SONIC AUTOMOTIVE INC
Form 10-K
February 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number : 001-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	56-2010790 (I.R.S. Employer Identification No.)
4401 Colwick Road Charlotte, North Carolina (Address of principal executive offices)	28211 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately $1.1 billion based upon the closing sales price of the registrant's Class A common stock on June 30, 2014 of $26.68 per share.

As of February 18, 2015, there were 38,905,340 shares of Class A common stock, par value $0.01 per share, and 12,029,375 shares of Class B common stock, par value $0.01 per share, outstanding.

Documents incorporated by reference. Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held April 14, 2015 are incorporated by reference into Part III of this Form 10-K.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains, and written or oral statements made from time to time by us or by our authorized officers may contain, 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, results and events, and can generally be identified by words such as "may," "will," "should," "believe," "expect," "anticipate," "intend," "plan," "foresee" similar words or phrases.

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: Risk Factors" of this Annual Report on Form 10-K and elsewhere in this report, as well as:

- the number of new and used cars sold in the United States as compared to our expectations and the expectations of the market;
- our ability to generate sufficient cash flows or obtain additional financing to fund capital expenditures, our share repurchase program, dividends on our common stock, acquisitions and general operating activities;
- our business and growth strategies, including, but not limited to, our EchoPark® initiative and One Sonic-One Experience initiative;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives vehicle manufacturers offer and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers, which may affect our ability to obtain desirable new vehicle models in inventory or complete additional acquisitions;
- adverse resolutions of one or more significant legal proceedings against us or our dealerships;
- 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 also on businesses we may seek to acquire;
- our ability to successfully integrate potential future acquisitions; and
- the rate and timing of overall economic recovery or decline.

These forward-looking statements speak only as of the date of this report or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances, except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission (the "SEC").

PART I

Item 1: Business.

Sonic Automotive, Inc. was incorporated in Delaware in 1997. We are one of the largest automotive retailers in the United States, as measured by total revenues. As of December 31, 2014, we operated 118 franchises in 13 states (representing 25 different brands of cars and light trucks) and 19 collision repair centers. For management and operational reporting purposes, we group certain franchised dealerships together that share management and inventory (principally used vehicles) into “stores.” As of December 31, 2014, we operated 100 stores. Our franchised dealerships provide comprehensive services including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts, performance of vehicle maintenance, manufacturer warranty repairs, paint and collision repair services (collectively, “Fixed Operations”); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, “F&I”) for our customers. In addition, during the fourth quarter of 2014, we opened two stand-alone pre-owned specialty retail locations in Denver, Colorado under the EchoPark® brand.

The following charts depict the multiple sources of continuing operations revenue and gross profit for the year ended December 31, 2014:

As of December 31, 2014, we operated franchises in the following markets:

Market	Number of Franchises	Percent of 2014 Total Revenue	
Houston	25	22.0	%
Southern California	13	15.4	%
Northern California	12	13.5	%
Alabama/Tennessee	23	11.9	%
North Carolina/South Carolina/Georgia	13	9.1	%
Florida	9	6.3	%
Mid-Atlantic	6	5.5	%
Dallas	4	4.9	%
Colorado	5	4.5	%(1)
Ohio	5	2.6	%
Las Vegas	3	2.1	%
Disposed Franchises	-	2.2	%
Total	118	100.0	%

(1) Includes EchoPark® stores.

In the future, we may purchase dealerships and open new stores that we believe will enrich our portfolio and divest dealerships that we believe will not yield acceptable returns over the long-term. The automotive retailing industry remains highly fragmented, and we believe that further consolidation may occur. We believe that attractive acquisition opportunities continue to exist for dealership groups with the capital and experience to identify, acquire and professionally manage dealerships. Our ability to complete acquisitions and open new stores in the future will depend on many factors, including the availability of financing and the existence of any contractual provisions that may restrict our acquisition activity.

See “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” for a discussion of our plans for the use of capital generated from operations.

Operating Segments

As of December 31, 2014, we had two operating segments: Franchised Dealerships and EchoPark®. The Franchised Dealerships segment is comprised of retail automotive franchises that sell new and used vehicles, replacement parts and vehicle repair and maintenance services, and finance and insurance products. The EchoPark® segment is comprised of stand-alone pre-owned specialty retail locations that provide customers with a new, unique way to search, buy, service and sell their pre-owned vehicles.

For the year ended December 31, 2014, EchoPark® revenue represented less than 1% of total revenue. See Note 14, "Segment Information," to the accompanying Consolidated Financial Statements for additional financial information regarding our two operating segments.

Unless otherwise noted, the following discussion of our business is presented on a consolidated basis.

Business Strategy

Maximize Asset Returns Through Process Execution. We have developed standardized operating processes that are documented in operating playbooks for our dealerships. Through the continued implementation of our operating playbooks, we believe organic growth opportunities exist by offering a more favorable buying experience to our customers and create efficiencies in our business processes. We believe the development, refinement and implementation of these operating processes will enhance the customer experience, make us more competitive in the markets we serve and drive profit growth across each of our revenue streams.

Invest in Dealership Properties. Historically, we have operated our dealerships primarily on property financed through long-term operating leases. As these leases mature, or as we have an opportunity to purchase the underlying real estate prior to renewal, we take actions to own more of our dealership properties when the effect is financially or operationally favorable to us. We remain opportunistic in purchasing existing properties or relocating dealership operations to owned real estate where the returns are favorable. We believe owning our properties will, over the long-term, strengthen our balance sheet and reduce our overall cost of operating and financing our facilities.

Improve Capital Structure. As we generate cash through operations, we will opportunistically repurchase our Class A common stock in open-market or structured transactions.

Diverse Revenue Streams. We have multiple revenue streams. In addition to new vehicle sales, our revenue sources include used vehicle sales, which we believe are less sensitive to economic cycles and seasonal influences that exist with new vehicle sales. Our Fixed Operations sales carry a higher gross margin than new and used vehicle sales and, in the past, have not been as economically sensitive as new vehicle sales. We also offer customers assistance in obtaining financing and a range of automobile related insurance products.

Portfolio Management. Our long-term growth and acquisition strategy is focused on large metropolitan markets, predominantly in the Southeast, Southwest, Midwest and California. We seek to add like-branded dealerships to our portfolio that exist in regions in which we already operate; however, we may look outside of our existing geographic footprint when considering the location of new EchoPark® stores. A majority of our franchised dealerships are either luxury or mid-line import brands. For the year ended December 31, 2014, approximately 87.2% of our new vehicle revenue was generated by mid-line import and luxury dealerships, which usually have higher operating margins, more stable Fixed Operations departments, lower associate turnover and lower inventory levels.

The following table depicts the breakdown of our new vehicle revenues from continuing operations by brand:

Brand	Percentage of New Vehicle Revenue Year Ended December 31, 2014	2013	2012
Luxury:			
BMW	21.8 %	19.6 %	19.0 %
Mercedes	9.6 %	9.1 %	8.7 %
Lexus	5.2 %	5.0 %	5.0 %
Audi	5.0 %	4.4 %	4.0 %
Cadillac	4.1 %	4.6 %	4.8 %
Land Rover	2.8 %	2.7 %	2.2 %
Porsche	2.4 %	2.1 %	1.9 %
Mini	2.1 %	2.4 %	2.7 %
Acura	0.9 %	0.8 %	0.9 %
Volvo	0.8 %	0.9 %	1.1 %
Infiniti	0.7 %	0.9 %	1.0 %
Jaguar	0.7 %	0.7 %	0.7 %
Total Luxury	56.1 %	53.2 %	52.0 %
Mid-line Import:			
Honda	14.9 %	15.0 %	15.3 %
Toyota	10.4 %	10.1 %	10.3 %
Volkswagen	1.9 %	2.3 %	3.0 %
Hyundai	1.6 %	1.8 %	2.2 %
Other (1)	1.4 %	1.5 %	1.8 %
Nissan	0.9 %	1.1 %	0.9 %
Total Mid-line Import	31.1 %	31.8 %	33.5 %
Domestic:			
Ford	7.3 %	8.8 %	7.8 %
General Motors (2)	5.5 %	6.2 %	6.7 %
Total Domestic	12.8 %	15.0 %	14.5 %
Total	100.0%	100.0%	100.0%

(1) Includes Kia, Scion and Subaru.
(2) Includes Buick, Chevrolet and GMC.

Expand our eCommerce Capabilities. Automotive customers have become increasingly more comfortable using technology to research their vehicle buying alternatives and communicate with dealership personnel. The internet presents a marketing, advertising and automotive sales channel that we will continue to utilize to drive value for our dealerships and enhance the customer experience. Our technology platforms give us the ability to leverage technology to efficiently integrate systems, customize our dealership websites and use our data to improve the effectiveness of our advertising and interaction with our customers. This also allows us to market all of our products and services to a national audience and, at the same time, support the local market penetration of our individual dealerships.

Execute our Stand-Alone Pre-Owned Store Initiative. As we announced during the fourth quarter of 2013, we have augmented our manufacturer-franchised dealership operations with stand-alone pre-owned specialty retail sales locations branded as EchoPark®. Our EchoPark® business operates independently from the existing new and used dealership sales operations and introduces consumers to an exciting shopping and buying experience. Sales operations began in Denver, Colorado in the fourth quarter of 2014.

Customer Experience Initiative. In the fourth quarter of 2013, we also announced our customer experience initiative known as “One Sonic-One Experience.” This initiative includes several new processes and proprietary technologies from inventory management, electronic desking and pricing tools to a fully developed “customer-centric” Customer Relationship Management (“CRM”) tool. We believe that the development of these processes and tools will allow us to better serve our customers across our entire platform of stores. Our goal is to allow our guests to control the buying process and move at their pace so that once the vehicle has been selected our team can utilize these processes and technologies to allow our guests to complete new or pre-owned vehicle sales transactions in less than an hour. During the third and fourth quarters of 2014, we began rolling out the One Sonic-One Experience initiative at our dealerships in Charlotte, North Carolina.

Achieve High Levels of Customer Satisfaction. We focus on maintaining high levels of customer satisfaction. Our personalized sales process is designed to satisfy customers by providing high-quality vehicles and service in a positive, “consumer friendly” buying environment. Several manufacturers offer specific financial incentives on a per vehicle basis if certain Customer Satisfaction Index (“CSI”) levels (which vary by manufacturer) are achieved by a dealership. In addition, all manufacturers consider CSI scores in approving acquisitions or awarding new dealership open-points. In order to keep dealership and executive management focused on customer satisfaction, we include CSI results as a component of our incentive-based compensation programs.

Train, Develop and Retain Associates. We believe our associates are the cornerstone of our business and crucial to our financial success. Our goal is to develop our associates and foster an environment where our associates can contribute and grow with the company. Associate satisfaction is very important to us, and we believe a high level of associate satisfaction reduces associate turnover and enhances our customers’ experience at our dealerships by pairing our customers with well-trained, seasoned associates. We believe that our comprehensive training of all employees provides us with a competitive advantage over other dealership groups.

Increase Sales of Higher Margin Products and Services. We continue to pursue opportunities to increase our sales of higher-margin products and services by expanding the following:

Finance, Insurance and Other Aftermarket Products. Each sale of a new or used vehicle gives us an opportunity to provide our customers with financing and insurance options and earn financing fees and insurance commissions. We also offer our customers the opportunity to purchase extended warranties, service contracts and other aftermarket products. We currently offer a wide range of non-recourse financing, leasing, other aftermarket products, extended warranties, service contracts and insurance products to our customers. We emphasize menu-selling techniques and other best practices to increase our sales of F&I products at our dealerships.

Parts, Service & Collision Repair. Each of our dealerships offers a fully integrated service and parts department. Manufacturers permit warranty work to be performed only at franchised dealerships such as ours. As a result, our franchised dealerships are uniquely qualified and positioned to perform work covered by manufacturer warranties on increasingly complex vehicles. We believe we can continue to grow our profitable parts and service business over the long-term by increasing service capacity, investing in sophisticated equipment and well-trained technicians, using variable rate pricing structures, focusing on customer service and efficiently managing our parts inventory. In addition, we believe our emphasis on selling extended service contracts associated with new and used vehicle retail sales will drive further service and parts business in our dealerships as we increase the potential to retain current customers beyond the term of the standard manufacturer warranty period.

Certified Pre-Owned Vehicles. Various manufacturers provide franchised dealers the opportunity to sell certified pre-owned (“CPO”) vehicles. This certification process extends the standard manufacturer warranty on the CPO vehicle, which we believe increases our potential to retain the pre-owned purchaser as a future parts and service customer. Since CPO warranty work can only be performed at franchised dealerships, we believe CPO warranty work will increase our Fixed Operations business.

Relationships with Manufacturers

Each of our dealerships operates under a separate franchise or dealer agreement that governs the relationship between the dealership and the manufacturer. Each franchise or dealer agreement specifies the location of the dealership for the sale of vehicles and for the performance of certain approved services in a specified market area. The designation of such areas generally does not guarantee exclusivity within a specified territory. In addition, most manufacturers allocate vehicles on a “turn and earn” basis that rewards high unit sales volume. A franchise or dealer agreement incentivizes the dealer to meet specified standards regarding showrooms, facilities and equipment for servicing vehicles, inventories, minimum net working capital, personnel training and other aspects of the business. Each franchise or dealer agreement also gives the related manufacturer the right to approve the dealer operator and any material change in management or ownership of the dealership. Each manufacturer may terminate a franchise or dealer agreement under certain circumstances, such as a change in control of the dealership without manufacturer approval, the impairment of the reputation or financial condition of the dealership, the death, removal or withdrawal of the dealer operator, the conviction of the dealership or the dealership’s owner or dealer operator of certain crimes, the failure to adequately operate the dealership or maintain new vehicle financing arrangements, insolvency or bankruptcy of the dealership or a material breach of other provisions of the applicable franchise or dealer agreement.

Many automobile manufacturers have developed and implemented policies regarding public ownership of dealerships, which include the ability to force the sale of their respective franchises:

- upon a change in control of our company or a material change in the composition of our Board of Directors;

- if an automobile manufacturer or distributor acquires more than 5% of the voting power of our securities; and
- if an individual or entity (other than an automobile manufacturer or distributor) acquires more than 20% of the voting power of our securities, and the manufacturer disapproves of such individual's or entity's ownership interest.

To the extent that new or amended manufacturer policies restrict the number of dealerships that may be owned by a dealership group or the transferability of our common stock, such policies could have a material adverse effect on us. We believe that we will be able to renew at expiration all of our existing franchise and dealer agreements.

Many states have placed limitations upon manufacturers' and distributors' ability to sell new motor vehicles directly to customers in their respective states in an effort to protect dealers from practices they believe constitute unfair competition. In general, these statutes make it unlawful for a manufacturer or distributor to compete with a new motor vehicle dealer in the same brand operating under an agreement or franchise from the manufacturer or distributor in the relevant market area. Certain states, including Florida, Georgia, North Carolina, South Carolina and Virginia, limit the amount of time that a manufacturer may temporarily operate a dealership.

In addition, all of the states in which our dealerships currently do business require manufacturers to show "good cause" for terminating or failing to renew a dealer's franchise or dealer agreement. Further, each of the states provides some method for dealers to challenge manufacturer attempts to establish dealerships of the same brand in their relevant market area.

Competition

The retail automotive industry is highly competitive. Depending on the geographic market, we compete both with dealers offering the same brands and product lines as ours and dealers offering other manufacturers' vehicles. We also compete for vehicle sales with auto brokers, leasing companies and services offered on the internet that provide customer referrals to other dealerships or who broker vehicle sales between customers and other dealerships. We compete with small, local dealerships and with large multi-franchise automotive dealership groups.

We believe that the principal competitive factors in vehicle sales are the location of dealerships, the marketing campaigns conducted by manufacturers, the ability of dealerships to offer an attractive selection of the most popular vehicles, the quality of customer service and pricing (including manufacturer rebates and other special offers). In particular, pricing has become more important as a result of price-savvy customers using sources available on the internet to determine current market retail prices. Other competitive factors include customer preference for makes of automobiles and manufacturer warranties.

In addition to competition for vehicle sales, we also compete with other auto dealers, service stores, auto parts retailers and independent mechanics in providing parts and service. We believe that the principal competitive factors in parts and service sales are price, the use of factory-approved replacement parts, factory-trained technicians, the familiarity with a manufacturer's makes and models and the quality of customer service. A number of regional and national chains offer selected parts and services at prices that may be lower than our prices.

In arranging or providing financing for our customers' vehicle purchases, we compete with a broad range of financial institutions. In addition, financial institutions are now offering F&I products through the internet. We believe the principal competitive factors in providing financing are convenience, interest rates and contract terms.

Our success depends, in part, on national and regional automobile-buying trends, local and regional economic factors and other regional competitive pressures. Conditions and competitive pressures affecting the markets in which we operate, such as price-cutting by dealers in these areas, or in any new markets we enter, could adversely affect us, even though the retail automobile industry as a whole might not be affected.

Governmental Regulations and Environmental Matters

Numerous federal and state regulations govern our business of marketing, selling, financing and servicing automobiles. We are also subject to laws and regulations relating to business corporations.

Under the laws of the states in which we currently operate as well as the laws of other states into which we may expand, we must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. These laws also regulate our conduct of business, including our sales, operating, advertising, financing and employment practices, including federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to federal truth-in-lending, consumer privacy, consumer leasing and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Some states regulate finance fees that may be paid as a result of vehicle sales.

Federal, state and local environmental regulations, including regulations governing air and water quality, the clean-up of contaminated property and the use, storage, handling, recycling and disposal of gasoline, oil and other materials, also apply to us and our dealership properties.

As with automobile dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes and other environmentally sensitive materials. Our business also involves the past and current operation and/or removal of above ground and underground storage tanks containing such substances or wastes. Accordingly, we are subject to regulation by federal, state and local authorities that establish health and environmental quality standards, provide for liability related to those standards and provide penalties for violations of those standards. We are also subject to laws, ordinances and regulations governing remediation of contamination at facilities we own or operate or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

We do not have any known material environmental liabilities, and we believe that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition and cash flows. However, soil and groundwater contamination is known to exist at certain properties owned and used by us. Further, environmental laws and regulations are complex and subject to frequent change. In addition, in connection with our past or future acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material.

Executive Officers of the Registrant

Our executive officers as of the date of this Form 10-K, are as follows:

Name	Age	Position(s) with Sonic
Mr. O. Bruton Smith	87	Chairman, Chief Executive Officer and Director
Mr. B. Scott Smith	47	President, Chief Strategic Officer and Director
Mr. David Bruton Smith	40	Vice Chairman and Director
Mr. Heath R. Byrd	48	Executive Vice President and Chief Financial Officer
Mr. Jeff Dyke	47	Executive Vice President of Operations

Mr. O. Bruton Smith is our Founder, Chairman, Chief Executive Officer and a director and has served as such since our formation in January 1997, and Mr. Smith is currently a director and executive officer of many of our subsidiaries. Mr. Smith has worked in the retail automobile industry since 1966. Mr. Smith is also the Executive Chairman, a director and controlling stockholder of Speedway Motorsports, Inc. ("SMI"). SMI is a public company traded on the New York Stock Exchange (the "NYSE"). Among other things, SMI owns and operates the following NASCAR racetracks: Atlanta Motor Speedway, Bristol Motor Speedway, Charlotte Motor Speedway, Kentucky Speedway, Las Vegas Motor Speedway, New Hampshire Motor Speedway, Sonoma Raceway and Texas Motor Speedway. Mr. Smith is also an executive officer or a director of most of SMI's operating subsidiaries.

Mr. B. Scott Smith is our Co-Founder, President, Chief Strategic Officer and a director. Prior to his appointment as President in March 2007, Mr. Smith served as our Vice Chairman and Chief Strategic Officer since October 2002. Mr. Smith held the position of President and Chief Operating Officer from April 1997 to October 2002. Mr. Smith has been a director of our company since our organization was formed in January 1997. Mr. Smith also serves as a director and executive officer of many of our subsidiaries. Mr. Smith has been an executive officer of Town & Country Ford since 1993, and was a minority owner of both Town & Country Ford and Fort Mill Ford before our acquisition of these dealerships in 1997. Mr. Smith became the General Manager of Town & Country Ford in November 1992 where he remained until his appointment as President and Chief Operating Officer in April 1997. Mr. Smith has over 25 years of experience in the automobile dealership industry. Mr. Smith is a son of O. Bruton Smith and brother of David Bruton Smith.

Mr. David Bruton Smith has served as our Vice Chairman since March 2013 and as a director since October 2008. Mr. Smith served as Executive Vice President from October 2008 until his appointment as Vice Chairman in March 2013, and has served as a director since October 2008 and in our organization since 1998. Prior to being named a director and Executive Vice President in October 2008, Mr. Smith served as our Senior Vice President of Corporate Development. Mr. Smith served as Vice President of Corporate Strategy of the company from October 2005 to March 2007, and also served prior to that time as Dealer Operator and General Manager of several of our dealerships. Mr. Smith is a son of O. Bruton Smith and brother of B. Scott Smith.

Mr. Heath R. Byrd has served as our Executive Vice President and Chief Financial Officer since March 2013. Mr. Byrd was previously a Vice President and our Chief Information Officer, and has served our organization since 2007. Prior to joining Sonic, Mr. Byrd served in a variety of management positions at HRAmerica, Inc., a workforce management firm that provided customized human resource and workforce development through co-sourcing arrangements, including as a director, as President and Chief Operating Officer and as Chief Financial Officer and Chief Information Officer. Prior to HR America, Mr. Byrd served as a Manager in the Management Consulting Division of Ernst & Young LLP.

Mr. Jeff Dyke has served as our Executive Vice President of Operations since October 2008 and is responsible for direct oversight for all of Sonic's retail automotive operations. From March 2007 to October 2008, Mr. Dyke served as our Division Chief Operating Officer – Southeast Division, where he oversaw retail automotive operations for the states of Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee and Texas. Mr. Dyke first joined Sonic in October 2005 as its Vice President of Retail Strategy, a position that he held until April 2006, when he was promoted to Division Vice President – Eastern Division, a position he held from April 2006 to March 2007. Prior to joining Sonic, Mr. Dyke worked in the automotive retail industry at AutoNation, Inc. from 1996 to 2005, where he held several positions in divisional, regional and dealership management with that company.

Employees

As of December 31, 2014, we employed approximately 9,300 associates. We believe that our relationships with our associates are good. Approximately 250 of our associates, primarily service technicians in our Northern California markets, are represented by a labor union. Although a small percentage of our associates are represented by a labor union, we may be affected by labor strikes, work slowdowns and walkouts at automobile manufacturers' manufacturing facilities.

Company Information

Our website is located at www.sonicautomotive.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as proxy statements and other information we file with, or furnish to, the SEC are available free of charge on our website. We make these documents available as soon as reasonably practicable after we electronically transmit them to the SEC. Except as otherwise stated in these documents, the information contained on our website or available by hyperlink from our website is not incorporated into this Annual Report on Form 10-K or other documents we transmit to the SEC.

Item 1A: Risk Factors.

Our business, financial condition, results of operations, cash flows, prospects and the prevailing market price and performance of our Class A common stock may be adversely affected by a number of factors, including the material risks noted below. Our stockholders and prospective investors should consider these risks, uncertainties, and other factors prior to making an investment decision.

Risks Related to Our Sources of Financing and Liquidity

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

As of December 31, 2014, our total outstanding indebtedness was approximately $2.0 billion, which includes floor plan notes payable, long-term debt and short-term debt.

We have $225.0 million of maximum borrowing availability under a syndicated revolving credit facility (the “2014 Revolving Credit Facility”) and up to $800.0 million in maximum borrowing availability for combined syndicated new and used vehicle inventory floor plan financing (the “2014 Floor Plan Facilities”). We refer to the 2014 Revolving Credit Facility and the 2014 Floor Plan Facilities collectively as our “2014 Credit Facilities.” Based on balances as of December 31, 2014, we had approximately $165.6 million available for additional borrowings under the 2014 Revolving Credit Facility based on the borrowing base calculation, which is affected by numerous factors including eligible asset balances. We are able to borrow under our 2014 Revolving Credit Facility only if, at the time of the borrowing, we have met all representations and warranties and are in compliance with all financial and other covenants contained therein. We also have capacity to finance new and used vehicle inventory purchases under floor plan agreements with various manufacturer-affiliated finance companies and other lending institutions (the “Silo Floor Plan Facilities”) as well as our 2014 Floor Plan Facilities. In addition, the indentures relating to our 5.0% Senior Subordinated Notes due 2023 (the “5.0% Notes”), our 7.0% Senior Subordinated Notes due 2022 (the “7.0% Notes”) and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness, as long as we comply with the terms thereunder.

In addition, the majority of our dealership properties are leased under long-term operating lease arrangements that commonly have initial terms of fifteen to twenty years with renewal options generally ranging from five to ten years. These operating leases require compliance with financial and operating covenants similar to those under our 2014 Credit Facilities, and 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 Note 12, “Commitments and Contingencies,” to the accompanying Consolidated Financial Statements.

Our failure to comply with certain covenants in these agreements or indentures could materially adversely affect our ability to access our borrowing capacity, subject us to acceleration of our outstanding debt, result in a cross default on other indebtedness and could have a material adverse effect on our ability to continue our business.

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 2014 Credit Facilities, the indentures governing our 5.0% Notes and 7.0% Notes and many of our 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. 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 5.0% Notes and 7.0% Notes. 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. 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 because of acceleration and cross default provisions. 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.

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

Our ability to meet our debt obligations and other expenses will depend on our future performance, which will be affected by financial, business, domestic and foreign economic conditions, the regulatory environment and other factors, many of which we are unable to control. 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 distributions. 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.

If our cash flow is not sufficient to service our debt as it becomes due, we may be required to refinance the debt, sell assets or sell shares of our common stock on terms that we do not find attractive. Further, our failure to comply with the financial and other restrictive covenants relating to the 2014 Credit Facilities and the indentures pertaining to our outstanding notes could result in a default under these agreements that would prevent us from borrowing under the 2014 Revolving Credit Facility, which could materially adversely affect our business, financial condition and results of operations. If a default and acceleration of repayment were to occur, we may be unable to adequately finance our operations and the value of our Class A common stock could be materially adversely affected.

We have financed the purchase of certain dealership properties with mortgage notes that require balloon payments at the end of the notes’ terms.

Many of our mortgage notes’ principal and interest payments are based on an amortization period longer than the actual terms (maturity dates) of the notes. We will be required to repay or refinance the remaining principal balances for certain of our mortgages with balloon payments at the notes’ maturity dates, which range from 2015 to 2033. The amounts to be repaid or refinanced at the maturity dates could be significant. We may not have sufficient liquidity to make such payments at the notes’ maturity dates. In the event we do have sufficient liquidity to completely repay the remaining principal balances at maturity, we may not be able to refinance the notes at interest rates that are acceptable to us, or depending on market conditions, refinance the notes at all. Our inability to repay or refinance these notes could have a material adverse effect on our business, financial condition and results of operations.

We depend on the performance of sublessees to offset costs related to certain of our lease agreements.

In most cases, when we sell a dealership, the buyer of the dealership will sublease the dealership property from us, but we are not released from the underlying lease obligation to the primary landlord. We rely on the sublease income from the buyer to offset the expense incurred related to our obligation to pay the primary landlord. We also rely on the buyer to maintain the property in accordance with the terms of the sublease (which in most cases mirror the terms of the lease we have with the primary landlord). Although we assess the financial condition of a buyer at the time we sell the dealership, and seek to obtain guarantees of the buyer’s sublease obligation from the stockholders or affiliates of the buyer, the financial condition of the buyer and/or the sublease guarantors may deteriorate over time. In the event the buyer does not perform under the terms of the sublease agreement (due to the buyer’s financial condition or other factors), we may not be able to recover amounts owed to us under the terms of the sublease agreement or the related guarantees. Our operating results, financial condition and cash flows may be materially adversely affected if sublessees do not perform their obligations under the terms of the sublease agreements.

Our use of hedging transactions could limit our financial gains or result in financial losses.

To reduce our exposure to fluctuations in cash flow due to interest rate fluctuations, we have entered into, and in the future expect to enter into, certain derivative instruments (or hedging agreements). No hedging activity can completely insulate us from the risks associated with changes in interest rates. As of December 31, 2014, we had interest rate swap agreements to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. See the heading “Derivative Instruments and Hedging Activities” under Note 6, “Long-Term Debt,” to the accompanying Consolidated Financial Statements. We intend to hedge as much of the interest rate risk as management determines is in our best interests given the cost of such hedging transactions.

Our hedging transactions expose us to certain risks and financial losses, including, among other things:

- counterparty credit risk;
- available interest rate hedging may not correspond directly with the interest rate risk for which we seek protection;

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- the duration of the amount of the hedge may not match the duration or amount of the related liability;
- the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value, downward adjustments, or “mark-to-market losses,” which would affect our stockholders’ equity; and
- all of our hedging instruments contain terms and conditions with which we are required to meet. In the event those terms and conditions are not met, we may be required to settle the instruments prior to the instruments’ maturity with cash payments which could significantly affect our liquidity.

A failure on our part to effectively hedge against interest rate changes may adversely affect our financial condition and results of operations.

We may not be able to satisfy our debt obligations upon the occurrence of a change in control or a fundamental change.

Upon the occurrence of a change in control or a fundamental change, as defined in our 5.0% Notes and 7.0% Notes, holders of these instruments will have the right to require us to purchase all or any part of such holders’ notes at a price equal to 101% of principal amount thereof, plus accrued and unpaid interest, if any. The events that constitute a change of control under these indentures may also constitute a default under our 2014 Credit Facilities. Any future debt instruments that we may incur may contain similar provisions regarding repurchases in the event of a change in control or fundamental change triggering event. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under these debt instruments in the event of a change in control or fundamental change. In the event we were unable to satisfy these obligations, it could have a material adverse impact on our business and our common stock holders.

Risks Related to Our Relationships with Vehicle Manufacturers

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

Each of our dealerships operates under a separate franchise or dealer agreement with the applicable automobile manufacturer. Without a franchise or dealer agreement, we cannot obtain new vehicles from a manufacturer or advertise as an authorized factory service center. As a result, we are significantly dependent on our relationships with the manufacturers.

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

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

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

A manufacturer may condition its allotment of vehicles, participation in bonus programs, or acquisition of additional franchises upon our compliance with its brand and facility standards. These standards may require investments in technology and facilities that we otherwise would not make. 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 brand and facility standards.

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

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

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise or dealer agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. 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 non-renewal. 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 dealerships to renew their franchise or dealer agreements upon expiration.

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. In addition, current state dealer laws generally restrict the ability of automobile manufacturers to enter the retail market and sell directly to consumers. However, 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.

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 and used vehicles;
- employee pricing;
- dealer incentives on new vehicles;
- manufacturer floor plan interest and advertising assistance;
- warranties on new and used vehicles; and
- sponsorship of certified pre-owned 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 results of operations.

Our sales volume may be materially adversely affected if manufacturer captives change their customer financing programs or are unable to provide floor plan financing.

One of the primary finance sources used by consumers in connection with the purchase of a new or used vehicle is the manufacturer captive finance companies. These captive finance companies rely, to a certain extent, on the public debt markets to provide the capital necessary to support their financing programs. In addition, the captive finance companies will occasionally change their loan underwriting criteria to alter the risk profile of their loan portfolio. A limitation or reduction of available consumer financing for these or other reasons could affect consumers' ability to purchase a vehicle, and thus, could have a material adverse effect on our sales volume.

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Our parts and service sales volume and margins are dependent on manufacturer warranty programs.

Franchised automotive retailers perform factory authorized service work and sell original replacement parts on vehicles covered by warranties issued by the automotive manufacturer. Dealerships which perform work covered by a manufacturer warranty are reimbursed at rates established by the manufacturer. For the year ended December 31, 2014, approximately 15.0% of our parts, service and collision repair revenue was for work covered by manufacturer warranties. To the extent a manufacturer reduces the labor rates or markup of replacement parts for such warranty work, our Fixed Operations sales volume and margins could be adversely affected.

Adverse conditions affecting one or more key manufacturers or lenders may negatively impact our results of operations.

Our results of operations depend on the products, services, and financing and incentive programs offered by major automobile manufacturers, and could be negatively impacted by any significant changes to these manufacturers' financial condition, marketing strategy, vehicle design, publicity concerning a particular manufacturer or vehicle model, production capabilities, management, reputation and labor relations.

Events such as labor strikes or other disruptions in production, including those caused by natural disasters, 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 during critical 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 business and results of operations.

Moreover, our business could be materially adversely impacted by the bankruptcy of a major vehicle manufacturer or related lender. For example:

- a manufacturer in bankruptcy could attempt to terminate all or certain of our franchises, in which case we may not receive adequate compensation for our franchises;
- consumer demand for such manufacturer's products could be substantially reduced;
- a lender in bankruptcy could attempt to terminate our floor plan financing and demand repayment of any amounts outstanding;
- we may be unable to arrange financing for our customers for their vehicle purchases and leases through such lender, in which case we would be required to seek financing with alternate financing sources, which may be difficult to obtain on similar terms, if at all;
- we may be unable to collect some or all of our significant receivables that are due from such manufacturer or lender, and we may be subject to preference claims relating to payments made by such manufacturer or lender prior to bankruptcy; and
- such manufacturer may be relieved of its indemnification obligations with respect to product liability claims.

Additionally, any such bankruptcy may result in us being required to incur impairment charges with respect to the inventory, fixed assets and intangible assets related to certain dealerships, which could adversely impact our results of operations, financial condition and our ability to remain in compliance with the financial ratios contained in our debt agreements.

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

Some of our franchise and dealer agreements prohibit transfers of any ownership interests of a dealership and, in some cases, its parent, without prior approval of the applicable manufacturer. Our existing franchise and dealer 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. While the holders of our Class B common stock currently maintain voting control of Sonic, their future investment decisions as well as those of holders of our Class A common stock are generally outside of our control and could result in the termination or non-renewal of existing franchise or dealer agreements or impair our ability to negotiate new franchise or dealer agreements for dealerships we acquire in the future. 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 acquirer from acquiring control of us.

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We depend on manufacturers to supply us with sufficient numbers of popular 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 on a timely basis.

A decline in the quality of vehicles we sell, or consumers’ perception of the quality of those vehicles, may adversely affect our business.

Our business is highly dependent on consumer demand and preferences. Events such as manufacturer recalls, negative publicity or legal proceedings related to these events may have a negative impact on the products we sell. If such events are significant, the profitability of our dealerships related to those manufacturers’ could be adversely affected and we could experience a material adverse effect on our overall results of operations, financial position and cash flows.

Risks Related to Our Growth Strategy

Our investment in new business strategies, services and technologies is inherently risky, and could disrupt our ongoing business or have a material adverse effect on our overall business and results of operations.

We have invested and expect to continue to invest in new business strategies, services and technologies, including our EchoPark® stores and our customer experience initiatives. Such endeavors may involve significant risks and uncertainties, including allocating management resources away from current operations, insufficient revenues to offset expenses associated with these new investments, inadequate return of capital on our investments and unidentified issues not discovered in our due diligence of such strategies and offerings. Because these ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not have a material adverse effect on our reputation, financial condition and operating results.

Our ability to make acquisitions, execute our stand-alone pre-owned initiative and grow organicallymay be restricted by the terms and limits of the 2014 Credit Facilities.

The amount of capital available to us is limited to the liquidity available under our 2014 Credit Facilities and capital generated through operating activities. Pursuant to the 2014 Credit Facilities, we are restricted from making dealership acquisitions in any fiscal year if the aggregate cost of all such acquisitions is in excess of certain amounts, without the written consent of the Required Lenders (as that term is defined in the 2014 Credit Facilities). Our pace and scale of growing our recently announced stand-alone pre-owned initiative may be limited in the event other sources of capital are unavailable. These restrictions may limit our growth strategy.

We may not be able to capitalize on future real estate and dealership acquisition opportunities because our ability to obtain capital to fund these acquisitions is limited.

We intend to finance future real estate and dealership acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements. We may not be able to obtain additional financing by issuing stock or debt securities due to the market price of our Class A common stock, overall market conditions or covenants under our 2014 Credit Facilities that restrict our ability to issue additional indebtedness, 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.

In addition, we are dependent to a significant extent on our ability to finance our new and certain of our used vehicle inventory under the 2014 Floor Plan Facilities or the Silo Floor Plan Facilities (“floor plan financing”). Floor plan financing arrangements allow us to borrow money to buy a particular new vehicle from the manufacturer or a used vehicle on trade-in or at auction and pay off the loan when we sell that particular vehicle. We must obtain floor plan financing or obtain consents to assume existing floor plan financing in connection with our acquisition of dealerships. In the event that we are unable to obtain such financing, our ability to complete dealership acquisitions could be limited.

Substantially all the assets of our dealerships are pledged to secure the indebtedness under our Silo Floor Plan Facilities and the 2014 Credit Facilities. These pledges may impede our ability to borrow from other sources. Moreover, because certain lending institutions are either owned by or affiliated with an automobile manufacturer, any deterioration of our relationship with the particular manufacturer-affiliated finance subsidiary could adversely affect our relationship with the affiliated manufacturer, and vice-versa.

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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 franchise of that manufacturer. In determining whether to approve an acquisition, manufacturers may consider many factors such as our financial condition and CSI scores.

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

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

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 acquired dealerships 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 or brand development that either expand or complement our business.

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

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

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

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

We face risks growing through acquisitions or expansion. 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 franchises or renew the franchise or dealer agreement on terms acceptable to us; and

· incorrectly valuing entities to be acquired or assessing markets entered.

We may not adequately anticipate all of the demands that growth will impose on our business.

We may not be able to execute our growth strategy without the costs escalating.

We have grown our business primarily through acquisitions in the past. 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 or growth opportunities will depend upon various factors, including:

· the availability of suitable acquisition candidates;
· competition with other dealer groups or institutional investors for suitable acquisitions;
· the negotiation of acceptable terms with the seller and with the manufacturer;
· our financial capabilities and ability to obtain financing on acceptable terms;
· 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 some of 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.

Risks Related to the Automotive Retail Industry

Our operations are subject to extensive governmental laws and regulations. If we are found to be in violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.

The automotive retail industry, including our facilities and operations, is subject to a wide range of federal, state, and local laws and regulations, such as those relating to motor vehicle sales, retail installment sales, leasing, sales of finance, insurance and vehicle protection products, licensing, consumer protection, consumer privacy, employment practices, escheatment, anti-money laundering, environmental, vehicle emissions and fuel economy, and health and safety. With respect to motor vehicle sales, retail installment sales, leasing, and the sale of finance, insurance, and vehicle protection products at our stores, we are subject to various laws and regulations, the violation of which could subject us to consumer class action or other lawsuits or governmental investigations and adverse publicity, in addition to administrative, civil, or criminal sanctions. With respect to employment practices, we are subject to various laws and regulations, including complex federal, state, and local wage and hour and anti-discrimination laws. We are also subject to lawsuits and governmental investigations alleging violations of these laws and regulations, including purported class action lawsuits, which could result in significant liability, fines, and penalties. The violation of other laws and regulations to which we are subject also can result in administrative, civil, or criminal sanctions against us, which may include a cease and desist order against the subject operations or even revocation or suspension of our license to operate the subject business, as well as significant liability, fines, and penalties. We currently devote significant resources to comply with applicable federal, state, and local regulation of health, safety, environmental, zoning, and land use regulations, and we may need to spend additional time, effort, and money to keep our operations and existing or acquired facilities in compliance. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able to satisfy them. Failure to comply with applicable laws and regulations may have an adverse effect on our business, results of operations, financial condition, cash flows, and prospects.

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The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the "CFPB"), a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In March 2013, the CFPB issued supervisory guidance highlighting its concern that the practice of automotive dealers being compensated for arranging customer financing through discretionary markup of wholesale rates offered by financial institutions ("dealer markup") results in a significant risk of pricing disparity in violation of The Equal Credit Opportunity Act (the "ECOA"). The CFPB recommended that financial institutions under its jurisdiction take steps to ensure compliance with the ECOA, which may include imposing controls on dealer markup, monitoring and addressing the effects of dealer markup policies, and eliminating dealer discretion to markup buy rates and fairly compensating dealers using a different mechanism that does not result in disparate impact to certain groups of consumers. In addition, we expect that the Patient Protection and Affordable Care Act (the "Affordable Care Act"), which was signed into law on March 23, 2010, will continue to increase our annual employee health care costs that we fund and has increased our cost of compliance and compliance risk related to offering health care benefits.

Furthermore, we expect that new laws and regulations, particularly at the federal level, in other areas may be enacted, which could also materially adversely impact our business. The labor policy of the current administration could lead to increased unionization efforts, which could lead to higher labor costs, disrupt our store operations, and adversely affect our results of operations.

Climate change legislation or regulations restricting emission of "greenhouse gases" could result in increased operating costs and reduced demand for the vehicles we sell.

The United States Environmental Protection Agency ("EPA") has adopted rules under existing provisions of the federal Clean Air Act that require a reduction in emissions of greenhouse gases from motor vehicles, require certain construction and operating permit reviews for greenhouse gas emissions from certain large stationary sources, and require monitoring and reporting of greenhouse gas emissions from specified sources on an annual basis. The adoption of any laws or regulations requiring significant increases in fuel economy requirements or new federal or state restrictions on emissions of greenhouse gases from our operations or on vehicles and automotive fuels in the United States could adversely affect demand for those vehicles and require us to incur costs to reduce emissions of greenhouse gases associated with our operations.

Increasing competition among automotive retailers and the use of the internet reduces our profit margins on vehicle sales and related businesses.

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. We typically rely on advertising, merchandising, sales expertise, customer service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if laws permit manufacturers 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.

Moreover, customers are using the internet to compare pricing for vehicles and related F&I services, which may further reduce margins for new and used vehicles 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 dealership 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 and dealer 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.

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.

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RISK FACTORS

Our dealers depend upon new 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. Our new vehicle sales operations are comprised primarily of luxury and mid-line import brands, which exposes us to manufacturer concentration risks. Although our parts and service operations and used vehicle sales may serve to offset some of this risk, changes in automobile manufacturers' vehicle models and customer demand for particular vehicles may have a material adverse effect on our business.

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. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on economic conditions, consumer confidence, the level of discretionary personal income and credit availability. Deterioration in any of these conditions may have a material adverse effect on our retail business, particularly sales of new and used automobiles.

In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury and sport utility vehicle models (which typically provide higher margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

A decline of available financing in the lending market may adversely affect our vehicle sales volume.

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 lenders tighten their credit standards or there is a decline in the availability of credit in the 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 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.

Natural disasters and adverse weather events can disrupt our business.

Our dealerships are concentrated in states and regions in the United States, including California, Florida and Texas, in which actual or threatened natural disasters and severe weather events (such as hurricanes, earthquakes, fires, floods, landslides, and hail storms) may disrupt our store operations, which may adversely impact our business, results of operations, financial condition and cash flows. In addition to business interruption, the automotive retailing business is subject to substantial risk of property loss due to the significant concentration of property values at store locations. Although we have substantial insurance, subject to certain deductibles, limitations, and exclusions, we may be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

In addition, the automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters and adverse weather events may affect the flow of inventory or parts to us or our manufacturing partners. Such disruptions could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

RISK FACTORS

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

We have invested in internal and external business applications to execute our strategy of employing technology to benefit our business. In the ordinary course of business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees. Although we have attempted to mitigate the cyber-security risk of both our internal and outsourced functions by implementing various cyber-security controls, we remain subject to cyber-security risks.

These cyber-security risks include:

- vulnerability to cyber-attack of our internal or externally hosted business applications;
- interruption of service or access to systems may affect our ability to deliver vehicles or complete transactions with customers;
- unauthorized access or theft of customer or employee personal confidential information, including financial information, or strategically sensitive data;
- disruption of communications (both internally and externally) that may affect the quality of information used to make informed business decisions; and
- damage to our reputation as a result of a breach in security that could affect the financial security of our customers.

Moreover, significant technology-related business functions of ours are outsourced, including:

- payroll and human resources management systems, including expense reimbursement management;
- customer relationship management, e-commerce hosting and marketing campaign management;
- dealer management, inventory management and financial reporting systems;
- consumer credit application management, fund transfers/ACH/online banking; and
- IP telephony and WAN/LAN administration (switch & router configuration).

Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, damage our reputation, and cause a loss of confidence in our services, which could materially adversely affect our competitive position, results of operations and financial condition.

General Risks Related to Investing in Our Securities

Concentration of voting power and anti-takeover provisions of our charter, our bylaws, Delaware law and our franchise and dealer agreements may reduce the likelihood of a potential change of control from a third party. At the same time, such voting power concentration also could increase the likelihood of a change of control notwithstanding other factors.

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.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

RISK FACTORS

The holders of Class B common stock (which include O. Bruton Smith, Sonic's Chairman, Chief Executive Officer and Director, his family members and entities they control) currently hold less than a majority of our outstanding common stock, but a majority of our voting power. As a result, the holders of Class B common stock may be able to control fundamental corporate matters and transactions, subject to the above limitations. The concentration of voting power may also discourage, delay or prevent a change of control of us from a third party even if the action was favored by holders of Class A common stock. In addition, a sale or transfer of shares by one or more of the holders of Class B common stock could result in a change of control or put downward pressure on the market price of our Class A common stock. The perception among the public that these sales or transfers will occur could also contribute to a decline in the market price of our 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 2004 Stock Incentive Plan (the "2004 Plan") and 2012 Stock Incentive Plan (the "2012 Plan") become immediately exercisable or automatically vest upon a change in control. Delaware law also makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business combination transaction with the company against its directors' wishes. Finally, restrictions imposed by our franchise and dealer agreements may impede or prevent any potential takeover bid. Our franchise and dealer 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 that 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, there may be provisions of our lending arrangements that create an event of default upon a change in control. These agreements, corporate governance documents and laws may have the effect of discouraging, 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 a material adverse effect on our future business, 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.

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

RISK FACTORS

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, franchise or dealer agreements may require the prior approval of the applicable manufacturer before any change is made in dealership general managers. We do not have employment agreements with most 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.

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

Mr. O. Bruton Smith serves as the chairman and chief executive officer of SMI. Accordingly, we compete with SMI 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.

Six of our dealership subsidiaries in Northern California currently make fixed-dollar contributions to the Automotive Industries Pension Plan (the “AI Pension Plan”) pursuant to collective bargaining agreements between our subsidiaries and the International Association of Machinists (the “IAM”) and the International Brotherhood of Teamsters (the “IBT”). 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 six dealership subsidiaries are among approximately 200 employers that make contributions to the AI Pension Plan pursuant to collective bargaining agreements with the IAM and IBT. In March 2008, the AI Pension Plan’s actuary, in accordance with the requirements of the federal Pension Protection Act of 2006, issued a certification that the AI Pension Plan is in Critical Status effective with the plan year commencing January 1, 2008. In conjunction with the AI Pension Plan’s Critical Status, the Board of Trustees of the AI Pension Plan implemented a requirement on all participating employers to increase employer contributions to the AI Pension Plan for a seven-year period commencing in 2013. Under applicable federal law, any employer contributing to a multi-employer 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. 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: Management's Discussion and Analysis of Financial Condition and Results of Operations – Use of Estimates and Critical Accounting Policies," management relies on estimates in various areas of accounting and financial reporting. For example, our estimates for finance, insurance and service contracts and insurance reserves are based on historical experience and assumptions. Differences between actual results and our historical experiences and/or our assumptions could have a material impact on our earnings in the period of the change and in periods subsequent to the change.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

RISK FACTORS

Our internal control over financial reporting may not be effective.

If we fail to maintain the adequacy of our internal controls, including any failure to implement or difficulty in implementing required new or improved controls, our business and results of operations could be harmed, the results of operations we report could be subject to adjustments, we could incur remediation costs, we could fail to be able to provide reasonable assurance as to our financial results or the effectiveness of our internal controls, or fail to meet our reporting obligations under SEC regulations and the terms of our debt agreements on a timely basis and there could be a material adverse effect on the price of our Class A common stock.

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

Pursuant to applicable accounting pronouncements, we evaluate 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 “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations—Use of Estimates and Critical Accounting Policies.” If we determine that the amount of our goodwill is impaired at any point in time, we are required to reduce goodwill on our balance sheet. If goodwill is impaired based on a future impairment test, we will be required to record a significant non-cash impairment charge that may also have a material adverse effect on our results of operations for the period in which the impairment of goodwill occurs. As of December 31, 2014, our balance sheet reflected a carrying amount of approximately $475.9 million in goodwill.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties.

Our principal executive offices are located at a property owned by us at 4401 Colwick Road, Charlotte, North Carolina, 28211, and our telephone number is (704) 566-2400.

Our dealerships are generally located along major United States or interstate highways. One of the principal factors we consider in evaluating a potential acquisition is its location. We prefer to acquire dealerships or build dealership facilities located along major thoroughfares, which can be easily visited by prospective customers.

We lease the majority of the properties utilized by our dealership operations from affiliates of Capital Automotive REIT and other individuals and entities. Under the terms of our franchise and dealer agreements, each of our dealerships must maintain an appropriate appearance and design of its dealership facility and is restricted in its ability to relocate. The properties utilized by our dealership operations that are owned by us or one of our subsidiaries are pledged as security for our 2014 Credit Facilities or mortgage financing arrangements. We believe that our facilities are adequate for our current needs.

Item 3: Legal Proceedings.

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. Similarly, except as reflected in reserves we have provided for in other accrued liabilities and other long-term liabilities in the accompanying Consolidated Balance Sheets, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings. 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. Included in other accrued liabilities and other long-term liabilities at December 31, 2014 was approximately $2.0 million and $0.3 million, respectively, in reserves that we were holding for pending proceedings.

Item 4: Mine Safety Disclosures.

Not applicable.

PART II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Class A common stock is currently traded on the NYSE under the symbol "SAH." Our Class B common stock is not traded on a public market.

As of February 18, 2015, there were 38,905,340 shares of our Class A common stock and 12,029,375 shares of our Class B common stock outstanding. As of February 18, 2015, there were 82 record holders of the Class A common stock and four record holders of the Class B common stock. The closing stock price for the Class A common stock on February 18, 2015 was $25.60.

Our Board of Directors approved four quarterly cash dividends on all outstanding shares of common stock totaling $0.10 per share during each of the years ended December 31, 2014, 2013 and 2012. Subsequent to December 31, 2014, our Board of Directors approved a cash dividend on all outstanding shares of common stock of $0.025 per share for stockholders of record on March 13, 2015 to be paid on April 15, 2015. The declaration and payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historic and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered by our Board of Directors to be relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, "Long-Term Debt," to the accompanying Consolidated Financial Statements and "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," for additional discussion of dividends and for a description of restrictions on the payment of dividends.

The following table sets forth the high and low closing sales prices for our Class A common stock for each calendar quarter during the periods indicated as reported by the NYSE Composite Tape and the dividends declared during such periods:

	Market Price		
	High	Low	Cash Dividend Declared
2014			
Fourth Quarter	$27.64	$21.86	$ 0.025
Third Quarter	$27.81	$23.28	$ 0.025
Second Quarter	$27.17	$22.72	$ 0.025

First Quarter	$24.31	$21.33	$ 0.025
2013			
Fourth Quarter	$24.69	$21.78	$ 0.025
Third Quarter	$24.60	$21.19	$ 0.025
Second Quarter	$23.91	$20.11	$ 0.025
First Quarter	$25.15	$21.51	$ 0.025

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Issuer Purchases of Equity Securities

The following table sets forth information about the shares of Class A common stock we repurchased during the fourth quarter ended December 31, 2014:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
	(In thousands, except per share data)			
October 2014	588	$ 22.98	588	$ 79,487
November 2014	-	-	-	79,487
December 2014	-	-	-	79,487
Total	588	$ 22.98	588	$ 79,487

(1) All shares repurchased were part of publicly announced share repurchase programs.
(2) Our active publicly announced Class A common stock repurchase authorization plans do not have an expiration date and current remaining availability is as follows:

	(In thousands)
February 2013 authorization	$ 100,000
Total active plan repurchases prior to December 31, 2014	(20,513)
Current remaining availability as of December 31, 2014	$ 79,487

Item 6: Selected Financial Data.

This selected consolidated financial data should be read in conjunction with “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our Consolidated Financial Statements the results of operations of these dealerships prior to the date we acquired them. Our selected consolidated financial data reflect the results of operations and financial positions of each of our dealerships acquired prior to December 31, 2014. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in the selected consolidated financial data is not necessarily indicative of the results of our operations and financial position in the future or the results of our operations and financial position that would have resulted had such acquisitions occurred at the beginning of the periods presented in the selected consolidated financial data.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In millions, except per share data)				
Income Statement Data (1):					
Total revenues	$9,197.1	$8,843.2	$8,365.5	$7,520.8	$6,578.1
Impairment charges	$6.6	$9.9	$0.4	$0.2	$0.2
Income (loss) from continuing operations before taxes	$161.7	$129.0	$141.2	$133.3	$83.1
Income (loss) from continuing operations	$98.6	$84.7	$91.3	$81.5	$98.9
Basic earnings (loss) per share from continuing operations	$1.89	$1.60	$1.68	$1.54	$1.88
Diluted earnings (loss) per share from continuing operations	$1.87	$1.59	$1.56	$1.37	$1.62
Balance Sheet Data (1):					
Total assets	$3,183.1	$3,051.2	$2,776.7	$2,335.2	$2,250.8
Current maturities of long-term debt	$30.8	$18.2	$18.6	$11.6	$9.1
Total long-term debt	$773.4	$748.4	$629.4	$547.6	$555.5
Total long-term liabilities (including long-term debt)	$900.2	$861.2	$744.6	$673.2	$689.5
Cash dividends declared per common share	$0.10	$0.10	$0.10	$0.10	$0.025

(1) As discussed in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity
and Capital Resources,” and Notes 2, 5, 6 and 16 to the accompanying Consolidated Financial Statements, impairment charges,
business combinations and dispositions and debt refinancings have had a material impact on our reported historical
consolidated financial information.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

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

Item 7: 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 Consolidated Financial Statements and the related Notes thereto appearing elsewhere in this Annual Report on Form 10-K. The financial and statistical data contained in the following discussion for all periods presented reflects our December 31, 2014 classification of dealerships between continuing and discontinued operations in accordance with "Presentation of Financial Statements" in the Accounting Standards Codification (the "ASC").

Except to the extent that differences among operating segments are material to an understanding of our business taken as a whole, we present the discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations on a consolidated basis.

2014 Events

On July 23, 2014, Sonic entered into an amendment to the 2011 Credit Facilities, which among other changes (i) extended the maturity to August 15, 2019 from a previous maturity date of August 15, 2016, (ii) increased by $50.0 million the availability under the 2011 Revolving Credit Facility to $225.0 million, and (iii) increased by $195.0 million the availability under the 2011 Floor Plan Facilities to $800.0 million, resulting in an aggregate increase of availability under the 2011 Credit Facilities of $245.0 million. See Note 6, "Long-Term Debt," to the accompanying Consolidated Financial Statements for further discussion of the amendment to the 2011 Credit Facilities.

During the year ended December 31, 2014, we acquired two luxury franchises, one mid-line import franchise and one domestic franchise for a combined purchase price of $50.9 million in cash, net of cash acquired, including the underlying assets and real estate, and disposed of nine dealership franchises which generated net cash from disposition of approximately $74.8 million. See Note 2, "Business Acquisitions and Dispositions," to the accompanying Consolidated Financial Statements for further discussion.

As we announced during the fourth quarter of 2013, we planned to augment our manufacturer-franchised dealership operations with stand-alone pre-owned specialty retail sales locations branded as EchoPark®. Our EchoPark® business operates independently from the existing new and used dealership sales operations and offers customers an exciting shopping and buying experience. The first market is located in Denver, Colorado, and sales operations began in the fourth quarter of 2014.

In the fourth quarter of 2013, we also announced our customer experience initiative known as "One Sonic-One Experience." This initiative includes several new processes and proprietary technologies from inventory management and pricing tools to a fully developed "customer-centric" Customer Relationship Management ("CRM") tool. The development of these processes and tools will allow us to better serve our customers across our entire platform of stores. Our goal is to allow our guests to control the buying process and move at their pace so that once the vehicle has been selected our team can utilize these processes and technologies to allow our guests to complete a new or pre-owned vehicle sales transaction in less than an hour. During the third and fourth quarters of 2014, we began rolling out the One Sonic-One Experience initiative at our dealerships in Charlotte, North Carolina.

Overview

We are one of the largest automotive retailers in the United States, as measured by total revenues. As of December 31, 2014, we operated 118 franchises in 13 states (representing 25 different brands of cars and light trucks) and 19 collision repair centers. For management and operational reporting purposes, we group certain franchised dealerships together that share management and inventory (principally used vehicles) into “stores.” As of December 31, 2014, we operated 100 stores. We also operated two pre-owned stores under our EchoPark® brand at December 31, 2014.

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 warranties, service contracts, financing, insurance and other aftermarket products for our customers. Although vehicle sales and sales of associated finance, insurance and other aftermarket products are cyclical and are affected by many factors, including overall 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 of the way we manage our business, as of December 31, 2014, we had two operating segments: Franchised Dealerships and EchoPark®. The Franchised Dealerships segment is comprised of traditional retail automotive franchises that sell new and used vehicles, replacement parts and vehicle repair and maintenance services, and finance and insurance products. The EchoPark® segment is comprised of stand-alone pre-owned specialty retail locations that provide customers with a new, unique way to search, buy, service and sell their pre-owned vehicles.

The United States retail automotive industry’s new vehicle seasonally adjusted annual rate of sales (“SAAR”) in 2014 increased by 5.8%, to 16.4 million vehicles, from 15.5 million vehicles in 2013, according to Bloomberg Financial Markets, via Stephens Inc. From an industry perspective, new vehicle unit sales on a year-over-year basis increased 5.8% for import brands and 6.0% for domestic brands. For 2015, analysts’ average industry expectation for new vehicle SAAR is approximately 16.75 million vehicles, an increase of 2.1% from the SAAR in 2014. We estimate the 2015 new vehicle SAAR will be between 16.5 million and 17.0 million vehicles. Changes in consumer confidence, availability of consumer financing or changes in the financial stability of the automotive manufacturers could cause actual 2015 new vehicle SAAR to vary from expectations. Many factors such as brand and geographic concentrations have caused our past results to differ from the industry’s overall trend, as well as the industry sales mix between new retail and fleet vehicle sales volume.

Results of Operations

The following table summarizes the percentages of total revenues represented by certain items reflected in our Consolidated Statements of Income:

	Percentage of Total Revenue Year Ended December 31,		
	2014	2013	2012
Revenues:			
New vehicles	55.7 %	56.4 %	56.4 %
Used vehicles	25.1 %	24.6 %	24.5 %
Wholesale vehicles	1.8 %	2.0 %	2.2 %
Parts, service and collision repair	14.1 %	13.9 %	13.9 %
Finance, insurance and other, net	3.3 %	3.1 %	3.0 %
Total revenues	100.0%	100.0%	100.0%
Cost of Sales (1)	85.1 %	85.3 %	85.2 %
Gross profit	14.9 %	14.7 %	14.8 %
Selling, general and administrative expenses	11.6 %	11.3 %	11.3 %
Impairment charges	0.1 %	0.1 %	0.0 %
Depreciation and amortization	0.7 %	0.6 %	0.6 %
Operating income (loss)	2.5 %	2.7 %	2.9 %
Interest expense, floor plan	0.2 %	0.2 %	0.2 %
Interest expense, other, net	0.6 %	0.6 %	0.7 %
Other (income) expense, net	(0.1 %)	0.4 %	0.3 %
Income (loss) from continuing operations before taxes	1.8 %	1.5 %	1.7 %

Provision for income taxes - (benefit) expense	0.7	%	0.5	%	0.6	%
Income (loss) from continuing operations	1.1	%	1.0	%	1.1	%

(1) The cost of sales line item includes the cost of new and used vehicles, vehicle parts and all costs directly linked to servicing customer vehicles.

We disposed of nine dealership franchises during the year ended December 31, 2014, and we had no dealerships held for sale as of December 31, 2014. The results of operations of these stores are included in continuing operations on the accompanying Consolidated Statements of Income for all periods presented. See Note 1, “Description of Business and Summary of Significant Accounting Policies,” for a discussion of our early adoption of Accounting Standards Update (“ASU”) 2014-08. We did not dispose of any dealership franchises during the year ended December 31, 2013. We terminated or disposed of 15 dealership franchises during the year ended December 31, 2012. The results of operations of the dealership franchises terminated or disposed of during the year ended December 31, 2012, including gains or losses on disposition, are included in discontinued operations on the accompanying Consolidated Statements of Income for all periods presented.

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Unless otherwise noted, all discussion of increases or decreases are compared to the same prior year period, as applicable. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair and finance, insurance and other are on a same store basis, except where otherwise noted. All continuing operations stores are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition. During the year ended December 31, 2014, we acquired one mid-line import franchise, one domestic franchise and two luxury franchises which are included in reported figures but are excluded from same store reporting. During the year ended December 31, 2013, we acquired two luxury franchise operations which are included in both reported figures and same store reporting for 2014 compared to 2013, but are excluded from same store reporting for 2013 compared to 2012. There were no franchise acquisitions during the year ended December 31, 2012.

New Vehicles

New vehicle revenues include the sale of new vehicles to retail customers, as well as the sale of fleet vehicles. New vehicle revenues can be influenced by manufacturer incentives for consumers, which vary from cash-back incentives to low interest rate financing. New vehicle revenues are also dependent on manufacturers providing adequate vehicle allocations to our dealerships to meet customer demands and the availability of consumer credit.

The automobile manufacturing industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. As an automotive retailer, we seek to mitigate the effects of this cyclicality by maintaining a diverse brand mix of dealerships. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower priced, or economy vehicles, to luxury vehicles. For the year ended December 31, 2014, 86.8% of our new vehicle revenue was generated by mid-line import and luxury dealerships, compared to 84.5% and 85.0% for the years ended December 31, 2013 and 2012, respectively.

The automobile retail industry uses the SAAR to measure the amount of new vehicle unit sales activity (both retail and fleet sales) within the United States market. The SAAR reflects a blended average of all brands marketed or sold in the United States market, and includes brands we do not sell and markets in which we do not operate. The SAAR amounts below represent actual new vehicle units sold in the United States for each respective year.

	Year Ended December 31,			Year Ended December 31,		
(in millions of vehicles)	2014	2013	% Change	2013	2012	% Change

SAAR	16.4	15.5	5.8	%	15.5	14.4	7.6	%

Source: Bloomberg Financial Markets, via Stephens Inc.

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According to public sources, average industry volume expectations for the year ending December 31, 2015 are approximately 16.75 million vehicles, which would be an increase of approximately 2.1% from the industry volume for the year ended December 31, 2014. Following is information related to our new vehicle sales:

	Year Ended December 31,		Better / (Worse)	
	2014	2013	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$5,124,029	$4,989,185	$134,844	2.7 %
Gross profit	$288,626	$289,603	$(977)	(0.3 %)
Unit sales	138,417	138,274	143	0.1 %
Revenue per unit	$37,019	$36,082	$937	2.6 %
Gross profit per unit	$2,085	$2,094	$(9)	(0.4 %)
Gross profit as a % of revenue	5.6 %	5.8 %	(20)	bps

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$4,989,185	$4,715,924	$273,261	5.8 %
Gross profit	$289,603	$278,349	$11,254	4.0 %
Unit sales	138,274	134,564	3,710	2.8 %
Revenue per unit	$36,082	$35,046	$1,036	3.0 %
Gross profit per unit	$2,094	$2,069	$25	1.2 %
Gross profit as a % of revenue	5.8 %	5.9 %	(10)	bps

	Year Ended December 31,		Better / (Worse)	
	2014	2013	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$4,953,201	$4,818,937	$134,264	2.8 %
Gross profit	$278,938	$280,225	$(1,287)	(0.5 %)

Unit sales	134,059	133,578	481	0.4 %
Revenue per unit	$36,948	$36,076	$872	2.4 %
Gross profit per unit	$2,081	$2,098	$(17)	(0.8 %)
Gross profit as a % of revenue	5.6 %	5.8 %	(20)	bps

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$4,788,373	$4,563,012	$225,361	4.9 %
Gross profit	$277,900	$271,210	$6,690	2.5 %
Unit sales	133,023	130,317	2,706	2.1 %
Revenue per unit	$35,997	$35,015	$982	2.8 %
Gross profit per unit	$2,089	$2,081	$8	0.4 %
Gross profit as a % of revenue	5.8 %	5.9 %	(10)	bps

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Implementation of our True Price® strategy was rolled out throughout the year ended December 31, 2013. True Price® provides consumers with market-based pricing to create transparency and limit negotiation. This strategy requires different processes to be followed in order to price our vehicles effectively to increase our retail vehicle unit volume and total gross profit. We believe that the initial transition to this new strategy contributed to lower retail vehicle unit sales volume and gross profit per unit (as compared to the industry results) as we continue to test our new car pricing model.

In the fourth quarter of 2013, we also announced our customer experience initiative known as "One Sonic-One Experience," discussed under the heading "Business Strategy - Customer Experience Initiative" under "Item 1: Business." As we move toward our national One Sonic-One Experience launch we believe we will become more aggressive in pricing as well as gain market share as customers benefit from the entire complement of our new shopping experience.

2014 Compared to 2013

The increase in new vehicle revenue for the year ended December 31, 2014 was driven by a 0.4% increase in our new unit sales volume and a 2.4% increase in our new vehicle price per unit as compared to the prior year. Our increase in new unit sales lagged the industry new unit sales volume increase of 5.8% compared to the prior year, due primarily to differences in brand mix between our dealership portfolio and the industry, particularly impacted by brands which we do not sell. Excluding fleet volume, our retail new vehicle volume growth increased 3.1% during the year ended December 31, 2014. The incremental unit sales volume contributed to additional F&I gross profit for the year ended December 31, 2014, discussed under the heading "Finance, Insurance and Other, Net ("F&I")" below.

Our new retail unit volume increase for the year ended December 31, 2014 was led by our luxury brands, which experienced a new retail volume increase of 6.5%. Luxury brand retail vehicle revenue increased 8.1% and associated new retail gross profit increased 4.3% during the year ended December 31, 2014, primarily due to increases in new retail unit volume at our BMW and Audi dealerships. Combined, our BMW and Audi dealerships contributed $5.6 million of additional new vehicle gross profit for the year ended December 31, 2014. Gross profit per luxury unit decreased 2.0% during the year ended December 31, 2014, primarily due to decreases in gross profit per unit at our BMW and Mercedes dealerships.

Our mid-line import dealerships experienced a 0.7% increase in new retail vehicle revenue during the year ended December 31, 2014 and a 1.6% increase in new retail unit volume. The mid-line import retail vehicle revenue increase was driven primarily by new vehicle model mix and price levels at our Honda and Toyota/Scion dealerships, which experienced a 2.3% and 4.4% increase, respectively, in new retail vehicle revenue in the year ended December 31, 2014. Mid-line import new retail gross profit decreased 8.4% during the year ended December 31, 2014 at our mid-line import dealerships, primarily due to decreases in gross profit per retail unit at our Honda and Toyota/Scion dealerships.

Excluding fleet sales, our domestic dealerships experienced a 1.5% increase in new retail vehicle revenue during the year ended December 31, 2014 overcoming a 2.1% decline in new unit volume. New retail vehicle revenue and gross profit at our General Motors ("GM") dealerships (excluding Cadillac) increased 7.7% and 8.2% during the year ended December 31, 2014, respectively. New retail vehicle revenue and gross profit at our Ford dealerships decreased 3.2%

and 12.3%, respectively, during the year ended December 31, 2014. Domestic new retail gross profit per unit decreased 1.3% in the year ended December 31, 2014 due to a 9.2% decrease in gross profit per unit at our Ford dealerships, partially offset by an 8.4% increase at our GM dealerships. Including fleet sales, our domestic dealerships experienced a 12.5% decrease in new vehicle revenue in the year ended December 31, 2014 due primarily to an 18.3% decrease in unit sales volume. The decreases in fleet revenue and unit sales are due to a reduced focus on fleet sales as a result of our operational decision to move away from the low margin fleet business.

2013 Compared to 2012

Our new unit volume increase for the year ended December 31, 2013 was led by our Ford and BMW dealerships, which experienced new retail volume increases of 14.8% and 10.0%, respectively. Gross profit per new retail unit increased 0.5% during the year ended December 31, 2013, primarily due to increases in gross profit per new retail unit at many of our luxury stores, partially offset by declines in gross profit per new retail unit at a number of our mid-line import and domestic stores. Combined, our Mercedes and Land Rover dealerships contributed $8.4 million of additional new retail vehicle gross profit for the year ended December 31, 2013, accounting for the majority of the year-over-year increase.

Total new retail vehicle gross profit dollars increased 2.7% during the year ended December 31, 2013. This increase is due primarily to a shift in brand mix towards our luxury dealerships, which experienced a 6.1% increase in new retail unit sales during the

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year ended December 31, 2013. Our luxury dealerships (which include Cadillac) typically experience higher gross profit margins than our mid-line import or domestic dealerships.

Our luxury dealerships (which include Cadillac) experienced a 7.4% increase in new retail vehicle revenue in the year ended December 31, 2013, compared to the prior year, primarily due to a 6.1% increase in new retail unit sales volume. New retail vehicle gross profit increased 7.8% compared to the prior year, primarily due to increases at our Mercedes, Land Rover, Audi, and Porsche dealerships. Luxury store gross profit per new retail unit increased 1.6% overall during the year ended December 31, 2013, driven primarily by increases in gross profit per new retail unit at our Mercedes and Land Rover dealerships.

Our mid-line import dealerships' new retail vehicle revenue during the year ended December 31, 2013 was flat and new retail gross profit decreased 10.2% during the year ended December 31, 2013. This decline was due in part to higher gross profit per unit in the year ended December 31, 2012 due to reduced inventory availability in Japanese brands.

Excluding fleet sales, our domestic dealerships experienced a 9.8% increase in new retail vehicle revenue, a 4.1% increase in new retail vehicle gross profit and a 6.1% increase in new retail unit sales volume during the year ended December 31, 2013, compared to the prior year. New retail unit sales volume at our Ford dealerships increased 14.8%, driving a 17.8% increase in new retail vehicle revenue and a 14.4% increase in new retail vehicle gross profit. Our General Motors ("GM") dealerships (excluding Cadillac) experienced a 0.7% increase in new retail vehicle revenue in spite of a 3.5% decrease in new retail unit sales volume as a result of increased pricing that drove a 4.4% increase in revenue per unit. These GM dealerships experienced a 6.7% decrease in new retail vehicle gross profit, due to a 3.3% decrease in gross profit per new retail unit and a decrease in new vehicle unit sales volume. Including fleet sales, our domestic dealerships experienced a 9.3% increase in new vehicle revenue in the year ended December 31, 2013 due primarily to a 6.4% increase in unit sales volume. Total fleet revenue and unit sales volume decreased 0.2% and 0.3%, respectively, and fleet gross profit per unit decreased 10.6% compared to the prior year.

Used Vehicles

Used vehicle revenues are directly affected by a number of factors including the level of manufacturer incentives on new vehicles, the number and quality of trade-ins and lease turn-ins, the availability and pricing of used vehicles acquired at auction and the availability of consumer credit. Following is information related to our used vehicle sales:

	Year Ended December 31,		Better / (Worse)
	2014	2013	Change

				% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$2,310,247	$2,176,034	$134,213	6.2 %
Gross profit	$157,246	$150,400	$6,846	4.6 %
Unit sales	110,113	107,054	3,059	2.9 %
Revenue per unit	$20,981	$20,327	$654	3.2 %
Gross profit per unit	$1,428	$1,405	$23	1.6 %
Gross profit as a % of revenue	6.8 %	6.9 %	(10)	bps

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$2,176,034	$2,053,477	$122,557	6.0 %
Gross profit	$150,400	$143,454	$6,946	4.8 %
Unit sales	107,054	102,556	4,498	4.4 %
Revenue per unit	$20,327	$20,023	$304	1.5 %
Gross profit per unit	$1,405	$1,399	$6	0.4 %
Gross profit as a % of revenue	6.9 %	7.0 %	(10)	bps

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	Year Ended December 31,		Better / (Worse)	
	2014	2013	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$2,200,362	$2,085,069	$115,293	5.5 %
Gross profit	$150,990	$144,253	$6,737	4.7 %
Unit sales	105,057	102,597	2,460	2.4 %
Revenue per unit	$20,944	$20,323	$621	3.1 %
Gross profit per unit	$1,437	$1,406	$31	2.2 %
Gross profit as a % of revenue	6.9 %	6.9 %	0	bps

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$2,067,991	$1,968,825	$99,166	5.0 %
Gross profit	$143,038	$137,718	$5,320	3.9 %
Unit sales	102,006	98,080	3,926	4.0 %
Revenue per unit	$20,273	$20,074	$199	1.0 %
Gross profit per unit	$1,402	$1,404	$(2)	(0.1 %)
Gross profit as a % of revenue	6.9 %	7.0 %	(10)	bps

For the years ended December 31, 2014 and 2013, our used vehicle revenue, gross profit and unit volume increased compared to the respective prior years, primarily due to the continued implementation of our standardized used vehicle merchandising process. We believe this process allows us to purchase and price our used vehicles more competitively and market them more effectively than our competition, resulting in higher unit sales volume, overall revenue and overall gross profit levels. We believe we will have the opportunity to increase our used vehicle unit volume, revenue and gross profit as our One Sonic-One Experience initiative matures.

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Wholesale Vehicles

Wholesale vehicle revenues are highly correlated with new and used vehicle retail sales and the associated trade-in volume. Wholesale revenues are also significantly affected by our corporate inventory management policies, which are designed to optimize our total used vehicle inventory. Following is information related to wholesale vehicle sales:

	Year Ended December 31,		Better / (Worse)	
	2014	2013	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$166,158	$175,328	$(9,170)	(5.2%)
Gross profit (loss)	$(3,616)	$(7,931)	$4,315	54.4%
Unit sales	29,946	29,961	(15)	(0.1%)
Revenue per unit	$5,549	$5,852	$(303)	(5.2%)
Gross profit (loss) per unit	$(121)	$(265)	$144	54.3%
Gross profit (loss) as a % of revenue	(2.2%)	(4.5%)	230	bps

	Year Ended December 31,		Better / (Worse)	
	2013	2012	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$175,328	$183,326	$(7,998)	(4.4%)
Gross profit (loss)	$(7,931)	$(5,975)	$(1,956)	(32.7%)
Unit sales	29,961	31,188	(1,227)	(3.9%)
Revenue per unit	$5,852	$5,878	$(26)	(0.4%)
Gross profit (loss) per unit	$(265)	$(192)	$(73)	(38.0%)
Gross profit (loss) as a % of revenue	(4.5%)	(3.3%)	(120)	bps

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	Year Ended December 31,		Better / (Worse)	
	2014	2013	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				