SONIC AUTOMOTIVE INC
Form 10-Q
April 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the first quarterly period ended March 31, 2008

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	56-2010790
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6415 Idlewild Road, Suite 109, Charlotte, North Carolina	28212
(Address of principal executive offices)	(Zip Code)

(704) 566-2400

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

As of April 24, 2008, there were 28,393,093 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars and shares in thousands except per share amounts)

(Unaudited)

	First Quarter Ended March 31,	
	2007	2008
Revenues:		
New vehicles	$ 1,121,799	$ 1,092,866
Used vehicles	320,133	372,559
Wholesale vehicles	113,332	88,911
Total vehicles	1,555,264	1,554,336
Parts, service and collision repair	281,093	296,049
Finance, insurance and other	46,940	51,137
Total revenues	1,883,297	1,901,522
Cost of Sales:		
New vehicles	1,042,910	1,018,052
Used vehicles	289,260	339,309
Wholesale vehicles	112,822	89,688
Total vehicles	1,444,992	1,447,049
Parts, service and collision repair	140,129	148,830
Total cost of sales	1,585,121	1,595,879
Gross profit	298,176	305,643
Selling, general and administrative expenses	231,507	242,451
Depreciation and amortization	5,572	7,935
Operating income	61,097	55,257
Other income / (expense):		
Interest expense, floor plan	(15,853)	(13,397)
Interest expense, other, net	(8,554)	(11,863)
Other income / (expense), net	14	70
Total other expense	(24,393)	(25,190)
Income from continuing operations before taxes	36,704	30,067
Provision for income taxes	14,428	12,027
Income from continuing operations	22,276	18,040
Discontinued operations:		
Loss from operations and the sale of discontinued franchises	(3,154)	(5,473)
Income tax benefit	869	1,641

Loss from discontinued operations		(2,285)		(3,832)
Net income	$	19,991	$	14,208
Basic earnings (loss) per share:				
Earnings per share from continuing operations	$	0.52	$	0.44
Loss per share from discontinued operations		(0.05)		(0.09)
Earnings per share	$	0.47	$	0.35
Weighted average common shares outstanding		42,871		40,774
Diluted earnings (loss) per share:				
Earnings per share from continuing operations	$	0.49	$	0.44
Loss per share from discontinued operations		(0.05)		(0.09)
Earnings per share	$	0.44	$	0.35
Weighted average common shares outstanding		47,938		43,845
Dividends declared per common share	$	0.12	$	0.12

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, 2007	March 31, 2008 (Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 16,514	$ 5,112
Receivables, net	347,309	305,624
Inventories	1,093,017	1,182,086
Assets held for sale	87,342	134,056
Other current assets	35,879	39,089
Total current assets	1,580,061	1,665,967
Property and Equipment, net	286,591	365,653
Goodwill	1,276,074	1,248,854
Other Intangible Assets, net	111,342	111,306
Other Assets	28,676	32,336
Total Assets	$ 3,282,744	$ 3,424,116
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	$ 298,376	$ 337,018
Notes payable - floor plan - non-trade	827,294	849,105
Trade accounts payable	66,026	65,995
Accrued interest	19,202	13,820
Other accrued liabilities	162,430	159,226
Liabilities associated with assets held for sale - trade	25,057	14,726
Liabilities associated with assets held for sale - non-trade	23,535	49,317
Current maturities of long-term debt	4,197	4,338
Total current liabilities	1,426,117	1,493,545
Long-Term Debt	697,800	783,348
Other Long-Term Liabilities	83,829	103,337
Deferred Income Taxes	144,170	134,434
Commitments and Contingencies		
Stockholders Equity:		
Class A convertible preferred stock, none issued		
Class A common stock, $.01 par value; 100,000,000 shares authorized; 42,413,646 shares issued and 29,298,482 shares outstanding at December 31, 2007; 42,426,062 shares issued and 28,215,417 shares outstanding at March 31, 2008	424	424
Class B common stock; $.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2007 and March 31, 2008	121	121
Paid-in capital	488,983	492,155
Retained earnings	664,280	673,515
Accumulated other comprehensive income	(15,114)	(28,769)
Treasury stock, at cost (13,115,164 Class A shares held at December 31, 2007 and 14,210,645 Class A shares held at March 31, 2008)	(207,866)	(227,994)

Total stockholders equity	930,828	909,452
Total Liabilities and Stockholders Equity	$ 3,282,744	$ 3,424,116

See notes to unaudited condensed consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Dollars and shares in thousands)

(Unaudited)

	Class A Common Stock		Class B Common Stock							
	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders Equity	Comprehensive Income
BALANCE AT DECEMBER 31, 2007	42,414	$ 424	12,029	$ 121	$ 488,983	$ 664,280	$ (207,866)	$ (15,114)	$ 930,828	
Shares awarded under stock compensation plans	12				219				219	
Purchases of treasury stock							(20,128)		(20,128)	
Income tax benefit associated with stock compensation plans					14				14	
Income tax benefit associated with convertible note hedge					521				521	
Fair value of interest rate swap agreements, net of tax benefit of $8,303								(13,547)	(13,547)	(13,547)
Unrealized loss on available-for-sale securities, net of tax benefit of $66								(108)	(108)	(108)
Stock-based compensation expense					1,387				1,387	
Restricted stock amortization, net of forfeitures					1,031				1,031	
Net income						14,208			14,208	14,208
Dividends ($0.12 per share)						(4,973)			(4,973)	
BALANCE AT MARCH 31, 2008	42,426	$ 424	12,029	$ 121	$ 492,155	$ 673,515	$ (227,994)	$ (28,769)	$ 909,452	$ 553

See notes to unaudited condensed consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	First Quarter Ended March 31,	
	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 19,991	$ 14,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	6,015	8,033
Provision for bad debt expense	2,410	835
Other amortization	266	334
Debt issuance cost amortization	282	291
Debt discount amortization, net of premium amortization	178	237
Stock - based compensation expense	1,058	1,387
Amortization of restricted stock	702	1,072
Restricted stock forfeiture	(1,528)	(41)
Deferred income taxes	(88)	(919)
Equity interest in earnings of investees	(159)	(158)
Impairment of favorable lease asset		1,903
Impairment of franchise agreements	1,250	
Impairment of property and equipment	253	623
(Gain) on disposal of franchises and property and equipment	(25)	(798)
(Gain)/Loss on exit of leased dealerships	(40)	1,282
Changes in assets and liabilities that relate to operations:		
Receivables	49,342	40,850
Inventories	(65,316)	(111,615)
Other assets	(11,243)	(10,137)
Notes payable - floor plan - trade	(131,700)	28,312
Trade accounts payable and other liabilities	(782)	(12,572)
Total adjustments	(149,125)	(51,081)
Net cash used in operating activities	(129,134)	(36,873)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(16,599)	(22,174)
Purchases of property and equipment	(21,580)	(67,626)
Proceeds from sales of property and equipment	261	285
Proceeds from sale of franchises		16,467
Distributions from equity investees	900	600
Net cash used in investing activities	(37,018)	(72,448)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on notes payable floor plan - non-trade	162,416	47,593
Borrowings on revolving credit facilities	261,445	308,230
Repayments on revolving credit facilities	(259,444)	(232,359)
Proceeds from long-term debt		

Payments on long-term debt	(477)	(907)
Purchases of treasury stock	(1,710)	(20,128)
Income tax benefit associated with stock compensation plans	2,122	14
Income tax benefit associated with convertible hedge	457	521
Issuance of shares under stock compensation plans	7,858	219
Dividends paid	(5,210)	(5,264)
Net cash provided by financing activities	167,457	97,919
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	1,305	(11,402)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,696	16,514
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,001	$ 5,112
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:		
Change in accrual for purchases of property and equipment	$ (809)	$ 19
Adoption of FIN 48	$ 8,582	$
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Change in fair value of cash flow hedging instruments (net of tax expense/(benefit) of $(8,303) in three months ended March 31, 2008)	$	$ (13,547)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest, net of amount capitalized	$ 31,642	$ 32,701
Income taxes	$ 6,877	$ 709

See notes to unaudited condensed consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation The accompanying unaudited condensed consolidated financial information for the first quarter ended March 31, 2008 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, 2007, which were included in Sonic s Annual Report on Form 10-K.

Reclassifications The statement of income for the first quarter ended March 31, 2007 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 March 31, 2007. The statement of income for the first quarter ended March 31, 2007 also reflects the reclassification of balances from discontinued operations to continuing operations for franchises identified for sale as of March 31, 2007 but which Sonic has decided to retain and operate as of March 31, 2008.

Recent Accounting Pronouncements In March 2008, the Financial Accounting Standards Board (FASB) concluded its re-deliberations on FSP APB 14-a Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-a) deciding to retain its original proposal related to this matter. FSP APB 14-A applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). FSP APB 14-a will require that the issuer of a convertible debt instrument within its scope separately account for the liability and equity components in a manner that will reflect the issuer s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The excess of the principal amount of the liability component over its initial fair value shall be amortized to interest cost using the interest method. The provisions of FSP APB 14-a apply to Sonic s 4.25% Convertible Senior Subordinated Notes. FSP APB 14-a is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods thereafter. Early adoption is not permitted. FSP APB 14-a shall be applied retrospectively to all periods presented. Sonic is currently reviewing the provisions of FSP APB 14-a and has not yet determined the impact of this FSP on its consolidated operating results, financial position and cash flows.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect an entity s operating results, financial position and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. Early adoption is permitted. Sonic is currently reviewing the provisions of SFAS 161 and has not yet adopted the statement. However, as the provisions of SFAS 161 are only related to disclosure of derivative and hedging activities, Sonic does not believe the adoption of SFAS 161 will have a material impact on its consolidated operating results, financial position or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) provides guidance regarding the allocation of purchase price in business combinations, measurement of assets acquired and liabilities assumed as well as other intangible assets acquired. Also in December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 provides accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary if certain conditions exist. SFAS 141(R) and SFAS 160 are effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. Sonic is currently reviewing the provisions of SFAS 141(R) and SFAS 160 and has not yet determined the impact of these statements on its consolidated operating results, financial position and cash flows.

Sonic adopted the provisions of Statements of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 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. Sonic has elected not to apply the fair value option to any eligible items , as defined by SFAS 159.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Sonic adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measures (SFAS 157) as of January 1, 2008. SFAS 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. In February 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions, and FSP FAS 157-2, Effective Date of FASB Statement No. 157. FSP FAS 157-1 removes leasing from the scope of SFAS No. 157, Fair Value Measurements. FSP FAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Required disclosures are included in Note 10.

Operating Lease Accruals 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. A summary of the activity of these operating lease accruals consists of the following:

		(dollars in thousands)
Balance, December 31, 2007	$	8,164
Lease exit expense		1,282
Lease exit expense recovery		(221)
Payments		(1,708)
Balance, March 31, 2008	$	7,517

2. Business Acquisitions and Dispositions

Acquisitions The aggregate purchase price for franchises acquired during the first quarter ended March 31, 2008 totaled approximately $22.2 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 March 31, 2008 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:

$13.3 million of net assets relating to dealership operations;

$3.2 million of intangible assets representing rights acquired under franchise agreements; and

$5.7 million of goodwill, all of which is expected to be tax deductible.

Dispositions In the first quarter ended March 31, 2008, Sonic identified thirteen 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, 2007. These thirteen 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 March 31, 2008. The operating results of these franchises are included in the loss from discontinued operations in Sonic s statements of income. Assets to be disposed of in connection with franchises not yet sold have been classified in assets held for sale in 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, 2007	March 31, 2008
Inventories	$ 54,028	$ 72,122
Property and equipment, net	22,137	21,514
Goodwill	8,777	38,420
Franchise assets	2,400	2,000
Assets held for sale	$ 87,342	$ 134,056

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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) First Quarter Ended March 31,	
	2007	2008
Revenues	$ 199,541	$ 119,669
Franchise agreement impairments	(1,250)	
Lease exit charges	(184)	(761)
Property impairment charges	(201)	(466)
Favorable lease impairment charges		(1,903)
Gain / (Loss) on disposal of franchises		496
Pre-tax losses	(3,154)	(5,473)

Franchise asset impairment charges recorded in the quarter ended March 31, 2007 relate to revising the estimated fair value of franchises held for sale as of March 31, 2007. Lease exit charges recorded for the quarters ended March 31, 2007 and 2008 relate to the revision of estimates and establishment of lease exit accruals. The lease exit accruals are calculated by discounting the remaining lease payments, net of estimated sublease proceeds. For a discussion of property impairment charges, see footnote 4 and for a discussion of favorable lease impairment charges see footnote 5.

Sonic allocates corporate level interest expense to discontinued operations based on the net assets of the discontinued operations group. Interest allocated to discontinued operations for the quarters ended March 31, 2007 and 2008 was $0.8 million and $0.7 million, respectively.

3. Inventories

Inventories consist of the following:

	(dollars in thousands)	
	December 31, 2007	March 31, 2008
New vehicles	$ 836,252	$ 943,654
Used vehicles	168,851	165,873
Parts and accessories	61,153	60,885
Other	80,789	83,796
	$ 1,147,045	$ 1,254,208
Less inventories classified as assets held for sale	(54,028)	(72,122)
Inventories	$ 1,093,017	$ 1,182,086

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Property and Equipment

Property and equipment consists of the following:

	(dollars in thousands)	
	December 31, 2007	March 31, 2008
Land	$ 30,644	$ 53,366
Building and improvements	218,383	286,842
Office equipment and fixtures	66,906	68,598
Parts and service equipment	53,091	53,026
Company vehicles	10,187	10,187
Construction in progress	34,265	19,516
Total, at cost	413,476	491,535
Less accumulated depreciation	(98,327)	(104,368)
Subtotal	315,149	387,167
Less assets held for sale	(22,137)	(21,514)
Less construction in progress and land expected to be sold	(6,421)	
Property and equipment, net	$ 286,591	$ 365,653

Construction in progress and land expected to be sold represent dealership facilities that are or were expected to be completed and sold within one year in sale-leaseback transactions. These assets have been classified as other current assets in Sonic s balance sheet as of December 31, 2007. Subsequent to December 31, 2007, Sonic made the decision to retain the construction in progress and land expected to be sold and have reclassed the December 31, 2007 balances into land and construction in progress for the quarter ended March 31, 2008.

Property and equipment impairment charges of $0.6 million were recorded in the quarter ended March 31, 2008, of which $0.5 million was included in discontinued operations and $0.1 million was included within selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Property and equipment impairment charges of $0.3 million were recorded in the quarter ended March 31, 2007, of which $0.2 million was included in discontinued operations and $0.1 million was included within selling, general and administrative expenses in the accompanying condensed consolidated statements of income. The impairment charges recorded in discontinued operations in both periods were recorded based on the estimated fair value of the property and equipment to be sold in connection with the disposal of associated franchises and recorded values. The impairment charges recorded in continuing operations in both periods were recorded based on Sonic s decision to abandon certain facility construction projects.

5. Goodwill and Intangible Assets

	Franchise Agreements	Goodwill
Balance, December 31, 2007	$ 89,900	$ 1,276,074
Additions through current year acquisitions	3,200	5,711
Prior year acquisition allocations		9

Reductions from sales of franchises	(1,400)	(3,298)
Reclassification to assets held for sale, net	400	(29,642)
Balance, March 31, 2008	$ 92,100	$ 1,248,854

At December 31, 2007, Sonic had $21.4 million of definite life intangibles recorded relating to favorable lease agreements. In the first quarter ended March 31, 2008, Sonic recorded an impairment charge of $1.9 million within discontinued operations related to its definite life intangibles. The impairment charge was recorded based on management s estimate that sublease income from certain properties would not allow Sonic to recover the recorded value of favorable lease assets related to the properties. After the effect of the first quarter charge and amortization of the definite life intangibles, the balance recorded at March 31, 2008 was $19.2 million and included in Other Intangibles, net, in the accompanying balance sheet.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Long-Term Debt

Long-term debt consists of the following:

	(dollars in thousands)	
	December 31, 2007	March 31, 2008
$350 million 2006 Revolving Credit Sub-Facility bearing interest at 2.00 percentage points above one-month LIBOR, collateralized by all assets of Sonic	$ 70,000	$ 145,871
Senior Subordinated Notes bearing interest at 8.625% maturing August 15, 2013, net of net discount of $2,202 and $2,128, respectively	272,798	272,872
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009, net of discount of $879 and $722, respectively	129,221	129,378
Convertible Senior Subordinated Notes bearing interest at 4.25%, maturing November 30, 2015, redeemable on or after October 31, 2010, net of discount of $2,442 and $2,246, respectively	157,558	157,754
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 $4,010 and $3,808, respectively	25,490	24,863
Mortgage notes to finance companies-fixed rate, bearing interest from 6.75 to 7.03% with combined monthly principal and interest payments of $224.5, maturing June 2017 through November 2027	28,988	28,814
Mortgage notes to finance companies-variable rate, bearing interest at 1.50 to 2.00 percentage points above one-month LIBOR with combined monthly principal and interest payments currently of $146.4, maturing July 2017 through January 2018	17,427	17,263
Fair value of Variable Swaps	724	4,874
Other	(209)	5,997
	$ 701,997	$ 787,686
Less current maturities	(4,197)	(4,338)
Long-term debt	$ 697,800	$ 783,348

Neither of the conversion features on the 5.25% or 4.25% convertible senior subordinated notes was satisfied during the first quarter ended March 31, 2008. Sonic was in compliance with all financial covenants under the above long-term debt and credit facilities as of March 31, 2008.

7. Stock-Based Compensation

Sonic currently has two active 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) and two inactive stock compensation plans which only have grants outstanding, the Sonic Automotive, Inc. 1997 Stock Option Plan and the First America Automotive, Inc. 1997 Stock Option Plan (collectively, the Stock Plans). See Sonic s Annual Report on Form 10-K for the year ended December 31, 2007 for a more detailed description of the Stock Plans.

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A summary of the status of the options related to the Stock Plans 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, 2007	3,938	$ 7.80 -$37.50	$ 21.05	5.3	$ 9,707
Granted					
Exercised	(12)	10.35 - 19.23	17.69		
Forfeited	(32)	19.23 - 37.50	29.62		
Balance - March 31, 2008	3,894	7.80 - 37.50	$ 20.99	5.1	$ 12,098
Exercisable	3,257	7.80 - 37.50	$ 20.25	4.5	$ 11,804

(amounts in thousands, except per option data)	First Quarter Ended March 31, 2008
Intrinsic Value of Options Exercised	37
Fair Value of Shares Vested	1,799

No stock options were granted in the first quarter ended March 31, 2008. Sonic recognized compensation expense related to previously issued stock options within selling, general and administrative expenses related to the options in the Stock Plans of $1.1 million and $1.4 million in the first quarter ended March 31, 2007 and 2008, respectively. Tax benefits recognized related to the compensation expenses were $0.4 million and $0.5 million for the first quarter ended March 31, 2007 and 2008, respectively. The total compensation cost related to unvested options not yet recognized at March 31, 2008 was $1.0 million and is expected to be recognized over a weighted average period of 0.4 years. Sonic received $0.2 million in cash from the exercise of stock options during the first quarter ended March 31, 2008.

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, 2007	411	$ 23.76
Granted	285	$ 23.89
Forfeited	(11)	$ 20.69
Balance - March 31, 2008	685	$ 23.87

In the first quarter ended March 31, 2008, 285,303 restricted shares of Class A common stock and restricted stock units were awarded to Sonic s executive officers and certain other employees under the 2004 Plan. Awards made in the quarter ended March 31, 2008 cliff-vest three years from the date of grant. The shares and units granted in conjunction with 2008 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 2008 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. Sonic recognized income of $0.8 million and expense of $1.0 million in the first quarter ended March 31, 2007 and 2008, respectively. Sonic recognized $0.3 million of tax expense related to the compensation expenses for the first quarter ended March 31, 2007, and a tax benefit

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of $0.4 million for the first quarter ended March 31, 2008. Total compensation cost related to unvested restricted stock not yet recognized at March 31, 2008 was $11.7 million, and is expected to be recognized over a weighted average period of 2.2 years.

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:

	For the First Quarter Ended March 31, 2007							
		Income From Continuing Operations		Loss From Discontinued Operations		Net Income		
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount	
	(amounts in thousands except per share amounts)							
Basic Earnings Per Share	42,871	$ 22,276	$ 0.52	$ (2,285)	$ (0.05)	$ 19,991	$ 0.47	
Effect of Dilutive Securities:								
Contingently Convertible Debt (2002 Convertibles)	2,776	1,036		82		1,118		
Contingently Convertible Debt (2005 Convertibles)	1,307							
Stock Plans	984							
Diluted Earnings (Loss) Per Share	47,938	$ 23,312	$ 0.49	$ (2,203)	$ (0.05)	$ 21,109	$ 0.44	

	For the First Quarter Ended March 31, 2008							
		Income From Continuing Operations		Loss From Discontinued Operations		Net Income		
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount	
	(amounts in thousands except per share amounts)							
Basic Earnings Per Share	40,774	$ 18,040	$ 0.44	$ (3,832)	$ (0.09)	$ 14,208	$ 0.35	
Effect of Dilutive Securities:								
Contingently Convertible Debt (2002 Convertibles)	2,776	1,078		58		1,136		
Stock Plans	295							
Diluted Earnings (Loss) Per Share	43,845	$ 19,118	$ 0.44	$ (3,774)	$ (0.09)	$ 15,344	$ 0.35	

In addition to the stock options included in the table above, options to purchase 0.4 million shares and 2.4 million shares of Class A common stock were outstanding at March 31, 2007 and 2008, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

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 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

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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, 2007 and March 31, 2008 were $1.9 million 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. 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 $14.8 million and $18.8 million at December 31, 2007 and March 31, 2008, 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.

10. Fair Value Measurements

In determining fair value, Sonic uses various valuation approaches including market, income and/or cost approaches. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of Sonic. Unobservable inputs are inputs that reflect Sonic s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that Sonic has the ability to access. Assets utilizing Level 1 inputs include exchange-traded equity securities that are actively traded.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include fair value and cash flow swap instruments.

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Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating fair value of non-financial assets and non-financial liabilities in purchase acquisitions, those used in assessing impairment under Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* and those used in the reporting unit valuation in the first step of the annual goodwill impairment evaluation.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required by Sonic in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, Sonic s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. Sonic uses inputs that are current as of the measurement date, including during periods when the market may be abnormally high or abnormally low.

Assets or liabilities recorded at fair value in the accompanying balance sheet as of March 31, 2008 are as follows:

		Fair Value at Reporting Date Using:		
(amounts in millions)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Trading Securities (1)	$ 0.7	$ 0.7	$	$
Available-For-Sale Securities (1)	8.0	8.0		
Fair Value Swaps (2)	4.9		4.9	
Cash Flow Swaps (3)	(45.7)		(45.7)	
Total	$ (32.1)	$ 8.7	$ (40.8)	$

(1) - Included within other current assets in the accompanying balance sheet

(2) - Included within other assets in the accompanying balance sheet

(3) - Included net of taxes of $17.4 million in other comprehensive income in the accompanying balance sheet

11. Subsequent Events

Subsequent to March 31, 2008, Sonic incurred losses associated with a hail storm at one of its dealerships in the mid-west. A preliminary estimate of loss resulting from this storm is approximately $2 million. Accordingly, selling, general and administrative expenses for the quarter ended June 30, 2008 will be negatively impacted.

Subsequent to March 31, 2008, Sonic s Board of Directors authorized an additional $40.0 million to be used in the repurchase program to acquire shares of Sonic s Class A common stock or securities convertible into shares of Sonic s Class A common stock.

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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, 2007.

Overview

We are one of the largest automotive retailers in the United States. As of March 31, 2008, we operated 171 dealership franchises, representing 33 different brands of cars and light trucks, at 143 locations and 33 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 for our customers. 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 sales volume. As a result, we believe the diversity of these products and services reduces the risk of periodic economic downturns.

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The following is a detail of our new vehicle revenues by brand for the first quarter ended March 31, 2007 and 2008:

	Percentage of New Vehicle Revenue First Quarter Ended March 31,	
	2007	2008
Brand (1)		
BMW	15.2%	16.1%
Honda	15.3%	14.1%
Toyota	10.9%	11.3%
Mercedes	10.2%	10.4%
Ford	7.7%	9.4%
General Motors (2)	8.2%	8.0%
Cadillac	9.1%	8.0%
Lexus	7.1%	6.0%
Audi	1.6%	1.9%
Volvo	1.8%	1.5%
Land Rover	1.5%	1.5%
Volkswagen	1.3%	1.4%
Porsche	1.3%	1.4%
Infiniti	1.5%	1.3%
Nissan	1.5%	1.2%
Hyundai	1.4%	1.2%
Acura	1.4%	1.2%
Chrysler (3)	0.4%	0.5%
Other Luxury (4)	1.4%	1.2%
Other (5)	1.2%	2.4%
Total	100.0%	100.0%

(1) In accordance with the provisions of SFAS No. 144, prior years income statement data reflect reclassifications to exclude franchises sold, identified for sale, or terminated subsequent to March 31, 2007 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 Chrysler, Dodge and Jeep
(4) Includes Hummer, Jaguar, and Saab
(5) Includes Isuzu, KIA, Mini, Scion and Subaru

Results of Operations

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

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Revenues

New Vehicles:

	First Quarter Ended		Units or $	%
	3/31/2007	3/31/2008	Change	Change
Total New Vehicle Units				
Same Store	33,983	31,854	(2,129)	(6.3)%
Acquisitions and Other	95	1,442	1,347	1417.9%
Total as Reported	34,078	33,296	(782)	(2.3)%
Total New Vehicle Revenues (in thousands)				
Same Store	$ 1,115,913	$ 1,024,195	$ (91,718)	(8.2)%
Acquisitions and Other	5,886	68,671	62,785	1066.7%
Total as Reported	$ 1,121,799	$ 1,092,866	$ (28,933)	(2.6)%
Total New Vehicle Unit Price				
Same Store	$ 32,837	$ 32,153	$ (684)	(2.1)%
Total Dealerships as Reported	$ 32,919	$ 32,823	$ (96)	(0.3)%

For the first quarter ended March 31, 2008, new vehicle revenues declined from the prior year due to lower unit volume and unit price. Our import and domestic stores both experienced declines in new vehicle revenues compared to the prior year with our import stores declining $89.6 million, or 11.0%, and our domestic stores declining $2.1 million, or 0.7%.

New unit volume increased at our domestic stores by 212 units, or 2.2%. Domestic new unit sales declines were experienced in all our brands except for Ford, which increased by 721 units, or 19.2% compared to the prior year. Our Ford stores increased primarily due to higher fleet unit volume. Our Cadillac stores contributed the largest decrease in unit volume of our domestic brands with a 445 unit, or 19.2% decline. The unit volume at our import stores decreased 2,341 units, or 9.7%, compared to the prior year. Our BMW, Lexus and Mercedes stores recorded declines in unit volume of 425 units, or 11.4%, 308 units, or 17.0%, and 363 units, or 18.4%, respectively. Unit volume declines are concentrated primarily in our stores within the California market, which has been experiencing difficult economic conditions. Approximately 23.8% of our same store new vehicle unit volume is generated from the California market. We expect the new vehicle market to continue to be challenging at least through the end of the current year.

New average unit price declined at our domestic and import stores by $864, or 2.8%, and $500, or 1.5%, respectively. The price per new unit at our Cadillac stores increased over the same period in the prior year by $2,208, or 4.9%. Conversely, our Ford and GM (excluding Cadillac) stores experienced price per new unit declines of $110, or 0.4%, and $595, or 2.2%, respectively. The majority of our import stores experienced declines in price per new unit for the first quarter ended March 31, 2008 compared to the same period in the prior year. Mercedes, Volvo and Land Rover recorded declines in price per new unit of $2,208, or 3.8%, $1,098, or 3.2%, and $3,694, or 6.1%, respectively.

Used Vehicles:

	First Quarter Ended		Units or $	%
	3/31/2007	3/31/2008	Change	Change

Total Used Vehicle Units				
Same Store	16,216	17,866	1,650	10.2%
Acquisitions and Other	84	645	561	667.9%
Total as Reported	16,300	18,511	2,211	13.6%
Total Used Vehicle Revenues (in thousands)				
Same Store	$ 317,450	$ 353,833	$ 36,383	11.5%
Acquisitions and Other	2,683	18,726	16,043	598.0%
Total as Reported	$ 320,133	$ 372,559	$ 52,426	16.4%
Total Used Vehicle Unit Price				
Same Store	$ 19,576	$ 19,805	$ 229	1.2%
Total Dealerships as Reported	$ 19,640	$ 20,126	$ 486	2.5%

Same store retail used vehicle revenue for the first quarter ended March 31, 2008 increased compared to the same period in 2007 as a result of an increase in unit volume coupled with an increase in average retail unit price. Overall improvement in unit volume was due primarily to total implementation of our standardized used vehicle merchandising process, which allows for the retailing of many used vehicles that we historically would have disposed of through the wholesale market. In addition, during the first quarter ended March 31, 2008 we started the implementation of the second

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generation of our standardized used vehicle merchandising process. The second generation process includes enhanced visibility to vehicle market pricing and other inventory data, allowing us to price our used vehicles more competitively and physically move certain used vehicles to specific dealerships within a particular region that have shown success in retailing the specific type of used vehicle. Our used vehicle revenue and unit volume increases were driven primarily by our luxury stores, which posted increases of 15.2% and 16.6%, respectively. We continue to see improvements in our certified pre-owned (CPO) unit volume. On a same store basis, CPO units increased from 5,573 units, or 34.4% of total used retail units, for the first quarter ended March 31, 2007, to 6,713 units, or 37.6% of total used retail units, for the first quarter ended March 31, 2008.

Wholesale Vehicles:

	First Quarter Ended		Units or $	%
	3/31/2007	3/31/2008	Change	Change
Total Wholesale Vehicle Units				
Same Store	11,818	10,013	(1,805)	(15.3)%
Acquisitions and Other	620	736	116	18.7%
Total as Reported	12,438	10,749	(1,689)	(13.6)%
Total Wholesale Vehicle Revenues (in thousands)				
Same Store	$ 105,121	$ 80,416	$ (24,705)	(23.5)%
Acquisitions and Other	8,211	8,495	284	3.5%
Total as Reported	$ 113,332	$ 88,911	$ (24,421)	(21.5)%
Total Wholesale Unit Price				
Same Store	$ 8,895	$ 8,031	$ (864)	(9.7)%
Total Dealerships as Reported	$ 9,112	$ 8,272	$ (840)	(9.2)%

Lower wholesale vehicle revenues during the quarter ended March 31, 2008 resulted from a decline in wholesale unit sales coupled with a decrease in average wholesale price per unit. The decrease in unit volume can be primarily attributed to our increased focus on retail used vehicles (see Used Vehicles above). The wholesale price per unit decrease can also be primarily attributed to our used vehicle merchandising process. This process allowed us to retail many vehicles that historically would have had a positive effect on our average wholesale unit price.

Parts, Service and Collision Repair (Fixed Operations):

	First Quarter Ended		$	%
	3/31/2007	3/31/2008	Change	Change
Total Parts, Service and Collision Repair (in thousands)				
Same Store	$ 279,256	$ 281,283	$ 2,027	0.7%
Acquisitions and Other	1,837	14,766	12,929	703.8%
Total as Reported	$ 281,093	$ 296,049	$ 14,956	5.3%

Fixed Operations revenue increased in the first quarter ended March 31, 2008 primarily due to increases in customer pay of $1.3 million, or 1.0%. Our import and luxury stores were primarily responsible for the majority of increases in customer pay revenue, with our Toyota stores contributing an increase of $0.7 million, or 8.2%. Warranty revenue decreased $0.6 million, or 1.2%, in the first quarter ended March 31, 2008,

compared to the same quarter last year. Our Mercedes dealerships experienced significant decreases in warranty revenue, decreasing by $2.2 million, or 25.3%, compared to the first quarter ended March 31, 2007.

Finance, Insurance and Other (F&I):

	First Quarter Ended		$	%
	3/31/2007	3/31/2008	Change	Change
Total Finance, Insurance and Other Revenue (in thousands)				
Same Store	$ 45,793	$ 48,515	$ 2,722	5.9%
Acquisitions and Other	1,147	2,622	1,475	128.6%
Total as Reported	$ 46,940	$ 51,137	$ 4,197	8.9%
Total F&I per Unit (excluding fleet)				
Same Store	$ 986	$ 1,067	$ 81	8.2%
Total Dealerships as Reported	$ 1,006	$ 1,078	$ 72	7.2%

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F&I revenue increased in the first quarter ended March 31, 2008 primarily due to a 10.2% increase in used retail unit sales, which contributed to a 26.8% increase in used finance contract gross revenue. Higher used unit sales also contributed to increases in aftermarket revenue of $1.2 million, or 12.3%, compared to the same prior year period. F&I revenue per unit increased 8.2% during the first quarter of 2008, despite total units retailed decreasing 2.1% compared to the same prior year period.

Gross Profit and Gross Margins

	First Quarter Ended		$	%
	3/31/2007	3/31/2008	Change	Change
Total Gross Profit (in thousands)				
Same Store	$ 295,593	$ 288,751	$ (6,842)	(2.3)%
Acquisitions and Other	2,583	16,892	14,309	554.0%
Total as Reported	$ 298,176	$ 305,643	$ 7,467	2.5%

Decreases in same store gross profit for the quarter ended March 31, 2008 compared to the prior year period were primarily due to lower new vehicle unit volume, which declined 6.3%. Despite an increase in used vehicle unit volume of 10.2%, gross profit from used vehicles improved only 1.7% compared to the same prior year period. Used vehicle gross profit per unit retailed decreased in the quarter ended March 31, 2008 compared to the same prior year period due primarily to increased competitiveness in the used vehicle market. Fixed Operations gross profit remained relatively flat compared to the same prior year period while gross profit from F&I improved 5.9%. Improvement experienced in F&I was primarily the result of higher used vehicle unit volume.

Our gross margin percentage increased slightly for the first quarter ended March 31, 2008, as compared to the same period last year. The increase of 20 basis points is largely attributed to the revenue growth in our Fixed Operations and F&I activities, which generate higher gross margins, and revenue decreases in the lower margin new vehicle category.

	First Quarter Ended					
	3/31/2007		3/31/2008		Basis Point Change	
	Revenues as a Percentage of Total Revenues	Gross Profit as a Percentage of Total Gross Profit	Revenues as a Percentage of Total Revenues	Gross Profit as a Percentage of Total Gross Profit	Revenues as a Percentage of Total Revenues	Gross Profit as a Percentage of Total Gross Profit
New Vehicles	59.9%	26.8%	57.3%	24.3%	(260)	(250)
Used Vehicles	17.0%	10.4%	19.8%	10.8%	280	40
Wholesale Vehicles	5.6%	0.0%	4.5%	-0.3%	(110)	(30)
Fixed Operations	15.0%	47.3%	15.7%	48.4%	70	110
Finance, Insurance and Other	2.5%	15.5%	2.7%	16.8%	20	130
Total same store	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:

	First Quarter Ended		Basis Point
	3/31/2007	3/31/2008	Change
New vehicles	7.1%	6.9%	(20)
Used vehicles	9.7%	8.8%	(90)
Wholesale vehicles	(0.1)%	(1.3)%	(120)
Parts, service and collision repair	50.1%	49.7%	(40)
Finance and insurance	100.0%	100.0%	
Total same store gross margin	15.9%	16.1%	20

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Selling, General and Administrative Expenses (SG&A)

Total SG&A expenses increased 4.7% to $242.5 million in the first quarter ended March 31, 2008. As a percentage of gross profit, total SG&A increased from 77.6% for the first quarter ended March 31, 2007 to 79.3% for the comparable 2008 period, primarily related to increases in total compensation expense and training costs.

In the first quarter ended March 31, 2008, total reported compensation expense increased by $6.0 million, or 4.6%, when compared to the first quarter ended March 31, 2007. The increase in compensation is related to an increase in gross profit levels coupled with the $2.9 million of benefits realized in the first quarter ended March 31, 2007 related to restricted stock forfeitures and lower associate benefit expenses. Advertising expense increased $1.3 million, or 8.3%, during the first quarter ended March 31, 2008 compared to the same prior year period. Advertising costs are unfavorable versus prior year mainly due to higher internet advertising expenses. Rent and rent related expenses remained relatively static during the first quarter ended March 31, 2008, increasing $0.1 million, or 0.4% compared to the same prior year period. Other SG&A expenses increased $3.6 million, or 7.3%, as compared to the quarter ended March 31, 2007, driven mostly by increases in delivery costs, service loaner and outside services expense.

Subsequent to March 31, 2008, we incurred losses associated with a hail storm at one of our dealerships in the mid-west. A preliminary estimate of loss resulting from this storm is approximately $2 million. Accordingly, we expect selling, general and administrative expenses for the quarter ended June 30, 2008 to be negatively impacted.

Depreciation and Amortization

Reported depreciation and amortization expense increased over the comparable three month period by $2.4 million, or 42.4%. This increase was due to capital improvements and our strategic shift to continue to own and hold more dealership properties rather than finance our investment in these properties through sale-leaseback transactions.

Interest Expense, Floor Plan

Interest expense, floor plan for new vehicles decreased $2.4 million, or 16.4%, in the first quarter ended March 31, 2008 compared to the first quarter ended March 31, 2007. The weighted average new vehicle floor plan interest rate incurred by continuing dealerships was 4.9% for the first quarter ended March 31, 2008, compared to 6.0% for the first quarter ended March 31, 2007, which decreased interest expense by approximately $2.8 million. The average new vehicle floor plan notes payable balance from continuing dealerships increased to $994.5 million during the first quarter ended March 31, 2008, from $964.0 million during the first quarter ended March 31, 2007, resulting in an increase in new vehicle floor plan interest expense of approximately $0.4 million.

Interest expense, floor plan for used vehicles decreased $0.1 million, or 9.7%, in the first quarter ended March 31, 2008 compared to the first quarter ended March 31, 2007. The weighted average used vehicle floor plan interest rate incurred by both continuing and discontinued operations was 5.1% for the first quarter ended March 31, 2008, compared to 6.5% for the first quarter ended March 31, 2007, which decreased interest expense by approximately $0.3 million. The average used vehicle floor plan notes payable balance from both continuing and discontinued dealerships increased $15.4 million to a balance of $110.2 million during the first quarter ended March 31, 2008 compared to the first quarter ended March 31, 2007, resulting in a $0.2 million increase in used vehicle floor plan interest expense.

Our floor plan expenses related to new vehicles are partially offset by amounts received from manufacturers in the form of floor plan assistance. These payments are credited against our cost of sales upon the sale of the vehicle. For franchises classified as continuing operations, our floor plan interest expense exceeded the amounts we recognized in our Consolidated Income Statements from floor plan assistance by approximately $5.6 million and $7.5 million for the first quarter ended March 31, 2008 and 2007, respectively. As we continue to adjust our portfolio of brands to more luxury and import franchises, we expect the difference between floor plan interest expense incurred and floor plan assistance received to widen as import and luxury manufacturers generally provide a smaller level of floor plan assistance than domestic manufacturers.

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Interest Expense, Other

Interest expense, other, for the first quarter ended March 31, 2008 compared to the prior year quarter is summarized in the table below:

(in millions)	First Quarter Ended March 31, 2008 Increase/(Decrease) in Interest Expense
Debt balances	
- Increase in debt balances	2.1
Other factors	
- Decrease in capitalized interest	0.2
- Incremental interest expense related to variable to fixed rate swaps	1.1
- Incremental interest savings related to fixed to variable rate swaps	(0.5)
- Interest allocation to discontinued operations	0.4
- Increase in other expense, net	
	$ 3.3

Income Taxes

The overall effective tax rates were 42.2% and 40.4% for the first quarter ended March 31, 2008 and 2007, respectively. The effective rate for the first quarter of 2008 was 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 effective tax rate in future periods to fall within a range of 39% to 43%.

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 are 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 4.9% and 6.1% for the first quarter ended March 31, 2008 and 2007, respectively. 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 particular vehicles. We were in compliance with all restrictive covenants under our floor plan facilities as of March 31, 2008.

The weighted average interest rate for our used vehicle floor plan facility (which interest expense is allocated to discontinued and continuing operations) was 5.1% and 6.5% for the first quarter ended March 31, 2008 and 2007, respectively.

Long-Term Debt and Credit Facilities

See Note 6 to our annual financial statements in our Annual Report on Form 10-K which defines our 2006 Credit Facility and our 2006 Revolving Credit Sub-Facility,

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2006 Revolving Credit Sub-Facility: At March 31, 2008, our 2006 Revolving Credit Sub-Facility had a borrowing limit of $350 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 $346.5 million at March 31, 2008). 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 March 31, 2008, we had $81.1 million in letters of credit outstanding and $119.5 million of borrowing availability.

At March 31, 2008, the outstanding balance on our long-term debt and credit facilities were as follows (in thousands):

	Interest Rate (1)	Outstanding Balance
2006 Revolving Credit Sub-Facility (matures February 2010)	one-month LIBOR + 2.00% (2)	$ 145.9
Senior Subordinated Notes (mature August 2013)	8.625%	$ 272.9
5.25% Convertible Senior Subordinated Notes (mature May 2009) (3)	5.25%	$ 129.4
4.25% Convertible Senior Subordinated Notes (mature November 2015 and are redeemable on or after October 2010) (3)	4.25%	$ 157.8
Notes Payable to a Finance Company (mature November 2015 through September 2016)	10.19%(4)	$ 24.9
Mortgage notes to finance companies-fixed rate (mature June 2017 through November 2027)	6.91%(4)	$ 28.8
Mortgage notes to finance companies-variable rate (mature July 2017 through January 2018)	one-month LIBOR + 1.50% to 2.00%	$ 17.3
Other Notes Payable	Various	$ 6.3

(1) The March 31, 2008 one-month LIBOR rate was 2.703%.
(2) Interest rate on the revolving Credit Facility is based 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 three months ended March 31, 2008.
(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 March 31, 2008.

In March 2008, the Financial Accounting Standards Board (FASB) concluded its re-deliberations on FSP APB 14-a Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-a) deciding to retain its original proposal related to this matter. FSP APB 14-A applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). FSP APB 14-a will require that the issuer of a convertible debt instrument within its scope separately account for the liability and equity components in a manner that will reflect the issuer s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The excess of the principal amount of the liability component over its initial fair value shall be amortized to interest cost using the interest method. The provisions of FSP APB 14-a apply to our 4.25% Convertible Senior Subordinated Notes. FSP APB 14-a is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods thereafter. Early adoption is not permitted. FSP APB 14-a shall be applied retrospectively to all periods presented. Sonic is currently reviewing the provisions of FSP APB 14-a and has not yet determined the impact of this FSP on its consolidated operating results, financial position and cash flows.

Dealership Acquisitions and Dispositions

During the first quarter ended March 31, 2008, we acquired four franchises for an aggregate purchase price, net of cash acquired, of $22.2 million. These acquisitions were funded using cash from operations, borrowings under the 2006 Revolving Credit Sub-Facility and borrowings under our floor plan facilities. During the first quarter ended March 31, 2008, we disposed of three franchises. These disposals generated cash of $16.5 million.

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Capital Expenditures

Our capital expenditures include purchases of land, the construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. Capital expenditures in the first quarter ended March 31, 2008 were approximately $67.6 million. Our capital expenditures were higher than historical amounts due to our strategic decision to own more of our dealership properties. Of the $67.6 million used for capital expenditures in the quarter ended March 31, 2008, approximately $51.9 million relates to the purchase of land and buildings either previously used by us (leased property) or expected to be developed and used as a dealership property. As of March 31, 2008, commitments for facilities construction projects totaled approximately $14.5 million.

As we continue to buy, develop and own our dealership properties, we expect to finance those investments by utilizing our availability under our 2006 Revolving Credit Sub-Facility or by obtaining mortgage financing. In the second quarter of 2008, we expect to enter into new mortgages totaling $51.9 million. Proceeds from these mortgages are expected to be used to repay amounts outstanding under our 2006 Revolving Credit Sub-Facility.

Stock Repurchase Program

As of March 31, 2008, pursuant to previous authorizations from our Board of Directors, we had approximately $13.2 million available to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. In the first quarter of 2008, we repurchased 1,095,481 shares of our Class A common stock for approximately $20.1 million, which was slightly offset by proceeds received from the exercise of stock options under stock compensation plans of $0.2 million.

Subsequent to March 31, 2008, our Board of Directors authorized an additional $40.0 million to be used in the share repurchase program.

Dividends

During the first quarter ended March 31, 2008, a dividend of $0.12 was paid to shareholders of record as of December 15, 2007 and our Board of Directors approved a dividend of $0.12 per share for shareholders of record on March 15, 2008 that was paid on April 15, 2008. Subsequent to the first quarter ended March 31, 2008, our Board of Directors approved a dividend of $0.12 per share for shareholders of record on June 15, 2008 to be paid on July 15, 2008.

Cash Flows

For the first quarter ended March 31, 2008, net cash used in operating activities was approximately $36.9 million. This usage of cash was comprised primarily of cash outflows related to inventories, other assets, trade accounts payable and other liabilities, partially offset by net income, a reduction in receivables and an increase in notes payable floor plan trade. Net cash used in investing activities during the first quarter ended March 31, 2008 was approximately $72.4 million. This use of cash was primarily comprised of cash outflows used for dealership acquisitions and property and equipment purchases, partially offset by proceeds from sales of franchises. Net cash provided by financing activities for the first quarter ended March 31, 2008 was approximately $97.9 million, comprised mostly of the increase in notes payable floor plan non-trade and net borrowings under the 2006 Credit Facility.

We arrange our inventory floor plan financing through both manufacturer captive finance companies and a syndicate consisting of banks and manufacturer captive finance companies. Generally, our floor plan financed with manufacturer captives is recorded as trade floor plan liabilities (with the resulting change being reflected as an operating cash flow). Our dealerships that obtain floor plan financing from the syndicate record their obligation as non-trade floor plan liabilities (with the resulting change being reflected as a financing cash flow).

Due to the presentation differences for changes in trade floor plan and non-trade floor plan in the statement of cash flows, decisions made by us to move dealership floor plan financing arrangements from one finance source to another may cause significant variations in operating and financing cash flows without affecting our overall liquidity, working capital, or

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cash flow. Accordingly, if all changes in floor plan notes payable were classified as an operating activity for the first quarter ended March 31, 2008 and 2007, the adjusted net cash provided by operating activities would be $10.7 million and $33.3 million, respectively.

Guarantees and Indemnifications

In connection with the operation and disposition of dealership franchises, we have entered into various guarantees and indemnifications. See Note 9 of 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, 2007 for a description of our off-balance sheet arrangements.

Seasonality

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 adversely affected.

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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, 2007) borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately $1,563.3 million at March 31, 2008. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately $1.4 million in the first quarter ended March 31, 2008. Of the total change in interest expense, approximately $0.8 million would have resulted from notes payable floor plan.

In addition to our variable rate debt, approximately 25.0% 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 Fair Value Swaps) to effectively convert a portion of our fixed rate debt to a LIBOR-based variable rate debt. Under the Fair Value Swaps agreements, we receive 8.625% on the respective notional amounts and pay interest payments on the respective notional amounts at a rate equal to the forward six-month LIBOR (fixed on February 15 and August 15 of each year) plus a spread.

We have nine separate 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. 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.

Based on the terms of our Fair Value Swaps and Cash Flow Swaps, we receive and pay interest based on the following:

Notional (in millions)	Pay Rate	Receive Rate	Maturing Date
$ 50.0	six-month LIBOR plus 3.825%	8.625%	August 15, 2013
$ 25.0	six-month LIBOR plus 3.825%	8.625%	August 15, 2013
$ 25.0	six-month LIBOR plus 3.825%	8.625%	August 15, 2013
$ 25.0	six-month LIBOR plus 3.825%	8.625%	August 15, 2013
$ 25.0	six-month LIBOR plus 3.85%	8.625%	August 15, 2013
$ 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
$ 4.2	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
$ 25.0	4.885%	one-month LIBOR	October 1, 2012
$ 13.1	4.655%	one-month LIBOR	December 10, 2017

One-month LIBOR and six-month LIBOR rates were 2.703% and 2.614%, respectively, at March 31, 2008.

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, it could adversely affect our future operations results.

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Item 4: Controls and Procedures.

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. 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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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. 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. 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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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 March 31, 2008, our total outstanding indebtedness was $2,037.9 million, including the following:

- $145.9 million under the 2006 Revolving Credit Sub-Facility (as defined below);
- $1,250.2 million under the secured new and used inventory floor plan facilities, including $64.0 million classified as liabilities associated with assets held for sale;
- $129.4 million in 5.25% convertible senior subordinated notes due 2009 (the 5.25% Convertibles) representing $130.1 million in aggregate principal amount outstanding less unamortized discount of approximately $0.7 million;
- $157.8 million in 4.25% convertible senior subordinated notes due 2015, redeemable on or after November 30, 2010, (the 4.25% Convertibles) representing $160.0 million in aggregate principal amount outstanding less unamortized discount of approximately $2.2 million;
- $272.9 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 $2.1 million; and
- $81.7 million of other secured debt, representing $73.0 million in aggregate principal amount plus unamortized premium of approximately $3.8 million and plus $4.9 million for the fair value of fixed to variable interest rate swaps.

As of March 31, 2008, we had $119.5 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, 5.25% Convertibles, 4.25% Convertibles and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness. We refer to the $346.5 million of availability under a revolving credit facility (2006 Revolving Credit Sub-Facility), up to $700 million in borrowing availability for new vehicle inventory floor plan financing and up to $150 million in borrowing availability for used vehicle inventory floor plan financing collectively as our 2006 Credit Facility .

In addition, the majority of our dealership properties are leased under long-term operating lease arrangements 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, 2007.

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.

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 or results of operations.

Our 2006 Credit Facility, the indenture governing our 8.625% 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 5.25% Convertibles, 4.25% Convertibles and the 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 our subsidiaries and upon the ability of our subsidiaries to provide us with cash. We may receive cash from our subsidiaries in the form of dividends, loans or otherwise. We may use this cash to service our debt obligations or for working capital. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to distribute cash to us or to make funds available to service debt. In addition, the ability of our subsidiaries to pay dividends or make loans to us are subject to contractual limitations under the floor plan facilities, minimum net capital requirements under manufacturer franchise agreements and laws of the state in which a subsidiary is organized and depend to a significant degree on the results of operations of our subsidiaries and other business considerations.

Risks Related to Our Relationships with Vehicle Manufacturers

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

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

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

Actions taken by manufacturers to exploit their superior bargaining position in negotiating the terms of franchise agreements or renewals of these agreements or otherwise could also have a material adverse effect on our results of operations, 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.

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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.

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

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

During the first quarter ended March 31, 2008, approximately 91% of our new vehicle revenue was derived from the sale of new vehicles manufactured by BMW, Honda (including Acura), Toyota (including Lexus), Mercedes, General Motors (including Cadillac) and Ford (including Land Rover, Jaguar and Volvo). Our success depends to a great extent on these manufacturers :

- financial condition;
- marketing;

vehicle design;

publicity concerning a particular manufacturer or vehicle model;

production capabilities;

management;

reputation; and

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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.

In recent years, the financial condition and operating results of Ford, General Motors and Chrysler have deteriorated significantly. As of March 31, 2008, we owned 23 Ford franchises (including Volvo, Jaguar, and Land Rover), 38 General Motors franchises (including Cadillac, Saab, Saturn, Chevrolet, Buick, GMC, Hummer and Pontiac) and 12 Chrysler franchises (including Jeep, Dodge and Chrysler). Should the financial condition and operating results of Ford, General Motors or Chrysler continue to significantly deteriorate, it is possible that the particular manufacturer could file for bankruptcy protection. Such a bankruptcy filing by either Ford, General Motors or Chrysler 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.

Our failure to meet a manufacturer s customer satisfaction, financial and sales performance and facility 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 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

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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.

In addition, a manufacturer may condition its allotment of vehicles, participation in bonus programs, or acquisition of additional franchises upon our compliance with its facility standards. This may put us in a competitive disadvantage with other competing dealerships and may ultimately result in our decision to sell a franchise when we believe it may be difficult to recover the cost of the required investment to reach the manufacturer s facility standards.

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, CSI scores and adherence to the particular manufacturer s facility requirements. 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 forego a proposed dealership acquisition, sell the assets of that manufacturer s dealerships or terminate our franchise agreement.

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;

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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;

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.

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

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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, Chrysler, Ford, General Motors and Mercedes. 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, Mercedes, Chrysler, 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 with the seller and with the manufacturer;
- facilities requirements imposed by the particular manufacturer;
- 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 $350.0 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 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. Economic recessions may have a material adverse effect on our retail business, particularly sales of new and used vehicles.

In addition, severe or sustained increases in gasoline prices may lead to a reduction in vehicle 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).

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A decline of available financing in the sub-prime lending market may adversely affect our sales of new and 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. In the event sub-prime lenders tightened their credit standards or there is a decline in the 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 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 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;

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, stock options, restricted stock and restricted stock units granted under our 1997 Stock Option Plan and 2004 Stock Incentive Plan become immediately exercisable or automatically vest upon a change in control. Delaware law also

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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.

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 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 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 defense of this lawsuit, including the aforementioned appeal of the trial court s class certification order, and to assert available defenses. However, an adverse resolution of this lawsuit could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

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

Our business is highly regulated. In the past several years, private plaintiffs and state attorney generals have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. The conduct of our business is subject to numerous federal, state and local laws and regulations regarding unfair, deceptive and/or fraudulent trade practices (including advertising,

marketing, sales, insurance, repair and promotion practices), truth-in-lending, consumer leasing, fair credit practices, equal credit opportunity, privacy, insurance, motor vehicle finance, installment finance, closed-end credit, usury and other installment sales. Claims arising out of actual or alleged violations of

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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 30.9% of our total revenues for the quarter ended March 31, 2008. 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 and safety, including those governing wastewater discharges, air emissions, the operation and removal of underground and aboveground storage tanks, the use, storage, treatment, transportation, release, recycling and disposal of solid and hazardous materials and wastes and the cleanup of contaminated property or water. The violation of these laws and regulations can result in administrative, civil or criminal penalties against us or in a cease and desist order against our operations that are not in compliance. Our future acquisitions may also be subject to regulation, including antitrust reviews. We believe that we comply in all material respects with all laws and regulations applicable to our business, but future regulations may be more stringent and require us to incur significant additional compliance costs.

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

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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 2006, we received information that the AI Pension Plan was substantially underfunded as of December 31, 2005. In July 2007, we received updated information that the AI Pension Plan continued to be substantially underfunded as of December 31, 2006, with the amount of such underfunding increasing versus the year ended December 31, 2005. In March 2008, the Board of Trustees of the AI Pension Plan notified participants, participating employers and local unions that the Plan s actuary, in accordance with the requirements of the federal Pension Protection Act of 2006, had issued a certification that the AI Pension Plan is in Critical Status effective with the plan year commencing January 1, 2008. In conjunction with this finding, the Board of Trustees of the AI Pension Plan adopted a Rehabilitation Plan that implements reductions or eliminations of certain adjustable benefits that were previously available under the Plan (including some forms of early retirement benefits, and disability and death benefits), and also implements a requirement on all participating employers to increase employer contributions to the Plan for a seven year period commencing in 2013.

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, 2007, our estimates for finance, insurance and service contracts and insurance reserves are based on historical experience. Differences for the year ended December 31, 2007 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.

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 in Item 7 under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007 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 March 31, 2008,

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our balance sheet reflected a carrying amount of approximately $1,287.3 million in goodwill (including goodwill classified as assets held for sale). If goodwill 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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Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table sets forth information about the shares of Class A Common Stock we repurchased during the first quarter ended March 31, 2008.

	(amounts in thousands, except share and per share amounts)			
	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
January 2008	**314,000**	**$ 17.39**	**314,000**	**$ 27,871**
February 2008	**435,400**	**$ 19.14**	**435,400**	**$ 19,536**
March 2008	**346,081**	**$ 18.29**	**346,081**	**$ 13,205**
Total	**1,095,481**	**$ 18.37**	**1,095,481**	**$ 13,205**

(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
October 2007	40,000
Total	$ 255,000

See Note 6 to our annual financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007 for a description of restrictions on the payment of dividends. Subsequent to March 31, 2008, our Board of Directors authorized an additional $40.0 million to be used in our share repurchase program.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 6: Exhibits.
(a) Exhibits:

Exhibit No.	Description
31.1	Certification of Mr. David P. Cosper 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. Cosper 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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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Forward Looking Statements

This Quarterly Report on Form 10-Q contains numerous forward-looking statements within the meaning of the Private 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;
- 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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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: April 29, 2008 By: /s/ O. Bruton Smith
O. Bruton Smith
Chairman and Chief Executive Officer

Date: April 29, 2008 By: /s/ David P. Cosper
David P. Cosper
Vice Chairman and Chief Financial Officer

(Principal Financial Officer)

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

EXHIBIT INDEX

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