

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the year ended December 31, 2000

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 1-13395

SONIC AUTOMOTIVE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of
Incorporation or Organization) 56-2010790 (I.R.S. Employer Identification No.)

28212

(Zip Code)

5401 East Independence Boulevard
P.O. Box 18747
Charlotte, North Carolina
(Address of Principle Executive Offices)

(704) 532-3320
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

<TABLE>
<CAPTION>

Title of each Class -----	Name of each Exchange on Which Registered -----
<S> Class A Common Stock, \$.01 Par Value	<C> New York Stock Exchange

</TABLE>

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$215,526,024 based upon the closing sales price of the registrant's Class A common stock on March 16, 2001 of \$8.00 per share. As of March 16, 2001, there were 28,593,205 shares of Class A common stock, par value \$.01 per share, and 12,250,000 shares of Class B common stock, par value \$.01 per share, outstanding. Unless otherwise indicated, all other share and share price information contained herein takes into account the effect of the two for one stock split effected as of January 25, 1999 in the form of a 100% stock dividend payable to stockholders of record as of January 4, 1999 (the "Stock Split").

Documents incorporated by reference. Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 2, 2001, are incorporated by reference into Part III of this Form 10-K.

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The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements (including the Notes thereto) appearing elsewhere herein. This Annual Report on Form 10-K, including the exhibits filed herewith, contains statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are not historical facts but only predictions and generally can be identified by use of statements that include words such as "believe," "expect," "anticipate," "intend," "plan," "foresee" or other words or phrases of similar import. Similarly, statements that describe our objectives, plans or goals are also forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Litigation Securities Reform Act of 1995, and we are including this statement for purposes of complying with these safe harbor provisions. These statements appear in a number of places in this Annual Report on Form 10-K and the exhibits filed herewith and include statements regarding our intent, belief or current expectations, or those of our directors or officers, with respect to, among other things:

- . our potential acquisitions;
- . trends in our industry;
- . our financing plans;
- . the effect of the Internet on our business and our ability to implement our Internet business strategy;
- . trends affecting our financial condition or results of operations; and
- . our business and growth strategies.

You are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Among others, factors that could materially adversely affect actual results and performance include:

- . local and regional economic conditions in the areas we serve;

- . the level of consumer spending;
- . our relationships with manufacturers;
- . high competition;
- . site selection and related traffic and demographic patterns;
- . inventory management and turnover levels;
- . the effect of the Internet on our business;
- . realization of cost savings; and
- . our success in integrating recent and potential future acquisitions.

PART I

Item 1. Business.

Sonic Automotive, Inc. was incorporated in the State of Delaware in February 1997. We are the second largest automotive retailer in the United States, as measured by total revenue, currently operating 165 dealership franchises and 30 collision repair centers in 13 states as of March 20, 2001. We own and operate franchises for 31 different brands of cars and light trucks providing comprehensive services including sales of both new and used cars and light trucks, replacement parts and vehicle maintenance, warranty, paint and repair services. We also arrange extended warranty contracts and financing and insurance ("F&I") for our automotive customers. Our growth in operations has been strategically focused on high growth metropolitan markets, predominantly in the Southeast, Southwest, Midwest and California, that on average are experiencing population growth that exceeds the national average.

- | | |
|--------------------------|---------------------------|
| . Atlanta | . Houston |
| . Baltimore | . Las Vegas |
| . Birmingham | . Los Angeles |
| . Charleston | . Mobile/Pensacola |
| . Charlotte | . Montgomery |
| . Chattanooga | . Nashville |
| . Columbia | . San Diego |
| . Columbus | . San Francisco |
| . Dallas | . San Jose/Silicon Valley |
| . Daytona Beach | . Tampa/Clearwater |
| . Fort Myers | . Tulsa |
| . Greenville/Spartanburg | . Washington D.C. |

Our leading new vehicle brands accounted for our 2000 revenue as depicted in the following chart:

[GRAPHIC]
General

Honda	Ford	Chrysler(1)	BMW	Motors(2)	Toyota	Nissan	Lexus	Other(3)
14.4%	13.5%	12.0%	10.7%	10.7%	8.3%	6.5%	5.3%	18.6%

(1) Includes Chrysler, Dodge, Jeep and Plymouth

(2) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile and Pontiac

(3) Includes Acura, Audi, Hyundai, Infiniti, Isuzu, KIA, Land Rover, Lincoln, Mercedes, Mercury, Mitsubishi, Porsche, Subaru, Volkswagen and Volvo

Each of our dealership locations throughout our metropolitan markets provide similar products and services, including (1) new car sales, (2) used car sales, (3) parts, service and repair, and (4) finance and insurance services. As compared to automotive manufacturers, we and other automotive retailers exhibit relatively low earnings volatility. This is primarily due to the differing expense structures between automotive manufacturers and retailers. Approximately 35.8% of our selling, general and administrative expenses for the year ended December 31, 2000 were fixed (primarily rent and salaries). The majority of our variable expenses relates to sales commissions and advertising expense, all of which can be adjusted as demand patterns change. We believe the diversity of our revenue sources at our automotive dealerships and our flexible expense structure should serve to mitigate the effects of economic cycles and seasonal influences. The following charts depict the diversity of our sources of revenue and gross profit for the year ended December 31, 2000:

[GRAPHIC]

Revenues	Gross Profit
- - - - -	- - - - -

New vehicles	58%	Parts, service and	
Used vehicles	28%	collision repair	35%
Parts, service and		New vehicles	34%
collision repair	11%	Finance and insurance	16%
Finance and insurance	3%	Used vehicles	15%

Business Strategy

. Further Develop Strategic Markets. We intend to continue to capitalize on the ongoing consolidation of the highly fragmented automotive retailing industry. We generally seek to acquire larger, well managed multiple franchise dealerships or multiple dealership groups located in metropolitan or high growth suburban markets; and smaller, single franchise dealerships that will allow us to capitalize upon professional management practices and provide greater breadth of products and services in our markets. We believe that attractive acquisition opportunities continue to exist for dealership groups with significant capital and experience in identifying, acquiring and professionally managing dealerships.

The automotive retailing industry is still highly fragmented. We believe our "hub and spoke" acquisition strategy will allow us to capitalize on economies of scale, offer a greater breadth of products and services and increase brand diversity. We also intend to acquire dealerships that have underperformed in comparison to the industry average but carry attractive product lines or have attractive locations and would immediately benefit from our professional management.

. 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:

Retail Used Vehicles: Retail used vehicle sales typically generate higher gross margins than new vehicle sales due to limited comparability among used vehicles and the somewhat subjective nature of their valuation. Our experience indicates that there are typically opportunities at acquired dealerships to improve all aspects of used vehicle operations and used vehicle inventory control. Retail used vehicle unit sales accounted for approximately 37% of our new and used vehicle unit sales for the years ended December 31, 1999 and 2000. Our gross profit per used retail unit sold increased 11.0% for the year ended December 31, 2000 compared to the same period in 1999.

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Finance and Insurance: Each sale of a new or used vehicle provides us the opportunity to earn financing fees and to sell extended warranty service contracts. We currently offer a wide range of nonrecourse financing, leasing and insurance products to our customers. We believe there are opportunities at acquired dealerships to increase earnings from the sale of finance and insurance products as well as warranties. As a result of our size and scale, we have also negotiated increased commissions on the origination of customer vehicle financing, insurance policies and extended warranty service contracts. On a per vehicle basis, our F&I revenue for the year ended December 31, 2000 increased 15.5% to \$755 compared to the same period in 1999. On a same store basis, F&I revenue increased 11.5% for the year ended December 31, 2000 as compared to the same period in 1999.

Parts, Service & Repair: Each of our dealerships offers a fully integrated service and parts department. We believe there are opportunities to increase the number of service customers we retain at our dealerships through continued emphasis on customer service. In addition, we operated collision repair centers at 30 locations at December 31, 2000. On a same store basis, parts, service and collision repair revenue increased 7.1% for the year ended December 31, 2000 as compared to the same period in 1999.

. Utilize the Internet to Drive Sales. We intend to continue to utilize technology and services available to consumers via the Internet to drive sales. We will further enhance the capabilities of our dealership websites with second generation sites, which include personalized consumer websites, vehicle configuration functions and other enhancements.

Our SonicAutomotive.com website, our individual dealerships' websites, heavily promoted manufacturers' websites and third party referral sites will provide traffic to our dealership or dealership platform Internet marketing departments with personnel trained specifically to work with Internet sourced consumers. These marketing departments are supported by national and divisional specialists in Internet marketing dealership platforms. Our Internet marketing successes to date have demonstrated that trained Internet sales people and timeliness of response--not technology--are the driving factors in Internet sales success.

The established local "bricks and mortar" dealership will continue to serve as the primary point of purchase of automobiles for consumers for the foreseeable future. However, we believe the Internet can be a low-cost source of customer leads for our dealers and an effective means of providing

marketing information and other services to existing and potential customers.

. Emphasize Expense Control. We continually focus on controlling expenses and expanding margins at the dealerships we acquire and integrate into our organization. Approximately 64.2% of our selling, general and administrative expenses for the year ended December 31, 2000 were variable. We are able to adjust these expenses as the operating or economic environment impacting our dealerships changes. We manage these variable costs, such as advertising (9.3% of selling, general and administrative expenses) and non-salaried compensation (48.2%) expenses, so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and all other non-clerical dealership personnel are paid either a commission or a modest salary plus commissions. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options.

. Train, Develop and Motivate Qualified Management. We believe that our well-trained dealership personnel are key to our long-term prospects. We require all of our employees, from service technicians to regional vice presidents, to participate in in-house training programs. We believe that our comprehensive training of all employees and professional, multi-tiered management structure provide us with a competitive advantage over other dealership groups. This training and organizational structure provides high-level supervision over the dealerships, accurate financial reporting and the ability to maintain effective controls as we expand. In order to motivate management, we employ an incentive compensation program for each officer, vice president and dealer

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operator, a portion of which is provided in the form of Sonic stock options with additional incentives based on the performance of individual profit centers. We believe that this organizational structure, together with the opportunity for promotion within our large organization and for equity participation, serve as a strong motivation for our employees.

. 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 in a positive, "consumer friendly" buying environment. Some manufacturers offer specific performance incentives on a per vehicle basis if certain Customer Satisfaction Index ("CSI") levels (which vary by manufacturer) are achieved by a dealer. In addition, all manufacturers consider CSI scores in approving acquisitions. In order to keep management focused on customer satisfaction, we include CSI results as a component of our incentive compensation programs.

Dealership Management

Sonic manages its business based on individual dealership operations. Operations of the dealerships are overseen by Regional or Divisional Vice Presidents for a particular geographic area. These Vice Presidents all report to the Executive Vice President of Retail Operations.

Each of our dealerships is managed by a dealer operator who is responsible for the operations of the dealership and the dealership's financial and customer satisfaction performance. The dealer operator is responsible for selecting, training and retaining dealership personnel. All dealer operators report to Sonic's Regional Vice Presidents.

Each dealer operator is complemented by a team which generally includes two senior managers who aid in the operation of the dealership. The general sales manager is primarily responsible for the operations, personnel, financial performance and customer satisfaction performance of the new vehicle sales, used vehicle sales, and finance and insurance departments. The parts and service director is primarily responsible for the operations, personnel, financial and customer satisfaction performance of the service, parts and collision repair departments (if applicable). Each of the departments of the dealership typically has a manager or managers who reports to the general sales manager or parts and service director.

Sonic's dealer operators are also supported by National Directors of Fixed Operations, Field Operations, Sales and Finance & Insurance, respectively. Each of these National Directors reviews the operations and practices of our dealerships in these specialized areas and assists the dealer operators in implementing organizational best practices. The National Directors of Fixed Operations and of Finance & Insurance are each supported by Regional Directors specializing in these disciplines.

New Vehicle Sales

As of December 31, 2000, Sonic sold 31 brands of cars and light trucks. The products have a broad range of prices from lower priced, or economy vehicles, to luxury vehicles. We believe that our brand, product and price diversity reduces the risk of changes in customer preferences, product supply shortages

and aging products. Approximately 26.9% of new vehicle sales during the year ended December 31, 2000 were luxury brands (for example, Mercedes, Lexus, BMW, Infiniti and Volvo) compared to 21.9% for the same period in 1999.

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The following table presents information regarding Sonic's new vehicle sales:

<TABLE>
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	Year Ended December 31,		
	1998	1999	2000
	(dollars in thousands)		
<S>	<C>	<C>	<C>
Unit sales.....	41,592	79,294	135,919
Sales revenue.....	\$962,939	\$1,968,514	\$3,522,049
Gross profit.....	\$ 75,494	\$ 161,205	\$ 293,034
Gross margin.....	7.8%	8.2%	8.3%

</TABLE>

New vehicle sales include retail lease transactions and lease-type transactions, both of which are arranged by Sonic. New vehicle leases generally have short terms. Lease customers, therefore, return to the new vehicle market more frequently. Leases also provide a source of late-model, generally low mileage vehicles for our used vehicle inventory. Generally, leased vehicles are under warranty for the entire lease term, which allows us to provide repair service to the lessee throughout the term of the lease.

Used Vehicle Sales

Sonic sells a broad variety of makes and models of used cars and light trucks. Used vehicles are obtained by us through customer trade-ins, at "closed" auctions which may be attended only by new vehicle dealers and which offer off-lease, rental and fleet vehicles, and at "open" auctions which offer repossessed vehicles and vehicles sold by other dealers. We sell our used vehicles to retail customers and, in the case of vehicles in poor condition or vehicles which remain unsold for a specified period of time, to other dealers or wholesalers. Sales to other dealers or wholesalers are frequently close to or below cost and therefore negatively affect our gross margin on used vehicle sales.

The following table presents information regarding Sonic's used vehicle sales:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1999	2000
	(dollars in thousands)		
<S>	<C>	<C>	<C>
Retail unit sales.....	24,591	47,345	79,749
Retail sales revenue....	\$324,740	\$684,560	\$1,249,188
Retail gross profit.....	\$ 34,826	\$ 72,627	\$ 135,736
Retail gross margin.....	10.7%	10.6%	10.9%
Wholesale unit sales....	21,886	39,834	67,835
Wholesale sales revenue.....	\$119,351	\$250,794	\$ 430,513
Wholesale gross profit..	\$ (1,166)	\$ (3,734)	\$ (7,587)
Wholesale gross margin..	(1.0)%	(1.5)%	(1.8)%
Total unit sales.....	46,477	87,179	147,584
Total revenue.....	\$444,091	\$935,354	\$1,679,701
Total gross profit.....	\$ 33,660	\$ 68,893	\$ 128,149
Total gross margin.....	7.6%	7.4%	7.6%

</TABLE>

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Service and Parts Sales

Sonic provides service and parts at each of our franchised dealerships. We also provide maintenance and repair services at each of our franchised dealerships, offering both warranty and non-warranty services. Service and parts sales provide higher gross margins than vehicle sales.

The following table presents information regarding Sonic's service and parts sales:

<TABLE>
<CAPTION>

Year Ended December 31,

	1998	1999	2000
(dollars in thousands)			
<S>	<C>	<C>	<C>
Sales revenue.....	\$146,456	\$333,161	\$640,662
Gross profit.....	\$ 62,152	\$139,738	\$283,124
Gross margin.....	42.4%	41.9%	44.2%

Collision Repair Operations

As of December 31, 2000, Sonic operated 30 collision repair centers. Our collision repair business provides favorable margins and, similar to service and parts, is not significantly affected by business cycles or consumer preferences. In addition, because of the higher cost of used vehicles, insurance adjusters are more hesitant to declare a vehicle a total loss, resulting in more significant, and higher cost, repair jobs.

The following table sets forth information regarding Sonic's collision repair operations:

	Year Ended December 31,		
	1998	1999	2000
(dollars in thousands)			
<S>	<C>	<C>	<C>
Sales revenue.....	\$16,204	\$31,023	\$47,312
Gross profit.....	\$ 8,114	\$14,933	\$23,882
Gross margin.....	50.0%	48.1%	50.5%

Finance and Insurance Operations

Sonic offers its customers a wide range of financing and leasing alternatives for the purchase of vehicles as well as warranty or extended service contracts.

We assign our vehicle financing contracts and leases to other parties, instead of directly financing sales, which reduces our exposure to loss from financing activities. Sonic receives a commission from the lender for originating and assigning the loan or lease but is assessed a chargeback fee by the lender if a loan is canceled, in most cases, within 90 days of making the loan. Early cancellation can result from early repayment because of refinancing of the loan, the sale or trade-in of the vehicle, or default on the loan. We establish an allowance to absorb estimated chargebacks and refunds. Finance and insurance commission revenue is recorded net of such chargebacks. Commission expense related to finance and insurance commission revenue is charged to cost of sales upon recognition of such revenue.

The following table presents information regarding Sonic's finance and insurance operations:

	Year Ended December 31,		
	1998	1999	2000
(dollars in thousands)			
<S>	<C>	<C>	<C>
Commission revenue.....	\$34,011	\$82,771	\$162,751
Gross profit.....	\$28,022	\$69,654	\$136,998
Gross margin.....	82.4%	84.2%	84.2%

Sales and Marketing

Sonic's marketing and advertising activities vary among our dealerships and among our markets. We advertise primarily through television, newspapers, radio and direct mail and regularly conduct special promotions designed to focus vehicle buyers on our product offerings. We also utilize computer technology to aid sales people in prospecting for customers. Under arrangements with certain manufacturers, we receive a subsidy for a portion of our advertising expenses incurred in connection with a manufacturer's vehicles.

Relationships with Manufacturers

Each of Sonic's dealerships operates under a separate franchise or dealer

agreement which governs the relationship between the dealership and the manufacturer. In general, each 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 which rewards high volume. A dealer agreement requires the dealer to meet specified standards regarding showrooms, the facilities and equipment for servicing vehicles, inventories, minimum net working capital, personnel training, and other aspects of the business. The dealer agreement with each dealership also gives the related manufacturer the right to approve the dealership's general manager and any material change in management or ownership of the dealership. Each manufacturer may terminate a 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 dealership's general manager, the conviction of the dealership or the dealership's owner or general manager of certain crimes, the failure to adequately operate the dealership or maintain wholesale financing arrangements, insolvency or bankruptcy of the dealership or a material breach of other provisions of the dealer agreement.

Many automobile manufacturers have developed policies regarding public ownership of dealerships. We believe that these policies will continue to change as more dealership groups sell their stock to the public, and as the established, publicly-owned dealership groups acquire more franchises. To the extent that new or amended manufacturer policies restrict the number of dealerships which may be owned by a dealership group, or the transferability of Sonic's common stock, such policies could have a material adverse effect on us. Sonic believes that it will be able to renew at expiration all of its existing franchise agreements.

- . In the course of acquiring Jaguar franchises in Chattanooga and Greenville, South Carolina, Jaguar declined to consent to our proposed acquisitions of these franchises. In settling legal actions brought against Jaguar by the seller of the Chattanooga Jaguar franchise, Sonic agreed with Jaguar not to acquire any Jaguar franchise before August 3, 2001.
- . Under Sonic's agreement with Ford, Ford may cause Sonic to sell or resign from one or more of Sonic's Ford, Lincoln or Mercury franchises if any person or entity (other than O. Bruton Smith and any entity controlled by him) acquires securities or has a binding agreement to acquire securities having 50% or more of the voting power of Sonic's securities.
- . Under Sonic's Dealer Agreements with GM and Infiniti, these manufacturers may force the sale of their respective franchises if 20% or more of Sonic's voting securities are similarly acquired.
- . Under Sonic's agreement with Toyota, Toyota may force the sale of one or more of Sonic's Toyota or Lexus dealerships if (1) an automobile manufacturer or distributor acquires securities, or the right to vote securities by proxy or voting agreement, having more than 5% of the voting power of Sonic's securities, (2) any individual or entity acquires securities, or the right to vote securities by proxy or voting agreement, having more than 20% of the voting power of Sonic's securities, (3) there is a material change in the composition of Sonic's Board of Directors that Toyota reasonably concludes will be materially incompatible with Toyota's interests or will have an adverse effect on Toyota's reputation or brands in the marketplace or the performance of Sonic or its Toyota and Lexus dealerships, (4) there occurs an extraordinary transaction whereby Sonic's shareholders immediately prior to such transaction own in the aggregate securities having less than a majority of the voting power of Sonic or the successor entity, or (5) any individual or entity acquires control of Sonic, Sonic Financial Corporation or any Toyota or Lexus dealership owned by Sonic.

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- . Under Sonic's agreement with Honda, Honda may force the sale of one or more of Sonic's Honda or Acura franchises if (1) an automobile manufacturer or distributor acquires securities having 5% or more of the voting power of Sonic's securities, (2) an individual or entity that has either a felony criminal record or a criminal record relating solely to dealings with an automobile manufacturer, distributor or dealership acquires securities having 5% or more of the voting power of Sonic's securities or (3) any individual or entity acquires securities having 20% or more of the voting power of Sonic's securities and Honda reasonably deems such acquisition to be detrimental to Honda's interests in any material respect.
- . Chrysler requires prior approval of any future sales that would result in a change in voting or managerial control of Sonic.
- . Volkswagen has approved the sale of no more than 25% of the voting control of Sonic, and any future changes in ownership or transfers among Sonic's current stockholders that could effect the voting or managerial control of Sonic's Volkswagen franchisee subsidiaries requires the prior approval of Volkswagen.
- . Mercedes requires 60 days advance notice to approve any acquisition of

20% or more of Sonic's voting securities.

- . Other manufacturers may impose similar restrictions.

Many states, including Alabama, California, Florida, Georgia, Maryland, Nevada, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Virginia 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 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 line-make operating under an agreement or franchise from the manufacturer or distributor in the relevant market area. However, a manufacturer or distributor is not deemed to be competing when:

- (1) operating a dealership either temporarily or for a reasonable period;
- (2) in a bona fide retail operation which is for sale; or
- (3) in a bona fide relationship in which an independent person has made a significant investment subject to loss in the dealership and can reasonably expect to acquire full ownership of such dealership on reasonable terms and conditions.

Certain states, such as Florida, Georgia, Oklahoma, North Carolina, South Carolina and Virginia limit the amount of time that a manufacturer may temporarily operate a dealership to one year. Further, certain states require a person who is attempting to acquire a dealership from a manufacturer or distributor to invest a specified amount of money in the dealership.

There are other exceptions to this prohibition on direct sales to customers that vary from state to state. For instance, certain states such as North Carolina allow manufacturers to own, operate or control dealerships if they have been engaged in the retail sale of motor vehicles through the dealership for a continuous period of time prior to a certain date and if no other independent dealer is available in the relevant market to own and operate the franchise. Further, other states such as Tennessee allow manufacturers to sell trucks of certain weights directly to customers if the manufacturer has been selling these trucks at retail for a continuous period of time prior to a certain date.

In addition to these direct selling prohibitions, there are other state laws that offer dealers protection from manufacturers. In particular, all of the states in which Sonic dealerships currently do business require manufacturers to show "good cause" for terminating or failing to renew a dealer's franchise agreement. Further, each of the states provides some method for dealers to challenge manufacturers' attempts to establish dealerships of the same line-make in their relevant market area. A summary of certain provisions of the relevant states' laws regarding manufacturer/dealer relations is set forth below:

Alabama. Alabama law prohibits manufacturers from terminating or refusing to continue or renew a franchise agreement except for "good cause." "Good cause" to discontinue a relationship may exist if, for example, a dealer violates a material term of, or fails to perform its duties under, a franchise agreement. In

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addition, a manufacturer is prohibited from interfering with the transfer of a dealership unless the transfer is to a person who would not qualify for a dealer's license under Alabama law. Finally, a manufacturer may not unreasonably establish a new dealership within the market area of an existing dealer. A manufacturer who violates Alabama law may be required to pay the dealer for the damages incurred, as well as the costs of suing the manufacturer for damages, including attorneys fees.

California. California law requires a manufacturer who wishes to terminate or refuse to continue any existing franchise to provide written notice to the franchisee and to California's New Motor Vehicle Board. If the dealer protests, the manufacturer will be required to show the board that there is good cause for termination. Possible reasons for termination include transfer of any ownership or interest in the franchise without the consent of the franchisor (which consent cannot be unreasonably withheld), misrepresentation by the franchisee in applying for the franchise, insolvency of the franchisee and failure of the dealer to conduct its customary sales and service operations during its customary hours of business for seven consecutive business days. If a manufacturer wants to establish an additional motor vehicle dealership within a relevant market area where the same line-make is then represented or seeks to relocate an existing motor vehicle dealership, the manufacturer must notify the New Motor Vehicle Board and each franchisee in that line-make in the relevant area. The franchisee may then file a protest to the establishing or relocating of the dealership. The franchisee has the burden of proof to show that there is good cause not to allow the establishment or relocation of the additional motor vehicle dealership.

Florida. Under Florida law, notwithstanding any contrary terms in a dealer agreement, manufacturers may not unreasonably withhold approval for the sale of a dealership. Acceptable grounds for disapproval include material shortcomings in the character, financial condition or business experience of

the proposed transferee. In addition, dealerships may challenge manufacturers' attempts to establish new dealerships in the dealer's markets, and state regulators may deny applications to establish new dealerships for a number of reasons, including a determination that the manufacturer is adequately represented in the area. Manufacturers must have "good cause" for any termination or failure to renew a dealer agreement, and an automaker's license to distribute vehicles in Florida may be revoked if, among other things, the automaker has forced or attempted to force an automobile dealer to accept delivery of motor vehicles not ordered by that dealer.

Georgia. Georgia law provides that no manufacturer may arbitrarily reject a proposed change of control or sale of an automobile dealership, and any manufacturer challenging such a transfer of a dealership must provide written reasons for its rejection to the dealer. Manufacturers bear the burden of proof to show that any disapproval of a proposed transfer of a dealership is not arbitrary. It is unlawful for a manufacturer to cancel a franchise agreement for any reason not constituting good cause under Georgia law. As an alternative to rejecting or accepting a proposed transfer of a dealership or terminating the franchise agreement, Georgia law provides that a manufacturer may offer to purchase the dealership on the same terms and conditions offered to the prospective transferee.

Maryland. Under Maryland law, it is unlawful for a manufacturer to terminate, cancel or fail to renew the franchise of a dealer unless the dealer has failed to comply substantially with the reasonable requirements of the franchise and the manufacturer has given the dealer notice. If a dealer receives written notice that his franchise is being terminated, canceled or not renewed, he may request a hearing to determine whether he had failed to comply substantially with the reasonable requirements of the franchise. A manufacturer in Maryland that terminates, cancels or fails to renew the franchise of a dealer in violation of the law must pay the dealer the fair value of his business as a going concern. On payment, the dealer is required to convey his business, free of liens and encumbrances, to the manufacturer.

Nevada. Nevada law makes it unlawful for a manufacturer to terminate or refuse to continue any franchise unless it has received the written consent of the dealer or it gives written notice of its intention to the dealer and to the state and either the dealer does not file a protest; or after the dealer has filed a protest and the state has conducted a hearing on the matter, the state issues an order authorizing the manufacturer to terminate the franchise or permit it to lapse. Possible grounds for termination of a franchise include transfer of an ownership or interest in a dealership without the consent of the manufacturer unless the consent has been unreasonably withheld, material misrepresentation by the dealer in applying for franchise, insolvency of the dealer, revocation

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of a dealer's license, conviction of the dealer for a felony, any unfair business practice by the dealer after the manufacturer has issued a written warning to the dealer to desist from that practice, or closure by the dealer for a period of longer than 14 days unless the closure was beyond the dealer's control. In Nevada, a manufacturer may not enter into a franchise which would establish an additional dealership within the relevant market area of another dealer in the same line and make of vehicles unless the manufacturer has given written notice to each dealer in the same line in the relevant market area and either none of the dealers protest or after a protest is filed the state finds that there is not good cause for preventing the intended establishment or relocation of a dealership and issues an order authorizing the manufacturer or distributor to establish the additional dealership.

North Carolina. Under North Carolina law, it is unlawful for a manufacturer to prevent or refuse to approve the sale or transfer of the ownership of a dealership or a change in the executive management of a dealership or the relocation of a dealership to another site within the dealership's relevant market area, if the Commissioner had determined, if requested in writing by the dealer within 30 days after receipt of an objection to the proposed transfer, sale, assignment, relocation or change, and after a hearing on the matter, that the failure to permit or honor the sale, transfer, assignment relocation or change is unreasonable under the circumstances.

Ohio. Under Ohio law, a dealer must obtain manufacturer approval before it can sell or transfer an interest in a dealership. The manufacturer may only prohibit the sale or transfer, however, for "good cause" after considering, among other things, the proposed new owner's business experience and financing. Similarly, a manufacturer may terminate or refuse to continue or renew a franchise agreement only for "good cause" considering, for example, the dealership's sales, the dealer's investment in the business, and the dealer's satisfaction of its warranty obligations. Finally, a manufacturer may not site a new dealership in a relevant market area without either the consent of the local dealers or by showing "good cause." Dealers may protest a manufacturer's actions to the Ohio Motor Vehicle Dealers Board, and eventually the courts, if there is no "good cause" for the transfer restriction or termination or siting of a new dealership. If the manufacturer violates Ohio's automobile franchise law, a dealer may be entitled to double its actual

damages, as well as court costs and attorneys fees, from a manufacturer.

Oklahoma. Under Oklahoma law, it is unlawful for a manufacturer to terminate, cancel or fail to renew any franchise with a licensed new motor vehicle dealer unless the manufacturer has provided notice to the dealer and has good cause for cancellation, termination or nonrenewal. Furthermore, if a manufacturer seeks to enter into a franchise establishing a new motor vehicle dealership or relocating an existing new motor vehicle dealership within or into a relevant market area where the same line-make is then represented, the manufacturer must provide notice to the dealer and the dealer may file a protest. Finally, a dealer proposing a sale, transfer or assignment of a franchise agreement or the business and assets of a dealership or an interest in a dealership to another person must notify the manufacturer. The manufacturer may not unreasonably withhold approval.

South Carolina. South Carolina law forbids a manufacturer from imposing unreasonable restrictions on a dealer's rights to transfer, sell, or renew a franchise agreement unless the dealer is compensated. A manufacturer may not terminate or refuse to renew a franchise agreement without due cause. Further, although a dealer must obtain the manufacturer's consent to transfer a dealership, the manufacturer may not unreasonably withhold its consent. Finally, manufacturers are generally prohibited from acting in bad faith or engaging in arbitrary or unconscionable conduct. Manufacturers who violate South Carolina's law may be liable for double the actual damages incurred by the dealer and/or punitive damages in limited circumstances.

Tennessee. Under Tennessee law, a manufacturer may not modify, terminate or refuse to renew a franchise agreement with a dealer except for good cause, as defined in the governing Tennessee statutes. Further, a manufacturer may be denied a Tennessee license, or have an existing license revoked or suspended if the manufacturer modifies, terminates, or suspends a franchise agreement due to an event not constituting good cause. Good cause includes material shortcomings in the character, financial condition or business experience of the dealer. A manufacturer's Tennessee license may also be revoked if the manufacturer prevents or attempts to prevent the sale or transfer of the dealership by unreasonably withholding consent to the transfer.

Texas. Under Texas law, despite the terms of contracts between manufacturers and dealers, manufacturers may not unreasonably withhold approval of a transfer of a dealership. It is unreasonable under Texas law for a manufacturer to reject a prospective transferee of a dealership who is of good moral character and who otherwise

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meets the manufacturer's written, reasonable and uniformly applied standards or qualifications relating to the prospective transferee's business experience and financial qualifications. In addition, under Texas law, franchised dealerships may challenge manufacturers' attempts to establish new franchises in the franchised dealers' markets, and state regulators may deny applications to establish new dealerships for a number of reasons, including a determination that the manufacturer is adequately represented in the region. Texas law limits the ability of manufacturers to terminate or fail to renew franchises. In addition, other laws in Texas limit the ability of manufacturers to withhold their approval for the relocation of a franchise or require that disputes be arbitrated. In addition, a manufacturer's license to distribute vehicles in Texas may be revoked if, among other things, the manufacturer has forced or attempted to force an automobile dealer to accept delivery of motor vehicles not ordered by that dealer.

Virginia. Virginia law states that it is unlawful for a manufacturer to prevent or refuse to approve the sale or transfer of the ownership of a dealership unless the manufacturer provides written notice and the refusal is reasonable. It is unlawful for a manufacturer to grant an additional franchise for a particular line-make of motor vehicle in a relevant market area in which a dealer or dealers of that line-make are already located unless the manufacturer has first advised in writing all other dealers in the line-make in the area. A dealer may request a hearing where a determination will be made as to whether the market will support all of the dealers in that line-make in the area. It is unlawful for a manufacturer to terminate, cancel or refuse to renew the franchise of any dealer without good cause and unless the dealer has received written notice of the manufacturer's intentions and the state has determined, if requested in writing by the dealer, that there is good cause for the termination. In the event of a proposed sale or transfer of a dealership, the manufacturer has a right of first refusal to acquire the new vehicle dealer's assets or ownership, subject to certain exceptions.

Competition

The retail automotive industry is a highly competitive business with over 21,600 franchised automobile dealerships in the United States at the end of 2000. Depending on the geographic market, we compete both with dealers offering the same brands and product lines as ours and dealers offering other automakers' vehicles. We also compete for vehicle sales with auto brokers and leasing companies, and with internet companies 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 auto dealerships. Some of our competitors are larger and have greater financial and marketing resources and are more widely known than we are. Some of our competitors also may utilize marketing techniques, such as "no negotiation" sales methods, not extensively used by us.

Additionally, the Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for cars and related F&I services, which may further reduce margins for new and used cars and profits for related F&I services. In addition, CarsDirect.com and others are selling vehicles over the Internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. CarsDirect.com has entered into an alliance with United Auto Group to facilitate their sourcing of vehicles. Also, AutoNation is selling vehicles for its new car dealerships through its AutoNationDirect.com web site. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with Internet car sellers or are spending significant sums on developing their own Internet capabilities, which could materially adversely affect our business.

We believe that the principal competitive factors in vehicle sales are the marketing campaigns conducted by automakers, the ability of dealerships to offer a wide selection of the most popular vehicles, the location of dealerships and the quality of customer service. Other competitive factors include customer preference for makes of automobiles, pricing (including manufacturer rebates and other special offers) and 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

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competitive factors in parts and service sales are price, the use of factory-approved replacement parts, the familiarity with a dealer's makes and models and the quality of customer service. A number of regional and national chains offer selected parts and service 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, which may reduce our profits on these items. We believe that 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. We sell our vehicles in the Atlanta, Baltimore, Birmingham, Charleston, Charlotte, Chattanooga, Columbia, Columbus, Dallas, Daytona Beach, Ft. Myers, Greenville/Spartanburg, Houston, Las Vegas, Los Angeles, Mobile/Pensacola, Montgomery, Nashville, San Diego, San Francisco, San Jose/Silicon Valley, Tampa/Clearwater, Tulsa and Washington, D.C. markets. Conditions and competitive pressures affecting these markets, such as price-cutting by dealers in these areas, or in any new markets we enter, could adversely affect us, although the retail automobile industry as a whole might not be affected.

Governmental Regulations and Environmental Matters

A number of regulations affect Sonic's business of marketing, selling, financing and servicing automobiles. Sonic also is subject to laws and regulations relating to business corporations generally.

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 advertising and sales practices. Other states may have similar requirements.

Our operations are also subject to certain consumer protection laws known as "Lemon Laws." These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require certain written disclosures to be provided on new vehicles, including mileage and pricing information.

The imported automobiles purchased by us are subject to United States customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or

other charges. Currently, United States customs duties are generally assessed at 2.5% of the customs value of the automobiles imported, as classified pursuant to the Harmonized Tariff Schedule of the United States.

Our financing activities with customers are subject to federal truth-in-lending, 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.

We believe that we comply in all material respects with the laws affecting our business. Possible penalties for violation of any of these laws include revocation of our licenses and fines. In addition, many laws may give customers a private cause of action.

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

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substances or wastes and other environmentally sensitive materials. Our business also involves the past and current operation and/or removal of aboveground and underground storage tanks containing such substances or wastes. Accordingly, we are subject to regulation by federal, state and local authorities which establish health and environmental quality standards, provide for liability related to those standards, and in certain circumstances 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 believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. However, soil and groundwater contamination is known to exist at certain properties used by us. Further, environmental laws and regulations are complex and subject to frequent change. In addition, in connection with our 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. We cannot assure you that compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions will not require additional expenditures by Sonic, or that such expenditures will not be material.

Executive Officers and Directors of the Registrant

Sonic's executive officers and directors and their ages as of the date of this Form 10-K, are as follows:

<TABLE>

<CAPTION>

Name	Age	Position(s) with Sonic
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<S>	<C>	<C>
O. Bruton Smith.....	74	Chairman, Chief Executive Officer and Director*
Thomas A. Price.....	57	Vice Chairman and Director*
B. Scott Smith.....	33	President, Chief Operating Officer and Director*
Theodore M. Wright.....	38	Chief Financial Officer, Vice President, Treasurer and Director*
Jeffrey C. Rachor.....	39	Executive Vice President of Retail Operations and Director*
Mark J. Iuppenlatz.....	41	Vice President of Corporate Development*
William R. Brooks.....	51	Director
William P. Benton.....	77	Director
William I. Belk.....	51	Director
H. Robert Heller.....	61	Director

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* Executive Officer

O. Bruton Smith has been the Chairman, Chief Executive Officer and a director of Sonic since its organization in 1997, and he currently is a director and executive officer of many of Sonic's subsidiaries. Mr. Smith has worked in the retail automobile industry since 1966. Mr. Smith is also the chairman and chief executive officer, a director and controlling stockholder of Speedway Motorsports, Inc. ("SMI"). SMI is a public company traded on the NYSE. Among other things, it owns and operates the following NASCAR racetracks: Atlanta Motor Speedway, Bristol Motor Speedway, Lowe's Motor

Speedway at Charlotte, Las Vegas Motor Speedway, Sears Point Raceway and Texas Motor Speedway. He is also an executive officer and a director of each of SMI's operating subsidiaries. Under his employment agreement with Sonic, Mr. Smith is required to devote approximately 50% of his business time to Sonic's business. Mr. Smith's term as a director of Sonic will expire at the 2003 annual stockholders' meeting.

Thomas A. Price was appointed Vice Chairman and a director of Sonic on January 1, 2000. Before joining Sonic, Mr. Price had been chairman of the board of directors of FirstAmerica Automotive, Inc. ("First America") since August 1999 and FirstAmerica's Chief Executive Officer, President and a director since September 1996. From March 1976 to June 1997, Mr. Price owned and operated nine vehicle dealerships. Mr. Price has worked in the automotive industry since 1963 in various capacities, including marketing and field assignments at Ford

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Motor Company. Mr. Price is currently a member of the Lexus National Dealer Advisory Board and he is a charter member of the J.D. Power Superdealer Roundtable. Mr. Price's term as a director of Sonic will expire at the 2002 annual stockholders' meeting.

B. Scott Smith has been the President and Chief Operating Officer of Sonic since April 1997 and a Sonic director since its organization in 1997. Mr. Smith also serves as a director and executive officer of many of Sonic's subsidiaries. Mr. Smith, who is the son of O. Bruton Smith, has been an executive officer of Town and Country Ford since 1993, and was a minority owner of both Town and Country Ford and Fort Mill Ford before Sonic's acquisition of those dealerships in 1997. Mr. Smith became the General Manager of Town & Country Ford in November 1992 where he remained until his appointment to President and Chief Operating Officer of Sonic in April 1997. Mr. Smith has agreed to stand for re-election as a Sonic director at the 2001 annual stockholders' meeting.

Theodore M. Wright has been the Chief Financial Officer, Vice President and Treasurer of Sonic since April 1997, and a Sonic director since June 1997. He served as Sonic's secretary until February 9, 2000. Mr. Wright also serves as a director and executive officer of many of Sonic's subsidiaries. Before joining Sonic, Mr. Wright was a Senior Manager and in charge of the Columbia, South Carolina office of Deloitte & Touche LLP. Before joining the Columbia office, Mr. Wright was a Senior Manager in Deloitte & Touche LLP's National Office Accounting Research and SEC Services Departments from 1994 to 1995. Mr. Wright's term as a director of Sonic will expire at the 2002 annual stockholders' meeting.

Jeffrey C. Rachor is Sonic's Executive Vice President of Retail Operations. In May 1999, Mr. Rachor was appointed a director of Sonic and promoted to executive officer status. He originally joined Sonic as its Regional Vice President--Mid-South Region upon Sonic's 1997 acquisition of dealerships in Chattanooga, Tennessee and was subsequently promoted to Vice President of Retail Operations in September 1998. Mr. Rachor has over 15 years experience in automobile retailing and was the chief operating officer of the Chattanooga dealerships from 1989 until their acquisition by Sonic in 1997. During this period, Mr. Rachor has also served at various times as the general manager of Toyota, Saturn and Chrysler-Plymouth-Jeep-Eagle dealerships. Before then, Mr. Rachor was an assistant regional manager with American Suzuki Motor Corporation from 1987 to 1989 and a metro sales manager and a district sales manager with GM's Buick Motor Division from 1983 to 1987. Mr. Rachor's terms as a director of Sonic will expire at the 2003 annual stockholders' meeting.

Mark J. Iuppenlatz has been Sonic's Vice President of Corporate Development since August 1999. Before joining Sonic, Mr. Iuppenlatz served as the Executive Vice President--Acquisitions and Chief Operating Officer of Mar Mar Realty Trust, a real estate investment trust specializing in sale/leaseback financing of automotive-related real estate, from September 1998 to August 1999. From 1996 to September 1998, Mr. Iuppenlatz was employed by Brookdale Living Communities, Inc., a publicly-traded company, where he was responsible for conducting that company's development operations. From 1994 to 1996, he served as Vice President of Schlitzky's, Inc., a publicly-traded company, where his responsibilities included the development of over 30 new restaurant locations in more than 10 states. From 1991 to 1994, Mr. Iuppenlatz served in Spain as the director of marketing and the assistant director of development for Kepro S.A., an affiliate of The Prime Group. During his service with Kepro S.A, Mr. Iuppenlatz was responsible for the marketing and development of a mixed use planned development comprised of 22 office buildings, a two million square foot shopping mall, apartments, cultural facilities and a major urban park.

William R. Brooks has been a director of Sonic since its formation in 1997. Mr. Brooks also served as Sonic's initial Treasurer, Vice President and Secretary from its organization in February 1997 to April 1997 when Mr. Wright was appointed to those positions. Since December 1994, Mr. Brooks has been the vice president,

treasurer, chief financial officer and a director of SMI. Mr. Brooks also serves as an executive officer and a director for various operating subsidiaries of SMI. Before the formation of SMI in December 1994, Mr. Brooks was the vice president of the Charlotte Motor Speedway and a vice president and a director of Atlanta Motor Speedway. Mr. Brooks joined Sonic Financial Corporation, an entity controlled by Bruton Smith, from Price Waterhouse in 1983. At Sonic Financial Corporation, he was promoted from manager to controller in 1985 and again to chief financial officer in 1989. Mr. Brooks' term as a director of Sonic will expire at the 2003 annual stockholders' meeting.

William P. Benton became a director of Sonic in December 1997. Since January 1997, Mr. Benton has been the executive director of Ogilvy & Mather, a worldwide advertising agency. Mr. Benton has been a director of SMI since February 1995 and a director of Allied Holdings, Inc. since February 1998. Before his appointment at Ogilvy & Mather, Mr. Benton served as vice chairman of Wells, Rich, Greene/BDDP, Inc., an advertising agency with offices in New York and Detroit. Mr. Benton retired from Ford Motor Company as its vice president of marketing worldwide in 1984 after a 37-year career with that company. Mr. Benton has agreed to stand for re-election as a Sonic director at the 2001 annual stockholders' meeting.

William I. Belk became a director of Sonic in March 1998. Mr. Belk is currently the vice president and a director for Monroe Hardware Company, a director for Piedmont Ventures, Inc., and treasurer and a director for Old Well Water, Inc. For more than the previous five years, Mr. Belk held the position of chairman and director for certain Belk stores, (a privately held retail department store chain). Mr. Belk has agreed to stand for re-election as a Sonic director at the 2001 annual stockholders' meeting.

H. Robert Heller was appointed a director of Sonic on January 1, 2000. Mr. Heller served as a director of FirstAmerica from January 1999 until its acquisition by Sonic in December 1999. Mr. Heller has been a director and Executive Vice President of Fair, Isaac and Company since 1994. At Fair, Isaac and Company, he is responsible for strategic relationships and marketing. From 1991 to 1993, Mr. Heller was President and Chief Executive Officer of Visa U.S.A. Mr. Heller is a former Governor of the Federal Reserve System, and has had an extensive career in banking, international finance, government service and education. Mr. Heller's term as a director of Sonic will expire at the 2002 annual stockholders' meeting.

Sonic's Board of Directors is divided into three classes, each of which serves for a three year term, with one class being elected at Sonic's annual stockholders' meeting each year. Messrs. Scott Smith, Benton and Belk belong to the class of directors whose term expires in 2001, Messrs. Wright, Price and Heller belong to the class whose term expires in 2002 and Messrs. Bruton Smith, Rachor and Brooks belong to the class whose term expires in 2003. The executive officers are elected annually by, and serve at the discretion of, Sonic's Board of Directors.

Employees

As of December 31, 2000, Sonic employed approximately 9,400 people. We believe that many dealerships in the retail automobile industry have difficulty in attracting and retaining qualified personnel for a number of reasons, including the historical inability of dealerships to provide employees with an equity interest in the profitability of the dealerships. We provide certain executive officers, managers and other employees with stock options and all employees with a stock purchase plan. We believe this type of equity incentive is attractive to our existing and prospective employees.

We believe that our relationships with our employees are good. Approximately 250 of our employees, primarily service technicians in our Northern California markets, are represented by a labor union. Because of our dependence on the manufacturers, however, we may be affected by labor strikes, work slowdowns and walkouts at the manufacturer's manufacturing facilities.

Item 2: Properties.

Sonic's principal executive offices are located at 5401 East Independence Boulevard, Charlotte, North Carolina 28212, and our telephone number is (704) 532-3320. These executive offices are located on the premises owned by affiliates of Capital Automotive REIT.

Our dealerships are generally located along major U.S. or interstate highways. One of the principal factors considered by Sonic in evaluating an acquisition candidate is its location. We prefer to acquire dealerships located along major thoroughfares, primarily interstate highways with ease of access, which can be easily visited by prospective customers.

We lease all of the properties utilized by our dealership operations. Our

leased properties are leased from affiliates of Capital Automotive REIT and other individuals and entities. We believe that our facilities are adequate for our current needs.

Under the terms of our franchise agreements, Sonic must maintain an appropriate appearance and design of its facilities and is restricted in its ability to relocate its dealerships. See "Business--Relationships with Manufacturers."

In the ordinary course at business, we evaluate our facilities for possible disposition based on various performance criteria. Our dispositions are generally smaller dealerships with less attractive franchises. During the year ended December 31, 2000 we sold eight dealerships which contributed \$65.5 million in revenue for 2000. The aggregate proceeds from these dispositions, net of costs of disposal, were approximately \$7.1 million. No material gains or losses have been realized from these sales.

Item 3: Legal Proceedings

From time to time, Sonic is named in claims involving the manufacture of automobiles, contractual disputes and other matters arising in the ordinary course of our business. Currently, no legal proceedings are pending against or involve the Company that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Because of their vehicle inventory and nature of business, automobile retail dealerships generally require significant levels of insurance covering a broad variety of risks. Sonic's insurance includes an umbrella policy as well as insurance on our real property, comprehensive coverage for our vehicle inventory, general liability insurance, employment practices liability insurance, employee dishonesty coverage, directors and officers insurance and errors and omissions insurance in connection with our vehicle sales and financing activities.

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

Not Applicable.

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PART II

Item 5: Market for the Registrant's Common Equity and Related Stockholder Matters.

Sonic's Class A common stock is currently traded on the New York Stock Exchange ("NYSE") under the symbol "SAH."

As of December 31, 2000, there were 29,715,570 shares of Sonic's Class A common stock and 12,250,000 shares of Sonic's Class B common stock outstanding. As of March 16, 2001, there were 155 record holders of the Class A common stock and four record holders of the Class B common stock. As of March 16, 2001, the closing stock price for the Class A common stock was \$8.00.

Sonic intends to retain future earnings to provide funds for operations and future acquisitions. As a holding company, Sonic depends on dividends and other payments from its subsidiary dealership operations to pay cash dividends to stockholders, as well as to meet debt service and operating expense requirements.

We do not anticipate paying any dividends in the foreseeable future. Under an Indenture dated as of July 1, 1998 (the "Indenture") among Sonic and U.S. Bank Trust National Association, as trustee, and under the syndicated credit agreement between Sonic, Ford Motor Credit Company ("Ford Motor Credit"), and Chrysler Financial Company, LLC ("Chrysler Financial") no dividends may be paid by Sonic. Any decision concerning the payment of dividends on the common stock will depend upon the results of operations, financial condition and capital expenditure plans of Sonic, as well as other factors as the Board of Directors, in its sole discretion, may consider relevant.

The following table sets forth the high and low closing sales prices for Sonic's Class A common stock for each calendar quarter during the periods indicated as reported by the NYSE Composite Tape.

<TABLE>
<CAPTION>

	High	Low
	-----	-----
<S>	<C>	<C>
2000		
First Quarter.....	9.81	7.69
Second Quarter.....	11.25	9.50
Third Quarter.....	12.13	8.31

Fourth Quarter..... 9.00 6.00

<CAPTION>

	High	Low
	-----	-----
<S>	<C>	<C>
1999		
First Quarter.....	18.44	13.94
Second Quarter.....	16.38	12.00
Third Quarter.....	14.94	10.63
Fourth Quarter.....	12.25	7.88

</TABLE>

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Item 6: Selected Financial Data.

The selected consolidated income statement data for the years ended December 31, 1996, 1997, 1998, 1999 and 2000 and the selected consolidated balance sheet data as of December 31, 1996, 1997, 1998, 1999 and 2000 are derived from Sonic's audited financial statements. In accordance with accounting principles generally accepted in the United States of America, the selected consolidated financial data has been retroactively restated to reflect Sonic's two-for-one common stock split that occurred on January 25, 1999. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere herein.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired by us. The selected consolidated financial data of Sonic discussed below reflect the results of operations and financial positions of each of our dealerships acquired prior to December 31, 2000. As a result of the effects of our acquisitions, the historical consolidated financial information described in selected consolidated financial data is not necessarily indicative of the results of operations and financial position of Sonic in the future or the results of 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.

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<TABLE>
<CAPTION>

	Year Ended December 31,				
	1996	1997	1998	1999	2000

	(dollars and shares in thousands except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data:					
Revenues:					
New vehicles.....	\$233,979	\$343,941	\$ 962,939	\$1,968,514	\$3,522,049
Used vehicles.....	68,054	85,132	324,740	684,560	1,249,188
Wholesale vehicles.....	25,641	38,785	119,351	250,794	430,513
	-----	-----	-----	-----	-----
Total vehicles.....	327,674	467,858	1,407,030	2,903,868	5,201,750
Parts, service, and collision repair.....	42,075	57,537	162,660	364,184	687,975
Finance, insurance and other.....	7,118	10,606	34,011	82,771	162,751
	-----	-----	-----	-----	-----
Total revenues.....	376,867	536,001	1,603,701	3,350,823	6,052,476
Cost of sales.....	332,122	473,003	1,396,259	2,896,400	5,187,289
	-----	-----	-----	-----	-----
Gross profit.....	44,745	62,998	207,442	454,423	865,187
Selling, general and administrative expenses...	32,602	46,770	150,130	326,914	633,356
Depreciation and amortization.....	1,076	1,322	4,607	11,699	22,714
	-----	-----	-----	-----	-----
Operating income.....	11,067	14,906	52,705	115,810	209,117
Other income and expense:					
Interest expense, floor plan.....	5,968	8,007	14,096	22,536	47,108
Interest expense, other..	433	1,199	9,395	21,586	42,244
Other income.....	355	298	426	1,286	107
	-----	-----	-----	-----	-----
Total other expense, net.....	6,046	8,908	23,065	42,836	89,245
	-----	-----	-----	-----	-----

Income before income taxes and minority interest.....	5,021	5,998	29,640	72,974	119,872
Provision for income taxes.....	1,924	2,249	11,083	28,325	45,700
Income before minority interest.....	3,097	3,749	18,557	44,649	74,172
Minority interest in earnings of subsidiary....	114	47	--	--	--
Net income.....	\$ 2,983	\$ 3,702	\$ 18,557	\$ 44,649	\$ 74,172
Diluted net income per share.....	N/A	\$ 0.27	\$ 0.74	\$ 1.27	\$ 1.69
Weighted average number of diluted shares outstanding.....	N/A	13,898	24,970	35,248	43,826

Consolidated Balance Sheet

Working capital.....	\$ 19,780	\$ 44,098	\$ 79,155	\$ 177,657	\$ 219,082
Total assets.....	110,976	291,450	576,103	1,501,102	1,789,248
Long-term debt (1).....	6,719	49,653	145,790	425,894	493,309
Total liabilities.....	84,367	207,085	433,674	1,098,529	1,338,326
Minority interest.....	314	--	--	--	--
Stockholders' equity.....	26,295	84,365	142,429	402,573	450,922

</TABLE>

(1) Long-term debt includes current maturities of long-term debt and the payable to Sonic's Chairman. See Sonic's Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

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 beginning on page F-1 of this annual report.

Overview

We are the second largest automotive retailer in the United States, as measured by total revenue, operating 165 dealership franchises and 30 collision repair centers throughout the United States as of March 20, 2001. We own and operate franchises for 31 different brands of cars and light trucks, providing comprehensive services including sales of both new and used cars and light trucks, replacement parts and vehicle maintenance, warranty, paint and repair services. We also arrange extended warranty contracts and financing and insurance for our automotive customers.

The following table depicts the breakdown of our new vehicle revenues by brand for each of the past three years:

<TABLE>

<CAPTION>

	Percentage of New Vehicle Revenues for the year ended December 31,		
	1998	1999	2000
Brand	<C>	<C>	<C>
Honda.....	1.0%	6.7%	14.4%
Ford.....	40.5%	23.2%	13.5%
Chrysler (1).....	18.9%	14.0%	12.0%
BMW.....	5.3%	9.5%	10.7%
General Motors (2).....	6.2%	13.5%	10.7%
Toyota.....	10.7%	7.9%	8.3%
Nissan.....	0.0%	3.1%	6.5%
Lexus.....	0.0%	3.8%	5.3%
Other (3).....	17.4%	18.3%	18.6%
Total.....	100.0%	100.0%	100.0%

</TABLE>

- (1) Includes Chrysler, Dodge, Jeep and Plymouth
- (2) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile and Pontiac
- (3) Includes Acura, Audi, Hyundai, Infiniti, Isuzu, KIA, Land Rover,

New vehicle revenues include both the sale and lease of new vehicles. Used vehicle revenues include amounts received for used vehicles sold to retail customers, other dealers and wholesalers. Other operating revenues include parts and services revenues, fees and commissions for arranging financing and insurance and sales of third party extended warranties for vehicles. In connection with vehicle financing contracts, we receive a finance fee from the lender for originating the loan. If, within 90 days of origination, the customer pays off the loans through refinancing or selling/trading in the vehicle or defaults on the loan, the finance company will assess a charge (a "chargeback") for a portion of the original commission. The amount of the chargeback depends on how long the related loan was outstanding. As a result, we have established reserves based on our historical chargeback experience. We also sell warranties provided by third-party vendors, and recognize a commission at the time of sale.

The automobile industry is cyclical and historically has experienced periodic downturns, characterized by oversupply and weak demand. Many factors affect the industry including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and available credit. During the fourth quarter of 2000, we saw a rapid slowdown in the new vehicle sales of domestic manufacturer brands as a

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result of these factors. This caused many of our dealerships to have excess new vehicle inventory and to overspend on advertising and promotional programs. As a result of this slowdown in the new vehicle market, our new vehicle revenue declined by approximately 5.5% on a same store basis in the fourth quarter of 2000. We expect this slowdown in domestic new vehicle sales to continue into the first quarter of 2001. While used vehicle sales are affected by the same factors as new vehicle sales, generally a slowdown in new vehicle sales does not necessarily indicate a similar slowdown in used vehicle sales due to limited comparability among used vehicles and the subjective nature of their valuation. In the fourth quarter of 2000, our used vehicle revenues declined less than 1% on a same store basis.

While the automotive retailing business is cyclical, we sell several products and services that are not closely tied to the sale of new and used vehicles. Such products and services include our parts, service and collision repair businesses, none of which are dependent upon near-term new vehicle sales volume.

Our cost of sales and profitability are also affected by the allocations of new vehicles which our dealerships receive from manufacturers. When we do not receive allocations of new vehicle models adequate to meet customer demand, we may purchase additional vehicles from other dealers at a premium to the manufacturer's invoice, reducing the gross margin realized on the sales of such vehicles. In addition, we follow a disciplined approach in selling vehicles to other dealers and wholesalers when the vehicles have been in our inventory longer than the guidelines set by us. Such sales are frequently at or below cost and, therefore, reduce our overall gross margin on vehicle sales. Salary expense, employee benefits costs, facility rent and advertising expenses comprise the majority of our selling, general and administrative expenses. Approximately 64.2% of our selling, general and administrative expenses for the year ended December 31, 2000 were variable. We are able to adjust these expenses as the operating or economic environment impacting our dealerships changes. We manage these variable expenses, such as advertising (9.3% of selling, general and administrative expenses) and non-salaried sales compensation (48.2%) expenses, so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options. Interest expense fluctuates based primarily on the level of the inventory of new vehicles held at our dealerships, substantially all of which is financed through floor plan financing, as well as the amount of indebtedness incurred for acquisitions. Our floor plan expenses are substantially offset by amounts received from manufacturers, in the form of floor plan inventory incentives. These payments are credited against our cost of sales. In 2000, we received approximately \$37.3 million in manufacturer inventory incentives which resulted in an effective borrowing rate under our floor plan facilities of approximately 1.7%.

Our business is fundamentally managed based on individual dealership operating performance. Each of our dealerships have similar economic and operating characteristics. Each dealership sells similar products and services (new and used vehicles, parts, service and collision repair services), uses similar processes in selling its products and services, and sells its products and services to similar classes of customers. As a result, we have aggregated our dealerships into a single operating segment for purposes of reporting financial condition and results of operations.

We have accounted for all of our dealership acquisitions using the purchase

increase in the average selling price resulted primarily from an increase in the percentage of units sold contributed by higher-priced luxury brands. Luxury brands comprised 13.5% of our new vehicle unit sales in 1999 compared to 7.3% in 1998.

The following charts depict the percentage of new vehicle units and revenues contributed by domestic, import and luxury import brands over each of the last three years:

[GRAPHIC]

	Revenues			Units		
	1998	1999	2000	1998	1999	2000
Domestic	69.2%	53.2%	38.0%	71.7%	56.5%	39.7%
Import	18.7%	24.8%	35.1%	21.0%	30.0%	43.8%
Luxury Import	12.1%	22.0%	26.9%	7.3%	13.5%	16.5%

Used Vehicles: Revenues from retail sales of used vehicles increased approximately 82.5% in 2000. The increase was primarily due to an increase in unit sales of approximately 68.4% and an increase in the average selling price of approximately 8.3%. Of the increase in unit sales, approximately 94.6% resulted from acquisitions and 5.4% resulted from stores owned longer than one year.

In 1999, revenues from retail sales of used vehicles increased 111%. The increase was primarily due to an increase in unit sales of approximately 92.5% and an increase in the average selling price of approximately 9.5%. Of the increase in unit sales, approximately 87.7% resulted from acquisitions and 12.3% resulted from stores owned longer than one year.

Fixed Operations and Finance and Insurance: Revenues from parts, service and collision repair increased approximately 88.9% in 2000, of which approximately 93.8% resulted from acquisitions. In 1999, revenues from parts, service and collision repair increased approximately 124%, of which approximately 92.8% resulted from acquisitions.

Finance and insurance revenue increased 96.6% in 2000 and 143% in 1999 resulting primarily from increases in revenues from the retail sale of new and used vehicles in both years. Finance and insurance revenues per vehicle increased 15.5% in 2000 and 27.2% in 1999 resulting primarily from management's continued focus on improving training and development programs for finance and insurance sales people.

Gross profit and gross margins

Gross profit increased 90.4% in 2000, of which approximately 94.9% resulted from acquisitions. Our overall gross profit percentage increased to 14.3% from 13.6% due primarily to an increase in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products, which earn higher margins than vehicles sales. Parts, service and collision repair revenues as a percentage of total revenues increased to 11.4% in 2000 from 10.9% in 1999. Finance and insurance revenues as a percentage of total revenues increased to 2.7% in 2000 from 2.5% in 1999. In addition, the gross profit percentage earned on our parts, service, collision repair and finance and insurance products increased to 52.2% in 2000 from 50.2% in 1999.

Gross profit increased 119% in 1999, of which approximately 88.3% resulted from acquisitions. Our overall gross profit percentage increased to 13.6% in 1999 from 12.9% in 1998 due primarily to an increase in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products, which earn higher margins than vehicles sales. Parts, service and collision repair revenues as a percentage of total revenues increased to 10.9% in 1999 from 10.1% in 1998. Finance and insurance revenues as a percentage of total revenues increased to 2.5% in 1999 from 2.1% in 1998. In addition, the gross profit percentage earned

on our parts, service, collision repair and finance and insurance products increased to 50.2% in 1999 from 50.0% in 1998.

The following graph depicts our mix of revenue and gross profit for each of the past three years:

[GRAPHIC]

	New vehicles	Used vehicles	Parts, service and collision repair	Finance and insurance
1998				

Revenue	60.0%	27.8%	10.1%	2.1%
Gross Profit	36.4%	16.2%	33.9%	13.5%
1999				

- ----				
Revenue	58.7%	28.0%	10.9%	2.5%
Gross Profit	35.5%	15.2%	34.0%	15.3%
2000				
- ----				
Revenue	58.2%	28.7%	11.4%	2.7%
Gross Profit	33.9%	14.8%	35.5%	15.8%

Selling, general and administrative expenses

Selling, general and administrative expenses increased 93.7% in 2000, resulting principally from acquisitions. Such expenses as a percentage of revenues increased to 10.4% in 2000 from 9.7% in 1999. The significant expenses in this category are primarily compensation, advertising and facility rental. Compensation programs, which represent over 50% of a dealership's selling, general and administrative expenses, are primarily based on gross profits. As a result, the improvement in gross profit margins resulted in an increase in compensation expense as a percentage of total revenues to 6.4% in 2000 from 6.0% in 1999 (as a percentage of gross profits, compensation expense increased slightly to 44.5% in 2000 from 44.2% in 1999). In addition, rent expense increased as a percentage of total revenues to 0.9% in 2000 from 0.8% in 1999 primarily due to acquisitions of dealerships located in higher rent markets and increased lease costs on newly constructed dealerships. Advertising expense as a percentage of total revenues remained constant at 1.0% of revenues in both 2000 and 1999.

In 1999, selling, general and administrative expenses increased 118%, resulting principally from acquisitions. Such expenses as a percentage of revenues increased to 9.7% in 1999 from 9.3% in 1998. Improvement in gross profit margins resulted in an increase in compensation expense as a percentage of total revenues to 6.0% in 1999 from 5.7% in 1998. In addition, rent expense increased as a percentage of total revenues to 0.8% in 1999 from 0.7% in 1998 primarily due to acquisitions of dealerships located in higher rent markets. Advertising expense as a percentage of total revenues decreased to 1.0% in 1999 from 1.1% in 1998 resulting primarily from benefits of scale which allowed us to recognize cost savings.

Depreciation and amortization

Depreciation expense, excluding goodwill amortization, increased approximately 89.4% in 2000. The balance of gross property and equipment, excluding land and construction in process, increased approximately \$8.9 million in 2000, of which approximately \$4.3 million resulted from dealership acquisitions and approximately \$4.6 million from additional capital expenditures, net of disposals and other adjustments. In 1999, depreciation expense increased approximately 127%. The balance of property and equipment, excluding

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construction in process, increased approximately \$37.8 million in 1999, of which approximately \$30.7 million resulted from dealership acquisitions and approximately \$7.1 million resulted from additional capital expenditures, net of disposals and other adjustments. As a percentage of total revenues, depreciation expense was at 0.1% in 2000, 1999 and 1998. Goodwill amortization expense increased 95.9% in 2000 and 166% in 1999 as a result of additional acquisitions. Goodwill arising from acquisitions was approximately \$88.1 million in 2000 and approximately \$417.3 million in 1999.

Interest expense, floor plan

Interest expense, floor plan increased 109% in 2000, approximately 77.4% of which resulted from acquisitions and 22.6% of which was contributed by stores owned longer than one year. As a percentage of total revenues, floor plan interest increased to 0.8% in 2000 from 0.7% in 1999. The increases in interest expense from stores owned longer than one year, as well as the increase in interest expense as a percentage of revenues, was due to an increase in the average floor plan interest rate to approximately 7.9% in 2000 from 6.9% in 1999, as well as an increase in our average days supply of new vehicles in inventory to approximately 57.5 days in 2000 from 53.9 days in 1999. This increase in our average days supply, which occurred primarily in the fourth quarter of 2000, resulted in larger inventory and floor plan balances.

In 1999, interest expense, floor plan increased 59.9% due to interest expense contributed by dealerships acquired which was offset by a decline in interest expense from stores owned longer than one year. As a percentage of total revenues, floor plan interest decreased to 0.7% in 1999 from 0.9% in 1998 as a result of a decrease in the average floor plan interest rate and an improvement in inventory turnover rates.

Interest expense, other

Interest expense, other increased \$20.6 million in 2000, due primarily to an increase in the average balance under our \$500 million revolving credit

agreement with Ford Motor Credit Company ("Ford Motor Credit") and Chrysler Financial Company, LLC ("Chrysler Financial") (the "Revolving Facility") to \$331.8 million in 2000 from \$76.3 million in 1999, as well as an increase in the average interest rate to approximately 9.0% in 2000 from 7.9% in 1999. This increase in interest expense, other was partially offset by the capitalization of \$1.9 million of interest costs on construction projects.

Interest expense, other increased \$12.2 million in 1999 due primarily to interest incurred on the \$125 million of 11% senior subordinated notes we issued on July 31, 1998 and on additional borrowings under our Revolving Facility. This increase in interest expense, other was partially offset by the capitalization of \$0.2 million of interest costs on construction projects.

Provision for income taxes

The effective tax rate was 38.1% in 2000 compared to 38.8% in 1999 and 37.4% in 1998. The decrease from 1999 to 2000 was primarily attributable to the realization of the benefits of certain tax planning strategies, offset somewhat by acquisitions we made in the latter part of 1999 which were either (1) companies operating in states with higher income tax rates, or (2) stock purchases in which the goodwill amortization is not deductible for income tax purposes.

The increase in 1999 from 1998 was also primarily attributable to acquisitions which were either (1) companies operating in states with higher income tax rates, or (2) stock purchases in which the goodwill amortization is not deductible for income tax purposes.

Liquidity and Capital Resources

Our principal needs for capital resources are to finance acquisitions and fund debt service and working capital requirements. Historically, we have relied on internally generated cash flows from operations, borrowings under our various credit facilities, and offerings of debt and equity securities to finance our operations and expansion.

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Cash from operations:

During 2000, net cash provided by operating activities was approximately \$106.2 million compared to \$45.8 million in 1999 and \$12.0 million in 1998. The increases each year were primarily due to increases in net income.

Cash flows from operations include the effect of vehicle purchases and related floor plan financing. We currently have standardized floor plan credit facilities with Chrysler Financial, General Motors Acceptance Corporation ("GMAC") and Ford Motor Credit. The floor plan credit facility with Chrysler Financial provides up to \$750 million for the purchase of vehicles at our Chrysler dealerships. The floor plan credit facility with GMAC, which was obtained on June 30, 2000, provides for the purchase of vehicles at nine of our General Motors dealerships. The floor plan facility with Ford Motor Credit provides up to \$550 million for the purchase of vehicles at all of our other dealerships. As of December 31, 2000, there was an aggregate of approximately \$143.0 million outstanding under the Chrysler Financial floor plan facility, \$70.8 million outstanding under the GMAC floor plan facility and \$470.9 million outstanding under the Ford Motor Credit floor plan facility. Balances outstanding under new vehicle floor plan indebtedness generally exceed the related inventory balances, which are generally reduced by purchase discounts from manufacturers that are not reflected in the related floor plan liability. These manufacturer purchase discounts are standard in the automotive retail industry, typically occur on all new vehicle purchases and are not used to offset the related floor plan liability. These discounts are aggregated and generally paid to us by the manufacturers on a quarterly basis.

Amounts outstanding under the Chrysler Financial floor plan facility bear interest at 1.25% above LIBOR (LIBOR was 6.56% at December 31, 2000). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at prime rate (prime was 9.50% at December 31, 2000), subject to certain incentives and other adjustments. Interest payments under each of our floor plan facilities are due monthly, but we are not required to make principal repayments prior to the sale of the vehicles. The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of December 31, 2000.

Investing activities:

Cash used for investing activities in 2000 was approximately \$109.6 million, compared to \$368.6 million in 1999 and \$74.9 million in 1998. Our principal investing activities include capital expenditures and dealership acquisitions.

Capital Expenditures: Other than construction of new dealerships and collision repair centers, our capital expenditures generally include building improvements and equipment for use in our dealerships. Capital expenditures in 2000 were approximately \$73.2 million, compared to \$21.5 million in 1999 and \$4.3 million in 1998. The year over year increases primarily represent expenditures for the construction and renovation of dealerships and collision repair centers. Of the capital expenditures in 2000, approximately \$57.9 million related to the construction of new dealerships and collision repair centers compared to \$9.0 million for similar expenditures in 1999. Once completed, these new dealerships and collision repair centers are generally sold to third parties in sale-leaseback transactions. We sold \$44.1 million of completed construction projects in sale leaseback transactions in 2000 and \$3.0 million in 1999. There were no material gains or losses on these sales. In addition, in 1999 we sold real estate at two of our existing dealerships in sale-leaseback transactions for approximately \$10.6 million. We recognized a gain of approximately \$2.1 million which was deferred and is being amortized against rent expense over the term of the lease. As of December 31, 2000, total construction in progress was approximately \$17.4 million, of which approximately \$5.2 million represented construction costs on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying Consolidated Balance Sheet as of December 31, 2000. We do not expect any significant gains or losses from these sales.

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Dealership acquisitions: During 2000, we acquired 11 dealerships for approximately \$92.0 million in cash and 11,589 shares of Class A convertible preferred stock, Series II, recorded at an estimated value of approximately \$11.6 million. The cash portion of the purchase price was financed with a combination of cash borrowed under our Revolving Facility and cash generated from our existing operations.

During 1999, we acquired 72 dealerships for approximately \$420.4 million in cash, 52,065 shares of Class A convertible preferred stock (6,282 shares of Series II and 45,783 shares of Series III) recorded at an estimated value of approximately \$52.0 million, and 6,784,347 shares of Class A common stock recorded at a value of approximately \$75.8 million. The cash portion of the purchase price was financed with a combination of a portion of the net proceeds received from our public offering of Class A common stock in May 1999, cash borrowed under our Revolving Facility and cash generated from our existing operations.

During 1998, we acquired 19 dealerships for approximately \$96.2 million in cash, 30,733.8 shares of Class A convertible preferred stock (14,406.3 shares of Series I, 10,054.5 shares of Series II and 6,273 shares of Series III) recorded at an estimated value of approximately \$29.3 million, 970,588 shares of Class A common stock recorded at a value of approximately \$8.3 million, and warrants to purchase 154,000 shares of Class A common stock recorded at a value of approximately \$0.5 million. The cash portion of the purchase price was financed with a portion of the net proceeds from our offering of \$125 million in senior subordinated notes in July 1998, cash borrowed under the Revolving Facility and cash generated from our existing operations.

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During 2000, we sold or otherwise disposed of assets from eight of our dealership franchises which contributed approximately \$65.5 million in revenues in 2000. Proceeds, net of disposal costs, from these dispositions were approximately \$7.1 million, and we have recognized no material gains or losses on these dispositions.

Financing activities:

Cash flows from financing activities were approximately \$29.7 million in 2000 and primarily related to net borrowings under our Revolving Facility of approximately \$64.8 million, net borrowings under our revolving real estate acquisition and construction line of credit with Ford Motor Credit of approximately \$4.5 million, and repurchases of stock under our stock repurchase program of approximately \$40.0 million.

Cash flows from financing activities in 1999 were approximately \$354.1 million and primarily related to net borrowings under our Revolving Facility of approximately \$280.1 million, net proceeds received from our public offering of public stock on May 5, 1999 of approximately \$85.0 million, and repurchases of stock under our stock repurchase program of approximately \$6.4 million.

Cash flows from financing activities in 1998 were approximately \$96.4 million and primarily represented net proceeds of approximately \$121.0 million received from the issuance of our senior subordinated notes on July 31, 1998 and net repayments under our Revolving Facility of approximately \$24.4 million.

The Revolving Facility: On August 10, 2000, we entered into the Revolving

Facility with Ford Motor Credit and Chrysler Financial to replace our previous \$350 million acquisition line of credit with Ford Motor Credit. The Revolving Facility has a borrowing limit of \$500 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by one of our affiliated companies (the borrowing base was approximately \$426.8 million at December 31, 2000). Amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 6.56% at December 31, 2000) and will mature on October 31, 2003 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit and Chrysler Financial). Borrowings, net of repayments, under the Revolving Facility for the year ended December 31, 2000 were approximately \$64.8 million and were primarily used to finance acquisitions. The total outstanding balance as of December 31, 2000 was approximately \$353.8 million. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for general working capital and other general corporate purposes.

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We agreed under the Revolving Facility not to pledge any of our assets to any third party (with the exception of currently encumbered assets of our dealership subsidiaries that are subject to previous pledges or liens). In addition, the Revolving Facility contains certain negative covenants, including covenants restricting or prohibiting the payment of dividends, capital expenditures and material dispositions of assets as well as other customary covenants and default provisions. Financial covenants include specified ratios of

- . current assets to current liabilities (at least 1.23:1),
- . earnings before interest, taxes, depreciation and amortization (EBITDA) and rent, less capital expenditures, to fixed charges (at least 1.4:1),
- . EBITDA to interest expense (at least 2:1) and
- . total adjusted debt to EBITDA (no greater than 2.25:1).

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or our failure, with certain exceptions, to own all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default under the Revolving Facility. We are in compliance with all restrictive covenants as of December 31, 2000.

The Mortgage Facility: In June 2000, we entered into a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until December 2003. All advances mature on June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. The total outstanding balance under the Construction Loan as of December 31, 2000 was approximately \$4.6 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed. Advances can be made under the Permanent Loan until June 2005. All advances under the Permanent Loan mature on June 22, 2010, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan. As of December 31, 2000, no amounts were outstanding under the Permanent Loan.

The Mortgage Facility allows us to borrow up to \$100 million in the aggregate under the Construction Loan and the Permanent Loan. The Mortgage Facility is not cross-collateralized with the Revolving Facility; however, a default under one will cause a default under the other. Among other customary covenants, the borrowing subsidiaries under the Mortgage Facility agreed not to incur any other liens on their property (except for existing encumbrances on property acquired) and not to transfer their property or more than 20% of their ownership interests to any third party. In addition, the loss of voting control over Sonic by Bruton Smith, Scott Smith and their spouses or immediate family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2000.

The 11% Senior Subordinated Notes Due 2008: We currently have an aggregate principal balance of \$125 million in senior subordinated notes outstanding which mature on August 1, 2008 and bear interest at a stated rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Interest payments are due semi-annually on August 1 and February 1 and commenced February 1, 1999. The notes are subordinated to all of our present

and future senior indebtedness, including the Revolving Facility. Redemption prices during 12 month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter.

The indenture governing the senior subordinated notes contains certain specified restrictive and required financial covenants. We have agreed not to pledge our assets to any third party except under certain limited

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circumstances (for example, floor plan indebtedness). We have also agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to stockholders, distributions and redemptions. We are in compliance with all restrictive covenants as of December 31, 2000.

Stock Repurchase Program: Our Board of Directors has authorized us to expend up to \$75 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. As of December 31, 2000 we had repurchased 3,576,363 million shares of Class A common stock for approximately \$32.8 million and had also redeemed 13,551 shares of Class A convertible preferred stock at a total cost of approximately \$13.6 million. Through March 20, 2001, we have repurchased approximately 4,987,163 million shares of Class A common stock for approximately \$43.5 million and have redeemed 13,801.5 shares of Class A convertible preferred stock for approximately \$13.8 million. We will continue to repurchase shares from time to time subject to market conditions.

We believe that funds generated through future operations and availability of borrowings under our floor plan financing (or any replacements thereof) and other credit arrangements will be sufficient to fund our debt service and working capital requirements and any seasonal operating requirements, including our currently anticipated internal growth for our existing businesses, for the foreseeable future. We expect to fund any future acquisitions from future cash flow from operations, additional debt financing (including the Revolving Facility) or the issuance of Class A common stock, preferred stock or other convertible instruments.

Seasonality

Our operations are subject to seasonal variations. The first quarter generally contributes less revenue and operating profits than the second, third and fourth quarters. Seasonality is principally caused by weather conditions and the timing of manufacturer incentive programs and model changeovers.

Significant Materiality of Goodwill

Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. The cumulative gross goodwill balance was approximately \$697.8 million at December 31, 2000 and approximately \$605.1 million at December 31, 1999. As a percentage of total assets and stockholders' equity, goodwill, net of accumulated amortization, represented 37.4% and 148.3%, respectively, at December 31, 2000, and 39.5% and 147.2%, respectively, at December 31, 1999. Generally accepted accounting principles in the United States of America require that goodwill and all other intangible assets be amortized over the period benefited. We have determined that the period benefited by the goodwill will be no less than 40 years. Accordingly, we are amortizing goodwill over a 40 year period. Earnings reported in periods immediately following an acquisition would be overstated if we attributed a 40 year benefit to an intangible asset that should have had a shorter benefit period. In later years, we would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at the consideration paid for the businesses acquired. Earnings in later years also could be significantly affected if management then determined that the remaining balance of goodwill was impaired. We periodically compare the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the business we have acquired in order to evaluate the recoverability of goodwill. We have concluded that the anticipated future cash flows associated with intangible assets recognized in our acquisitions will continue indefinitely, and there is no pervasive evidence that any material portion will dissipate over a period shorter than 40 years. We will incur additional goodwill in future acquisitions.

The Financial Accounting Standards Board recently proposed new rules relating to the accounting for business combinations and intangible assets. One aspect of the proposal would not permit amortization of goodwill, but would require the carrying amount of goodwill to be reduced only if it was found to be impaired or was associated with assets to be sold or otherwise disposed. If the proposed rules are adopted, goodwill arising

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from acquisitions completed prior to the date of adoption would no longer be

amortized, though reversal of goodwill amortization recognized in prior periods would not be permitted.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our variable rate floor plan notes payable, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately \$1.1 billion at December 31, 2000 and approximately \$822.0 million at December 31, 1999. A change of one percent in the interest rate would have caused a change in interest expense of approximately \$9.5 million in 2000 and approximately \$4.2 million in 1999. Of the total change in interest expense, approximately \$5.9 million in 2000 and approximately \$3.3 million in 1999 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes payable is mitigated by floor plan incentives received from manufacturers which are generally based on rates similar to those incurred under our floor plan financing arrangements. Our floor plan interest expense in 2000 exceeded the amounts we received from these manufacturer floor plan incentives by only approximately \$9.8 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to an annualized rate of approximately 1.7% after considering these incentives.

Item 8. Financial Statements and Supplementary Data.

See "Consolidated Financial Statements and Notes" beginning on page F-1 herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item with respect to compliance by Sonic's directors, executive officers and certain beneficial owners of Sonic's Common Stock with Section 16(a) of the Securities Exchange Act of 1934, is furnished by incorporation by reference to all information under the captions entitled "Election of Directors," and "Ownership of Capital Securities" in the Proxy Statement (to be filed hereafter) for Sonic's Annual Meeting of the Stockholders to be held on May 2, 2001 (the "Proxy Statement"). The information required by this item with respect to Sonic's executive officers and directors appears in Item I of Part I of this Annual Report on Form 10-K under the caption "Executive Officers and Directors of the Registrant."

Item 11. Executive Compensation.

The information required by this item is furnished by incorporation by reference to all information under the captions entitled "Election of Directors" and "Executive Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is furnished by incorporation by reference to all information under the caption "General--Ownership of Capital Securities" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is furnished by incorporation by reference to all information under the caption "Certain Transactions" in the Proxy Statement.

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PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

The exhibits and other documents filed as a part of this Annual Report on Form 10-K, including those exhibits which are incorporated by reference herein, are:

(a) (1) Financial Statements:

See the Consolidated Financial Statements beginning on page F-1 hereof.

(2) Financial Statement Schedules: No financial statement schedules are

required to be filed as part of this Annual Report on Form 10-K.

(3) Exhibits:

Exhibits required in connection with this Annual Report on Form 10-K are listed below. Certain of such exhibits, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the Securities and Exchange Commission with which they are electronically filed, to be a part hereof as of their respective dates.

<TABLE>	
<CAPTION>	
Exhibit No. -----	Description -----
<C>	<S>
3.1*	Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic's Registration Statement on Form S-1 (Reg. No. 333-33295) (the "Form S-1")).
3.2*	Certificate of Amendment to Sonic's Amended and Restated Certificate of Incorporation effective June 18, 1999 (incorporated by reference to Exhibit 3.2 to Sonic's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K")).
3.3*	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to Sonic's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
3.4*	Bylaws of Sonic (incorporated by reference to Exhibit 3.2 to the Form S-1).
4.1*	Specimen Certificate representing Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Form S-1).
4.2*	Form of 11% Senior Subordinated Note due 2008, Series B (incorporated by reference to Exhibit 4.3 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-64397 and 333-64397-001 through 333-64397-044) (the "Form S-4")).
4.3*	Indenture dated as of July 1, 1998 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and U.S. Bank Trust National Association, as trustee (the "Trustee"), relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2 to the Form S-4).
4.4*	First Supplemental Indenture dated as of December 31, 1999 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2a to the 1999 Form 10-K).
4.5*	Second Supplemental Indenture dated as of September 15, 2000 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.4 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "September 30, 2000 Form 10-Q")).

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<TABLE>	
<CAPTION>	
Exhibit No. -----	Description -----
<C>	<S>
4.6*	Registration Rights Agreement dated as of June 30, 1997 among Sonic, O. Bruton Smith, Bryan Scott Smith, William S. Egan and Sonic Financial Corporation (incorporated by reference to Exhibit 4.2 to the Form S-1).
10.1*	Credit Agreement dated as of August 10, 2000 (the "Credit Agreement") between Sonic, as Borrower, Ford Motor Credit Company ("Ford Credit"), as Agent and Lender, and Chrysler Financial Company, L.L.C. ("Chrysler Financial"), as Lender (incorporated by reference to Exhibit 10.1 to the September 30, 2000 Form 10-Q).
10.2*	Promissory Note dated August 10, 2000 executed by Sonic in favor of Ford Credit pursuant to the Credit Agreement (incorporated by reference to Exhibit 10.2 to the September 30, 2000 Form 10-Q).

- 10.3* Promissory Note dated August 10, 2000 executed by Sonic in favor of Chrysler Financial pursuant to the Credit Agreement (incorporated by reference to Exhibit 10.3 to the September 30, 2000 Form 10-Q).
- 10.4* Guaranty dated August 10, 2000 by the subsidiaries of Sonic named therein, as Guarantors, in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement (incorporated by reference to Exhibit 10.4 to the September 30, 2000 Form 10-Q).
- 10.5* Security Agreement dated August 10, 2000 by Sonic in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement (incorporated by reference to Exhibit 10.5 to the September 30, 2000 Form 10-Q).
- 10.6* Security Agreement dated August 10, 2000 by the subsidiaries of Sonic named therein in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement (incorporated by reference to Exhibit 10.6 to the September 30, 2000 Form 10-Q).
- 10.7* Master Construction Loan Agreement dated as of June 23, 2000 (the "Construction Loan Agreement") between the subsidiaries of Sonic named therein, as borrowers, and Ford Credit, as lender (incorporated by reference to Exhibit 10.7 to the September 30, 2000 Form 10-Q).
- 10.8* Permanent Loan Agreement dated as of June 23, 2000 (the "Permanent Loan Agreement") between the subsidiaries of Sonic named therein, as borrowers, and Ford Credit, as lender (incorporated by reference to Exhibit 10.8 to the September 30, 2000 Form 10-Q).
- 10.9* Promissory Note dated June 23, 2000 by the subsidiaries of Sonic named therein, as borrowers, in favor of Ford Credit, as lender, pursuant to the Construction Loan Agreement (incorporated by reference to Exhibit 10.9 to the September 30, 2000 Form 10-Q).
- 10.10* Promissory Note dated June 23, 2000 by the subsidiaries of Sonic named therein, as borrowers, in favor of Ford Credit, as lender, pursuant to the Permanent Loan Agreement (incorporated by reference to Exhibit 10.10 to the September 30, 2000 Form 10-Q).
- 10.11* Guaranty dated June 23, 2000 by Sonic in favor of Ford Credit guaranteeing the obligations of the subsidiaries of Sonic under the Construction Loan Agreement and the Permanent Loan Agreement (incorporated by reference to Exhibit 10.11 to the September 30, 2000 Form 10-Q).
- 10.12* Security Agreement dated June 23, 2000 by Sonic in favor of Ford Credit pursuant to the Construction Loan Agreement and the Permanent Loan Agreement (incorporated by reference to Exhibit 10.12 to the September 30, 2000 Form 10-Q).
- 10.13* Sonic Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of June 5, 2000 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-46272)).

</TABLE>

<TABLE>

<CAPTION>

Exhibit No.	Description
-----	-----

- | | |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <C> | <S> |
| 10.14* | Sonic Automotive, Inc. Employee Stock Purchase Plan, Amended and Restated as of June 5, 2000 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-46274)). |
| 10.15* | Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors (incorporated by reference to Exhibit 10.69 to Sonic's Amended Annual Report on Form 10-K/A for the year ended December 31, 1997) (the "1997 Form 10-K/A"). |
| 10.16* | FirstAmerica Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of December 10, 1999 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-95791)). |
| 10.17* | Employment Agreement between Sonic and O. Bruton Smith (incorporated by reference to Exhibit 10.29 to the Form S-1). |

- 10.18* Employment Agreement between Sonic and Thomas A. Price (the "Price Employment Agreement") (incorporated by reference to Exhibit 10.2 to the 1999 Form 10-K).
- 10.18a First Amendment to the Price Employment Agreement.
- 10.19* Employment Agreement between Sonic and B. Scott Smith (incorporated by reference to Exhibit 10.30 to the Form S-1).
- 10.20 Employment Agreement between Sonic and Theodore M. Wright.
- 10.21* Tax Allocation Agreement dated as of June 30, 1997 between Sonic and Sonic Financial Corporation (incorporated by reference to Exhibit 10.33 to the Form S-1).
- 10.22* Subordinated Promissory Note dated December 1, 1997 (the "Smith Subordinated Note") in the amount of \$5.5 million by Sonic, as borrower, in favor of O. Bruton Smith, as lender (incorporated by reference to Exhibit 10.72 to the 1997 Form 10-K/A).
- 10.23* Subordination Agreement dated as of July 31, 1998 between O. Bruton Smith and the Trustee, acting for the benefit of the holders of the Senior Subordinated Notes, and acknowledged by Sonic, re: the Smith Subordinated Note (incorporated by reference to Exhibit 10.89 to the Form S-4).
- 10.24* Agreement and Plan of Merger and Reorganization dated as of October 31, 1999 by and among Sonic, FAA Acquisition Corp., FirstAmerica Automotive, Inc. and certain stockholders of FirstAmerica Automotive, Inc. listed on the signature page therein (incorporated by reference to Exhibit 10.8 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).

21.1 Subsidiaries of Sonic.

23.1 Consent of Deloitte & Touche LLP.

99.1 Risk Factors.

</TABLE>

* Filed previously

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by Sonic during the quarter ended December 31, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sonic Automotive, Inc.

/s/ Theodore M. Wright
 By: _____
 Theodore M. Wright
 Chief Financial Officer, Vice
 President and Treasurer

Date: April 2, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
 <CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ O. Bruton Smith _____ O. Bruton Smith	<C> Chief Executive Officer (principal executive officer) and chairman	<C> April 2, 2001
/s/ Thomas A. Price _____ Thomas A. Price	Vice Chairman and Director	April 2, 2001
/s/ B. Scott Smith _____ B. Scott Smith	President, Chief Operating Officer and Director	April 2, 2001

/s/ Theodore M. Wright	Chief Financial Officer, Vice President and Treasurer (principal financial and accounting officer) and Director	April 2, 2001
Theodore M. Wright		
/s/ Jeffrey C. Rachor	Executive Vice President of Retail Operations and Director	April 2, 2001
Jeffrey C. Rachor		
/s/ William R. Brooks	Director	April 2, 2001
William R. Brooks		
/s/ William P. Benton	Director	April 2, 2001
William P. Benton		
/s/ William I. Belk	Director	April 2, 2001
William I. Belk		
/s/ H. Robert Heller	Director	April 2, 2001
H. Robert Heller		

</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Sonic Automotive, Inc.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Sonic Automotive, Inc. and Subsidiaries (the "Company") as of December 31, 1999 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Charlotte, North Carolina
February 26, 2001

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1999 and 2000
(Dollars in thousands)

<TABLE>
<CAPTION>

	1999	2000
	-----	-----
	<C>	<C>
<S>		
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 83,111	\$ 109,325
Receivables, net.....	99,987	127,865
Inventories.....	630,857	773,785
Other current assets.....	21,612	26,428

Total current assets.....	835,567	1,037,403
Property and Equipment, net.....	63,681	72,966
Goodwill, net.....	592,670	668,782
Other Assets.....	9,184	10,097
Total Assets.....	\$1,501,102	\$1,789,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable--floor plan.....	\$ 517,575	\$ 684,718
Trade accounts payable.....	48,405	50,274
Accrued interest.....	11,605	10,279
Other accrued liabilities.....	77,937	70,453
Current maturities of long-term debt.....	2,388	2,597
Total current liabilities.....	657,910	818,321
Long-Term Debt.....	418,006	485,212
Other Long-Term Liabilities.....	3,923	5,733
Payable to the Company's Chairman.....	5,500	5,500
Deferred Income Taxes.....	8,476	21,093
Income Tax Payable.....	4,714	2,467
Commitments and Contingencies (Note 10).....		
Stockholders' Equity:		
Class A Convertible Preferred Stock.....	27,191	251
Class A Common Stock.....	291	333
Class B Common Stock.....	123	123
Paid-in capital.....	301,934	329,489
Retained earnings.....	79,392	153,564
Treasury Stock, at cost.....	(6,358)	(32,838)
Total stockholders' equity.....	402,573	450,922
Total Liabilities and Stockholders' Equity.....	\$1,501,102	\$1,789,248

</TABLE>

See notes to consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1998, 1999 and 2000
(Dollars and shares in thousands, except per share amounts)

<TABLE>
<CAPTION>

	1998	1999	2000
<S>	<C>	<C>	<C>
Revenues:			
New vehicles.....	\$ 962,939	\$1,968,514	\$3,522,049
Used vehicles.....	324,740	684,560	1,249,188
Wholesale vehicles.....	119,351	250,794	430,513
Total vehicles.....	1,407,030	2,903,868	5,201,750
Parts, service and collision repair.....	162,660	364,184	687,975
Finance, insurance and other.....	34,011	82,771	162,751
Total revenues.....	1,603,701	3,350,823	6,052,476
Cost of sales.....	1,396,259	2,896,400	5,187,289
Gross profit.....	207,442	454,423	865,187
Selling, general and administrative expenses.....	150,130	326,914	633,356
Depreciation.....	1,384	3,138	5,944
Goodwill amortization.....	3,223	8,561	16,770
Operating income.....	52,705	115,810	209,117
Other income and expense:			
Interest expense, floor plan.....	14,096	22,536	47,108
Interest expense, other.....	9,395	21,586	42,244
Other income.....	426	1,286	107
Total other expense, net.....	23,065	42,836	89,245
Income before income taxes.....	29,640	72,974	119,872
Provision for income taxes.....	11,083	28,325	45,700
Net income.....	\$ 18,557	\$ 44,649	\$ 74,172
Basic net income per share.....	\$ 0.81	\$ 1.41	\$ 1.74

Weighted average number of shares outstanding.....	22,852	31,744	42,518
Diluted net income per share.....	\$ 0.74	\$ 1.27	\$ 1.69
Weighted average number of diluted shares outstanding.....	24,970	35,248	43,826

</TABLE>

See notes to consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1998, 1999 and 2000
(Dollars and shares in thousands)

<TABLE>
<CAPTION>

	Preferred Stock		Class A Common Stock		Class B Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1997.....	--	\$ --	10,000	\$100	12,500	\$125
Issuance of Preferred Stock....	31	29,342	--	--	--	--
Issuance of Class A Common Stock.....	--	--	975	10	--	--
Shares awarded under stock compensation plans.....	--	--	252	3	--	--
Issuance of warrants.....	--	--	--	--	--	--
Conversion of Preferred Stock..	(9)	(8,911)	632	6	--	--
Conversion of Class B Common Stock.....	--	--	100	1	(100)	(1)
Comprehensive income:						
Net income.....	--	--	--	--	--	--
Net unrealized loss.....	--	--	--	--	--	--
Total comprehensive income.....	--	--	--	--	--	--
BALANCE AT DECEMBER 31, 1998.....	22	20,431	11,959	120	12,400	124
Issuance of Preferred Stock....	59	59,045	--	--	--	--
Issuance of Class A Common Stock.....	--	--	12,852	129	--	--
Shares awarded under stock compensation plans.....	--	--	281	3	--	--
Conversion of Preferred Stock..	(53)	(52,285)	3,833	38	--	--
Conversion of Class B Common Stock.....	--	--	150	1	(150)	(1)
Purchase of Treasury Stock....	--	--	--	--	--	--
Net income.....	--	--	--	--	--	--
BALANCE AT DECEMBER 31, 1999.....	28	27,191	29,075	291	12,250	123
Issuance of Preferred Stock....	11	11,589	--	--	--	--
Issuance of Class A Common Stock.....	--	--	809	8	--	--
Shares awarded under Stock compensation plans.....	--	--	441	4	--	--
Conversion of Preferred Stock..	(26)	(25,947)	2,967	30	--	--
Redemption of Preferred Stock..	(13)	(12,582)	--	--	--	--
Purchase of Treasury Stock....	--	--	--	--	--	--
Net income.....	--	--	--	--	--	--
BALANCE AT DECEMBER 31, 2000.....	--	\$ 251	33,292	\$333	12,250	\$123

</TABLE>

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY--(Continued)

Years Ended December 31, 1998, 1999 and 2000
(Dollars and shares in thousands)

<TABLE>

<CAPTION>

	Paid-In	Retained	Treasury	Accumulated	Total
	Capital	Earnings	Stock	Other	Stockholders'
	-----	-----	-----	Comprehensive	Equity
	-----	-----	-----	Income (Loss)	-----
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1997.....	\$ 67,933	\$ 16,186	\$ --	\$ 21	\$ 84,365
Issuance of Preferred Stock.....	--	--	--	--	29,342
Issuance of Class A Common Stock.....	8,283	--	--	--	8,293
Shares awarded under stock compensation plans.....	1,162	--	--	--	1,165
Issuance of warrants.....	728	--	--	--	728
Conversion of Preferred Stock.....	8,905	--	--	--	--
Conversion of Class B Common Stock.....	--	--	--	--	--
Comprehensive income: Net income.....	--	18,557	--	--	18,557
Net unrealized loss.....	--	--	--	(21)	(21)
	-----	-----	-----	-----	-----
Total comprehensive income.....	--	--	--	--	18,536
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1998.....	87,011	34,743	--	--	142,429
Issuance of Preferred Stock.....	--	--	--	--	59,045
Issuance of Class A Common Stock.....	160,665	--	--	--	160,794
Shares awarded under stock compensation plans.....	2,011	--	--	--	2,014
Conversion of Preferred Stock.....	52,247	--	--	--	--
Conversion of Class B Common Stock.....	--	--	--	--	--
Purchase of Treasury Stock.....	--	--	(6,358)	--	(6,358)
Net income.....	--	44,649	--	--	44,649
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1999.....	301,934	79,392	(6,358)	--	402,573
Issuance of Preferred Stock.....	--	--	--	--	11,589
Issuance of Class A Common Stock.....	(8)	--	--	--	--
Shares awarded under stock compensation plans.....	2,615	--	--	--	2,619
Conversion of Preferred Stock.....	25,917	--	--	--	--
Redemption of Preferred Stock.....	(969)	--	--	--	(13,551)
Purchase of Treasury Stock.....	--	--	(26,480)	--	(26,480)
Net income.....	--	74,172	--	--	74,172
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000.....	\$329,489	\$153,564	\$(32,838)	--	\$450,922
	=====	=====	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1998, 1999 and 2000
(Dollars in thousands)

<TABLE>
<CAPTION>

1998 1999 2000

<u><S></u>	<u><C></u>	<u><C></u>	<u><C></u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 18,557	\$ 44,649	\$ 74,172
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	4,607	11,699	22,714
Loss on disposal of property and equipment...	278	249	317
Deferred income taxes.....	2,164	2,075	12,384
Changes in assets and liabilities that relate to operations:			
Receivables.....	(11,018)	(27,860)	(25,167)
Inventories.....	12,030	(45,665)	(72,080)
Other assets.....	(4,586)	7,118	2,637
Notes payable--floor plan.....	(16,806)	50,707	105,809
Trade accounts payable and other liabilities.....	6,767	2,831	(14,590)
Total adjustments.....	(6,564)	1,154	32,024
Net cash provided by operating activities....	11,993	45,803	106,196
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of businesses, net of cash acquired..	(72,205)	(362,383)	(91,554)
Purchases of property and equipment.....	(4,335)	(21,548)	(73,171)
Proceeds from sales of property and equipment..	1,655	13,600	47,943
Proceeds from sale of dealerships	--	1,700	7,148
Net cash used in investing activities.....	(74,885)	(368,631)	(109,634)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings/(repayments) in revolving credit facilities.....	(24,383)	280,116	69,342
Proceeds from long-term debt.....	121,034	1,380	1,418
Payments on long-term debt.....	(1,394)	(8,037)	(3,696)
Public offering of Class A common stock.....	--	84,990	--
Redemptions of Class A Convertible Preferred Stock.....	--	--	(13,551)
Purchases of Class A common stock.....	--	(6,358)	(26,480)
Issuance of shares under stock compensation plans.....	1,165	2,014	2,619
Net cash provided by financing activities....	96,422	354,105	29,652
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	33,530	31,277	26,214
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	18,304	51,834	83,111
CASH AND CASH EQUIVALENTS, END OF YEAR.....	\$ 51,834	\$ 83,111	\$109,325
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest.....	\$ 17,504	\$ 39,575	\$ 90,678
Income taxes.....	\$ 10,919	\$ 20,681	\$ 36,821
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Preferred Stock issued for acquisitions and contingent consideration.....	\$ 29,342	\$ 59,045	\$ 11,589
Conversion of Preferred Stock.....	\$ 8,911	\$ 52,285	\$ 25,947
Class A common stock issued for acquisitions...	\$ 8,250	\$ 75,802	--

</TABLE>

See notes to consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tables in thousands except per share amounts)

1. Description of Business and Summary of Significant Accounting Policies

Organization and Business--Sonic Automotive, Inc ("Sonic") is the second largest automotive retailer in the United States (as measured by total revenue), operating 169 dealership franchises and 30 collision repair centers throughout the United States as of December 31, 2000. Sonic sells new and used cars and light trucks, sells replacement parts, provides vehicle maintenance, warranty, paint and repair services, and arranges related financing and insurance for its automotive customers. As of December 31, 2000, Sonic sold a total of 31 foreign and domestic brands of new vehicles.

Principles of Consolidation--All material intercompany balances and transactions have been eliminated in the consolidated financial statements.

Revenue Recognition--Sonic records revenue when vehicles are delivered to customers, when vehicle service work is performed and when parts are delivered.

Sonic arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution. Sonic also receives commissions from the sale of various insurance contracts to customers. Sonic may be assessed a chargeback fee in the event of early cancellation of a loan or insurance contract by the customer. Finance and insurance commission revenue is recorded net of estimated chargebacks at the time the related contract is placed with the financial institution.

Sonic also receives commissions from the sale of non-recourse third party extended service contracts to customers. Under these contracts the applicable manufacturer or third party warranty company is directly liable for all warranties provided within the contract. Commission revenue from the sale of these third party extended service contracts is recorded net of estimated chargebacks at the time of sale.

Commissions expense related to finance and insurance commission revenue is charged to cost of sales upon recognition of such revenue, net of estimated chargebacks. Commission expense charged to cost of sales was approximately \$6.0 million, \$13.1 million and \$25.8 million for the years ended December 31, 1998, 1999, and 2000, respectively.

Dealer Agreements--Sonic purchases substantially all of its new vehicles from manufacturers at the prevailing prices charged by the manufacturer to its franchised dealers. Sonic's sales could be unfavorably affected by the manufacturer's unwillingness or inability to supply the dealership with an adequate supply of new vehicle inventory.

Each dealership operates under a dealer agreement with the manufacturer which generally restricts the location, management and ownership of the respective dealership. The ability of Sonic to acquire additional franchises from a particular manufacturer may be limited due to certain restrictions imposed by manufacturers. Additionally, Sonic's ability to enter into other significant acquisitions may be restricted and the acquisition of Sonic's stock by third parties may be limited by the terms of the franchise agreements.

Cash and Cash Equivalents--Sonic considers contracts in transit and all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents. Contracts in transit represent cash in transit to Sonic from finance companies related to vehicle purchases. Sonic had \$83.1 million and \$108.1 million in contracts in transit at December 31, 1999 and 2000, respectively.

Inventories--Inventories of new and used vehicles, including demonstrators, are stated at the lower of specific cost or market. Inventories of parts and accessories are accounted for using the "first-in, first-out"

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

method of inventory accounting ("FIFO") and are stated at the lower of FIFO cost or market. Other inventories, which primarily include rental and service vehicles, are stated at the lower of specific cost or market.

Property and Equipment--Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The range of estimated useful lives is as follows:

<TABLE>
<CAPTION>

	Useful Lives

<S>	<C>
Building and improvements.....	5-40
Office equipment and fixtures.....	5-15
Parts and service equipment.....	15
Company vehicles.....	5

</TABLE>

Goodwill--Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. The cumulative gross amount of goodwill at December 31, 1999 was \$605.1 million and at December 31, 2000 was \$697.8 million. As a percentage of total assets and stockholders' equity, goodwill, net of accumulated amortization, represented 39.5% and 147.2%, respectively, at December 31, 1999, and 37.4% and 148.3%, respectively, at December 31, 2000. Generally accepted accounting principles require that goodwill and all other intangible assets be amortized over the period benefited. Sonic has determined that the period benefited by the goodwill will be no less than 40 years. Accordingly,

Sonic is amortizing goodwill over a 40 year period. Earnings reported in periods immediately following an acquisition would be overstated if Sonic attributed a 40 year benefit to an intangible asset that should have had a shorter benefit period. In later years, Sonic would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at the price paid for the businesses acquired. Earnings in later years also could be significantly affected if management then determined that the remaining balance of goodwill was impaired. Sonic periodically compares the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the businesses acquired in order to evaluate the recoverability of goodwill. Sonic has concluded that the anticipated future cash flows associated with intangible assets recognized in its acquisitions will continue indefinitely, and there is no pervasive evidence that any material portion will dissipate over a period shorter than 40 years. Sonic will incur additional goodwill in future acquisitions.

The Financial Accounting Standards Board recently proposed new rules relating to the accounting for business combinations and intangible assets. One aspect of the proposal would not permit amortization of goodwill, but would require the carrying amount of goodwill to be reduced only if it was found to be impaired or was associated with assets to be sold or otherwise disposed. If the proposed rules are adopted, goodwill arising from acquisitions completed prior to the date of adoption would no longer be amortized, though reversal of goodwill amortization recognized in prior periods would not be permitted.

Income Taxes--Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided at currently enacted tax rates for the tax effects of carryforward items and temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is provided when it is more likely than not that taxable income will not be sufficient to fully realize the benefits of deferred tax assets.

Stock-Based Compensation--Sonic measures the compensation cost of its stock-based compensation plans under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Under the provisions of APB No. 25, compensation cost is measured based on the intrinsic value of the equity instrument awarded.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Concentrations of Credit Risk--Financial instruments which potentially subject Sonic to concentrations of credit risk consist principally of cash on deposit with financial institutions. At times, amounts invested with financial institutions may exceed FDIC insurance limits. Concentrations of credit risk with respect to receivables are limited primarily to automobile manufacturers and financial institutions. Credit risk arising from trade receivables from commercial customers is reduced by the large number of customers comprising the trade receivables balances.

Fair Value of Financial Instruments--As of December 31, 1999 and 2000 the fair values of Sonic's financial instruments including receivables, notes payable-floor plan, trade accounts payable, payables to Sonic's Chairman and long-term debt, excluding Sonic's senior subordinated notes, approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates. The fair value of Sonic's senior subordinated notes based on the quoted bid price as of December 31, 1999 and 2000 was approximately \$121.9 million and \$106.3 million, respectively. The carrying value of Sonic's senior subordinated notes as of December 31, 1999 and 2000 was approximately \$121.0 million and \$121.3 million, respectively.

Use of Estimates--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts in the accompanying financial statements which require the use of significant estimates are receivables, inventories, intangible assets, income taxes and certain accrued expenses.

Advertising--Sonic expenses advertising costs in the period incurred. Advertising expense amounted to \$17.4 million, \$33.1 million and \$58.8 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Segment Information--Sonic's business is fundamentally managed based on individual dealership operating performance. Each of Sonic's dealerships have similar economic and operating characteristics. Each dealership sells similar products and services (new and used vehicles, parts, service and collision repair services), uses similar processes in selling its products and services, and sells its products and services to similar classes of customers. As a result, Sonic's dealerships are aggregated into a single operating segment for purposes of reporting financial condition and results of operations.

Reclassifications--In order to maintain consistency and comparability of financial information between periods presented, certain reclassifications have been made to Sonic's prior year financial statements to conform to the current year presentation.

2. Business Acquisitions

Completed Acquisitions

During 2000, Sonic acquired 11 dealerships for approximately \$92.0 million in cash and 11,589 shares of Sonic's Class A convertible preferred stock, Series II, recorded at an estimated value of approximately \$11.6 million.

During 1999, Sonic acquired 72 dealerships for \$420.4 million in cash, 52,065 shares of Class A convertible preferred stock (6,282 shares of Series II and 45,783 shares of Series III) recorded at an estimated value of approximately \$52.1 million, and 6,784,347 shares of Class A common stock recorded at a value of approximately \$75.8 million.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During 1998, Sonic acquired 19 dealerships for approximately \$95.9 million in cash, 30,733.8 shares of Class A convertible preferred stock (14,406.3 shares of Series I, 10,054.5 shares of Series II and 6,273 shares of Series III) recorded at an estimated value of approximately \$29.3 million, 970,588 shares of Class A common stock recorded at a value of approximately \$8.3 million, and warrants to purchase an aggregate of 154,000 shares of Class A common stock having an approximate fair value of \$0.5 million.

In accordance with terms of certain of the purchase agreements, Sonic may be required to pay additional consideration contingent upon future earnings of certain of the dealerships acquired. For the year ended December 31, 2000, Sonic paid approximately \$2.0 million in cash and for the year ended December 31, 1999 paid approximately \$5.0 million in cash and issued 6,980.2 shares of Class A convertible preferred stock (6,717 of Series II and 263.2 shares of Series III) relating to such consideration, all of which has been accounted for as additional goodwill. Any additional amounts which may be payable in the future are not expected to be material.

All of our acquisitions have been accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying consolidated financial statements from their respective acquisition dates. The purchase price of these acquisitions has been allocated to the assets and liabilities acquired based on their estimated fair market value at acquisition date as shown in the table below. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of our recent acquisitions. As a result, the values of assets and liabilities included in the table below for 2000 reflect preliminary estimates where values have not yet been determined and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of assets and liabilities will be recorded against goodwill.

<TABLE>
<CAPTION>

	1998	1999	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Working capital.....	\$ 30,341	\$103,569	\$ 11,988
Property, equipment and other long term assets.....	5,690	38,497	4,459
Goodwill.....	101,323	417,251	88,070
Non-current liabilities assumed.....	(3,365)	(11,033)	(943)
	-----	-----	-----
Total purchase price.....	\$133,989	\$548,284	\$103,574
	=====	=====	=====

</TABLE>

The following unaudited pro forma financial information presents a summary of consolidated results of operations as if the above acquisition transactions had occurred as of the beginning of the year in which the acquisitions were completed, and at the beginning of the immediately preceding year, after giving effect to certain adjustments, including amortization of goodwill, interest expense on acquisition debt and related income tax effects. The pro forma financial information does not give effect to adjustments relating to net reductions in floorplan interest expense resulting from renegotiated floorplan financing agreements or to reductions in salaries and fringe benefits of former owners or officers of acquired dealerships who have not been retained by Sonic or whose salaries have been reduced pursuant to employment agreements with Sonic. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisitions been completed at the beginning of the periods presented. These results are also not necessarily indicative of the results of future operations.

<TABLE>
<CAPTION>

	Year Ended December 31,	
	1999	2000
<S>	<C>	<C>
Total revenues.....	\$ 6,195,876	\$ 6,388,965
Gross profit.....	\$ 831,302	\$ 900,436
Net income.....	\$ 53,658	\$ 74,529
Diluted income per share.....	\$ 1.15	\$ 1.70

</TABLE>

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Sale of Dealership Subsidiaries

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. Our dispositions are generally smaller dealerships with less attractive franchises. During the year ended December 31, 2000, we sold or otherwise disposed of assets from eight of our dealership franchises which contributed approximately \$65.5 million in revenue for the year ended December 31, 2000. Proceeds, net of disposal costs, from these dispositions were approximately \$7.1 million. No material gains or losses resulted from these dispositions.

3. Inventories and Related Notes Payable--Floor Plan

Inventories consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1999	2000
<S>	<C>	<C>
New vehicles.....	\$459,382	\$591,583
Used vehicles.....	109,130	116,836
Parts and accessories.....	44,821	48,916
Other.....	17,524	16,450
Total.....	\$630,857	\$773,785

</TABLE>

All new and certain used vehicles are financed with borrowings under floor plan credit facilities and are pledged to collateralize amounts borrowed under those facilities. We currently have standardized floor plan credit facilities with Chrysler Financial Corporation ("Chrysler Financial"), General Motors Acceptance ("GMAC") and Ford Motor Credit. The floor plan credit facility with Chrysler Financial provides up to \$750 million for the purchase of vehicles at our Chrysler dealerships. The floor plan facility with GMAC, which was obtained on June 23, 2000, currently provides for the purchase of vehicles at nine of our General Motors dealerships. The floor plan facility with Ford Motor Credit provides up to \$550 million for the purchase of vehicles at all of our other dealerships. As of December 31, 1999 there was an aggregate of approximately \$102.7 million outstanding under the Chrysler Financial floor plan facility and \$400.8 million outstanding under the Ford Motor Credit floor plan facility. As of December 31, 2000, there was an aggregate of approximately \$143.0 million outstanding under the Chrysler Financial floor plan facility, \$70.8 million outstanding under the GMAC floor plan facility and \$470.9 million outstanding under the Ford Motor Credit floor plan

facility.

Amounts outstanding under the Chrysler Financial floor plan facility bear interest at 1.25% above LIBOR (LIBOR was 6.56% at December 31, 2000). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at an effective interest rate of prime (prime was 9.5% at December 31, 2000), subject to certain incentives and other adjustments. The weighted average interest rate for our floor plan facilities was 6.91% for the year ended December 31, 1999 and 7.93% for the year ended December 31, 2000. The inventory balances are generally reduced by the manufacturer's purchase discounts, which are not reflected in the related floor plan liability. These manufacturer purchase discounts are standard in the industry, typically occur on all new vehicle purchases, and are not used to offset the related floor plan liability. These discounts are aggregated and generally paid to us by the manufacturers on a quarterly basis.

We make monthly interest payments on the amount financed under the floor plan facilities but are not required to make loan principal repayments prior to the sale of the vehicles. The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets of the relevant dealership subsidiary. As such, these floor plan notes payable are shown as a current liability in the accompanying consolidated balance sheets. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. Sonic is in compliance with all restrictive covenants as of December 31, 2000.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

4. Property and Equipment

Property and equipment is comprised of the following:

	December 31,	
	1999	2000
<S>	<C>	<C>
Land.....	\$ 953	\$ 53
Building and improvements.....	23,120	25,771
Office equipment and fixtures.....	22,616	23,599
Parts and service equipment.....	16,008	20,132
Company vehicles.....	4,664	5,812
Construction in progress.....	5,785	12,244
Total, at cost.....	73,146	87,611
Less accumulated depreciation.....	(9,465)	(14,645)
Property and equipment, net.....	\$63,681	\$ 72,966

</TABLE>

In addition to the \$12.2 million classified as construction in progress at December 31, 2000, Sonic has incurred approximately \$5.2 million in construction costs on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying consolidated balance sheets. Sonic had no such construction in progress recorded in current assets at December 31, 1999.

5. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	1999	2000
<S>	<C>	<C>
\$125 million Senior Subordinated Notes bearing interest at 11%, maturing August 1, 2008.....	\$125,000	\$125,000
\$500 million revolving credit facility with Ford Motor Credit and Chrysler Financial bearing interest at 2.50% above LIBOR and maturing in October 2003, collateralized by all assets of Sonic.....	289,003	353,787
\$50 million revolving construction line of credit bearing interest at 2.25% above LIBOR and maturing in June 2005.....	--	4,559

Other notes payable (primarily equipment notes).....	10,403	8,181
	-----	-----
	424,406	491,527
Less unamortized discount on Senior Subordinated Notes.....	(4,012)	(3,718)
Less current maturities.....	(2,388)	(2,597)
	-----	-----
Long-term debt.....	\$418,006	\$485,212
	=====	=====

</TABLE>

Future maturities of debt are as follows:

<TABLE>	
<CAPTION>	
Year ending December 31,	

<S>	<C>
2001.....	\$ 2,597
2002.....	2,530
2003.....	355,537
2004.....	908
2005.....	150
Thereafter.....	129,805

Total.....	\$491,527
	=====

</TABLE>

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Senior Subordinated Notes

At December 31, 1999 and 2000, Sonic had \$125,000,000 in aggregate principal outstanding of its 11% senior subordinated notes. The senior subordinated notes are unsecured, mature on August 1, 2008, and are redeemable at Sonic's option after August 1, 2003. Interest payments are due semi-annually on February 1 and August 1.

The senior subordinated notes are subordinated to all present and future senior indebtedness of Sonic, including the revolving credit facility discussed below. Redemption prices during the 12 month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter. The discount on the senior subordinated notes is being amortized over the term of the notes using the effective interest method.

The indenture governing the senior subordinated notes contains certain specified restrictive and required financial covenants. Sonic has agreed not to pledge its assets to any third party except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to shareholders, distributions and redemptions. Sonic is in compliance with all restrictive covenants as of December 31, 2000.

The Revolving Facility

The 1999 Revolving Facility--Effective November 1, 1999, the total borrowing limit under the revolving credit facility between Sonic and Ford Motor Credit (the "1999 Revolving Facility") was increased from \$150 million to \$350 million, subject to a borrowing base calculated on the basis of our receivables, inventory, equipment and a pledge of certain additional collateral by a Sonic affiliate. Prior to that date, amounts outstanding under the 1999 Revolving Facility bore interest at a fluctuating per annum rate equal to 2.75% above the one month commercial finance paper rate as reported by the Federal Reserve Board (the one month commercial finance paper rate was 5.77% at October 31, 1999). Subsequent to November 1, 1999, amounts outstanding under the 1999 Revolving Facility bore interest at 2.50% above LIBOR (LIBOR was 5.82% at December 31, 1999). The weighted average interest rate on the 1999 Revolving Facility was 7.86% for the year ended December 31, 1999.

The 2000 Revolving Facility--On August 10, 2000, we entered into a revolving credit facility with Ford Motor Credit and Chrysler Financial (the "2000 Revolving Facility") to replace the 1999 Revolving Facility. The 2000 Revolving Facility has a borrowing limit of \$500 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately \$426.8 million at December 31, 2000). The 2000 Revolving Facility bears interest at 2.5% above LIBOR as

quoted in the Wall Street Journal and will mature on October 31, 2003 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit and Chrysler Financial). The weighted average interest rate on the 2000 Revolving Facility was 9.02% for the year ended December 31, 2000. Amounts drawn under the 2000 Revolving Facility are to be used for the acquisition of additional dealerships and to provide for the general working capital needs of Sonic and other general corporate purposes.

Sonic agreed under the 2000 Revolving Facility not to pledge any of its assets to any third party (with the exception of assets of Sonic's dealership subsidiaries that are subject to previous pledges or liens). In addition, the 2000 Revolving Facility contains certain negative covenants, including covenants restricting or prohibiting the payment of dividends, capital expenditures and material dispositions of assets as well as other customary covenants. Additional financial covenants include specified ratios as follows:

- . current assets to current liabilities (at least 1.23:1),
- . earnings before interest, taxes, depreciation and amortization (EBITDA) and rent, less capital expenditures, to fixed charges (at least 1.4:1),
- . EBITDA to interest expense (at least 2:1), and
- . total adjusted debt to EBITDA (no greater than 2.25:1).

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or the failure by Sonic, with certain exceptions, to own all the outstanding equity, membership or partnership interests in its dealership subsidiaries will constitute an event of default under the 2000 Revolving Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2000.

The Mortgage Facility

In June 2000, we entered into a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until December 2003. All advances mature on June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. The total outstanding balance under the Construction Loan as of December 31, 2000 was approximately \$4.6 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed. Advances can be made under the Permanent Loan until June 2005. All advances under the Permanent Loan mature on June 22, 2010, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan. As of December 31, 2000, no amounts were outstanding under the Permanent Loan.

The Mortgage Facility allows us to borrow up to \$100 million in the aggregate under the Construction Loan and the Permanent Loan. The Mortgage Facility is not cross-collateralized with the Revolving Facility; however, a default under one will cause a default under the other. Among other customary covenants, the borrowing subsidiaries under the Mortgage Facility agreed not to incur any other liens on their property (except for existing encumbrances on property acquired) and not to transfer their property or more than 20% of their ownership interests to any third party. In addition, the loss of voting control over Sonic by Bruton Smith, Scott Smith and their spouses or immediate family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2000.

Subsidiary Guarantees

Balances outstanding under Sonic's 2000 Revolving Facility and \$125 million senior subordinated notes are guaranteed by all of Sonic's operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations and subsidiaries that are not guarantors are minor.

6. Income Taxes

The provision for income taxes consists of the following components:

<TABLE>
<CAPTION>

	1998	1999	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ 8,145	\$24,198	\$29,177
State.....	756	2,052	4,139
	-----	-----	-----
Deferred.....	8,901	26,250	33,316
Change in valuation allowance.....	2,252	2,075	12,384
	(70)	--	--
	-----	-----	-----
Total income tax provision.....	\$11,083	\$28,325	\$45,700
	=====	=====	=====

</TABLE>

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The reconciliation of the statutory federal income tax rate with Sonic's federal and state overall effective income tax rate is as follows:

<TABLE>
<CAPTION>

	1998	1999	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Statutory federal rate.....	35.00%	35.00%	35.00%
Effective state income tax rates.....	1.46	2.26	1.87
Nondeductible goodwill amortization.....	1.13	1.20	1.36
Other.....	(0.20)	0.36	(0.11)
	-----	-----	-----
Effective tax rates.....	37.39%	38.82%	38.12%
	=====	=====	=====

</TABLE>

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of Sonic's deferred tax assets and liabilities as of December 31 are as follows:

<TABLE>
<CAPTION>

	1999	2000
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Allowance for bad debts.....	\$ 824	\$ 918
Inventory.....	1,515	972
Warranty reserves.....	577	--
Accrued compensation.....	777	--
Accrued severance.....	595	281
Net operating loss carryforwards.....	124	2,949
Other.....	2,198	1,894
	-----	-----
Total deferred tax assets.....	6,610	7,014
Deferred tax liabilities:		
Basis difference in property and equipment.....	(637)	(6,387)
Basis difference in goodwill.....	(6,726)	(13,116)
Other.....	(1,113)	(1,590)
	-----	-----
Total deferred tax liability.....	(8,476)	(21,093)
	-----	-----
Net deferred tax liability.....	\$(1,866)	\$(14,079)
	=====	=====

</TABLE>

Deferred tax assets are recorded in other current and long term assets on the accompanying consolidated balance sheets. At December 31, 2000, Sonic had state net operating loss carryforwards of \$48.2 million which will expire between 2008 and 2020.

7. Related Parties

Registration Rights Agreement

When Sonic acquired Town & Country Ford, Lone Star Ford, Fort Mill Ford, Town & Country Toyota and Frontier Oldsmobile-Cadillac in 1997, Sonic signed a

Registration Rights Agreement dated as of June 30, 1997 with Sonic Financial Corporation ("SFC"), Bruton Smith, Scott Smith and William S. Egan (collectively, the "Class B Registration Rights Holders"). SFC currently owns 8,881,250 shares of Class B common stock; Bruton Smith, 2,071,250 shares; Scott Smith, 956,250 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 341,250 shares, all of which are covered by the Registration Rights Agreement. The Egan Group also owns 32,000 shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

The Class B Registration Rights Holders have certain limited piggyback registration rights under the Registration Rights Agreement. These rights permit them to have their shares of Sonic's common stock included in any Sonic registration statement registering Class A common stock, except for registrations on Form S-4, relating to exchange offers and certain other transactions, and Form S-8, relating to employee stock compensation plans. The Registration Rights Agreement expires in November 2007. SFC is controlled by Bruton Smith.

Payable to Company's Chairman

Sonic has a note payable to Mr. Smith in the amount of \$5.5 million (the "Subordinated Smith Loan"). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus 0.5% (prime rate was 9.5% at December 31, 2000) and has a stated maturity date of November 30, 2000. Under the terms of a subordination agreement currently in effect, however, all amounts owed by Sonic to Mr. Smith under the Subordinated Smith Loan are to be paid only after Sonic's senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

Dealership Leases:

On August 13, 1999, CAR MMR L.L.C., an affiliate of Capital Automotive REIT, which is not affiliated with Sonic, acquired all of the ownership interests of MMR Holdings, L.L.C., and two of its affiliates, MMR Viking Investment Associates, L.P. and MMR Tennessee, L.L.C (collectively, the "MMR Group"). MMR Holdings was a limited liability company owned by Bruton Smith and SFC. As of that date, Sonic leased 50 properties for 42 of its dealerships from the MMR Group. Sonic has entered into new leases with CAR MMR L.L.C. with terms similar to those under Sonic's former leases with the MMR Group. These leases generally provide Sonic with options to renew the lease for two additional five year terms after the expiration of the initial lease term. Sonic has agreed to renew approximately 75% of its lease rental stream for an additional five year period after the expiration of the initial lease terms. In connection with the acquisition, Sonic, MMR Holdings and Mar Mar Realty Trust, an affiliate of the MMR Group, terminated the strategic alliance agreement whereby Mar Mar Realty Trust had provided Sonic with real estate financing, acquisition referrals and related services.

As a part of the August 13, 1999 sale of the MMR Group to CAR MMR, Bruton Smith and SFC signed agreements with Sonic to induce Sonic to enter into a real estate financing arrangement with CAR MMR and, among other things, amend its leases with the MMR Group to standardize their terms. Under these agreements, Mr. Smith and SFC paid approximately \$2.5 million to Sonic, which amount represented Mr. Smith's and SFC's profits on the sale of the MMR Group less their selling expenses and a 14% annual return on their initial investment in the MMR Group, net of any advances made by Sonic to the MMR Group. This amount was deferred and is being amortized against rent expense over the average lease term.

Other Transactions

Sonic has entered into various other transactions with SFC and Speedway Motorsports, Inc. ("SMI") or subsidiaries of these entities. These transactions include the rental of aircraft for business-related travel by Sonic executives, the purchase of apparel items for marketing and sales promotions, the reimbursement of personnel costs for construction project management services and the purchase of automobile products for resale purposes. Such transactions with these affiliated companies totalled approximately \$0.1 million, \$0.3 million and \$1.8 million for the years ended December 31, 1998, 1999 and 2000, respectively.

During 2000, Sonic entered into a fleet sale with a subsidiary of SMI for a total purchase price of approximately \$0.5 million. Sonic recognized no

material income or loss from this transaction.

During 2000, Sonic sold substantially all of the assets of one of its dealerships to an entity owned by Sonic's vice-chairman for approximately \$5.0 million. No material gain or loss was recognized on this sale.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

8. Capital Structure and Per Share Data

Preferred Stock--Sonic has 3 million shares of "blank check" preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value \$0.10 per share (the "Preferred Stock") which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. As of December 31, 1999 there were 8,801 shares of Series I Preferred Stock, 7,675 shares of Series II Preferred Stock and 11,683 shares of Series III Preferred Stock issued and outstanding. As of December 31, 2000 there were 250.5 shares of Series II Preferred Stock issued and outstanding.

The Preferred Stock has a liquidation preference of \$1,000 per share. Each share of Preferred Stock is convertible, at the option of the holder, into that number of shares of Class A common stock as is determined by dividing \$1,000 by the average closing price for the Class A common stock on the NYSE for the 20 days preceding the date of determination of the shares of Preferred Stock (the "Market Price"). Conversion of Series II Preferred Stock is subject to certain adjustments which have the effect of limiting increases and decreases in the value of the Class A common stock receivable upon conversion by 10% of the original value of the shares of Series II Preferred Stock. Conversion of Series III Preferred Stock is subject to certain adjustments which have the effect of limiting increases in the value of Class A common stock receivable upon conversion by 10% of the original value of the shares of Series III Preferred Stock.

The Preferred Stock is redeemable at Sonic's option at any time after the date of issuance. The redemption price of the Series I Preferred Stock is \$1,000 per share. The redemption price for the Series II Preferred Stock and Series III Preferred Stock is as follows: (i) prior to the second anniversary of the date of issuance, the redemption price is the greater of \$1,000 per share or the aggregate Market Price of the Class A common stock into which it could be converted at the time of redemption, and (ii) after the second anniversary of the date of issuance, the redemption price is the aggregate Market Price into which it could be converted at the time of redemption. During the year ended December 31, 2000, we redeemed 13,551 shares of Preferred Stock at a total cost of approximately \$13.6 million. Subsequent to December 31, 2000, we redeemed the remaining 250.5 shares of Preferred Stock for a total cost of approximately \$0.2 million.

Each share of Preferred Stock entitles its holder to a number of votes equal to that number of shares of Class A common stock into which it could be converted as of the record date for the vote. Holders of Preferred Stock are entitled to participate in dividends payable on the Class A common stock on an "as-if-converted" basis. The Preferred Stock has no preferential dividends.

During 2000, Sonic issued 11,589 shares of Series II Preferred Stock. These shares were recorded at their estimated value. During the year, 14,264 shares of Series II Preferred Stock and 11,683 shares of Series III Preferred Stock having an aggregate estimated value of approximately \$25.9 million were converted into 2,967,173 shares of Class A common stock.

Common Stock--Sonic has two classes of common stock. Sonic has authorized 100 million shares of Class A common stock at a par value of 0.01 per share. Class A common stock entitles its holder to one vote per share. Sonic had 29,075,437 and 33,291,933 shares of Class A common stock issued at December 31, 1999 and 2000, respectively. Of these issued shares, there were 28,351,837 and 29,715,570 shares outstanding at December 31, 1999 and 2000, respectively. Sonic has also authorized 30 million shares of Class B common stock at a par value of \$.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter. Sonic had issued and outstanding 12,250,000 shares of Class B common stock at December 31, 1999 and 2000.

Treasury Stock/Share Repurchase Program--Over the course of 1999 and 2000, Sonic's Board of Directors has authorized Sonic to expend up to \$75 million to repurchase shares of its Class A common stock or redeem

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

securities convertible into Class A common stock. As of December 31, 2000, Sonic has repurchased 3,576,363 shares of Class A common stock at an average price per share of approximately \$9.18. As of December 31, 1999, Sonic had repurchased 723,600 shares of Class A common stock at an average price per share of approximately \$8.79. Subsequent to December 31, 2000, Sonic has purchased an additional 1,410,800 shares of Class A common stock for approximately \$10.7 million. Sonic will continue to repurchase shares in the open market from time to time subject to market conditions.

Stock Split--All share and per share amounts included in the accompanying consolidated financial statements for all periods presented have been adjusted to reflect a 2 for 1 stock split of the Class A common stock and Class B common stock effective January 25, 1999.

Warrants--In connection with Sonic's prior year acquisitions, Sonic has issued warrants to purchase 242,782 shares of Class A common stock at exercise prices ranging from \$6.00 per share to \$11.27 per share. The warrants expire on various dates from January 15, 2003 to November 30, 2003. Sonic has recorded the issuance of such warrants at their estimated fair value on the date of issuance.

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

<TABLE>

<CAPTION>

	For the year ended December 31, 1998			For the year ended December 31, 1999			For the year ended December 31, 2000		
	Net Income	Per-share Shares	Per-share amount	Net Income	Per-share Shares	Per-share amount	Net Income	Per-share Shares	Per-share amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share.....	\$18,557	22,852	\$0.81	\$44,649	31,744	\$1.41	\$74,172	42,518	\$1.74
			=====			=====			=====
Effect of Dilutive Securities:									
Stock compensation plans.....	--	630		--	949		--	455	
Warrants.....	--	32		--	78		--	31	
Convertible Preferred Stock.....	--	1,456		--	2,477		--	822	
	-----	-----		-----	-----		-----	-----	
Diluted Net Income Per Share.....	\$18,557	24,970	\$0.74	\$44,649	35,248	\$1.27	\$74,172	43,826	\$1.69
	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

In addition to the stock options included in the table above, options to purchase 2,688,676 shares of Class A common stock were outstanding during 2000 but were not included in the computation of diluted EPS because the options were anti-dilutive.

9. Employee Benefit Plans

Substantially all of the employees of Sonic are eligible to participate in a 401(k) plan. Contributions by Sonic to the plan were not significant in any period presented.

Stock Option Plans

Sonic currently has three option plans, the Sonic Automotive, Inc. 1997 Stock Option Plan (the "Stock Option Plan"), the Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors (the "Directors' Plan"), and the FirstAmerica Automotive, Inc. 1997 Stock Option Plan (the "First America Plan").

The Stock Option Plan was adopted by the Board of Directors in order to attract and retain key personnel. At December 31, 2000, there are 6.0 million shares authorized for issuance under the Stock Option Plan. Under the Stock Option Plan, options to purchase shares of Class A common stock may be granted to key employees of Sonic and its subsidiaries and to officers, consultants and other individuals providing services to Sonic. The options generally are granted at the fair market value of Sonic's Class A common stock at the date

of grant, vest over a three year period, are exercisable upon vesting and expire ten years from the date of grant.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Directors' Plan authorizes options to purchase up to an aggregate of 600,000 shares of Class A common stock. Under the plan, each outside director shall be awarded on or before March 31st of each year an option to purchase 10,000 shares at an exercise price equal to the fair market value of the Class A common stock at the date of the award. Options granted under the Directors' Plan become exercisable six months, and expire ten years, after their date of grant.

In connection with its acquisition of FirstAmerica Automotive, Inc., Sonic agreed to assume the FirstAmerica Plan. The FirstAmerica Plan was amended and restated as of December 10, 1999 to provide that each unexpired option to purchase FAA's Class A common stock that was outstanding under the FirstAmerica Plan be converted into an option to purchase shares of Sonic's Class A common stock. A conversion factor of .32232 shares of Sonic's Class A common stock for each share covered by options to purchase FAA Class A common stock was utilized to retain the aggregate intrinsic value of the options immediately before the change and, accordingly, a new measurement date did not result from the conversion. Other than the conversion to options for Sonic's stock, there were no significant changes to the FirstAmerica Plan. Options continue to vest according to the terms of the original option agreements, generally over a five year period, and expire if unexercised ten years from the date of grant.

A summary of the status of Sonic's stock option plans as of December 31, 1998, 1999 and 2000 and changes during the years ended on those dates is presented below.

<TABLE>
<CAPTION>

	Number of Options	Exercise Price Per Share	Weighted Average Exercise Price
	-----	-----	-----
	(shares in thousands)		
<S>	<C>	<C>	<C>
Outstanding at December 31, 1997.....	1,176	\$6.00	\$ 6.00
Granted.....	1,433	7.25-9.19	8.61
Exercised.....	(72)	6.00	6.00

Outstanding at December 31, 1998.....	2,537	6.00-9.19	7.48
Granted.....	1,643	10.06-18.32	14.27
Options assumed from acquired company....	467	2.85-13.12	9.73
Exercised.....	(212)	6.00-7.25	6.18
Forfeited.....	(248)	6.00-15.44	9.29

Outstanding at December 31, 1999.....	4,187	2.85-18.32	10.35
Granted.....	1,868	7.94-11.19	9.15
Exercised.....	(300)	2.85-13.12	5.95
Forfeited.....	(683)	2.85-15.44	10.33

Outstanding at December 31, 2000.....	5,072	\$2.85-18.32	\$10.13
	=====		

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 2000:

<TABLE>
<CAPTION>

Range of Exercise Prices	Shares Outstanding at 12/31/00	Weighted Average Contractual Life	Weighted Average Exercise Price	Shares Exercisable at 12/31/00	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
	(shares in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
\$ 2.85.....	61	6.53 years	\$ 2.85	42	\$2.85
\$ 6.00-7.25.....	919	7.02	6.34	840	6.26
\$ 7.94-8.88.....	1,144	9.42	8.09	40	8.88
\$ 9.19-13.12.....	1,766	8.52	10.28	848	9.53
\$13.63-18.32.....	1,182	8.35	15.20	533	15.23
	-----	-----	-----	-----	-----

Totals.....	5,072	8.39 years	\$10.13	2,303	\$9.53
	=====	=====	=====	=====	=====

</TABLE>

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The weighted average fair value of options granted or assumed was \$4.63, \$6.76 and \$4.41 per share in 1998, 1999 and 2000, respectively. The fair value of each option granted during 1998, 1999 and 2000 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions.

<TABLE>
<CAPTION>

	1998	1999	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Employee Stock Purchase Plan			
Dividend yield.....	n/a	n/a	n/a
Risk free interest rates.....	5.51%	4.49%-6.15%	5.32%-6.74%
Expected lives.....	1.0 year	0.25-1.0 year	0.25-1.0 year
Volatility.....	61.31%	53.15%	44.85%
Stock Option Plans			
Dividend yield.....	n/a	n/a	n/a
Risk free interest rates.....	4.24%-5.57%	4.53%-6.15%	5.92%-6.53%
Expected lives.....	5 years	3-5 years	5 years
Volatility.....	61.31%	53.15%	44.85%

</TABLE>

Employee Stock Purchase Plan

The Board of Directors and stockholders of Sonic adopted the Sonic Automotive, Inc. Employee Stock Purchase Plan (the "ESPP") to attract and retain key personnel. Under the terms of the ESPP, on January 1 of each year all eligible employees electing to participate will be granted an option to purchase shares of Class A common stock. Sonic's Compensation Committee will annually determine the number of shares of Class A common stock available for purchase under each option. The purchase price at which Class A common stock will be purchased through the ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted.

During 2000, the Board of Directors, pursuant to Sonic's ESPP and with the approval of the stockholders at Sonic's 2000 Annual Meeting, increased the authorized shares from 1.2 million to 1.8 million and issued options exercisable for approximately 524,000 shares of Class A common stock, granting 300 shares to each participant in the ESPP.

Nonqualified Employee Stock Purchase Plan

The Board of Directors of Sonic adopted the Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan (the "Nonqualified ESPP") to provide options to purchase Class A common stock to employees of Sonic's subsidiaries that are not eligible to participate in the ESPP. Employees of Sonic who are eligible to participate in the ESPP are not eligible to participate in the Nonqualified ESPP. Under the terms of the Nonqualified ESPP, on January 1 of each year all employees eligible to participate in the Nonqualified ESPP and who elect to participate in the Nonqualified ESPP will be granted an option to purchase shares of Class A common stock. Sonic's Compensation Committee will annually determine the number of shares of Class A common stock available for purchase under each option.

The purchase price at which Class A common stock will be purchased through the Nonqualified ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted. In adopting the Nonqualified ESPP the Board of Directors authorized options to be granted under the Nonqualified ESPP for 300,000 shares of Class A common stock.

Under both the ESPP and the Nonqualified ESPP, Sonic issued approximately 93,600 and 147,800 shares to employees in 1999 and 2000 at a weighted average purchase price of \$10.70 and \$7.27 per share, respectively. The weighted average fair value of shares granted under both plans was \$2.91 and \$2.95 per share in 1999 and 2000, respectively.

Sonic has adopted the disclosure-only provisions of SFAS No. 123. No compensation cost has been recognized for Sonic's stock-based compensation plans in the accompanying consolidated financial statements. Had compensation cost for the stock-based compensation plans been determined based on their fair value as prescribed by SFAS No. 123, Sonic's pro forma net income and diluted net income per share would have been \$16.8 million and \$0.67, respectively for 1998, \$39.9 million and \$1.13, respectively for 1999, and \$70.4 million and \$1.61, respectively for 2000.

10. Commitments and Contingencies

Facility Leases

Certain properties leased by Sonic's dealerships are, or since the beginning of the last fiscal year were, owned by Sonic's officers or directors or their affiliates. These leases contain terms comparable to, or more favorable to Sonic than, terms that would be obtained from unaffiliated third parties. Minimum future rental payments required under noncancelable operating leases are as follows:

<TABLE>
<CAPTION>

<S> Year Ending December 31,	Related Third		Total
	Parties	Parties	
	<C>	<C>	<C>
2001.....	\$ 3,930	\$ 54,331	\$ 58,261
2002.....	4,108	51,672	55,780
2003.....	3,810	51,691	55,501
2004.....	3,810	51,995	55,805
2005.....	3,810	50,458	54,268
Thereafter.....	25,331	276,253	301,584
Total.....	\$44,799	\$536,400	\$581,199

</TABLE>

Total rent expense for the years ended December 31, 1998, 1999, and 2000 was approximately \$10.5 million, \$26.4 million and \$54.7 million, respectively. Of these amounts, approximately \$7.5 million, \$7.7 million and \$3.3 million, respectively, were paid to related parties.

Other Contingencies

Sonic is involved in various legal proceedings. Management believes based on advice of counsel that the outcome of such proceedings will not have a materially adverse effect on Sonic's financial position or future results of operations and cash flows.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

11. Summary of Quarterly Financial Data (Unaudited)

The following table summarizes the Company's results of operations as presented in the Consolidated Statements of Income by quarter for 1999 and 2000.

<TABLE>
<CAPTION>

<S> Year Ended December 31, 1999:	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	Quarter
	<C>	<C>	<C>	<C>

Total revenues.....	\$ 593,452	\$ 723,530	\$ 869,964	\$1,163,877
Gross profit.....	\$ 78,075	\$ 94,261	\$ 116,654	\$ 165,433
Operating income.....	\$ 18,954	\$ 24,588	\$ 31,012	\$ 41,256
Income before taxes.....	\$ 10,848	\$ 16,230	\$ 20,543	\$ 25,353
Net income.....	\$ 6,687	\$ 10,101	\$ 12,583	\$ 15,278
Diluted net income per share.....	\$ 0.24	\$ 0.30	\$ 0.33	\$ 0.38

Year Ended December 31, 2000:

Total revenues.....	\$1,464,401	\$1,548,339	\$1,594,861	\$1,444,875
Gross profit.....	\$ 208,034	\$ 219,298	\$ 228,741	\$ 209,114
Operating income.....	\$ 49,001	\$ 58,655	\$ 57,328	\$ 44,133
Income before taxes.....	\$ 28,416	\$ 36,347	\$ 35,119	\$ 19,991
Net income.....	\$ 17,371	\$ 22,452	\$ 22,059	\$ 12,291
Diluted net income per share.....	\$ 0.39	\$ 0.51	\$ 0.51	\$ 0.29

</TABLE>

FIRST AMENDMENT TO
EXECUTIVE EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT ("Amendment") is entered into effective January 4, 2001 (the "Effective Date") by and between Sonic Automotive, Inc., a Delaware corporation ("Sonic") and Thomas A. Price ("Executive"), and is made with respect to the following facts and circumstances.

A. Executive and Sonic are parties to that certain Executive Employment Agreement (the "Employment Agreement") dated December 10, 1999.

B. Executive and Sonic now desire to amend the Employment Agreement on the terms and conditions set forth herein. Unless expressly defined in this Amendment, all capitalized terms shall have the meanings ascribed to them in the Employment Agreement.

NOW, THEREFORE, in recognition of the foregoing premises, in exchange of the promises, covenants and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Sonic and Executive agree as follows.

1. Section 3.a. of the Employment Agreement is hereby amended to provide that, commencing on July 1, 2001 and continuing through the end of the term of the Employment Agreement, Executive's annual base salary shall be reduced from \$600,000.00 to \$300,000.00.

2. Section 3.c. of the Employment Agreement is hereby deleted in its entirety. Executive (i) shall not be entitled to an adjustment of Executive's total compensation package due pursuant to the Employment Agreement based on the compensation paid by Sonic to O. Bruton Smith, and (ii) shall have no right to receive a bonus or other monetary compensation pursuant to Section 3 of the Employment Agreement in excess of the salary set forth in Section 3.a. of the Employment Agreement (as modified by Paragraph 1 above). The provisions of this Paragraph 2 shall apply with respect to calendar year 2000 and thereafter during the remaining term of the Employment Agreement.

3. Section 5.b.(iv) of the Employment Agreement is hereby amended to provide that, notwithstanding anything to the contrary set forth in Section 5.b.(iv), Executive shall not be prevented from, and it shall not constitute a violation of said Section 5.b.(iv) of the Employment Agreement for Executive to, (i) purchase, own and operate (either directly or indirectly) from Sonic (or its subsidiaries) the Land Rover dealership located at 647 Irwin Street, San Rafael, California, (ii) own and operate (either directly or indirectly) the existing Jaguar dealership located at 610 DuBois, San Rafael, California, or (iii) own and operate (either directly or indirectly) a Lincoln dealership in Marin County, California. The provisions of this Paragraph 3 shall not in any way otherwise diminish Executive's obligations under Section 5 of the Employment Agreement.

4. Except as expressly modified herein, all other terms and conditions of the Employment Agreement shall remain in full force and effect, without modification.

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Wherefore, the parties have executed and delivered this Amendment on the day and year first above written.

Sonic Automotive, Inc.,
a Delaware corporation

By: /s/ O. Bruton Smith

Its: Chairman and Chief Executive Officer

/s/ Thomas A. Price

Thomas A. Price

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EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") made this 25th day of October, 2000 between SONIC AUTOMOTIVE, INC., a Delaware corporation, its successors or assigns, subsidiary corporations or affiliates (collectively, the "Employer") and THEODORE M. WRIGHT ("Employee").

RECITALS

WHEREAS, Employer desires to retain the services of Employee; and

WHEREAS, Employee is prepared to perform those duties as set forth in this Agreement.

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

1. Term of Employment. Employer hereby employs Employee, and Employee hereby accepts employment from Employer for the period commencing November 10, 2000 (the "Commencement Date") and ending five (5) years thereafter, unless sooner terminated pursuant to the provisions of paragraphs 5 or 7 hereof (the "Employment Period").

2. Duties of Employee. Employee shall be employed by Employer as Chief Financial Officer and Vice President of Sonic Automotive, Inc. Employee's duties shall include, but not be limited to, the duties customarily performed by a chief financial officer of a corporation of similar size and scope and such additional duties as may from time to time be assigned by the Employer's Board of Directors. Employee shall serve Employer faithfully in the performance of Employee's duties and shall devote his full time and best efforts to his employment, including the regularly established working hours and such additional time as the requirements of Employer and the performance of the Employee's duties require. Employee

agrees to observe and comply with all the rules and regulations of Employer as adopted and furnished to Employee by Employer's Board of Directors from time to time.

3. Compensation. For all services rendered by Employee under this Agreement, he shall be entitled to compensation in accordance with the following:

(a) Base Salary. During the Employment Period, the Employee shall receive an annual base salary ("Annual Base Salary") of FOUR HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$450,000.00) which shall be paid in equal monthly installments in the amount of THIRTY-SEVEN THOUSAND, FIVE HUNDRED AND NO/100 DOLLARS (\$37,500.00).

(b) Additional Salary and Bonus. In addition to the Annual Base Salary as hereinabove provided, Employer shall pay to the Employee such additional amounts as may be determined and ratified from time to time by the Compensation Committee of Employer's Board of Directors. In determining such additional amounts, the Compensation Committee and Employer shall seek to provide Employee with total compensation in keeping with the market rates for employees in similar positions, with similar businesses with similar profitability and performance.

4. Fringe Benefits. During the Employment Period, Employee shall receive with other similarly situated employees of the Employer, all the fringe benefits of Employer, together with the following additional fringe benefits:

(a) The use of one luxury demonstrator vehicle annually of Employee's choice and one additional non-luxury demonstrator vehicle annually of Employee's choice from

a Charlotte-area dealership of Employer, including all reasonable related expenses such as insurance, maintenance and gasoline.

(b) Medical insurance coverage for Employee and his dependents and reimbursement of the Employee for the reasonable costs of disability

insurance with a reasonable monthly benefit for life and with a waiting period of no more than ninety (90) days. This disability insurance shall contain other provisions so that it will replace to the extent reasonably possible Employee's Base Salary in case Employer terminates this Agreement upon Employee's disability as set forth herein.

(c) Prompt reimbursement for all reasonable employment, travel, entertainment and other business related expenses incurred by the Employee in accordance with the most favorable policies, practices and procedures of the Employer and its affiliated companies in effect for the Employee at any time during the ninety (90) day period immediately preceding the Commencement Date or, if more favorable to the Employee, as in effect generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

(d) An office of a size and with furnishings and other appointments, and secretarial services at least equal to the most favorable policies, practices and procedures of the Employer and its affiliated companies in effect for the Employee at any time during the ninety (90) day period immediately preceding the Commencement Date or, if more favorable to the Employee, as provided generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

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(e) An annual paid vacation in accordance with the most favorable policies, practices and procedures of the Employer and its affiliated companies as in effect for the Employee at any time during the ninety (90) day period immediately preceding the Commencement Date or, if more favorable to the Employee, as in effect generally at any time thereafter with respect to other peer executives of the Employer and its affiliated companies.

(f) On the Commencement Date, Employer will advance to the Employee the sum of SEVEN HUNDRED THOUSAND AND NO/100 DOLLARS (\$700,000.00) (the "Advance") via check or wire transfer of immediately available funds. The Advance shall be non-interest bearing and, upon termination of the Employee's employment with Employer, shall either be repaid by Employee to Employer or retained by Employee as severance pay as provided in Section 6 of this Agreement.

5. Termination of Employment. This Agreement shall terminate as follows:

(a) Death or Disability. The Employee's employment shall terminate

automatically upon the Employee's death during the Employment Period. If the Employer determines in good faith that the Employee becomes unable to perform the essential functions of his position, with or without reasonable accommodation, then Employer shall give to the Employee written notice of its intention to terminate the Employee's employment. In such event, the Employee's employment with the Employer shall terminate effective on the thirtieth (30th) day after receipt of such notice by the Employee (the "Disability Effective Date") provided that, within the thirty (30) days after such receipt, the Employee shall not have returned to full time performance of the Employee's duties.

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(b) Cause. The Employer may terminate the Employee's employment at any

time, without notice and with immediate effect for Cause. For purposes of this Agreement "Cause" shall mean

(i) a material breach by the Employee of the Employee's obligations as set forth herein (other than due to disability) which material breach is not remedied within five (5) business days after receipt of written notice from the Employer specifying such a breach;

(ii) the conviction of the Employee of a felony;

(iii) actions by Employee involving moral turpitude;

(iv) willful failure of Employee to comply with reasonable directives of Employer's Board of Directors;

(v) chronic absenteeism of Employee;

(vi) willful misconduct of Employee resulting in damage to Employer; or

(vii) Employee's illegal use of controlled substances.

(c) Without Cause. Either Employee or Employer may terminate this

Agreement at any time, for any reason or without any reason. Such a termination shall be deemed a termination "without cause."

6. Obligations of the Employer Upon Termination. The parties agree as

follows:

(a) Death or Disability. If the Employee's employment is terminated by

reason of the Employee's death or disability during the Employment Period, Employee or

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Employee's estate (i) shall be paid Employee's Annual Base Salary together with those fringe benefits described in paragraphs 4(a) and 4(b) hereof through the end of the month during which Employee's death occurs or during which the Disability Effective Date falls, and (ii) shall be entitled to retain the full amount of the Advance as severance pay. Payment of the Annual Base Salary and benefits described in clause (i) above to Employee or Employee's estate, and retention of the Advance by Employee or Employee's estate as provided in clause (ii) above, shall be in lieu of all other severance benefits to which Employee or Employee's estate would otherwise be entitled.

(b) Cause. If the Employee's employment shall be terminated for Cause

during the Employment Period, such termination for Cause shall constitute an immediate termination of Employer's obligations pursuant to paragraphs 3 and 4 hereof. Employee shall (i) not be entitled to any compensation or benefits beyond the effective date of such termination for Cause, and (ii) repay the full amount of the Advance to the Employer via wire transfer of immediately available funds within thirty (30) days following the effective date of such termination for Cause.

(c) Without Cause. If Employee's employment is terminated by Employer

without cause, then (i) Employer shall pay Employee his Annual Base Salary together with those fringe benefits described in paragraphs 4(a) and 4(b) through the effective date of such termination, (ii) all un-vested options to purchase shares of Class A Common Stock of the Employer granted to the Employee prior to the effective date of such termination shall become fully vested and exercisable on the effective date of such termination, and such options shall be exercisable by the Employee for the period provided by, and shall expire in accordance with, the

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provisions of the Sonic Automotive, Inc. 1997 Stock Option Plan, as amended, for an "Involuntary Termination Without Cause", and (iii) the Employee shall be entitled to retain the full amount of the Advance as severance pay. The benefits provided in clauses (ii) and (iii) above, including but not limited to the Employee's retention of the Advance, shall be in lieu of all other severance benefits to which the Employee would otherwise be entitled.

(d) Resignation. If the Employee voluntarily resigns from his

employment with the Employer hereunder, the Employee shall repay the full amount of the Advance to the Employer via wire transfer of immediately available funds within ten (10) days following the effective date of such resignation.

(e) Expiration of Employment Period. If the Employee remains employed

by the Employer on November 10, 2005, the Employee shall repay the full amount of the Advance to the Employer via wire transfer of immediately available funds on such date.

7. Change of Control.

(a) Upon a Change of Control (as defined below), the Employee may elect to resign from his employment with the Employer hereunder by providing written notice of such resignation to the Board of Directors of the Employer within thirty (30) days following the date of consummation of such Change of Control (failure to timely give such notice shall constitute a waiver of the Employee's rights under this Section 7).

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(b) If the Employee provides timely written notice of his election to

resign his employment with the Employer pursuant to Section 7(a) above, the Employer shall pay to the Employee via check or wire transfer of immediately available funds within thirty (30) days following the effective date of such resignation the following lump sum amount (the "Change of Control Severance Payment"): (i) the Annual Base Salary payable to the Employee by the Employer hereunder from the effective date of such resignation to November 10, 2005; plus (ii) an amount equal to (A) the most recent annual cash bonus paid to the Employee by the Employer, multiplied by (B) the number of years remaining from the effective date of such resignation until November 10, 2005 (rounded upwards to the nearest year). The Employer and the Employee acknowledge and agree that, should the Employee elect to exercise his rights pursuant to this Section 7, the Employee shall remain obligated to repay the full amount of the Advance to the Employer pursuant to the provisions of Section 6(d) above. Payment of the Change of Control Severance Payment by the Employer to the Employee shall be in lieu of all other severance benefits to which the Employee would otherwise be entitled.

(c) As used in this Section 7, a "Change of Control" shall mean any of the following:

(i) a sale of all or substantially all of the assets of the Employer to a person who is not an Affiliate (as used herein the term "Affiliate" means a person or entity which controls, is controlled by or is under common control with the Employer, and the concept of control means the ownership of voting securities representing more than 50% of the voting power of the entity in question);

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(ii) a merger, consolidation or reorganization of the Employer as a result of which stockholders of the Employer holding more than 50% of the voting power of all outstanding voting securities of the Employer immediately before the merger, consolidation or reorganization do not hold more than 50% of the voting power of all outstanding voting securities of the Employer after the merger, consolidation or reorganization;

(iii) the acquisition by a person or group of related persons who are not Affiliates of the Employer in one transaction or a series of related transactions of voting securities which have more than 50% of the voting power of all outstanding voting securities of the Employer; or

(iv) if at any time during the Employment Period, the members of the Smith Group (as that term is defined in the Employer's Amended and Restated Certificate of Incorporation, as amended) do not hold voting securities of the Employer having a majority of the voting power of all outstanding voting securities of the Employer.

8. Restrictive Covenants. For purposes of this Agreement, "Restrictive

Covenants" mean the provisions of this paragraph 8. It is stipulated and agreed that Employer is engaged in the business of owning and operating automobile and/or truck dealerships, which business includes, without limitation, the marketing, selling and leasing of new and used vehicles and the servicing of automobiles and trucks (the "Business"). It is further stipulated and agreed that as a result of Employee's employment by Employer, and as a result of Employee's continued employment hereunder, Employee has and will have access to valuable, highly confidential, privileged and proprietary information relating to Employer's Business, including, without

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limitation, existing and future inventory information, customer lists, sales methods and techniques, costs and costing methods, pricing techniques and strategies, sales agreements with customers, profits and product line profitability information, unpublished present and future marketing strategies and promotional programs, and other information regarded by Employer as proprietary and confidential (the "Confidential Information"). It is further acknowledged that the unauthorized use or disclosure by Employee of any of the Confidential Information would seriously damage Employer in its Business.

In consideration of the provisions of this paragraph 8, the compensation and benefits referred to in paragraphs 3 and 4 hereof, which Employee acknowledges are legally sufficient to support enforceability by the Employer of the Restrictive Covenants against Employee, Employee agrees as follows:

(a) During the term of this Agreement and after its termination or expiration for any reason, Employee will not, without Employer's prior written consent, use, divulge, disclose, furnish or make accessible to any third person, company or other entity, any aspect of the Confidential Information (other than as required in the ordinary discharge of Employee's duties hereunder).

(b) During the term of this Agreement and for a period of two years after the date of the expiration or termination of this Agreement for any reason (the "Restrictive Period"), Employee shall not, directly or indirectly:

(i) Employ or solicit the employment of any person who at any time during the twelve (12) calendar months immediately preceding the termination or expiration of this Agreement for any reason was employed by Employer;

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(ii) Provide or solicit the provision of products or services, similar to those provided by Employer to any person or entity within the "Restricted Territory", as hereinafter defined, who purchased or leased automobiles, trucks or services from Employer at any time during the twelve (12) calendar months immediately preceding the termination or expiration of this Agreement for any reason;

(iii) Interfere or attempt to interfere with the terms or other aspects of the relationship between Employer and any person or entity from whom Employer has purchased automobiles, trucks, parts, supplies, inventory or services at any time during the twelve (12) calendar months immediately preceding the termination or expiration of this Agreement for any reason;

(iv) Engage in competition with Employer or its respective successors and assigns by engaging, directly or indirectly, in a business involving the sale or leasing of automobiles or trucks or which is otherwise substantially similar to the Business, within the "Restricted Territory", as hereinafter defined; or

(v) Provide information to, solicit or sell for, organize or own any interest in (either directly or thorough any parent, affiliate or subsidiary corporation, partnership, or other entity), or become employed or engaged by, or act as agent for, any person, corporation or other entity that is directly or indirectly engaged in a business in the "Restricted Territory", as hereinafter defined, which is substantially similar to the Business or competitive with Employer's business; provided, however, that nothing herein shall preclude the Employee from holding not more than three percent (3%) of the outstanding shares of any publicly held

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company which may be so engaged in a trade or business identical or similar to the Business of the Employer. As used herein, "Restricted Territory" means:

(1) all Standard Metropolitan Statistical Areas, as determined by the United States Office of Management and Budget, in which Employer has an office, store or other place of business on the date of the expiration or termination of this Agreement for any reason.

(2) all counties in which Employer has an office, store or other place of business on the date of the expiration or termination of this Agreement for any reason.

9. Remedies. It is stipulated that a breach by Employee of the Restrictive

Covenants would cause irreparable damage to Employer. Employer, in addition to any other rights or remedies which Employer may have, shall be entitled to an injunction restraining Employee from violating or continuing any violation of such Restrictive Covenants. Such right to obtain injunctive relief may be exercised at the option of Employer, concurrently with, prior to, after or in lieu of, the exercise of any other rights or remedies which Employer may have as a result of any such breach or threatened breach. Employee agrees that upon breach of any of the Restrictive Covenants, Employer shall be entitled to an accounting and repayment of all profits, royalties, compensation, and/or other benefits that Employee directly or indirectly has realized or may realize as a result of, or in connection with, any such breach. Employee further agrees that the Restrictive Period shall be extended by a period of time equal to any period of time in which any Employee is in violation of the Restrictive Covenants.

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10. Acknowledgment of Reasonableness. Employee has carefully read and

considered the provisions of this Agreement and has had the opportunity for

consultation with an attorney of Employee's choice and agrees that the restrictions set forth herein are fair and reasonably required for the protection of Employer. In the event that any provision relating to the Restrictive Period, the Restricted Territory or the scope of the restrictions shall be declared by a court of competent jurisdiction to exceed the maximum period of time, geographical area or scope that such court deems reasonable and enforceable under applicable law, such time period, geographical area or scope of restriction held reasonable and enforceable by the court shall thereafter be the Restricted Period, Restricted Territory and/or scope under this Agreement.

11. Surrender of Books and Records. Employee acknowledges that all files, -----
records, lists, designs, specifications, books, products, plans and other materials owned or used by Employer in connection with conduct of its business shall at all times remain the property of Employer, and that upon termination or expiration of this Agreement for any reason, Employee will immediately surrender to Employer all such materials.

12. Resignation of Directorships. Upon termination of this Agreement for -----
any reason or upon termination of the Employee's employment with the Employer for any reason, the Employee will resign all directorships he may then hold with the Employer or any of its subsidiaries.

13. Entire Agreement. This Agreement contains the entire agreement of the -----
parties hereto, and shall not be modified or changed in any respect except by a writing executed by the parties hereto.

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14. Successors and Assigns. The rights and obligations of Employee under -----
this Agreement shall inure to the benefit of Employer, its successors and assigns, and shall be binding upon Employee and his respective successors, heirs and assigns. Employer shall have the right to assign, transfer, or convey this Agreement to its affiliated companies, successor entities, or assignees or transferees of substantially all of Employer's business activities. This Agreement, being personal in nature to the Employee, may not be assigned by Employee without Employer's prior written consent.

15. Notice. All notices required and permitted to be give hereunder shall -----
be in writing and shall be deemed to have been given when mailed by certified or registered mail, return receipt requested, addressed to the intended recipient as follows or at such other address as is provided by either party to the other:

If to Employer:	With a copy to:
Sonic Automotive, Inc. Attention: Chairman 5401 E. Independence Blvd. Charlotte, NC 28212	Sonic Automotive, Inc. Attention: General Counsel 6415 Idlewild Road, Suite 109 Charlotte, NC 28212

If to Employee:	With a copy to:
Theodore M. Wright 2900 Highridge Road Charlotte, NC 28270	_____ _____ _____

16. Governing Law; Forum. This Agreement shall, in all respects, be -----
governed by and construed according to the laws of the State of North Carolina. Any dispute or controversy arising out of or relating to this Agreement shall also be governed by the laws of the

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State of North Carolina. Any suit or other proceeding arising out of or relating to this Agreement shall be instituted and maintained in the state courts of Mecklenburg County, North Carolina, and the parties hereby waive any objection to such jurisdiction and venue and irrevocably submit to the jurisdiction of such court in any such action or proceeding. Each party shall bear its own costs and expenses, including without limitation, attorneys' fees, in connection with any such suit or proceeding.

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

EMPLOYEE:

/s/ Theodore M. Wright (SEAL)

Theodore M. Wright

EMPLOYER:

SONIC AUTOMOTIVE, INC.

By: /s/ O. Bruton Smith

Name: O. Bruton Smith

Title: Chairman and Chief Executive Officer

Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> Autobahn, Inc.	<C> California	<C> Autobahn Motors Mercedes-Benz of Belmont
Bill Swad Chevrolet, Inc.	Ohio	
Capitol Chevrolet and Imports, Inc. f/k/a Sonic Automotive-711 Eastern Blvd., Montgomery, Inc.	Alabama	Capitol Kia Capitol Chevrolet Capitol Hyundai Capitol Mitsubishi
Casa Ford of Houston, Inc.	Texas	
Cobb Pontiac Cadillac, Inc.	Alabama	Classic Cadillac Pontiac
FA Service Corporation	California	First Automotive Service Corp.
FA Thousand Oaks BNG, Inc.	California	
FA Thousand Oaks COLR, Inc.	California	
FA Thousand Oaks H, Inc.	California	
FA Thousand Oaks L, Inc.	California	
FA Thousand Oaks MBJ, Inc.	California	
FA Thousand Oaks MSS, Inc.	California	
FAA Auto Factory, Inc.	California	
FAA Beverly Hills, Inc.	California	Beverly Hills BMW
FAA Capitol F, Inc.	California	Capitol Ford
FAA Capitol N, Inc.	California	Capitol Nissan
FAA Concord H, Inc.	California	Concord Honda
FAA Concord N, Inc.	California	Concord Nissan
FAA Concord T, Inc.	California	Concord Toyota
FAA Dublin N, Inc.	California	Dublin Nissan
FAA Dublin VWD, Inc.	California	Dublin Volkswagen Dublin Dodge Hyundai of Dublin
FAA Holding Corp.	California	

</TABLE>

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Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> FAA Marin D, Inc.	<C> California	<C> First Dodge - Marin
FAA Marin F, Inc.	California	Ford of San Rafael
FAA Marin LR, Inc.	California	Land Rover Marin
FAA Monterey F, Inc.	California	Monterey Ford/Lincoln/Mercury
FAA Poway D, Inc.	California	Poway Dodge
FAA Poway G, Inc.	California	Ritchey/Fipp Poway Chevrolet/Oldsobile Poway Chevrolet Oldsmobile
FAA Poway H, Inc.	California	Poway Honda
FAA Poway T, Inc.	California	Poway Toyota
FAA San Bruno, Inc.	California	Melody Toyota
FAA Santa Monica V, Inc.	California	Volvo of Santa Monica
FAA Serramonte H, Inc.	California	Honda of Serramonte
FAA Serramonte L, Inc.	California	Lexus of Serramonte Lexus of Marin
FAA Serramonte, Inc.	California	Serramonte Auto Plaza Serramonte Dodge Serramonte Isuzu Serramonte Mitsubishi Serramonte Nissan Hyundai of Serramonte
FAA Stevens Creek, Inc.	California	Stevens Creek Nissan
FAA Torrance CPJ, Inc.	California	South Bay Chrysler, Plymouth, Jeep
FAA Woodland Hills VW, Inc.	California	Volkswagen of Woodland Hills
FirstAmerica Automotive, Inc.	Delaware	
Fort Mill Chrysler-Plymouth-Dodge Inc.	South Carolina	Fort Mill Dodge
Fort Mill Ford, Inc. f/k/a FMF Management, Inc. f/k/a Fort Mill Ford, Inc.	South Carolina	

Fort Myers Collision Center, LLC Florida

</TABLE>

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Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity Domestic State Assumed Name

<S> <C> <C>
Franciscan Motors, Inc. California Acura of Serramonte

Freedom Ford, Inc. Florida
f/k/a Ken Marks Ford, Inc.

Frontier Oldsmobile-Cadillac, Inc. North Carolina Frontier Hyundai
Freedom Chevrolet-Oldsmobile-
Cadillac

HMC Finance Alabama, Inc. Alabama HMC Finance
f/k/a Sonic-Birmingham Used Cars, Inc.

Kramer Motors Incorporated California Honda of Santa Monica

Lone Star Ford, Inc. Texas
f/k/a OBS, Inc.

L Dealership Group, Inc. Texas
f/k/a Lucas Dealership Group, Inc.

Marcus David Corporation North Carolina Town & Country Toyota

North Point Imports, L.L.C. Georgia [North Point Volvo]
f/k/a North Point Volvo, L.L.C.

Philpott Motors, Ltd. Texas

Riverside Nissan, Inc. Oklahoma

Royal Motor Company, Inc. Alabama City Chrysler Plymouth Jeep

Santa Clara Imported Cars, Inc. California Honda of Stevens Creek

Smart Nissan, Inc. California First Nissan-Marin

Sonic Automotive - Bondesen, Inc. Florida Fred Bondesen Chevrolet,
Oldsmobile, Cadillac

Sonic Automotive of Chattanooga, LLC Tennessee Town and Country Volvo of
Chattanooga
BMW of Chattanooga
Volvo of Chattanooga

Sonic Automotive-Clearwater, Inc. Florida Clearwater Toyota

Sonic Automotive Collision Center of
Clearwater, Inc. Florida

Sonic Automotive F&I, LLC Nevada

</TABLE>

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Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> Sonic Automotive of Georgia, Inc.	<C> Georgia	<C>
Sonic Automotive of Nashville, LLC	Tennessee	Town and Country of Nashville BMW of Nashville Town and Country Volkswagen of Nashville Volkswagen of Nashville Sonic Automotive Body Shop
Sonic Automotive of Nevada, Inc.	Nevada	
Sonic Automotive Servicing Company, LLC	Nevada	
Sonic Automotive of Tennessee, Inc.	Tennessee	
Sonic Automotive of Texas, L.P.	Texas	Lone Star Ford
Sonic Automotive West, LLC	Nevada	
Sonic Automotive - 1307 N. Dixie Hwy., NSB, Inc.	Florida	Halifax Ford-Mercury Halifax Ford Truck Center Halifax Ford Used Cars
Sonic Automotive-1400 Automall Drive, Columbus, Inc.	Ohio	Hatfield Hyundai Hatfield Isuzu Hatfield Subaru
Sonic Automotive-1455 Automall Drive, Columbus, Inc.	Ohio	Volkswagen West Hatfield Kia
Sonic Automotive-1495 Automall Drive, Columbus, Inc.	Ohio	Hatfield Lincoln Mercury
Sonic Automotive-1500 Automall Drive, Columbus, Inc.	Ohio	Toyota West
Sonic Automotive - 1720 Mason Ave., DB, Inc.	Florida	
Sonic Automotive - 1720 Mason Ave., DB, LLC	Florida	Mercedes-Benz of Daytona Beach
Sonic Automotive - 1919 N. Dixie Hwy., NSB, Inc.	Florida	Halifax Chevrolet-Oldsmobile
Sonic Automotive - 21699 U.S. Hwy 19 N., Inc.	Florida	Clearwater Mitsubishi

</TABLE>

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Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> Sonic Automotive - 241 Ridgewood Ave., HH, Inc.	<C> Florida	<C> Sunrise Auto World Sunrise Fleet Sales
Sonic Automotive 2424 Laurens Rd., Greenville, Inc.	South Carolina	
Sonic Automotive - 2490 South Lee Highway, LLC	Tennessee	Town and Country Honda of Cleveland Racetrack Motors Cleveland Honda
Sonic Automotive 2752 Laurens Rd., Greenville, Inc.	South Carolina	Century BMW
Sonic Automotive - 3401 N. Main, TX, L.P.	Texas	Ron Craft Chevrolet-Cadillac-Oldsmobile Baytown Auto Collision Center
Sonic Automotive-3700 West Broad Street, Columbus, Inc.	Ohio	Trader Bud's Westside Chrysler Jeep
Sonic Automotive - 3741 S. Nova Rd., PO, Inc.	Florida	HMC Finance
Sonic Automotive-4000 West Broad Street, Columbus, Inc.	Ohio	Trader Bud's Westside Dodge
Sonic Automotive - 4701 I-10 East, TX, L.P.	Texas	Baytown Ford
Sonic Automotive - 5221 I-10 East, TX, L.P.	Texas	Casa Chrysler-Plymouth-Jeep Baytown Chrysler-Jeep
Sonic Automotive 5260 Peachtree Industrial Blvd., LLC	Georgia	Dyer and Dyer Volvo Dyer & Dyer Volvo of Southlake
Sonic Automotive-5585 Peachtree Industrial Blvd., LLC	Georgia	
Sonic Automotive - 6008 N. Dale Mabry, FL, Inc.	Florida	Volvo of Tampa

</TABLE>

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Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> Sonic Automotive - 6025 International Drive, LLC	<C> Tennessee	<C> Town and Country KIA of Chattanooga Town and Country Volkswagen of Chattanooga Volkswagen of Chattanooga Kia of Chattanooga
Sonic Automotive - 9103 E. Independence, NC, LLC	North Carolina	Infiniti of Charlotte
Sonic - 2185 Chapman Rd., Chattanooga, LLC	Tennessee	Economy Honda Cars Sonic Automotive Collision Center
Sonic - Camp Ford, L.P.	Texas	LaPorte Ford
Sonic - Carrollton V, L.P.	Texas	Volvo of Dallas
Sonic - Chattanooga D East, LLC	Tennessee	Airport Dodge
Sonic Chrysler-Plymouth-Jeep, LLC f/k/a Sonic Chrysler-Plymouth-Jeep-Eagle, LLC	North Carolina	Lake Norman Chrysler-Plymouth-Jeep Lake Norman Used Car Center Lake Norman Pre-Owned Lake Norman Collision Center
Sonic - Classic Dodge, Inc.	Alabama	Classic Dodge
Sonic - Dallas Auto Factory, L.P.	Texas	
Sonic Dodge, LLC	North Carolina	Lake Norman Dodge
Sonic - Fitzgerald Chevrolet, LLC	North Carolina	Not New Car Store
Sonic - FM Automotive, LLC f/k/a Sonic Automotive - 6008 N. Dale Mabry, FL, LLC	Florida	Mercedes-Benz of Fort Myers
Sonic - FM , Inc. f/k/a Sonic - FM BMW, Inc.	Florida	BMW of Fort Myers
Sonic - FM Nissan, Inc.	Florida	Nissan of Fort Myers
Sonic - FM VW, Inc.	Florida	Volkswagen of Fort Myers

</TABLE>

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> Sonic - Fort Worth T, L.P.	<C> Texas	<C> Garry McKinney Toyota
Sonic - Freeland, Inc.	Florida	Honda of Fort Myers
Sonic - Global Imports, L.P.	Georgia	
Sonic-Glover, Inc.	Oklahoma	Expressway Dodge
Sonic - Integrity Dodge LV, LLC	Nevada	Nevada Dodge
Sonic - Las Vegas C East, LLC	Nevada	Cadillac of Las Vegas
Sonic - Las Vegas C West, LLC	Nevada	Cadillac of Las Vegas - West
Sonic - Lloyd Nissan, Inc.	Florida	Lloyd Nissan Lloyd Automotive
Sonic - Lloyd Pontiac - Cadillac, Inc.	Florida	Lloyd Pontiac-Cadillac-GMC
Sonic - Lute Riley, L. P. f/k/a Sonic - Lute Riley Honda, L.P.	Texas	Lute Riley Honda
Sonic - Manhattan Fairfax, Inc.	Virginia	BMW of Fairfax
Sonic - Manhattan Waldorf, Inc.	Maryland	Nissan Jeep of Waldorf
Sonic - Montgomery FLM, Inc.	Alabama	
Sonic - Newsome Chevrolet World, Inc.	South Carolina	Newsome Chevrolet World
Sonic - Newsome of Florence, Inc.	South Carolina	Newsome Automotive (Mercedes) Imports of Florence (BMW) Newsome Chevrolet Isuzu of Florence (Isuzu)
Sonic - North Charleston, Inc.	South Carolina	Altman Lincoln- Mercury Altman Hyundai
Sonic - North Charleston Dodge, Inc.	South Carolina	Altman Dodge
Sonic Peachtree Industrial Blvd., L.P.	Georgia	
Sonic - Reading, L.P.	Texas	Reading Buick-Pontiac-GMC Reading Toyota Toyota of Baytown Baytown Pontiac-GMC-Buick

</TABLE>

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Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity Domestic State Assumed Name

<S> Sonic - Richardson F, L.P.	<C> Texas	<C> North Central Ford
Sonic - Riverside, Inc.	Oklahoma	Riverside Chevrolet
Sonic - Riverside Auto Factory, Inc.	Oklahoma	[Tulsa Auto Factory]
Sonic - Rockville Imports, Inc.	Maryland	Rockville Porsche-Audi
Sonic - Rockville Motors, Inc.	Maryland	Lexus of Rockville
Sonic - Sam White Nissan, L.P.	Texas	Lone Star Nissan Lone Star Oldsmobile Lone Star Nissan-Oldsmobile
Sonic - Sam White Oldsmobile, L.P.	Texas	
Sonic - Shottenkirk, Inc.	Florida	Pensacola Honda
Sonic - Stevens Creek B, Inc. f/k/a Don Lucas International, Inc.	California	Stevens Creek BMW
Sonic - Superior Oldsmobile, LLC f/k/a Town and Country Saturn of Chattanooga, LLC	Tennessee	Cleveland Oldsmobile-Cadillac-GMC
Sonic of Texas, Inc.	Texas	
Sonic - Volvo LV, LLC	Nevada	Volvo of Las Vegas
Sonic - Williams Buick, Inc.	Alabama	Montgomery Auto Factory
Sonic - Williams Cadillac, Inc.	Alabama	
Sonic - Williams Imports, Inc.	Alabama	
Sonic - Williams Motors, LLC	Alabama	
Speedway Chevrolet, Inc.	Oklahoma	
SRE Alabama - 1, LLC	Alabama	
SRE Alabama - 2, LLC	Alabama	
SRE Alabama - 3, LLC	Alabama	
SRealEstate Arizona - 1, LLC	Arizona	
SRealEstate Arizona - 2, LLC	Arizona	
SRealEstate Arizona - 3, LLC	Arizona	
SRealEstate Arizona - 4, LLC	Arizona	

</TABLE>

Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> SRE Florida - 1, LLC	<C> Florida	<C>
SRE Florida - 2, LLC	Florida	
SRE Florida - 3, LLC	Florida	
SRE Georgia - 1, L.P.	Georgia	
SRE Georgia - 2, L.P.	Georgia	
SRE Georgia - 3, L.P.	Georgia	
SRE Holding, LLC	North Carolina	
SRE Nevada - 1, LLC	Nevada	
SRE Nevada - 2, LLC	Nevada	
SRE Nevada - 3, LLC	Nevada	
SRE South Carolina - 1, LLC	South Carolina	
SRE South Carolina - 2, LLC	South Carolina	
SRE Tennessee - 1, LLC	Tennessee	
SRE Tennessee - 2, LLC	Tennessee	
SRE Tennessee - 3, LLC	Tennessee	
SRE Texas - 1, L.P.	Texas	
SRE Texas - 2, L.P.	Texas	
SRE Texas - 3, L.P.	Texas	
SRE Virginia - 1, LLC	Virginia	
Stevens Creek Cadillac, Inc.	California	St. Claire Cadillac/Oldsmobile
Town and Country Chrysler-Plymouth-Jeep, LLC	Tennessee	Cleveland Chrysler-Plymouth-Jeep
Town and Country Chrysler-Plymouth-Jeep of Rock Hill, Inc.	South Carolina	Town and Country Hyundai Fort Mill Chrysler Jeep
Town and Country Dodge of Chattanooga, LLC	Tennessee	Dodge of Chattanooga
Town and Country Ford, Incorporated	North Carolina	

</TABLE>

Exhibit 21.1
Subsidiaries of Sonic Automotive, Inc.

<TABLE>
<CAPTION>

Name of Entity	Domestic State	Assumed Name
<S> Town and Country Ford of Cleveland, LLC	<C> Tennessee	<C>
Town and Country Jaguar, LLC	Tennessee	Town and Country Infiniti of Chattanooga Town and Country Jaguar of Chattanooga Jaguar of Chattanooga Infiniti of Chattanooga
Transcar Leasing, Inc.	California	Serramonte Pontiac Buick GMC
Village Imported Cars, Inc.	Maryland	Village Volvo
Windward, Inc.	Hawaii	Honda of Hayward

</TABLE>

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors and Stockholders of
Sonic Automotive, Inc.:

We consent to the incorporation by reference in the following Registration
Statements of Sonic Automotive, Inc.:

Registration Statement No. 333-82615 on Form S-3;
Registration Statement No. 333-81059 on Form S-8;
Registration Statement No. 333-81053 on Form S-8;
Registration Statement No. 333-71803 on Form S-3;
Registration Statement No. 333-69907 on Form S-8;
Registration Statement No. 333-69901 on Form S-8;
Registration Statement No. 333-69899 on Form S-8;
Registration Statement No. 333-68183 on Form S-3;
Registration Statement No. 333-65447 on Form S-8;
Registration Statement No. 333-49113 on Form S-8;
Registration Statement No. 333-96023 on Form S-3;
Registration Statement No. 333-95791 on Form S-8
Registration Statement No. 333-51978 on Form S-4;
Registration Statement No. 333-50430 on Form S-3;
Registration Statement No. 333-46272 on Form S-8;
and Registration Statement No. 333-46274 on Form S-8,
of our report dated February 26, 2001, appearing in this Annual Report on Form
10-K of Sonic Automotive, Inc. for the year ended December 31, 2000.

Charlotte, North Carolina

April 2, 2001

Risk Factors

Our significant indebtedness could materially adversely affect our financial health and prevent us from fulfilling our financial obligations.

As of December 31, 2000, our total outstanding indebtedness was approximately \$1,172.5 million, including the following:

- . \$353.8 million under a revolving credit agreement with Ford Motor Credit Company ("Ford Motor Credit") and Chrysler Financial Company, LLC ("Chrysler Financial") (the "Revolving Facility") with a borrowing limit of \$500 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic;
- . \$470.9 million under a standardized secured inventory floor plan facility (the "Ford Floor Plan Facility") with Ford Motor Credit;
- . \$143.0 million under a standardized secured floor plan facility (the "Chrysler Floor Plan Facility") with Chrysler Financial;
- . \$70.8 million under a standardized secured floor plan facility (the "GMAC Floor Plan Facility" and together with the Ford Floor Plan Facility and the Chrysler Floor Plan Facility, the "Floor Plan Facilities") with General Motors Acceptance Corporation ("GMAC");
- . \$121.3 million in 11% Senior Subordinated Notes due 2008 representing \$125.0 million in aggregate principal amount less unamortized discount of approximately \$3.7 million; and
- . \$12.7 million of other secured debt, including \$4.6 million under a revolving real estate acquisition and new dealership construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit.

As of December 31, 2000, we had approximately \$73.2 million available for additional borrowings under the Revolving Facility, based on a borrowing base calculated on the basis of our receivables, inventory and equipment and certain additional collateral pledged by an affiliate of Sonic. We also had approximately \$95.4 million available for additional borrowings under the Mortgage Facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the Floor Plan Facilities. In addition, the indentures relating to our senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

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

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

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

Our future operating results depend on our ability to integrate our operations with recent acquisitions.

Our future operating results depend on our ability to integrate the operations of our recently acquired dealerships, as well as dealerships we

acquire in the future, with our existing operations. In particular, we need to integrate our systems, procedures and structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 19 dealerships in 1998, 72 during 1999 and 11 in 2000.

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, including as a result of:

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

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

Risks associated with acquisitions may hinder our ability to increase revenues and earnings.

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

- . incurring significantly higher capital expenditures and operating expenses;
- . failing to assimilate the operations and personnel of the acquired dealerships;
- . entering new markets with which we are unfamiliar;
- . potential undiscovered liabilities at acquired dealerships;
- . disrupting our ongoing business;
- . diverting our limited management resources;
- . failing to maintain uniform standards, controls and policies;
- . impairing relationships with employees, manufacturers and customers as a result of changes in management;
- . causing increased expenses for accounting and computer systems, as well as integration difficulties; and
- . failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises.

We may not adequately anticipate all of the demands that our growth will impose on our systems, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. If we cannot adequately anticipate and respond to these demands, our business could be materially harmed.

Failure to retain qualified management personnel at any acquired dealership may increase the risk associated with integrating the acquired dealership. Installing new computer systems has disrupted existing operations in the past as management and salespersons adjust to new technologies. We cannot assure you that we will overcome these risks or any other problems encountered with either our past or future acquisitions.

Automobile manufacturers exercise significant control over our operations, and we are dependent on them to operate our business.

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

Vehicles manufactured by the following manufacturers accounted for the

indicated approximate percentage of our new vehicle revenue for the year ended December 31, 2000:

<TABLE>
<CAPTION>

Manufacturer -----	Percentage of Historical New Vehicle Revenues for the Year Ended December 31, 2000 -----
<S>	<C>
Honda.....	14.4%
Ford.....	13.5%
Chrysler.....	12.0%
BMW.....	10.7%
General Motors.....	10.7%
Toyota.....	8.3%
Nissan.....	6.5%
Lexus.....	5.3%

</TABLE>

No other manufacturer accounted for more than 5% of our new vehicle sales during the year ended December 31, 2000. A significant decline in the sale of Ford, Honda, Chrysler, General Motors ("GM"), BMW, Toyota, Nissan or Lexus new vehicles could have a material adverse effect on our revenue and profitability.

Manufacturers exercise a great degree of control over the operations of our dealerships. Each of our franchise agreements provides for termination or non-renewal for a variety of causes, including any unapproved change of ownership or management and other material breaches of the franchise agreements. Manufacturers may also have a right of first refusal if we seek to sell dealerships. We believe that we will be able to renew at expiration all of our existing franchise agreements.

- . We cannot assure you that any of our existing franchise agreements will be renewed or that the terms and conditions of such renewals will be favorable to us.
 - . If a manufacturer is allowed under state franchise laws to terminate or decline to renew one or more of our significant franchise agreements, this action could have a material adverse effect on our results of operations.
 - . Actions taken by manufacturers to exploit their superior bargaining position in negotiating the terms of renewals of franchise agreements or otherwise could also have a material adverse effect on our results of operations.
 - . Manufacturers allocate their vehicles among dealerships generally based on the sales history of each dealership. Consequently, we also depend on the manufacturers to provide us with a desirable mix of popular new vehicles. These popular vehicles produce the highest profit margins and tend to be the most difficult to obtain from the manufacturers.
 - . 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 have historically made many changes to their incentive programs during each year. A reduction or discontinuation of a manufacturer's incentive programs may materially adversely affect our profitability. Some of these programs include:
 - . customer rebates on new vehicles;
 - . dealer incentives on new vehicles;
 - . special financing or leasing terms;
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- . warranties on new and used vehicles; and
 - . sponsorship of used vehicle sales by authorized new vehicle dealers.

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

The success of each of our dealerships depends to a great extent on the manufacturers':

- . financial condition;
- . marketing;

- . vehicle design;
- . production capabilities;
- . management; and
- . labor relations.

Nissan, Dodge (a Chrysler brand) and Volvo have had significant difficulty in the U.S. market in the recent past. If any of our manufacturers, particularly Ford, Honda, Chrysler, GM, BMW, Toyota, Nissan, or Lexus were unable to successfully design, manufacture, deliver and market their vehicles, the manufacturer's reputation and our ability to sell the manufacturer's vehicles could be adversely affected.

Events such as strikes and other labor actions by unions, or negative publicity concerning a particular manufacturer or vehicle model, may materially and adversely affect our results of operations. Similarly, the delivery of vehicles from manufacturers later than scheduled, which may occur particularly during periods when new products are being introduced, can reduce our sales. Although we have attempted to lessen our dependence on any one manufacturer by establishing dealer relationships with a number of different domestic and foreign automobile manufacturers, adverse conditions affecting manufacturers, Ford, Honda, Chrysler, GM, BMW, Toyota, Nissan or Lexus in particular, could have a material adverse effect on our results of operations. For example, in June 1998, the United Auto Workers went on strike at two GM facilities in Flint, Michigan. The strike lasted 53 days, causing 27 GM manufacturing facilities to shut down during the strike and severely affecting production of GM vehicles during the strike. In the event of another strike, we may need to purchase inventory from other automobile dealers at prices higher than we would be required to pay to the affected manufacturer in order to carry an adequate level and mix of inventory. Consequently, strikes or other adverse labor actions could materially adversely affect our profitability.

Manufacturer stock ownership/issuance restrictions limit our ability to issue additional equity to meet our financing needs.

Standard automobile franchise agreements prohibit transfers of any ownership interests of a dealership and its parent and, therefore, often do not by their terms accommodate public trading of the capital stock of a dealership or its parent. Our manufacturers have agreed to permit trading in Sonic's Class A common stock. A number of manufacturers impose restrictions on the transferability of the Class A common stock.

- . Ford may cause us to sell or resign from one or more of our Ford, Lincoln or Mercury franchises if any person or entity (other than O. Bruton Smith and any entity controlled by him) acquires or has a binding agreement to acquire securities having 50% or more of the voting power of Sonic's securities.
- . GM and Infiniti may force the sale of their respective franchises if 20% or more of Sonic's voting securities are similarly acquired.
- . Toyota may force the sale of one or more of Sonic's Toyota or Lexus dealerships if (1) an automobile manufacturer or distributor acquires securities, or the right to vote securities by proxy or voting agreement, having more than 5% of the voting power of Sonic's securities, (2) any individual or entity acquires securities, or the right to vote securities by proxy or voting agreement, having more than 20% of the voting power of Sonic's securities, (3) there is a material change in the composition of Sonic's

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Board of Directors that Toyota reasonably concludes will be materially incompatible with Toyota's interests or will have an adverse effect on Toyota's reputation or brands in the marketplace or the performance of Sonic or its Toyota and Lexus dealerships, (4) there occurs an extraordinary transaction whereby Sonic's shareholders immediately prior to such transaction own in the aggregate securities having less than a majority of the voting power of Sonic or the successor entity, or (5) any individual or entity acquires control of Sonic, Sonic Financial Corporation or any Toyota or Lexus dealership owned by Sonic.

- . Honda may force the sale of our Honda or Acura franchises if (1) an automobile manufacturer or distributor acquires securities having 5% or more of the voting power of Sonic's securities, (2) an individual or entity that has either a felony criminal record or a criminal record relating solely to dealings with an automobile manufacturer, distributor or dealership acquires securities having 5% or more of the voting power of Sonic's securities or (3) any individual or entity acquires securities having 20% or more of the voting power of Sonic's securities and Honda reasonably deems such acquisition to be detrimental to Honda's interests in any material respect.

- . Chrysler requires prior approval of any future sales that would result in a change in voting or managerial control of Sonic.
- . Mercedes requires 60 days advance notice to approve any acquisition of 20% or more of Sonic's voting securities.
- . Volkswagen has approved the sale of no more than 25% of the voting control of Sonic, and any future changes in ownership or transfers among Sonic's current stockholders that could affect the voting or managerial control of Sonic's Volkswagen franchise subsidiaries requires the prior approval of Volkswagen.

Other manufacturers may impose similar or more limiting restrictions.

Our lending arrangements also require that holders of Sonic's Class B common stock maintain voting control over Sonic. We are unable to prevent our stockholders from transferring shares of our common stock, including transfers by holders of the Class B common stock. If such transfer results in a change in control of Sonic, it could result in the termination or non-renewal of one or more of our franchise agreements and a default under our credit arrangements. Moreover, these issuance limitations may impede our ability to raise capital through additional equity offerings or to issue our stock as consideration for future acquisitions.

Manufacturers' restrictions on acquisitions could limit our future growth.

We are required to obtain the consent of the applicable manufacturer before the acquisition of any additional dealership franchises. We cannot assure you that manufacturers will grant such approvals, although the denial of such approval may be subject to certain state franchise laws. Jaguar declined to consent to our proposed 1997 acquisitions of franchises associated with dealerships in Chattanooga, Tennessee and Greenville, South Carolina, and we subsequently agreed with Jaguar not to acquire any Jaguar franchise before August 3, 2001.

Obtaining manufacturer consent for acquisitions could also take a significant amount of time. Obtaining manufacturer approval for our completed acquisitions has taken approximately three to five months. We believe that manufacturer approvals of subsequent acquisitions from manufacturers with which we have previously completed applications and agreements may take less time, although we cannot provide you with assurances to that effect. In addition, under an applicable franchise agreement or under state law, a manufacturer may have a right of first refusal to acquire a dealership in the event we seek to acquire that dealership franchise.

If we experience delays in obtaining, or fail to obtain, manufacturer approvals for dealership acquisitions, our growth strategy could be materially adversely affected. In determining whether to approve an acquisition, the manufacturers may consider many factors, including:

- . our management's moral character;

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- . the business experience of the post-acquisition dealership management;
- . our financial condition;
- . our ownership structure; and
- . manufacturer-determined consumer satisfaction index (CSI) scores.

In addition, a manufacturer may seek to limit the number of its dealerships that we may own, our national market share of that manufacturer's products or the number of dealerships we may own in a particular geographic area. These restrictions may not be enforceable under state franchise laws.

- . In September 1999, Ford and Sonic signed a new framework agreement. The agreement places the following restrictions on our ability to acquire Ford or Lincoln Mercury dealerships:
 - . We may not acquire additional Ford or Lincoln Mercury dealerships unless we continue to satisfy Ford's requirement that 80% of our Ford dealerships meet Ford's performance criteria. Beyond that, we may not make an acquisition that would result in our owning Ford or Lincoln Mercury dealerships with sales exceeding 5% of the total Ford or total Lincoln Mercury retail sales of new vehicles in the United States for the preceding calendar year.
 - . We may not acquire additional Ford or Lincoln Mercury dealerships in a particular state if such an acquisition would result in our owning Ford or Lincoln Mercury dealerships with sales exceeding 5% of the total Ford or total Lincoln Mercury retail sales of new vehicles in

that state for the preceding calendar year.

- . We may not acquire additional Ford dealerships in a Ford-defined market area if such an acquisition would result in our owning more than one Ford dealership in a market having a total of three or less Ford dealerships or owning more than 25% of the Ford dealerships in a market having a total of four or more Ford dealerships. An identical market area restriction applies for Lincoln Mercury dealerships.
- . In December 2000, Toyota and Sonic entered into a new framework agreement that limits the number of Toyota and Lexus dealerships that we may own on a national level, in each Toyota-defined geographic region or distributor area, and in each Toyota or Lexus-defined metropolitan market. Nationally, the limitations on Toyota dealerships owned by us are for specified time periods and are based on specified percentages of total Toyota unit sales in the United States. In Toyota-defined geographic regions or distributor areas, the limitations on Toyota dealerships owned by us are specified by the applicable Toyota regional limitations policy or distributor's policy in effect at such time. In Toyota-defined metropolitan markets, the limitations on Toyota dealerships owned by us are based on Toyota's metro markets limitation policy then in effect, which currently provides a limitation based on the total number of Toyota dealerships in the particular market. For Lexus, we may own no more than one Lexus dealership in any one Lexus-defined metropolitan market and no more than three Lexus dealerships nationally.
- . In September 1999, Honda and Sonic signed a new framework agreement. This framework agreement limits the number of Honda and Acura dealerships that we may own on a national level, in each Honda and Acura-defined geographic zone, and in each Honda-defined metropolitan market. Nationally, the limitations on Honda dealerships owned by us are based on specified percentages of total Honda unit sales in the United States. In Honda-defined geographic zones, the limitations on Honda dealerships owned by us are based on specified percentages of total Honda unit sales in each of 10 Honda-defined geographic zones. In Honda-defined metropolitan markets, the limitations on Honda dealerships owned by us are specified numbers of dealerships in each market, which numerical limits vary based mainly on the total number of Honda dealerships in a particular market. For Acura, we may own no more than (1) two Acura dealerships in a Honda-defined metropolitan market, (2) three Acura dealerships in any one of six Honda-defined geographic zones and (3) five Acura dealerships nationally.
- . Mercedes restricts any company from owning Mercedes dealerships with sales of more than 3% of total sales of Mercedes vehicles in the U.S. during the previous calendar year.

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- . GM currently limits the maximum number of GM dealerships that we may acquire to 50% of the GM dealerships, by brand line, in a GM-defined geographic market area having multiple GM dealers.
- . Subaru limits us to no more than two Subaru dealerships within certain designated market areas, four Subaru dealerships within its Mid-America region and 12 dealerships within Subaru's entire area of distribution.
- . BMW currently prohibits publicly held companies from owning BMW dealerships representing more than 5% of all BMW sales in the U.S. or more than 50% of BMW dealerships in a given metropolitan market. We believe we are currently at BMW's national sales limitation.
- . Toyota, Honda and Mercedes also prohibit the coupling of a franchise with any other brand without their consent.
- . Honda also prohibits ownership of contiguous dealerships.

As a condition to granting their consent to our acquisitions, a number of manufacturers required additional restrictions. These agreements principally restrict:

- . material changes in our company or extraordinary corporate transactions such as a merger, sale of a material amount of assets or change in our board of directors or management that could have a material adverse effect on the manufacturer's image or reputation or could be materially incompatible with the manufacturer's interests;
- . the removal of a dealership general manager without the consent of the manufacturer; and
- . the use of dealership facilities to sell or service new vehicles of other manufacturers.

In addition, manufacturer consent to our acquisitions may impose conditions, such as requiring facilities improvements by us at the acquired dealership.

If we are unable to comply with these restrictions, we generally:

- . must sell the assets of the dealerships to the manufacturer or to a third party acceptable to the manufacturer; or
- . terminate the dealership agreements with the manufacturer.

Other manufacturers may impose other and more stringent restrictions in connection with future acquisitions.

We own the following number of franchises for the following manufacturers:

<TABLE>
<CAPTION>

Manufacturer - -----	Number of Franchises -----
<S>	<C>
Ford.....	12
Chevrolet.....	11
Honda.....	11
BMW.....	10
Cadillac.....	10
Nissan.....	10
Dodge.....	9
Toyota.....	9
Volvo.....	8
Chrysler.....	7
Jeep.....	7
Oldsmobile.....	7
Plymouth.....	7
Mercury.....	5
Volkswagen.....	5

</TABLE>
<TABLE>
<CAPTION>

Manufacturer - -----	Number of Franchises -----
<S>	<C>
Lexus.....	4
Lincoln.....	4
Mercedes.....	4
Hyundai.....	3
Isuzu.....	3
Kia.....	3
Mitsubishi.....	3
Audi.....	2
GMC.....	2
Infiniti.....	2
Pontiac.....	2
Porsche.....	2
Acura.....	1
Land Rover.....	1
Subaru.....	1

Our failure to meet a manufacturer's consumer satisfaction requirements may adversely affect our ability to acquire new dealerships and our profitability.

Many manufacturers attempt to measure customers' satisfaction with their sales and warranty service experiences through systems which vary from manufacturer to manufacturer, but which are generally known as "CSI." These manufacturers may use a dealership's CSI scores as a factor in evaluating applications for additional dealership acquisitions. The components of CSI have been modified by various manufacturers from time to time in the past, and we cannot assure you that these components will not be further modified or replaced by different systems in the future. To date, we have not been materially adversely affected by these standards and have not been denied approval of any acquisition based on low CSI scores, except for Jaguar's refusal to approve our acquisition of a Chattanooga Jaguar franchise in 1997. However, we cannot assure you that we will be able to comply with these standards 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 the manufacturer's CSI standards. This could materially adversely affect our acquisition strategy. In addition, we receive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

There are limitations on our financial resources available for acquisitions.

We intend to finance our acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements.

- . We cannot assure you that we will be able to obtain additional financing by issuing stock or debt securities.
- . Using cash to complete acquisitions could substantially limit our operating or financial flexibility.

We estimate that as of December 31, 2000, we had approximately \$73.2 million available for additional borrowings under the 2000 Revolving Facility, based on a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (which borrowing base was \$426.8 million of the \$500.0 million facility at December 31, 2000).

- . If we are unable to obtain financing on acceptable terms, we may be required to reduce the scope of our presently anticipated expansion, which could materially adversely affect our growth strategy.

In addition, we are dependent to a significant extent on our ability to finance our inventory. Automotive retail inventory financing involves significant sums of money in the form of "floor plan financing." Floor plan financing is how a dealership finances its purchase of new vehicles from a manufacturer. The dealership borrows money to buy a particular vehicle from the manufacturer and pays off the loan when it sells that particular vehicle, paying interest during this period. We must obtain new floor plan financing or obtain consents to assume such financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure this floor plan indebtedness. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our newly obtained mortgage facility with Ford Motor Credit. These pledges may impede our ability to borrow from other sources.

Finally, because Ford Motor Credit is associated with Ford, any deterioration of our relationship with one could adversely affect our relationship with the other. The same is true of our relationships with Chrysler and Chrysler Financial, as well as GM and GMAC.

Although our officers and directors have previously facilitated our acquisition financing, we cannot assure you that these individuals will be willing or able to assist in our financing needs in the future.

O. Bruton Smith, our Chief Executive Officer and Chairman of the Board, previously guaranteed our credit facilities and other financing arrangements to facilitate our acquisitions. Mr. Smith may be unwilling to make any such commitments in the future if such commitments are needed.

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Mr. Smith initially guaranteed obligations under the Revolving Facility. Such obligations were further secured with a pledge of shares of common stock of Speedway Motorsports, Inc. ("SMI") owned by Sonic Financial Corporation, a corporation controlled by Mr. Smith ("SFC"), having an estimated value at the time of pledge of approximately \$50.0 million (the "Revolving Pledge"). When the Revolving Facility's borrowing limit was increased to \$75.0 million in 1997, Mr. Smith's personal guarantee of Sonic's obligations under the Revolving Facility was released, although the Revolving Pledge remained in place. Mr. Smith was also required by Ford Motor Credit to lend \$5.5 million (the "Subordinated Smith Loan") to Sonic to increase our capitalization because the net proceeds from our November 1997 initial public offering were significantly less than expected. In August 1998, Ford Motor Credit released the Revolving Pledge. In November 1999, Ford Motor Credit further increased the borrowing limit under the 1999 Revolving Facility to \$350.0 million subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge by SFC of five million shares of SMI common stock. The 2000 Revolving Facility is subject to a similar borrowing base, including SFC's continuing pledge of SMI stock.

Before our acquisition of FirstAmerica, Mr. Smith guaranteed the obligations of FirstAmerica under FirstAmerica's new acquisition line of credit with Ford Motor Credit. FirstAmerica obtained this new financing to enable it to complete its then pending acquisitions. The borrowing limit on this credit facility was approximately \$138 million. Mr. Smith had guaranteed approximately \$107 million of this amount, which guarantee was secured by a pledge of 5.0 million shares of SMI common stock owned by SFC. We assumed FirstAmerica's obligations to Ford Motor Credit under our 1999 Revolving Facility when we acquired FirstAmerica. Mr. Smith's secured guarantee in favor of Ford Motor Credit guaranteed a portion of our obligations under the 1999 Revolving Facility. Under the 2000 Revolving Facility, Mr. Smith did not provide a guarantee in favor of the lenders, but SFC continues to pledge SMI

stock as collateral. We cannot assure you that Mr. Smith will be willing or able to provide similar guarantees or credit support in the future to facilitate Sonic's future acquisitions.

Automobile retailing is a mature industry with limited growth potential in new vehicle sales, and our acquisition strategy will affect our revenues and earnings.

The United States automobile dealership industry is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. As a consequence, growth in our revenues and earnings is likely to be significantly affected by our success in acquiring and integrating dealerships and the pace and size of such acquisitions.

High competition in automobile retailing reduces our profit margins on vehicle sales. Further, the use of the Internet in the car purchasing process could materially adversely affect us.

Automobile retailing is a highly competitive business with approximately 21,600 franchised automobile dealerships in the United States at the end of 2000. Our competition includes:

- . Franchised automobile dealerships selling the same or similar makes of new and used vehicles that we offer in our markets and sometimes at lower prices than we offer. Some of these dealer competitors may be larger and have greater financial and marketing resources than we do;
- . Other franchised dealers;
- . Private market buyers and sellers of used vehicles;
- . Used vehicle dealers;
- . Internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- . Service center chain stores; and
- . Independent service and repair shops.

Our F&I business and other related businesses, which provide higher contributions to our earnings than sales of new and used vehicles, are subject to strong competition from various financial institutions and other third parties. This competition is increasing as these products are now being marketed and sold over the Internet.

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Gross profit margins on sales of new vehicles have been generally declining since 1986. 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, service reputation and dealership location to sell new vehicles. The following factors could have a significant impact on our business:

- . The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for cars and related F&I services, which may further reduce margins for new and used cars and profits for related F&I services. In addition, CarsDirect.com and others are selling vehicles over the Internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. CarsDirect.com has entered into an alliance with United Auto Group to facilitate their sourcing of vehicles. Also, AutoNation is selling vehicles for its new car dealerships through its AutoNationDirect.com web site. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with Internet car sellers or are spending significant sums on developing their own Internet capabilities, which could materially adversely affect our business.
- . Our revenues and profitability could be materially adversely affected should manufacturers decide to directly enter the retail market.
- . The increased popularity of short-term vehicle leasing also has resulted, as these leases expire, in a large increase in the number of late model vehicles available in the market, which puts added pressure on new and used vehicle margins.
- . Some of our competitors may be capable of operating on smaller gross margins than we are, and the on-line auto brokers have been operating at a loss.
- . As we seek to acquire dealerships in new markets, we may face

increasingly significant competition as we strive to gain market share through acquisitions or otherwise. This competition includes other large dealer groups and dealer groups that have publicly traded equity.

Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate, although certain state franchise laws may limit such activities by the manufacturers. A similar adverse effect could occur if existing competing franchised dealers increase their market share in our markets. Our gross margins may decline over time as we expand into markets where we do not have a leading position. These and other competitive pressures could materially adversely affect our results of operations.

The cyclical and local nature of automobile sales may adversely affect our profitability.

The automobile industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and credit availability. For example, recent interest rate increases and other factors have impacted the market and have reduced the seasonally adjusted annualized selling rate of new cars since the beginning of the year.

Future recessions may have a material adverse effect on our business. In addition, significant changes in interest rates may significantly impact our car sales since many car buyers finance their purchases. Furthermore, higher gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury/SUV models (which typically provide high profit margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

Local economic, competitive and other conditions also affect the performance of dealerships. Our dealerships currently are located in the Atlanta, Baltimore, Birmingham, Charleston, Charlotte, Chattanooga, Columbia, Columbus, Dallas, Daytona Beach, Fort Myers, Greenville/Spartanburg, Houston, Las Vegas, Los Angeles, Mobile/Pensacola, Montgomery, Nashville, San Diego, San Francisco, San Jose/Silicon Valley,

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Tampa/Clearwater, Tulsa and Washington, D.C. markets. We intend to pursue acquisitions outside of these markets, but our operational focus is on our current markets. As a result, our results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented 16.3% of our sales for the year ended December 31, 2000. Our results of operations also depend on other factors, such as tax rates and state and local regulations specific to the states in which we currently operate. Sonic may not be able to expand geographically and any such expansion may not adequately insulate it from the adverse effects of local or regional economic conditions.

We can offer you no assurances that we will be able to continue executing our acquisition strategy without the costs of future acquisitions escalating.

Although there are many potential acquisition candidates that fit our acquisition criteria, we cannot assure you that we will be able to consummate any such transactions in the future or identify those candidates that would result in the most successful combinations, or that future acquisitions will be able to be consummated at acceptable prices and terms. In addition, increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. The magnitude, timing, pricing and nature of future acquisitions will depend upon various factors, including:

- . the availability of suitable acquisition candidates;
- . competition with other dealer groups for suitable acquisitions;
- . the negotiation of acceptable terms;
- . our financial capabilities;
- . our stock price;
- . the availability of skilled employees to manage the acquired companies; and
- . general economic and business conditions.

We may be required to file applications and obtain clearances under applicable federal antitrust laws before completing an acquisition. These

regulatory requirements may restrict or delay our acquisitions, and may increase the cost of completing acquisitions.

The operating 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 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. Until we actually assume operating control of such assets, we may not be able to ascertain the actual value of the acquired entity.

Potential conflicts of interest between Sonic and its officers could adversely affect our future performance.

O. Bruton Smith serves as the chairman and chief executive officer of Speedway Motorsports, Inc. ("SMI"). Accordingly, Sonic competes with SMI for the management time of Mr. Smith. Under his employment agreement with Sonic, Mr. Smith is required to devote approximately 50% of his business time to our business. The remainder of his business time may be devoted to other entities, including SMI.

Sonic has in the past and will likely in the future enter into transactions with Mr. Smith, entities controlled by Mr. Smith or other affiliates of Sonic. For example, Sonic previously entered into property transactions with MMR Holdings, L.L.C. and its subsidiaries (the "MMR Group"). The MMR Group was owned, directly and indirectly, and controlled by Mr. Smith. On August 13, 1999, Mr. Smith and SFC sold the ownership of the MMR Group to CAR MMR L.L.C. ("CAR MMR"), an affiliate of Capital Automotive REIT, which is unaffiliated

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with Sonic or Mr. Smith. The MMR Group owned 50 properties leased to 42 Sonic dealerships at the time of the MMR Group sale. As a part of the sale of the MMR Group, Mr. Smith and SFC signed agreements with Sonic to induce Sonic to sign its agreement with CAR MMR. Mr. Smith and SFC, under these agreements, paid approximately \$2.5 million to Sonic, which amount represented Mr. Smith's and SFC's profits on the sale of the MMR Group less their expenses in selling the MMR Group and a 14% annual return on their initial investment in the MMR Group, net of any advances previously made by Sonic to the MMR Group.

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 such transactions have neither been independently verified in that regard nor are likely to be so verified in the future. Potential conflicts of interest could arise in the future between Sonic and its officers or directors in the enforcement, amendment or termination of arrangements existing between them.

Under Delaware law generally, a corporate insider is precluded from acting on a business opportunity in his individual capacity if that opportunity is

- (1) one which the corporation is financially able to undertake,
- (2) is in the line of the corporation's business,
- (3) is of practical advantage to the corporation, and
- (4) is one in which the corporation has an interest or reasonable expectancy.

Accordingly, our corporate insiders are generally prohibited from engaging in new dealership-related business opportunities outside of Sonic unless a majority of Sonic's disinterested directors decide that such opportunities are not in our best interest.

Sonic's charter contains provisions providing that transactions between Sonic and its affiliates must be no less favorable to Sonic than would be available in similar transactions with an unrelated third party. Moreover, any such transactions involving aggregate payments in excess of \$500,000 must be approved by a majority of Sonic's directors and a majority of its independent directors. If not so approved, Sonic must obtain an opinion as to the financial fairness of the transaction to be issued by an investment banking or appraisal firm of national standing. In addition, the terms of the Revolving Facility and Sonic's existing senior subordinated notes restrict transactions with affiliates in a manner similar to Sonic's charter restrictions.

Lack of majority of independent directors could result in conflicts between us and our management and majority stockholders that may reduce our future performance.

Independent directors do not constitute a majority of our board, and our board may not have a majority of independent directors in the future. Without a majority of independent directors, Sonic's executive officers, principal

stockholders and directors could establish policies and enter into transactions without independent review and approval, subject to certain restrictions under our charter. These policies and transactions could present the potential for a conflict of interest between Sonic and its minority stockholders and the controlling officers, stockholders or directors.

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 Sonic's management team, particularly its senior management, and service and sales personnel. Additionally, manufacturer franchise agreements may require the prior approval of the applicable manufacturer before any change is made in franchise general managers. We do not have employment agreements with most of our 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.

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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.

Seasonality of the automotive retail business adversely affects first quarter revenues.

Our business is seasonal, with a disproportionate amount of revenues received generally in the second, third and fourth fiscal quarters.

Import product restrictions and foreign trade risks may impair our ability to sell foreign vehicles profitably.

Some of the vehicles and major components of vehicles we sell are manufactured in foreign countries. Accordingly, we are subject to the import and export restrictions of various jurisdictions and are dependent to some extent upon general economic conditions in, and political relations with, a number of foreign countries, particularly Germany, Japan and Sweden. Fluctuations in currency exchange rates may also adversely affect our sales of vehicles produced by foreign manufacturers. Imports into the United States may also be adversely affected by increased transportation costs and tariffs, quotas or duties.

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

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements and consumer protection laws. The violation of these laws and regulations can result in civil and criminal penalties against us or in a cease and desist order against our operations if we are not in compliance. Our future acquisitions may also be subject to regulation, including antitrust reviews. We believe that we comply in all material respects with all laws and regulations applicable to our business, but future regulations may be more stringent and require us to incur significant additional costs.

Our facilities and operations are also subject to federal, state and local laws and regulations relating to environmental protection and human health and safety, including those governing wastewater discharges, air emissions, the operation and removal of underground and aboveground storage tanks, the use, storage, treatment, transportation, release, recycling and disposal of solid and hazardous materials and wastes and the cleanup of contaminated property or water. We may be required by these laws to pay the full amount of the costs of investigation and/or remediation of contaminated properties, even if we are not at fault for disposal of the materials or if such disposal was legal at the time. People who may be found liable under these laws and regulations include the present or former owner or operator of a contaminated property and companies that generated, transported, disposed of or arranged for the transportation or disposal of hazardous substances found at the property.

Our past and present business operations are subject to environmental laws and regulations governing the use, storage, handling, recycling and disposal of hazardous or toxic substances such as new and waste motor oil, oil filters, transmission fluid, antifreeze, freon, new and waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. We are also subject to laws and regulations relating to underground storage tanks that exist or used to exist at many of our properties. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with

such laws and regulations. In addition, soil and groundwater contamination exists at certain of our properties. We cannot assure you that our other properties have not been or will not become similarly contaminated. In addition, we could become subject to potentially material new or unforeseen environmental costs or liabilities because of our acquisitions.

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Environmental laws and regulations, including those governing air emissions and underground storage tanks, could require compliance with new or more stringent standards that are imposed in the future. We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist in the future. Consequently, we may be required to make substantial expenditures in the future.

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

Sonic's 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 Sonic. Holders of Class A common stock have one vote per share on all matters. Holders of Class B common stock have 10 votes per share on all matters, except that they have only one vote per share on any transaction proposed by the Board of Directors or a Class B common stock holder or otherwise benefiting the Class B common stock holders constituting a:

- (1) "going private" transaction;
- (2) disposition of substantially all of our assets;
- (3) transfer resulting in a change in the nature of our business; or
- (4) merger or consolidation in which current holders of common stock would own less than 50% of the common stock following such transaction.

The holders of Class B common stock currently hold less than a majority of Sonic's outstanding common stock, but a majority of Sonic's voting power. This may prevent or discourage a change of control of Sonic even if such action were favored by holders of Class A common stock.

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

Amortization of goodwill from acquisitions could change, resulting in significant reduction in earnings for future periods.

Goodwill, net of accumulated amortization, represented approximately 39.5% of our total assets and 147.2% of our stockholders' equity as of December 31, 1999, and represented approximately 37.4% of our total assets and 148.3% of our stockholders' equity as of December 31, 2000. Goodwill arises when an acquiror pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Accounting principles generally accepted in the United States of America require that this and all other intangible assets be amortized over the period benefited. We determined that the period benefited by all of the goodwill will be no less than 40 years. Accordingly, we amortize goodwill over a 40 year period. Earnings reported in periods immediately following the acquisition would be overstated if we attributed a 40 year benefit period to an intangible asset that should have had a shorter benefit period. In later years, we would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at

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the price paid for the businesses. Earnings in later years also could be significantly affected if management determined then that the remaining balance of goodwill was impaired. We periodically compare the carrying value of goodwill with anticipated undiscounted future cash flows from operations of the businesses we have acquired to evaluate the recoverability of goodwill. We have concluded that the anticipated future cash flows associated with intangible assets recognized in the acquisitions will continue indefinitely, and there is no persuasive evidence that any material portion will dissipate over a period shorter than 40 years. We will incur additional goodwill in our future acquisitions.

The Financial Accounting Standards Board recently proposed new rules relating to the accounting for business combinations and intangible assets. One aspect of the proposal would not permit amortization of goodwill, but would require the carrying amount of goodwill to be reduced only if it was found to be impaired or was associated with assets to be sold or otherwise disposed. If the proposed rules are adopted, goodwill arising from acquisitions completed prior to the date of adoption would no longer be amortized, though reversal of goodwill amortization recognized in prior periods would not be permitted.