

SONIC AUTOMOTIVE INC
Form 10-Q
November 02, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

Commission file number 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

6415 Idlewild Road, Suite 109, Charlotte, North Carolina
(Address of principal executive offices)

(704) 566-2400

28212
(Zip Code)

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(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 a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of October 26, 2007, there were 42,392,367 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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Table of Contents**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)**

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Revenues:				
New vehicles	\$ 1,279,674	\$ 1,342,203	\$ 3,669,246	\$ 3,771,720
Used vehicles	325,182	376,373	980,882	1,073,000
Wholesale vehicles	127,324	108,787	391,204	331,400
Total vehicles	1,732,180	1,827,363	5,041,332	5,176,120
Parts, service and collision repair	283,969	303,313	838,156	889,669
Finance, insurance and other	51,681	55,199	142,331	157,880
Total revenues	2,067,830	2,185,875	6,021,819	6,223,669
Cost of sales:				
New vehicles	1,186,564	1,248,482	3,400,919	3,508,935
Used vehicles	294,611	343,170	885,377	973,493
Wholesale vehicles	128,646	109,835	392,925	332,513
Total vehicles	1,609,821	1,701,487	4,679,221	4,814,941
Parts, service and collision repair	142,031	149,435	419,362	439,521
Finance, insurance and other				
Total cost of sales	1,751,852	1,850,922	5,098,583	5,254,462
Gross profit	315,978	334,953	923,236	969,207
Selling, general and administrative expenses	236,461	249,101	718,117	729,749
Depreciation and amortization	5,638	5,684	17,263	20,146
Operating income	73,879	80,168	187,856	219,312
Other expense / (income):				
Interest expense, floor plan	15,435	17,271	43,682	50,928
Interest expense, other, net	10,067	10,877	30,635	28,429
Other expense / (income), net	20	(1)	(646)	94
Total other expense	25,482	28,149	74,963	79,263
Income from continuing operations before taxes	48,397	52,019	112,893	140,049
Provision for income taxes	19,367	20,263	44,977	54,619
Income from continuing operations	29,030	31,756	67,916	85,430

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Discontinued operations:				
Loss from operations and the sale of discontinued franchises	(676)	(8,070)	(15,800)	(18,520)
Income tax benefit	254	2,421	5,762	5,556
Loss from discontinued operations	(422)	(5,649)	(10,038)	(12,964)
Net income	\$ 28,608	\$ 26,107	\$ 57,878	\$ 72,466
Basic earnings (loss) per share:				
Earnings per share from continuing operations	\$ 0.69	\$ 0.75	\$ 1.61	\$ 2.00
Loss per share from discontinued operations	(0.01)	(0.14)	(0.24)	(0.31)
Earnings per share	\$ 0.68	\$ 0.61	\$ 1.37	\$ 1.69
Weighted average common shares outstanding	42,292	42,539	42,289	42,769
Diluted earnings (loss) per share:				
Earnings per share from continuing operations	\$ 0.66	\$ 0.70	\$ 1.54	\$ 1.86
Loss per share from discontinued operations	(0.01)	(0.12)	(0.21)	(0.27)
Earnings per share	\$ 0.65	\$ 0.58	\$ 1.33	\$ 1.59
Weighted average common shares outstanding	45,682	46,978	46,051	47,631
Dividends declared per common share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36

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, 2006	September 30, 2007 (Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 12,696	\$ 15,687
Receivables, net	385,849	326,444
Inventories	991,984	1,048,059
Assets held for sale	160,571	109,002
Construction in progress expected to be sold	26,198	5,673
Other current assets	35,834	31,780
Total current assets	1,613,132	1,536,645
Property and Equipment, net	220,551	280,017
Goodwill, net	1,155,428	1,274,443
Other Intangible Assets, net	94,136	112,279
Other Assets	41,517	26,747
Total Assets	\$ 3,124,764	\$ 3,230,131
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	\$ 377,943	\$ 249,813
Notes payable - floor plan - non-trade	686,515	809,320
Trade accounts payable	68,016	69,797
Accrued interest	19,336	15,891
Other accrued liabilities	180,884	195,359
Liabilities associated with assets held for sale - trade	54,229	36,021
Liabilities associated with assets held for sale - non-trade	42,063	28,095
Current maturities of long-term debt	2,707	3,169
Total current liabilities	1,431,693	1,407,465
Long-Term Debt	598,627	687,493
Other Long-Term Liabilities	190,604	199,750
Commitments and Contingencies		
Stockholders Equity:		
Class A convertible preferred stock, none issued		
Class A common stock, \$.01 par value; 100,000,000 shares authorized; 41,890,540 shares issued and 30,691,576 shares outstanding at December 31, 2006; 42,390,280 shares issued and 29,912,616 shares outstanding at September 30, 2007	416	424
Class B common stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2006 and September 30, 2007	121	121
Paid-in capital	464,011	486,775
Retained earnings	598,293	646,457
Accumulated other comprehensive income		(4,930)
Treasury stock, at cost (11,198,964 Class A shares held at December 31, 2006 and 12,477,664 Class A shares held at September 30, 2007)	(159,001)	(193,424)

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Total stockholders' equity	903,840	935,423
Total Liabilities and Stockholders' Equity	\$ 3,124,764	\$ 3,230,131

See notes to unaudited condensed consolidated financial statements.

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(Dollars and shares in thousands)

(Unaudited)

	Class A		Class B		Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
	Common Stock Shares	Amount	Common Stock Shares	Amount						
BALANCE AT December 31, 2006	41,890	\$ 416	12,029	\$ 121	\$ 464,011	\$ 598,293	\$ (159,001)	\$	\$ 903,840	
Adoption of FIN 48						(8,582)			(8,582)	
Shares awarded under stock compensation plans	500	8			13,164				13,172	
Purchases of treasury stock							(34,423)		(34,423)	
Income tax benefit associated with stock compensation plans					3,398				3,398	
Income tax benefit associated with convertible note hedge					1,416				1,416	
Stock-based compensation expense					4,367				4,367	
Restricted stock amortization					2,845				2,845	
Restricted stock forfeiture					(2,426)				(2,426)	
Fair value of interest rate swap agreements, net of tax benefit of \$3,022								(4,930)	(4,930)	(4,930)
Net income						72,466			72,466	72,466
Dividends (\$0.36 per share)						(15,720)			(15,720)	
BALANCE AT September 30, 2007	42,390	\$ 424	12,029	\$ 121	\$ 486,775	\$ 646,457	\$ (193,424)	\$ (4,930)	\$ 935,423	\$ 67,536

See notes to unaudited condensed consolidated financial statements.

Table of Contents**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 57,878	\$ 72,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	17,983	20,258
Provision for bad debt expense	7,628	2,569
Other amortization	579	829
Debt issuance cost amortization	776	856
Debt discount amortization, net of premium amortization	505	588
Stock - based compensation expense	3,350	4,367
Amortization of Restricted Stock	1,402	2,845
Restricted stock forfeiture		(2,426)
Deferred income taxes	(1,807)	(2,216)
Equity interest in earnings of investees	(724)	(499)
Impairment of franchise agreements	2,525	3,100
Impairment of property and equipment	10,620	2,662
(Gain)/Loss on disposal of franchises and property and equipment	(2,804)	16
Loss on exit of leased dealerships	5,099	568
Changes in assets and liabilities that relate to operations:		
Receivables	67,497	23,022
Inventories	68,189	16,263
Other assets	12,384	2,532
Notes payable - floor plan - trade	(142,388)	(146,338)
Trade accounts payable and other liabilities	(505)	25,983
Total adjustments	50,309	(45,021)
Net cash provided by operating activities	108,187	27,445
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(99,374)	(211,671)
Purchases of property and equipment	(81,083)	(59,592)
Proceeds from sales of property and equipment	32,441	29,657
Proceeds from sale of franchises and businesses	27,852	52,415
Distributions from equity investees	600	900
Net cash used in investing activities	(119,564)	(188,291)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on notes payable floor plan - non-trade	145,020	108,837
Borrowings on revolving credit facilities	721,215	856,273
Repayments on revolving credit facilities	(825,306)	(784,859)
Debt issuance costs	(2,776)	
Proceeds from issuance of long-term debt		17,335

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Payments on long-term debt	(1,437)	(1,580)
Purchases of treasury stock	(12,629)	(34,423)
Income tax benefit associated with stock compensation plans	3,327	3,398
Income tax benefit associated with convertible hedge	1,300	1,416
Issuance of shares under stock compensation plans	12,993	13,172
Dividends paid	(15,232)	(15,732)
Net cash provided by financing activities	26,475	163,837
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,098	2,991
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,566	12,696
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 22,664	\$ 15,687
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:		
Change in accrual for purchases of property and equipment	\$ 2,599	\$ 135
Adoption of FIN No. 48	\$	\$ (8,582)
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Change in fair value of cash flow hedging instruments (net of tax benefit of \$13 and \$3,022 for the nine months ended September 30, 2006 and 2007, respectively)	\$ (20)	\$ (4,930)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 90,155	\$ 87,127
Income taxes	\$ 30,828	\$ 37,698

See notes to unaudited condensed consolidated financial statements.

Table of Contents**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation The accompanying unaudited condensed consolidated financial information for the quarter and nine months ended September 30, 2007 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). All significant intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of Sonic for the year ended December 31, 2006, which were included in Sonic's Annual Report on Form 10-K.

Adoption of FASB Interpretation No. 48 (FIN 48) In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". FIN 48 prescribes financial statement recognition and measurement criteria for a tax position taken or expected to be taken in a tax return. Sonic adopted the provisions of FIN 48 effective January 1, 2007. As allowed in the initial year of adoption, Sonic recorded a charge of \$8.6 million to 2007 beginning retained earnings resulting from its initial application of the provisions of FIN 48. At January 1, 2007, Sonic had liabilities of \$23.4 million recorded related to unrecognized tax benefits. Included in the liabilities related to unrecognized tax benefits is \$4.7 million related to interest and penalties which Sonic has estimated may be paid as a result of its tax positions. It is Sonic's policy to classify the expense related to interest and penalties to be paid on underpayments of income taxes within income tax expense. In addition, approximately \$6.1 million of the unrecognized tax benefits existing as of the date of adoption would affect the income tax rate if ultimately recognized.

Sonic and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Sonic's 2004 through 2006 U.S. federal income tax returns remain open to examination by the Internal Revenue Service (IRS). Sonic and its subsidiaries' state income tax returns are open for examination by state taxing authorities for years ranging from 2001 to 2006.

Reclassifications The statement of income for the quarter and nine month period ended September 30, 2006 reflects the reclassification of balances from continuing operations to discontinued operations from the prior year presentation for additional franchises sold and terminated or identified for sale subsequent to September 30, 2006. The statement of income for the quarter and nine month period ended September 30, 2006 also reflects the reclassification of balances from discontinued operations to continuing operations for franchises identified for sale as of September 30, 2006 but which Sonic has decided to retain and operate as of September 30, 2007.

Recent Accounting Pronouncements In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, the year beginning January 1, 2008 for Sonic. Sonic is currently reviewing the provisions of SFAS No. 157 to determine the impact on its consolidated operating results, financial position and cash flows.

In February 2007, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the year beginning January 1, 2008 for Sonic. Sonic is currently reviewing the provisions of SFAS No. 159 to determine the impact on its consolidated operating results, financial position and cash flows.

Operating Lease Accruals Accruals are established when the decision is made to cease using properties related to operating leases and the operating leases are no longer being utilized in Sonic's operations. These operating lease accruals represent the present value of the lease payments, net of estimated sublease rentals, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord. The following table sets forth the charges recorded:

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(dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Selling, general and administrative expenses	\$	\$ 321	\$ 4,637	\$ 779
Discontinued operations		286	278	884
Total	\$	\$ 607	\$ 4,915	\$ 1,663

A summary of the activity of the operating lease accruals consists of the following:

	(dollars in thousands)	
Balance, December 31, 2006	\$	8,731
Lease exit expense		1,663
Lease exit expense recovery		(1,095)
Payments		(2,254)
Balance, September 30, 2007	\$	7,045

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

Acquisitions The aggregate purchase price for franchises acquired during the first nine months of 2007 totaled approximately \$211.6 million in cash, net of cash acquired, and was funded by cash from operations, borrowings under our revolving credit facility and borrowings under our floor plan facilities. The balance sheet as of September 30, 2007 includes preliminary allocations of the purchase price of these acquisitions to the assets and liabilities acquired based on their estimated fair market values at the date of acquisition and are subject to final adjustment. As a result of these allocations, Sonic has recorded the following:

\$77.2 million of net assets relating to dealership operations;

\$8.7 million of intangible assets representing rights acquired under franchise agreements;

\$117.7 million of goodwill, all of which is expected to be tax deductible; and

\$8.0 million of intangible assets representing a favorable lease.

Dispositions In the nine month period ended September 30, 2007, Sonic identified five additional franchises to be held for sale and Sonic decided to retain and operate four franchises which were held for sale as of December 31, 2006. These five additional franchises have been identified as held for sale because of unprofitable operations or various strategic considerations. All franchises held for sale are expected to be sold within one year from September 30, 2007. The operating results of these franchises are included in the loss from discontinued operations in Sonic's statements of income. Also included within discontinued operations are the results from Sonic's wholly-owned finance subsidiary, Cornerstone Acceptance Corporation (Cornerstone) which was sold during the third quarter of 2007.

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Assets to be disposed of in connection with franchises not yet sold have been classified in assets held for sale on Sonic's balance sheets along with other assets held for sale. The major components of assets held for sale consist of the following:

	(dollars in thousands)	
	December 31, 2006	September 30, 2007
Inventories	\$ 106,581	\$ 74,223
Property and equipment, net	32,665	21,224
Goodwill	12,325	9,955
Franchise assets	9,000	3,600
Assets held for sale	\$ 160,571	\$ 109,002

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Liabilities to be disposed in connection with these dispositions are comprised primarily of notes payable floor plan and are classified as liabilities associated with assets held for sale on Sonic's balance sheets. Revenues and other activities associated with franchises classified as discontinued operations were as follows:

	(dollars in thousands)		(dollars in thousands)	
	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Revenues	\$ 180,185	\$ 132,171	\$ 576,793	\$ 407,541
Franchise agreement impairments		(1,850)	(2,525)	(3,100)
Lease exit charges		(286)	(278)	(884)
Property impairment charges	(481)	(2,150)	(6,834)	(2,662)
Gain / (Loss) on disposal of franchises	1,990	(177)	2,016	(190)
Pre-tax losses	(676)	(8,070)	(15,800)	(18,520)

Property impairment charges recorded above were determined based on the estimated fair value of the property and equipment to be sold in connection with the disposal of the associated franchises and recorded values. Franchise agreement impairments above were related to revising the estimated fair value of franchises held for sale. Lease exit charges above are discussed in footnote 1.

Sonic allocates corporate level interest to discontinued operations based on the net assets of the discontinued operations group. Interest allocated to discontinued operations for the third quarter ended September 30, 2006 and 2007 was \$0.2 million and \$0.6 million, respectively, and for the nine months ended September 30, 2006 and 2007 was \$2.1 million and \$1.8 million, respectively.

3. INVENTORIES

Inventories consist of the following:

	(dollars in thousands)	
	December 31, 2006	September 30, 2007
New vehicles	\$ 827,630	\$ 802,012
Used vehicles	145,028	173,294
Parts and accessories	57,266	62,726
Other	68,641	84,250
	\$ 1,098,565	\$ 1,122,282
Less inventories classified as assets held for sale	(106,581)	(74,223)
Inventories	\$ 991,984	\$ 1,048,059

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Property and equipment consists of the following:

	(dollars in thousands)	
	December 31, 2006	September 30, 2007
Land	\$ 25,016	\$ 23,617
Building and improvements	143,345	201,615
Office equipment and fixtures	65,621	66,158
Parts and service equipment	44,778	51,338
Company vehicles	9,519	9,984
Construction in progress	70,594	47,693
Total, at cost	358,873	400,405
Less accumulated depreciation	(79,459)	(93,491)
Subtotal	279,414	306,914
Less assets held for sale	(32,665)	(21,224)
Less construction in progress expected to be sold	(26,198)	(5,673)
Property and equipment, net	\$ 220,551	\$ 280,017

Construction in progress expected to be sold represent dealership facilities that are expected to be completed and sold in sale-leaseback transactions within one year. Under the terms of the sale-leaseback transactions, Sonic sells the properties to third party entities and enters into long-term operating leases on the facilities. In the first nine months of 2007, Sonic sold \$27.1 million in dealership facilities in sale-leaseback transactions. Sonic has no continuing obligations under these arrangements other than lease payments.

5. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of franchise agreements and goodwill for the nine months ended September 30, 2007 were as follows:

	(dollars in thousands)	
	Franchise Agreements	Goodwill
Balance, December 31, 2006	\$ 79,700	\$ 1,155,428
Additions through current year acquisitions	8,700	117,738
Prior year acquisition allocations		56
Impairment expense (discontinued operations)	(3,100)	
Reductions from sales of franchises		(1,150)
Reclassification from assets held for sale	5,400	2,371
Balance, September 30, 2007	\$ 90,700	\$ 1,274,443

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Franchise agreements and definite life intangible assets (\$112.3 million and \$94.1 million at September 30, 2007 and December 31, 2006, respectively) are classified as other intangible assets, net in Sonic's balance sheets.

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6. LONG-TERM DEBT

Long-term debt consists of the following:

	(dollars in thousands)	
	December 31, 2006	September 30, 2007
\$350 million 2006 Revolving Credit Sub-Facility (1) bearing interest at 2.00 percentage points above LIBOR	\$ 20,086	\$ 91,500
Senior Subordinated Notes bearing interest at 8.625% maturing August 15, 2013, net of net discount of \$2,470 and \$2,275, respectively	272,530	272,725
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009, net of discount of \$1,489 and \$1,035, respectively	128,611	129,065
Convertible Senior Subordinated Notes bearing interest at 4.25%, maturing November 30, 2015, redeemable on or after October 31, 2010, net of discount of \$3,202 and \$2,637, respectively	156,798	157,363
Notes payable to a finance company bearing interest from 9.52% to 10.52% (with a weighted average of 10.19%), with combined monthly principal and interest payments of \$325, maturing November 1, 2015 through September 1, 2016, and collateralized by letters of credit, including premium of \$4,840 and \$4,214, respectively	27,905	26,106
Mortgage notes to finance companies, bearing interest from 6.75% to 6.82% (with a weighted average of 6.77%) with combined monthly principal and interest payments of \$137, maturing July 2017 through May 2027		17,247
Fair value of Variable Swaps	(4,710)	(3,127)
Other	114	(217)
	\$ 601,334	\$ 690,662
Less current maturities	(2,707)	(3,169)
Long-term debt	\$ 598,627	\$ 687,493

(1) - As defined in Sonic's annual report on Form 10-K for the year ended December 31, 2006

During the second quarter of 2007 Sonic entered into two notes payable which are secured by mortgages on the underlying properties. Proceeds received were used to repay borrowings under our 2006 Revolving Credit Sub-Facility.

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Neither of the conversion features on the 5.25% or 4.25% convertible senior subordinated notes was satisfied during the nine months ended September 30, 2007. Sonic was in compliance with all financial covenants under the above long-term debt and credit facilities as of September 30, 2007.

During the nine month period ended September 30, 2007, Sonic entered into interest rate swap agreements to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. Under the terms of the swaps, Sonic will receive and pay interest based on the following:

(in millions)	Pay Rate	Receive Rate	Maturing Date
\$ 200.0	4.935%	one month LIBOR	May 1, 2012
\$ 100.0	5.002%	one month LIBOR	June 1, 2012
\$ 100.0	5.265%	one month LIBOR	June 1, 2012
\$ 100.0	5.319%	one month LIBOR	July 1, 2010
\$ 4.3	7.100%	one month LIBOR	July 10, 2017
\$ 25.0	5.160%	one month LIBOR	September 1, 2012
\$ 15.0	4.965%	one month LIBOR	September 1, 2012

These swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the swaps will be recorded in other comprehensive (loss)/income, net of related income taxes in the Consolidated Statements of Stockholders' Equity. The amount reclassified out of other comprehensive income into results of operations during the quarter and nine months ended September 30, 2007 was \$0.3 million and \$0.4 million, respectively.

7. STOCK-BASED COMPENSATION

Sonic currently has two stock compensation plans, the Sonic Automotive, Inc. 2004 Stock Incentive Plan (the 2004 Plan) and the 2005 Formula Restricted Stock Plan for Non-Employee Directors (the 2005 Formula Plan) (collectively, the Stock Plans). See Sonic's Annual Report on Form 10-K as of December 31, 2006 for a more detailed description of the Stock Plans. During the second quarter of 2007, Sonic's stockholders approved amendments to the 2004 Plan and the 2005 Formula Plan to increase the number of shares issuable under these plans to 3,000,000 and 90,000, respectively. The First America Automotive, Inc. 1997 Stock Option Plan (the First America Plan) terminated during the third quarter of 2007 and subsequent to the end of the third quarter of 2007 the Sonic Automotive, Inc. 1997 Stock Option Plan (the 1997 Plan) terminated.

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A summary of the status of the options related to the Stock Plans, 1997 Plan and the First American Plan is presented below:

	Options Outstanding (in thousands)	Exercise Price Per Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance - December 31, 2006	4,734	\$ 7.01	37.50	\$ 20.24	
Granted	350	28.04	30.07	29.34	
Exercised	(749)	7.01	26.92	17.59	
Forfeited	(299)	15.90	37.50	25.08	
Balance - September 30, 2007	4,036	7.80	37.50	21.16	5.5 \$ 19,777
Exercisable	3,094	\$ 7.80	37.50	\$ 20.04	4.7 \$ 18,422

(amounts in thousands, except per option data)	Nine Months Ended September 30, 2007
Weighted Average Grant-Date Fair Value Per Option of Options Granted	\$ 8.29
Intrinsic Value of Options Exercised	8,943
Fair Value of Options Vested	3,915

The weighted average fair value of options granted in the nine month period ended September 30, 2007 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007
Stock Option Plans	
Dividend yield	1.60 - 1.71%
Risk free interest rates	4.50 - 4.91%
Expected lives	3.5 - 5 years
Volatility	33.10%

Sonic used an expected term of 3.5 to 5 years for current year option grants based on observations of past grants and exercises. The historical exercise experience indicates that the expected term is at least three years (consistent with the three year graded vesting period attached to the majority of these options) and the grants that make up this experience are in the early to middle stages of their contractual terms of ten years. Expected volatility was estimated using Sonic's stock price over the last four years. Prior to this four year period, Sonic was a fast growing, new company in an un-established retail sector of the equity market. As such, the volatility of the stock between 1997 and 2002 was higher than what is expected in the future due to a change in strategy that includes a slower pace of acquisitions, the payment of quarterly dividends and the establishment of the retail automotive sector of the equity market.

Sonic recognized compensation expense within selling, general and administrative expenses related to the options in the Stock Plans of \$1.8 million and \$4.4 million in the third quarter and nine month period ended September 30, 2007, respectively. Tax benefits recognized related to the compensation expenses were \$0.7 million and \$1.7 million for the third quarter and nine month period ended September 30, 2007, respectively. Sonic recognized expenses of \$1.0 million and \$3.4 million in the third quarter and nine month period ended September 30, 2006,

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respectively. Tax benefits recognized related to the compensation expenses were \$0.4 million and \$1.3 million for the third quarter and nine month period ended September 30, 2006, respectively. The total compensation cost related to unvested options not yet recognized at September 30, 2007 was \$3.9 million and is expected to be recognized over a weighted average period of 0.6 years. Sonic received \$13.2 million in cash from the exercise of stock options during the nine month period ended September 30, 2007. Sonic's tax benefit associated with these stock option exercises was \$3.4 million during the nine month period ended September 30, 2007.

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

A summary of the status of restricted stock and restricted stock unit grants related to the Stock Plans is presented below:

	Unvested Restricted Stock and Restricted Stock Units (in thousands)	Weighted Average Grant Date Fair Value
Balance - December 31, 2006	265	\$ 25.52
Granted	318	30.28
Forfeited	(166)	23.76
Vested	(16)	25.69
Balance - September 30, 2007	401	\$ 29.94

In the first nine months of 2007, 318,307 restricted shares of Class A common stock and restricted stock units were awarded to Sonic's Board of Directors, executive officers and certain other executives under the 2004 Plan. Awards to the Board of Directors cliff-vest in one year, all other awards made in 2007 cliff-vest in three years. The shares and units granted in conjunction with 2007 incentive compensation for executive officers are subject to forfeiture, in whole or in part, based upon specified measures of Sonic's earnings per share performance for the 2007 fiscal year, continuation of employment and compliance with any restrictive covenants contained in any agreement between Sonic and the respective officer. These awards are generally subject to the same restrictions and rights as the awards granted in prior years to certain executive officers. In the first nine months of 2007, certain associates forfeited approximately 166,000 restricted shares of Class A common stock. As a result, previously recognized compensation expense relating to these shares was reversed, resulting in a reduction of selling, general and administrative expenses of \$2.4 million in the nine month period ended September 30, 2007. Including the effect of the forfeitures in 2007, Sonic recognized expense of \$0.1 million and \$0.4 million in the third quarter and nine month period ended September 30, 2007, respectively, and \$0.5 million and \$1.4 million in the third quarter and nine month period ended September 30, 2006. Tax benefits recognized related to the compensation expenses were none and \$0.2 million for the third quarter and nine month period ended September 30, 2007, and \$0.2 million and \$0.5 million for the third quarter and nine month period ended September 30, 2006, respectively. Total compensation cost related to unvested restricted stock not yet recognized at September 30, 2007 was \$8.9 million, and is expected to be recognized over a weighted average period of 2.2 years.

Table of Contents**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****8. PER SHARE DATA AND STOCKHOLDERS' EQUITY**

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

	Quarter Ended September 30, 2006						
	Income			Loss		Net Income	
	Shares	From Continuing Operations		From Discontinued Operations		Amount	Per Share Amount
		Amount	Per Share Amount	Amount	Per Share Amount		
Basic Earnings Per Share	42,292	\$ 29,030	\$ 0.69	\$ (422)	\$ (0.01)	\$ 28,608	\$ 0.68
Effect of Dilutive Securities:							
Contingently Convertible Debt (2002 Convertibles)	2,776	1,100		27		1,127	
Contingently Convertible Debt (2005 Convertibles)							
Stock Compensation Plans	614						
Diluted Earnings (Loss) Per Share	45,682	\$ 30,130	\$ 0.66	\$ (395)	\$ (0.01)	\$ 29,735	\$ 0.65

	Quarter Ended September 30, 2007						
	Income			Loss		Net Income	
	Shares	From Continuing Operations		From Discontinued Operations		Amount	Per Share Amount
		Amount	Per Share Amount	Amount	Per Share Amount		
Basic Earnings Per Share	42,539	\$ 31,756	\$ 0.75	\$ (5,649)	\$ (0.14)	\$ 26,107	\$ 0.61
Effect of Dilutive Securities:							
Contingently Convertible Debt (2002 Convertibles)	2,776	1,058		57		1,115	
Contingently Convertible Debt (2005 Convertibles)	755						
Stock Compensation Plans	908						
Diluted Earnings (Loss) Per Share	46,978	\$ 32,814	\$ 0.70	\$ (5,592)	\$ (0.12)	\$ 27,222	\$ 0.58

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

	For the Nine Months Ended September 30, 2006						
	Shares	Income		Loss		Net Income	
		From Continuing Operations		From Discontinued Operations		Per Share	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Earnings Per Share	42,289	\$ 67,916	\$ 1.61	\$ (10,038)	\$ (0.24)	\$ 57,878	\$ 1.37
Effect of Dilutive Securities:							
Contingently Convertible Debt (2002 Convertibles)	2,776	3,127		215		3,342	
Contingently Convertible Debt (2005 Convertibles)	184						
Stock Compensation Plans	802						
Diluted Earnings (Loss) Per Share	46,051	\$ 71,043	\$ 1.54	\$ (9,823)	\$ (0.21)	\$ 61,220	\$ 1.33

	For the Nine Months Ended September 30, 2007						
	Shares	Income		Loss		Net Income	
		From Continuing Operations		From Discontinued Operations		Per Share	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Earnings Per Share	42,769	\$ 85,430	\$ 2.00	\$ (12,964)	\$ (0.31)	\$ 72,466	\$ 1.69
Effect of Dilutive Securities:							
Contingently Convertible Debt (2002 Convertibles)	2,776	3,164		196		3,360	
Contingently Convertible Debt (2005 Convertibles)	1,095						
Stock Compensation Plans	991						
Diluted Earnings (Loss) Per Share	47,631	\$ 88,594	\$ 1.86	\$ (12,768)	\$ (0.27)	\$ 75,826	\$ 1.59

In addition to the stock options included in the table above, options to purchase 2.0 million shares and 0.8 million shares of Class A common stock were outstanding at September 30, 2006 and 2007, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

Sonic has two classes of common stock. Sonic has authorized 100.0 million shares of Class A common stock at a par value of \$0.01 per share. Class A common stock entitles its holder to one vote per share. Sonic has authorized 30 million shares of Class B common stock at a par value of \$0.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter. The two classes of stock share equally in dividends and in the event of liquidation.

9. CONTINGENCIES

Legal Proceedings:

Sonic is a defendant in the matter of Galura, et al. v. Sonic Automotive, Inc., a private civil action filed in the Circuit Court of Hillsborough County, Florida. In this action, originally filed on December 30, 2002, the plaintiffs allege that Sonic and Sonic's Florida dealerships sold an antitheft protection product in a deceptive or otherwise illegal manner, and further sought representation on behalf of any customer of any of Sonic's Florida dealerships who purchased the antitheft protection

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

product since December 30, 1998. The plaintiffs are seeking monetary damages and injunctive relief on behalf of this class of customers. In June 2005, the court granted the plaintiffs' motion for certification of the requested class of customers, but the court has made no finding to date regarding actual liability in this lawsuit. Sonic subsequently filed a notice of appeal of the court's class certification ruling with the Florida Court of Appeals. In April 2007, the Florida Court of Appeals affirmed a portion of the trial court's class certification, and overruled a portion of the trial court's class certification. Sonic intends to continue its vigorous appeal and defense of this lawsuit and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on Sonic's future results of operations, financial condition and cash flows. Currently, Sonic is unable to estimate a range of potential loss related to this matter.

Sonic is involved, and expects to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of Sonic's business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic's business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects. Included in other accrued liabilities at December 31, 2006 and September 30, 2007 were \$2.0 million and \$1.9 million, respectively, in reserves that Sonic has provided for pending proceedings.

Guarantees and Indemnifications:

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

In connection with franchise dispositions, certain of Sonic's dealership subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. The total estimated rent payments remaining under such leases as of September 30, 2007 and December 31, 2006 were approximately \$127.0 million and \$136.7 million, respectively. However, in accordance with the terms of the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance. Additionally, in connection with certain dispositions, Sonic has obtained indemnifications from the parent company or owners of these assignees and sublessees in the event of non-performance.

In accordance with the terms of agreements entered into for the sale of Sonic's franchises, Sonic generally agrees to indemnify the buyer from certain exposure and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic estimates that the maximum exposure associated with these general indemnifications if the counterparties failed to perform under their contractual obligations was approximately \$19.8 million and \$32.3 million at September 30, 2007 and December 31, 2006, respectively. These indemnifications generally expire within a period of one to three years following the date of sale. The estimated fair value of these indemnifications was not material.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Annual Report on Form 10-K for the year ended December 31, 2006.

Overview

We are one of the largest automotive retailers in the United States. As of September 30, 2007, we owned dealership subsidiaries that operated 175 dealership franchises, representing 35 different brands of cars and light trucks at 150 locations, and 36 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, manufacturer warranty repairs, paint and collision repair services, and arrangement of extended service contracts, financing, insurance and other aftermarket products (collectively, "F&I") for our automotive customers. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower priced, or economy vehicles, to luxury vehicles. We believe that this diversity reduces the risk of changes in customer preferences, product supply shortages and aging products. In addition, although vehicle sales are cyclical and are affected by many factors, including general economic conditions, consumer confidence, levels of discretionary personal income, interest rates and available credit, our parts, service and collision repair services are not closely tied to vehicle sales and are not as dependent upon near-term vehicle sales volume.

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

The following is a detail of our continuing operations new vehicle revenues by brand for the third quarter and nine month periods ended September 30, 2006 and 2007:

Brand (1)	Percentage of New Vehicle Revenue Quarter Ended September 30,		Percentage of New Vehicle Revenue Nine Months Ended September 30,	
	2006	2007	2006	2007
BMW	12.3%	16.2%	13.0%	15.5%
Honda	16.1%	14.1%	15.8%	14.4%
Toyota	13.1%	12.6%	12.4%	12.7%
Mercedes	8.9%	9.4%	9.2%	9.4%
General Motors (2)	8.6%	8.7%	8.6%	8.7%
Cadillac	9.2%	8.3%	9.0%	8.5%
Ford	7.8%	6.7%	8.0%	7.3%
Lexus	6.6%	6.5%	6.6%	6.7%
Other Luxury (3)	2.9%	3.7%	3.2%	3.7%
Volvo	2.7%	2.1%	2.5%	2.2%
Other (4)	2.1%	2.8%	2.2%	2.0%
Nissan	1.9%	1.5%	1.9%	1.6%
Audi	1.5%	1.6%	1.4%	1.6%
Hyundai	1.8%	1.4%	1.6%	1.4%
Porsche	1.1%	1.2%	1.3%	1.3%
Acura	1.1%	1.1%	1.2%	1.2%
Volkswagen	1.6%	1.3%	1.5%	1.3%
Chrysler (5)	0.7%	0.8%	0.6%	0.5%
Total	100.0%	100.0%	100.0%	100.0%

(1) In accordance with the provisions of SFAS No. 144, prior years' income statement data reflect reclassifications to exclude additional franchises sold, identified for sale, or terminated subsequent to September 30, 2006 which had not been previously included in discontinued operations. See Notes 1 and 2 to our accompanying Consolidated Financial Statements which discusses these and other factors that affect the comparability of the information for the periods presented.

- (2) Includes Buick, Chevrolet, GMC, Pontiac and Saturn
(3) Includes Hummer, Infiniti, Jaguar, Land Rover and Saab
(4) Includes Isuzu, KIA, Mini, Mitsubishi, Scion and Subaru
(5) Includes Chrysler, Dodge and Jeep

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 financial statements the results of operations of these dealerships prior to the date they were acquired. Our financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to September 30, 2007. 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.

On July 19, 2006, we issued a press release describing charges recorded during the second quarter of 2006 in connection with the decision to exit certain facility leases and cancel various facility improvement projects, asset impairments and other asset write-offs, finance chargeback reserves, litigation matters and an adjustment of certain tax strategies. These charges are discussed in more detail in the respective areas under

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the subsequent heading Results of Operations . The amount and location of the charges in the accompanying condensed consolidated statements of income for the third quarter and the nine month period ended September 30, 2006 are presented in the following table:

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

	Continuing Operations						Loss from operations and sale of discontinued franchises	Total
	Finance, insurance and other revenue	Cost of sales	Selling, general and administrative expenses	Depreciation and amortization (amounts in millions)	Provision for income taxes			
Real estate and other asset impairments / write-offs and lease exit costs	\$ 0.4	\$ 0.3	\$ 10.1	\$ 2.1	\$	\$ 5.8	\$ 18.7	
Finance chargeback reserves	6.2						6.2	
Legal accruals			1.2			0.5	1.7	
Effective income tax rate adjustment					1.0		1.0	
	\$ 6.6	\$ 0.3	\$ 11.3	\$ 2.1	\$ 1.0	\$ 6.3	\$ 27.6	

Results of Operations

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

Revenues*New Vehicles:*

	Quarter Ended		Units or \$		Nine Months Ended		Units or \$	
	9/30/2006	9/30/2007	Change	%	9/30/2006	9/30/2007	Change	%
Total New Vehicle Units								
Same Store	41,524	39,834	(1,690)	(4.1)%	117,853	114,075	(3,778)	(3.2)%
Acquisitions and Other	103	1,634	1,531	1486.4%	805	2,966	2,161	268.4%
Total as Reported	41,627	41,468	(159)	(0.4)%	118,658	117,041	(1,617)	(1.4)%
Total New Vehicle Revenues (in thousands)								
Same Store	\$ 1,274,991	\$ 1,264,679	\$ (10,312)	(0.8)%	\$ 3,645,701	\$ 3,643,437	\$ (2,264)	(0.1)%
Acquisitions and Other	4,683	77,524	72,841	1555.4%	23,545	128,283	104,738	444.8%
Total as Reported	\$ 1,279,674	\$ 1,342,203	\$ 62,529	4.9%	\$ 3,669,246	\$ 3,771,720	\$ 102,474	2.8%
Total New Vehicle Unit Price								
Same Store	\$ 30,705	\$ 31,749	\$ 1,044	3.4%	\$ 30,934	\$ 31,939	\$ 1,005	3.2%
Total Dealerships as Reported	\$ 30,741	\$ 32,367	\$ 1,626	5.3%	\$ 30,923	\$ 32,226	\$ 1,303	4.2%

During the third quarter and nine month period ended September 30, 2007, our new vehicle unit sales at our domestic dealerships decreased by 534 units, or 4.5%, and 2,252 units, or 6.5%, respectively, as compared to the same periods last year. This reduction is consistent with the changes reported in the industry's domestic new unit sales, which declined by 10.0% and 7.9% over the same periods. For the third quarter and nine month period ended September 30, 2007, our Ford stores experienced the most significant declines in new unit sales among our domestic brands, posting decreases of 390 units, or 8.9%, and 1,303 units, or 9.7%, respectively. However, our Ford stores outperformed the industry,

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which declined 18.8% and 13.7% during the same periods. Of our remaining domestic brands, GM (excluding Cadillac) stores' new unit sales increased by 106 units, or 2.2%, and decreased by 157 units, or 1.1%, respectively, over the same third quarter and nine month period. The GM (excluding Cadillac) third quarter new unit sales increase was driven by an increase in fleet sales of 180 units, or a 12.2% increase for the period. Overall, our GM (excluding Cadillac) stores outperformed the industry, which posted third quarter and nine month period declines of 6.1% and 6.6%, respectively.

New unit sales at our import dealerships decreased by 1,156, or 3.9%, and 1,526, or 1.8%, respectively, for the third quarter and nine month period ended September 30, 2007. The largest declines in our high-volume import brands came from our Honda stores, which posted new unit volume decreases of 5.1% for the third quarter and 4.2% for the nine month period.

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Our Honda stores continue to suffer from soft new vehicle conditions in the California market. On the luxury side, our Volvo stores experienced the most significant declines in unit volume, declining 18.8% and 13.8%, over the third quarter and nine month period ended September 30, 2007, respectively. These unit declines were partially offset by higher new unit volume sales in our BMW stores, which improved 12.4% for the third quarter and 8.6% for the nine month period.

Our domestic dealerships' average price per unit increased \$433, or 1.4%, and \$767, or 2.6%, respectively, for the third quarter and nine month period ended September 30, 2007. Fleet unit prices at our domestic stores improved over both periods, when compared to the same periods in 2006. The domestic price per unit increase was driven by our GM (excluding Cadillac) stores, posting new vehicle (including fleet) price per unit increases of 4.9% and 3.7% for the third quarter and nine month periods ended September 30, 2007, respectively.

Our import dealerships' average price per unit also increased, improving \$1,283, or 4.1%, and \$1,070, or 3.4%, for the third quarter and nine month period ended September 30, 2007, respectively. Our import stores' new vehicle price per unit increased primarily due to a change in sale mix to higher value vehicles. Our Toyota, BMW and Mercedes stores experienced the most significant improvements in average price per unit.

Used Vehicles:

	Quarter Ended		Units or \$		%	Nine Months Ended		Units or \$		%
	9/30/2006	9/30/2007	Change	Change		9/30/2006	9/30/2007	Change	Change	
Total Used Vehicle Units										
Same Store	17,305	18,239	934	5.4%	50,992	52,872	1,880	3.7%		
Acquisitions and Other	29	539	510	1758.6%	289	1,168	879	304.2%		
Total as Reported	17,334	18,778	1,444	8.3%	51,281	54,040	2,759	5.4%		
Total Used Vehicle Revenues (in thousands)										
Same Store	\$ 324,435	\$ 360,473	\$ 36,038	11.1%	\$ 975,527	\$ 1,042,279	\$ 66,752	6.8%		
Acquisitions and Other	747	15,900	15,153	2028.5%	5,355	30,721	25,366	473.7%		
Total as Reported	\$ 325,182	\$ 376,373	\$ 51,191	15.7%	\$ 980,882	\$ 1,073,000	\$ 92,118	9.4%		
Total Used Vehicle Unit Price										
Same Store	\$ 18,748	\$ 19,764	\$ 1,016	5.4%	\$ 19,131	\$ 19,713	\$ 582	3.0%		
Total Dealerships as Reported	\$ 18,760	\$ 20,043	\$ 1,283	6.8%	\$ 19,128	\$ 19,856	\$ 728	3.8%		

The overall improvement in unit volume was due primarily to the continued implementation of a used vehicle retail strategy at our dealerships. This strategy involves retailing more vehicles obtained through trades rather than wholesaling the vehicles. The overall increases in the average price per unit of 5.4% and 3.0% for the third quarter and nine month periods ended September 30, 2007, respectively, were mostly attributable to favorable pricing in the used vehicle market compared to last year and the shift of our revenue mix to luxury vehicles. Certified pre-owned vehicle (CPO) sales as a percentage of total used vehicle sales remained constant at 33.5% for the third quarter and declined from 34.8% to 34.2% for the nine month period ended September 30, 2007, as compared to the same periods in 2006.

Wholesale Vehicles:

	Quarter Ended		Units or \$		%	Nine Months Ended		Units or \$		%
	9/30/2006	9/30/2007	Change	Change		9/30/2006	9/30/2007	Change	Change	

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			Change	Change			Change	Change
Total Wholesale Vehicle Units								
Same Store	13,702	11,405	(2,297)	(16.8)%	39,481	34,568	(4,913)	(12.4)%
Acquisitions and Other	688	700	12	1.7%	2,207	2,126	(81)	(3.7)%
Total as Reported	14,390	12,105	(2,285)	(15.9)%	41,688	36,694	(4,994)	(12.0)%
Total Wholesale Vehicle Revenues (in thousands)								
Same Store	\$ 118,104	\$ 99,419	\$ (18,685)	(15.8)%	\$ 360,789	\$ 303,877	\$ (56,912)	(15.8)%
Acquisitions and Other	9,220	9,368	148	1.6%	30,415	27,523	(2,892)	(9.5)%
Total as Reported	\$ 127,324	\$ 108,787	\$ (18,537)	(14.6)%	\$ 391,204	\$ 331,400	\$ (59,804)	(15.3)%
Total Wholesale Unit Price								
Same Store	\$ 8,619	\$ 8,717	\$ 98	1.1%	\$ 9,138	\$ 8,791	\$ (347)	(3.8)%
Total Dealerships as Reported	\$ 8,848	\$ 8,987	\$ 139	1.6%	\$ 9,384	\$ 9,031	\$ (353)	(3.8)%

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

Lower revenues realized in both the third quarter and nine month period ended September 30, 2007 were driven by declines in unit volume of 16.8% and 12.4%, respectively. These decreases in unit volume can be primarily attributed to our increased focus on retail used vehicles (see Used Vehicles above).

Parts, Service and Collision Repair (Fixed Operations):

	Quarter Ended		\$	%	Nine Months Ended		\$	%
	9/30/2006	9/30/2007	Change	Change	9/30/2006	9/30/2007	Change	Change
Total Parts, Service and Collision Repair (in thousands)								
Same Store	\$ 280,597	\$ 287,104	\$ 6,507	2.3%	\$ 829,334	\$ 856,390	\$ 27,056	3.3%
Acquisitions and Other	3,372	16,209	12,837	380.7%	8,822	33,279	24,457	277.2%
Total as Reported	\$ 283,969	\$ 303,313	\$ 19,344	6.8%	\$ 838,156	\$ 889,669	\$ 51,513	6.1%

During the third quarter and the nine month period ended September 30, 2007, customer pay revenue increased \$7.0 million, or 5.6%, and \$25.5 million, or 6.9%, respectively. The increase during the third quarter was partially offset by decreases in warranty revenue of \$2.0 million, or 3.7%, and wholesale parts of \$2.8 million, or 7.8%. The increase during the nine month period was partially offset by a decrease in warranty revenue of \$7.6 million, or 4.6%, and wholesale parts of \$4.5 million, or 4.1%. Warranty revenues declined in the quarter and nine month period primarily due to vehicle quality improvements and warranty program changes at Mercedes stores. Import and luxury import brands were primarily responsible for the increases in customer pay revenue for the third quarter and nine month period ended September 30, 2007.

Finance, Insurance and Other (F&I):

	Quarter Ended		\$	%	Nine Months Ended		\$	%
	9/30/2006	9/30/2007	Change	Change	9/30/2006	9/30/2007	Change	Change
Total Finance, Insurance and Other Revenue (in thousands)								
Same Store	\$ 50,800	\$ 52,550	\$ 1,750	3.4%	\$ 139,563	\$ 152,283	\$ 12,720	9.1%
Acquisitions and Other	881	2,649	1,768	200.7%	2,768	5,597	2,829	102.2%
Total as Reported	\$ 51,681	\$ 55,199	\$ 3,518	6.8%	\$ 142,331	\$ 157,880	\$ 15,549	10.9%

Total F&I per Unit (excluding fleet)

Same Store	\$ 926	\$ 977	\$ 51	5.5%	\$ 892	\$ 987	\$ 95	10.7%
Total Dealerships as Reported	\$ 940	\$ 987	\$ 47	5.0%	\$ 903	\$ 997	\$ 94	10.4%

Despite decreases in new and used retail unit sales volume, F&I revenue increased in the third quarter and nine month period ended September 30, 2007 as compared to the same periods last year. The increase over the prior year periods is partly due to the \$6.6 million charge recorded in the second quarter of 2006 and is also a direct result of our implementation of an electronic F&I menu which allows for a more consistent presentation of our product offerings to each of our customers.

Gross Profit and Gross Margins

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Our gross margin percentage remained flat for the third quarter and increased for the nine month period ended September 30, 2007, as compared to the same periods last year. The nine month period 30 basis points increase is largely attributed to the revenue growth in our Fixed Operations and F&I activities, which generate higher gross margins, and the \$6.6 million charge recorded in the second quarter of 2006 discussed in the F&I section above. The increase in the gross margin percentage was also driven by the shift of revenues from wholesale vehicles to used vehicles.

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	Quarter Ended				Nine Months Ended				Basis Point Change		
	9/30/2006		9/30/2007		9/30/2006		9/30/2007				
Revenues											
as a	Gross Profit		Gross Profit	Revenues	Gross Profit	Revenues	Gross Profit	Revenues	Gross Profit	Revenues	Gross Profit
Percentage	as a	Revenues	as a	as a	as a	as a	as a	as a	as a	as a	as a
of Total	Percentage	as a	Percentage	Percentage	Percentage	Percentage	Percentage	Percentage	Percentage	Percentage	Percentage
	of Total	of Total	of Total	of Total	of Total	of Total	of Total	of Total	of Total	of Total	of Total
Revenues	Profit	Revenues	Profit	Revenues	Profit	Revenues	Profit	Revenues	Profit	Revenues	Profit
	62.2%	29.7%	61.3%	27.5%	(90)	(220)	61.3%	29.4%	60.7%	27.1%	(60)
	15.8%	9.7%	17.5%	10.2%	170	50	16.4%	10.3%	17.4%	10.5%	100
	5.8%	(0.6)%	4.8%	(0.5)%	(100)	10	6.1%	(0.4)%	5.1%	(0.3)%	(100)
	13.7%	44.9%	13.9%	46.2%	20	130	13.9%	45.4%	14.3%	46.4%	40
	2.5%	16.3%	2.5%	16.6%	0	30	2.3%	15.3%	2.5%	16.3%	20
	100.0%	100.0%	100.0%	100.0%			100.0%	100.0%	100.0%	100.0%	

The gross margin rates on our various revenue lines on a same store basis were as follows:

	Quarter Ended			Nine Months Ended		Basis Point
	9/30/2006	9/30/2007	Basis Point Change	9/30/2006	9/30/2007	Change
New vehicles	7.3%	6.9%	(40)	7.4%	6.9%	(50)
Used vehicles	9.4%	8.9%	(50)	9.7%	9.4%	(30)
Wholesale vehicles	(1.6)%	(1.6)%	0	(1.0)%	(0.9)%	10
Parts, service and collision repair	50.0%	50.7%	70	43.3%	50.5%	720
Finance and insurance	100.0%	100.0%		100.0%	100.0%	
Total same store gross margin	15.3%	15.3%	0	15.3%	15.6%	30

Selling, General and Administrative Expenses (SG&A)

For the third quarter and nine month period ended September 30, 2007, continuing operations SG&A expenses increased by \$12.6 million, or 5.3%, and \$11.6 million, or 1.6%, respectively, as compared to the same periods last year. Continuing operations SG&A expenses as a percentage of gross profit were 74.4% and 75.3% for the third quarter and nine month period ended September 30, 2007, respectively, compared to 74.8% and 77.8% for the third quarter and nine month period ended September 30, 2006. Charges recorded in SG&A expenses in the second quarter of 2006 totaled \$11.4 million and primarily relate to asset impairments, lease exit charges and legal charges. Absent these charges, and others that affected gross profit in the amount of \$6.9 million (presented in the table of second quarter 2006 charges and partially discussed in the F&I section above), SG&A expenses as a percentage of gross profit would have been 76.0% for the nine month period ended September 30, 2006. The 40 and 70 basis point decrease in the third quarter and nine month period, respectively, compared to the adjusted prior year periods is primarily attributed to higher gross profit dollars and reductions in employee compensation costs slightly offset by higher rent expenses.

Depreciation and Amortization

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Reported depreciation and amortization expense increased over the comparable three and nine month periods by \$0.1 million, or 0.8%, and \$2.9 million, or 16.7%, respectively. Additional depreciation expense of \$2.1 million was recorded during the second quarter of 2006 related to projects no longer held for sale. Excluding the prior year charge, continuing operations depreciation and amortization expense increased \$5.0 million for the nine month period ended September 30, 2007 over the comparable prior year period in 2006. This increase was due to capital improvements made during 2007 and our strategic shift to continue to own and hold more dealership properties rather than recover our investment in these properties through sale-leaseback transactions.

Interest Expense, Floor Plan

The weighted average floor plan interest rate incurred for new vehicles by continuing dealerships was 6.35% for the third quarter ended September 30, 2007, compared to 6.03% for the third quarter ended September 30, 2006, which increased new vehicle floor plan interest expense by \$0.7 million. The average new vehicle floor plan notes payable balance from continuing dealerships increased to \$968.5 million during the third quarter of 2007 from \$912.6 million during the third quarter of 2006, resulting in increased new vehicle floor plan interest expense of \$0.9 million.

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

The weighted average floor plan interest rate incurred for new vehicles by continuing dealerships was 6.39% for the nine month period ended September 30, 2007, compared to 5.75% for the nine month period ended September 30, 2006, which increased new vehicle floor plan interest expense by \$4.4 million. The average new vehicle floor plan notes payable balance from continuing dealerships increased to \$968.6 million during the nine month period ended September 30, 2007 from \$931.1 million during the nine month period ended September 30, 2006, resulting in increased new vehicle floor plan interest expense of \$1.8 million.

Our new vehicle floor plan interest expenses are partially offset by amounts received from manufacturers in the form of floor plan assistance. These payments are credited against cost of sales upon the sale of the vehicle. During the third quarter of 2007 and 2006, our new vehicle floor plan interest exceeded the amounts we recognized in our income statement (for continuing operations dealerships) from floor plan interest assistance by approximately \$7.3 million and \$5.8 million, respectively, primarily due to a decrease in the amounts received in assistance in the third quarter of 2007 compared to the third quarter of 2006. During the nine months ended September 30, 2006 and 2007, our new vehicle floor plan interest exceeded the amounts we recognized in our income statement (for continuing operations dealerships) from floor plan interest assistance by approximately \$23.1 million and \$16.0 million, respectively. We expect the gap between floor plan interest expense incurred and floor plan assistance received to continue to widen as our portfolio of brands shifts more toward luxury and import brands which pay less floor plan assistance compared to domestic brands.

Interest expense on our used vehicle floor plan facility was approximately \$1.8 million for the third quarter of 2007 compared to \$1.6 million for the third quarter of 2006. Interest expense on our used vehicle floor plan facility was approximately \$4.7 million for the nine month period ending September 30, 2007 compared to \$3.6 million in the same period in 2006. Interest expense in the first nine months of 2006 was lower than 2007 primarily due to the used floor plan facility existing for only a portion of time in the nine month period of 2006.

Interest Expense, Other

Interest expense, other for the third quarter and nine months ended September 30, 2007 compared to 2006 is summarized in the table below:

	Quarter Ended September 30, 2007 Increase/(Decrease) in Interest Expense (in millions)	Nine Months Ended September 30, 2007 Increase/(Decrease) in Interest Expense (in millions)
Interest rates		
- Changes in the average interest rate on the revolving facilities (from 7.4% in both the third quarter and nine months ended September 30, 2006 to 7.5% and 7.4% in the third quarter and nine months ended September 30, 2007)	\$ 0.1	\$
Debt balances		
- Decrease in debt balances	0.8	(4.5)
Other factors		
- Decrease in capitalized interest	0.5	0.6
- Interest expense related to Fixed Swaps	(0.3)	(0.3)
- Incremental interest expense related to the Old and New Variable Swaps (1)	0.2	0.9
- Interest allocation to discontinued operations	(0.4)	0.4
- Increase in other expense, net	(0.1)	0.7
	\$ 0.8	\$ (2.2)

(1) - As defined in our Annual Report on Form 10-K for the year ended December 31, 2006

Other Income/(Expense)

Expense of \$0.6 million in the nine months ended September 30, 2006 primarily relate to expenses associated with the termination of our then existing revolving credit facility.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Income Taxes

The overall effective tax rates of 40.6% and 40.4% for the third quarter and nine month period ended September 30, 2007, respectively, compare to the prior period effective rates of 40.1% and 40.4% for the third quarter and nine month period ended September 30, 2006, respectively. The current third quarter effective rate is slightly higher than the prior year quarter due to the shift in the distribution of taxable income between states in which we operate. We expect the rate for the remainder of 2007 to range from 39.5% to 40.5%.

Liquidity and Capital Resources

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

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

Floor Plan Facilities

The weighted average interest rate for all of our new vehicle floor plan facilities (both continuing and discontinued operations) was 6.40% and 6.14% for the third quarter ended September 30, 2007 and 2006, respectively, and 6.44% and 5.86% for the nine month periods ended September 30, 2007 and 2006, respectively. In the third quarter ended September 30, 2007, we received approximately \$10.1 million in manufacturer assistance, which was approximately \$8.7 million less than the amount we paid for floor plan interest. In the nine month period ended September 30, 2007, we received approximately \$30.0 million in manufacturer assistance, which was approximately \$26.0 million less than the amount we paid for floor plan interest. Interest payments under each of our floor plan facilities are due monthly, and we are generally not required to make principal repayments prior to the sale of the vehicles. We were in compliance with all restrictive covenants under our floor plan facilities as of September 30, 2007.

The weighted average interest rate for our used vehicle floor plan facility (whose interest expense is allocated to discontinued and continuing operations) was 6.64% and 6.57% for the third quarter and nine month period ended September 30, 2007, respectively.

Long-Term Debt and Credit Facilities

Mortgage Notes: During the second quarter of 2007, we obtained mortgage financing on two of our dealership properties. The associated notes require monthly payments of principal and interest through maturity (between July 2017 and May 2027) and are secured by the underlying properties. Proceeds received were used to repay borrowings under our 2006 Revolving Credit Sub-Facility (as defined in our Annual Report on Form 10-K for the year ended December 31, 2006).

2006 Revolving Credit Sub-Facility: At September 30, 2007, our 2006 Revolving Credit Sub-Facility had a borrowing limit of \$350.0 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by one of our affiliates (the borrowing base was approximately \$415.5 million at September 30, 2007). The amount available to be borrowed under the 2006 Revolving Credit Sub-Facility is reduced on a dollar-for-dollar basis by the cumulative face amount of outstanding letters of credit. At September 30, 2007, we had \$72.5 million in letters of credit outstanding and \$186.0 million of borrowing availability.

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At September 30, 2007, the outstanding balance on our long-term debt and credit facilities was as follows:

	Interest Rate (1)	(\$ in millions) Outstanding Balance
2006 Revolving Credit Sub-Facility (matures February 2010)	LIBOR + 2.00% (2)	\$ 91.5
Senior Subordinated Notes (mature August 2013)	8.625%	\$ 272.7
5.25% Convertible Senior Subordinated Notes (mature May 2009) (3)	5.25%	\$ 129.1
4.25% Convertible Senior Subordinated Notes (mature November 2015 and are redeemable on or after October 2010) (3)	4.25%	\$ 157.4
Mortgage notes to finance companies (mature July 2017 through May 2027)	6.77% (4)	\$ 17.2
Notes payable to a finance company (mature November 2015 through September 2016)	10.19% (4)	\$ 26.1

(1) Six-month LIBOR was 5.132% at September 30, 2007.

(2) Interest rate on the 2006 Revolving Credit Sub-Facility is established on a performance - based grid that ranges from 1.75% to 2.75% above LIBOR.

(3) Notes were not convertible at any time during the nine months ended September 30, 2007.

(4) Weighted average rate.

We were in compliance with all of the restrictive and financial covenants under all our long-term debt and credit facilities as of September 30, 2007.

The FASB has issued an exposure draft clarifying the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion (FASB Staff Position (FSP) APB 14-a). The proposed guidance, if issued in final form, will impact the accounting for our 4.25% Convertible Senior Subordinated Notes. The proposed FSP would require us to separately account for the liability and equity components of the 4.25% Convertible Senior Subordinated Notes in a manner that reflects our nonconvertible debt borrowing rate at the date of the notes' issuance. This would effectively increase the amount of debt discount recorded in conjunction with the issuance of the 4.25% Convertible Senior Subordinated Notes with an offset in stockholders' equity. We would then be required to amortize the discount over the term of the 4.25% Convertible Senior Subordinated Notes, thereby increasing interest expense. This proposed guidance would not have any impact on our consolidated cash flows. We are currently evaluating the impact of this exposure draft on our consolidated operating results and financial position.

Dealership Acquisitions and Dispositions

In the first nine months of 2007, we acquired ten franchises for an aggregate purchase price of \$211.6 million in cash, net of cash acquired, using cash from operations, borrowings under the 2006 Revolving Credit Sub-Facility and borrowings under our floor plan facilities. During the first nine months of 2007, we disposed of six franchises and the assets of our finance subsidiary, Cornerstone Acceptance Corporation. These disposals generated cash of \$52.4 million.

Sale-Leaseback Transactions

In the first nine months of 2007, we sold \$27.1 million in dealership facilities in sale-leaseback transactions. We have no continuing obligations under these arrangements other than lease payments.

Capital Expenditures

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Our capital expenditures include the construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. Capital expenditures in the first nine months of 2007 were approximately \$59.6 million. Capital expenditures incurred during the first nine months of 2007 expected to be sold within a year in sale-leaseback transactions were \$4.4 million. We do not expect any significant gains or losses from these sales. As of September 30, 2007, commitments for facilities construction projects totaled approximately \$25.6 million. We expect approximately \$6.5 million of this amount to be financed through future sale-leaseback transactions.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Share Repurchase Program

As of September 30, 2007, pursuant to previous authorizations from our Board of Directors, we had approximately \$7.8 million available to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. In the first nine months of 2007, we repurchased 1,278,700 shares for approximately \$34.4 million, which was offset by proceeds received from the exercise of stock options under stock compensation plans of \$13.2 million.

Subsequent to September 30, 2007, we spent approximately \$8.9 million repurchasing additional shares of our Class A common stock. During the fourth quarter of 2007, the Board authorized an additional \$40.0 million to be used in the share repurchase program.

Dividends

During the third quarter of 2007, our Board of Directors approved a quarterly cash dividend of \$0.12 per share for stockholders of record on September 15, 2007, which was paid on October 15, 2007. Subsequent to September 30, 2007, our Board of Directors approved a quarterly cash dividend of \$0.12 per share for stockholders of record on December 15, 2007, which will be paid on January 15, 2008.

Cash Flows

For the nine months ended September 30, 2007, net cash provided by operating activities was approximately \$27.4 million. This provision of cash was comprised of cash inflows related to net income, receivables, inventories and trade accounts payable and other liabilities somewhat offset by a reduction of notes payable floor plan trade. Net cash used in investing activities during the first nine months of 2007 was \$188.3 million. This use of cash was primarily comprised of cash out flows used for dealership acquisitions. Net cash provided by financing activities for the nine months ended September 30, 2007 was approximately \$163.8 million, comprised mostly of the increase of notes payable floor plan non-trade and net borrowings under the 2006 Credit Facility.

The operating cash flow reduction of notes payable floor plan trade is related to how we chose to finance our new vehicle inventory purchases. Collectively, notes payable floor plan trade (included in cash flows from operating activities) and non-trade (included in cash flows from financing activities) affected our net cash position by increasing cash by \$2.6 million in the nine month period ended September 30, 2006 and decreased cash by \$37.5 million in the nine month period ended September 30, 2007.

Guarantees and Indemnifications

In connection with the operation and disposition of dealership franchises, we have entered into various guarantees and indemnifications. See Note 9 to the accompanying financial statements.

Future Liquidity Outlook

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

Off-Balance Sheet Arrangements

See Management's Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements in our Annual Report on Form 10-K for the year ended December 31, 2006 for a description of our off-balance sheet arrangements.

Seasonality

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

Table of Contents**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****Item 3: Quantitative and Qualitative Disclosures About Market Risk.**
Interest Rate Risk

Our variable rate notes payable floor plan, 2006 Credit Facility (as defined in our Annual Report on Form 10-K for the year ended December 31, 2006) 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 \$812.8 million at September 30, 2007. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$9.1 million in the first nine months of 2007. Of the total change in interest expense, approximately \$8.7 million would have resulted from notes payable floor plan.

Our exposure to notes payable floor plan is mitigated by floor plan assistance payments received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. These payments are capitalized as inventory and charged against cost of sales when the associated inventory is sold. During the nine months ended September 30, 2007, the amounts we paid for floor plan interest expense for both our continuing and discontinued operations exceeded manufacturer floor plan assistance received by approximately \$26.0 million.

In addition to our variable rate debt, approximately 25% of our dealership facility lease agreements monthly lease payments fluctuate based on LIBOR interest rates. Many of our lease agreements have interest rate floors whereby our lease expense would not fluctuate significantly in periods when LIBOR is relatively low.

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

During the nine month period ended September 30, 2007, we entered into interest rate swap agreements (collectively, the Cash Flow Swaps) to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. Under the terms of these swaps, we receive interest payments on an aggregate \$544.3 million notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at fixed rates ranging from 4.935% to 7.1% (with a weighted average rate of 5.107%) until the swaps mature. All of the swaps mature between May 2012 and September 2012 except two swaps, one with a notional amount of \$100.0 million and a pay rate of 5.319% which matures July 1, 2010, and another with a notional amount of \$4.3 million and a pay rate of 7.1% which matures July 10, 2017. The Cash Flow Swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the swaps will be recorded in other comprehensive (loss)/income, net of related income taxes in the Consolidated Statements of Stockholders Equity.

Subsequent to September 30, 2007, we entered into an additional cash flow swap with a notional amount of \$25.0 million. We will make interest payments at a fixed rate of 4.885% and will receive interest payments at a rate equal to one month LIBOR. This swap matures on October 1, 2012.

Foreign Currency Risk

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

Item 4: Controls and Procedures.

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the design and

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operation of our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. During our last fiscal quarter, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

PART II OTHER INFORMATION

Item 1: Legal Proceedings.

We are a defendant in the matter of Galura, et al. v. Sonic Automotive, Inc., a private civil action filed in the Circuit Court of Hillsborough County, Florida. In this action, originally filed on December 30, 2002, the plaintiffs allege that we and our Florida dealerships sold an antitheft protection product in a deceptive or otherwise illegal manner, and further sought representation on behalf of any customer of any of our Florida dealerships who purchased the antitheft protection product since December 30, 1998. The plaintiffs are seeking monetary damages and injunctive relief on behalf of this class of customers. In June 2005, the court granted the plaintiffs' motion for certification of the requested class of customers, but the court has made no finding to date regarding actual liability in this lawsuit. We subsequently filed a notice of appeal of the court's class certification ruling with the Florida Court of Appeals. In April 2007, the Florida Court of Appeals affirmed a portion of the trial court's class certification, and overruled a portion of the trial court's class certification. We intend to continue our vigorous appeal and defense of this lawsuit and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

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

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

RISK FACTORS

ITEM 1A: Risk Factors.

Risks Related to Our Indebtedness

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

As of September 30, 2007, our total outstanding indebtedness was \$1,813.9 million, including the following:

\$91.5 million under the revolving credit line of our four-year syndicated credit facility (the 2006 Revolving Credit Sub-Facility);

\$1,123.2 million under the secured new and used inventory floor plan facilities, including \$64.1 million classified as liabilities associated with assets held for sale;

\$129.1 million in 5.25% convertible senior subordinated notes due 2009 (the 2002 Convertibles) representing \$130.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$1.0 million;

\$157.4 million in 4.25% convertible senior subordinated notes due 2015, redeemable on or after November 30, 2010, (the 2005 Convertibles) representing \$160.0 million in aggregate principal amount outstanding less unamortized discount of approximately \$2.6 million;

\$272.7 million in 8.625% senior subordinated notes due 2013 (the 8.625% Notes) representing \$275.0 million in aggregate principal amount outstanding less unamortized net discount of approximately \$2.3 million;

\$17.2 million of mortgage notes due from May 2027 to August 2027 with a weighted average rate of 6.77%; and

\$22.8 million of other secured debt, representing \$21.6 million in aggregate principal amount plus unamortized premium of approximately \$4.2 million and less \$3.0 million for the fair value of fixed to variable interest rate swaps.

As of September 30, 2007, we had \$186.0 million available for additional borrowings under the 2006 Revolving Credit Sub-Facility. We also have significant additional capacity under new and used floor plan facilities. In addition, the indentures relating to our 8.625% Notes, 2002 Convertibles and 2005 Convertibles and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness. Our 2006 Revolving Credit Sub-Facility, up to \$700.0 million in borrowing availability for new vehicle inventory floor plan financing and up to \$150.0 million in borrowing availability for used vehicle inventory floor plan financing are collectively referred to as our 2006 Credit Facility .

In addition, the majority of our dealership properties are leased under long-term operating lease arrangements (which many view as debt financing) that generally have initial terms of fifteen to twenty years with one or two five-year renewal options. These operating leases require monthly payments of rent that may fluctuate based on interest rates and local consumer price indices. The total future minimum lease payments related to these operating leases and certain equipment leases are significant and are disclosed in the notes to our financial statements under the heading Commitments and Contingencies in our Annual Report on Form 10-K for the year ended December 31, 2006.

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 and facility leases are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates;

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the indebtedness outstanding under our 2006 Credit Facility and other 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.

The FASB has issued an exposure draft clarifying the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion (FASB Staff Position (FSP) APB 14-a). The proposed guidance, if issued in final form, will impact the accounting for our 4.25% Convertible Senior Subordinated Notes. The proposed FSP would require us to separately account for the liability and equity components of the 4.25% Convertible Senior Subordinated Notes in a manner that reflects our nonconvertible debt borrowing rate at the date of the notes' issuance. This would effectively increase the amount of debt discount recorded in conjunction with the issuance of the 4.25% Convertible Senior Subordinated Notes with an offset in stockholders' equity. We would then be required to amortize the discount over the term of the 4.25% Convertible Senior Subordinated Notes, thereby increasing interest expense. This proposed guidance would not have any impact on our consolidated cash flows. We are currently evaluating the impact of this exposure draft on our consolidated operating results and financial position.

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

Our 2006 Credit Facility, the indenture governing our 8.625% Notes, our mortgage notes and many of our facility operating leases 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 2002 Convertibles, 2005 Convertibles, our mortgage notes and 8.625% 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.

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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, financial condition and cash flows. We cannot guarantee 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;

employee pricing;

dealer incentives on new vehicles;

manufacturer floor plan interest and advertising assistance;

warranties on new and used vehicles; and

sponsorship of used vehicle sales by authorized new vehicle dealers.

Manufacturers frequently offer incentives to potential customers. A reduction or discontinuation of a manufacturer's incentive programs may materially adversely impact vehicle demand and affect our profitability.

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

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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 nine months ended September 30, 2007, approximately 89.4% of our new vehicle revenue was derived from the sale of new vehicles manufactured by Ford, Honda, General Motors (including Cadillac), BMW, Mercedes and Toyota. Our success depends to a great extent on these manufacturers :

financial condition;

marketing;

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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.

As of September 30, 2007, we owned 25 Ford franchises (including Volvo, Jaguar, Land Rover, Lincoln and Mercury) and 40 General Motors franchises (including Cadillac, Saab, Saturn, Chevrolet, Buick, GMC, Hummer and Pontiac). Should the financial condition and operating results of either Ford or General Motors continue to deteriorate, it is possible that the particular manufacturer could file for bankruptcy protection. Such a bankruptcy filing by either Ford or General Motors could have a material adverse effect on our future results of operations, financial condition or cash flows.

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

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

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

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

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

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Our failure to meet a manufacturer's customer 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 manufacturer-determined consumer satisfaction index (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. However, the ability of a manufacturer to grant additional franchises is based on several factors which are not within our control. If manufacturers grant new franchises in areas near or within our existing markets, this could significantly impact our revenues and/or profitability. Further, 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

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 CSI scores. Obtaining manufacturer approval of acquisitions also takes a significant amount of time, typically three to five months. We cannot assure you that manufacturers will approve future acquisitions or do so on a timely basis, which could impair the execution of our acquisition strategy.

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

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

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

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

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

the difficulties of managing operations located in geographic areas where we have not previously operated;

the management time and attention required to integrate and manage newly acquired dealerships;

the difficulties of assimilating and retaining employees;

the challenges of keeping customers; and

the challenge of retaining or attracting appropriate dealership management personnel.

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;

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potential undiscovered liabilities and operational difficulties at acquired dealerships;

disrupting our ongoing business;

diverting our 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.

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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 the indebtedness under the 2006 Credit Facility and our separate floor plan indebtedness with the respective captive finance subsidiaries of BMW, DaimlerChrysler, Ford and General Motors. Three of the lenders under the 2006 Credit Facility are the respective captive finance subsidiaries of BMW, Nissan and Toyota. These pledges may impede our ability to borrow from other sources. Moreover, because the identified manufacturer captive finance subsidiaries are either owned or affiliated with BMW, DaimlerChrysler, Ford, General Motors, Nissan and Toyota, respectively, any deterioration of our relationship with the particular captive finance subsidiary could adversely affect our relationship with the affiliated manufacturer, and vice-versa.

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.

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

Our obligations under the 2006 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 (SFC), an entity controlled by Mr. Smith. Presently, the \$350 million borrowing limit of our 2006 Revolving Credit Sub-Facility is subject to a borrowing base calculation that is based, in part, on the value of the Speedway Motorsports shares pledged by SFC. Consequently, a withdrawal of this pledge by SFC or a significant decrease in the value of Speedway Motorsports common stock could reduce the amount we can borrow under the 2006 Revolving Credit Sub-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 has resulted, as these leases expire, in a large increase in the number of late model used vehicles available in the market, which puts added pressure on new and used vehicle margins. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if manufacturers decide to enter the retail market directly.

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

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 services offered on the Internet 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 operating margins may decline over time as we expand into markets where we do not have a leading position.

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

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. Future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles.

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Consumer buying patterns may also be adversely affected by deterioration in the health of the consumer mortgage market. Although the consumer mortgage market does not directly affect the availability of credit to consumers of vehicles, consumers may alter or delay their buying habits in response to market conditions.

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, bylaws, 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 or approved by the Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a:

going private transaction;

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

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

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

Several private civil actions have been filed against Sonic Automotive, Inc. and several of our dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and make allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions has been filed in South Carolina state court against Sonic Automotive, Inc. and 10 of our South Carolina subsidiaries. We have been advised that the plaintiffs' attorneys in this South Carolina private civil action intend to file private civil class actions against Sonic Automotive, Inc. and certain of its subsidiaries in other states. This group of plaintiffs' attorneys has filed another one of these private civil class action lawsuits in state court in North Carolina seeking certification of a multi-state class of plaintiffs. The South Carolina state court action and the North Carolina state court action have since been consolidated into a single proceeding in private arbitration. Another one of these private civil actions has been filed in Tennessee state court against Sonic Automotive, Inc. and one of our Tennessee subsidiaries. Additionally, our South Carolina dealerships and numerous other South Carolina dealerships have been named as defendants in a lawsuit alleging improper practices related to the imposition of document preparation and/or administrative service fees. The plaintiffs' attorneys in this lawsuit are seeking relief on behalf of a large group of consumers, although the lawsuit currently does not seek class action treatment.

The outcomes of the civil actions brought by plaintiffs purporting to represent a class of customers, as well as other pending and future legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

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

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an antitheft protection product in a deceptive or otherwise illegal manner, and further sought representation on behalf of any customer of any of our Florida dealerships who purchased the antitheft protection product since December 30, 1998. The plaintiffs are seeking monetary damages and injunctive relief on behalf of this class of

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customers. In June 2005, the court granted the plaintiffs' motion for certification of the requested class of customers, but the court has made no finding to date regarding actual liability in this lawsuit. We have subsequently filed a notice of appeal of the court's class certification ruling with the Florida Court of Appeals. In April 2007, the Florida Court of Appeals affirmed a portion of the trial court's class certification, and overruled a portion of the trial court's class certification. We intend to continue our vigorous appeal and defense of this lawsuit and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

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

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

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

Our performance is subject to local economic, competitive, weather and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in our Northern California and Houston markets. Revenues in our Northern California and Houston markets represented approximately 31.9% of our total revenues for the nine months ended September 30, 2007. 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. In addition, due to the provisions and terms contained in our operating lease agreements, we may not be able to relocate a dealership operation to a more favorable location without incurring significant costs or penalties.

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

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

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

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

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

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and safety, including those governing wastewater discharges, air emissions, the operation and removal of underground and aboveground storage tanks, the use, storage, treatment,

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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 verified by third parties 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.

We may be subject to substantial withdrawal liability assessments in the future related to a multi-employer pension plan to which certain of our dealerships make contributions pursuant to collective bargaining agreements.

Seven of our dealership subsidiaries in Northern California currently make fixed-dollar contributions to the Automotive Industries Pension Plan pursuant to collective bargaining agreements between our subsidiaries and the International Association of Machinists. The AI Pension Plan is a multi-employer pension plan as defined under the Employee Retirement Income Security Act of 1974, as amended, and our seven dealership subsidiaries are among approximately 120 automobile dealerships that make contributions to the AI Pension Plan pursuant to collective bargaining agreements with the IAM. In June 2007, we received information that the AI Pension Plan was substantially underfunded as of December 31, 2006. Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while the plan is underfunded is subject to payment of such employer's assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can be assessed withdrawal liability for a partial withdrawal from a multi-employer pension plan. In addition, if the financial condition of the AI Pension Plan were to continue to deteriorate to the point that the Plan is forced to terminate and be assumed by the Pension Benefit Guaranty Corporation, the participating employers could be subject to assessments by the PBGC to cover the participating employers' assessed share of the unfunded vested benefits. If any of these adverse events were to occur in the future, it could result in a substantial withdrawal liability assessment that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

A change in historical experience and/or assumptions used to estimate reserves could have a material impact on our earnings.

As described in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Use of Estimates and Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2006, our estimates for finance, insurance and service contracts, insurance reserves are based on historical experience. Differences between actual results and our historical experiences and/or our assumptions could have a material impact on our earnings in the period of the change and in periods subsequent to the change.

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

Pursuant to applicable accounting pronouncements, we test goodwill for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We describe the process for testing goodwill more thoroughly in our Annual Report on Form 10-K for the year ended December 31, 2006 in Item 7 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. As of September 30, 2007, our balance sheet reflected a carrying amount of approximately \$1,284.4 million in goodwill (including goodwill classified as assets held for sale), which was allocated between two geographic reporting units. If the goodwill in either of our reporting units is impaired, we will record a significant non-cash impairment charge that would likely have a material adverse effect on our earnings for the period in which the impairment of goodwill occurred.

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Issuer Purchases of Equity Securities**

The following table sets forth information about the shares of Class A Common Stock we repurchased during the quarter ended September 30, 2007.

	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 (in thousands)
July 2007	45,000	\$ 28.34	45,000	\$ 34,548
August 2007	523,700	\$ 26.79	523,700	\$ 20,519
September 2007	490,000	\$ 26.01	490,000	\$ 7,775
Total	1,058,700	\$ 26.49	1,058,700	\$ 7,775

(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
July 2004	20,000
July 2007	30,000
Total	\$ 215,000

See Note 6 to our annual consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006 for a description of restrictions on the payment of dividends.

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Item 6: Exhibits.
(a) Exhibits:

Exhibit No.	Description
31.1	Certification of Mr. David P. Cospers 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. David P. Cospers 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

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Forward Looking Statements

This Quarterly Report on Form 10-Q contains numerous forward-looking statements within the meaning of the Private Securities Litigation 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 or dispositions;

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 Item 1A of this Form 10-Q and elsewhere in this report, as well as:

our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures, our share repurchase program, dividends on our Common Stock and general operating activities;

the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives they offer 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;

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general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, the level of consumer spending and consumer credit availability;

high competition in the automotive retailing industry, which not only creates pricing pressures on the products and services we offer, but on businesses we seek to acquire; and

the timing of and our ability to successfully integrate recent and potential future acquisitions.

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SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: November 2, 2007

By: */s/ O. Bruton Smith*
O. Bruton Smith
Chairman and Chief Executive Officer

Date: November 2, 2007

By: */s/ David P. Cospers*
David P. Cospers
Vice Chairman and Chief Financial Officer

(Principal Financial Officer)

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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