Risk Factors Comparison 2024-02-22 to 2023-02-17 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

Our business, financial condition, results of operations, cash flows and 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 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 and powersports businesses. Such endeavors ~~may~~ involve significant risks and uncertainties, including allocating management resources away from ~~current~~ **our other** 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 growth strategy for our EchoPark business and grow organically may be restricted by our ability to obtain capital, the terms of the instruments governing our long- term debt and the need to obtain consent from manufacturers. 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 certain covenants under the instruments that govern our long- term debt that restrict our ability to issue additional indebtedness, or the need for manufacturer consent to the issuance of equity securities. In recent ~~months~~ **years**, financial markets have experienced **elevated** ~~increases in~~ interest rates, which may make it more difficult for us to obtain financing on attractive terms. Using cash to complete acquisitions **or to invest in our EchoPark expansion plans** could substantially limit our operating and financial flexibility. The amount of capital presently available to us is limited to the liquidity available under our existing debt agreements and cash flows generated through operating activities. Pursuant to the 2021 Credit Facilities (as defined below), we are restricted from making dealership acquisitions without lender consent in any fiscal year if the aggregate cost of all such acquisitions is in excess of certain amounts. Our ability to obtain additional sources of financing may be limited by the fact that substantially all of the assets of our dealerships are pledged to secure the indebtedness under the 2021 Credit Facilities and the Silo Floor Plan Facilities (as defined below). These pledges may impede our ability to borrow from other sources. ~~Our~~ **The** pace and scale of ~~growing~~ **the growth of** our EchoPark **and powersports** ~~business~~ **businesses** may be limited in the event other sources of capital are unavailable. 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 2021 Floor Plan Facilities (as defined below) or the Silo Floor Plan Facilities (collectively, " 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 notes payable 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. We are required to obtain the approval of the applicable manufacturer before we can acquire an additional franchise of that manufacturer. Certain manufacturers also limit the number of its dealerships that we may own in total, the number of dealerships we may own in a particular geographic area, or our national market share of that manufacturer' s sales of new vehicles. 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. 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. SONIC AUTOMOTIVE, INC. RISK FACTORS We may not adequately anticipate all of the demands that growth through strategic acquisitions or brand development will impose or be able to determine the actual financial condition of dealerships we acquire until after we complete the acquisition and take control of the dealerships. Failure to effectively integrate acquired businesses 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 businesses with our existing operations. Our growth strategy has focused on the pursuit of strategic acquisitions or brand development that either expand or complement our business. 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~~ **integrate** the operations and personnel of acquired dealerships; entering new markets with which we are unfamiliar; incurring 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; **failing to** ~~the challenge of retaining~~ --- **retain** or ~~attracting~~ --- **attract** appropriate dealership management personnel; incurring ~~increased~~ **incremental** expenses for **standardized** accounting and computer systems, as well as integration difficulties; failing to obtain a manufacturer' s consent to the acquisition of one or more of its franchises or to renew the franchise or dealer agreement on terms acceptable to us; and incorrectly valuing entities to be acquired or assessing markets entered. 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 due diligence 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 accounting principles generally accepted in the U. S. (" GAAP "). We may not have an accurate understanding of the historical financial condition and performance of our acquired entities **prior to acquisition** . 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 Retail Automotive Industry **.** Our facilities and 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,then our business,operating results,financial condition,cash flows and prospects could suffer.The retail automotive 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 sales of finance,insurance and vehicle protection products at our dealerships and 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 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 ~~environmental~~ 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 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,operating results,financial condition,cash flows and prospects.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 "), ~~an~~ **a new** independent federal agency funded by the U.S.Federal Reserve with broad regulatory powers and limited oversight from the U.S.Congress.Although automotive dealers are generally excluded,the Dodd- Frank Act has led 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.The CFPB has recommended that financial institutions under its jurisdiction take steps to ensure compliance with the Equal Credit Opportunity Act,which may include imposing controls on discretionary markup of wholesale ~~interest~~ rates offered by financial institutions (" 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.Increasing competition among automotive retailers and the use of the internet ~~in automotive retail may reduce~~ **reduces** our profit margins on vehicle sales and related businesses.Automotive 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 and models 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.In addition,our F & I business and other related businesses,which have higher margins than sales of new and used vehicles,are subject to competition from various financial institutions and other third parties.Our revenues and profitability could be materially adversely affected if certain state dealer franchise laws are relaxed to permit ~~automobile~~ manufacturers to **enter the** retail ~~vehicles~~ **market** directly ~~to consumers~~ .Moreover,consumers are using the internet to compare pricing for vehicles and related F & I services ~~and,in some cases,complete a vehicle purchase transaction~~ ,which may further reduce margins for new and used vehicles and profits for related F & I services.If internet- based 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 sales capabilities,which could materially adversely affect our business,financial condition and results of operations.Challenges to the business model of our franchised dealerships from ~~existing automobile~~ manufacturers and the effect of ~~new~~ companies entering into the automotive space may affect our ability to grow or maintain the business over the long term.Large and well- capitalized technology- focused companies have continued to enter into the automotive space in recent years.Companies including,but not limited to,Alphabet Inc.,Amazon.com,Inc.,Apple Inc.,Lucid Group,Inc.,Lyft,Inc.,Rivian Automotive,Inc.,Tesla,Inc.and Uber Technologies,Inc.may challenge the existing automotive manufacturing,retail sales,maintenance and repair,and transportation models.For example,Tesla,Inc.has been challenging state dealer franchise laws in many states with mixed results,but it has achieved success with ~~its direct- to- consumer~~ new vehicle sales business model and its vehicles have been accepted by many consumers,even in states where dealer franchise laws appear to preclude such vehicle sales.In addition,other manufacturers whose new vehicles we sell have recently announced their intentions to implement an " agency " model of direct manufacturer to consumer sales in certain European markets.Although the long- term impact of the participation of vehicle manufacturers in direct sales is undetermined,these other large companies may continue to change consumers' view on how automobiles should be manufactured,equipped,retailed,maintained and utilized in the future.Because these companies have the ability to connect with each individual consumer easily through their existing or future technology platforms,we may ultimately be at a competitive disadvantage in marketing,selling,financing and servicing vehicles.In addition,certain automobile manufacturers have expressed interest in or begun selling directly to customers.The franchised dealer' s participation in that potential future transaction type is unclear and our operations and financial results may be negatively impacted if the role of franchised dealers diminishes.Our dealers depend upon new vehicle sales and,therefore,their success depends in large part upon consumer demand for and manufacturer supply of particular vehicles.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 and powersports businesses may serve to offset some of this risk,changes in automobile manufacturers' vehicle models and consumer demand for particular vehicles may have a material adverse effect on our business.Our business is highly dependent on consumer demand and preferences ~~,including with respect to new technologies such as alternative fuel vehicles~~ .Events such as manufacturer ~~safety~~ recalls and 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.Further,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.In addition,supply chain disruptions and production delays for new vehicles experienced since the onset of the COVID- 19 pandemic have directly impacted new vehicle inventories and sales volume.Further disruptions and delays could impact new vehicle inventory levels and shift or delay demand for particular** vehicles.Our operating results may be materially adversely affected if we do not obtain a sufficient supply of these vehicles on a timely basis ~~or if our inventory mix does not align with consumer demand~~ .Our business is dependent upon access to quality sources of used vehicle inventory.Our business sales and results of operations could be materially adversely affected by obstacles that prevent the efficient acquisition and liquidation of used vehicle inventory.A reduction in the availability of,or access to,sources of desirable,high- quality used vehicle inventory could have a material adverse effect on our business,sales and results of operations at all of our locations.In **2022** ~~recent years~~ ,we ~~have~~ experienced **record** low used vehicle inventory **levels** ~~availability at wholesale auction and from off- lease turn- ins~~ ,which led to an increase in the cost to acquire high- quality used vehicle inventory.To the extent that used vehicle inventory levels remain low ~~(compared to historical levels)~~ and the costs to acquire high- quality inventory remain high,we may experience decreased sales volume and margins on sales of our used vehicle inventory,which may have a material negative impact on our business,results of operations and profitability,particularly in the EchoPark Segment.We obtain a significant percentage of our used vehicle inventory through our proprietary ~~trade- in~~ appraisal system as this sourcing outlet is generally more profitable and more convenient for our guests and potential guests.A significant portion of our used vehicle inventory is sourced through trade- ins for purchases of new vehicles,which remain limited in supply.Accordingly,if we fail to make appraisal offers in line with broader market trade- in offer trends,or fail to recognize those trends,it could adversely affect our ability to acquire used vehicle inventory and increase the risk of loss of business to our competitors.Loss of sale,involving trades and insufficient levels of inventory,could also force us to purchase a greater percentage of used vehicle inventory from third- party ~~wholesale~~ auctions,which is generally less profitable due to high bidding costs and additional costs associated with transporting the acquired used vehicles to our store locations.Our inability to source high- quality used vehicle inventory from third- party auctions could reduce the demand for our used vehicle inventory offerings.See " Increasing competition among automotive retailers and the use of the internet ~~in automotive retail may reduce~~ **reduces** our profit margins on vehicle sales and related businesses " above in this " Item 1A.Risk Factors " for further discussion.Used vehicle inventory is subject to depreciation risk.Accordingly,if we develop excess inventory,the inability to liquidate such inventory at prices **that allow us to meet desirable profit margins or to recover our costs could have a material adverse effect on our results of operations** Our business is dependent on global supply chains that could be adversely affected by natural and man- made disasters, including the effects of pandemics like the COVID- 19 pandemic. The automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from widespread public health crises, armed conflict, natural disasters, adverse weather and other events may affect the flow of new vehicle or parts inventory to us or our manufacturing partners. **Such events could** ~~Beginning in 2020, the worldwide spread of COVID- 19 led~~ **lead** to widespread reductions in travel and economic activity, including automobile manufacturing and supply chain disruptions and production delays. ~~These supply~~ **Supply** chain disruptions and production delays ~~continued~~ **similar to those experienced** in ~~2022 and~~ **recent years could** significantly ~~impacted~~ -- **impact** the supply of new vehicles, parts and accessories that we sell. In addition, these ~~disruption~~ **disruptions** and delays **could** ~~led~~ **lead** to low new and used vehicle inventory levels ~~through much of 2022,~~ which **could** ~~led~~ **lead** to increases in the sales prices and costs to acquire new and used vehicles. **Although the supply chain is recovering from the effects of the COVID- 19 pandemic, these disruptions and delays continue to affect new and used vehicle inventory supply.** We expect ~~that~~ low levels of inventory due to supply chain disruptions and production delays will ~~begin~~ **continue** to **affect our operations in** ~~improve as early as the first half of 2023~~ **2024** . The extent to which these **historical** supply chain disruptions and production delays continue to impact our business depends on the effectiveness of actions taken globally **by our manufacturing partners and [others in] their supply chain** , which are highly uncertain and unpredictable.

Any resulting operational or financial impact cannot be reasonably estimated at this time, but may materially adversely affect our business, financial condition, results of operations and cash flows. We also cannot reasonably predict the timing or magnitude of impacts to our business due to any economic recession or depression that may develop or related economic challenges, including higher inflation or **further** increases in interest rates . Our facilities and operations are subject...... adverse effect on our results of operations . A decline of available financing or rising financing costs in the consumer automotive lending market may adversely affect our vehicle unit sales volume. A significant portion of vehicle buyers 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 fourth quarter of 2022~~ **2023** , higher consumer retail automotive lending rates negatively impacted finance and insurance product penetration rates and **the negative impact to affordability reduced** new and used retail unit volumes industry- wide. In the event that interest rates rise further, lenders tighten their credit standards, or there is a decline in the availability of credit in the consumer lending market, the costs of financing could influence consumer buying decisions and the ability of 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 U. S. As a result, our operations are subject to risks of importing merchandise, including fluctuations in the relative values of currencies, import duties or tariffs, exchange controls, trade restrictions, work stoppages, supply chain disruptions or production delays, inflation, increases in interest rates, and general political and socioeconomic conditions in other countries. In addition, armed conflict and increased international political or economic instability may cause disruptions to foreign and domestic supply chains and manufacturing operations — including as a result of economic sanctions imposed by the U. S. — or result in price increases that adversely impact automotive manufacturers or our new vehicle business. The U. S. 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, which may negatively affect affordability to consumers of certain new vehicles and reduce demand for certain vehicle makes and models. Changes in ~~customer~~ **consumer** demand toward fuel- efficient plug- in hybrid electric vehicles and battery electric vehicles, and resulting shifts by manufacturers to meet demand, could disrupt our ongoing business or have a material adverse effect on our overall business and results of operations. Variability in ~~customer~~ **consumer** behavior, including volatile fuel prices and initiatives to increase the use of fuel- efficient and electric vehicles, has affected and may continue to affect ~~customer purchases of~~ **consumer preferences for** new and used vehicles. Manufacturers have also announced increased production focus on the manufacture of fuel- efficient plug- in hybrid electric vehicles (" PHEVs ") and battery electric vehicles (" BEVs "). The rate at which our customers will demand such vehicles, as well as the ability of manufacturers to accurately predict and meet such demand, is dependent on various factors. The inability of manufacturers to produce such vehicles ~~to meet~~ **at levels consistent with the overall level of** customer demand **actually experienced** , or our inability to ~~maintain adequate vehicle inventories to meet demand or~~ tailor our ~~selling plans~~ **inventory levels and sales practices** to meet fluctuations in demand for these vehicles, could disrupt our ongoing business or have a material adverse effect on our overall business and results of operations. **In the future,** ~~Certain~~ **certain** PHEVs and BEVs may require less frequent or less costly maintenance and repairs than traditional internal combustion engine vehicles due to their mechanical design and features. In addition, advances in technology by manufacturers and their suppliers and their continued research and development investments have contributed to a general increase in the overall reliability, longevity and efficiency of automobiles. The long- term effects of increased market share for PHEVs and BEVs are uncertain and may include reduced maintenance and repairs revenues, changes in manufacturer warranties and complimentary maintenance programs from which we realize parts, service and collision repair revenues, and changes in the level of sales or profitability of certain warranty and maintenance products we offer our customers. To the extent that the market share for PHEVs, BEVs and other non- internal combustion engine vehicles increases rapidly or such vehicles comprise a significant percentage of new or used vehicles being sold or operated nationwide, we may experience a disruption in our parts, service and collision repair revenues or revenues from certain warranty and maintenance products that we sell, any of which could have a material adverse effect on our overall business and results of operations. 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 franchised 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. 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~~ **awards** franchises to others in the same markets where we operate or if existing franchised dealers increase their market share in our markets. 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. In recent years, certain manufacturers whose new vehicles we sell have announced plans to develop an " agency " model of selling new vehicles in certain European markets, which is intended to facilitate sales directly by the manufacturer to the customer, using the existing franchised dealership as a logistics and delivery partner. Under currently proposed agency models, our franchised dealerships would receive a fee or similar compensation for facilitating the sale by the manufacturer of a new vehicle, but the purchased new vehicle would not be held in inventory. The timing and extent of implementation and relative success of agency sales models in European markets ~~is~~ **are** uncertain and difficult to predict. Further, it is difficult to predict whether such a model may be adopted by manufacturers or permitted by state laws in the U. S. Adoption of this sales model by manufacturers in the geographic markets in which we operate could 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 or facility requirements may adversely affect our profitability and our ability to acquire new dealerships. A manufacturer may condition its allotment of vehicles, our participation in bonus programs or our 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. 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, and financial and sales performance standards may be considered as factors 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 or performance standards in the future. A manufacturer may refuse to consent to our 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 **franchise** laws are repealed or weakened, our dealerships ~~will~~ **may** be more susceptible to termination, non- renewal or renegotiation of their franchise and dealer agreements. State dealer **franchise** 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 **franchise** laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer' s criteria within the notice period to avoid the termination or non- renewal. **Certain automobile** ~~Manufacturers~~ **manufacturers** ' lobbying efforts may lead to the repeal or revision of state dealer **franchise** laws. If dealer **franchise** laws are repealed or weakened 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 **franchise** 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~~ **negatively** impact our revenues and / or profitability. In addition, current state dealer **franchise** 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 **directly to consumers** and **choose to** 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 reduce or discontinue their incentive programs. Our dealerships depend on the manufacturers for certain sales incentives or employee pricing promotions, vehicle warranties, customer rebates, new and used vehicle financing or leasing incentives, dealer incentives on new vehicles, manufacturer floor plan interest and advertising assistance, and sponsorship of CPO vehicle sales by authorized new vehicle dealers that are intended to promote and support dealership new vehicle sales. Manufacturers routinely modify their incentive programs in response to changing market conditions. 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 **- affiliated** ~~captives~~ - **captive finance companies** 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 or lease of a new or used vehicle is the manufacturer **- affiliated** 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 or lease underwriting criteria to alter the risk profile of their loan or lease portfolio or as a result of changes in interest rates or projected vehicle residual values. A limitation or reduction of available consumer financing for these or other reasons could affect consumers' ability to purchase or lease a vehicle and, thus, could have a material adverse effect on our sales volume. Any deterioration of our relationship with the particular manufacturer- affiliated **captive** finance source could adversely affect our relationship with the affiliated manufacturer, and vice versa. 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 ~~2022~~ **2023** , approximately ~~14~~ **13** . ~~7~~ **9** % of our Fixed Operations revenues was for work covered by manufacturer warranties and complimentary maintenance programs. To the extent a manufacturer reduces the labor rates or markup of replacement parts for such warranty repair work, our Fixed Operations revenues 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, production capabilities, management, labor relations or increased labor costs, or negative publicity or reputation impacts concerning a particular manufacturer or vehicle model. 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 due to supply chain disruptions or other delays, which may occur during critical periods of new product introductions, could limit sales of those vehicles during those periods. ~~We experienced such delays in 2022 and currently expect such delays to improve in 2023.~~ Adverse conditions affecting these and other important aspects of manufacturers' operations and public ~~relations~~ **perception** 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. 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. Consumer demand for such manufacturer' s products could be substantially reduced and such manufacturer may be relieved of its indemnification obligations with respect to product liability claims. In addition, 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 and a manufacturer that acts as a lender could attempt to terminate our floor plan financing and demand repayment of any amounts outstanding. We may be unable to arrange financing for our guests 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. 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 and 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 to issue additional equity. ~~Some~~ **Certain** 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. 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, ~~2022~~ **2023** , our total outstanding indebtedness was approximately $ 3. ~~0~~ **3** billion, which includes floor plan notes payable, long- term debt and short- term debt. We have up to $ 350. 0 million of maximum borrowing availability under an amended and restated syndicated revolving credit facility (the " 2021 Revolving Credit Facility ") and up to $ 2. 6 billion of maximum borrowing availability for combined syndicated new and used vehicle inventory floor plan financing (the " 2021 Floor Plan Facilities " and, together with the 2021 Revolving Credit Facility, the " 2021 Credit Facilities "). As of December 31, ~~2022~~ **2023** , we had approximately $ ~~292~~ **298** . ~~9~~ **6** million available for additional borrowings under the 2021 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 the 2021 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 have capacity to finance new and used vehicle inventory purchases under floor plan agreements with various manufacturer- affiliated **captive** finance companies and other lending institutions (the " Silo Floor Plan Facilities ") as well as the 2021 Floor Plan Facilities. ~~We have up to~~ **As of December 31, 2023, we had approximately** $ ~~500~~ **173** . 0 million of ~~maximum borrowing commitment~~ **total remaining availability** under our delayed draw- term loan credit agreement entered into in November 2019 (the ~~"~~ **"** 2019 Mortgage Facility ~~"~~ **"**) ~~,~~ **based on the borrowing base calculation** which varies in borrowing limit based on the appraised value of the collateral underlying the 2019 Mortgage Facility ~~. As of December 31, 2022, we had approximately $ 173. 0 million of total remaining commitment, pending appraised collateral value, under the 2019 Mortgage Facility based on the borrowing base calculation~~ . In addition, our 4. 625 % Senior Notes due 2029 (the " 4. 625 % Notes "), our 4. 875 % Senior Notes due 2031 (the " 4. 875 % Notes ") and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness, as long as we comply with the terms thereunder. The majority of our dealership properties are subject to long- term operating lease arrangements that commonly have initial terms of 10 to 20 years with renewal options generally ranging from five to 10 years. Many of these operating leases require compliance with financial and operating covenants similar to those under the 2021 Credit Facilities and require monthly payments of rent that may fluctuate based on interest rates and local consumer price indices. The total future minimum lease payments related to these operating leases and certain equipment leases are significant and are disclosed in Note 12, " Commitments and Contingencies, " to the accompanying consolidated financial statements. Our failure to comply with certain covenants in these agreements 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 have a material adverse effect on our ability to continue our business. We may not have sufficient funds to meet our obligation to repay all or a substantial portion of the outstanding principal amount of our indebtedness when it becomes due.

The instruments that govern our long- term indebtedness contain certain provisions that may cause all or a substantial portion of the outstanding principal amount of our indebtedness to become immediately due and payable. The 2021 Credit Facilities, the 2019 Mortgage Facility, the indentures governing the 4. 625 % Notes and the 4. 875 % 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. In addition, a default under one agreement could result in a cross default and acceleration of our repayment obligations under the other agreements or prevent us from borrowing under such other agreements. If a default or cross default were to occur, we may not be able to pay our debts or to 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 because of acceleration and cross- default provisions and the value of our common stock would be materially adversely affected. 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. Moreover, 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 ~~2023~~ **2024** 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 addition, upon the occurrence of a change of control (as defined in the indentures governing the 4. 625 % Notes and the 4. 875 % Notes), holders of such notes will have the right to require us to purchase all or any part of such holders' notes at an applicable premium. The events that constitute a change of control under the indentures governing the 4. 625 % Notes and the 4. 875 % Notes may also constitute a default under the 2021 Credit Facilities and the 2019 Mortgage Facility. The agreements or instruments governing any future debt that we may incur may contain similar provisions regarding repurchases in the event of a change of control triggering event. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under these debt instruments should all or substantial portions of the principal become immediately due and payable. In the event we do not have sufficient liquidity to repay the principal balances, we may not be able to refinance the debt at interest rates that are acceptable to us or, depending on market conditions, 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. 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 depend 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, which we may use 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. 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 **may** ~~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, ~~2022~~ **2023** , we had interest rate cap agreements related to a portion of our ~~Term~~ Secured Overnight Financing Rate (" SOFR ")- based variable rate debt to limit our exposure to rising interest rates. 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 our interest rate ~~risk~~ **exposure** as management determines is in our best ~~interests~~ - **interest** ~~given~~ **based on potential volatility and** 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; the duration or the amount of the hedge may not match the duration or the 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 recorded stockholders' equity amounts; and all of our hedging instruments contain terms and conditions with which we are required to meet. A failure on our part to effectively hedge ~~against~~ interest rate ~~changes~~ **exposure** may adversely affect our ~~financial condition and results of operations. Reforms to and uncertainty regarding LIBOR may adversely affect our business, financial condition and results of operations. The United Kingdom Financial Conduct Authority (the " FCA ") announced in July 2017 that it will no longer persuade or require banks to submit rates for the calculation of the London InterBank Offered Rate (" LIBOR ") after 2021 (the " FCA Announcement "). In March 2020, the ICE Benchmark Administration (the " IBA "), LIBOR' s administrator, stated it would cease publication of certain LIBOR rates after December 31, 2021. U. S. Dollar LIBOR rates that did not cease on December 31, 2021 will continue to be published through June 30, 2023. The FCA Announcement and the IBA statements create uncertainties surrounding the discontinuation or availability of LIBOR and other financial benchmarks beyond June 2023, and future changes in the rules or methodologies used to calculate benchmarks. As of December 31, 2022, approximately $ 116. 0 million of our outstanding LIBOR- based variable- rate mortgage notes payable extend beyond June 2023. In addition, certain of our dealership operating lease agreements contain LIBOR- based rent adjustments if LIBOR rises above specified minimum floors. While we have already amended several of our previously LIBOR- based agreements to move to a Term SOFR- based interest rate, the discontinuation of LIBOR or other benchmarks may have an unpredictable impact on the contractual mechanics of financial contracts (including, but not limited to, interest rates to be paid to or by us), require renegotiation of outstanding financial assets and liabilities, cause significant disruption to financial markets, increase the risk of litigation and / or increase~~

~~expenses related to the transition to alternative reference rates or benchmarks, among other adverse consequences. Additionally, any transition from current benchmarks may alter the Company' s risk profiles and models, valuation tools, cost of financing and effectiveness of hedging strategies. Reforms to and uncertainty regarding transitions from current benchmarks may adversely affect our business,~~ financial condition and results of operations. Risks Related to the Ownership of Our Common Stock Concentration of voting power and anti- takeover provisions of our Amended and Restated Certificate of Incorporation, our Amended and Restated 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 exercise voting control of the Company. 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 our Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a: " going private " transaction; disposition of all or 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 our common stock would own less than 50 % of the common stock following such transaction. The holders of Class B Common Stock (which include SFC and the OBS Family, LLC, entities which David Bruton Smith, Sonic' s Chairman and Chief Executive Officer, and his family members, including B. Scott Smith and Marcus **G.** Smith, both directors of Sonic, 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~~ **may** occur could also contribute to a decline in the market price of our Class A Common Stock. Our Amended and Restated Certificate of Incorporation and our Amended and Restated 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 the Sonic Automotive, Inc. 2012 Stock Incentive Plan or the Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non- Employee Directors and other obligations 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, our franchise and dealer agreements allow the manufacturers the right to terminate the agreements upon a change of control of the 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. Potential conflicts of interest between us and our officers or directors could adversely affect our future performance. Our Chairman and Chief Executive Officer, David Bruton Smith, **as well as Marcus G. Smith and B. Scott Smith,** also ~~serves~~ - **serve** as ~~a director~~ **directors** of Speedway Motorsports. ~~Accordingly~~ **Further** , ~~we compete with Speedway Motorsports for~~ the ~~management time of Mr.~~ Smith ~~. Further, Mr. Smith, members of his~~ family and certain trusts, the beneficiaries of which are members of the Smith family, directly and indirectly control a substantial majority of our voting stock. We will likely in the future enter into transactions with ~~Mr. Smith,~~ entities controlled by **the** ~~Mr.~~ Smith ~~and his~~ family 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. Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws designate the state and federal courts of Delaware as the exclusive forums for certain claims against the Company, which could increase the costs of bringing a claim or limit the ability of a stockholder to bring a claim in a judicial forum viewed by a stockholder as favorable. Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws provide that the Court of Chancery of the State of Delaware is the sole and exclusive forum for claims for (1) any derivative action or proceeding brought on behalf of Sonic (other than derivative actions brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder); (2) any action asserting a claim of a breach of, or based on, a fiduciary duty owed by any current or former director, officer or other employee of Sonic to Sonic or Sonic' s stockholders; (3) any action asserting a claim against Sonic or any current or former director, officer ~~,~~ or other employee or stockholder of Sonic arising pursuant to any provision of the General Corporation Law of the State of Delaware, our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws; or (4) any action asserting a claim against Sonic governed by the internal affairs doctrine of the State of Delaware. Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws also provide that, unless the Board **of Directors** otherwise consents in writing, to the extent permitted by applicable law, the United States District Court for the District of Delaware shall be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act of 1933, as amended (the " Securities Act "), the Exchange Act or any ancillary claims related thereto which are subject to the ancillary jurisdiction of the federal courts. The exclusive forum provisions of our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws may increase the costs to bring a claim, discourage claims or limit a stockholder' s ability to bring a claim in a judicial forum that he, she or it finds favorable for disputes with the Company or the Company' s directors, officers or other employees. Such provisions may also discourage lawsuits against the Company or the Company' s directors, officers and other employees. The Delaware courts or the United States District Court for the District of Delaware may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than to our stockholders. While the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions requiring claims under the Securities Act be brought in federal court are " facially valid " under Delaware law, there is uncertainty as to whether courts in other jurisdictions will enforce provisions such as those contemplated in our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws, including whether a court would enforce the provision requiring claims arising under the Securities Act or the Exchange Act to be brought in the United States District Court for the District of Delaware. If the exclusive forum provisions of our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws are found to be unenforceable in a particular action, we or a stockholder may incur additional costs associated with resolving such an action or the validity of the exclusive forum clause on appeal. General Risk Factors 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 new vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. ~~Recently~~ **In recent years** , we ~~have~~ experienced an imbalance between consumer demand for new vehicles and available supply of new vehicle inventory due to supply chain disruptions and manufacturing delays, and it is uncertain when new vehicle inventories will stabilize and at what level. Retail vehicle sales cycles are often correlated with changes in overall economic conditions, consumer confidence, the level of discretionary personal income and credit availability. Deterioration in any of these conditions from current levels may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, our business may be adversely affected by isolated unfavorable conditions or events in our local markets. Due to the provisions and terms contained in our franchise or dealer agreements or operating lease agreements, we may not be able to relocate a dealership operation to a more favorable location without incurring significant costs or penalties, if permitted at all. In addition, severe or sustained changes in gasoline prices or overall shifts in consumer sentiment toward alternative fuel vehicles may lead to a shift in consumer buying patterns. Availability of preferred models may not exist in sufficient quantities to satisfy consumer demand and allow our stores to meet sales expectations. The outcome of legal and administrative proceedings we are or may become involved in could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects. We are involved, and expect to continue to be involved, in various 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. 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 U. S. Environmental Protection Agency has adopted rules under existing provisions of the federal Clean Air Act that require: (1) a reduction in emissions of greenhouse gases from motor vehicles; (2) certain construction and operating permit reviews for greenhouse gas emissions from certain large stationary sources; and (3) 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 U. S. could adversely affect demand for those vehicles and require us to incur costs to reduce emissions of greenhouse gases associated with our operations. Employee attrition, 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 Chief Executive Officer, President, other senior management, and sales and service 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 general 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. The ~~U. S. labor market experienced substantial tightening in 2021 and 2022, leading to increased labor costs and, at times, shortages of qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel. The~~ market for qualified employees remains highly competitive, may impact our ability to identify and attract new employees and retain existing employees, and may subject us to increased labor costs ~~during periods, such as was experienced in 2021 and 2022, of high inflation and tight labor supply~~ . 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. Natural disasters, adverse weather and other events can disrupt our business. Our dealerships are concentrated in certain states, including California, Colorado, Florida and Texas, in which actual or threatened natural disasters and severe weather events (such as earthquakes, wildfires, landslides, ~~hail storms~~ **hailstorms** , floods and hurricanes) may disrupt our store operations, which may adversely impact our business, financial condition, results of operations 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 under insured losses that could have a material adverse effect on our business, financial condition, results of operations or cash flows. 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. Moreover, significant technology- related business functions of ours are outsourced. The frequency and severity of ~~cyber- security~~ **cybersecurity** incidents has increased in recent years and adversely impacted organizations of varying sizes. Although we have attempted to mitigate the ~~cyber- security~~ **cybersecurity** risk of both our internal and outsourced functions by implementing various ~~cyber- security~~ **cybersecurity** controls **, an internal framework for the oversight of cybersecurity risks** and other security measures, **specifically as described in " Item 1C. Cybersecurity, "** our information technology and infrastructure may be vulnerable to attacks by hackers or breaches due to employee error, malfeasance or other disruptions. These ~~cyber- security~~ **cybersecurity** risks include vulnerability to **cyberattack** ~~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. Any ~~cyber- security~~ **cybersecurity** breach or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties or damage to 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. We may be subject to substantial withdrawal liability assessments in the future related to a multiemployer pension plan to which certain of our dealerships make contributions pursuant to collective bargaining agreements. Three 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 " multiemployer plan " as defined under the Employee Retirement Income Security Act of 1974, as amended **.** ~~, and our three~~ **Three of our** dealership subsidiaries **actively** ~~are among approximately 146 employers that are obligated to make contributions~~ **contribute** to the AI Pension Plan **under** ~~pursuant to~~ collective bargaining agreements with the IAM **. These subsidiaries employ approximately 160 individuals** , ~~the IBT and other unions~~ **which constitutes less than 2 % of our total workforce** . In March 2008, the Board of Trustees of the AI Pension Plan notified participants, participating employers and local unions that the AI Pension Plan' s actuary had issued a certification that the AI Pension Plan was in critical status. In conjunction with the AI Pension Plan' s critical status, all participating employers were required to increase employer contributions to the AI Pension Plan for a seven- year period which commenced in 2013. As of April ~~2019~~ **2023** , the AI Pension Plan' s actuary certified that the AI Pension Plan remained in ~~critical~~ **Critical** ~~status~~ **Status** for the plan year commencing January 1, ~~2019~~ **2023, with the projected pension liability underfunded by approximately $ 1. 0 billion** and ~~is~~ projected to become insolvent in **the** ~~2031~~ **2032 plan year. In July 2023, the Pension Benefit Guaranty Corporation approved an application by the AI Pension Plan for special financial assistance in the amount of approximately $ 1. 1 billion to address the underfunded status of the plan** . Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while the plan is underfunded is subject to payment of such employer' s assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can be assessed withdrawal liability for a partial withdrawal from a multiemployer 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. Tax positions may exist related to our tax filings that could be challenged by governmental agencies and result in higher income tax expenses and affect our overall liquidity if we are unable to successfully defend these tax positions. We are subject to audits by federal and state governmental income tax agencies on a continual basis. During the course of those audits, the agencies may disagree with or challenge tax positions taken on tax returns filed for Sonic and its subsidiaries. As a result of these audits, the agencies may issue assessments and penalties based on their understanding of the underlying facts and circumstances. In the event we are not able to arrive at an agreeable resolution, we may be forced to litigate these matters. If we are unsuccessful in litigation, our results of operations and financial position may be negatively impacted. Impairment of our goodwill ~~or~~ **,** other intangible **assets or other long- lived** assets could have a material adverse impact on our earnings. Goodwill ~~is~~ **and other intangible assets are** subject to impairment assessments at least annually or more frequently when events or changes in circumstances indicate that an impairment may have occurred. Pursuant to applicable accounting pronouncements, we evaluate goodwill for impairment annually on ~~October 1~~ **April 30** , 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 and other intangible assets more thoroughly under the heading " ~~Use of Estimates and~~ Critical Accounting ~~Policies~~ **Estimates** " in " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations. " A significant amount of our goodwill is related to our franchised dealerships reporting unit, and we have significant other intangible assets associated with acquisitions of franchised dealerships. If we determine that the amount of our goodwill or other intangible assets is impaired at any point in time, we are required to reduce the balances recorded on our balance sheet. If goodwill or other intangible assets are 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 or other intangible assets occurs. As of December 31, ~~2022~~ **2023** , our balance sheet reflected a carrying amount of approximately $ ~~231~~ **253** . ~~0~~ **8** million in goodwill and approximately $ ~~396~~ **417** . ~~7~~ **4** million in other intangible assets, net. ~~24~~ **We are also required to test for impairment of other long- lived assets in the event certain conditions exist that may indicate the recorded value of the assets is not recoverable through future operating cash flows. These conditions include, but are not limited to, a decrease in the market pricing of a long- lived asset group, a significant change in the extent or manner in which a long- lived asset group is being used or its physical condition, a significant adverse change in legal factors or business climate that could affect the value of a long- lived asset group, an accumulation of costs significant in excess of the amount originally expected for the acquisition or construction of a long- lived asset group, a current- period operating cash flow loss combined with a history of operating cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long- lived asset group, or a current expectation that, more likely than not, a long- lived asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. If we determine that the amount of certain long- lived asset groups are impaired, we are required to reduce the balances recorded on our consolidated balance sheet, which may result in a significant non- cash impairment charge.**