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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

Commission file number 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

28212
(Zip Code)

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

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

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

As of July 30, 2004, there were 29,259,030 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: Condensed Consolidated Financial Statements.

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

	Three-Month Periods Ended June 30,	
	2003	2004
Revenues:		
New vehicles	\$ 1,118,757	\$ 1,144,243
Used vehicles	313,454	297,970
Wholesale vehicles	102,707	128,527
Total vehicles	1,534,918	1,570,740
Parts, service and collision repair	236,671	257,653
Finance, insurance and other	51,705	48,822
Total revenues	1,823,294	1,877,215
Cost of sales	1,547,022	1,586,948
Gross profit	276,272	290,267
Selling, general and administrative expenses	213,783	222,014
Depreciation and amortization	2,555	4,300
Operating income	59,934	63,953
Other income / (expense):		
Interest expense, floor plan	(5,384)	(6,561)
Interest expense, other, net	(9,696)	(8,802)
Other income / (expense), net	16	(33)
Total other expense	(15,064)	(15,396)
Income from continuing operations before income taxes	44,870	48,557
Provision for income taxes	16,239	17,624
Income from continuing operations	28,631	30,933
Discontinued operations:		
Loss from operations and the sale of discontinued franchises	(78)	(1,501)
Income tax benefit / (expense)	(37)	560
Loss from discontinued operations	(115)	(941)
Net income	\$ 28,516	\$ 29,992
Basic net income (loss) per share:		
Income per share from continuing operations	\$ 0.70	\$ 0.75
Loss per share from discontinued operations	(0.00)	(0.03)
Net income per share	\$ 0.70	\$ 0.72
Weighted average common shares outstanding	40,718	41,440
Diluted net income (loss) per share:		
Income per share from continuing operations	\$ 0.68	\$ 0.73
Loss per share from discontinued operations	(0.00)	(0.03)
Net income per share	\$ 0.68	\$ 0.70
Weighted average common shares outstanding	42,071	42,557
Dividends declared per common share	\$ —	\$ 0.10

See notes to unaudited condensed consolidated financial statements.

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

	Six-Month Periods Ended June 30,	
	2003	2004
Revenues:		
New vehicles	\$ 2,049,932	\$ 2,152,506
Used vehicles	589,981	588,161
Wholesale vehicles	201,338	242,986
Total vehicles	2,841,251	2,983,653
Parts, service and collision repair	459,933	504,518
Finance, insurance and other	97,883	92,714
Total revenues	3,399,067	3,580,885
Cost of sales	2,871,422	3,023,022
Gross profit	527,645	557,863
Selling, general and administrative expenses	417,721	436,092
Depreciation and amortization	4,829	8,020
Operating income	105,095	113,751
Other income / (expense):		
Interest expense, floor plan	(10,906)	(12,516)
Interest expense, other, net	(19,221)	(17,137)
Other income / (expense), net	88	(6)
Total other expense	(30,039)	(29,659)
Income from continuing operations before taxes and cumulative effect of change in accounting principle	75,056	84,092
Provision for income taxes	27,387	30,795
Income from continuing operations before cumulative effect of change in accounting principle	47,669	53,297
Discontinued operations:		
Loss from operations and the sale of discontinued franchises	(2,969)	(1,859)
Income tax benefit	1,121	740
Loss from discontinued operations	(1,848)	(1,119)
Income before cumulative effect of change in accounting principle	45,821	52,178
Cumulative effect of change in accounting principle, net of tax benefit of \$3,325	(5,619)	—
Net income	\$ 40,202	\$ 52,178
Basic net income (loss) per share:		
Income per share from continuing operations	\$ 1.17	\$ 1.29
Loss per share from discontinued operations	(0.05)	(0.03)
Income per share before cumulative effect of change in accounting principle	1.12	1.26
Cumulative effect of change in accounting principle	(0.14)	—
Net income per share	\$ 0.98	\$ 1.26
Weighted average common shares outstanding	40,824	41,317
Diluted net income (loss) per share:		
Income per share from continuing operations	\$ 1.14	\$ 1.25
Loss per share from discontinued operations	(0.04)	(0.02)
Income per share before cumulative effect of change in accounting principle	1.10	1.23
Cumulative effect of change in accounting principle	(0.14)	—
Net income per share	\$ 0.96	\$ 1.23
Weighted average common shares outstanding	41,915	42,578
Dividends declared per common share	\$ —	\$ 0.20

See notes to unaudited condensed consolidated financial statements.

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

	December 31, 2003	June 30, 2004 (Unaudited)
ASSETS		
Current Assets:		
Cash	\$ 82,082	\$ —
Receivables, net	306,498	350,922
Inventories	1,046,909	1,160,487
Assets held for sale	88,990	84,784
Other current assets	29,718	50,034
Total current assets	1,554,197	1,646,227
Property and equipment, net	125,356	147,770
Goodwill, net	909,091	970,394
Other intangible assets, net	75,230	87,817
Other assets	22,355	29,567
Total assets	\$ 2,686,229	\$ 2,881,775
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan	\$ 996,370	\$ 1,077,296
Trade accounts payable	63,577	65,851
Accrued interest	13,851	14,322
Other accrued liabilities	121,744	151,524
Current maturities of long-term debt	1,387	3,547
Total current liabilities	1,196,929	1,312,540
Long-term debt	694,898	721,737
Other long-term liabilities	19,136	24,502
Deferred income taxes	76,933	78,229
Stockholders' Equity:		
Class A Common Stock; \$.01 par value; 100,000,000 shares authorized; 38,588,913 shares issued and 29,192,549 shares outstanding at December 31, 2003; 39,543,494 shares issued and 29,475,530 shares outstanding at June 30, 2004	384	393
Class B Common Stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2003 and June 30, 2004	121	121
Paid-in capital	416,892	432,736
Retained earnings	402,799	446,709
Accumulated other comprehensive loss	(4,419)	(2,392)
Treasury Stock, at cost (9,396,364 shares held at December 31, 2003 and 10,067,964 shares held at June 30, 2004)	(117,444)	(132,800)
Total stockholders' equity	698,333	744,767
Total liabilities and stockholders' equity	\$ 2,686,229	\$ 2,881,775

See notes to unaudited condensed consolidated financial statements.

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

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at									
December 31, 2003	38,589	\$ 384	12,029	\$ 121	\$ 416,892	\$ 402,799	\$ (117,444)	\$ (4,419)	\$ 698,333
Comprehensive Income:									
Net Income						52,178			52,178
Change in fair value of interest rate swaps, net of tax expense of \$1,296								2,027	2,027
Total comprehensive income, net of tax									54,205
Shares issued under stock compensation plans	954	9			11,793				11,802
Income tax benefit associated with stock compensation plans					4,051				4,051
Dividends declared (\$0.20 per share)						(8,268)			(8,268)
Purchase of treasury stock							(15,356)		(15,356)
Balance at June 30, 2004	39,543	\$ 393	12,029	\$ 121	\$ 432,736	\$ 446,709	\$ (132,800)	\$ (2,392)	\$ 744,767

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 40,202	\$ 52,178
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,371	8,321
Cumulative effect of change in accounting principle, net of tax	5,619	—
Equity interest in gains of investees	(286)	(327)
Gain on disposal of assets	(5,654)	(469)
Income tax benefit associated with stock compensation plans	640	4,051
Changes in assets and liabilities that relate to operations:		
Receivables	3,112	(44,857)
Inventories	(36,532)	(66,672)
Other assets	(7,903)	(26,157)
Notes payable - floor plan	38,331	61,163
Trade accounts payable and other liabilities	36,540	38,035
Total adjustments	39,238	(26,912)
Net cash provided by operating activities	79,440	25,266
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(30,070)	(101,075)
Purchases of property and equipment	(35,011)	(45,821)
Proceeds from sales of property and equipment	7,664	21,190
Proceeds from sales of dealerships	24,164	30,492
Net cash used in investing activities	(33,253)	(95,214)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) / borrowings on revolving credit facilities	(15,508)	608
Proceeds from long-term debt	56	163
Payments on long-term debt	(741)	(1,074)
Purchases of Class A Common Stock	(12,044)	(15,356)
Issuance of shares under stock compensation plans	3,545	11,802
Dividends paid	—	(8,277)
Net cash used in financing activities	(24,692)	(12,134)
NET INCREASE / (DECREASE) IN CASH	21,495	(82,082)
CASH, BEGINNING OF PERIOD	10,576	82,082
CASH, END OF PERIOD	\$ 32,071	\$ —
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Long-term debt assumed in purchase of businesses, including premium of \$7,254	\$ —	\$ 33,824
Change in fair value of cash flow hedging instruments (net of tax benefit of of \$287 for the six months ended June 30, 2003 and net of tax expense of \$1,296 for the six months ended June 30, 2004)	\$ 449	\$ (2,027)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest, net of amount capitalized	\$ 34,060	\$ 30,632
Cash paid for income taxes	\$ 9,759	\$ 4,959

See notes to unaudited condensed consolidated financial statements.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited financial information for the three and six months ended June 30, 2004 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of Sonic for the year ended December 31, 2003, which were included in Sonic's Annual Report on Form 10-K.

Stock-Based Compensation - Sonic accounts for stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. In accordance with those provisions, because the exercise price of all options granted under those plans equaled the market value of the underlying stock at the grant date, no stock-based employee compensation cost is recorded in the accompanying unaudited condensed consolidated financial statements. Using the Black-Scholes option pricing model for all options granted, the following table illustrates the effect on net income and earnings per share if Sonic had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

(Dollars in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Net income as reported	\$ 28,516	\$ 29,992	\$ 40,202	\$ 52,178
Fair value compensation cost, net of tax benefits of \$1,989 and \$1,284, for the three months ended June 30, 2003 and 2004, respectively, and \$3,179 and \$2,431 for the six months ended June 30, 2003 and 2004, respectively	(3,245)	(2,252)	(5,246)	(4,213)
Pro forma net income	\$ 25,271	\$ 27,740	\$ 34,956	\$ 47,965
Basic income (loss) per share:				
Net income as reported	\$ 0.70	\$ 0.72	\$ 0.98	\$ 1.26
Fair value compensation cost, net of tax benefit	(0.08)	(0.05)	(0.12)	(0.10)
Pro forma net income	\$ 0.62	\$ 0.67	\$ 0.86	\$ 1.16
Diluted income (loss) per share:				
Net income as reported	\$ 0.68	\$ 0.70	\$ 0.96	\$ 1.23
Fair value compensation cost, net of tax benefit	(0.08)	(0.05)	(0.13)	(0.10)
Pro forma net income	\$ 0.60	\$ 0.65	\$ 0.83	\$ 1.13

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

Cumulative Effect of a Change in Accounting Principle - The Emerging Issues Task Force ("EITF") of the FASB reached a consensus on Issue No. 02-16, "Accounting by a Customer for Certain Consideration Received from a Vendor." In accordance with Issue No. 02-16, which was effective January 1, 2003, payments received from manufacturers for floor plan assistance and certain types of advertising allowances should be recorded as a reduction of the cost of inventory and recognized as a reduction of cost of sales when the inventory is sold. The cumulative effect of the adoption of Issue No. 02-16 resulted in a decrease to net income of \$5.6 million, net of income taxes of \$3.3 million, for the three and six month periods ended June 30, 2003.

Reclassifications - Loss from operations and the sale of discontinued franchises for the six months ended June 30, 2003 reflects reclassifications from the prior year presentation to include additional franchises sold and terminated or identified for sale subsequent to June 30, 2003 which had not been classified as held for sale as of June 30, 2003.

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

In April 2004, the FASB staff finalized Position No. FAS 129-1, "Disclosure Requirements under FASB Statement No. 129, Disclosures of Information about Capital Structure, Relating to Contingently Convertible Securities" ("FSP FAS 129-1"). Sonic adopted FSP FAS 129-1 as of June 30, 2004. See Note 5.

In July 2004, the EITF reached a tentative conclusion on Issue No. 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share." If finalized and ratified by the FASB, Issue No. 04-8 requires issuers of contingently convertible securities to include the dilutive effect of these securities in the calculation of dilutive weighted average shares outstanding regardless of whether conversion is likely. Issue No. 04-8 also requires retroactive application to all prior periods for which contingently convertible securities were outstanding. Sonic is currently evaluating the provisions of Issue No. 04-8 and has not determined the impact on Sonic's consolidated diluted earnings per share.

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

Acquisitions:

During the first six months of 2004, Sonic acquired eleven franchises located in Ontario, California and Houston, Texas for an aggregate purchase price of approximately \$134.9 million, net of cash acquired. This purchase price was comprised of \$101.1 million in cash from operations and borrowings under the revolving credit facility and the assumption of \$33.8 million in debt, including premium of \$7.3 million (see discussion regarding the assumed debt in Note 5). The unaudited condensed consolidated balance sheet as of June 30, 2004 includes preliminary allocations of the purchase price of these acquisitions to the assets and liabilities acquired based on their estimated fair market values at the dates of acquisition and are subject to final adjustment. As a result of these allocations and adjustments for previously recorded acquisitions, Sonic has recorded the following:

- \$15.9 million of intangible assets representing rights acquired under franchise agreements;
- \$83.0 million of goodwill, all of which is expected to be tax deductible; and
- \$(0.3) million of goodwill related to the final adjustment of purchase price allocations for prior year acquisitions.

Subsequent to June 30, 2004, Sonic purchased additional franchises for approximately \$71.4 million in cash funded by operations and borrowings under the revolving credit facility.

Dispositions:

During the first six months of 2004, Sonic closed on three planned franchise dispositions. These disposals generated cash of \$30.5 million. These franchise dispositions resulted in a net gain of \$0.7 million, which is included in discontinued operations in the accompanying unaudited condensed consolidated statements of income for the six month period ended June 30, 2004. The gain was net of \$25.5 million in goodwill associated with these franchises.

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

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

In addition to the dispositions described above, as of June 30, 2004, Sonic had approved the sale of 14 dealerships, representing 21 franchises. These dealerships are generally franchises with unprofitable operations. The operating results of these franchises are included in discontinued operations on the accompanying unaudited condensed consolidated statements of income. Long lived assets to be disposed of in connection with franchises not yet sold, consisting primarily of property, equipment, goodwill and other intangible assets, totaled approximately \$23.1 million at June 30, 2004 and have been classified in assets held for sale in the accompanying unaudited condensed consolidated balance sheet. Goodwill classified as assets held for sale totaled approximately \$7.0 million and \$11.2 million at June 30, 2004 and December 31, 2003, respectively. Other assets and liabilities to be disposed in connection with these dispositions include inventories and related notes payable - floor plan. Revenues associated with franchises classified as discontinued operations were \$100.1 million and \$225.1 million for the three and six month periods ended June 30, 2004, respectively, and \$157.7 million and \$322.0 million for the three and six month periods ended June 30, 2003, respectively. The pre-tax loss (before gains or losses on the sale of disposed franchises) associated with franchises classified as discontinued operations were \$1.5 and \$2.5 million for the three and six month periods ended June 30, 2004, respectively, and \$3.8 million and \$8.6 million for the three and six month periods ended June 30, 2003, respectively.

3. INVENTORIES

Inventories consist of the following:

	(Dollars in thousands)	
	December 31, 2003	June 30, 2004
New vehicles	\$ 825,189	\$ 895,599
Used vehicles	126,872	155,399
Parts and accessories	49,782	52,699
Other	45,066	56,790
Total	\$ 1,046,909	\$ 1,160,487

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	(Dollars in thousands)	
	December 31, 2003	June 30, 2004
Land	\$ 7,653	\$ 4,301
Building and improvements	68,936	78,501
Office equipment and fixtures	35,061	40,017
Parts and service equipment	26,689	28,936
Company vehicles	8,050	8,810
Construction in progress	9,262	24,230
Total, at cost	155,651	184,795
Less accumulated depreciation	(30,295)	(37,025)
Property and equipment, net	\$ 125,356	\$ 147,770

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

In addition to the amounts shown above, Sonic incurred approximately \$65.5 million in real estate and construction costs as of December 31, 2003 and \$61.7 million as of June 30, 2004 on dealership 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 condensed consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the dealership facilities to unaffiliated third parties and enters into long-term operating leases on the dealership facilities. During the first six months of 2004, Sonic sold \$15.5 million in dealership facilities in sale-leaseback transactions.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	(Dollars in thousands)	
	December 31, 2003	June 30, 2004
\$550 million revolving credit facility bearing interest at 2.55 percentage points above LIBOR and maturing October 31, 2006, collateralized by all of Sonic's assets (1)	\$ 285,523	\$ 296,169
Senior Subordinated Notes bearing interest at 8.625%, maturing August 15, 2013	275,000	275,000
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009	130,100	130,100
\$50 million revolving construction line of credit with Toyota Credit bearing interest at 2.25 percentage points above LIBOR and maturing December 31, 2007, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets (2)	4,568	—
\$100 million revolving real estate acquisition line of credit with Toyota Credit bearing interest at 2.00 percentage points above LIBOR and maturing December 31, 2012, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets (2)	5,470	—
Notes payable to a finance company bearing interest from 10.52% to 9.52% (with a weighted average of 10.19%) with combined monthly principal and interest payments of \$325, and maturing November 1, 2015 through September 1, 2016, and collateralized by letters of credit with a commercial bank (3)	—	26,397
Other notes payable (primarily equipment notes)	2,201	2,340
	\$ 702,862	\$ 730,006
Unamortized net (discount) / premium	(6,420)	1,050
Less fair value of variable interest rate swaps	(157)	(5,772)
Less current maturities	(1,387)	(3,547)
	\$ 694,898	\$ 721,737

- (1) During the first quarter of 2004, Sonic increased the borrowing limit on the revolving credit facility from \$500.0 million to \$550.0 million. In connection with this increase in the borrowing limit, Sonic added two lenders to the revolving credit facility.
- (2) Total combined borrowings under the construction and real estate lines of credit are limited to \$100.0 million. During the three months ended June 30, 2004, Sonic repaid the construction and real estate acquisition revolving lines of credit with cash on hand and advances on the revolving credit facility.
- (3) Three notes payable were assumed in connection with the purchase of nine franchises during the three months ended June 30, 2004 and were recorded at fair value using an interest rate of 5.35% (see Note 2). The interest rate used to calculate the fair value was based on a quoted market price for notes with similar terms as of the date of assumption. As a result of calculating the fair value, a premium of \$7.3 million was recorded which will be amortized over the lives of the notes payable.

Neither of the conversion features on the convertible senior subordinated notes (the "Convertibles") were satisfied during the six months ended June 30, 2004. The Convertibles were not included in the calculation of diluted earnings per share for any periods presented in the accompanying unaudited condensed consolidated financial statements because of the substantive difference between the market price contingencies and the conversion price.

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

During the three months ended June 30, 2004, Sonic amended the current ratio and adjusted debt to EBITDA covenants (the "Amendment") under the \$550.0 million revolving credit facility (the "Revolver"). Per the Amendment, Sonic will be in compliance with the required specified current ratio of greater than 1.23 if there is adequate availability on the Revolver which will, when added to Sonic's total current assets, make the current ratio greater than 1.23. Also per the Amendment, the Revolver availability used for the current ratio calculation is added to Sonic's debt for purposes of compliance with the required specified adjusted debt to EBITDA ratio of less than 2.25.

Sonic was in compliance with all financial covenants under the above credit facilities as of June 30, 2004.

6. PER SHARE DATA

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

	(Shares in thousands) Three Months Ended June 30,		(Shares in thousands) Six Months Ended June 30,	
	2003	2004	2003	2004
Basic weighted average number of common shares outstanding	40,718	41,440	40,824	41,317
Dilutive effect of stock options	1,351	1,117	1,090	1,261
Dilutive effect of warrants	2	—	1	—
Weighted average number of common shares outstanding, including effect of dilutive securities	42,071	42,557	41,915	42,578

In addition to the stock options included in the table above, options to purchase 1,119,000 shares and 2,010,000 shares of Class A common stock were outstanding during the six month periods ended June 30, 2003 and 2004, respectively, but were not included in the computation of diluted net income per share because the options were antidilutive. The total amount of stock options outstanding at June 30, 2003 and 2004 were 7,316,000 and 6,435,000, respectively.

7. CONTINGENCIES

Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities.

Several of Sonic's Texas dealership subsidiaries have been named in three class action lawsuits brought against the Texas Automobile Dealers Association ("TADA") and new vehicle dealerships in Texas that are members of the TADA. Approximately 630 Texas dealerships are named as defendants in two of the actions, and approximately 700 Texas dealerships are named as defendants in the other action. The three actions allege that since January 1994, Texas automobile dealerships have deceived customers with respect to a vehicle inventory tax and violated federal antitrust and other laws. In two of the actions, the Texas state court certified two classes of consumers on whose behalf the actions would proceed. The Texas Court of Appeals has affirmed the trial court's order of class certification in the state actions. Our dealership subsidiary defendants and the other Texas dealership defendants are appealing that ruling to the Texas Supreme Court. On March 26, 2004, the Texas Supreme Court issued an order stating that it would not hear the merits of the defendants' appeal. On May 10, 2004, the Texas dealership defendants petitioned the Texas Supreme Court to reconsider its denial of review of the class certification, and the parties currently are waiting for the Texas Supreme Court's decision on this motion for rehearing. The federal court has conditionally certified a class of consumers in the federal antitrust case. Our dealership subsidiary defendants and the other Texas dealership defendants are also appealing that ruling to the U.S. Court of Appeals, Fifth Circuit.

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

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

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

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

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

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

Overview

We are one of the largest automotive retailers in the United States. As of July 30, 2004 we owned dealership subsidiaries that operated 196 dealership franchises, representing 38 different brands of cars and light trucks at 157 locations, and 40 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 is a detail of our new vehicle revenues by brand for the three and six month periods ended June 30, 2003 and 2004:

	Percentage of New Vehicle Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2004	2003	2004
Brand (1)				
Honda	15.1%	12.7%	15.8%	12.9%
General Motors (2)	12.6%	12.0%	11.8%	11.8%
BMW	10.1%	11.3%	9.8%	10.8%
Toyota	12.8%	11.3%	12.1%	11.7%
Cadillac	10.8%	11.1%	11.8%	12.0%
Ford	11.8%	9.9%	12.1%	10.1%
Lexus	5.0%	5.9%	4.8%	6.0%
Volvo	4.0%	4.0%	3.8%	4.0%
Chrysler (3)	2.8%	3.3%	2.9%	3.3%
Mercedes	3.0%	3.0%	3.1%	3.2%
Nissan	2.5%	2.5%	2.6%	2.6%
Other (4)	5.3%	6.5%	5.3%	5.9%
Other Luxury (5)	4.2%	6.5%	4.1%	5.7%
Total	100.0%	100.0%	100.0%	100.0%

- (1) In accordance with the provisions of SFAS No. 144, revenue data in 2003 reflects the reclassification of the results of operations of franchises sold and terminated or identified for sale subsequent to June 30, 2003 which were not previously included in discontinued operations
- (2) Includes Buick, Chevrolet, GMC, Oldsmobile, Saturn and Pontiac
- (3) Includes Chrysler, Dodge and Jeep
- (4) Includes Hino, Hyundai, Isuzu, KIA, Lincoln, Mercury, Minicooper, Mitsubishi, Scion, Subaru and Volkswagen
- (5) Includes Acura, Audi, Hummer, Infiniti, Jaguar, Land Rover, Maybach, Morgan, Porsche, Rolls Royce and Saab

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF 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 unaudited consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to June 30, 2004. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is not necessarily indicative of the results of operations, financial position and cash flows that would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Results of Operations

Revenues

New Vehicles:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2003	6/30/2004	Units or \$ Change	% Change	6/30/2003	6/30/2004	Units or \$ Change	% Change
New Vehicle Units								
Same Store	39,902	36,747	(3,155)	(7.9)%	73,239	69,310	(3,929)	(5.4)%
Acquisitions	103	2,691	2,588	2512.6%	404	4,906	4,502	1114.4%
Total As Reported	40,005	39,438	(567)	(1.4)%	73,643	74,216	573	0.8%
New Vehicle Revenues (in thousands)								
Same Store	\$ 1,115,376	\$ 1,055,626	\$ (59,750)	(5.4)%	\$ 2,038,547	\$ 2,000,956	\$ (37,591)	(1.8)%
Acquisitions	3,381	88,617	85,236	2521.0%	11,385	151,550	140,165	1231.1%
Total As Reported	\$ 1,118,757	\$ 1,144,243	\$ 25,486	2.3%	\$ 2,049,932	\$ 2,152,506	\$ 102,574	5.0%
New Vehicle Unit Price								
Same Store	\$ 27,953	\$ 28,727	\$ 774	2.8%	\$ 27,834	\$ 28,870	\$ 1,036	3.7%

Total same store new vehicle unit sales decreased for the three and six month periods ended June 30, 2004. Unit sales at our domestic dealerships decreased 1,106 units, or 6.9%, and 1,607 units, or 5.4%, for the three and six months ended June 30, 2004, respectively, as compared to the same periods last year. Our import dealerships also experienced sales declines of 2,049 units, or 8.6%, in the second quarter of 2004, and 2,322 units, or 5.4%, for the six months ended June 30, 2004. The industry experienced decreases at domestic dealerships of 2.4% and 0.3%, and increases at import dealerships of 5.8% and 6.2%, for the three and six month periods ended June 30, 2004, respectively. Unit declines at our Honda, Toyota and Ford dealerships represented 82.9% of our total decline in same store new unit sales for the quarter ended June 30, 2004. Our Honda, Toyota and Ford dealerships experienced a decline of 11.5% for the six month period ended June 30, 2004, as compared to the same period last year. Declines at our Honda dealerships can be attributed to turnover in dealership management and increased competition in key markets. Our Ford dealerships' volume declined as Ford continued to lose market share in the second quarter of 2004. Our Toyota dealerships' unit volume declined because we had high unit sales in 2003 that were difficult to maintain in 2004. For the quarter ended June 30, 2004, declines at these stores were partially offset by increases in BMW (up 119 units, or 4.0%), Hyundai (up 90 units, or 12.2%) and Acura (up 63 units, or 13.9%) when compared to the same period last year. For the six month period ended June 30, 2004, our strongest performing dealerships were BMW (up 371 units, or 7.0%), Acura (up 174 units, or 21.7%) and Lexus (up 115 units, or 4.9%). These increases can be attributed to recently released popular new models.

Our strongest performing regions for the quarter ended June 30, 2004 were Birmingham/Tennessee (up 361 units, or 19.9%), North Los Angeles (up 140 units, or 8.2%) and Las Vegas (up 31 units, or 3.3%). For the six months ended June 30, 2004, our strongest performing regions were Birmingham/Tennessee (up 620 units, or 18.6%), North Los Angeles (up 543 units, or 16.8%) and the North Bay of San Francisco (up 152 units, 2.8%). Each of these regions has a high concentration of luxury and import dealerships. The under performing regions were Oklahoma, Dallas and Florida whose combined declines represented 48.9% and 60.3% of the total same store new unit sales decline for the three and six month periods ended June 30, 2004, respectively. These regional declines were due to under performing domestic dealerships.

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

Most of our dealerships experienced increases in average new sales price per unit for both the quarter and year to date periods ended June 30, 2004. Improved price per unit at our BMW, Lexus, Infiniti and Volvo stores can be attributed to increased truck and sports-utility sales for the three and six months ended June 30, 2004. Our sole brand of dealerships that experienced a significant decrease in price per unit in both the three and six month periods was Honda, due to declining demand for a relatively mature product line and increased competition.

Used Vehicles:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2003	6/30/2004	Units or \$ Change	% Change	6/30/2003	6/30/2004	Units or \$ Change	% Change
Used Vehicle Units								
Same Store	18,748	15,980	(2,768)	(14.8)%	35,593	32,339	(3,254)	(9.1)%
Acquisitions	20	1,145	1,125	5625.0%	113	2,164	2,051	1815.0%
Total As Reported	18,768	17,125	(1,643)	(8.8)%	35,706	34,503	(1,203)	(3.4)%
Used Vehicle Revenues (in thousands)								
Same Store	\$ 313,086	\$ 273,839	\$ (39,247)	(12.5)%	\$ 588,168	\$ 549,128	\$ (39,040)	(6.6)%
Acquisitions	368	24,131	23,763	6457.3%	1,813	39,033	37,220	2053.0%
Total As Reported	\$ 313,454	\$ 297,970	\$ (15,484)	(4.9)%	\$ 589,981	\$ 588,161	\$ (1,820)	(0.3)%
Used Vehicle Unit Price								
Same Store	\$ 16,700	\$ 17,136	\$ 436	2.6%	\$ 16,525	\$ 16,980	\$ 455	2.8%

Total same store used vehicle unit sales decreased 2,768 units, or 14.8%, and 3,254 units, or 9.1%, for the three and six months ended June 30, 2004, respectively. Declines were generally experienced in all of our geographic regions except Birmingham / Tennessee and the North Bay of San Francisco, which had increases. For the three months ended June 30, 2004, our Florida, Dallas and Colorado regions accounted for 36.4% of the total decline in same store unit sales. For the six month period ended June 30, 2004, Colorado, Oklahoma and Florida were responsible for 53.1% of the total decline. These regions experienced declines due to a combination of factors including the continuation of substantial new vehicle incentives and increases in used car prices.

Despite the decline in used unit volumes, the average price per unit on used vehicle sales increased for both the three and six month periods ended June 30, 2004. This increase was attributable to our continued focus to sell Certified Pre-Owned ("CPO") vehicles, which generate higher selling prices, and the above mentioned market increase in used cars.

Wholesale Vehicles:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2003	6/30/2004	Units or \$ Change	% Change	6/30/2003	6/30/2004	Units or \$ Change	% Change
Wholesale Vehicle Units								
Same Store	13,790	13,893	103	0.7%	26,432	26,982	550	2.1%
Acquisitions	672	2,333	1,661	247.2%	868	2,677	1,809	208.4%
Total As Reported	14,462	16,226	1,764	12.2%	27,300	29,659	2,359	8.6%
Wholesale Vehicle Revenues (in thousands)								
Same Store	\$ 97,187	\$ 111,446	\$ 14,259	14.7%	\$ 190,188	\$ 213,716	\$ 23,528	12.4%
Acquisitions	5,520	17,081	11,561	209.4%	11,150	29,270	18,120	162.5%
Total As Reported	\$ 102,707	\$ 128,527	\$ 25,820	25.1%	\$ 201,338	\$ 242,986	\$ 41,648	20.7%
Wholesale Unit Price								
Same Store	\$ 7,048	\$ 8,022	\$ 974	13.8%	\$ 7,195	\$ 7,921	\$ 726	10.1%

Total same store wholesale vehicle revenues increased \$14.3 million, or 14.7%, for the three month period ended June 30, 2004, and \$23.5 million, or 12.4%, for the six month period ended June 30, 2004 as compared to the prior year. The increase in wholesale revenues was due to the decrease in used retail vehicle sales. In addition, the combination of a decline in used retail sales and higher auction prices has made the decision to wholesale cars more attractive. Our top performing dealerships were Honda, BMW and Audi, up 19.7% and 13.3% on a combined basis for the three and six month periods ended June 30, 2004, respectively, as compared to the same periods last year. These increases were primarily offset by our under performing domestic dealerships. Higher selling prices are evidenced by the increase in average wholesale price per unit of 13.8% and 10.1% for the three and six month periods ended June 30, 2004, respectively, as compared to the same periods last year.

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

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

	For the Three Months Ended				For the Six Months Ended			
	6/30/2003	6/30/2004	\$ Change	% Change	6/30/2003	6/30/2004	\$ Change	% Change
Parts, Service and Collision Repair								
Revenue (in thousands)								
Same Store	\$ 235,682	\$ 233,914	\$ (1,768)	(0.8)%	\$ 457,320	\$ 466,268	\$ 8,948	2.0%
Acquisitions	989	23,739	22,750	2300.3%	2,613	38,250	35,637	1363.8%
Total As Reported	\$ 236,671	\$ 257,653	\$ 20,982	8.9%	\$ 459,933	\$ 504,518	\$ 44,585	9.7%

Total same store Fixed Operations revenues decreased \$1.8 million, or 0.8%, in the second quarter of 2004, yet increased over the six month period ended June 30, 2004 by \$8.9 million, or 2.0%. Our top performing dealerships were BMW, Mercedes and Chrysler, which increased 12.0% for the second quarter and increased 13.5% for the six months ended June 30, 2004, on a combined basis as compared to the same periods in 2003. Warranty revenues were primarily responsible for the increases at our BMW and Mercedes dealerships, while our Chrysler dealerships experienced significant increases in customer pay revenues. Also contributing to the increase were quick lube revenues which were up \$1.5 million, or 60.0%, for the quarter ended June 30, 2004, and \$2.8 million, or 63.3%, for the six months ended June 30, 2004. These increases were partially offset by declines in Ford, GM (excluding Cadillac) and Cadillac for both the three and six month periods ended June 30, 2004. The declines in our Ford and GM (excluding Cadillac) dealerships were primarily caused by a decrease in wholesale parts revenues because of increased competition in key markets. Our Cadillac revenues decreased due to a decline in warranty revenues because of two recalls in 2003. These Fixed Operations decreases were generally located in our Central Division. Excluding the Central Division, same store Fixed Operations would have increased 2.3% and 4.7% for the three and six month periods ended June 30, 2004, respectively.

Finance and Insurance:

	For the Three Months Ended				For the Six Months Ended			
	6/30/2003	6/30/2004	\$ Change	% Change	6/30/2003	6/30/2004	\$ Change	% Change
Finance & Insurance Revenue								
(in thousands)								
Same Store	\$ 51,028	\$ 44,588	\$ (6,440)	(12.6)%	\$ 96,224	\$ 85,030	\$ (11,194)	(11.6)%
Acquisitions	677	4,234	3,557	525.4%	1,659	7,684	6,025	363.2%
Total As Reported	\$ 51,705	\$ 48,822	\$ (2,883)	(5.6)%	\$ 97,883	\$ 92,714	\$ (5,169)	(5.3)%
Total F&I per Unit								
Same Store, Excluding								
Fleet Units	\$ 917	\$ 910	\$ (7)	(0.8)%	\$ 936	\$ 899	\$ (37)	(4.0)%

Same store finance and insurance revenues decreased \$6.4 million, or 12.6%, and \$11.2 million, or 11.6%, in the three and six month periods ended June 30, 2004, respectively. The decline in new and used vehicle sales volume was responsible for 80.1% and 56.9% of the finance and insurance revenue declines for the three and six months ended June 30, 2004, respectively. The remaining decline was due to a restructuring of product offerings where certain products that were offered for sale in the prior year periods were discontinued.

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

Gross Profit and Gross Margins

The overall same store gross profit as a percentage of revenues ("gross margin") increased from 15.1% to 15.4% for the second quarter 2004, and increased from 15.5% to 15.6% for the six months ended June 30, 2004, as compared to the same periods last year. New vehicle gross margin (up 30 bps), used vehicle gross margin (up 10 bps), and Fixed Operations gross margin (up 50 bps) all increased in the quarter ended June 30, 2004. For the six months ended June 30, 2004, all margins experienced favorable increases except for used vehicle margins (down 10 bps). We experienced a favorable decrease in wholesale losses for both the three and six months ended June 30, 2004, 100 bps and 80 bps, respectively, due to the above mentioned wholesale trends. Also driving the overall gross margin increase, Fixed Operations revenue as a percentage of total revenue increased from 13.0% to 13.6%, and from 13.6% to 14.1% for the three and six months ended June 30, 2004, respectively.

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

Total SG&A increased \$8.2 million, or 3.9%, and \$18.4 million, or 4.4%, in the quarter and year to date periods ended June 30, 2004, respectively. Acquisitions accounted for \$17.2 million and \$31.0 million of the increases for the three and six month periods, respectively, offset by same store dealership declines of \$9.0 million and \$12.6 million, for the three and six month periods, respectively.

Same store SG&A expenses as a percentage of gross profits declined to 74.3% in the second quarter of 2004 from 75.0% in the second quarter of 2003 and to 75.5% in the first six months of 2004 from 76.8% in the first six months of 2003. These declines were mainly a result of lower advertising and compensation expenses offset by increases in rent, rent related expenses and other variable expenses.

Advertising expenses were lower in the second quarter and year to date periods as a result of the centralization of advertising expenditures that began in the first quarter. Total advertising expenses decreased \$1.4 million, or 9.3%, compared to the same quarter of the prior year and \$3.5 million, or 11.6%, compared to the prior year to date period. While advertising may increase slightly in certain targeted areas through the remainder of the year, we expect advertising comparisons to the prior year to continue to be favorable.

Total compensation expense declined \$9.7 million and \$12.3 million in the quarter and year to date periods ended June 2004, or, 8.8% and 5.3%, respectively. As a percentage of gross profits, compensation declined to 41.7% from 43.7% in the second quarter of the prior year and to 42.9% from 44.7% in the prior year to date period. These declines in compensation related expenses were consistent with the same store decreases experienced in gross profits on new, used and wholesale vehicles and in finance and insurance for the three and six month periods compared to the prior year. Decreases in compensation as a percentage of gross profit were also the result of the continued implementation of standardized compensation plans. We expect to see continued improvements in comparisons of compensation expense as a percentage of gross profit to prior year periods.

Depreciation and Amortization

Depreciation and amortization expense increased over the comparable three and six month periods by \$1.7 million and \$3.2 million, respectively, due to acquisitions, the completion of leasehold improvement projects and other general capital expenditures.

Floor Plan Interest Expense

The weighted average floor plan interest rate incurred by continuing dealerships was 2.65% for the quarter ended June 30, 2004, compared to 2.81% for the quarter ended June 30, 2003, which reduced interest expense by approximately \$0.2 million. This decrease in expense was offset by an increase in floor plan balances. The average floor plan balance from continuing dealerships increased to \$991.8 million during the second quarter of 2004 from \$776.1 million during the second quarter of 2003, resulting in increased expense of approximately \$1.4 million. Approximately \$58.4 million of the increase in the average floor plan balance was due to additional dealerships we acquired subsequent to June 30, 2003. The remaining increase in the floor plan balance was due to inventory optimization efforts.

The weighted average floor plan interest rate incurred by continuing dealerships was 2.62% for the six months ended June 30, 2004, compared to 2.99% for the six months ended June 30, 2003, which reduced interest expense by approximately \$1.3 million. This decrease in expense was offset by an increase in floor plan balances. The average floor plan balance from continuing dealerships increased to \$957.3 million during the first six months of 2004 from \$734.5 million during the first six months of 2003, resulting in increased expense of approximately \$2.9 million. Approximately \$46.3 million of the increase in the average floor plan balance was due to additional dealerships we acquired subsequent to June 30, 2003. The remaining increase in the floor plan balance was due to inventory optimization efforts.

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

Our floor plan expenses are substantially offset by amounts received from manufacturers in the form of floor plan assistance. These payments are credited against our cost of sales upon the sale of the vehicle. During the quarter and six months ended June 30, 2004, respectively, the amounts we recognized from floor plan assistance exceeded our floor plan interest expense by approximately \$3.5 million and \$6.6 million, respectively. In the three and six month periods ended June 30, 2003, floor plan assistance exceeded floor plan interest expense by approximately \$4.7 million and \$7.0 million, respectively.

Interest Expense, Other

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

	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2004
	Increase/(decrease) (in millions)	Increase/(decrease) (in millions)
Interest rates –		
• Decrease in the average interest rate on the Revolving Credit Facility from 4.01% to 3.82% and from 4.09% to 3.86% for the three and six months ended June 30, 2004, respectively	\$ (0.1)	\$ (0.3)
• Refinancing \$182.4 million of our 11% Senior Subordinated Notes with \$200.0 million of 8.625% Senior Subordinated Notes in Q3 2003	(0.7)	(1.3)
Debt balances –		
• Lower average balance on the Revolving Credit Facility	(0.2)	(0.8)
• Issuance of an additional \$75.0 million of 8.625% Senior Subordinated Notes in Q4 2003	1.6	3.2
Other factors –		
• Decrease in capitalized interest in first quarter 2004	—	0.2
• Incremental interest expense related to floating to fixed interest rate swaps	0.1	0.2
• Incremental interest savings related to fixed to floating interest rate swaps	(1.2)	(2.5)
• Increase in interest income	(0.7)	(1.2)
• Increase in other interest	0.3	0.4
	<u>\$ (0.9)</u>	<u>\$ (2.1)</u>

Liquidity and Capital Resources

We require cash to finance acquisitions and fund debt service and working capital requirements. We rely on cash flows from operations, borrowings under our various credit facilities and offerings of debt and equity securities to meet these requirements.

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

Floor Plan Facilities

The weighted average interest rate for our floor plan facilities was 2.66% and 2.81% for the three months ending June 30, 2004 and 2003, respectively, and 2.63% and 2.97% for the six months ended June 30, 2004 and 2003, respectively. Our floor plan interest expense is substantially offset by amounts received from manufacturers, in the form of floor plan assistance. In the second quarter of 2004, we received approximately \$10.6 million in manufacturer assistance, and \$20.2 million of assistance in the first six months of 2004, which resulted in an effective borrowing rate under our floor plan facilities for both periods of 0%. Interest payments under each of our floor plan facilities are due monthly, and we are generally not required to make principal repayments prior to the sale of the vehicles. We were in compliance with all restrictive covenants as of June 30, 2004.

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

Long-Term Debt and Credit Facilities

The Revolving Credit Facility: In the first quarter of 2004, we added two lenders to our Revolving Credit Facility and increased our borrowing limit by \$50.0 million. At June 30, 2004 our Revolving Credit Facility had a borrowing limit of \$550.0 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by one of our affiliates (the borrowing base and availability were approximately \$550.0 million and \$195.5 million at June 30, 2004, respectively). The amount available to be borrowed under the Revolving Credit Facility is reduced on a dollar-for-dollar basis by the cumulative face amount of outstanding letters of credit. At June 30, 2004, we had \$58.3 million in letters of credit outstanding.

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

Notes Payable to a Finance Company: Three notes payable totaling \$26.6 million in aggregate principal were assumed with the purchase of nine franchises during the three months ended June 30, 2004 (the "Assumed Notes"). The Assumed Notes bear interest rates from 10.52% to 9.52% (with a weighted average of 10.19%), have a combined monthly principal and interest payment of \$0.3 million, mature November 1, 2015 through September 1, 2016 and are collateralized by letters of credit with a commercial bank. We recorded the Assumed Notes at fair value using an interest rate of 5.35%. The interest rate used to calculate the fair value was based on a quoted market price for notes with similar terms as of the date of assumption. As a result of calculating the fair value, a premium of \$7.3 million was recorded that will be amortized over the lives of the Assumed Notes.

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

At June 30, 2004, the outstanding balance and availability on our long-term debt and credit facilities were as follows (in thousands):

	<u>Interest Rate (1)</u>	<u>Outstanding Balance</u>	<u>Additional Borrowing Availability</u>
Revolving Credit Facility (matures October 2006)	LIBOR + 2.55%	\$ 296,169	\$ 195,518
Senior Subordinated Notes (mature August 2013)	8.625%	\$ 275,000	\$ —
Convertible Senior Subordinated Notes (mature May 2009) (2)	5.25%	\$ 130,100	\$ —
Mortgage Facility:			
Construction Loan (matures December 2007)	LIBOR + 2.25%	\$ —	\$ 50,000(3)
Permanent Loan (matures December 2012)	LIBOR + 2.00%	\$ —	\$ 100,000(3)
Notes Payable to a Finance Company (mature November 2015 through September 2016)	10.19%(4)	\$ 26,397	\$ —

(1) Six-month LIBOR was 1.94% at June 30, 2004.

(2) Notes were not convertible at any time during the six months ended June 30, 2004.

(3) Total combined borrowings under the Construction and Permanent Loans are limited to \$100,000. Borrowings were repaid during the six months ended June 30, 2004. We do not currently intend to borrow on the Construction and Permanent Loans in the future.

(4) Weighted average rate.

We were in compliance with all of the restrictive and financial covenants under all our credit facilities as of June 30, 2004.

Dealership Acquisitions and Dispositions

In the first six months of 2004, we acquired eleven franchises for an aggregate purchase price of \$134.9 million in cash, net of cash acquired, comprised of \$101.1 million in cash from operations and by borrowings under the Revolving Credit Facility and the assumption of \$33.8 million in debt, including premium of \$7.3 million. The total purchase price for these acquisitions was based on our internally determined valuation of the franchises and their assets. During the first six months of 2004, we closed on three planned franchise dispositions. These disposals generated cash of \$30.5 million.

On July 1, 2004, we purchased additional franchises for approximately \$71.4 million in cash funded by operations and borrowings under our Revolving Credit Facility.

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, dealership facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback transactions. The resulting operating leases generally have initial terms of 10-15 years and include a series of five-year renewal options. We have no continuing obligations under these arrangements other than lease payments. During the first six months of 2004, we sold \$15.5 million in dealership facilities in sale-leaseback transactions.

Capital Expenditures

Our capital expenditures include the construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. Capital expenditures in the first six months of 2004 were approximately \$24.5 million, of which approximately \$17.1 million related to the construction of new dealerships and collision repair centers. Once completed, these new dealership facilities and collision repair centers are generally sold in sale-leaseback transactions. Capital expenditures incurred during the first six months of 2004 expected to be sold within a year in sale-leaseback transactions were \$16.5 million. We do not expect any significant gains or losses from these sales. As of June 30, 2004, commitments for facilities construction projects totaled approximately \$35.2 million. We expect \$17.7 million of this amount to be financed through future sale-leaseback transactions.

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

Stock Repurchase Program

As of June 30, 2004, our Board of Directors had authorized us to expend up to \$165.0 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. In the first six months of 2004, we repurchased 671,600 shares for approximately \$15.4 million which was partially offset by proceeds received from the exercise of stock options under stock compensation plans of \$11.8 million. Subsequent to June 30, 2004, we have purchased an additional 279,900 shares of Class A common stock for approximately \$5.5 million. On July 22, 2004, our Board authorized us to expend an additional \$20.0 million to repurchase shares of our Class A common stock or redeem securities convertible into the Company's Class A common stock. As of July 30, 2004, we had \$32.8 million remaining under our Board authorization.

Dividends

Our Board of Directors approved a quarterly cash dividend of \$0.10 per share for shareholders of record on June 15, 2004, which was paid on July 15, 2004. On July 22, 2004, our Board of Directors approved a quarterly cash dividend of \$0.12 per share for stockholders of record on September 15, 2004, which will be paid on October 15, 2004.

Cash Flows

For the six months ended June 30, 2004, net cash provided by operating activities was approximately \$25.3 million, which was driven primarily by changes in working capital accounts and net income adjusted for non-cash items such as depreciation, amortization and gains on disposals of assets. Cash used in investing activities in the first six months of 2004 was \$95.2 million, the majority of which related to dealership acquisitions and capital expenditures on property and equipment which was partially offset by proceeds received from dealership dispositions and the sales of property and equipment in sale-leaseback transactions. In the first six months of 2004, net cash used in financing activities was \$12.1 million and related primarily to repurchases of Class A common stock of \$15.4 million and dividends paid of \$8.3 million, which was partially offset by the exercise of shares under stock compensation plans of \$11.8 million.

Future Liquidity Outlook

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

Seasonality

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. Our variable rate notes payable—floor plan, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately \$1.3 billion at June 30, 2004 and approximately \$1.0 billion at June 30, 2003. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$6.5 million in the first six months of 2004 and approximately \$5.2 million in the first six months of 2003. Of the total change in interest expense, approximately \$4.9 million in the first six months of 2004 and approximately \$4.1 million in first six months of 2003 would have resulted from notes payable—floor plan.

Our exposure to notes payable—floor plan is mitigated by floor plan assistance payments received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. These payments are capitalized as inventory and charged against cost of sales when the associated inventory is sold. During the six months ended June 30, 2004 and 2003, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately \$6.6 million and \$7.0 million, respectively. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to 0% after considering these incentives. A change of 100 basis points in the underlying interest rate would have caused an estimated change in floor plan assistance of approximately \$4.2 million in the first six months of 2004.

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

In order to reduce our exposure to market risks from fluctuations in interest rates, we have two separate interest rate swap agreements (the “Fixed Swaps”) to effectively convert a portion of the LIBOR-based variable rate debt to a fixed rate. The Fixed Swaps each have a notional principal amount of \$100.0 million and mature on October 31, 2004 and June 6, 2006. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of the Fixed Swaps was \$3.1 million and \$2.9 million for the six month periods ended June 30, 2004 and 2003, respectively. The Fixed Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the Fixed Swaps have been recorded in other comprehensive loss, net of related income taxes, in the statement of stockholders’ equity with offsetting amounts in other accrued and long-term liabilities. In addition, we have four separate interest rate swaps each at \$25.0 million and a fifth interest rate swap for \$50.0 million (\$150.0 million total) (collectively, the “Variable Swaps”) to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. The Variable Swaps expire on August 15, 2013 and have been designated and qualify as fair value hedges and, as a result, changes in the fair value of the Variable Swaps have been recorded against the associated fixed rate long-term debt with offsetting amounts recorded as a derivative liability within other long term liabilities. Incremental interest savings incurred as a result of the Variable Swaps was \$2.5 million for the six month period ended June 30, 2004.

Item 4: Controls and Procedures.

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

PART II – OTHER INFORMATION

Item 1: Legal Proceedings.

We are involved, and expect to continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities.

Several of our Texas dealership subsidiaries have been named in three class action lawsuits against the Texas Automobile Dealers Association (“TADA”) and new vehicle dealerships in Texas that are members of the TADA. Approximately 630 Texas dealerships are named as defendants in two of the actions, and approximately 700 dealerships are named as defendants in the other action. The three actions allege that since 1994, Texas automobile dealerships have deceived customers with respect to a vehicle inventory tax and violated federal antitrust and other laws. In April 2002, in two actions, the Texas state court certified two classes of consumers on whose behalf the actions would proceed. In October 2002, the Texas Court of Appeals affirmed the trial court’s order of class certification in the state actions. Our dealerships and the other defendants appealed that ruling to the Texas Supreme Court. On March 26, 2004, the Texas Supreme Court issued an order stating that it would not hear the merits of the defendants’ appeal. On May 10, 2004, the Texas dealership defendants petitioned the Texas Supreme Court to reconsider its denial of review of the class certification, and the parties currently are waiting for the Texas Supreme Court’s decision on this motion for rehearing. In March 2003, the federal court conditionally certified a class of consumers in the federal antitrust case. Our dealership subsidiary defendants and the other Texas dealership defendants are also appealing that ruling to the U.S. Court of Appeals for the Fifth Circuit.

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

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

Issuer Repurchases of Equity Securities

The following table sets forth information about the shares of Class A Common Stock we repurchased during the fiscal quarter ended June 30, 2004.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
(Amounts in Thousands, Except Per Share Amounts)				
April 2004	223	\$ 23.63	223	\$ 23,975
May 2004	252	22.30	252	18,362
June 2004	0	0	0	18,362
Total	475	\$ 22.93	475	\$ 18,362

- (1) All shares repurchased were part of publicly announced share repurchase programs
(2) Our publicly announced Class A Common Stock repurchase authorizations occurred as follows:

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

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

At the annual meeting of stockholders held on April 22, 2004, B. Scott Smith, William P. Benton and William I. Belk were elected directors by Sonic's stockholders. Directors whose terms of office continued after the meeting were O. Bruton Smith, Jeffrey C. Rachor, Theodore M. Wright, H. Robert Heller, William R. Brooks, Thomas P. Capo and Robert L. Rewey. In addition to the election of three directors, the stockholders approved the following:

1. Approval of the Sonic Automotive, Inc. 2004 Stock Incentive Plan which allows for the issuance of up to 2,000,000 shares of Class A Common Stock in incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards and/or performance awards.
2. The appointment of Deloitte & Touche LLP as Sonic's independent public auditors for the fiscal year ending December 31, 2004.

	<u>Votes For</u>	<u>Votes Withheld</u>	<u>Broker Non-Votes</u>
Election of B. Scott Smith	136,967,242	7,700,362	4,180,885
Election of William P. Benton	142,642,426	2,025,178	4,180,885
Election of William I. Belk	142,695,376	1,972,228	4,180,885

	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>	<u>Broker Non-Votes</u>
Approval of the 2004 Stock Incentive Plan	123,477,626	16,961,557	47,536	4,180,885
Ratification of Deloitte & Touche as independent public auditors	144,583,989	78,866	4,749	4,180,885

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

(a) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
10.1	Sonic Automotive, Inc. 2004 Stock Incentive Plan. (1)
10.2	Separation Agreement dated April 26, 2004 between Sonic and Theodore M. Wright. (1)
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.

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

(b) Current Reports on Form 8-K:

On April 27, 2004, we filed a Current Report on Form 8-K to announce the resignation of Mr. Theodore M. Wright.

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;

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: August 4, 2004

By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

Date: August 4, 2004

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

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

**SONIC AUTOMOTIVE, INC.
2004 STOCK INCENTIVE PLAN**

ARTICLE 1. PURPOSE AND EFFECTIVE DATE

1.1 Purposes of the Plan. Sonic Automotive, Inc. (the "Company") has established this Sonic Automotive, Inc. 2004 Stock Incentive Plan (the "Plan") to promote the interests of the Company and its stockholders. The purposes of the Plan are to provide key employees and consultants providing services to the Company and its Subsidiaries with incentives to contribute to the Company's performance and growth, to offer such persons stock ownership in the Company or other compensation that aligns their interests with those of the Company's stockholders and to enhance the Company's ability to attract, reward and retain such persons upon whose efforts the Company's success and future growth depends.

1.2 Effective Date. The Plan was adopted by the Board of Directors on February 19, 2004 and shall be effective as of such date, subject to the requisite approval of the Company's stockholders at the 2004 Annual Meeting of Stockholders. Awards may be granted prior to stockholder approval of the Plan, provided that all such Awards must be subject to stockholder approval of the Plan. This means that no Option or SAR may be exercised prior to such approval, and all Awards must be subject to forfeiture if such approval is not obtained.

ARTICLE 2. DEFINITIONS

2.1 Definitions. As used in the Plan, the following capitalized terms shall have the meanings set forth below:

(a) "Award" means, individually or collectively, a grant under this Plan of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards or Stock Awards.

(b) "Award Agreement" means an agreement entered into by a Participant and the Company, setting forth the terms and conditions applicable to an Award granted to the Participant under this Plan.

(c) "Board" or "Board of Directors" means the Board of Directors of the Company.

(d) "Cause" means any act, action or series of acts or actions or any omission, omissions, or series of omissions which result in, or which have the effect of resulting in, (i) the commission by the Participant of a crime involving moral turpitude, which crime has a material adverse impact on the Company or a Subsidiary or which is intended to result in the personal enrichment of the Participant at the expense of the Company or a Subsidiary; (ii) the Participant's material violation of his responsibilities, or the Participant's gross negligence or willful misconduct; or (iii) the continuous and willful failure by the Participant to follow the reasonable directives of the Board of Directors. In any event, the existence of "Cause" shall be determined by the Committee.

(e) "Change in Control" means any merger or consolidation in which the Company is not the surviving corporation and which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning less than a majority of the outstanding voting securities of the surviving corporation (determined immediately following such merger or consolidation), or any sale or transfer by the Company of all or substantially all of its assets or any tender offer or exchange offer for, or the acquisition, directly or indirectly, by any person or group of, all or a majority of the then-outstanding voting securities of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor act thereto.

(g) "Committee" means (i) the committee appointed by the Board to administer the Plan or (ii) in the absence of such appointment, the Board itself. Notwithstanding the foregoing, to the extent required for Awards to be exempt from Section 16 of the Exchange Act pursuant to Rule 16b-3, the Committee shall consist of two or more Directors who are "non-employee directors" within the meaning of such Rule 16b-3, and to the extent required for Awards to satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code and the regulations thereunder, the Committee shall consist of two or more Directors who are "outside directors" within the

meaning of Section 162(m) of the Code. The Compensation Committee of the Board of Directors shall constitute the Committee until otherwise determined by the Board of Directors.

- (h) "Common Stock" means the Class A common stock of the Company, par value \$0.01 per share.
- (i) "Company" means Sonic Automotive, Inc., a Delaware corporation, or any successor thereto.
- (j) "Director" means any individual who is a member of the Board of Directors of the Company.
- (k) "Disability" means a permanent and total disability as described in Section 22(e)(3) of the Code and determined by the Committee.
- (l) "Employee" means any employee of the Company or any Subsidiary. Directors who are not otherwise employed by the Company or a Subsidiary are not considered Employees under this Plan.
- (m) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- (n) "Fair Market Value" means, as of a particular date, the value of the Common Stock determined as follows:
 - (i) If the Common Stock is traded on a national or regional securities exchange or on the Nasdaq National Market System ("Nasdaq"), Fair Market Value shall be determined on the basis of the closing sale price on the principal securities exchange on which the Common Stock may then be traded on the last trading day prior to the date of reference or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported;
 - (ii) If the Common Stock is not listed on any securities exchange or traded on Nasdaq, but nevertheless is publicly traded and reported on Nasdaq without closing sale prices for the Common Stock being customarily quoted, Fair Market Value shall be determined on the basis of the mean between the closing high bid and low asked quotations in such other over-the-counter market as reported by Nasdaq on the last trading day prior to the date of reference; but, if there are no bid and asked quotations in the over-the-counter market as reported by Nasdaq on that date, then the mean between the closing bid and asked quotations in the over-the-counter market as reported by Nasdaq on the immediately preceding day such bid and asked prices were quoted; and
 - (iii) If the Common Stock is not publicly traded as described in (i) or (ii) above, Fair Market Value shall be determined by the Committee in good faith.
- (o) "Family Members" means the Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, or any person sharing the Participant's household (other than a tenant or employee).
- (p) "Incentive Stock Option" or "ISO" means an option to purchase shares of Common Stock granted under Article 6 which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.
- (q) "Involuntary Termination Without Cause" means the dismissal, or the request for the resignation, of a Participant by either (i) a court order, order of any court-appointed liquidator or trustee of the Company, or the order or request of any creditors' committee of the Company constituted under the federal bankruptcy laws, provided that such order or request contains no specific reference to actions or omissions that would constitute Cause; or (ii) a duly authorized corporate officer of the Company or any Subsidiary, or by the Board, for any reason other than for Cause.
- (r) "Named Executive Officer" means a Participant who is considered a "covered employee" within the meaning of Section 162(m) of the Code.
- (s) "Nonqualified Stock Option" or "NSO" means an option to purchase shares of Common Stock granted under Article 6, and which is not intended or otherwise fails to meet the requirements of Section 422 of the Code.

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- (t) "Option" means an Incentive Stock Option or a Nonqualified Stock Option.
- (u) "Option Price" means the price at which a share of Common Stock may be purchased by a Participant pursuant to an Option, as determined by the Committee in accordance with Article 6.
- (v) "Participant" means an Employee or consultant who performs services for the Company or a Subsidiary who has been granted an Award under the Plan which is outstanding.
- (w) "Performance Award" means an Award granted under Article 10 which is subject to the attainment of one or more Performance Goals during a Performance Period, as established by the Committee in its discretion.
- (x) "Performance Goals" means the criteria and objectives designated by the Committee that must be met during the Performance Period as a condition of the Participant's receipt of a Performance Award, as described in Section 10.1(b) hereof.
- (y) "Performance Period" means the period designated by the Committee during which the Performance Goals with respect to a Performance Award will be measured.
- (z) "Plan" means this Sonic Automotive, Inc. 2004 Stock Incentive Plan, as amended from time to time.
- (aa) "Restricted Period" means the period beginning on the grant date of an Award of Restricted Stock and ending on the date the shares of Common Stock subject to such Award are no longer restricted and subject to forfeiture.
- (bb) "Restricted Stock" means a share of Common Stock granted in accordance with the terms of Article 8, which Common Stock is nontransferable and subject to a substantial risk of forfeiture and such other restrictions as determined by the Committee.
- (cc) "Restricted Stock Unit" means the right to receive a share of Common Stock (or the value of a share of Common Stock) in the future granted in accordance with the terms of Article 8, which right is nontransferable and subject to a substantial risk of forfeiture and such other restrictions as determined by the Committee.
- (dd) "SAR" means a stock appreciation right granted pursuant to Article 7.
- (ee) "Stock Award" means an equity-based award granted pursuant to Article 9.
- (ff) "Subsidiary" means a corporation, partnership, limited liability company, joint venture or other entity in which the Company directly or indirectly controls more than 50% of the voting power or equity or profits interests; provided, that for purposes of Incentive Stock Options, Subsidiary means a "subsidiary corporation" within the meaning of Section 424(f) of the Code.
- (gg) "Ten Percent Stockholder" means a Participant who owns (directly or by attribution within the meaning of Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, any Subsidiary or a parent of the Company.
- (hh) "Termination of Service" means the termination of a Participant's service with the Company and its Subsidiaries as an Employee or consultant for any reason other than a change in the capacity in which the Participant renders service to the Company or a Subsidiary or a transfer between or among the Company and its Subsidiaries. Unless otherwise determined by the Committee, an Employee shall be considered to have incurred a Termination of Service if his or her employer ceases to be a Subsidiary. All determinations relating to whether a Participant has incurred a Termination of Service and the effect thereof shall be made by the Committee in its discretion, including whether a leave of absence shall constitute a Termination of Service, subject to applicable law.

ARTICLE 3. ADMINISTRATION

3.1 Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have full and exclusive power to select the individuals to whom Awards may from time to time be granted under the Plan; determine the size and types of Awards; determine the terms, restrictions and conditions of Awards in a manner consistent with the Plan (including, but not limited to, the number of shares of Common Stock subject to an Award, vesting or other exercise conditions applicable to an Award, the duration of an Award, and restrictions on transferability of an Award and any shares of Common Stock issued thereunder); construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend or waive rules and regulations for the Plan's administration; delegate administrative responsibilities under the Plan and (subject to the provisions of Article 12) amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee, including accelerating the time any Option or SAR may be exercised, waiving restrictions and conditions on Awards and establishing different terms and conditions relating to the effect of a Termination of Service. The Committee also shall have the absolute discretion to make all other determinations which may be necessary or advisable in the Committee's opinion for the administration of the Plan.

3.2 Decisions Binding. All determinations, decisions and interpretations made by the Committee pursuant to the provisions of the Plan and all related resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, the Company's stockholders, and Participants and their estates and beneficiaries.

3.3 Indemnification. In addition to such other rights they may have as Directors or members of the Committee, each person who is or shall have been a member of the Committee shall be indemnified and held harmless by the Company against any loss, cost, liability or expense (including settlement amounts paid with the approval of the Committee) that may be imposed upon or reasonably incurred by the Committee member in connection with or resulting from any claim, action, suit or proceeding in which the member may be a party or otherwise involved by reason of any action taken or failure to act under or in connection with the Plan or any Award, except with respect to matters as to which the Committee member has been grossly negligent or engaged in willful misconduct; provided, however, that the member shall give the Company an opportunity, at its own expense, to handle and defend the same before the member undertakes to handle and defend it on the member's own behalf.

ARTICLE 4. STOCK SUBJECT TO THE PLAN

4.1 Stock Available Under the Plan. Subject to adjustments as provided in Section 4.3, the aggregate number of shares of Common Stock that may be issued pursuant to Awards under the Plan is 2,000,000 shares. Shares of Common Stock issued under the Plan may be shares of original issuance, shares held in the treasury of the Company or shares purchased in the open market or otherwise. Shares of Common Stock covered by Awards which expire or are forfeited or canceled for any reason or which are settled in cash shall be available for further Awards under the Plan.

4.2 Award Limits. Notwithstanding any provision in the Plan to the contrary, the following limitations shall apply (subject to adjustment as provided in Section 4.3):

(a) Individual Option and SAR Limit. No Participant shall be granted, during any one calendar year, Options and/or SARs (whether such SARs may be settled in shares of Common Stock, cash or a combination thereof) covering in the aggregate more than 500,000 shares of Common Stock.

(b) Individual Limit on Other Awards. With respect to any Awards other than Options and SARs, no Participant shall be granted, during any one calendar year, such Awards (whether such Awards may be settled in shares of Common Stock, cash or a combination thereof) consisting of, covering or relating to in the aggregate more than 250,000 shares of Common Stock.

4.3 Adjustments. In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation or similar transaction or other change in corporate capitalization affecting the Common Stock, unless the Committee should determine otherwise, corresponding adjustments or substitutions, as applicable, shall be made to the maximum number and kind of shares of Common Stock which may be issued under the Plan set forth in Section 4.1, the number of shares of Common Stock subject to the Award limits set forth in Section 4.2 and in the number, kind and price of shares of Common Stock subject to outstanding Awards granted under the Plan. In addition, the Committee, in its discretion, shall make such similar adjustments as described above in the event of any corporate transaction to which Section 424(a) of

the Code applies or such other event which in the judgment of the Committee necessitates an adjustment as may be determined to be appropriate and equitable by the Committee. Notwithstanding the foregoing, the number of shares of Common Stock subject to any Award shall always be a whole number and the Committee, in its discretion, shall make such adjustments as are necessary to eliminate fractional shares that may result from any adjustments made pursuant hereto. Except as expressly provided herein, the issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an outstanding Award.

ARTICLE 5. ELIGIBILITY AND PARTICIPATION

Awards under the Plan may be granted to Employees and consultants providing services to the Company or a Subsidiary (provided such consultants render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction) as selected by the Committee. In determining the individuals to whom such an Award shall be granted and the terms and conditions of such Award, the Committee may take into account any factors it deems relevant, including the duties of the individual, the Committee's assessment of the individual's present and potential contributions to the success of the Company or its Subsidiaries and such other factors as the Committee shall deem relevant in connection with accomplishing the purposes of the Plan. Subject to the Award limits set forth in Section 4.2, a Participant may be granted more than one Award under the Plan.

ARTICLE 6. STOCK OPTIONS

6.1 Stock Options. Subject to the provisions of the Plan, the Committee may grant Options upon the following terms and conditions:

(a) Award Agreement. Each grant of an Option shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. The Award Agreement shall specify the number of shares of Common Stock to which the Option pertains, whether the Option is an ISO or a NSO, the Option Price, the term of the Option, the conditions upon which the Option shall become vested and exercisable, and such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine. ISOs may be granted only to Employees of the Company or a Subsidiary.

(b) Option Price. The Option Price per share of Common Stock shall be determined by the Committee, but shall not be less than the Fair Market Value per share of Common Stock on the date of grant of the Option. In the case of an ISO granted to a Ten Percent Stockholder, the Option Price per share of Common Stock shall not be less than 110% of the Fair Market Value per share of Common Stock on the date of grant of the Option. Notwithstanding the foregoing, an Option may be granted with an Option Price per share of Common Stock less than that set forth above if such Option is granted pursuant to an assumption of, or substitution for, another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) Exercise of Options. An Option shall be exercisable in whole or in part (including periodic installments) at such time or times, and subject to such restrictions and conditions, as the Committee shall determine. Except as otherwise provided in the Award Agreement, the right to purchase shares of Common Stock under the Option that become exercisable in periodic installments shall be cumulative so that such shares of Common Stock (or any part thereof) may be purchased at any time thereafter until the expiration or termination of the Option.

(d) Option Term. The term of an Option shall be determined by the Committee, but in no event shall an ISO be exercisable more than ten years from the date of its grant or in the case of any ISO granted to a Ten Percent Stockholder, more than five years from the date of its grant.

(e) Termination of Service. Except to the extent an Option remains exercisable as provided below or as otherwise set forth in the Award Agreement, an Option shall immediately terminate upon the Participant's Termination of Service with the Company and its Subsidiaries for any reason.

(i) General Rule. In the event that a Participant incurs a Termination of Service for any reason other than Cause, Involuntary Termination Without Cause, or his death or Disability, the Participant may exercise an Option to the extent that the Participant was entitled to exercise such Option as of the date of termination, but only within

such period of time ending on the earlier of (1) 60 days following such Termination of Service or (2) the expiration of the term of the Option as set forth in the Award Agreement.

(ii) Involuntary Termination Without Cause. In the event that a Participant incurs a Termination of Service that constitutes an Involuntary Termination Without Cause, the Participant may exercise an Option to the extent that the Participant was entitled to exercise such Option as of the date of termination, but only within such period of time ending on the earlier of (1) 90 days following such Termination of Service or (2) the expiration of the term of the Option as set forth in the Award Agreement.

(iii) Disability. In the event that a Participant incurs a Termination of Service as a result of the Participant's Disability, the Participant may exercise an Option to the extent that the Participant was entitled to exercise such Option as of the date of termination, but only within such period of time ending on the earlier of (1) one year following such Termination of Service or (2) the expiration of the term of the Option as set forth in the Award Agreement.

(iv) Death. In the event that a Participant's Termination of Service is caused by the Participant's death, or in the event of the Participant's death following the Participant's Termination of Service but during the exercise period following termination described in subparagraph (i), (ii) or (iii) above, as applicable, then an Option may be exercised to the extent the Participant was entitled to exercise such Option as of the date of death by the person or persons to whom the Participant's rights to exercise the Option passed by will or the laws of descent and distribution (or by the executor or administrator of the Participant's estate), but only within the period ending on the earlier of (1) one year following the date of death or (2) the expiration of the term of the Option as set forth in the Award Agreement.

(f) ISO Limitation. To the extent that the aggregate Fair Market Value (determined as of the date of grant) of the shares of Common Stock with respect to which ISOs are exercisable for the first time during any calendar year (under all plans of the Company and its Subsidiaries) exceeds \$100,000 or such other applicable limitation set forth in Section 422 of the Code or any regulations thereunder, such ISOs shall be treated as NSOs. The determination of which ISOs shall be treated as NSOs generally shall be based on the order in which such ISOs were granted and shall be determined by the Committee in accordance with applicable rules and regulations.

(g) Payment. Options shall be exercised by the delivery of a written notice of exercise to the Company, specifying the number of shares of Common Stock with respect to which the Option is to be exercised, accompanied by the aggregate Option Price for the shares of Common Stock. The aggregate Option Price shall be payable to the Company in full in cash or cash equivalent acceptable to the Company, or if approved by the Committee, by tendering previously acquired shares of Common Stock (or delivering a certification of ownership of such shares) having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the shares of Common Stock either were purchased on the open market or have been held by the Participant for a period of at least six months (unless such six-month period is waived by the Committee)), a combination of the foregoing, or by any other means which the Company determines to be consistent with the Plan's purpose and applicable law (including the tendering of Awards having an aggregate Fair Market Value at the time of exercise equal to the total Option Price, as determined by the Committee).

(h) Transfer Restrictions. Except as otherwise set forth herein, Options may not be sold, transferred, pledged, assigned, alienated, hypothecated or disposed of in any manner other than by will or the laws of descent and distribution, and Options shall be exercisable during the Participant's lifetime only by the Participant (or, to the extent permitted by applicable law, the Participant's guardian or legal representative in the event of the Participant's legal incapacity). Notwithstanding the foregoing, the Committee, in its absolute discretion, may permit a Participant to transfer NSOs, in whole or in part, for no consideration to (1) one or more Family Members; (2) a trust in which Family Members have more than 50% of the beneficial interest; (3) a foundation in which Family Members (or the Participant) control the management of assets; or (4) any other entity in which Family Members (or the Participant) own more than 50% of the voting interests; provided, that such transfer is permitted under applicable tax laws and Rule 16b-3 of the Exchange Act as in effect from time to time. In all cases, the Committee must be notified in advance in writing of the terms of any proposed transfer to a permitted transferee and such transfers may occur only with the consent of and subject to the rules and conditions imposed by the Committee. The transferred NSOs shall continue to be subject to the

same terms and conditions in the hands of the transferee as were applicable immediately prior to the transfer (including the provisions of the Plan and Award Agreement relating to the expiration or termination of the NSOs). The NSOs shall be exercisable by the permitted transferee only to the extent and for the periods specified herein and in any applicable Award Agreement.

(i) No Stockholder Rights. No Participant shall have any rights as a stockholder with respect to shares of Common Stock subject to the Participant's Option until the issuance of such shares to the Participant pursuant to the exercise of such Option.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 Grants of SARs. Subject to the provisions of the Plan, the Committee may grant SARs upon the following terms and conditions:

(a) Award Agreement. Each grant of a SAR shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. The Award Agreement shall specify the number of shares of Common Stock to which the SAR pertains, the term of the SAR, the conditions upon which the SAR shall become vested and exercisable, and such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine. The Committee may grant SARs in tandem with or independently from Options.

(b) Initial Value of SARs. The Committee shall assign an initial value to each SAR, provided that the initial value may not be less than the aggregate Fair Market Value on the date of grant of the shares of Common Stock to which the SAR pertains.

(c) Exercise of SARs. A SAR shall be exercisable in whole or in part (including periodic installments) at such time or times, and subject to such restrictions and conditions, as the Committee shall determine. Notwithstanding the foregoing, in the case of a SAR that is granted in tandem with an Option, the SAR may be exercised only with respect to the shares of Common Stock for which its related Option is then exercisable. The exercise of either an Option or a SAR that are granted in tandem shall result in the termination of the other to the extent of the number of shares of Common Stock with respect to which such Option or SAR is exercised.

(d) Term of SARs. The term of a SAR granted independently from an Option shall be determined by the Committee, but in no event shall such a SAR be exercisable more than ten years from the date of its grant. A SAR granted in tandem with an Option shall have the same term as the Option to which it relates.

(e) Termination of Service. In the event that a Participant incurs a Termination of Service, the Participant's SARs shall terminate in accordance with the provisions specified in Article 6 with respect to Options.

(f) Payment of SAR Value. Upon the exercise of a SAR, a Participant shall be entitled to receive (i) the excess of the Fair Market Value on the date of exercise of the shares of Common Stock with respect to which the SAR is being exercised, over (ii) the initial value of the SAR on the date of grant, as determined in accordance with Section 7.1(b) above. Notwithstanding the foregoing, the Committee may specify in an Award Agreement that the amount payable upon the exercise of a SAR shall not exceed a designated amount. At the Committee's discretion, the amount payable as a result of the exercise of a SAR may be settled in cash, shares of Common Stock of equivalent value, or a combination of cash and Common Stock. A fractional share of Common Stock shall not be deliverable upon the exercise of a SAR, but a cash payment shall be made in lieu thereof.

(g) Nontransferability. Except as otherwise set forth herein, SARs granted under the Plan may not be sold, transferred, pledged, assigned, alienated, hypothecated or disposed of in any manner other than by will or the laws of descent and distribution, and SARs shall be exercisable during the Participant's lifetime only by the Participant (or, to the extent permitted by applicable law, the Participant's guardian or legal representative in the event of the Participant's legal incapacity). Notwithstanding the foregoing, the Committee, in its absolute discretion, may permit a Participant to transfer SARs, in whole or in part, for no consideration to (i) one or more Family Members; (ii) a trust in which Family Members have more than 50% of the beneficial interest; (iii) a foundation in which Family Members (or the Participant) control the management of assets; or (iv) any other entity in which Family Members (or the Participant) own more than

50% of the voting interests; provided, that such transfer is permitted under applicable tax laws and Rule 16b-3 of the Exchange Act as in effect from time to time. In all cases, the Committee must be notified in advance in writing of the terms of any proposed transfer to a permitted transferee and such transfers may occur only with the consent of and subject to the rules and conditions imposed by the Committee. The transferred SARs shall continue to be subject to the same terms and conditions in the hands of the transferee as were applicable immediately prior to the transfer (including the provisions of the Plan and Award Agreement relating to the expiration or termination of the SARs). The SARs shall be exercisable by the permitted transferee only to the extent and for the periods specified herein and in any applicable Award Agreement.

(h) No Stockholder Rights. No Participant shall have any rights as a stockholder of the Company with respect to shares of Common Stock subject to a SAR until the issuance of shares (if any) to the Participant pursuant to the exercise of such SAR.

ARTICLE 8. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

8.1 Grants of Restricted Stock and Restricted Stock Units. Subject to the provisions of the Plan, the Committee may grant Restricted Stock and/or Restricted Stock Units upon the following terms and conditions:

(a) Award Agreement. Each grant of Restricted Stock or Restricted Stock Units shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. The Award Agreement shall specify the number of shares with respect to which the Restricted Stock or Restricted Stock Units are granted, the Restricted Period, the conditions upon or the time at which the Restricted Period shall lapse, and such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine.

(b) Purchase Price. The Committee shall determine the purchase price, if any, to be paid for each share of Restricted Stock or each Restricted Stock Unit, subject to such minimum consideration as may be required by applicable law.

(c) Nontransferability. Except as otherwise set forth in the Award Agreement, shares of Restricted Stock and Restricted Stock Units may not be sold, transferred, pledged, assigned, alienated, hypothecated or disposed of in any manner until the end of the Restricted Period applicable to such shares and the satisfaction of any and all other conditions prescribed by the Committee.

(d) Other Restrictions. The Committee may impose such conditions and restrictions on the grant or vesting of Restricted Stock and Restricted Stock Units as it determines, including but not limited to restrictions based upon the occurrence of a specific event, continued service for a period of time or other time-based restrictions, or the achievement of financial or other business objectives (including the Performance Goals described in Section 10.1(b)). The Committee may provide that such restrictions may lapse separately or in combination at such time or times and with respect to all shares of Restricted Stock and Restricted Stock Units or in installments or otherwise as the Committee may deem appropriate.

(e) Settlement of Restricted Stock Units. After the expiration of the Restricted Period and all conditions and restrictions applicable to Restricted Stock Units have been satisfied or lapsed, the Participant shall be entitled to receive the then Fair Market Value of the shares of Common Stock with respect to which the Restricted Stock Units were granted. Such amount shall be paid in cash, shares of Common Stock or a combination thereof as determined by the Committee.

(f) Section 83(b) Election. If a Participant makes an election pursuant to Section 83(b) of the Code with respect to Restricted Stock, the Participant shall be required to promptly file a copy of such election with the Company as required under Section 83(b) of the Code.

(g) Termination of Service. Notwithstanding anything herein to the contrary and except as otherwise determined by the Committee, in the event of the Participant's Termination of Service prior to the expiration of the Restricted Period, all shares of Restricted Stock and Restricted Stock Units with respect to which the applicable restrictions have not yet lapsed shall be forfeited.

(h) Stockholder Rights.

(i) Restricted Stock. Except to the extent otherwise provided by the Committee, a Participant that has been granted Restricted Stock shall have the rights and privileges of a stockholder as to such Restricted Stock, including the right to vote such Restricted Stock and the right to receive dividends, if and when declared by the Board of Directors, provided, that the Committee may require that any cash dividends shall be automatically reinvested in additional shares of Restricted Stock.

(ii) Restricted Stock Units. A Participant shall have no voting or other stockholder rights or ownership interest in shares of Common Stock with respect to which Restricted Stock Units are granted. Notwithstanding the foregoing, if the Board of Directors declares a dividend with respect to the Common Stock, the Committee may, in its discretion, determine that Participants receive dividend equivalents with respect to their Restricted Stock Units. The Committee may determine the form of such dividend equivalents, which may include cash or Restricted Stock Units.

(iii) Adjustments and Dividends Subject to Plan. With respect to any shares of Restricted Stock or Restricted Stock Units received as a result of adjustments under Section 4.3 hereof and also any shares of Common Stock, Restricted Stock or Restricted Stock Units that result from dividends declared on the Common Stock, the Participant shall have the same rights and privileges, and be subject to the same restrictions, as are set forth in this Article 8 except to the extent the Committee otherwise determines.

(i) Issuance of Restricted Stock. A grant of Restricted Stock may be evidenced in such manner as the Committee shall deem appropriate, including without limitation, book-entry registration or the issuance of a stock certificate (or certificates) representing the number of shares of Restricted Stock granted to the Participant, containing such legends as the Committee deems appropriate and held in custody by the Company or on its behalf, in which case the grant of Restricted Stock shall be accompanied by appropriate stop-transfer instructions to the transfer agent for the Common Stock, until (1) the expiration or termination of the Restricted Period for such shares of Restricted Stock and the satisfaction of any and all other conditions prescribed by the Committee or (2) the forfeiture of such shares of Restricted Stock. The Committee may require a Participant to deliver to the Company a stock power, endorsed in blank, relating to the shares of Restricted Stock to be held in custody by or for the Company.

ARTICLE 9. STOCK AWARDS

The Committee may grant other types of Stock Awards that involve the issuance of shares of Common Stock or that are valued by reference to shares of Common Stock, including but not limited to the grant of shares of Common Stock or the right to acquire or purchase shares of Common Stock. Stock Awards shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. The Award Agreement shall specify the number of shares of Common Stock to which the Stock Award pertains, the form in which the Stock Award shall be paid and such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine.

ARTICLE 10. PERFORMANCE AWARDS

10.1 Performance Awards. Subject to the terms of the Plan, the Committee may designate an Award of Restricted Stock or Restricted Stock Units or a Stock Award as a Performance Award based upon a determination that the Participant is or may become a Named Executive Officer and the Committee wishes such Awards to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code. Performance Awards shall be contingent upon the attainment of one or more Performance Goals. The provisions of this Article 10 shall control to the extent inconsistent with Articles 8 and 9 and such Performance Awards shall be subject to the following terms and conditions:

(a) Award Agreement. Each grant of a Performance Award shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. The Award Agreement shall specify the number of shares of Common Stock to which the Performance Award pertains, the Performance Goals applicable to such Performance Award, the length of the Performance Period, and such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine.

(b) Performance Goals. The Committee shall establish one or more Performance Goals for the Participant that are objectively determinable (i.e., such that a third party with knowledge of the relevant facts could determine whether the goals have been met). Such Performance Goals must be established in writing by the Committee within ninety (90) days after the beginning of the Performance Period (or, if earlier, by the date on which 25% of the Performance Period has elapsed) or within such other time period prescribed by Section 162(m) of the Code and the regulations thereunder; provided, that achievement of the Performance Goals must be substantially uncertain at the time they are established. The Performance Goals shall be based on one or more of the following, as determined in the sole discretion of the Committee: stock price; earnings per share; net earnings; operating or other earnings; profits; revenues; net cash flow; financial return ratios; stockholder return; return on equity; return on investment; return on net assets; debt rating; sales; expense reduction levels; growth in assets, sales, or market share; or strategic business objectives based on meeting specified revenue goals, market penetration goals, customer satisfaction goals, geographic business expansion goals, cost targets, or goals relating to acquisitions or divestitures. Performance Goals may be based on the performance of the Company, based on the Participant's division, business unit or employing Subsidiary, based on the performance of one or more divisions, business units or Subsidiaries, based on the performance of the Company and its Subsidiaries as a whole, or based on any combination of the foregoing. Performance Goals may be either absolute in their terms or relative. Performance Goals may provide for the inclusion or exclusion of items such as the effect of unusual charges or income items or other events, including acquisitions or dispositions of businesses or assets, restructurings, reductions in force, or changes in accounting principles or tax laws. The Committee also may establish subjective Performance Goals for Participants, provided that for Named Executive Officers, the subjective Performance Goals may be used only to reduce, and not increase, the Performance Award otherwise payable under the Plan.

(c) Payment. Prior to the vesting, payment or delivery, as the case may be, of a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals and any other material terms of the Performance Award have been achieved or exceeded for the applicable Performance Period. In no event may the Committee waive achievement of the Performance Goal requirements for a Named Executive Officer except in its discretion in the case of the death or Disability of the Participant or as otherwise provided in Article 11 with respect to a Change in Control. Notwithstanding anything herein to the contrary, the maximum cash payment that may be paid during a calendar year to a Participant pursuant to a Performance Award shall be \$2,000,000.

(d) Code Section 162(m). The Committee shall have the power to impose such other restrictions on Performance Awards as it may deem necessary or appropriate to ensure that such Performance Awards satisfy all requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code and the regulations thereunder.

ARTICLE 11. CHANGE IN CONTROL

11.1 Impact on Options, SARs and Stock Awards. Notwithstanding any other provision of the Plan, all outstanding Options, SARs and Stock Awards (other than Stock Awards that have been designated as Performance Awards) shall become fully vested and exercisable on and after (a) the date of consummation of a tender offer or exchange offer that constitutes a Change in Control or (b) the third business day prior to the effective date of any other Change in Control.

11.2 Impact on Restricted Stock and Restricted Stock Units. Notwithstanding any other provision of the Plan, all Awards of Restricted Stock and Restricted Stock Units (other than those that have been designated as Performance Awards) shall be deemed vested, all restrictions shall be deemed lapsed, all terms and conditions shall be deemed satisfied and the Restricted Period with respect thereto shall be deemed to have ended as of (a) the date of consummation of a tender offer or exchange offer that constitutes a Change in Control or (b) the third business day prior to the effective date of any other Change in Control.

11.3 Performance Awards. All Performance Awards earned and outstanding as of the date of the Change in Control shall be payable in full within 30 days following the Change in Control. Any remaining Performance Awards shall be accelerated and deemed to have been fully earned as of the date of the Change in Control, with a pro rata settlement of the Performance Award to be made within 30 days following the Change in Control based upon an assumed achievement of the applicable Performance Goals and the length of time within the Performance Period that has elapsed prior to the Change in Control.

ARTICLE 12. AMENDMENT, SUSPENSION AND TERMINATION

12.1 Amendment, Suspension and Termination of Plan. The Board may at any time, and from time to time, amend, suspend or terminate the Plan in whole or in part; provided, that no amendment, suspension or termination shall be effective unless approved by the stockholders of the Company (a) to the extent stockholder approval is necessary to satisfy the applicable requirements of the Code (including, but not limited to, Sections 162(m) and 422 thereof), the Exchange Act or Rule 16b-3 thereunder, any New York Stock Exchange, Nasdaq or securities exchange listing requirements or any other law or regulation; (b) if such amendment is intended to allow the Option Price of outstanding Options to be reduced by repricing or replacing such Options; or (c) to the extent the Board determines, in its discretion, that stockholder approval is desirable even if such stockholder approval is not expressly required by the Plan or applicable law or regulation. Unless sooner terminated by the Board, the Plan shall terminate ten years from the date the Plan is adopted by the Board. No further Awards may be granted after the termination of the Plan, but the Plan shall remain effective with respect to any outstanding Awards previously granted. No amendment, suspension or termination of the Plan shall adversely affect in any material way the rights of a Participant under any outstanding Award without the Participant's consent.

12.2 Amendment of Awards. Subject to Section 12.1 above, the Committee may at any time amend the terms of an Award previously granted to a Participant, but no such amendment shall adversely affect in any material way the rights of the Participant without the Participant's consent.

ARTICLE 13. WITHHOLDING

13.1 Tax Withholding in General. The Company shall have the power and the right to deduct or withhold from cash payments or other property to be paid to the Participant, or require a Participant to remit to the Company or a Subsidiary, an amount sufficient to satisfy federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising in connection with an Award under this Plan. The Company shall not be required to issue any shares of Common Stock or settle any Awards payable hereunder until such withholding requirements have been satisfied.

13.2 Share Withholding and Remittance. With respect to withholding required upon the exercise of Options, or upon any other taxable event arising as a result of Awards granted hereunder which are to be paid in the form of shares of Common Stock, the Company may withhold from an Award, or the Participant may remit, subject to applicable law (including Rule 16b-3 under the Exchange Act), shares of Common Stock having a Fair Market Value on the date the tax is to be determined of no more than the minimum statutory total tax which could be imposed on the transaction. All such elections shall be made in accordance with procedures established by the Committee and/or the Company. Notwithstanding the foregoing, the Committee and/or the Company shall have the right to restrict a Participant's ability to satisfy tax obligations through share withholding as they may deem necessary or appropriate.

ARTICLE 14. GENERAL PROVISIONS

14.1 Restrictions on Stock Ownership/Legends. The Committee, in its discretion, may establish guidelines applicable to the ownership of any shares of Common Stock acquired pursuant to the exercise of an Option or SAR or in connection with any other Award under this Plan as it may deem desirable or advisable, including, but not limited to, time-based or other restrictions on transferability regardless of whether or not the Participant is otherwise vested in such Common Stock. All stock certificates representing shares of Common Stock issued pursuant to this Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable and the Committee may cause any such certificates to have legends affixed thereto to make appropriate references to any applicable restrictions.

14.2 No Employment Rights. Nothing in the Plan or any Award Agreement shall confer upon any Participant any right to continue in the employ or service of the Company or a Subsidiary nor interfere with or limit in any way the right of the Company or a Subsidiary to terminate any Participant's employment by, or performance of services for, the Company or Subsidiary at any time for any reason.

14.3 No Participation Rights. No person shall have the right to be selected to receive an Award under this Plan and there is no requirement for uniformity of treatment among Participants.

14.4 Unfunded Plan. To the extent that any person acquires a right to receive Common Stock or cash payments under the Plan, such right shall be only contractual in nature unsecured by any assets of the Company or a Subsidiary.

Neither the Company nor any Subsidiary shall be required to segregate any specific funds, assets or other property with respect to any Awards under this Plan.

14.5 Restrictions on Transferability. Except as otherwise provided herein or in an Award Agreement, no Award or any shares of Common Stock subject to an Award which have not been issued, or as to which any applicable restrictions have not lapsed, may be sold, transferred, pledged, assigned, alienated, hypothecated or disposed of in any manner. Any attempt to transfer an Award or such shares of Common Stock in violation of the Plan or an Award Agreement shall relieve the Company and its Subsidiaries from any obligations to the Participant thereunder.

14.6 Requirements of Law. The granting of Awards and the issuance of shares of Common Stock under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. With respect to Participants who are subject to Section 16 of the Exchange Act, this Plan is intended to comply with all provisions of Rule 16b-3 or any successor rule under the Exchange Act, unless determined otherwise by the Committee.

14.7 Approvals and Listing. The Company shall not be required to grant, issue or settle any Awards or issue any certificate or certificates for shares of Common Stock under the Plan prior to (a) obtaining any required approval from the stockholders of the Company; (b) obtaining any approval from any governmental agency which the Company shall, in its discretion, determine to be necessary or advisable; (c) the admission of such shares of Common Stock to listing on any national securities exchange on which the Company's Common Stock may be listed; and (d) the completion of any registration or other qualification of such shares of Common Stock under any state or federal law or ruling or regulation of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable. The Company may require that any recipient of an Award make such representations and agreements and furnish such information as it deems appropriate to assure compliance with the foregoing or any other applicable legal requirement. Notwithstanding the foregoing, the Company shall not be obligated at any time to file or maintain a registration statement under the Securities Act of 1933, as amended, or to effect similar compliance under any applicable state laws with respect to the Common Stock that may be issued pursuant to this Plan.

14.8 Compliance with Code Section 162(m). It is intended that the Plan comply fully with and meet all of the requirements of Section 162(m) of the Code with respect to Options and SARs granted hereunder. At all times when the Committee determines that compliance with the performance-based compensation exception under Section 162(m) of the Code is required or desired, all Performance Awards granted under this Plan also shall comply with the requirements of Section 162(m) of the Code, and the Plan must be resubmitted to the stockholders of the Company as necessary to enable Performance Awards to qualify as performance-based compensation thereunder (which rules currently require that the stockholders reapprove the Plan no later than the first stockholders meeting that occurs in the fifth year following the year in which the stockholders previously approved the Plan). In addition, in the event that changes are made to Section 162(m) of the Code to permit greater flexibility with respect to any Award or Awards under the Plan, the Committee may make any adjustments it deems appropriate. The Committee may, in its discretion, determine that it is advisable to grant Awards that shall not qualify as "performance-based compensation" and may grant Awards without satisfying the requirements of Section 162(m) of the Code.

14.9 Other Corporate Actions. Nothing contained in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including, but not by way of limitation, the right of the Company to adopt other compensation arrangements or the right of the Company to authorize any adjustment, reclassification, reorganization, or other change in its capital or business structure, any merger or consolidation of the Company, the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its business or assets.

14.10 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein shall also include the feminine, and the plural shall include the singular and the singular shall include the plural.

14.11 Severability. The invalidity or unenforceability of any particular provision of this Plan shall not affect the other provisions hereof, and the Committee may elect in its discretion to construe such invalid or unenforceable provision in a manner which conforms to applicable law or as if such provision was omitted.

14.12 Governing Law. To the extent not preempted by federal law, the Plan, and all Award Agreements hereunder, shall be construed in accordance with and governed by the laws of the State of North Carolina (excluding the principles of conflict of law thereof).

AGREEMENT

This AGREEMENT (this "Agreement") made this 26th day of April, 2004 between SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Employer"), and THEODORE M. WRIGHT (the "Employee").

RECITALS

WHEREAS, the Employee currently serves as President of the Employer, as a director of the Employer and as an officer, director, manager or governor of numerous direct and indirect subsidiaries of the Employer; and

WHEREAS, the Employee and the Employer are parties to an Employment Agreement dated October 25, 2000 (the "Employment Agreement"); and

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

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

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

1. Resignation. The Employee hereby voluntarily resigns the following positions effective immediately: (i) President of the Employer; (ii) director of the Employer; (iii) officer, director, manager and governor of all direct and indirect subsidiaries of the Employer, and (iv) officer and Manager of North Point Imports, LLC d/b/a North Point Volvo. If requested by the Employer, the Employee shall further evidence such resignations by executing formal resignation letters in form and substance agreeable to the Employee and the Employer. The parties agree that the Employee will remain as an employee of the Employer, with full entitlement to his current salary and benefits, until May 26, 2004 (which date will be considered the effective date of the Employee's voluntary resignation of employment pursuant to the Employment Agreement and any stock option agreements with the Employer). As of the close of business on May 26, 2004, the parties agree that the Employee will be automatically deemed to have tendered his voluntary resignation of employment with the Employer, with no further action necessary or required on the part of either the Employee or the Employer. During the period from the date of this Agreement through May 26, 2004, the Employee will (A) not be required to work full time or to report for regular duty to the Employer at the Employer's offices, (B) be provided his customary access to the Employee's current executive assistant for routine and customary administrative support needs of the Employee, which services shall be provided at the Employer's cost, and (C) make himself reasonably available to members of the senior management team of the Employer during normal business hours for consultation and other reasonable duties.

2. Reimbursement of Costs. The Employer shall reimburse the Employee for all attorneys fees and costs of the law firm of Rayburn, Cooper & Durham, P.A. associated with such firm's legal services provided to the Employee from December 1, 2003 through the date of execution and delivery of this Agreement. The Employer shall make such reimbursement to the Employee (or, at the Employee's option, make direct payment to the law firm) within 5 business days following the Employer's receipt of written invoices from the firm relating to such representation.

3. Amendment to Employment Agreement. Notwithstanding anything to the contrary set forth in Section 8 of the Employment Agreement, the Employee shall not be prevented from, and it shall not constitute a violation of Section 8 of the Employment Agreement for the Employee to:

(a) acquire, directly or indirectly, any automobile dealership located within the Restricted Territory (as defined in the Employment Agreement) during the Restrictive Period (as defined in the Employment Agreement), or

(b) serve as a compensated broker for the acquisition by any third party of any automobile dealership located within the Restricted Territory during the Restrictive Period;

provided, however, that in the case of either (a) or (b) above during the Restrictive Period, the Employee shall first offer to the Employer any such automobile dealership acquisition opportunity located in the Restricted Territory that is presented to the Employee. Upon receipt of written notice from the Employee to the Chief Executive Officer and the Chief Financial Officer of the Employer setting forth such dealership acquisition opportunity, the Employer will have fifteen (15) days thereafter to advise the Employee that the Employer is eligible to acquire or interested in pursuing such dealership acquisition opportunity. In the event that the Employer does not notify the Employee within such fifteen (15) day period that it is eligible to acquire and desires to pursue such dealership acquisition, or if the Employer pursues such dealership acquisition but does not enter into a written agreement to acquire such dealership within one hundred twenty (120) days following the Employer's receipt of the written notice from the Employee notifying of the dealership acquisition opportunity, then the Employee shall have the right, notwithstanding the provisions of Section 8 of the Employment Agreement, to acquire such dealership or to serve as a compensated broker for a third party's acquisition of such dealership.

Except as specifically provided for herein, the provisions of this Section 3 shall not in any way otherwise diminish the Employee's obligations under Section 8 of the Employment Agreement.

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

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

EMPLOYEE:

/s/ Theodore M. Wright

(SEAL)

THEODORE M. WRIGHT

EMPLOYER:

SONIC AUTOMOTIVE, INC.

By: /s/ O. Bruton Smith

O. Bruton Smith, Chairman and CEO

CERTIFICATION

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

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

Date: August 4, 2004

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

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

CERTIFICATION

I, O. Bruton Smith, certify that:

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

Date: August 4, 2004

By: /s/ O. Bruton Smith

O. Bruton Smith,
Chairman and Chief Executive Officer

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Lee Wyatt, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ E. Lee Wyatt, Jr.

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

August 4, 2004

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

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, O. Bruton Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

August 4, 2004

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

RISK FACTORS

Risks Related to Our Indebtedness

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

As of June 30, 2004, our total outstanding indebtedness was approximately \$1,808.3 million, including the following:

- \$296.2 million under a revolving credit facility;
- \$1,077.3 million under standardized secured inventory floor plan facilities;
- \$127.2 million in 5 1/4% convertible senior subordinated notes due 2009 representing \$130.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$2.9 million;
- \$271.8 million in 8 5/8% senior subordinated notes due 2013 representing \$275.0 million in aggregate principal amount outstanding less unamortized net discount of approximately \$3.2 million; and
- \$35.8 million of other secured debt, representing \$28.7 million in aggregate principal amount plus unamortized premium of approximately \$7.1 million.

As of June 30, 2004, we had approximately \$195.5 million available for additional borrowings under a revolving credit facility. We also had approximately \$100.0 million available under a construction/mortgage credit facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the floor plan facilities. In addition, the indentures relating to our senior subordinated notes, convertible senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

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

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

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

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

Our revolving credit facility, floor plan facilities and the indenture governing our senior subordinated notes contain numerous financial and operating covenants. A breach of any of these covenants could result in a default under the applicable agreement or indenture. If a default were to occur, we may be unable to adequately finance our operations and the value of our common stock would be materially adversely affected. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures, including the indentures governing our outstanding convertible senior subordinated notes and our 8 5/8% senior subordinated notes, under the cross default provisions in those agreements or indentures. If a cross default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

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

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

Risks Related to Our Relationships with Vehicle Manufacturers

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

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

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

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

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

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

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

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

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

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

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

During the first six months of 2004, approximately 69.1 % 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 acquisition strategy.

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

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

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 acquisition strategy. In addition, we receive incentive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

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

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

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

Risks Related to Our Acquisition Strategy

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

Our future operating results depend on our ability to integrate the operations of recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to integrate our management information systems, procedures and organizational structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired eleven dealerships in 2000, twelve in 2001, thirty-one in 2002, thirteen in 2003 and nine in the six months ended June 30, 2004.

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

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

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

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

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

- incurring significantly higher capital expenditures and operating expenses;

-
- failing to assimilate the operations and personnel of acquired dealerships;
 - entering new markets with which we are unfamiliar;
 - potential undiscovered liabilities and operational difficulties at acquired dealerships;
 - disrupting our ongoing business;
 - diverting our limited management resources;
 - failing to maintain uniform standards, controls and policies;
 - impairing relationships with employees, manufacturers and customers as a result of changes in management;
 - increased expenses for accounting and computer systems, as well as integration difficulties;
 - failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises or renew the franchise agreement on terms acceptable to us;
and
 - incorrectly valuing entities to be acquired.

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

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

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

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

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

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

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

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

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

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

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

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

Our obligations under the revolving credit facility are secured with a pledge of shares of common stock of Speedway Motorsports, Inc., a publicly traded owner and operator of automobile racing facilities. These shares of Speedway Motorsports common stock are beneficially owned by Sonic Financial Corporation, an entity controlled by Mr. Smith. Presently, the \$550.0 million borrowing limit of the revolving credit facility is subject to a borrowing base calculation that is based, in part, on the value of the Speedway Motorsports shares pledged by Sonic Financial. Consequently, a withdrawal of this pledge by Sonic Financial or a significant decrease in the value of Speedway Motorsports common stock could reduce the amount we can currently borrow under the revolving credit facility.

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

Risks Related to the Automotive Retail Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General Risks Related to Investing in Our Securities

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

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

- “going private” transaction;
- disposition of substantially all of our assets;
- transfer resulting in a change in the nature of our business; or

- merger or consolidation in which current holders of common stock would own less than 50% of the common stock following such transaction.

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

Our charter and bylaws make it more difficult for our stockholders to take corporate actions at stockholders' meetings. In addition, options under our 1997 Stock Option Plan and 2004 Stock Incentive Plan become immediately exercisable on a change in control. Delaware law also makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business combination transaction with the company against its directors' wishes. Finally, restrictions imposed by our dealer agreements may impede or prevent any potential takeover bid. Generally, our franchise agreements allow the manufacturers the right to terminate the agreements upon a change of control of our company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity who may be unqualified, as defined by the manufacturer, to own one of its dealerships. The inability of a person or entity to qualify with one or more of our manufacturers may prevent or seriously impede a potential takeover bid. In addition, provisions of our lending arrangements create an event of default on a change in control. These agreements, corporate governance documents and laws may have the effect of delaying or preventing a change in control or preventing stockholders from realizing a premium on the sale of their shares if we were acquired.

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

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

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

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

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

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

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

Furthermore, several of our Texas dealership subsidiaries have been named in three class action lawsuits brought against the Texas Automobile Dealers Association ("TADA") and new vehicle dealerships in Texas that are members of the TADA.

Approximately 630 Texas dealerships are named as defendants in two of the actions, and approximately 700 Texas dealerships are named as defendants in the other action. The three actions allege that since January 1994, Texas automobile dealerships have deceived customers with respect to a vehicle inventory tax and violated federal antitrust and other laws. In April 2002, in two actions the Texas state court certified two classes of consumers on whose behalf the actions would proceed. In October 2002, the Texas Court of Appeals affirmed the trial court's order of class certification in the state actions. Our dealership subsidiary defendants and the other Texas dealership defendants are appealing that ruling to the Texas Supreme Court. On March 26, 2004, the Texas Supreme Court issued an order stating that it would not hear the merits of the defendants' appeal. On May 10, 2004, the Texas dealership defendants petitioned the Texas Supreme Court to reconsider its denial of review of the class certification, and the parties currently are waiting for the Texas Supreme Court's decision on this motion for rehearing. In March 2003, the federal court conditionally certified a class of consumers in the federal antitrust case. Our dealership subsidiary defendants and the other Texas dealership defendants are also appealing that ruling to the U.S. Court of Appeals, Fifth Circuit.

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

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

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

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

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

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented approximately 15.6 % of our sales for the six months ended June 30, 2004. We may not be able to expand geographically and any geographic expansion may not adequately insulate us from the adverse effects of local or regional economic conditions.

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

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

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

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to

attract additional qualified managers could have a material adverse effect on our results of operations. In addition, the lack of qualified management or employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

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

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

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

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

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

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

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

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

Poor performance in one or more of our geographic divisions could constitute an event or change in circumstances for purposes of determining whether the fair value of our goodwill has been reduced below the carrying amount. We would therefore be required to test our goodwill for impairment. As of June 30, 2004, our balance sheet reflected a carrying amount of approximately \$977.4 million in goodwill, which was allocated between four geographic reporting units. If the goodwill in any of our reporting units is impaired, we will record a significant non-cash impairment charge that would very likely have a material adverse effect on our earnings for the period in which the impairment of goodwill occurred.