03)	(0.01)
Income per share before cumulative effect of change in accounting principle	1.96	1.50
Cumulative effect of change in accounting principle	—	(0.13)
Net income per share	$ 1.96	$ 1.37
Weighted average common shares outstanding	43,479	42,288

See notes to unaudited consolidated financial statements.

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

	December 31, 2002	September 30, 2003 (Unaudited)
ASSETS		
Current Assets:		
Cash	$ 10,576	$ 34,951
Receivables, net	297,859	306,655
Inventories	929,450	872,366
Assets held for sale	53,786	36,859
Other current assets	9,956	16,391
Total current assets	1,301,627	1,267,222
Property and equipment, net	121,936	155,302
Goodwill, net	875,894	906,777
Other intangible assets, net	61,800	77,040
Other assets	14,051	18,861
Total assets	$ 2,375,308	$ 2,425,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan	$ 850,162	$ 787,095
Trade accounts payable	58,560	62,358
Accrued interest	13,306	8,440
Other accrued liabilities	113,592	156,545
Current maturities of long-term debt	2,764	2,764
Total current liabilities	1,038,384	1,017,202
Long-term debt	637,545	662,620
Other long-term liabilities	16,085	15,973
Payable to the Company's Chairman	5,500	4,500
Deferred income taxes	40,616	41,077
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; 38,005,995 shares issued and 28,895,131 shares outstanding at September 30, 2003	371	379
Class B Common Stock; $.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2002 and September 30, 2003	121	121
Paid-in capital	396,813	406,907
Retained earnings	339,457	393,101
Accumulated other comprehensive loss	(6,447)	(5,727)
Treasury Stock, at cost (8,134,164 shares held at December 31, 2002 and 9,110,864 shares held at September 30, 2003)	(93,137)	(110,951)
Total stockholders' equity	637,178	683,830
Total liabilities and stockholders' equity	$ 2,375,308	$ 2,425,202

See notes to unaudited consolidated financial statements.

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

	Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
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						57,743			57,743
Change in fair value of interest rate swap, net of tax expense of $460								720	720
Total comprehensive income, net of tax									58,463
Shares issued under stock compensation plans	760	8			8,091				8,099
Income tax benefit associated with stock compensation plans					2,003				2,003
Dividends declared ($0.10 per share)						(4,099)			(4,099)
Purchase of treasury stock							(17,814)		(17,814)
Balance at September 30, 2003	**38,006**	**$ 379**	**12,029**	**$ 121**	**$ 406,907**	**$ 393,101**	**$ (110,951)**	**$ (5,727)**	**$ 683,830**

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2002	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 85,158	$ 57,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,887	9,293
Cumulative effect of change in accounting principle, net of tax	—	5,619
Equity interest in earnings of investees	(162)	521
Gain on disposal of assets	(3,761)	(4,725)
(Gain)/Loss on retirement of debt	(1,432)	13,928
Income tax benefit associated with stock compensation plans	3,780	2,003
Changes in assets and liabilities that relate to operations:		
Receivables	18,142	(7,631)
Inventories	62,833	50,963
Other assets	(3,065)	(11,465)
Notes payable - floor plan	(84,768)	(65,949)
Trade accounts payable and other liabilities	33,048	35,868
Total adjustments	31,502	28,425
Net cash provided by operating activities	116,660	86,168
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(194,056)	(53,590)
Purchases of property and equipment	(69,651)	(58,368)
Proceeds from sales of property and equipment	31,678	25,975
Proceeds from sale of dealerships	15,773	24,821
Net cash used in investing activities	(216,256)	(61,162)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings/(repayments) on revolving credit facilities	(19,180)	9,361
Proceeds from long-term debt	145,642	194,389
Payments on long-term debt	(5,796)	(2,275)
Repurchase of debt securities	(5,820)	(192,391)
Purchases of Class A Common Stock	(22,367)	(17,814)
Issuance of shares under stock compensation plans	11,267	8,099
Net cash provided by (used in) financing activities	103,746	(631)
NET INCREASE IN CASH	4,150	24,375
CASH, BEGINNING OF PERIOD	—	10,576
CASH, END OF PERIOD	$ 4,150	$ 34,951
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 of $3,914 for the nine months ended September 30, 2002 and $460 for the nine months ended September 30, 2003)	$ (6,121)	$ 720
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 46,317	$ 52,368
Cash paid for income taxes	$ 27,633	$ 20,792

See notes to unaudited consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying unaudited financial information for the nine months ended September 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 on October 2, 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 in the accompanying unaudited financial statements. 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:

	(Dollars in thousands except per share amounts)	
	Three Months Ended September 30,	
	2002	2003
Net income as reported	$ 31,590	$ 17,541
Fair value compensation cost, net of tax benefit of $1,321 and $1,695 for the three months ended September 30, 2002 and 2003, respectively	(2,076)	(3,029)
Pro forma net income	$ 29,514	$ 14,512
Basic income (loss) per share:		
Net income as reported	$ 0.75	$ 0.43
Fair value compensation cost, net of tax	(0.05)	(0.08)
Pro forma net income	$ 0.70	$ 0.35
Diluted income (loss) per share:		
Net income as reported	$ 0.73	$ 0.41
Fair value compensation cost, net of tax	(0.05)	(0.07)
Pro forma net income	$ 0.68	$ 0.34

(Dollars in thousands except per share amounts)	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2003
Income before cumulative effect of change in accounting principle as reported	$ 85,158	$ 63,362
Fair value compensation cost, net of tax benefit of $3,686 and $4,496, respectively, for the nine months ended September 30, 2002 and 2003	(5,931)	(7,896)
Pro forma income before cumulative effect of change in accounting principle	79,227	55,466
Cumulative effect of change in accounting principle, net of tax	—	(5,619)
Pro forma net income	$ 79,227	$ 49,847
Basic income (loss) per share:		
Income before cumulative effect of change in accounting principle as reported	$ 2.04	$ 1.55
Fair value compensation cost, net of tax	(0.15)	(0.19)
Pro forma income before cumulative effect of change in accounting principle	1.89	1.36
Cumulative effect of change in accounting principle, net of tax	—	(0.14)
Pro forma net income	$ 1.89	$ 1.22
Diluted income (loss) per share:		
Income before cumulative effect of change in accounting principle as reported	$ 1.96	$ 1.50
Fair value compensation cost, net of tax	(0.14)	(0.19)
Pro forma income before cumulative effect of change in accounting principle	1.82	1.31
Cumulative effect of change in accounting principle, net of tax	—	(0.13)
Pro forma net income	$ 1.82	$ 1.18

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 “Fixed Swaps”) to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The Fixed 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 Fixed Swaps was $4.4 million for the first nine months of 2003 and has been included in interest expense, other in the accompanying unaudited consolidated statement of income. The Fixed Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the Fixed Swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders’ equity. The fair value of the Fixed Swaps as of September 30, 2003 is recorded in other long-term liabilities on the accompanying balance sheet. The change in fair value of the Fixed Swaps during the nine months ended September 30, 2003, recorded in accumulated other comprehensive loss, was approximately $1.2 million ($0.7 million, net of tax). Because the critical terms of the Fixed Swaps and the underlying debt obligations were the same, no ineffectiveness was recorded.

Subsequent to September 30, 2003, we have entered into four separate interest rate swaps (the “Variable Swaps”) each at $25.0 million ($100.0 million total) to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. Under the Variable Swaps’ agreements, Sonic receives 8.625% on the respective notional amounts and pays interest payments on the respective notional amounts at a rate equal to the six month LIBOR rate plus a spread ranging from 3.595% to 3.840% with an average spread of 3.716%. The Variable Swaps expire on August 15, 2013 and have been designated and qualify as fair value hedges and, as a result, future changes in the fair value of the Variable Swaps will be recorded against the associated fixed rate debt, net of related income taxes.

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 nine months ended September 30, 2003. Had the guidance from Issue No. 02-16 been retroactively applied, results of operations and net income per share for the nine months ended September 30, 2002 would not have been materially different from the previously reported results.

Reclassifications — Loss from operations of discontinued dealerships for the nine months ended September 30, 2002 reflects reclassifications from the prior year presentation to include additional dealerships sold or identified for sale subsequent to September 30, 2002 which had not been classified as held for sale as of September 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.

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

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133 generally entered into or modified after September 30, 2003 and hedging relationships designated after September 30, 2003. We do not expect SFAS No. 149 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 nine months of 2003, Sonic acquired 12 automotive dealerships located in California, Oklahoma, Colorado, Texas, and Michigan and four collision centers for an aggregate purchase price of approximately $53.6 million in cash, net of cash acquired. In addition to these automotive dealership and collision center acquisitions, Sonic acquired certain assets which will provide locations for future operations. 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 and adjustments for previously recorded acquisitions, we have recorded the following:

- $13.1 million of intangible assets representing rights acquired under franchise agreements;
- $5.1 million of intangible assets representing favorable (relative to market prices at acquisition) real estate leases (net of $0.1 in accumulated amortization at September 30, 2003). These assets are amortized over the remaining life of the associated real estate lease. As of September 30, 2003, the weighted-average amortization period was 17.3 years; and
- $32.3 million of goodwill, of which approximately $28.4 million is expected to be tax deductible.

Sonic generally expects our franchise agreements to continue for an indefinite period. When these agreements do not have indefinite terms, Sonic anticipates routine renewals without substantial cost. As such, Sonic believes that its franchise agreements will contribute to cash flows for an indefinite period, therefore the carrying amount of franchise rights is not amortized.

In addition, Sonic has entered into agreements to purchase thirteen dealerships. The acquisitions of the thirteen dealerships are expected to close in the fourth quarter of 2003 and in 2004 and will be paid for in cash and shares of Sonic's Class A common stock.

Dealership Dispositions:

During the first nine months of 2003, Sonic disposed of 13 franchises, resulting in the closing of eight dealerships and six collision centers. These disposals generated cash of $24.8 million. The sale of these dealerships resulted in a net gain of $5.2 million, which is included in discontinued operations on the accompanying unaudited consolidated statement of income for the three and nine month periods ended September 30, 2003. The gain was net of $11.8 million in goodwill associated with these franchises.

In conjunction with dealership dispositions in the first nine months of 2003, Sonic has agreed to indemnify the buyers from certain liabilities and costs arising from operations or events that occurred prior to sale but which may or may not be known at the time of sale, including environmental liabilities and liabilities associated from the breach of representations or warranties made under the agreements. The estimated maximum liability associated with current year dispositions related to subleases was $32.0 million and $14.5 million related to general indemnifications. These indemnifications expire within a period of one to three years following the date of the sale. The estimated fair value of these indemnifications was not material.

In addition to the dispositions described above, as of September 30, 2003, Sonic had approved the sale of four additional dealership franchises, which will result in the closing of one dealership. These franchises are generally smaller franchises with unprofitable operations. The operating results of these dealerships are included in discontinued operations on the accompanying unaudited consolidated statements of income. 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 $2.2 million at September 30, 2003 and have been classified in assets held for sale in the accompanying unaudited consolidated balance sheet. Goodwill classified as assets held for sale totaled approximately $0.3 million and $9.9 million at September 30, 2003 and December 31, 2002, respectively. Other assets and liabilities to be disposed in connection with these dispositions include inventories and related notes payable—floor plan. Revenues associated with dealership franchises classified as discontinued operations were $12.9 million and $106.3 million for the three and nine month periods ended September 30, 2003, respectively, and $109.2 million and $361.7 million for the three and nine month periods ended September 30, 2002, respectively.

3. INVENTORIES

Inventories consist of the following:

	(Dollars in thousands)	
	December 31, 2002	September 30, 2003
New vehicles	$ 733,757	$ 641,806
Used vehicles	111,884	137,276
Parts and accessories	50,860	49,966
Other	32,949	43,318
Total	$ 929,450	$ 872,366

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	(Dollars in thousands)	
	December 31, 2002	September 30, 2003
Land	$ 5,983	$ 17,027
Building and improvements	42,201	71,605
Office equipment and fixtures	31,616	35,361
Parts and service equipment	22,485	27,532
Company vehicles	8,211	8,513
Construction in progress	33,637	24,386
Total, at cost	144,133	184,424
Less accumulated depreciation	(22,197)	(29,122)
Property and equipment, net	$ 121,936	$ 155,302

Interest capitalized in conjunction with construction projects was approximately $0.6 million and $2.3 million for the three and nine months ended September 30, 2003, respectively, and approximately $0.7 million and $1.6 million for the three and nine months ended September 30, 2002, respectively.

In addition to the amounts shown above, Sonic incurred approximately $34.7 million in real estate and construction costs as of September 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 unaffiliated third parties and enters into long-term operating leases on the facilities. During the first nine months of 2003, Sonic sold $24.4 million in dealership properties in sale-leaseback transactions.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	(Dollars in thousands)	
	December 31, 2002	September 30, 2003
Senior Subordinated Notes bearing interest at 11%, maturing August 1, 2008	$ 182,360	$ —
Senior Subordinated Notes bearing interest at 8.625%, maturing August 15, 2013	—	200,000
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	330,023
$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)	—	4,568
$100 million revolving real estate acquisition line of credit with Toyota Credit bearing interest at 2.00 percentage points above LIBOR and maturing December 31, 2012, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets (1)	—	5,488
Other notes payable (primarily equipment notes)	4,137	4,075
	$ 647,315	$ 674,254
Less unamortized discount	(7,006)	(8,870)
Less current maturities	(2,764)	(2,764)
Long-term debt	$ 637,545	$ 662,620

(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") in a private offering to qualified institutional buyers as defined by the Securities Act of 1933. The net proceeds, before expenses, of approximately $194.3 million together with an advance from Sonic's revolving credit facility, were used to redeem all of the 11% senior subordinated notes (the "11% Notes") for $194.6 million which included accrued but unpaid interest and the redemption premium of 5.5% on September 10, 2003. A resulting loss of $13.9 million, which includes the redemption premium, and the write-off of unamortized discounts and deferred debt issuance costs is included in other income/(expense) in the accompanying unaudited consolidated statement of income for the three and nine month periods ended September 30, 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.

Before the 11% Notes were redeemed, both the 8.625% Notes and the 11% Notes were outstanding. Prior to the redemption of the 11% Notes, Sonic applied net proceeds from the sale of the 8.625% Notes to temporarily repay amounts outstanding under the revolving credit facility and invested in short-term fixed income securities.

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

6. PAYABLE TO THE COMPANY'S CHAIRMAN

During the quarter ended September 30, 2003, Sonic reduced the payable to the Company's Chairman by $1.0 million. Subsequent to September 30, 2003, Sonic repaid the remaining $4.5 million outstanding to the Company's Chairman.

7. 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:

	(Shares in thousands)		(Shares in thousands)	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Basic weighted average number of common shares outstanding	42,163	40,926	41,819	40,858
Dilutive effect of stock options	1,169	2,094	1,658	1,428
Dilutive effect of warrants	2	2	2	2
Weighted average number of common shares outstanding, including effect of dilutive securities	43,334	43,022	43,479	42,288

In addition to the stock options included in the table above, options to purchase 1,199,550 shares and 1,115,383 shares of Class A common stock were outstanding during the three and nine month periods ended September 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 September 30, 2002 and 2003 were 5,400,657 and 6,878,697, respectively.

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 our Current Report on Form 8-K on October 2, 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 November 5, 2003 we operated 191 dealership franchises, representing 38 different brands of cars and light trucks at 149 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 nine months ended September 30, 2002 and 2003:

	Percentage of New Vehicle Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Brand [1]				
Honda	13.9%	14.5%	13.7%	14.9%
Ford	16.4%	13.2%	18.0%	14.1%
Toyota	10.6%	13.3%	11.0%	12.3%
Cadillac	11.0%	10.3%	9.2%	10.8%
General Motors [2]	13.8%	11.4%	12.1%	11.1%
BMW	8.3%	8.3%	9.8%	8.9%
Lexus	4.1%	4.4%	4.6%	4.4%
Chrysler [3]	5.1%	4.3%	4.8%	4.0%
Volvo	2.8%	4.0%	2.9%	3.7%
Nissan	2.8%	3.3%	3.2%	3.1%
Mercedes	2.4%	2.2%	2.9%	2.6%
Other Luxury [4]	3.2%	4.1%	2.7%	4.0%
Other [5]	5.6%	6.7%	5.1%	6.1%
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 September 30, 2002 which were not previously included in discontinued operations but have been included during the three and nine months ended September 30, 2003

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

(3) Includes Chrysler, Dodge and Jeep

(4) Includes Acura, Audi, Hummer, Infiniti, Land Rover, Maybach, Porsche and Saab

(5) Includes Hino, Hyundai, Isuzu, KIA, Lincoln, Mazda, Mercury, Minicooper, Mitsubishi, Scion, Subaru and Volkswagen

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 September 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		Units or $ Change	% Change	For the Nine Months Ended		Units or $ Change	% Change
	9/30/2002	9/30/2003			9/30/2002	9/30/2003		
New Vehicle Units								
Same Store	41,194	41,515	321	0.8%	112,970	111,071	(1,899)	(1.7%)
Acquisitions	1,644	3,555	1,911	116.2%	2,655	12,410	9,755	367.4%
Total As Reported	42,838	45,070	2,232	5.2%	115,625	123,481	7,856	6.8%
New Vehicle Revenues (in thousands)								
Same Store	$ 1,146,587	$ 1,179,928	$ 33,341	2.9%	$ 3,111,240	$ 3,121,990	$ 10,750	0.3%
Acquisitions	47,581	95,149	47,568	100.0%	83,476	373,409	289,933	347.3%
Total As Reported	$ 1,194,168	$ 1,275,077	$ 80,909	6.8%	$ 3,194,716	$ 3,495,399	$ 300,683	9.4%
New Vehicle Unit Price								
Same Store	$ 27,834	$ 28,422	$ 588	2.1%	$ 27,540	$ 28,108	$ 568	2.1%

Same store new vehicle unit sales increased slightly for the quarter due to strong import sales. A decrease in domestic brands drove the decline in same store unit sales for the year to date period ended September 30, 2003. Import unit sales volume increased by 12.0% and 9.0%, for the three and nine month periods ended September 30, 2003, respectively. These increases were offset by decreases in unit sales of domestic brands of 11.4% and 13.6%, for the quarter and year to date periods ended September 30, 2003, respectively. Our strong performing regions were San Diego/Nevada, South Bay, and North/South Carolina, which experienced same store unit sales growth of 14.2% for the three months ended September 30, 2003 and 10.2% for the nine months ended September 30, 2003. These increases were offset by declines in our Oklahoma and Houston regions, which experienced combined same store unit sales declines of 10.0% and 10.8% for the three and nine months ended September 30, 2003, respectively. Additionally, Los Angeles experienced declines of 6.5% and 13.4% for the three and nine months ended September 30, 2003, respectively. We attribute the declines in these three regions to the concentration of domestic dealerships in their respective markets.

Most of our brands experienced increases in sales price per unit. Ford, Honda, and Volvo sales price per unit all improved due to an increase in sports utility and truck sales which generally have higher selling prices. However, BMW experienced lower sales prices due to a continued increase in competition within the luxury sports utility vehicle market.

Used Vehicles:

	For the Three Months Ended		Units or $ Change	% Change	For the Nine Months Ended		Units or $ Change	% Change
	9/30/2002	9/30/2003			9/30/2002	9/30/2003		
Used Vehicle Units								
Same Store	19,427	19,125	(302)	(1.6%)	55,673	52,398	(3,275)	(5.9%)
Acquisitions	554	1,609	1,055	190.4%	1,251	7,054	5,803	463.9%
Total As Reported	19,981	20,734	753	3.8%	56,924	59,452	2,528	4.4%
Used Vehicle Revenues (in thousands)								
Same Store	$ 307,960	$ 298,768	$ (9,192)	(3.0%)	$ 865,980	$ 808,483	$ (57,497)	(6.6%)
Acquisitions	8,325	21,597	13,272	159.4%	18,487	112,005	93,518	505.9%
Total As Reported	$ 316,285	$ 320,365	$ 4,080	1.3%	$ 884,467	$ 920,488	$ 36,021	4.1%
Used Vehicle Unit Price								
Same Store	$ 15,852	$ 15,622	$ (230)	(1.5%)	$ 15,555	$ 15,430	$ (125)	(0.8%)

Same store used unit sales declined primarily due to geographic weaknesses. The Central Division experienced used unit sales declines of 7.5% and 12.3% for the quarter and year to date periods, respectively. Two of the regions in the Central Division, Oklahoma and Colorado, represented declines of 471 units or 17.7% and 1,491 units or 21.0% for the three and nine months ended September 30, 2003, respectively. We believe the decline in these regions is attributable to tightening of credit standards from our sub-prime lenders. Excluding the Oklahoma and Colorado regions, used unit sales would have increased by 259 units or 1.6% for the quarter. The declines generated in the Central Division were partially offset by increases of 277 units or 19.0% and 410 units or 9.9%

in the Mid-Atlantic and San Diego/Nevada regions for the quarter and year to date periods, respectively. Somewhat offsetting the overall used vehicle decline is a positive trend in used unit sales which has been generated by our initiative to focus on selling Certified Pre-owned vehicles. For the three and nine month periods ended September 30, 2003, Certified Pre-Owned sales increased 2,243 units or 67.2% and 5,689 units 65.1%, respectively.

Wholesale Vehicles:

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2002	9/30/2003	Units or $ Change	% Change	9/30/2002	9/30/2003	Units or $ Change	% Change
Wholesale Vehicle Units								
Same Store	16,075	15,759	(316)	(2.0%)	46,516	40,707	(5,809)	(12.5%)
Acquisitions	953	2,026	1,073	112.6%	2,118	6,590	4,472	211.1%
Total As Reported	17,028	17,785	757	4.4%	48,634	47,297	(1,337)	(2.7%)
Wholesale Vehicle Revenues (in thousands)								
Same Store	$ 116,473	$ 109,045	$ (7,428)	(6.4%)	$ 334,336	$ 284,004	$ (50,332)	(15.1%)
Acquisitions	10,119	16,344	6,225	61.5%	25,158	55,367	30,209	120.1%
Total As Reported	$ 126,592	$ 125,389	$ (1,203)	(1.0%)	$ 359,494	$ 339,371	$ (20,123)	(5.6%)
Wholesale Unit Price								
Same Store	$ 7,246	$ 6,920	$ (326)	(4.5%)	$ 7,188	$ 6,977	$ (211)	(2.9%)

The decreases in wholesale revenues and unit sales for the quarter and year to date periods ending September 30, 2003 we attribute to both our continued efforts to maintain appropriate inventory levels and improvements in wholesale markets. Additionally, we have been more selective with auction purchases. These two factors contributed to significantly lower wholesale losses for the three and nine months ended September 30, 2003.

Parts, Service and Collision Repair:

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2002	9/30/2003	$ Change	% Change	9/30/2002	9/30/2003	$ Change	% Change
Parts, Service and Collision Repair (in thousands)								
Same Store	$ 234,783	$ 243,186	$ 8,403	3.6%	$ 657,730	$ 667,840	$ 10,110	1.5%
Acquisitions	7,229	17,292	10,063	139.2%	13,217	82,583	69,366	524.8%
Total As Reported	$ 242,012	$ 260,478	$ 18,466	7.6%	$ 670,947	$ 750,423	$ 79,476	11.8%

Same store parts, service and collision repair revenues increased in both the three and nine month periods ended September 30, 2003 in part due to increases in revenue at our Honda dealerships of $2.7 million, or 8.7%, for the three months ended September 30, 2003, and $6.6 million, or 7.4%, for the nine months ended September 30, 2003. Revenue at our BMW dealerships also improved significantly, increasing $2.9 million, or 12.3%, for the three months ended September 30, 2003, and $7.3 million, or 10.6%, for the nine months ended September 30, 2003. These increases were partially offset by decreases at our Ford dealerships of $2.7 million, or 7.9%, for the three months ended September 30, 2003 and $10.2 million, or 10.3%, for the nine months ended September 30, 2003. On a year over year basis, Ford dealerships experienced revenue declines in 2003 due to unusually high parts and service sales in the first quarter of 2002 because of the Firestone tire recall. Wholesale parts sales were also negatively affected by Ford Motor Company's decision to open a parts depot in the Houston area in the second half of 2002. Parts, service and collision revenues in the Houston region were down $1.2 million, or 5.8%, and $5.7 million, or 9.2%, for the three and nine month periods ended September 30, 2003, respectively.

Finance and Insurance and Other:

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2002	9/30/2003	$ Change	% Change	9/30/2002	9/30/2003	$ Change	% Change
Finance & Insurance Revenue (in thousands)								
Same Store	$ 53,998	$ 51,992	$ (2,006)	(3.7%)	$ 146,848	$ 143,352	$ (3,496)	(2.4%)
Acquisitions	2,597	4,786	2,189	84.3%	4,685	17,600	12,915	275.7%
Total As Reported	$ 56,595	$ 56,778	$ 183	0.3%	$ 151,533	$ 160,952	$ 9,419	6.2%
Total F&I per Unit								
Same Store	$ 891	$ 857	$ (34)	(3.8%)	$ 871	$ 877	$ 6	0.7%

Finance and insurance decreased in both the three and nine months ended September 30, 2003 compared to last year. Decreases in finance and insurance revenues from domestic stores were offset by increases in almost all import brands consistent with the decreases in vehicle revenues.

Gross Profit and Gross Margins

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2002	9/30/2003	$ Change	% Change	9/30/2002	9/30/2003	$ Change	% Change
Gross Profit (in thousands)								
Same Store	$ 283,779	$ 279,326	$ (4,453)	(1.6%)	$ 794,644	$ 768,683	$ (25,961)	(3.3%)
Acquisitions	11,078	23,029	11,951	107.9%	21,056	96,037	74,981	356.1%
Total As Reported	$ 294,857	$ 302,355	$ 7,498	2.5%	$ 815,700	$ 864,720	$ 49,020	6.0%

The overall gross margin decreased to 14.8% in the third quarter of 2003 from 15.3% in the third quarter of 2002. The same store new vehicle gross margins decreased from 7.6% in the third quarter of 2002 to 6.8% in 2003 due primarily to a decline in new vehicle gross margins in an effort to increase market share and a result of merchandise mix. The domestic same store new vehicle gross margin decreased from 7.2% in the third quarter of 2002 to 6.2% in 2003, while import new vehicle gross margins dropped from 8.1% to 7.3% over the same period. The quarterly retail used gross margin decreased slightly (from 11.3% to 10.9%) but was offset by a favorable decrease in wholesale losses (from (3.5%) to (2.0)% for the quarters ended September 30, 2002 and 2003, respectively) to create an overall improvement (from 7.2% to 7.5%) in total used vehicle margins when comparing the quarters ended September 30, 2002 and 2003, respectively. The overall decline experienced in vehicle gross margins was offset slightly by an increase in the gross margin in parts, service and collision from 47.5% to 48.1% for the third quarter of 2003. The overall gross margin decline was also caused by a change in mix to more new vehicles as a percentage of total revenues.

During the first nine months of the year, the overall gross margin decreased to 15.3% from 15.5% in 2002. As in the quarter to date period, the decline in the year to date period was also mainly attributable to the decrease in vehicle gross margins, which fell from 7.8% to 7.2%. Parts, service and collision gross margins increased on a year to date basis to 48.1% from 47.4% last year, somewhat offsetting the decrease in the vehicle margins.

Selling, General and Administrative Expenses

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2002	9/30/2003	$ Change	% Change	9/30/2002	9/30/2003	$ Change	% Change
SG&A (in thousands)								
Same Store	$ 212,452	$ 216,037	$ 3,585	1.7%	$ 592,482	$ 595,093	$ 2,611	0.4%
Acquisitions	12,710	24,617	11,907	93.7%	32,971	99,705	66,734	202.4%
Total As Reported	$ 225,162	$ 240,654	$ 15,492	6.9%	$ 625,453	$ 694,798	$ 69,345	11.1%

Selling, general and administrative ("SG&A") expenses are comprised of four major groups: compensation expenses, advertising expenses, operating rent and rent related expenses, and other expenses. Compensation expenses primarily relate to dealership personnel who are paid a commission or a modest salary plus commission (which typically varies depending on gross profits realized) and support personnel who are paid a salary plus bonus/commission. Due to the fixed component of dealership personnel's compensation, gross profits and compensation expense are not 100% correlated. Advertising expenses and other expenses vary based on the level of actual or anticipated business activity and number of dealerships owned. Rent and rent related expenses typically vary with the number of dealerships and franchises owned, investments made for facility improvements by landlords and interest rates.

Total SG&A as a percentage of gross profit increased to 79.6% in the third quarter of 2003 from 76.4% in the third quarter of 2002, and to 80.3% in the first nine months of 2003 from 76.7% in the first nine months of 2002. These increases were driven primarily by compensation expenses, advertising expenses and rent and rent related expenses.

For the third quarter of 2002 and 2003, compensation expenses comprised 61.0% and 59.5%, respectively, of total SG&A and 46.6% and 47.3%, respectively, of gross profits. For the first nine months of 2002 and 2003, compensation expenses comprised 61.8% and 60.0%, respectively, of SG&A and 47.4% and 48.2%, respectively, of gross profits. Compensation expenses have risen as a percentage of gross profits primarily due to significant declines in gross profit at some of our domestic dealerships in the three and nine month periods ended September 30, 2003, as compared to the prior year.

For the third quarter of 2002 and 2003, advertising expenses comprised 7.9% and 8.6%, respectively, of total SG&A. For the first nine months of 2002 and 2003, advertising expenses comprised 8.1% of total SG&A. Advertising expenditures have not contributed to anticipated improvements in gross profits. We expect future advertising expenditures to fall in line with historical levels.

For the third quarter of 2002 and 2003, rent and rent related expenses comprised 11.9% and 12.7%, respectively, of total SG&A. For the first nine months of 2002 and 2003, rent and rent related expenses comprised 11.9% and 12.6%, respectively, of total SG&A. Rent and rent related expenses increased due to facility improvements and upgrades on several leased properties.

Depreciation

	For the Three Months Ended				For the Nine Months Ended			
	9/30/2002	9/30/2003	$ Change	% Change	9/30/2002	9/30/2003	$ Change	% Change
Depreciation (in thousands)								
Same Store	$ 2,100	$ 2,798	$ 698	33.2%	$ 5,580	$ 6,994	$ 1,414	25.3%
Acquisitions	354	411	57	16.1%	898	1,445	547	60.9%
Total As Reported	$ 2,454	$ 3,209	$ 755	30.8%	$ 6,478	$ 8,439	$ 1,961	30.3%

Depreciation expense increased as a result of capital expenditures made in the previous twelve months. During the twelve months ending September 30, 2003, the balance of depreciable property and equipment related to continuing operations increased approximately $47.0 million, or 48.9%, of which $39.0 million related to leasehold improvements. As a percentage of total revenues, depreciation expense was 0.2% in the third quarter of 2003 and 0.1% for the third quarter of 2002.

Floor Plan Interest Expense

Floor plan interest expense decreased by $0.7 million, or 12.0% in the third quarter of 2003 compared to the same period last year. The change reflects a decrease of $1.4 million due to lower interest rates, partially offset by an increase of $0.7 million related to higher outstanding balances primarily related to acquisitions. Floor plan interest expense was flat in the first nine months of 2003 compared to the same period last year.

Other Interest Expense

Other interest expense decreased by $0.1 million, or 0.7% in the third quarter of 2003 and increased $1.9 million, or 6.9% in the first nine months of 2003 compared to the same periods last year. In the third quarter of 2002, Sonic repurchased $6.5 million in aggregate principal amount of the 5.25% convertible notes. Sonic realized a decrease of $0.3 million in interest expense for the three months ended September 30, 2003 due to these repurchases. The convertible notes were issued in May 2002 and as a result the nine months ended September 30, 2003 interest expense increased $2.0 million due to the convertible notes being outstanding for the entire period compared to 2002. On August 12, 2003, Sonic issued the $200.0 million senior subordinated 8.625% notes (the "8.625% Notes"). As a result of the issuance, interest expense increased $2.4 million for the three and nine months ended September 30, 2003. Sonic used the net proceeds to redeem all of the 11% senior subordinated notes (the "11% Notes") on September 10, 2003. Due to the 30 days of carrying both the 8.625% and 11% Notes, Sonic incurred an additional $1.7 million in interest expense for the three month period. However, Sonic received a benefit of $1.1 million in lower interest expense due to the buy back of the 11% Notes. Benefits realized of approximately $1.0 million and $1.4 million in the three and nine months ended September 30, 2003, respectively, as a result of lower interest expense on the Revolving Credit Facility were offset by approximately $0.1 million and $2.0 million of additional interest incurred in the three and nine month periods, respectively, as a result of the Fixed Swaps. As a result of refinancing the 11% Notes with the 8.625% Notes, we anticipate an annual savings of $2.9 million.

Subsequent to September 30, 2003 we have entered into four separate interest rate swaps (the "Variable Swaps") each at $25.0 million ($100.0 million total) to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. Under the Variable Swaps' agreements, Sonic receives 8.625% on the respective notional amounts and pays interest payments on the respective notional amounts at a rate equal to the six month LIBOR rate plus a spread ranging from 3.595% to 3.840% with an average spread of 3.716%. The Variable Swaps expire on August 15, 2013 and have been designated and qualify as fair value hedges and, as a result, future changes in the fair value of the Variable Swaps will be recorded against the associated fixed rate debt, net of related income taxes. As a result of executing the Variable Swaps we anticipate an annual savings of $3.7 million if the six month LIBOR were to remain constant at the September 30, 2003 rate of 1.18%.

Other Income / Expense

Other income / expense increased approximately $15.2 million and $15.4 million in the three and nine month periods ended September 30, 2003 compared to the same periods in the prior year primarily due to debt repurchases. We experienced gains of $1.4 million in the three and nine months ended September 30, 2002 related to repurchases of a portion of our 5.25% and 11% Notes, and debt retirement losses of $13.9 million in the three and nine months ended September 30, 2003, related to the call premium paid and write-offs of discounts and deferred loan costs related to the repayment in full of our 11% Notes.

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 in a private offering to qualified institutional buyers as defined by the Securities Act of 1933. The net proceeds, before expenses, of approximately $194.3 million together with an advance from Sonic's revolving credit facility, were used to redeem all of the 11% senior subordinated notes for $194.6 million which included accrued but unpaid interest and the redemption premium of 5.5% on September 10, 2003. A resulting loss of $13.9 million, which includes the redemption premium, and the write-off of unamortized discounts and deferred debt issuance costs is included in other income/(expense) in the accompanying unaudited consolidated statement of income for the three and nine month periods ended September 30, 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.

Before the 11% Notes were redeemed, both the 8.625% Notes and the 11% Notes were outstanding. Prior to the redemption of the 11% Notes, Sonic applied net proceeds from the sale of the 8.625% Notes to temporarily repay amounts outstanding under the revolving credit facility and invested in short-term fixed income securities.

Floor Plan Facilities

The weighted average interest rate for our floor plan facilities was 3.37% and 2.52% for the three months ended September 30, 2002 and 2003, respectively, and 3.52% and 2.84% for the nine months ended September 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 nine months of 2003, we received approximately $29.6 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 September 30, 2003.

Long-Term Debt and Credit Facilities

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

	Interest Rate [1]	Outstanding Balance	Additional Borrowing Availability
Revolving Credit Facility (matures October 2006)	LIBOR + 2.55%	$ 330,023	$ 146,624
Senior Subordinated Notes (mature August 2013)	8.625%	$ 200,000	$ —
Convertible Senior Subordinated Notes [2] (mature May 2009)	5.25%	$ 130,100	$ —
Mortgage Facility:			
Construction Loan (matures December 2007)	LIBOR + 2.25%	$ 4,568	$ 45,432 [3]
Permanent Loan (matures December 2012)	LIBOR + 2.00%	$ 5,488	$ 94,512 [3]

(1) Three-month LIBOR was 1.12% at September 30, 2003.
(2) Notes were not convertible at any time during the nine months ended September 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 September 30, 2003.

Two banks have agreed to commit $50.0 million to our revolving credit facility which will increase this facility to $550.0 million.

Payable to the Company's Chairman

During the quarter ended September 30, 2003, we reduced the payable to the Company's Chairman by $1.0 million. Subsequent to September 30, 2003, we repaid the remaining $4.5 million outstanding to the Company's Chairman.

Dealership Acquisitions and Dispositions

In the first nine months of 2003, we acquired 12 dealerships and four collision centers for a combined purchase price of $53.6 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 nine months of 2003, we disposed of 13 franchises, resulting in the closing of eight dealerships and six collision centers. These disposals generated cash of $24.8 million.

In addition, Sonic has entered into agreements to purchase thirteen dealerships. The acquisitions of the thirteen dealerships are expected to close in the fourth quarter of 2003 and in 2004 and will be paid for in cash and shares of Sonic's Class A common stock.

Sale-Leaseback Transactions

In an effort to generate additional cash flow, we typically seek to structure our operations to minimize the ownership of real property. As a result, facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback 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 nine months of 2003, we sold $24.4 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 nine months of 2003 were approximately $58.4 million, of which approximately $37.0 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 nine months of 2003 expected to be sold within a year in sale-leaseback transactions were $34.7 million. We do not expect any significant gains or losses from these sales. As of September 30, 2003, commitments for facilities construction projects totaled approximately $29.2 million. We expect $17.6 million of this amount to be financed through future sale-leaseback transactions.

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 nine months of 2003, we repurchased 976,700 shares for approximately $17.8 million which was somewhat offset by proceeds received from the exercise of stock options under stock compensation plans of $8.1 million. Subsequent to September 30, 2003, we have purchased an additional 135,000 shares of Class A common stock for approximately $3.1 million. As of November 5, 2003, we had $17.1 million remaining under our Board authorization.

Dividends

Our Board of Directors approved a quarterly cash dividend program beginning with a dividend of $0.10 per share for shareholders of record on September 15, 2003, which was paid on October 15, 2003. Our Board of Directors approved a second dividend of $0.10 per share for shareholders of record on December 15, 2003, which will be payable on January 15, 2004. Our dividend program reflects our intent to reallocate to dividends a portion of the capital previously allocated to security repurchases.

Cash Flows

For the nine month period ended September 30, 2003, net cash provided by operating activities was approximately $86.2 million, which was generated primarily by changes in working capital accounts and net income adjusted for non-cash items such as depreciation, amortization, gains and losses on debt retirement and deferred income taxes. Significant working capital movements included decreases in notes payable – floor plan of $65.9 million which was offset by decreases in inventories of $51.0 million and an increase in accounts payable and other liabilities of $35.9 million. Cash used for investing activities in the first nine months of 2003 was $61.2 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 nine months of 2003, net cash used by financing activities was $0.6 million and primarily related to repurchases of Class A common stock of $17.8 million offset by net borrowings on our Revolving Credit Facility of $9.4 million and exercise of stock options under stock compensation plans of $8.1 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 agreed to indemnify the buyers from certain liabilities and costs arising from operations or events that occurred prior to sale but which may or may not be known at the time of sale, including environmental liabilities and liabilities associated from the breach of representations or warranties made under the agreements. The estimated maximum liability associated with current year dispositions related to subleases was $32.0 million and $14.5 million related to general indemnifications. These indemnifications expire within a period of one to three years following the date of the sale. The estimated fair value of these indemnifications was not material.

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.

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 $1.1 billion at September 30, 2003 and approximately $1.0 billion at September 30, 2002. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately $7.3 million in the first nine months of 2003 and approximately $6.2 million in the first nine months of 2002. Of the total change in interest expense, approximately $5.9 million in the first nine months of 2003 and approximately $4.4 million in first nine months 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 nine months ended September 30, 2002 and 2003, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately $11.1 million and $11.9 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 $5.0 million in the first nine months 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 “Fixed Swaps”) to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The Fixed 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 Fixed Swaps was $4.4 million in for the first nine months of 2003 and has been included in interest expense, other in the accompanying unaudited consolidated statement of income. The Fixed Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the Fixed Swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders’ equity.

Subsequent to September 30, 2003, we have entered into four separate interest rate swaps (the “Variable Swaps”) each at $25.0 million ($100.0 million total) to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. Under the Variable Swaps’ agreements, Sonic receives 8.625% on the respective notional amounts and pays interest payments on the respective notional amounts at a rate equal to the six month LIBOR rate plus a spread ranging from 3.595% to 3.840% with an average spread of 3.716%. The Variable Swaps expire on August 15, 2013 and have been designated and qualify as fair value hedges and, as a result, future changes in the fair value of the Variable Swaps will be recorded against the associated fixed rate debt, net of related income taxes.

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.

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.

PART II – OTHER INFORMATION

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

(a) Exhibits:

Exhibit No.	Description
4.1*	Form of 8 5/8% Senior Subordinated Note due 2013, Series B (incorporated by reference to Exhibit 4.3 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-109426 and 333-109426-1 through 109426-261) (the "2003 Exchange Offer Form S-4")).
4.2*	Indenture dated as of August 12, 2003 among Sonic Automotive, Inc., as issuer, the subsidiaries of Sonic named therein, as guarantors, and U.S. Bank National Association, as trustee (the "Trustee"), relating to the 8 5/8% Senior Subordinated Notes due 2013 (incorporated by reference to Exhibit 4.4 to the 2003 Exchange Offer Form S-4).
4.3*	Registration Rights Agreement dated as of August 12, 2003 among Sonic Automotive, Inc., the Guarantors named therein and Banc of America Securities LLC, J.P. Morgan Securities, Inc., Merrill Lynch & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 4.5 to the 2003 Exchange Offer Form S-4).
4.4*	Purchase Agreement dated as of August 7, 2003 between Sonic Automotive, Inc., the Guarantors named therein and Banc of America Securities LLC, J.P. Morgan Securities, Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 4.6 to the 2003 Exchange Offer Form S-4).
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) Current Reports on Form 8-K:

On July 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 June 30, 2003.

On July 29, 2003, we filed a Current Report on Form 8-K with the SEC pursuant to Item 9 of Form 8-K to announce that our Board of Directors approved a quarterly cash dividend program.

On July 31, 2003, we filed a Current Report on Form 8-K with the SEC pursuant to Item 9 of Form 8-K to announce recently entered into agreements to purchase or purchased eighteen dealerships with combined revenues of $800 million annually.

On August 4, 2003, we filed a Current Report on Form 8-K with the SEC pursuant to Item 9 of Form 8-K to announce an offering of $200 million of Senior Subordinated Notes due 2013.

On August 4, 2003, we filed a Current Report on Form 8-K with the SEC to reflect the reclassifications of franchises between discontinued and continuing operations in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: November 7, 2003

By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

Date: November 7, 2003

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

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

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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

Exhibit 31.1

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: November 7, 2003

By: /s/ E. Lee Wyatt Jr.

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

Exhibit 31.2

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: November 7, 2003

By: /s/ O. Bruton Smith

O. Bruton Smith,
Chairman and Chief Executive Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 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

November 7, 2003

Exhibit 32.2

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 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

November 7, 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 September 30, 2003, our total outstanding indebtedness was approximately $1,457.0 million, including the following:

- $330.0 million under a revolving credit facility;
- $787.1 million under standardized secured inventory floor plan facilities;
- $126.9 million in 5 1/4% convertible senior subordinated notes due 2009 representing $130.1 million in aggregate principal amount outstanding less unamortized discount of approximately $3.2 million;
- $194.4 million in 8 5/8% senior subordinated notes due 2013 representing $200.0 million in aggregate principal amount outstanding less unamortized discount of approximately $5.6 million;
- $14.1 million of other secured debt, including $10.1 million under our construction/mortgage credit facility; and
- $4.5 million of subordinated debt owed to our chairman and chief executive officer, Mr. O. Bruton Smith.

As of September 30, 2003, we had approximately $146.6 million available for additional borrowings under the revolving credit facility. We also had approximately $89.9 million available under a construction/mortgage credit facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the floor plan facilities. In addition, the indentures relating to our senior subordinated notes, convertible senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

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

On October 6, 2003, we repaid all outstanding subordinated debt owed to our chairman and chief executive officer with an advance on our credit facility.

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

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for our operations and other purposes;
- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates;

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

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

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

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

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

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

Risks Related to Our Relationships with Vehicle Manufacturers

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

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

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

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

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

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

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

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

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

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

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

During the first nine months of 2003, approximately 72.1% of our new vehicle revenue was derived from the sale of new vehicles manufactured by Ford, Honda, General Motors (including Cadillac), BMW and Toyota. Our success depends to a great extent on these manufacturers':

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

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

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

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

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

Manufacturers' restrictions on acquisitions could limit our future growth.

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

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

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

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

In September 2003, BMW of North America, LLC ("BMW NA") notified us that it would not approve our acquisition of the Momentum BMW, Momentum MINI and Advantage BMW dealerships located in Houston, Texas, and BMW NA filed a complaint against us in New Jersey state court seeking an injunction prohibiting our acquisition of Momentum BMW and Advantage BMW. Subsequently, Momentum BMW and Advantage BMW filed a protest and complaint against BMW NA with the Texas Motor Vehicle Board asserting that BMW NA has violated Texas franchise law by wrongfully rejecting the proposed transfer to us. We have filed a motion to intervene in the Texas Motor Vehicle Board proceedings on behalf of Momentum BMW and Advantage BMW, which motion was granted by the Board. On September 24, 2003, the Texas Motor Vehicle Board imposed a statutory stay requiring that all parties to the protest and complaint refrain from any act or omission that would affect a legal right, duty or privilege of any party to the proceeding or which would tend to render ineffectual a Board order in the pending proceeding. In a formal hearing held on October 31, 2003, an Administrative Law Judge of the Texas Motor Vehicle Board reaffirmed the existence of the statutory stay imposed on the parties, contrary to BMW NA's assertion in case filings that a statutory stay was not in effect. On October 9, 2003, the New Jersey court issued a temporary restraint preventing Sonic from closing on the acquisition of Momentum BMW and Advantage BMW until further order of such court, and we are appealing this ruling. We are vigorously defending our right to acquire these dealerships in both the Texas action and the New Jersey action. If we are unsuccessful, we may not be able to acquire Momentum BMW, Momentum MINI and Advantage BMW, and possibly may also not be able to acquire any of the 7 other dealerships included in the Momentum and Advantage automotive groups. The outcome of the litigation and our request for approval of the acquisition from BMW NA will have no effect on our results of operations or financial position. However, if we are unsuccessful in the litigation, it will reduce the amount of anticipated revenues from acquisitions previously reported in our Current Report on Form 8-K filed with the SEC on July 31, 2003.

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

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

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

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

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

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

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

Risks Related to Our Acquisition Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Automotive Retail Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General Risks Related to Investing in Our Securities

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

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

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

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

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

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

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

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

Additionally, several private civil actions have been filed against these dealership subsidiaries stating allegations similar to those underlying the original investigations by the Attorney General's Office and the Department of Insurance. One private civil action filed against one of the dealership subsidiaries purports to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed. Another private civil action has been filed against Sonic Automotive, Inc., which purports to represent a class of customers of all of our Florida dealership subsidiaries. The plaintiffs filed a motion for class certification in this proceeding in October 2003, but we are vigorously opposing this motion and the Florida court has not yet ruled on the motion.

In 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. While these appeals have been pending, the plaintiffs and certain defendants have reached an understanding on proposed settlement terms for all three cases that would provide for distribution to class members of certificates that are redeemable, with a variety of limitations, for discounts on vehicle service or discounts towards the purchase of vehicles from the settling dealerships in Texas. We are in the process of evaluating the proposed settlement for purposes of determining whether our Texas dealerships will participate in the proposed settlement. Even if our Texas dealerships elect to participate in the proposed settlement, the proposed settlement would still be subject to various conditions outside of our control, including obtaining a specified level of participation from defendant dealerships in Texas by

November 13, 2003 and court approval of the proposed settlement terms, neither of which is certain at this time.

If the TADA matters are not settled, we intend to vigorously defend ourselves and assert available defenses. In addition, we may have rights of indemnification with respect to certain aspects of the TADA matters. However, an adverse resolution of the TADA matters may result in the payment of significant costs and damages, which could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

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

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

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

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

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented approximately 16.4% of our sales for the nine months ended September 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 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.