UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

OR

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

Commission file number 1-13395

SONIC AUTOMOTIVE, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	56-2010790
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5401 E. Independence Blvd., Charlotte, North Carolina	28212
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of May 10, 2002, there were 30,718,116 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars and shares in thousands except per share amounts)

(Unaudited)

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	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
<S>	<C>	<C>
Revenues:		
New vehicles	$ 863,774	$ 952,971
Used vehicles	291,833	283,872
Wholesale vehicles	115,427	109,867
Total vehicles	1,271,034	1,346,710
Parts, service and collision repair	187,607	211,286
Finance & insurance and other	40,832	47,557
Total revenues	1,499,473	1,605,553
Cost of sales	1,273,003	1,353,191
Gross profit	226,470	252,362
Selling, general and administrative expenses	176,077	200,103
Depreciation	1,699	2,090
Goodwill amortization	4,438	--
Operating income	44,256	50,169
Other income / (expense):		
Interest expense, floor plan	(12,102)	(5,549)
Interest expense, other	(10,005)	(8,390)
Other income	59	109
Total other expense	(22,048)	(13,830)
Income from continuing operations before taxes	22,208	36,339
Provision for income taxes	(8,664)	(13,810)
Net income from continuing operations	13,544	22,529
Discontinued operations:		
Loss from operations of discontinued dealerships (including loss on disposal of $262 at March 31, 2002)	(99)	(730)
Income tax benefit	38	280
Net loss from discontinued operations	(61)	(450)
Net income	$ 13,483	$ 22,079
Basic net income per share:		
Net income per share from continuing operations	$ 0.33	$ 0.55
Loss per share on discontinued operations	$ --	$ (0.01)
Net income per share	$ 0.33	$ 0.54
Weighted average common shares outstanding	41,271	40,627
Diluted net income per share:		
Net income per share from continuing operations	$ 0.33	$ 0.53
Loss per share on discontinued operations	$ --	$ (0.01)
Net income per share	$ 0.33	$ 0.52
Weighted average common shares outstanding	41,473	42,563

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See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

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<S>	December 31, 2001 <C>	March 31, 2002 (Unaudited) <C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 127,943	$ 125,599
Receivables, net	134,968	150,598
Inventories	664,258	896,790
Other current assets	29,127	44,385
Total current assets	956,296	1,217,372
Property and Equipment, net	98,972	102,772
Goodwill, net	738,103	885,266
Other Assets	12,555	16,375
Total Assets	$ 1,805,926	$ 2,221,785
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan	$ 587,914	$ 796,066
Trade accounts payable	44,802	54,959
Accrued interest	9,676	6,400
Other accrued liabilities	92,275	117,094
Current maturities of long-term debt	2,586	2,275
Total current liabilities	737,253	976,794
Long Term Debt	511,877	620,691
Other Long-Term Liabilities	5,836	10,374
Payable to the Company's Chairman	5,500	5,500
Deferred Income Taxes	28,199	28,662
Stockholders' Equity:		
Class A Common Stock, 34,850,738 shares issued at December 31, 2001 and 36,719,905 shares issued at March 31, 2002	348	367
Class B Common Stock, 12,029,375 shares issued and outstanding at December 31, 2001 and March 31, 2002	121	121
Paid-in capital	343,256	384,947
Retained earnings	232,893	254,972
Accumulated other comprehensive income	--	762
Treasury Stock, at cost (6,330,264 shares held at December 31, 2001 and 6,415,264 shares held at March 31, 2002)	(59,357)	(61,405)
Total stockholders' equity	517,261	579,764
Total Liabilities and Stockholders' Equity	$ 1,805,926	$ 2,221,785

</TABLE>

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Dollars and shares in thousands)
(Unaudited)

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Accumulated

	Class A Common Stock	Class B Common Stock	Paid-In	Retained	Treasury	Other	Total

Comprehensive Stockholders' Equity	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Income	
Balance at December 31, 2001	34,851	$ 348	12,029	$ 121	$343,256	$ 232,893	$(59,357)	$ --	$517,261
Comprehensive Income:									
Net Income						22,079			22,079
Fair value of interest rate swap agreement, net of tax of $487								762	762

Total comprehensive income, net of tax									22,841
--									
Shares awarded under stock compensation plans	398	4			3,706				3,710
Issuance of Class A Common Stock for acquisitions	1,471	15			37,985				38,000
Purchase of Treasury Stock							(2,048)		(2,048)
Balance at March 31, 2002	36,720	$ 367	12,029	$ 121	$384,947	$ 254,972	$(61,405)	$ 762	$579,764

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,483	$ 22,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,176	2,090
Deferred income taxes	--	76
Equity interest in (earnings) losses of investees	165	(124)
(Gain)/Loss on disposal of assets	(27)	323
Changes in assets and liabilities that relate to operations:		
Receivables	10,263	(9,775)
Inventories	69,465	(33,343)
Other assets	2,181	(4,614)
Notes payable - floor plan	(88,057)	24,864
Trade accounts payable and other liabilities	4,058	22,483
Total adjustments	4,224	1,980
Net cash provided by operating activities	17,707	24,059
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(25,733)	(131,233)
Purchases of property and equipment	(11,323)	(13,905)
Proceeds from sales of property and equipment	865	10,036

Proceeds from sale of dealerships	7,042	2,945
Net cash used in investing activities	(29,149)	(132,157)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on revolving credit facilities	19,182	104,505
Proceeds from long-term debt	--	289
Payments on long-term debt	(575)	(702)
Redemptions of Preferred Stock	(251)	--
Purchases of Class A Common Stock	(12,569)	(2,048)
Issuance of shares under stock compensation plans	232	3,710
Repayments from affiliated companies	(203)	--
Net cash provided by financing activities	5,816	105,754
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,626)	(2,344)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	109,325	127,943
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 103,699	$ 125,599
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Class A Common Stock issued for acquisitions	$ --	$ 38,000
Change in fair value of cash flow hedging instrument (net of tax of $487)	$ --	$ 762
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 26,602	$ 17,215
Cash paid for income taxes	$ 245	$ 7,719

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See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation -- The accompanying unaudited financial information for the three months ended March 31, 2002 and 2001 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of Sonic Automotive, Inc. ("Sonic") for the year ended December 31, 2001.

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. Commission expense related to finance and insurance commission revenue is charged to selling, general and administrative expenses upon recognition of such revenue.

Derivative Instruments and Hedging Activities - Sonic utilizes derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks being hedged are those relating to the variability of future earnings and cash flows

caused by fluctuations in interest rates. Sonic documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The only derivatives currently being used are interest rate swaps used for the purpose of hedging cash flows of variable rate debt. These derivatives are used only for that purpose, not for speculation. The derivatives, which have been designated and qualify as cash flow hedging instruments, are reported at fair value. The gain or loss on the effective portion of the hedge is initially reported as a component of other comprehensive income. (See Note 5).

Recent Accounting Pronouncements -- Sonic has adopted the provisions of Statement of Financial Accounting Standard ("SFAS") No. 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. Additionally, acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

Sonic also adopted the provisions of SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS No. 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis (with an initial review within six months of adopting the new standard), but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS No. 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. These intangible assets are required to be reviewed for impairment in accordance with SFAS No. 144: Accounting for Impairment or Disposal of Long-Lived Assets. Intangible assets that are determined to have an indefinite economic life may not be amortized and must be reviewed for impairment in accordance with the terms of SFAS No. 142.

The adoption of SFAS No. 142 on January 1, 2002 resulted in the elimination of approximately $22.1 million of annual goodwill amortization. Sonic is still in the process of performing its initial impairment test of goodwill, and has not yet determined the impact of any potential impairment on our consolidated financial statements.

Sonic adopted the provisions of SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets as of January 1, 2002. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 requires certain long-lived assets to be reported at the lower of carrying amount or fair value,

less cost to sell, and provides guidance on asset valuation and measuring impairment. The adoption of this standard resulted in a net loss of $0.1 million and $0.5 million being classified as discontinued operations on the unaudited consolidated statements of income for the three month period ended March 31, 2001 and 2002, 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 particularly related to allowance for credit losses, realization of inventory, intangible asset and deferred tax asset values, reserves for future chargebacks, insurance reserves and certain accrued expenses.

Segment Information -- Sonic sells similar products and services (new and used vehicles, parts, service and collision repair services), use similar processes in selling our products and services, and sell our products and services to similar classes of customers. As a result of this and the way we manage our business, we have aggregated our results into a single 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 presentation. These reclassifications relate primarily to manufacturer incentives and certain other amounts that have been reclassed from sales revenues to cost of sales. Additionally, all finance and insurance sales commissions have been reclassed from cost of sales to selling, general and administrative expenses to conform to the industry classification of such

amounts.

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

Completed Acquisitions

Sonic generally seeks to acquire larger, well managed multiple franchise dealerships or multiple dealership groups located in metropolitan or high growth suburban markets. Sonic also looks to acquire smaller, single franchise dealerships that will allow Sonic to capitalize on professional management practices and provide greater breadth of products and services in our markets. Occasionally, Sonic acquires dealerships that have under performed the industry average, but represent attractive franchises or have attractive locations that would immediately benefit from its professional management.

On March 18, 2002, Sonic acquired five dealerships owned by Don Kott (the "Kott Acquisition") for approximately $19.6 million in cash. The dealerships are located in the metropolitan area of Los Angeles, California and sell the following brands of new vehicles: Ford, Lincoln, Mercury, Chrysler, Jeep, Mazda and Isuzu/Hino.

On March 25, 2002, Sonic acquired 15 dealerships owned directly or indirectly by Donald E. Massey (the "Massey Acquisition") for approximately $114.5 million in cash and 1,470,588 shares of Class A common stock valued at approximately $38.0 million, based on the average closing price as quoted by the New York Stock Exchange for the three days before and after the date the acquisition was announced. The acquired dealerships are located in California, Colorado, Florida, North Carolina, Michigan, Tennessee and Texas, and sell the following brands of new vehicles: Buick, Cadillac, Chevrolet, GMC, Oldsmobile, Pontiac, Rolls Royce/Bentley and Saab.

In addition to the Kott and Massey Acquisitions, Sonic also acquired the following dealerships during the three months ended March 31, 2002 for a combined purchase price of approximately $4.6 million in cash:

- On January 21, 2002, Sonic acquired Park Place Audi located in Dallas, Texas;
- On March 18, 2002, Sonic acquired Philpott Hyundai located in the metropolitan area of Houston, Texas.

The total purchase price for all of the above acquisitions was based on Sonic's internally determined valuation of the dealerships and their assets. The cash portion of the purchase price was financed by cash generated from Sonic's existing operations and by borrowings under Sonic's senior revolving credit facility.

The results of operations of each of the acquisitions listed above have been included in the accompanying unaudited consolidated financial statements from their respective dates of acquisition. The following unaudited pro forma financial information presents a summary of consolidated results of operations as if the above acquisitions, as well as the acquisitions completed during 2001, as discussed in our Annual Report on Form 10-K, had occurred at 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 interest expense on acquisition debt and income taxes. 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 actually been completed at the beginning of the periods presented. These results are also not necessarily indicative of the results of future operations.

	Three Months Ended March 31,	
	2001	2002
Total revenues	$2,445,312	$1,843,816
Gross profit	$ 333,870	$ 283,584
Net income	$ 19,056	$ 23,522
Diluted net income per share	$ 0.46	$ 0.55

Sale of Dealership Subsidiaries

During the first quarter of 2002, Sonic disposed of four franchises, resulting in the closing of three dealerships, and approved, but had not completed the sale of, two additional franchises, which will result in the closing of one dealership. These were generally smaller dealerships with

unprofitable operations. These dealerships disposed of and held for sale generated combined revenues of $4.3 million in the first quarter of 2002 and $12.4 million in the first quarter of 2001, and incurred pre-tax losses of $0.7 million in the first quarter of 2002 and $0.1 million in the first quarter of 2001. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition, which were not material, have been included in the loss on operations of discontinued dealerships in the accompanying unaudited consolidated statements of income. Assets and liabilities of the two franchises being held for sale at March 31, 2002 totaled approximately $2.2 million and $1.6 million, respectively, as of March 31, 2002 and have been classified as assets or liabilities held for sale included in other current assets and other accrued liabilities, respectively, in the accompanying unaudited consolidated balance sheet. Assets held for sale are comprised of inventory and fixed assets, and liabilities held for sale are comprised of floor plan notes payable. We believe the disposal of these assets held for sale may take three months or longer to complete.

In addition to the dispositions discussed above, during the year ended December 31, 2001, Sonic sold or otherwise disposed of assets from 15 other dealership franchises, resulting in the closing of nine dealerships. These dealerships generated combined revenues of $34.3 million and incurred pretax losses of $1.8 million in the three months ended March 31, 2001. The results of operations of these dealerships have been included in income from continuing operations in the accompanying unaudited consolidated statements of income.

Subsequent to March 31, 2002, Sonic's board of directors approved the disposition of nine additional dealership franchises and a collision repair center. The assets and liabilities to be disposed of consist of inventory, fixed assets and floor plan notes payable. These assets and liabilities totaled $35.4 million and $29.6 million, respectively, at March 31, 2002. We believe the disposal of these assets may take three months or longer to complete.

3. INVENTORIES

Inventories consist of the following:

	December 31, 2001	March 31, 2002
New vehicles	$478,077	$651,668
Used vehicles	111,656	157,671
Parts and accessories	48,705	55,815
Other	25,820	31,636
Total	$664,258	$896,790

4. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	December 31, 2001	March 31, 2002
Land	$ 10,863	$ 2,887
Building and improvements	34,387	36,289
Office equipment and fixtures	29,492	32,772
Parts and service equipment	21,917	23,747
Company vehicles	7,078	8,166
Construction in progress	16,003	22,753
Total, at cost	119,740	126,614
Less accumulated depreciation	(20,768)	(23,842)
Property and equipment, net	$ 98,972	$102,772

In addition to the amounts classified above as construction in progress, Sonic incurred approximately $12.0 million in construction costs in the first three months of 2002 and $18.0 million in 2001 on facilities that are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs are included in other current assets on the accompanying consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the properties to a third party entity and enters into long-term operating leases on the facilities. Sonic has no continuing obligations under these arrangements other than lease payments.

5. DERIVATIVE FINANCIAL INSTRUMENTS

In order to reduce its exposure to market risks from fluctuations in interest rates, Sonic entered into an interest rate swap agreement on January 15, 2002 to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. The swap has a notional principal amount of $100 million and matures on October 31, 2004. Under the terms of the swap agreement, Sonic receives interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and makes interest payments at a fixed rate of 3.88%. Incremental interest expense incurred (the difference between interest earned and interest incurred) as a result of this interest rate swap was $0.4 million for the three months ended March 31, 2002 and has been included in interest expense, other in the accompanying unaudited consolidated statements of income.

The interest rate swap has been designated and qualifies as a cash flow hedge and, as a result, changes in the fair value of the interest rate swap have been recorded in other comprehensive income, net of related income taxes, in our statement of stockholders' equity. The fair value of the interest rate swap as of March 31, 2002, recorded in other assets on the accompanying unaudited balance sheet, and the amount of the related hedging gain deferred and recorded in other comprehensive income for the three months ended March 31, 2002 was approximately $1.2 million ($0.8 million net of tax). Because the critical terms of the interest rate swap and the underlying debt obligation were the same, no ineffectiveness was recorded.

6. IMPACT OF CHANGE IN ACCOUNTING FOR INTANGIBLE ASSETS

The following table shows the pro forma effect on net income and net income per share for the three months ended March 31, 2001, compared to net income and net income per share for the three months ended March 31, 2002, as if the provisions of SFAS No. 142 eliminating goodwill amortization had been applied as of January 1, 2001:

	Three Months Ended March 31,	
	2001	2002
Net Income	$13,483	$22,079
Goodwill amortization, net of tax	3,273	--
Pro forma net income	$16,756	$22,079
Pro forma net income per share		
Basic	$ 0.41	$ 0.54
Diluted	$ 0.40	$ 0.52

Goodwill amortization from dealerships included in discontinued operations during the first three months ended March 31, 2001 was not material.

7. LONG-TERM DEBT

Senior Subordinated Notes

At March 31, 2002, Sonic had $200.0 million 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 indentures governing the senior subordinated notes contain 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 March 31, 2002. Sonic's obligations under the notes are guaranteed by its operating subsidiaries.

5 1/4% Convertible Senior Subordinated Notes

Subsequent to March 31, 2002, we issued $149.5 million of 5 1/4% Convertible Senior Subordinated Notes at a discount of 3% with net proceeds, before expenses, of approximately $145.0 million. The notes are unsecured obligations that rank equal in right of payment to all existing and future senior subordinated indebtedness, mature on May 7, 2009 and are redeemable at Sonic's option after May 7, 2005. Sonic's obligations under these notes are not guaranteed by any of its subsidiaries. The net proceeds were used to repay a portion of the amounts outstanding under our senior revolving credit facility.

In fiscal quarters after June 30, 2002, the notes are convertible into shares of Class A common stock, at the option of the holder, if as of the last day of the preceding fiscal quarter, the closing sale price of our Class A common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading-day of such preceding fiscal quarter is more than 110% of the conversion price per share of Class A common stock on the last day of such preceding fiscal quarter. If this condition is satisfied, then the notes will be convertible at any time, at the option of the holder, through maturity. The initial conversion price per share will equal $46.87, subject to adjustment for certain distributions on, or other changes in our Class A Common Stock, if any, prior to the conversion date. In addition, on or before May 7, 2007, a holder also may convert notes into shares of our Class A common stock at any time after a 10 consecutive trading-day period in which the average of the trading day prices for the notes for that 10 trading-day period was less than 103% of the average conversion value for the notes during that period. The conversion value is equal to the product of the closing sale price for our Class A common stock on a given day multiplied by the then current conversion rate, which is the number of shares of Class A common stock into which each $1,000 principle amount of notes is then convertible.

The Revolving Facility

Sonic has a revolving credit facility (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company LLC (Chrysler Financial") and Toyota Motor Credit Corporation ("Toyota Credit") with a borrowing limit of $600 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 $513.2 million at March 31, 2002). The amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 1.88% at March 31, 2002) and will mature on October 31, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The Revolving Facility includes an annual commitment fee equal to 0.25% of the unused portion of the facility. The total outstanding balance was approximately $405.5 million as of March 31, 2002. Balances under the Revolving Facility are guaranteed by Sonic's operating subsidiaries.

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:

Covenant	Required	Actual
Current ratio	Greater than 1.23	1.25
Fixed charge coverage	Greater than 1.41	1.66
Interest coverage	Greater than 2.00	3.62
Adjusted debt to EBITDA	Less than 2.25	1.87

In addition, the loss of voting control over Sonic by O. Bruton Smith, Chairman and Chief Executive Office, 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 March 31, 2002.

The Mortgage Facility

We currently have a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively 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 will mature on September 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. Borrowings, net of repayments, under the Construction Loan in the first three months of 2002 were approximately $1.0 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of March 31, 2002 was approximately $7.5 million.

Under the Permanent Loan, we can refinance up to $50.0 million in advances under the Construction Loan once the projects are completed and can finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. 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. The total outstanding balance as of March 31, 2002 was approximately $4.0 million.

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 by O. 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. We are in compliance with all restrictive covenants as of March 31, 2002.

Subsidiary Guarantees

Balances outstanding under Sonic's Revolving Facility and its 11% Senior Subordinated Notes due 2008 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. Sonic's obligations under its 5 1/4% Convertible Senior Subordinated Notes Due 2009 are not guaranteed by any of Sonic's subsidiaries.

8. RELATED PARTIES

Registration Rights Agreement

Prior to its initial public offering, Sonic signed a Registration Rights Agreement dated as of June 30, 1997 with Sonic Financial Corporation ("SFC"), O. 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; O. Bruton Smith, 2,171,250 shares; Scott Smith, 956,250 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 20,625 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 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 O. Bruton Smith.

Payable to Company's Chairman

Sonic has a note payable to O. Bruton 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 4.75% at March 31, 2002) and has a stated maturity date of November 30, 2000. Under the terms of certain subordination agreements currently in effect, however, all amounts owed by Sonic to Mr. Smith under the Subordinated Smith Loan are to be paid only after all amounts owed by Sonic under its 11% Senior Subordinated Notes due 2008 and its 5 1/4% Convertible Senior Subordinated Notes due 2009 are fully paid in

cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

9. 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. There were no shares of Preferred Stock issued or outstanding at March 31, 2002.

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 34,850,738 and 36,719,905 shares of Class A common stock issued at December 31, 2001 and March 31, 2002, respectively. Of these issued shares, there were 28,520,474 and 30,304,641 shares outstanding at December 31, 2001 and March 31, 2002, 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. At December 31, 2001 and March 31, 2002 there were 12,029,375 shares of Class B common stock issued and outstanding.

Treasury Stock - Sonic's Board of Directors has authorized Sonic to expend up to $100 million to repurchase shares of its Class A common stock or redeem securities convertible into Class A common stock. As of March 31, 2002, Sonic has repurchased 6,415,264 shares of Class A common stock for $61.4 million and has also redeemed 13,801.5 shares of Class A convertible preferred stock at a

total cost of approximately $13.8 million. We have limited our stock repurchase activity recently and anticipate that we will continue to limit such activity to utilizing option exercise proceeds to repurchase shares on an opportunistic basis.

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:

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For the Three Months Ended March 31, 2002

		Net Income From Continuing Operations		Net Loss From Discontinued Operations		Net Income	
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share	40,627	$22,529	$ 0.55	$(450)	$ (0.01)	$22,079	$ 0.54
Effect of Dilutive Securities:							
Stock Compensation Plans	1,934						
Warrants	2						
Diluted Net Income Per Share	42,563	$22,529	$ 0.53	$(450)	$ (0.01)	$22,079	$ 0.52

</TABLE>

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For the Three Months Ended March 31, 2001

		Net Income		Net Loss			

		From Continuing Operations		From Discontinued Operations		Net Income	
	Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	41,271	$13,544	$ 0.33	$ (61)	$ (0.00)	$13,483	$ 0.33
Effect of Dilutive Securities:							
Stock Compensation Plans	161						
Warrants	18						
Convertible Preferred Stock	23						
Diluted Net Income Per Share	41,473	$13,544	$ 0.33	$ (61)	$ (0.00)	$13,483	$ 0.33

</TABLE>

SONIC AUTOMOTIVE INC AND SUBSIDIARIES
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report.

Overview

We are one of largest automotive retailers in the United States, as measured by total revenue, operating 185 dealership franchises at 135 locations and 44 collision repair centers throughout the United States as of May 3, 2002. We own and operate franchises for 34 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 the first quarter of 2002 compared to the first quarter of 2001:

	Percentage of New Vehicle Revenues for the Three Months Ended March 31,	
	2001	2002
Brand(1)		
Ford	14.4%	15.7%
General Motors(2)	11.0%	14.7%
Honda	14.4%	14.3%
Toyota	11.0%	12.0%
BMW	11.5%	11.3%
Chrysler(3)	10.0%	7.3%
Lexus	6.1%	5.4%
Nissan	6.2%	4.9%
Other(4)	15.4%	14.4%
Total	100.0%	100.0%

(1) Amounts reflect certain reclassifications in order to make Sonic's presentation more consistent with peer group and revised accounting standards regarding manufacturer incentives.
(2) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile, and Pontiac
(3) Includes Chrysler, Dodge, Jeep, and Plymouth
(4) Includes Acura, Audi, Hyundai, Infiniti, Isuzu, KIA, Land Rover, Lincoln, Mercedes, Mercury, Mitsubishi, Porsche, Subaru, Volkswagen, and Volvo

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, warranty and insurance contracts, we receive a commission from the provider for originating the contract. If, within 90 days of origination, the customer cancels or defaults on the contract, the provider will assess a charge (a "chargeback") for a portion of the original commission. The amount of the chargeback depends on how long the related contract was outstanding. As a result, we have established reserves based on our historical chargeback experience.

Sales of new and used vehicles are cyclical and historically have experienced periodic downturns, characterized by oversupply and weak demand. Many factors affect vehicle sales including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates, manufacturer incentives and available credit. In the first quarter of 2002, industry-wide selling rates of new vehicles were modestly below 2001 levels. However, our dealerships in Northern California and Dallas continue to experience significant declines in revenue run rates due to the depressed economic conditions in those markets

compared to the rest of the country. 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. These 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 that 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. These sales are frequently at or below cost and, therefore, reduce our overall gross margin on vehicle sales.

Salary expense, benefits costs, facility rent and advertising expenses comprise the majority of our selling, general and administrative expenses. Approximately 62.1% of our selling, general and administrative expenses for the quarter ended March 31, 2002 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 (7.4% of selling, general and administrative expenses) and non-salaried sales compensation (50.3%) 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. Many of our compensation plans our based on net profit at the dealership or regional level, after floor plan interest, and therefore may not properly reflect compensation as a percentage of reported gross profits during periods of significant flooring interest fluctuations.

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 assistance. These payments are credited against our cost of sales. During the three months ended March 31, 2002, the amounts we received from floor plan assistance exceeded our floor plan interest expense by approximately $2.4 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to 0% after considering these incentives.

We sell similar products and services (new and used vehicles, parts, service and collision repair services), use similar processes in selling our products and services, and sell our products and services to similar classes of customers. As a result of this and the way we manage our business, we have aggregated our results into a single segment for purposes of reporting financial condition and results of operations.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired. Our unaudited consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to March 31, 2002. As a result of the effects of our acquisitions and of other potential factors in the future, the historical consolidated financial information described in "Management's Discussion and

Analysis of Financial Condition and Results of Operations" is not necessarily indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Use of Estimates and Critical Accounting Policies

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. Certain of our accounting policies employing the use of significant estimates are as follows:

Accounts receivable - Our accounts receivable consist primarily of amounts due from the manufacturers for repair services performed on vehicles with a remaining factory warranty and amounts due from third parties from the sale of parts. We believe that there is minimal risk of uncollectability on warranty receivables. We evaluate parts and other receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts we have recorded for accounts receivable is not significant. As of March 31, 2002, we also had outstanding notes receivable from finance contracts of $15.5 million (net of an allowance for credit losses of $2.1 million). These notes have average terms of approximately 30

months and are secured by the related vehicles. The assessment of our allowance for credit losses considers historical loss ratios and the performance of the current portfolio with respect to past due accounts.

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" ("FIFO") method of inventory accounting 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.

We assess the valuation of all of our vehicle and parts inventories and maintain a reserve where the cost basis exceeds the fair market value. In making this assessment for new vehicles, we primarily consider the age of the vehicles along with the timing of annual and model changeovers. For used vehicles we consider recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are assessed considering primarily excess quantity and continued usefulness of the part. The risk with parts inventories is minimized by the fact that, generally, excess or obsolete parts can be returned to the manufacturer. We have not recorded any significant reserves on any of our inventory balances.

Income taxes - We provided for deferred taxes at currently enacted tax rates for the tax effects of carry forward items and temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is established when management determines it is more likely than not that taxable income will not be sufficient to fully realize the benefits of deferred tax assets. We currently have not established any valuation allowance on our deferred tax assets.

Goodwill -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. As of March 31, 2002, the carrying amount of goodwill was $885.3 million and represented 39.8% of total assets and 152.7% of total stockholders' equity. As of December 31, 2001, the carrying amount of goodwill was $738.1 million and represented 40.9% of total the assets and 142.7% of total stockholders' equity.

Pursuant to the provisions of SFAS No. 142, goodwill acquired in business combinations is no longer amortized, but the carrying amount will be reviewed and reduced against operations if it is found to be impaired. The provisions of FAS 142 became effective January 1, 2002 and resulted in the elimination of approximately $22.1 million of annual goodwill amortization. We are still in the process of performing our initial impairment test of goodwill, and have not yet determined the impact of any potential impairment on our consolidated financial statements.

The results of operations for the three months ended March 31, 2001 include goodwill amortization expense of $3.3 million, net of tax. Diluted net income per share for the first quarter of 2001 would have been $0.40 after the elimination of the tax-effected goodwill amortization.

Accruals - Various accruals, such as reserves for contingencies and reserves for incurred but not reported claims under various insurance programs, require management to make estimates in determining the ultimate liability we may incur. The ultimate cost of these insurance reserves are estimated by management and by actuarial evaluations based on historical claims experience, adjusted for current trends and changes in claims processing procedures.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. Additionally, acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

We also adopted SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS No. 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis (with an initial review within six months of adopting the new standard), but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS No. 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. Intangible assets determined to have a finite life are required to be reviewed for impairment in accordance with SFAS No. 144: Accounting for Impairment or Disposal of Long-Lived Assets. Intangible assets that are determined to have an indefinite economic life are not amortized and must be reviewed for impairment in accordance with the terms of SFAS No. 142. The adoption of SFAS No. 142 on January 1, 2002 resulted in the elimination of approximately

$22.1 million of annual goodwill amortization. We are still in the process of performing our initial impairment test of goodwill, and have not yet determined the impact of any potential impairment on our consolidated financial statements.

We adopted the provisions of SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets as of January 1, 2002. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance in asset valuation and measuring impairment. The adoption of this resulted in a net loss of $0.1 million and $0.5 million being classified as discontinued operations on the unaudited consolidated statements of income for the three months ended March 31, 2001 and 2002, respectively.

Results of Operations

During the first quarter of 2002, we sold or otherwise disposed of assets from four of our dealership franchises, resulting in the closing of three dealerships, and had approved, but not completed the sale of two additional franchises, which will result in the closing of one dealership. These dealerships disposed of and held for sale generated combined revenues of $4.3 million in the first quarter of 2002 and $12.4 million in the first quarter of 2001, and incurred pretax losses of $0.7 million in the first quarter of 2002 and $0.1 million in the first quarter of 2001. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition, which were not material, have been included in the loss on operations of discontinued dealerships in the accompanying unaudited consolidated statements of income. Assets and liabilities of the two franchises being held for sale at March 31, 2002 totaled approximately $2.2 million and $1.6 million, respectively, as of March 31, 2002 and have been classified as assets or liabilities held for sale included in other current assets and other accrued liabilities, respectively, in the accompanying unaudited consolidated balance sheet. Assets held for sale are comprised of inventory and fixed assets, and liabilities held for sale are comprised of floor plan notes payable. We believe the disposal of these assets held for sale may take three months or longer to complete.

In addition to the dispositions discussed above, during the year ended

December 31, 2001, we sold or otherwise disposed of assets from 15 other dealership franchises, resulting in the closing of nine dealerships. These dealerships generated combined revenues of $34.3 million and incurred pretax losses of $1.8 million in the three months ended March 31, 2001. The results of operations of these dealerships have been included in income from continuing operations in the accompanying unaudited consolidated statements of income.

In order to make the comparison of our results of ongoing operations for the three months ended March 31, 2002 to the three months ended March 31, 2001 more meaningful, we have disregarded the effect on operations of all dealerships disposed of or designated for sale during the year ended December 31, 2001 and the three months ended March 31, 2002. The table below provides information regarding the operations of these dealerships which we disposed of during 2001 and those dealerships still being operated as of March 31, 2002.

<TABLE>
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	For the Three Months Ended March 31, 2001			For the Three Months Ended March 31, 2001		
	As Reported(1)	Disposed in 2001(2)	Ongoing Dealerships	As Reported(1)	Disposed in 2001(2)	Ongoing Dealerships
			(dollars in thousands)			
Revenues:						
New vehicles	$ 863,774	$16,392	$ 847,382	$ 952,971	$ --	$ 952,971
Used vehicles	291,833	7,290	284,543	283,872	--	283,872
Wholesale vehicles	115,427	4,368	111,059	109,867	--	109,867
Total vehicles	1,271,034	28,050	1,242,984	1,346,710	--	1,346,710
Parts, service and collision repair	187,607	5,510	182,097	211,286	--	211,286
Finance & insurance and other	40,832	776	40,056	47,557	--	47,557
Total revenues	1,499,473	34,336	1,465,137	1,605,553	--	1,605,553
Cost of sales	1,273,003	29,570	1,243,433	1,353,191	--	1,353,191
Gross profit	226,470	4,766	221,704	252,362	--	252,362
Selling, general and administrative expenses	176,077	6,058	170,019	200,103	--	200,103
Depreciation	1,699	92	1,607	2,090	--	2,090
Goodwill amortization	4,438	71	4,367	--	--	--
Operating income	44,256	(1,455)	45,711	50,169	--	50,169
Other income and expense:						
Interest expense, floor plan	12,012	392	11,710	5,549	--	5,549
Interest expense, other	10,005	3	10,002	8,390	--	8,390
Other income	59	8	51	109	--	109
Total other expense	22,048	387	21,661	13,830	--	13,830

Income from continuing operations before taxes	$ 22,208	(1,842)	$ 24,050	$ 36,339	$ --	$ 36,339

(1) As reported on the accompanying unaudited consolidated statement of income
(2) Results of operations of those dealerships disposed during the year ended December 31, 2001
</TABLE>

Revenues

In the first quarter of 2002, total revenues increased $106.1 million, or 7.1%, over the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $34.3 million in total revenue during the first quarter of 2001. Total revenues from ongoing dealerships increased $140.4 million, or 9.6% over the same period last year, reflecting increases in new vehicle revenues; parts, service, and collision repair revenues; and finance and insurance revenues, offset slightly by decreases in used and wholesale vehicle revenues. The overall increase from ongoing dealerships was due to acquisitions, which contributed $184.7 million of revenues during the first quarter 2002. This increase was offset by lower revenues from dealerships owned longer than one year ("same store") of approximately $44.3 million, or 3.1%, during the first quarter of 2002. The majority of this decline was due to our Northern California region and Dallas market, which accounted for $44.3 and $13.4 million, respectively, of the same store revenue decrease. These two markets have experienced depressed economic conditions compared to the rest of the country. These declines were partially offset by an increase in revenues in our Southern California market of $18.0 million.

New Vehicles: Revenues from the sale of new vehicles increased $89.2 million, or 10.3%, over the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $16.4 million in new vehicle revenues during the first quarter of 2001. Revenues from ongoing dealerships increased approximately $105.6 million, or 12.5%, in the first quarter of 2002 compared to the same period last year, reflecting an increase in units sold of approximately 8.9%, or 2,881 units, and a slight increase in the average new vehicle selling price of approximately $853, or 3.3%. The impact of dealerships acquired during 2001 and in the first quarter of 2002 resulted in an additional 4,316 units sold during the first quarter 2002, but was partially offset by a decline in same store unit sales of 1,435 units, or 4.6%. Same store unit sales were negatively affected by weaker economic conditions in our Northern California region where same store unit sales declined by 1,348 units or 18.2%, representing 93.9% of the total decline in same store sales. We also saw relatively significant declines in same store unit sales in our Dallas and Charlotte markets of 13.6% and 9.3%, respectively, which were offset by significant increases in unit sales in our Houston market and Southern California region of 12.9% and 10.7%, respectively.

Used Vehicles: Revenues from retail sales of used vehicles decreased $8.0 million, or 2.7%, from the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $7.3 million in retail used vehicle revenues during the first quarter of 2001. Revenues from ongoing dealerships remained relatively flat during the first quarter of 2002 compared to the same period last year with unit sales decreasing only approximately 0.4% and average used unit prices increasing only 0.2%. Dealerships acquired contributed 2,005 units during the first quarter of 2002, which was offset by same store declines of 2,085 units. The most significant factor negatively impacting same store unit sales has been the withdrawal of certain key lenders, particularly in the sub prime category, as well as tightened credit standards from remaining lenders which have affected consumers' ability to finance used vehicle purchases and have thus reduced retail activity.

Wholesale Vehicles: Revenues from wholesale vehicles decreased $5.6 million, or 4.8%, from the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $4.4 million in wholesale used vehicle revenues during the first quarter of 2001. Revenues from ongoing dealerships decreased 1.1% during the first quarter 2002 compared to the same period last year. The majority of the decline was due to a reduction in same store revenue of $8.0 million, partially offset by an increase from acquisitions of $6.8 million. The majority of the decline in same store sales resulted from a lower selling price of $333

per unit and a decrease in units of 491 during the first quarter 2002. The decrease in average price per unit was caused by the declines in values of used units at the wholesale level.

Fixed Operations: Revenues from parts, service and collision repair increased $23.7 million, or 12.6%, over the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $5.5 million in parts, service and collision repair revenues during the first quarter of 2001. Revenues from ongoing dealerships increased approximately 16.0% in the first quarter of 2002 compared to the same period last year, of which approximately 80.8% resulted from acquisitions with the remaining 19.2% coming from same store sales. Same store revenues increased $5.6 million, or 3.2%, resulting in part from investments in real estate and construction projects on collision facilities, which allowed us to increase our overall service and parts capacity; partially offset by declines in wholesale parts revenues at one dealership of 24.3% as well as decreases in revenues due to one less service day in the first quarter 2002 as compared to the first quarter 2001.

Finance and Insurance: Finance and insurance revenue increased $6.7 million, or 16.5%, over the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $0.8 million in finance and insurance revenues during the first quarter of 2001. Revenues from ongoing dealerships increased approximately 18.7% in the first quarter of 2002 as compared to the same period last year resulting primarily from increases in revenues from the retail sale of new vehicles in 2002. The total increase from ongoing dealerships in the first quarter 2002 of $7.5 million was due to acquisitions of $7.6 million, partially offset by decreases from same store sales of $0.1 million. Finance and insurance revenue per unit increased $98 per unit in the first quarter 2002. In addition, despite a decrease in retail vehicle same store sales of approximately 3.8% in the first quarter 2002 compared to the first quarter 2001, finance and insurance revenues from those dealerships declined only 0.2%, reflecting an increase in finance and insurance revenues per unit of 7.4%. The increase in per unit revenue reflects our continued focus on training programs for finance and insurance sales people along with our ability to negotiate higher commissions on the origination of customer vehicle financing, insurance polices and extended warranty contracts.

Gross profit and gross margins

Gross profit increased $25.9 million, or 11.4%, over the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, generated $4.8 million in gross profits during the first quarter of 2001. Gross profit from ongoing dealerships increased $30.7 million, or 13.8%, in the first quarter 2002 compared to the same period last year, primarily as a result of acquisitions of $28.7 million. Ongoing dealership gross profit as a percentage of related revenues ("gross margins") increased to 15.7% from 15.1% 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 from ongoing dealerships as a percentage of total ongoing dealership revenues increased to 13.2% in the first quarter of 2002 from 12.4% in the first quarter of 2001. Ongoing dealership finance and insurance revenues as a percentage of total ongoing dealership revenues increased to 3.0% in the first quarter of 2002 from 2.7% in the first quarter of 2001. In addition, the gross profit percentage earned on our parts, service, and collision repair and finance and insurance products from ongoing dealerships increased to 56.6% in the first quarter of 2002 from 55.2% in the first quarter of 2002.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $24.0 million, or 13.6% over the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, incurred $6.1 million in selling, general and administrative expenses during the first quarter of 2001. Selling, general and administrative expenses from ongoing dealerships increased 17.7% in the first quarter of 2002 compared to the same period last year, with approximately 79.9% of the increase coming primarily from acquisitions. Total selling, general, and administrative expenses from ongoing dealerships as a percentage of gross profit increased to 79.3% in the first quarter of 2002 from 76.7% in the first quarter 2001. Of our selling, general and administrative expenses from ongoing dealerships, approximately 62.1% were variable, comprised primarily of non-salaried sales compensation and advertising, and approximately 37.9% were fixed, comprised primarily of fixed compensation and rent expense. Variable selling, general and administrative expenses are generally tied to vehicle sales and can be adjusted in response to changes in sales volume or gross profits. As a percentage of gross profits from ongoing dealerships, related variable expenses increased to 49.3% in the first quarter 2002 from 48.7% in the first quarter 2001. This is primarily due to

increases in compensation expense as a percentage of gross profits to 39.9% in the first quarter 2002, from 38.9% in the first quarter 2001. Our compensation plans are based on net profit at the dealership or regional level, after floor plan interest. Therefore, due to the decrease in floor plan interest expense in the first quarter of 2002, if we classify floor plan interest expense as a component of cost of sales, selling, general and administrative expenses from ongoing operations as a percentage of related gross profit

would have actually declined 2.0%. Variable expenses from ongoing dealerships also increased due to an increase in advertising expense as a percentage of gross profits of 5.9% in the first quarter 2002 from 5.6% in the first quarter 2001, resulting from our same store sales initiative whereby the corporate home office provides supplemental marketing funds to certain under performing dealerships to create incremental sales motivation. Fixed expenses from ongoing dealerships increased as a percentage of gross profits to 30.0% in the first quarter 2002 from 28.0% in the first quarter 2001, primarily as a result of significant investments in human resources and infrastructure in advance of completing the Massey acquisition, as well as other acquisitions in order to support our acquisition growth and integration plans. These expenses as a percentage of gross profits are expected to stabilize in future quarters as increased gross profits are realized as a result of these investments. In addition, increases in healthcare costs and worker's compensation insurance also negatively impacted the first quarter 2002 as compared to the same period last year.

Depreciation and amortization

Depreciation expense, excluding goodwill amortization, increased $0.4 million, or 23.0% over the same period last year. Depreciation expense, excluding goodwill amortization, from ongoing dealerships increased approximately 30.0% in the first quarter 2002 compared to the same period last year. During the last 12 months ending March 31, 2002, the balance of gross property and equipment, excluding land and construction in process, increased approximately $24.3 million, or 31.6%, of which approximately $20.2 million resulted from dealership acquisitions and approximately $10.3 million from additional capital expenditures; partially offset by $6.2 of disposals and other adjustments. As a percentage of total revenues, depreciation expense was 0.1% in both the first quarter of 2002 and 2001.

In accordance with SFAS No. 142, there is no amortization expense on goodwill in 2002. Goodwill amortization expense as a percentage of total revenues was 0.3% in the first quarter 2001.

Floor plan interest expense

Floor plan interest expense decreased $6.6 million, or 54.2% from the same period last year. Dealerships disposed of during the year ended December 31, 2001, which have been included in income from continuing operations on the accompanying unaudited consolidated statements of income, incurred $0.3 million in floor plan interest expense during the first quarter of 2001. Floor plan interest expense from ongoing dealerships decreased by $6.2 million, or 52.6% in the first quarter 2002 compared to the same period last year. As a percentage of total revenues, floor plan interest expense from ongoing dealerships decreased to 0.3% in the first quarter 2002 from 0.8% in the first quarter 2001. The change reflects a same store decrease of $6.9 million offset by an increase due to acquisitions of $0.8 million. Of the same store decrease, $5.9 million was due to a decrease in the average floor plan interest rate to 3.6% in the first quarter 2002 from 7.6% in the first quarter 2001. The remainder of the same store decrease was due to a decrease in the average floor plan liability to $494.8 million in the first quarter 2002 from $607.8 million in the first quarter 2001. Contributing to a lower floor plan liability was a decrease in our average days supply of new vehicles in inventory to approximately 55.9 days at March 31, 2002 from 63.5 days at March 31, 2001.

Other interest expense

Other interest expense decreased by $1.6 million, or 16.1% in the first quarter 2002 compared to the same period last year. The decrease was caused by lower interest expense on our Revolving Facility of approximately $4.5 million, offset by a $2.2 million increase in interest incurred on an additional $75.0 million of 11% Senior Subordinated Notes issued November 2001. Of the decrease in interest incurred under our revolving facility, approximately $3.6 million was due to the decrease in the average interest rate incurred to 4.5% in the first quarter 2002 from 8.5% in the first quarter 2001, and approximately $0.9 million was due to a decrease in the average outstanding balance to $282.8 million in the first quarter 2002 from $362.1 million in the first quarter 2001. This decrease resulted from the refinancing of a portion of our Revolving

Facility using proceeds from the issuance of our additional $75.0 million in 11% Senior Subordinated Notes due 2008. This decrease, however, was offset by the effective conversion of $100.0 million of our variable rate debt to a fixed rate through an interest rate swap agreement entered into on January 15, 2002 whereby we receive interest payments based on a variable rate of LIBOR and make interest payments at a fixed rate of 3.88%. This resulted in an additional $0.4 million in interest expense in the first quarter of 2002.

Provision for income taxes

Income tax expense increased $5.1 million, or 59.3% over the same period last year. Our effective income tax rate decreased to 38% in the first quarter 2002 from 39% in the first quarter 2001 as a result of the elimination of goodwill amortization.

Liquidity and Capital Resources

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

Floor Plan Facilities:

We finance our new vehicle inventory through standardized floor plan credit facilities with the following:

Lender	2002 Availability	Outstanding Balance March 31, 2002	Outstanding Balance December 31, 2001
Chrysler Financial Company, LLC	$750 million	$147.8 million	$142.6 million
General Motors Acceptance Corporation ("GMAC")	$290 million	$198.0 million	$ 51.7 million
Ford Motor Credit Company	$650 million	$428.9 million	$377.2 million
Toyota Motor Credit Corporation	$100 million	$ 21.4 million	$ 16.4 million

Amounts outstanding under the Chrysler Financial and Toyota Credit floor plan facilities bear interest at 1.25% above LIBOR (LIBOR was 1.88% at March 31, 2002). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at the prime rate (prime was 4.75% at March 31, 2002), subject to certain incentives and other adjustments. The weighted average interest rate for our floor plan facilities was 7.6% and 3.6% for the three month periods ended March 31, 2001 and 2002, respectively. Our floor plan interest expense is substantially offset by amounts received from manufacturers, in the form of floor plan assistance, which is recorded as a reduction of cost of sales. In the first three months of 2002 we received approximately $8.0 million in manufacturer assistance, which resulted in an effective borrowing rate under our floor plan facilities of 0%. 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 were in compliance with all restrictive covenants as of March 31, 2002.

Credit Facilities:

The Convertible Senior Subordinate Notes: On May 7, 2002, we issued $149.5 million of 5 1/4% convertible senior subordinated notes at a discount of 3% with net proceeds, before expenses, of approximately $145.0 million. The notes are unsecured obligations that rank equal in right of payment to all existing and future senior subordinated indebtedness, mature on May 7, 2009 and are redeemable at Sonic's option after May 7, 2005. Sonic's obligations under these notes are not guaranteed by any of its subsidiaries.

In fiscal quarters after June 30, 2002, the notes are convertible into shares of Class A common stock, at the option of the holder, if as of the last day of the preceding fiscal quarter, the closing sale price of our Class A common stock for at least 20 trading days in a period of 30 consecutive trading

days ending on the last trading-day of such preceding fiscal quarter is more than 110% of the conversion price per share of Class A common stock on the last day of such preceding fiscal quarter. If this condition is satisfied, then the notes will be convertible at any time, at the option of the holder, through maturity. The initial conversion price per share will equal $46.87, subject to adjustment for certain distribution, or changes in our Class A common stock, if any, prior to the conversion date. In addition, on or before May 7, 2007, a holder also may convert his notes into shares of our Class A common stock at any time after a 10 consecutive trading-day period in which the average of the trading day prices for the notes for that 10 trading-day period was less than 103% of the average conversion value for the notes during that period. The conversion value is equal to the product of the closing sale price for our Class A common stock on a given day multiplied by the then current conversion rate, which is the number of shares of Class A common stock into which each $1,000 principle amount of notes is then convertible.

The net proceeds were used to repay a portion of the amounts outstanding under our Revolving Credit Facility.

The Revolving Facility: Sonic has a revolving credit facility (the "Revolving Facility") with Ford Motor Credit, Chrysler Financial and Toyota Credit with a borrowing limit of $600 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 $513.2 million at March 31, 2002). The amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 1.88% at March 31, 2002) and will mature on October 31, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The Revolving Facility includes an annual commitment fee equal to .25% of the unused portion of the facility. The total outstanding balance was approximately $405.5 million as of March 31, 2002. On a pro-forma basis, after applying the net estimated proceeds from the issuance of our 5 1/4% convertible senior subordinated notes due 2009 on May 7, 2002, the outstanding balance under our Revolving Facility was $279.7 million. Balances under our Revolving Facility are guaranteed by Sonic's operating subsidiaries.

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 on the Revolving Facility are as follows:

Covenant	Required	Actual
Current ratio	Greater than 1.23	1.25
Fixed charge coverage	Greater than 1.41	1.66
Interest coverage	Greater than 2.00	3.62
Adjusted debt to EBITDA	Less than 2.25	1.87

In addition, the loss of voting control over Sonic by O. 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 were in compliance with all restrictive covenants as of March 31, 2002.

The Mortgage Facility: We currently have a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively 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 will mature on September 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. Borrowings, net of repayments, under the Construction Loan in the first three months of 2002 were approximately $1.0 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of March 31, 2002 was approximately $7.5 million.

Under the Permanent Loan, we can refinance up to $50.0 million in advances under the Construction Loan once the projects are completed and can finance real

estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. 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. The total outstanding balance as of March 31, 2002 was approximately $4.0 million.

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 by O. 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. We are in compliance with all restrictive covenants as of March 31, 2002.

The Senior Subordinated Notes: We currently have an aggregate principal balance of $200 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. Sonic's obligations under these notes are guaranteed by its operating subsidiaries.

Interest payments are due semi-annually on February 1 and August 1. The notes are subordinated to all of our present and future senior indebtedness, including the Revolving Facility. 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 indentures governing the senior subordinated notes contain certain specified restrictive and required financial covenants. We have agreed not to pledge our assets to any third party except under certain limited 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 shareholders, distributions and redemptions. We were in compliance with all restrictive covenants as of March 31, 2002.

Dealership acquisitions and dispositions:

On March 18, 2002, Sonic acquired five dealerships owned by Don Kott (the "Kott Acquisition") for approximately $19.6 million in cash. The dealerships are located in the metropolitan area of Los Angeles, California and sell the following brands of new vehicles: Ford, Lincoln, Mercury, Chrysler, Jeep, Mazda and Isuzu/Hino.

On March 25, 2002, Sonic acquired 15 dealerships owned directly or indirectly by Donald E. Massey (the "Massey Acquisition") for approximately $114.5 million in cash and 1,470,588 shares of Class A common stock valued at approximately $38.0 million, based on the average closing price as quoted by the New York Stock Exchange for the three days before and after the acquisition was announced. The acquired dealerships are located in California, Colorado, Florida, North Carolina, Michigan, Tennessee and Texas, and sell the following brands of new vehicles: Buick, Cadillac, Chevrolet, GMC, Oldsmobile, Pontiac, Rolls Royce/Bentley and Saab.

In addition to the Kott and Massey Acquisitions, Sonic acquired the following dealerships during the three months ended March 31, 2002 for a combined purchase price of approximately $4.6 million in cash:

- On January 21, 2002, Sonic acquired Park Place Audi located in Dallas, Texas;
- On March 18, 2002, Sonic acquired Philpott Hyundai located in the metropolitan area of Houston, Texas.

The total purchase price for all of the above acquisitions was based on Sonic's internally determined valuation of the dealerships and their assets. The cash portion of the purchase price was financed by cash generated from Sonic's existing operations and by borrowings under Sonic's revolving credit facility with Ford Motor Credit, Chrysler Financial and Toyota Credit.

During the first quarter of 2002, we disposed of four franchises, resulting in the closing of three dealerships, and approved, but had not completed the sale of, two additional franchises, which will result in the closing of one

dealership. These were generally smaller dealerships with unprofitable operations. These dealerships disposed of and held for sale generated combined revenues of $4.3 million in the first quarter of 2002 and $12.4 million in the first quarter of 2001, and incurred pre-tax losses of $0.7 million in the first quarter of 2002 and $0.1 million in the first quarter of 2001. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition, which were not material, have been included in the loss on operations of discontinued dealerships in the accompanying unaudited consolidated statements of income. Assets and liabilities of the two franchises being held for sale at March 31, 2002 totaled approximately $2.2 million and $1.6 million, respectively, as of March 31, 2002 and have been classified as assets or liabilities held for sale included in other current assets and other accrued liabilities, respectively, in the accompanying unaudited consolidated balance sheet. Assets held for sale are comprised of inventory and fixed assets, and liabilities held for sale are comprised of floor plan notes payable. We believe the disposal of these assets held for sale may take three months or longer to complete.

In addition to the dispositions discussed above, during the year ended December 31, 2001, we sold or otherwise disposed of assets from 15 other dealership franchises, resulting in the closing of nine dealerships. These dealerships generated combined revenues of $34.3 million and incurred pretax losses of $1.8 million in the three months ended March 31, 2001. The results of operations of these dealerships have been included in income from continuing operations in the accompanying unaudited consolidated statements of income.

Subsequent to March 31,2002, Sonic's board of directors approved the disposition of nine additional dealership franchises and a collision repair center. The assets and liabilities to be disposed of consist of inventory, fixed assets and floor plan notes payable. These assets and liabilities totaled $35.4 million and $29.6 million, respectively, at March 31, 2002. We believe the disposal of these assets may take 3 months or longer to complete.

Investments in Unconsolidated Affiliates:

We currently have 50% joint venture investments in North Point Volvo, LLC, a Volvo automobile dealership in the greater Atlanta area, and Fort Myers Collision Center, LLC, located in Florida, in which we initially invested $900,000 and $100,000, respectively. The partners in these joint ventures are not affiliated with Sonic. These entities are not consolidated into Sonic's financial statements because we do not have operating control of the entities. However, we have guaranteed $6.0 million in indebtedness between North Point Volvo, LLC and Bank of America, including a $5.5 million revolving floor plan financing agreement expiring in 2003, of which $2.6 million was outstanding as of March 31, 2002, and a $0.5 million term loan expiring in 2007. We have guaranteed no other obligations of either company. The investments are accounted for under the equity method whereby we record our share of each respective joint venture's pretax profit or loss. We recorded approximately $0.1 million in net income in the first three months of 2002 related to these investments. We may elect to make future investments in these entities.

Sale-Leaseback Transactions:

In an effort to generate additional capital, we typically seek to structure our operations to minimize the ownership of real property. As a result, facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback transactions. The resulting leases generally have initial terms of 10-15 years and include a series of five-year renewal options. We have no continuing obligations under these arrangements other than lease payments. The majority of our sale-leaseback transactions are done with Capital Automotive REIT ("Capital Automotive). Under our agreement with Capital Automotive, we have the ability to substitute properties in the lease portfolio should we decide to dispose of a dealership currently being leased from Capital Automotive. During the first quarter of 2002 we sold $9.8 million in dealership properties in sale-leaseback transactions.

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 the first three months of 2002 were approximately $13.9 million, of which approximately $10.3 million related to the construction of new dealerships and collision repair centers. Once completed, these new dealerships and collision repair centers are generally sold in sale-leaseback transactions. We sold approximately $9.8 million of completed construction projects in sale-leaseback transactions during the first three months of 2002. There were no material gains or losses on these sales. As

of March 31, 2002, total construction in progress was approximately $22.8 million. In addition, approximately $12.0 million related to construction costs on facilities, which are expected to be completed and sold within one year in sale-leaseback transactions have been classified in other current assets on the accompanying unaudited consolidated balance sheet as of March 31, 2002. We do not expect any significant gains or losses from these sales. Through May 10, 2002, there have been no additional sale/leaseback transactions.

Stock Repurchase Program:

Sonic's Board of Directors has authorized Sonic to expend up to $100 million to repurchase shares of its Class A common stock or redeem securities convertible into Class A common stock. As of March 31, 2002, Sonic has repurchased 6,415,264 shares of Class A common stock totaling approximately $61.4 million and has also redeemed 13,801.5 shares of Class A convertible preferred stock at a total cost of approximately $13.8 million. We have limited our stock repurchase activity recently and anticipate that we will continue to limit such activity to utilizing option exercise proceeds to repurchase shares of Class A common stock on an opportunistic basis.

Cash Flows:

For the three month period ended March 31, 2002, net cash provided by operating activities was approximately $24.1 million, which was generated primarily by net income plus non-cash items such as depreciation, amortization and deferred income taxes. A decrease in inventory levels of $33.3 million was offset by a related decrease in floor plan liabilities of $24.9 million. Cash used for investing activities in the first three months of 2002 was approximately $132.2 million, the majority of which was related to dealership acquisitions. Our other principal investing activities include capital expenditures and dealership dispositions. In the first three months of 2002, net cash provided by financing activities was approximately $105.8 million and primarily related to net borrowings on our revolving credit facilities of approximately $104.5 million which was used primarily to finance acquisitions during the quarter.

Future Liquidity Outlook:

We believe our best source of liquidity for future growth remains our cash flows generated from operations. Our 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. With forecasted capital expenditures that will not be funded by sale leaseback financing transactions of approximately $12 million to $15 million for the year 2002, we expect to generate substantial "free" cash flow to support our acquisition strategy.

Seasonality:

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

Item 3: 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 $1.2 billion at March 31, 2002 and approximately $1.0 billion at March 31, 2001. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately $2.1 million in the first quarter 2002 and approximately $2.6 million in the first quarter 2001. Of the total change in interest expense, approximately $1.3 million in the first quarter 2002 and approximately $1.7 million in first quarter 2001 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes payable is mitigated by floor plan assistance payments received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. These payments are credited against our cost of sales. During the three months ended March 31, 2002, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately $2.4 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to 0% after considering these incentives. A change in interest rates of 100 basis points would have had an estimated impact on floor plan assistance of approximately $1.3 million in the first quarter 2002.

In addition to our variable rate debt, we also have lease agreements on a portion of our dealership facilities where the monthly lease payment fluctuated based on LIBOR interest rates. A change of 100 basis points in the underlying rates would have caused a change in rent expense of approximately $0.6 million in the first quarter 2002 and $0.5 million in the first quarter 2001.

In order to reduce our exposure to market risks from fluctuations in interest rates, we entered into an interest rate swap agreement on January 15, 2002 to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. The swap has a notional principal amount of $100 million and matures on October 31, 2004. Under the terms of the swap agreement, we receive interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and makes interest payments at a fixed rate of 3.88%. Incremental interest expense incurred (the difference between interest earned and interest incurred) as a result of this interest rate swap was $0.4 million for the three months ended March 31, 2002 and has been included in interest expense, other in the accompanying unaudited consolidated statements of income.

The interest rate swap has been designated and qualifies as a cash flow hedge and, as a result, changes in the fair value of the interest rate swap have been recorded in other comprehensive income, net of related income taxes, in our statement of stockholders' equity. The fair value of the interest rate swap as of March 31, 2002, recorded in other assets on the accompanying unaudited balance sheet, and the amount of the related hedging gain deferred and recorded in other comprehensive income for the three months ended March 31, 2002 was approximately $1.2 million. Because the critical terms of the interest rate swap and the underlying debt obligation were the same, no ineffectiveness was recorded.

While we may enter into additional interest rate swaps in order to hedge our interest rate cash flow risk and limit volatility created by changing rates, we believe variable rates will give us the lowest cost of capital long term and believe some variable rate exposure is a natural hedge in our business to economic cycles.

Forward Looking Statements

Certain statements and information set forth in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of the Private Litigation Securities Reform Act of 1995. These forward looking statements address our future objectives, plans and goals, as well as our intent, beliefs and current expectations regarding future operating performance, and can generally be identified by words such as "may," "will," "should," "believe," "expect," "anticipate," "intend," "plan," "foresee," and other similar words or phrases. Specific events addressed by these forward looking statements include, but are not limited to:

- future acquisitions;
- industry trends;
- general economic trends, including employment rates and consumer confidence levels;
- vehicle sales rates and same store sales growth;
- our financing plans;
- our business and growth strategies.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in Exhibit 99.1 to this Quarterly Report on Form 10-Q and elsewhere in this report, as well as:

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

- the reputation and financial condition of vehicle manufacturers whose brands we represent, and their ability to design, manufacture, deliver and market their vehicles successfully;

- our relationships with manufacturers, which may affect our ability to complete additional acquisitions;

- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements, and environmental laws;

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

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

- our ability to successfully integrate recent and potential future acquisitions.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

2.1* Asset Purchase Agreement dated as of January 11, 2002 by and among Sonic and the Donald E. Massey Revocable Trust (the "Trust") (incorporated by reference to Exhibit 2.1 to Sonic's Current Report on Form 8-K filed on April 15, 2002 (the "April 2002 8-K"))

2.2* Stock Purchase Agreement dated as of January 11, 2002 by and among Sonic and the Trust (incorporated by reference to Exhibit 2.2 to the April 2002 8-K)

2.3* Stock Purchase Agreement dated as of January 11, 2002 by and among Sonic and the Trust (incorporated by reference to Exhibit 2.3 to the April 2002 8-K)

99.1 Risk Factors.

* - Filed previously with the Securities and Exchange Commission.

(b) Reports on Form 8-K

On January 15, 2002, we filed a Current Report on Form 8-K announcing that we had entered into an agreement to purchase substantially all of the Don Massey Dealerships. No financial statements were filed with the report on January 15, 2002.

SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: May 15, 2002 By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

Date: May 15, 2002 By: /s/ Theodore M. Wright

Theodore M. Wright
Vice President, Chief Financial
Officer and Treasurer
(Principal Financial and Accounting
Officer)

OUR SIGNIFICANT INDEBTEDNESS COULD MATERIALLY ADVERSELY AFFECT OUR FINANCIAL HEALTH AND PREVENT US FROM FULFILLING OUR FINANCIAL OBLIGATIONS.

As of March 31, 2002, our total outstanding indebtedness was approximately $1,419.0 million, including the following:

- $405.5 million under a revolving credit agreement (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company, LLC ("Chrysler Financial") and Toyota Motor Credit Corporation ("Toyota Credit") with a borrowing limit of $600 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;

- $428.9 million under a standardized secured inventory floor plan facility (the "Ford Floor Plan Facility") with Ford Motor Credit;

- $147.8 million under a standardized secured floor plan facility (the "Chrysler Floor Plan Facility") with Chrysler Financial;

- $21.4 million under a standardized secured floor plan facility (the "Toyota Floor Plan Facility") with Toyota Credit;

- $198.0 million under a standardized secured floor plan facility (the "GMAC Floor Plan Facility" and, together with the Ford Floor Plan Facility, the Toyota Floor Plan Facility and the Chrysler Floor Plan Facility, the "Floor Plan Facilities") with General Motors Acceptance Corporation ("GMAC");

- $195.8 million in 11% Senior Subordinated Notes due 2008 representing $200.0 million in aggregate principal amount less unamortized discount of approximately $4.2 million; and .

- $21.6 million of other secured debt, including $11.5 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 March 31, 2002, we had approximately $107.7 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 $88.5 million available 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, convertible 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, convertible 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 increasing 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 ACQUISITIONS INTO OUR OPERATIONS.

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 72 dealerships in 1999, 11 in 2000, 12 in 2001 and 22 to date in 2002.

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

- the difficulties of managing operations located in geographic areas where we have not previously operated;
- the management time and attention required to integrate and manage newly acquired dealerships;
- the difficulties of assimilating and retaining employees; 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
- failing 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, 2001, and for the three months ended March 31, 2002:

	Percentage of Historical New Vehicle Revenues	
	For the Three Months Ended March 31, 2002	For the Year Ended December 31, 2001
Brand (1)		
Ford	15.7%	18.6%
General Motors (2)	14.7%	12.2%
Honda	14.3%	13.0%
Toyota	12.0%	11.3%
BMW	11.3%	10.7%
Chrysler (3)	7.3%	8.3%
Lexus	5.4%	5.3%
Nissan	4.9%	5.3%

(1) Amounts reflect certain reclassifications in order to make Sonic's presentation more consistent with peer group and revised accounting standards regarding manufacturer incentives.
(2) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile, and Pontiac
(3) Includes Chrysler, Dodge, Jeep, and Plymouth

No other manufacturer accounted for more than five percent of our new vehicle sales during either period. A significant decline in the sale of Ford, Honda, Chrysler, General Motors, 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, other than our Oldsmobile and Plymouth franchise agreements. DaimlerChrysler phased out the Plymouth division effective October 1, 2001 and General Motors is in the process of phasing out the Oldsmobile division. Neither of these actions will materially affect us.

- 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;
- 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, Chrysler and Volvo have had significant difficulty in the U.S. market in the recent past. If any of our manufacturers, particularly Ford, Honda, Chrysler, General Motors, BMW, Toyota, Nissan, or Lexus were unable to design, manufacture, deliver and market their vehicles successfully, 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, General Motors, BMW, Toyota, Nissan or Lexus in particular, could have a material adverse effect on our results of operations. In the event of a 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.

- 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.

- 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.

- General Motors and Infiniti may force the sale of their respective franchises if 20% of 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 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 stockholders 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.

- 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 any such approval may be subject to certain state franchise laws.

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

- Our framework agreement with Ford 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 five percent 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 five percent 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.
- Our framework agreement with Toyota 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.

- Our framework agreement with Honda 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 (A) two Acura dealerships in a Honda-defined metropolitan market, (B) three Acura dealerships in any

one of six Honda-defined geographic zones and (C) five Acura dealerships nationally. Honda also prohibits ownership of contiguous dealerships.

- Mercedes restricts any company from owning Mercedes dealerships with sales of more than three percent of total sales of Mercedes vehicles in the U.S. during the previous calendar year.

- General Motors currently limits the maximum number of General Motors dealerships that we may acquire to 50% of the General Motors dealerships, by brand line, in a General Motors-defined geographic market area having multiple General Motors 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 10% of all BMW sales in the U.S. or more than 50% of BMW dealerships in a given metropolitan market.

- Toyota, Honda and Mercedes also prohibit the coupling of a franchise with any other brand without their consent.

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.

As of April 30, 2002, we owned the following number of franchises for the following manufacturers:

MANUFACTURER	NUMBER OF FRANCHISES	MANUFACTURER	NUMBER OF FRANCHISES
Cadillac	23	Hyundai	4
Honda	14	Mitsubishi ...	3
Chevrolet ...	14	Kia	3
Ford	14	Audi	3
BMW	10	Pontiac	3
Toyota	10	Porsche	2
Nissan	9	GMC	2
Chrysler	8	Infiniti	1
Dodge	8	Acura	1
Volvo	8	Land Rover ...	1
Jeep	7	Subaru	1
Mercury	5	Mazda	1
Oldsmobile. .	5	Saab	1
Isuzu	4	Rolls Royce. .	1
Volkswagen. .	4	Bentley	1
Lexus	4	Hino	1
Lincoln	4	Buick	1
Mercedes	4		

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 customer satisfaction index, or CSI scores. 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. Moreover, 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.

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.

We estimate that as of March 31, 2002, we had approximately $107.7 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 a pledge of certain additional collateral by an affiliate of Sonic (which borrowing base was $513.2 million of the $600.0 million facility at March 31, 2002).

In addition, we are dependent to a significant extent on our ability to finance our inventory with "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 existing floor plan financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure our floor plan indebtedness and the indebtedness under the Revolving Facility. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our 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, GM and GMAC, and Toyota and Toyota Credit.

ALTHOUGH O. BRUTON SMITH, OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HAS PREVIOUSLY FACILITATED OUR ACQUISITION FINANCING, WE CANNOT ASSURE YOU THAT HE WILL BE WILLING OR ABLE TO ASSIST IN OUR FINANCING NEEDS IN THE FUTURE.

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 ("SFC"), a corporation controlled by Mr. Smith having an estimated value at the time of the 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 Revolving Facility to $350.0 million subject to a borrowing base calculated on the basis

of our receivables, inventory and equipment and a continuing pledge by SFC of five million shares of SMI common stock. Presently, the borrowing limit of the Revolving Facility is $600.0 million, subject to a similar borrowing base, including SFC's continuing pledge of SMI stock.

Before our acquisition of FirstAmerica Automotive, Inc. ("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 five million shares

of SMI common stock owned by SFC. We assumed FirstAmerica's obligations to Ford Motor Credit under our 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 Revolving Facility until August 2000. After August 2000, Mr. Smith did not provide a guarantee in favor of the Revolving Facility 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. 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 financing and insurance ("F&I") business and other related businesses, which have higher margins than sales of new and used vehicles, are subject to strong competition from various financial institutions and other third parties. This competition is increasing as these products are now being marketed and sold over the Internet.

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. 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 enter the retail market directly.

- 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, fuel prices, the level of discretionary personal income, unemployment rates, interest rates and credit availability. We are in the midst of an industry and general economic slowdown that could materially adversely effect our business.

Local economic, competitive and other conditions also affect the performance of dealerships. We intend to pursue acquisitions outside of these markets, but our operational focus is on our current markets. As a result, our current 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 18% of our sales for the three months ended March 31, 2002. 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 AND FINANCIAL CONDITION OF ACQUIRED BUSINESSES CANNOT BE DETERMINED ACCURATELY UNTIL WE ASSUME CONTROL.

Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Similarly, many of the dealerships we acquire, including in our largest acquisitions, do not have financial statements audited or prepared in accordance with generally accepted accounting principles. As a result, we may not have an accurate understanding of the historical financial condition and performance of our acquired entities. Until we actually assume operating control of such business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations.

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 SMI. Accordingly, Sonic competes with SMI for the management time of Mr. Smith.

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. 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) in the line of the corporation's business,

(3) of practical advantage to the corporation, and

(4) 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 Sonic's 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.

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.

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.

WE ARE SUBJECT TO NUMEROUS LEGAL AND ADMINISTRATIVE PROCEEDINGS.

In 2001, the Florida Attorney General's Office issued subpoenas to two of our wholly-owned dealership subsidiaries located in Florida. The subpoenas requested, among other things, documentation from the dealerships regarding transactions with customers in the months of January 1999 and June 2000. In subsequent discussions, the Attorney General's office informed each of these dealership subsidiaries that it was investigating allegations of fraud against customers by those dealerships in the sale of finance and insurance products. In addition, in April 2002, the Florida Department of Insurance informed the same two

dealership subsidiaries that it had also initiated an investigation into allegations similar to those underlying the Florida Attorney General's investigation. Our two dealership subsidiaries are cooperating with this investigation. To date, there have been no formal charges or administrative proceedings filed against either dealership subsidiary by the Attorney General or the Department of Insurance. Additionally, five private civil actions have been filed against one of the dealership subsidiaries and one private civil action has been filed against the other dealership subsidiary stating allegations similar to those underlying the Florida Attorney General's investigation. Two of the civil actions purport to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed or granted to date.

We intend to vigorously defend ourselves and assert available defenses with respect to each of the foregoing matters, and we do not believe that the ultimate resolution of these matters will have a material adverse affect on our business, results of operations, financial condition, cash flows or prospects. However, because the investigations by the Florida Attorney General's office and Florida Department of Insurance are continuing and have not resulted in formal charges to date, and because the civil actions are also in the early stages of litigation, we cannot assure you as to the outcomes of such proceedings.

In addition, we are involved, and expect to continue to be involved, in numerous other legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits and actions brought by governmental authorities. We do not believe that the ultimate resolution of these matters will have a material adverse affect on our business, results of operations, financial condition, cash flows or prospects. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters, including the matters specifically discussed above, could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

GOVERNMENTAL REGULATION AND ENVIRONMENTAL REGULATION COMPLIANCE COSTS MAY ADVERSELY AFFECT OUR PROFITABILITY.

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, retail financing and consumer protection laws and regulations, and federal and state environmental, health and safety, wage-hour, anti-discrimination, and other employment practices laws and regulations. The violation of these laws and regulations can result in administrative, civil or criminal penalties against us or in a cease and desist order against our operations 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.

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 ANTI-TAKEOVER 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 stockholder or otherwise benefiting the Class B common stockholders 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.

NEW ACCOUNTING PRONOUNCEMENTS COULD AFFECT FUTURE EARNINGS.

Sonic has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. Additionally, acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged regardless of the acquirer's intent to do so.

We also adopted the provisions of SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS No. 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis (with an initial review within six months of adopting the new standard), but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS No. 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. Intangible assets determined to have a finite life are required to be reviewed for impairment in accordance with SFAS No. 144: Accounting for Impairment or Disposal of Long-Lived Assets. Intangible assets that are determined to have an indefinite economic life are not amortized and must be reviewed for impairment in accordance with the terms of SFAS No. 142. The adoption of SFAS No. 142 on January 1, 2002 resulted in the elimination of approximately $22.1 million of annual goodwill amortization. We are still in the process of completing our initial impairment test of goodwill, and have not yet determined the impact of any potential impairment on our consolidated financial statements.

The cumulative gross goodwill balance was approximately $932.3 million at March 31, 2002 and approximately $785.2 million at December 31, 2001. Goodwill, net of accumulated amortization, represented 39.8% of total assets at March 31, 2002 and 40.9% at December 31, 2001. Net goodwill represented 152.7% of stockholders' equity at March 31, 2002 and 142.7% at December 31, 2001. There was no goodwill amortization recorded for the three months ended March 31, 2002, while goodwill amortization expense was approximately $18.3 million for the year ending December 31, 2001 and $4.4 million for the three months ending March 31, 2002.

On January 1, 2002, we adopted SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes a single accounting and disclosure model for assets to be disposed of by sale whether previously held and used or newly acquired. Under the provisions of SFAS No. 144, assets and liabilities held for sale are required to be shown separately in the balance sheet. Results of operations of a component of an entity that has been disposed or is classified as held for sale are now required to be reported in discontinued operations in the statement of income. The adoption of SFAS No. 144 resulted in a net loss of $0.1 million and $0.5 million being classified as discontinued operations on the unaudited consolidated statements of income for the three month period ended March 31, 2001 and 2002, respectively.