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 June 30, 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 August 12, 2002, there were 30,202,719 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)

<TABLE>
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<S>	Three Months Ended June 30, 2001 <C>	Three Months Ended June 30, 2002 <C>
Revenues:		
New vehicles	$ 924,745	$ 1,137,915
Used vehicles	283,511	336,729
Wholesale vehicles	97,807	140,443
Total vehicles	1,306,063	1,615,087
Parts, service and collision repair	184,131	239,318
Finance & insurance and other	48,737	53,023
Total revenues	1,538,931	1,907,428
Cost of sales	1,300,730	1,614,326
Gross profit	238,201	293,102
Selling, general and administrative expenses	176,814	225,317
Depreciation	1,952	2,204
Goodwill amortization	4,591	-
Operating income	54,844	65,581
Other income / (expense):		
Interest expense, floor plan	(9,910)	(6,543)
Interest expense, other	(8,418)	(9,661)
Other income	16	127
Total other expense	(18,312)	(16,077)
Income from continuing operations before taxes	36,532	49,504
Provision for income taxes	(14,234)	(18,892)
Net income from continuing operations	22,298	30,612
Discontinued operations:		
Income from operations of discontinued dealerships	303	1,294
Income tax expense	(115)	(418)
Net income from discontinued operations	188	876
Net income	$ 22,486	$ 31,488
Basic net income per share:		
Net income per share from continuing operations	$ 0.56	$ 0.72
Net income per share from discontinued operations	$ -	$ 0.02
Net income per share	$ 0.56	$ 0.74
Weighted average common shares outstanding	40,063	42,652
Diluted net income per share:		
Net income per share from continuing operations	$ 0.54	$ 0.69
Net income per share from discontinued operations	$ 0.01	$ 0.02
Net income per share	$ 0.55	$ 0.71
Weighted average common shares outstanding	41,062	44,537

</TABLE>

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands except per share amounts)
(Unaudited)

<TABLE>
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	Six Months Ended June 30, 2001	Six Months Ended June 30, 2002
<S>	<C>	<C>
Revenues:		
New vehicles	$ 1,757,695	$ 2,061,662
Used vehicles	560,215	608,520
Wholesale vehicles	208,726	246,132
Total vehicles	2,526,636	2,916,314
Parts, service and collision repair	363,370	442,665
Finance & insurance and other	88,107	99,310
Total revenues	2,978,113	3,458,289
Cost of sales	2,522,669	2,921,410
Gross profit	455,444	536,879
Selling, general and administrative expenses	345,007	417,270
Depreciation	3,555	4,175
Goodwill amortization	8,934	-
Operating income	97,948	115,434
Other income / (expense):		
Interest expense, floor plan	(21,399)	(11,849)
Interest expense, other	(18,261)	(17,934)
Other income	75	227
Total other expense	(39,585)	(29,556)
Income from continuing operations before taxes	58,363	85,878
Provision for income taxes	(22,735)	(32,701)
Net income from continuing operations	35,628	53,177
Discontinued operations:		
Income from operations of discontinued dealerships	581	530
Income tax expense	(240)	(139)
Net income from discontinued operations	341	391
Net income	$ 35,969	$ 53,568
Basic net income per share:		
Net income per share from continuing operations	$ 0.88	$ 1.28
Net income per share from discontinued operations	$ -	$ 0.01
Net income per share	$ 0.88	$ 1.29
Weighted average common shares outstanding	40,664	41,645
Diluted net income per share:		
Net income per share from continuing operations	$ 0.86	$ 1.22
Net income per share from discontinued operations	$ 0.01	$ 0.01
Net income per share	$ 0.87	$ 1.23
Weighted average common shares outstanding	41,266	43,555

</TABLE>

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

<TABLE>
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<S>	December 31, 2001 <C>	June 30, 2002 (Unaudited) <C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ -	$ 6,790
Receivables, net	262,911	284,759
Inventories	664,258	874,765
Other current assets	29,127	74,606
Total current assets	956,296	1,240,920
Property and Equipment, net	98,972	100,720
Goodwill, net	738,103	885,019
Other Assets	12,555	14,112
Total Assets	$ 1,805,926	$ 2,240,771
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan	$ 587,914	$ 772,568
Trade accounts payable	44,802	54,330
Accrued interest	9,676	13,445
Other accrued liabilities	92,275	138,937
Current maturities of long-term debt	2,586	2,374
Total current liabilities	737,253	981,654
Long-Term Debt	511,877	595,062
Other Long-Term Liabilities	5,836	12,784
Payable to the Company's Chairman	5,500	5,500
Deferred Income Taxes	28,199	27,176
Stockholders' Equity:		
Class A Common Stock, 34,850,738 shares issued at December 31, 2001 and 37,215,211 shares issued at June 30, 2002	348	372
Class B Common Stock, 12,029,375 shares issued and outstanding at December 31, 2001 and June 30, 2002.	121	121
Paid-in capital	343,256	394,610
Retained earnings	232,893	286,461
Accumulated other comprehensive loss	-	(1,564)
Treasury Stock, at cost (6,330,264 shares held at December 31, 2001 and 6,415,264 shares held at June 30, 2002)	(59,357)	(61,405)
Total stockholders' equity	517,261	618,595
Total Liabilities and Stockholders' Equity	$ 1,805,926	$ 2,240,771

</TABLE>

See notes to unaudited consolidated financial statements.

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

<TABLE>
<CAPTION>

<S>	Class A Common Stock Shares <C>	Class A Common Stock Amount <C>	Class B Common Stock Shares <C>	Class B Common Stock Amount <C>	Paid-In Capital <C>	Retained Earnings <C>	Treasury Stock <C>
Balance at December 31, 2001	34,851	$ 348	12,029	$ 121	$343,256	$232,893	$(59,357)
Comprehensive Income:							
Net Income						53,568	
Fair value of interest rate swap agreement, net of tax of $1,000							
Total comprehensive income							

Shares awarded under stock compensation plans	893	9			9,589		
Issuance of Class A common stock for acquisitions	1,471	15			37,985		
Income tax benefit associated with stock compensation plans					3,780		
Purchase of treasury stock							(2,048)
Balance at June 30, 2002	37,215	$ 372	12,029	$ 121	$394,610	$286,461	$(61,405)

<CAPTION>

<S>	Accumulated Other Comprehensive Loss <C>	Total Stockholders' Equity <C>
Balance at December 31, 2001	$ -	$ 517,261
Comprehensive Income:		
Net Income		53,568
Fair value of interest rate swap agreement, net of tax of $1,000	(1,564)	(1,564)
Total comprehensive income		52,004
Shares awarded under stock compensation plans		9,598
Issuance of Class A common stock for acquisitions		38,000
Income tax benefit associated with stock compensation plans		3,780
Purchase of treasury stock		(2,048)
Balance at June 30, 2002	$ (1,564)	$ 618,595

</TABLE>

See notes to unaudited consolidated financial statements.

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

<TABLE>
<CAPTION>

<S>	Six Months Ended June 30, 2001 <C>	2002 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 35,969	$ 53,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,905	4,292
Deferred income taxes	3,492	69
Equity interest in (earnings) losses of investees	29	(162)
Gain on disposal of assets	(110)	(2,917)
Income tax benefit associated with stock compensation plans	-	3,780
Changes in assets and liabilities that relate to operations:		
Receivables	5,829	(17,010)
Inventories	103,327	(37,810)
Other assets	(1,793)	(3,790)
Notes payable - floor plan	(112,698)	24,339
Trade accounts payable and other liabilities	14,097	31,722
Total adjustments	25,078	2,513
Net cash provided by operating activities	61,047	56,081
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(36,720)	(136,913)
Purchases of property and equipment	(20,879)	(29,805)
Proceeds from sales of property and equipment	4,260	20,381
Proceeds from sale of dealerships	9,624	10,742
Net cash used in investing activities	(43,715)	(135,595)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net borrowings/(repayments) on revolving credit facilities	8,822	(61,403)
Proceeds from long-term debt	319	145,146
Payments on long-term debt	(1,199)	(4,989)
Redemptions of Preferred Stock	(251)	-
Purchases of Class A Common Stock	(17,345)	(2,048)
Issuance of shares under stock compensation plans	4,281	9,598
Net cash (used in)/ provided by financing activities	(5,373)	86,304
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,959	6,790
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,267	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,226	$ 6,790
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 $1,000)	$ -	$ (1,564)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 39,781	$ 26,717
Cash paid for income taxes	$ 5,241	$ 8,979

</TABLE>

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 and six months ended June 30, 2002 and 2001 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. 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.

Principles of Consolidation -- All material intercompany balances and transactions have been eliminated in the consolidated financial statements. In addition, Sonic currently has 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 $0.9 million and $0.1 million, 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, Sonic has 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 $3.0 million was outstanding as of June 30, 2002, and a $0.5 million term loan expiring in 2007. Sonic has guaranteed no other obligations of either company. The investments are accounted for under the equity method whereby Sonic records its share of each respective joint venture's pretax profit or loss. Sonic recorded approximately $0.2 million in net income in the first half of 2002 related to these investments and these amounts are included in other income in the accompanying unaudited income statements.

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

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

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

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

Cash and Cash Equivalents - Sonic considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents. Although not required under the terms of any credit agreement, Sonic's practice has been to apply all of its available cash to reduce the outstanding balance on Sonic's revolving credit facility for the purpose of maximizing the return on these funds and minimizing interest expense.

Receivables, net - Our receivables, net consist primarily of contracts in transit (as described below) and 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 receivables, net is not significant. As of June 30, 2002, we also had outstanding notes receivable from finance contracts of $15.7 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.

Contracts in Transit -- Contracts in transit represent customer finance contracts evidencing loan agreements or lease agreements between Sonic, as creditor, and the customer, as borrower, to acquire or lease a vehicle whereby a third-party finance source has given Sonic initial, non-binding approval to assume Sonic's position as creditor. Funding and final approval from the finance source is provided upon the finance source's review of the loan or lease agreement and related documentation executed by the customer at the dealership. These finance contracts are typically funded within ten days of the initial approval of the finance transaction given by the third-party finance source. The finance source is not contractually obligated to make the loan or lease to the customer until it gives its final approval and funds the transaction, and until such final approval is given, the contracts in transit represent amounts due from the customer to Sonic. Sonic records these contracts in transit in receivables, net. Included in receivables, net are $127.9 million and $121.2 million of such contracts in transit at December 31, 2001 and June 30, 2002, respectively.

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

Sonic assesses the valuation of all of our vehicle and parts inventories and maintains a reserve where the cost basis exceeds the fair market value. In making this assessment for new vehicles, Sonic primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, Sonic considers recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are primarily assessed considering 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.

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 in the accompanying balance sheets. The gain or loss on the effective portion of the hedge is initially reported as a component of other comprehensive loss. (See Note 5).

Goodwill -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. As of June 30, 2002, the carrying amount of goodwill was $885.0 million and represented 39.5% of total assets and 143.1% of total stockholders' equity. As of December 31, 2001, the carrying amount of goodwill was $738.1 million and represented 40.9% of total assets and 142.7% of total stockholders' equity.

Pursuant to the provisions of Statement of Financial Accounting Standards ("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 results of operations for the three and six months ended June 30, 2001 include goodwill amortization expense of $3.4 million and $6.7 million, respectively, net of tax. Diluted net income per share for the three and six months ended June 30, 2001 would have been $0.63 and $1.03, respectively, after the elimination of the tax-effected goodwill amortization.

Long-Term Assets - Sonic reviews the carrying value of long-term assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication is present, Sonic compares the carrying amount of the asset to the estimated undiscounted cash flows related to those assets. Sonic concludes that an asset is impaired if the sum of such expected future cash flows is less than the carrying amount of the related asset. If Sonic determines an asset is impaired, the impairment loss would be the amount by which the carrying amount of the related asset exceeds its fair value. The fair value of the asset would be determined based on the quoted market prices, if available. If quoted market prices are not available, Sonic determines fair value by using a discounted cash flow model.

Floor Plan Assistance - Floor plan assistance payments received from manufacturers are generally based on rates similar to those incurred under our floor plan financing arrangements. This assistance is considered a subsidy of the carrying cost of our new vehicle inventory. Sonic recognizes this assistance as a reduction of cost of sales in the accompanying unaudited consolidated statements of income. Amounts included in cost of sales were $10.6 million and $18.6 million for the three and six months ended June 30, 2002, respectively, and $16.4 million and $22.7 million for the three and six months ended June 30, 2001, respectively.

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 annual actuarial evaluations based on historical claims

experience, adjusted for current trends and changes in claims processing procedures.

Recent Accounting Pronouncements -- Sonic adopted the provisions of SFAS No. 141: Business Combinations effective January 1, 2002. 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 adopted the provisions of SFAS No. 142: Goodwill and Other Intangible Assets effective January 1, 2002. 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 has completed its initial impairment test of goodwill in accordance with the provisions of SFAS No. 142 and has concluded that no impairment of recorded goodwill balances exists as of June 30, 2002.

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. When Sonic disposes of dealerships, the results of operations of those dealerships, along with any gain or loss on disposition, are now required to be reflected in discontinued operations. The adoption of this standard resulted in net income of $0.2 million and $0.9 million being classified as discontinued operations on the unaudited consolidated statements of income for the three month period ended June 30, 2001 and 2002, respectively and $0.3 million and $0.4 million for the six month period ended June 30, 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), uses similar processes in selling its products and services, and sells its 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 contracts in transit (now classified within receivables, net rather than cash and cash equivalents), manufacturer incentives and certain other amounts that have been reclassed from an increase in sales revenues to a reduction in 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 existing 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 our professional management.

On March 25, 2002, Sonic acquired 15 dealerships owned directly or indirectly by Donald E. Massey (the "Massey Acquisition") for approximately $115.7 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 Massey Acquisition, Sonic acquired the following dealerships during the six months ended June 30, 2002 for a combined purchase price of approximately $29.4 million in cash:

- On January 21, 2002, Sonic acquired Park Place Audi located in Dallas, Texas;

- On March 18, 2002, Sonic acquired five dealerships owned by Don Kott located in the metropolitan area of Los Angeles, California and also acquired Philpott Hyundai located in the metropolitan area of Houston, Texas, and also

- On May 20, 2002, Sonic acquired Crest Honda located in Nashville, Tennessee.

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.

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 for the year ended December 31,2001, 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.

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
<S>	<C>	<C>	<C>	<C>
Total revenues	$2,164,441	$1,911,899	$4,197,647	$3,710,642
Gross profit	$ 312,361	$ 293,700	$ 600,370	$ 570,016
Net income	$ 26,195	$ 31,539	$ 38,585	$ 56,580
Diluted net income per share	$ 0.64	$ 0.71	$ 0.94	$ 1.30

</TABLE>

Subsequent to June 30, 2002, Sonic acquired four dealerships for approximately $38.2 million in cash. In addition, Sonic has entered into agreements to acquire three dealerships representing approximately $132 million in additional annual revenues.

Sale of Dealership Subsidiaries

During the first half of 2002, Sonic disposed of nine franchises, resulting in the closing of six dealerships and one collision repair center, and approved, but had not completed the sale of, nine additional franchises, which will result in the closing of six additional dealerships. These were generally smaller dealerships with unprofitable operations. These dealerships disposed of and held for sale generated combined revenues of $61.1 million and $120.2 million in the three and six months ended June 30, 2002, respectively, and $71.6 million and $144.3 million in the three and six months ended June 30, 2001, and generated pre-tax income of $1.3 million and $0.5 million in the three and six months ended June 30, 2002, respectively, and $0.3 million and $0.6 million in the three and six months ended June 30, 2001, respectively. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition have been included in the loss on operations of discontinued dealerships in the accompanying unaudited consolidated statements of income. Assets and liabilities of the

nine franchises being held for sale at June 30, 2002 totaled approximately $30.2 million and $20.6 million, respectively, as of June 30, 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 primarily comprised of inventory, certain property and equipment and goodwill, and liabilities held for sale are comprised of floor plan notes payable. 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 $28.8 million and $63.1 million and incurred pretax losses of $0.7 million and $2.5 million in the three and six months ended June 30, 2001, respectively. The results of operations of these dealerships have been included in income from continuing operations in the accompanying unaudited consolidated statements of income.

In addition, on August 7, 2002, Sonic's Board of Directors approved, but Sonic has not yet completed, the disposition of five additional franchises, which will result in the sale of three dealerships. Assets to be disposed of consist primarily of inventory and, certain property and equipment and totaled approximately $18.7 million as of June 30, 2002. Liabilities to be disposed are comprised of floor plan notes payable totaling approximately $14.5 million at June 30, 2002. The disposal of these assets may take three months or longer to complete.

3. Inventories

Inventories consist of the following:

	(Dollars in Thousands) December 31, 2001	June 30, 2002
New vehicles	$ 478,077	$ 641,156
Used vehicles	111,656	147,577
Parts and accessories	48,705	53,229
Other	25,820	32,803
Total	$ 664,258	$ 874,765

4. Property and Equipment

Property and equipment is comprised of the following:

	(Dollars in Thousands) December 31, 2001	June 30, 2002
Land	$ 10,863	$ 5,908
Building and improvements	34,387	34,661
Office equipment and fixtures	29,492	31,550
Parts and service equipment	21,917	22,527
Company vehicles	7,078	8,353
Construction in progress	16,003	19,388
Total, at cost	119,740	122,387
Less accumulated depreciation	(20,768)	(21,667)
Property and equipment, net	$ 98,972	$ 100,720

In addition to the amounts classified above as construction in progress, approximately $30.6 million at June 30, 2002 and $18.0 million at December 31, 2001 in construction costs on facilities that are expected to be completed and sold within one year in sale-leaseback transaction 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.

Sonic capitalized interest costs related to its construction projects of $0.5 million and $1.0 million for the three and six

months ended June 30, 2002, and capitalized $0.5 million and $0.8 million for the three and six months ended June 30, 2001. These capitalized amounts are a reduction to interest expense and included in the balance of construction in progress.

5. Derivative Financial Instruments

In order to reduce exposure to market risks from fluctuations in interest rates, Sonic entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2002 to effectively convert a portion of its LIBOR-based variable rate debt to fixed rates. The swaps each have a notional

principal amount of $100 million and mature on October 31, 2004 and June 6, 2006, respectively. Under the terms of the swap agreement entered into on January 15, 2002, 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%. Under the terms of the swap agreement entered into on June 6, 2002, 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 4.50%. Incremental interest expense incurred (the difference between interest earned and interest incurred) as a result of this interest rate swap was $0.5 million for the three months ended June 30, 2002, and $0.9 million for the six months ended June 30, 2002 and has been included in interest expense, other in the accompanying unaudited consolidated statements of income.

The interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the interest rate swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders' equity. The fair value of the interest rate swaps as of June 30, 2002, is recorded in other long-term liabilities on the accompanying unaudited balance sheet. The change in fair value of the swap for the six months ended June 30, 2002 was approximately $2.6 million ($1.6 million, net of tax). Because the critical terms of the interest rate swaps and the underlying debt obligations were the same, no ineffectiveness was recorded.

6. Impact of Change in Accounting for Intangible Assets

The following table shows the effect on net income and net income per share for the three and six months ended June 30, 2001, compared to net income and net income per share for the three and six months ended June 30, 2002, as if the provisions of SFAS No. 142 eliminating goodwill amortization had been applied as of January 1, 2001:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Reported net income	$22,486	$31,488	$35,969	$53,568
Goodwill amortization, net of tax	$ 3,384	-	6,657	-
Adjusted net income	$25,870	$31,488	$42,626	$53,568
Basic net income per share:				
Reported net income	$ 0.56	$ 0.74	$ 0.88	$ 1.29
Goodwill amortization, net of tax	$ 0.09	$ -	$ 0.17	$ -
Adjusted net income	$ 0.65	$ 0.74	$ 1.05	$ 1.29
Diluted net income per share:				
Reported net income	$ 0.55	$ 0.71	$ 0.87	$ 1.23
Goodwill amortization, net of tax	$ 0.08	$ -	$ 0.16	$ -
Adjusted net income	$ 0.63	$ 0.71	$ 1.03	$ 1.23

Goodwill amortization from dealerships included in discontinued operations during the six months ended June 30, 2001 was not material.

7. Long-term Debt

Senior Subordinated Notes

At June 30, 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 June 30, 2002. Sonic's obligations under the notes are guaranteed by its operating subsidiaries.

5 1/4% Convertible Senior Subordinated Notes

On May 7, 2002, Sonic issued $149.5 million in aggregate principal amount of 5 1/4% Convertible Senior Subordinated Notes with net proceeds, before expenses, of approximately $145.1 million. The net proceeds were used to repay a portion of the amounts outstanding under Sonic's revolving credit facility. The notes are unsecured obligations that rank equal in right of payment to all of Sonic's 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 is $46.87, and will be 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 is 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.

Subsequent to June 30, 2002, Sonic repurchased $5.5 million in aggregate principal amount of the convertible notes on the open market for approximately $4.1 million.

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 $519.1 million at June 30, 2002). The amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 1.84% at June 30, 2002) and will mature on October 31, 2004 (but may be extended for a number of additional one year terms by 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 $239.0 million as of June 30, 2002. Balances under the Revolving Facility are guaranteed by Sonic's operating subsidiaries.

Sonic agreed under the Revolving Facility not to pledge any of its 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 as of June 30, 2002, include specified ratios of:

Covenant	Required	Actual
Current ratio	**1.23	1.26
Fixed charge coverage	**1.41	1.73
Interest coverage	**2.00	3.88
Adjusted debt to EBITDA	*2.25	1.72

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

* less than
** greater than

all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default under the Revolving Facility. Sonic was in compliance with all restrictive covenants as of June 30, 2002.

The Mortgage Facility

Sonic currently has 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, Sonic's 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 six months of 2002 were approximately $0.7 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of June 30, 2002 was approximately $7.8 million.

Under the Permanent Loan, Sonic 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 June 30, 2002 was approximately $4.0 million.

The Mortgage Facility allows Sonic 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. Sonic was in compliance with all restrictive covenants as of June 30, 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. 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 June 30, 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 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 June 30, 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 37,215,211 shares of Class A common stock issued at December 31, 2001 and June 30, 2002, respectively. Of these issued shares, there were 28,520,474 and 30,799,947 shares outstanding at December 31, 2001 and June 30, 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 June 30, 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 June 30, 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.

In addition to the $100 million authorized above, on August 7, 2002, Sonic's Board of Directors authorized Sonic to expend an additional $25.0 million for Sonic's share repurchase program. As of August 12, 2002, Sonic has repurchased a total of 7,031,264 shares of Class A common stock for $74.1 million.

Warrants - In connection with Sonic's prior year acquisitions, Sonic issued warrants to purchase 242,782 shares of Class A common stock at exercise prices ranging from $6.00 per share to $11.27 per share. The warrants expire on various dates from January 15, 2003 to November 30, 2003. Sonic has recorded the issuance of such warrants at their estimated fair value on the date of issuance. As of December 31, 2001 and June 30, 2002, all but 4,000 of these warrants had been exercised.

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

<TABLE>
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For the Three Months Ended June 30, 2002

		Net Income From Continuing Operations		Net Income 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	42,652	$ 30,612	$ 0.72	$ 876	$ 0.02	$ 31,488	$ 0.74
Effect of Dilutive Securities:							
Stock Compensation Plans	1,882						
Warrants	3						
Diluted Net Income Per Share	44,537	$ 30,612	$ 0.69	$ 876	$ 0.02	$ 31,488	$ 0.71

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For the Three Months Ended June 30, 2001

		Net Income From Continuing Operations		Net Income 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	40,063	$ 22,298	$ 0.56	$ 188	$ 0.00	$ 22,486	$ 0.56
Effect of Dilutive Securities:							
Stock Compensation Plans	962						
Warrants	37						
Convertible Preferred Stock	-						
Diluted Net Income Per Share	41,062	$ 22,298	$ 0.54	$ 188	$ 0.01	$ 22,486	$ 0.55

</TABLE>

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For the Six Months Ended June 30, 2002

		Net Income From Continuing Operations		Net Income 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	41,645	$ 53,177	$ 1.28	$ 391	$ 0.01	$ 53,568	$ 1.29
Effect of Dilutive Securities:							
Stock Compensation Plans	1,908						
Warrants	2						
Diluted Net Income Per Share	43,555	$ 53,177	$ 1.22	$ 391	$ 0.01	$ 53,568	$ 1.23

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For the Six Months Ended June 30, 2001

	Shares	Net Income From Continuing Operations		Net Income From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	40,664	$ 35,628	$ 0.88	$ 341	$ 0.00	$ 35,969	$ 0.88
Effect of Dilutive Securities:							
Stock Compensation Plans	563						
Warrants	27						
Convertible Preferred Stock	12						
Diluted Net Income Per Share	41,266	$ 35,628	$ 0.86	$ 341	$ 0.01	$ 35,969	$ 0.87

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited 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 186 dealership franchises at 136 locations and 43 collision repair centers throughout the United States as of August 12, 2002. We own and operate franchises for 36 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 three and six months ended June 30, 2002 compared to the three and six months ended June 30, 2001:

	Percentage of New Vehicle Revenues for the Three Months Ended June 30,		Percentage of New Vehicle Revenues for the Six Months Ended June 30,	
	2001	2002	2001	2002
Brand (1)				
Ford	20.3%	17.7%	19.4%	18.6%
General Motors (2)	10.8%	22.3%	10.9%	19.1%
Honda	13.5%	12.7%	13.9%	13.2%
Toyota	11.5%	10.3%	11.2%	11.0%
BMW	11.8%	10.5%	11.5%	10.7%
Chrysler (3)	8.3%	6.9%	9.0%	7.1%
Lexus	5.5%	4.5%	5.7%	4.8%
Nissan	4.7%	2.8%	4.9%	3.3%
Other (4)	13.6%	12.3%	13.5%	12.2%
Total	100.0%	100.0%	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, Bentley, Hino Trucks, Hyundai, Infiniti, Isuzu, KIA, Land Rover, Lincoln, Mazda, Mercedes, Mercury, Mitsubishi, Porsche, Rolls Royce, Saab, 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 half 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 63.3% of our selling, general and administrative expenses for the six months ended June 30, 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 (7.8% of selling, general and administrative expenses) and non-salaried sales compensation (50.8% of selling, general and administrative expenses) expenses, so that they are generally related to vehicle sales gross profit and can be adjusted in response to changes in vehicle sales gross profit. 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 are based on net profit at the dealership or regional level, after floor plan interest. As a result, compensation expense as a percentage of reported gross profit may fluctuate based on changes in floor plan interest, which is not included in gross profit.

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 six months ended June 30, 2002, the amounts we received from floor plan assistance exceeded our floor plan interest expense by approximately $6.3 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 June 30, 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:

Receivables, net - Our receivables, net consist primarily of contracts in transit and 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 June 30, 2002, we also had outstanding notes receivable from finance contracts of $15.7 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 primarily assessed considering 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 provide 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.

Long-Term Assets - We review the carrying value of long-term assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication is present, we compare the carrying amount of the asset to the estimated undiscounted cash flows related to that asset. We conclude that an asset is impaired if the sum of such expected future cash flows is less than the carrying amount of the related asset. If we determine an asset is impaired, the impairment loss would be the amount by which the carrying amount of the related asset exceeds its fair value. The fair value of the asset would be determined

based on the quoted market prices, if available. If quoted market prices are not available, we determine fair value by using a discounted cash flow model.

Goodwill -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. As of June 30, 2002, the carrying amount of goodwill was $885.0 million and represented 39.5% of total assets and 143.1% of total stockholders' equity. As of December 31, 2001, the carrying amount of goodwill was $738.1 million and represented 40.9% of total assets and 142.7% of total stockholders' equity.

Pursuant to the provisions of Statement of Financial Accounting Standards ("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 results of operations for the three and six months ended June 30, 2001 include goodwill amortization expense of $3.4 million and $6.7 million, respectively, net of tax. Diluted net income per share for the three and six months ended June 30, 2002 would have been $0.63 and $1.03, respectively, 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 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 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 have completed our initial impairment test of goodwill in accordance with the provisions of SFAS No. 142 and have concluded that no impairment of recorded goodwill balances exist as of June 30, 2002.

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. When Sonic disposes of dealerships, the results of operations of those dealerships are now required to be reflected in discontinued operations. The adoption of this standard resulted in net income of $0.2 million and $0.9 million being classified as discontinued operations on the unaudited consolidated statements of income for the three months ended June 30, 2001 and 2002, respectively and $0.3 million and $0.4 million for the six months ended June 30, 2001 and 2002, respectively.

Results of Operations

The following table summarizes, for the periods presented, the percentages of total revenues represented by certain items reflected in our unaudited consolidated statements of income:

	Percentage of Total Revenues for the Three Months Ended June 30,		Percentage of Total Revenues for the Six Months Ended June 30,	
	2001	2002	2001	2002
Revenues:				
New vehicle revenues	60.09%	59.66%	59.02%	59.62%
Used vehicle revenues (retail)	18.42%	17.65%	18.81%	17.60%
Wholesale vehicle revenues	6.36%	7.36%	7.01%	7.12%
Parts, service and collision repair	11.96%	12.55%	12.20%	12.80%
Finance, insurance and other	3.17%	2.78%	2.96%	2.86%
Total revenues	100.00%	100.00%	100.00%	100.00%
Cost of sales	84.52%	84.63%	84.71%	84.48%
Gross profit	15.48%	15.37%	15.29%	15.52%
Selling, general and administrative expenses	11.49%	11.81%	11.58%	12.07%
Depreciation	0.13%	0.12%	0.12%	0.11%
Goodwill amortization	0.30%	0.00%	0.30%	0.00%
Operating income	3.56%	3.44%	3.29%	3.34%
Interest expense, floorplan	(0.64%)	(0.34%)	(0.72%)	(0.34%)
Interest expense, other	(0.55%)	(0.51%)	(0.61%)	(0.52%)
Other income	0.00%	0.01%	0.00%	0.00%
Income from continuing operations before income taxes	2.37%	2.60%	1.96%	2.48%
Provision for income taxes	(0.92%)	(1.00%)	(0.76%)	(0.94%)
Net income from continuing operations	1.45%	1.60%	1.20%	1.54%
Income from operations of discontinued dealerships	0.02%	0.07%	0.02%	0.02%
Income tax expense	(0.01%)	(0.02%)	(0.01%)	(0.01%)
Net income from discontinued operations	0.01%	0.05%	0.01%	0.01%
Net income	1.46%	1.65%	1.21%	1.55%

During the first half of 2002, Sonic disposed of nine franchises, resulting in the closing of six dealerships, and approved, but had not completed the sale of, nine additional franchises, which will result in the closing of six dealerships. These were generally smaller dealerships with unprofitable operations. These dealerships disposed of and held for sale generated combined

revenues of $61.1 million and $120.2 million in the three and six months ended June 30, 2002, respectively, and $71.6 million and $144.3 million in the three and six months ended June 30, 2001, respectively, and generated pre-tax income of $1.3 million and $0.5 million in the three and six months ended June 30, 2002, respectively, and $0.3 million and $0.6 million in the three and six months ended June 30, 2001, respectively. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition, have been included in the net income from discontinued operations in the accompanying unaudited consolidated statements of income.

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 $28.8 million and $63.1 million for the three and six months ended June 30, 2001, respectively, and incurred pretax losses of $0.7 million and $2.5 million in the three and six months ended June 30, 2001, respectively. Since these were disposed of prior to the adoption of SFAS No. 144 on January 1, 2002, 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 and six months ended June 30, 2002 to the three and six months ended June 30, 2001 more meaningful, we have disregarded the effect on operations of all dealerships disposed, including those sold during the year ended December 31, 2001, which have been included in income from continuing operations, and those sold or designated for sale during the six months ended June 30, 2002, which have been included in income from discontinued operations. The tables below provide information regarding the operations of these dealerships which we disposed of during 2001 and those dealerships still being operated as of June 30, 2002.

Revenues

	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total Revenues (in thousands)								
Same Store	$ 1,459,473	$ 1,497,613	(38,140)	(2.5%)	$ 2,807,866	$ 2,885,056	(77,190)	(2.7%)
Acquisitions	447,955	12,478	435,477	3490.0%	650,423	29,944	620,479	2072.1%
Total Ongoing Dealerships	1,907,428	1,510,091	397,337	26.3%	3,458,289	2,915,000	543,289	18.6%
Disposed in 2001	-	28,840			-	63,113		
Total As Reported	$ 1,907,428	$ 1,538,931	368,497	23.9%	$ 3,458,289	$ 2,978,113	480,176	16.1%

Dealerships acquired resulted in an increase in revenues from ongoing dealerships in all of our primary revenue areas both in the second quarter and first half of 2002 but was offset by a decrease in "same store" revenues (dealerships included in "same store" represent those dealerships which have been owned since April 1, 2001). The decrease in same store revenues was primarily due to our Northern California region and Dallas market, which accounted for $33.0 and $22.8 million, respectively, of the same store revenue decrease for the three months ended June 30, 2002 and $77.1 and $36.1 million, respectively, of the same store revenue decrease for the six months ended June 30, 2002. 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 $18.8 million and $37.0 million for the three and six months ended June 30, 2002, respectively.

New Vehicles

	For the Quarter Ended		Units or $	%	For the Six Months Ended		Units or $	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total New Vehicle Units								
Same Store	32,847	34,272	(1,425)	(4.2%)	62,385	65,195	(2,810)	(4.3%)
Acquisitions	8,374	274	8,100	2956.2%	12,837	413	12,424	3008.2%
Total Ongoing Dealerships	41,221	34,546	6,675	19.3%	75,222	65,608	9,614	14.7%
Disposed in 2001	-	322			-	1,421		
Total As Reported	41,221	34,868	6,353	18.2%	75,222	67,029	8,193	12.2%
Total New Vehicle Revenues (in thousands)								
Same Store	$ 886,076	$ 902,125	(16,049)	(1.8%)	$ 1,690,010	$ 1,715,478	(25,468)	(1.5%)
Acquisitions	251,839	6,306	245,533	3893.6%	371,652	9,511	362,141	3807.6%
Total Ongoing Dealerships	1,137,915	908,431	229,484	25.3%	2,061,662	1,724,989	336,673	19.5%
Disposed in 2001	-	16,314			-	32,706		
Total As Reported	$ 1,137,915	$ 924,745	213,170	23.1%	$ 2,061,662	$ 1,757,695	303,967	17.3%
Total New Vehicle Unit Price								
Same Store	$ 26,976	$ 26,323	653	2.5%	$ 27,090	$ 26,313	777	3.0%
Total Ongoing Dealerships	$ 27,605	$ 26,296	1,309	5.0%	$ 27,408	$ 26,292	1,116	4.2%

Same store unit sales were negatively affected from weaker economic conditions in our Northern California region, evidenced by significantly higher unemployment rates compared to the rest of the country, where same store unit sales declined by 926 units, or 12.5%, in the second quarter of 2002 and by 2,274 units, or 15.4% for the first half of 2002. In addition, similar economic conditions in the Dallas market resulted in same store unit sales declines of 782 units or 19.5% in the second quarter 2002 and by 1,258 units, or 16.8% in the first half of 2002. These decreases were partially offset by significant increases in unit sales in our Southern California region of 231 units or 7.4% for the three months ended June 30, 2002 and 525 units or 8.9% for the six months ended June 30, 2002.

Used Vehicles

	For the Quarter Ended		Units or $	%	For the Six Months Ended		Units or $	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total Used Vehicle Units								
Same Store	16,739	18,905	(2,166)	(11.5%)	33,057	37,102	(4,045)	(10.9%)
Acquisitions	4,850	90	4,760	5288.9%	7,070	399	6,671	1671.9%
Total Ongoing Dealerships	21,589	18,995	2,594	13.7%	40,127	37,501	2,626	7.0%
Disposed in 2001	-	94			-	858		
Total As Reported	21,589	19,089	2,500	13.1%	40,127	38,359	1,768	4.6%
Total Used Vehicle Revenues (in thousands)								
Same Store	$ 251,692	$ 276,300	(24,608)	(8.9%)	$ 490,881	$ 543,821	(52,940)	(9.7%)

Acquisitions	85,037	1,373	83,664	6093.5%	117,639	3,303	114,336	3461.6%
Total Ongoing Dealerships	336,729	277,673	59,056	21.3%	608,520	547,124	61,396	11.2%
Disposed in 2001	-	5,838			-	13,091		
Total As Reported	$ 336,729	$ 283,511	53,218	18.8%	$ 608,520	$ 560,215	48,305	8.6%
Total Used Vehicle Unit Price								
Same Store	$ 15,036	$ 14,615	421	2.9%	$ 14,850	$ 14,657	193	1.3%
Total Ongoing Dealerships	$ 15,597	$ 14,618	979	6.7%	$ 15,165	$ 14,590	575	3.9%

</TABLE>

A significant factor negatively impacting same store unit sales has been a narrowing focus by many of the manufacturers' captive finance companies on underwriting used vehicle sales at only those dealerships selling their brands, as well as a tightening of credit standards by other finance companies which have affected consumers' ability to finance used vehicle purchases and have thus reduced retail activity. Also contributing to the decline in used vehicle sales are competitive pressures from strong manufacturer incentives and rate subsidies on new vehicles.

Wholesale Vehicles

<TABLE>
<CAPTION>

	For the Quarter Ended		Units or $	%	For the Six Months Ended		Units or $	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total Wholesale Vehicle Units								
Same Store	13,975	14,314	(339)	(2.4%)	27,887	28,729	(842)	(2.9%)
Acquisitions	5,032	252	4,780	1896.8%	8,014	633	7,381	1166.0%
Total Ongoing Dealerships	19,007	14,566	4,441	30.5%	35,901	29,362	6,539	22.3%
Disposed in 2001	-	267			-	1,123		
Total As Reported	19,007	14,833	4,174	28.1%	35,901	30,485	5,416	17.8%
Total Wholesale Vehicle Revenues (in thousands)								
Same Store	$ 98,576	$ 92,548	6,028	6.5%	$ 185,933	$ 188,342	(2,409)	(1.3%)
Acquisitions	41,867	2,333	39,534	1694.6%	60,199	13,098	47,101	359.6%
Total Ongoing Dealerships	140,443	94,881	45,562	48.0%	246,132	201,440	44,692	22.2%
Disposed in 2001	-	2,926			-	7,286		
Total As Reported	$ 140,443	$ 97,807	42,636	43.6%	$ 246,132	$ 208,726	37,406	17.9%
Total Wholesale Unit Price								
Same Store	$ 7,054	$ 6,466	588	9.1%	$ 6,667	$ 6,556	111	1.7%
Total Ongoing Dealerships	$ 7,389	$ 6,514	875	13.4%	$ 6,856	$ 6,861	(5)	(0.1%)

</TABLE>

The increase in same store wholesale vehicle revenues is due primarily to an increase in average price per unit compared to the prior year period. The decline in same store wholesale vehicle revenues during the first half of 2002 compared to the same period last year was due to a decline in units sold, particularly in our Northern California region.

Fixed Operations

	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total Fixed Operations (in thousands)								
Same Store	$ 181,410	$ 179,402	2,008	1.1%	$ 359,862	$ 352,180	7,682	2.2%
Acquisitions	57,908	1,490	56,418	3786.4%	82,803	2,450	80,353	3279.7%
Total Ongoing Dealerships	239,318	180,892	58,426	32.3%	442,665	354,630	88,035	24.8%
Disposed in 2001	-	3,239			-	8,740		
Total As Reported	$ 239,318	$ 184,131	55,187	30.0%	$ 442,665	$ 363,370	79,295	21.8%

Same store parts, service and collision repair revenues (fixed operations) increased for the second quarter 2002 and in the first half of 2002 over the same periods last year, 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 $1.0 million or 17.5%, and $2.6 million or 21.0% for the three and six months end June 30, 2002, respectively, compared to the same periods in last year.

Finance and Insurance

	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total Finance & Insurance Revenue (in thousands)								
Same Store	$ 41,719	$ 47,237	(5,518)	(11.7%)	$ 81,181	$ 85,235	(4,054)	(4.8%)
Acquisitions	11,304	977	10,327	1057.0%	18,129	1,582	16,547	1046.0%
Total Ongoing Dealerships	53,023	48,214	4,809	10.0%	99,310	86,817	12,493	14.4%
Disposed in 2001	-	523			-	1,290		
Total As Reported	$ 53,023	$ 48,737	4,286	8.8%	$ 99,310	$ 88,107	11,203	12.7%
Total F&I per Unit								
Same Store	$ 841	$ 888	(47)	(5.3%)	$ 851	$ 833	18	2.2%
Total Ongoing Dealerships	$ 844	$ 901	(57)	(6.3%)	$ 861	$ 842	19	2.3%

Same store finance and insurance revenues were negatively impacted by the decline in retail vehicle unit sales in our Northern California, Dallas and Houston regions, due primarily to weak economic conditions. Finance and insurance revenues in these markets

declined $3.9 million or 18.6% and $4.2 million or 11.1%, for the second quarter 2002 and the first half 2002, respectively, compared to the same periods last year.

Gross profit and gross margin

	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total Gross Profit (in thousands)								
Same Store	$ 219,727	$ 223,787	(4,060)	(1.8%)	$ 428,455	$ 429,815	(1,360)	(0.3%)
Acquisitions	73,375	11,505	61,870	537.8%	108,424	17,971	90,453	503.3%
Total Ongoing Dealerships	293,102	235,292	57,810	24.6%	536,879	447,786	89,093	19.9%
Disposed in 2001	-	2,909			-	7,658		
Total As Reported	$ 293,102	$ 238,201	54,901	23.0%	$ 536,879	$ 455,444	81,435	17.9%

Ongoing dealership gross profit as a percentage of related revenues ("gross margin") for the three months ended June 30, 2002 decreased to 15.4% from 15.6% primarily due to a decrease in the percentage of revenues contributed by finance and insurance products, which earn higher margins than vehicle sales. Finance and insurance revenues as a percentage of total revenues decreased to 2.8% in the second quarter of 2002 from 3.2% in the second quarter of 2001. This was partially offset by an increase in parts, service and collision repair revenues as a percentage of total revenues to 12.5% in the second quarter of 2002 from 12.0% in the second quarter of 2001.

Ongoing dealership gross margin for the six months ended June 30, 2002 increased to 15.5% from 15.4% for the first half of 2002, due primarily to an increase in the percentage of revenues contributed by parts, service, and collision repair services and products. Parts, service, and collision repair revenues as a percentage of total revenues increased to 12.8% in the first half of 2002 from 12.2% in the first half of 2001. Finance and insurance revenues as a percentage of total revenues remained relatively flat for the first half of 2002 compared to the same period last year. In addition, our parts, service, and collision repair and finance and insurance products from ongoing dealerships contributed 57.6% of the total gross profit in the first half of 2002 from 55.8% in the first half of 2001.

Selling, general and administrative expenses

	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total SG&A (in thousands)								
Same Store	$ 167,955	$ 162,961	4,994	3.1%	$ 328,776	$ 318,133	10,643	3.3%
Acquisitions	57,362	10,057	47,305	470.4%	88,494	17,145	71,349	416.2%
Total Ongoing Dealerships	225,317	173,018	52,299	30.2%	417,270	335,278	81,992	24.5%
Disposed in 2001	-	3,796			-	9,729		
Total As Reported	$ 225,317	$ 176,814	48,503	27.4%	$ 417,270	$ 345,007	72,263	20.9%

Total selling, general, and administrative expenses from ongoing dealerships as a percentage of gross profit increased to 76.9% in the second quarter of 2002 from 73.5% in the second quarter of 2001, and to 77.7% in the first half of 2002 from 74.9% in the first half of 2001. Of our selling, general and administrative expenses from ongoing dealerships, approximately 64.0% in the second quarter of 2002 and 63.3% in the first half of 2002 were variable, comprised primarily of non-salaried sales compensation and advertising, and

approximately 36.0% in the second quarter of 2002 and 36.7% in the first half of 2002 were fixed, comprised primarily of fixed compensation and rent expense.

Variable selling, general and administrative expenses are generally tied to vehicle gross profits 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 49.2% in the second quarter of 2002 from 46.6% in the second quarter of 2001, and to 49.2% in the first half of 2002 from 47.5% in the first half of 2001. This is primarily due to increases in compensation expense as a percentage of gross profits to 39.0% in the second quarter of 2002 from 37.4% in the second quarter of 2001 and to 39.5% in the first half of 2002, from 38.2% in the first half of 2001. However, as discussed in our "Overview", many of our compensation plans are based on net profit at the dealership or regional level, after floor plan interest, and, as a result, compensation expense as a percentage of reported gross profits is subject to significant fluctuations based on changes in floor plan interest expense. Therefore, due to the decrease in floor plan interest expense, 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 only increased moderately to 78.6% in the second quarter of 2002 from 76.7% in second quarter of 2001, and slightly increased to 79.5% in the first half of 2002 from 79.4% for the first half of 2001.

Variable expenses from ongoing dealerships also increased due to an increase in advertising expense. As a percentage of gross profits, advertising expense increased to 6.4% in the second quarter of 2002 from 5.2% in the second quarter of 2001, and to 6.1% in the first half of 2002 from 5.3% in the first half of 2001. This resulted from a concious and determined effort to increase advertising spending in an effort to increase traffic into our dealerships.

Fixed expenses from ongoing dealerships increased as a percentage of gross profits to 27.7% in the second quarter of 2002 from 26.9% in the first quarter of 2001, and 28.5% in the first half of 2002 from 27.3% in the first half of 2001. This was primarily the result of significant investments in human resources and infrastructure in advance of our recent acquisitions, including the Massey acquisition, 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 second quarter of 2002 and the first half of 2002 as compared to the same periods last year.

Depreciation and amortization

<TABLE>
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	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Total Depreciation (in thousands)								
Same Store	$ 1,479	$ 1,698	(219)	(12.9%)	$ 3,054	$ 3,062	(8)	(0.3%)
Acquisitions	725	148	577	389.9%	1,121	295	826	280.0%
Total Ongoing Dealerships	2,204	1,846	358	19.4%	4,175	3,357	818	24.4%
Disposed in 2001	-	106			-	198		
Total As Reported	$ 2,204	$ 1,952	252	12.9%	$ 4,175	$ 3,555	620	17.4%

</TABLE>

During the last 12 months ending June 30, 2002, the balance of gross property and equipment, excluding land and construction in process, increased approximately $18.6 million, or 22.7%, of which approximately $12.6 million resulted from additional capital expenditures and approximately $10.0 million from dealership acquisitions; partially offset by $4.0 million of disposals and other adjustments. As a percentage of total revenues, depreciation expense was

0.1% in both the second quarter and first half of 2002 and 2001.

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

Floor plan interest expense

	For the Quarter Ended		$	%	For the Six Months Ended		$	%
	6/30/2002	6/30/2001	Change	Change	6/30/2002	6/30/2001	Change	Change
Interest Expense, floor plan (in thousands)								
Total Ongoing Dealerships	$ (6,543)	$ (9,694)	3,151	(32.5%)	$ (11,849)	$ (20,791)	8,942	(43.0%)
Disposed in 2001	-	(216)			-	(608)		
Total As Reported	$ (6,543)	$ (9,910)	3,367	(34.0%)	$ (11,849)	$ (21,399)	9,550	(44.6%)

As a percentage of total revenues, floor plan interest expense from ongoing dealerships decreased to 0.3% in the second quarter of 2002 from 0.6% in the second quarter of 2001, and 0.3% in the first half of 2002 from 0.7% in the first half of 2001. The change reflects a same store decrease of $4.7 million and $11.5 million, offset by increases due to acquisitions of $1.5 million and $2.6 million for the three and six months ended June 30, 2002, respectively. Of the same store decrease, $3.5 million and $8.3 million for the three and six months ended June 30, 2002, respectively, was due to a decrease in the average floor plan interest rate to 3.7% in the second quarter of 2002 from 6.5% in the second quarter of 2001, and 3.7% in the first half of 2002 from 7.1% in the first half of 2001. The remainder of the same store decrease was due to a decrease in the average floor plan liability to $516.7 million in the second quarter of

2002 from $588.8 million in the second quarter of 2001 and $500.2 million in the first half of 2002 from $592.8 million in the first half of 2001.

Other interest expense

Other interest expense increased $1.2 million, or 14.8%, during the second quarter of 2002 compared to the same period last year, but slightly decreased $0.3 million, or 1.8%, during the first half of 2002 compared to the same period last year.

During the three months ended June 30, 2002, this increase in interest expense, other was primarily due to $3.5 million in interest incurred on an additional $75.0 million of 11% Senior Subordinated Notes due 2008 issued in November 2001 and on $149.5 million of 5 1/4% Convertible Senior Subordinated Notes issued in May 2002. This increase was offset partially by lower interest expense on our Revolving Credit Facility (the "Revolving Facility") with Ford Motor Credit Company, Chrysler Financial Company, LLC and Toyota Motor Credit Corporation, of approximately $2.9 million. Of the decrease in interest incurred under our Revolving Facility, approximately $2.1 million was due to a decrease in the average interest rate from 7.1% to 4.7%, and approximately $0.8 million was due to a decrease in the average outstanding balance resulting from the refinancing of a portion of our Revolving Facility using proceeds from the issuance of an additional $75.0 million in 11% Senior Subordinated Notes and $149.5 million of 5 1/4% Convertible Senior Subordinated Notes, offset partially by cash used in acquisition activities. This decrease, however, was offset by the effective conversion of $200.0 million of our variable rate debt to a fixed rate through two separate $100.0 million interest rate swap agreements entered into on January 15, 2002 and June 6, 2002, whereby we receive interest payments based on a variable rate of LIBOR and make interest payments at a fixed rates of 3.88% and 4.50%, respectively, resulting in an additional $0.5 million in interest expense in the three months ended June 30, 2002.

During the six months ended June 30, 2002, this slight decrease in interest expense, other was due to lower interest expense on our Revolving Facility of

approximately $7.4 million. Of the decrease in interest incurred under our Revolving Facility, approximately $5.7 million was due to a decrease in the average interest rate to 4.6% from 7.8%, and approximately $1.6 million was due to a decrease in the average outstanding balance resulting from the refinancing of a portion of our Revolving Facility using proceeds from the issuance of an additional $75.0 million in 11% Senior Subordinated Notes and $149.5 million of 5 1/4% Convertible Senior Subordinated Notes, offset partially by cash used in acquisition activities. This decrease, however, was offset by an additional $0.9 million in interest expense related to the interest rate swaps discussed above. This decrease was also offset by $5.7 million in interest incurred on the 11% Senior Subordinated Notes and 5 1/4% Convertible Senior Subordinated Notes discussed above.

Provision for income taxes

Our effective income tax rate decreased to 38.2% in the second quarter of 2002 from 39.0% in the second quarter of 2001, and to 38.1% in the first half of 2002 from 39.0% in the first half of 2001, primarily as a result of the elimination of goodwill amortization. The effect of the lower effective tax rate was offset by higher pre-tax income in the 2002 periods.

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. Although not required under the terms of any credit agreement, our practice has been to apply all of our available cash to reduce the outstanding balance on our revolving credit facility for the purpose of maximizing the return on these funds and minimizing interest expense.

Contracts in Transit:

Contracts in transit represent customer finance contracts evidencing loan agreements or lease agreements between Sonic, as creditor, and the customer, as borrower, to acquire or lease a vehicle whereby a third-party finance source has given Sonic initial, non-binding approval to assume Sonic's position as creditor. Funding and final approval from the finance source is provided upon the finance source's review of the loan or lease agreement and related documentation executed by the customer at the dealership. These finance contracts are typically funded within ten days of the initial approval of the finance transaction given by the third-party finance source. The finance source is not contractually obligated to make the loan or lease to the customer until it gives its final approval and funds the transaction, and until such final approval is given, the contracts in transit represent amounts due from the customer to Sonic. Based on our experience, there is minimal risk of these contracts in transit not being approved and funded by the initial finance source. In rare instances where the pre-approving initial finance source does not give final approval of the loan or lease agreement, we are typically able to arrange for financing through another third-party finance source. In addition, as discussed previously, contracts in transit are typically funded within ten days after the initial approval given by the finance source. As a result, we do not believe that contracts in transit have any meaningful impact on our company's liquidity.

Floor Plan Facilities:

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

Lender	2002 Availability	Outstanding Balance June 30, 2002	Outstanding Balance December 31, 2001
Chrysler Financial Company, LLC ("Chrysler Financial")	$750 million	$181.0 million	$142.6 million
General Motors Acceptance Corporation ("GMAC")	$290 million	$160.0 million	$51.7 million
Ford Motor Credit Company ("Ford Motor Credit")	$650 million	$419.3 million	$377.2

million

Toyota Motor Credit Corporation ("Toyota Credit")	$100 million	$32.9 million	$16.4 million

</TABLE>

Amounts outstanding under the Chrysler Financial and Toyota Credit floor plan facilities bear interest at 1.25 percentage points above LIBOR (LIBOR was 1.84% at June 30, 2002). Amounts outstanding under the GMAC floor plan facility bear interest of 1.75 percentage points above LIBOR, subject to certain incentives and other adjustments, and amounts outstanding under the Ford Motor Credit floor plan facility bear interest at the prime rate (prime rate was 4.75% at June 30, 2002), also subject to certain incentives and other adjustments. The weighted average interest rate for our floor plan facilities was 6.53% and 3.45% for the three months ended June 30, 2001 and 2002, respectively, and 7.09% and 3.60% for the six months ended June 30, 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 half of 2002 we received approximately $18.6 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 generally 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 June 30, 2002.

Credit Facilities:

The Convertible Senior Subordinated Notes Due 2009: On May 7, 2002, we issued $149.5 million in aggregate principal amount of 5 1/4% convertible senior subordinated notes with net proceeds, before expenses, of approximately $145.0 million. The net proceeds were used to repay a portion of the amounts outstanding under our Revolving Facility. The notes are unsecured obligations that rank equal in right of payment to all of Sonic's 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 is $46.87, which is subject to adjustment for certain distributions on, 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 is 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.

Subsequent to June 30, 2002, we repurchased $5.5 million in aggregate principal amount of the convertible notes on the open market for approximately $4.1 million.

The Revolving Facility: Sonic's Revolving Facility has 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 $519.1 million at June 30, 2002). The amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 1.84% at June 30, 2002) and will mature on October 31, 2004 (but may be extended for a number of additional one year terms by 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 $239.0

million as of June 30, 2002. 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 as of June 30, 2002 on the Revolving Facility are as follows:

Covenant	Required	Actual
Current ratio	**1.23	1.26
Fixed charge coverage	**1.41	1.73
Interest coverage	**2.00	3.88
Adjusted debt to EBITDA	*2.25	1.72

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 June 30, 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 six months of 2002 were approximately $0.7 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of June 30, 2002 was approximately $7.8 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 June 30, 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 were in compliance with all restrictive covenants as of June 30, 2002.

The Senior Subordinated Notes Due 2008: 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

*   less than
** greater than

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 June 30, 2002.

Dealership acquisitions:

During the first half of 2002, we acquired 23 dealerships for a combined purchase price of $145.0 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 total purchase price for all of the above acquisitions was based on our internally determined valuation of the dealerships and their assets. The cash portion of the purchase price was financed by cash generated from our existing operations and by borrowings under our Revolving Facility.

Subsequent to June 30, 2002, we acquired four dealerships for approximately $38.2 million in cash.

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 $3.0 million was outstanding as of June 30, 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 $0.2 million in net income in the first half 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 half of 2002 we sold $12.6 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 half of 2002 were approximately $29.8 million, of which approximately $23.5 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. As of June 30, 2002, total construction in progress was approximately $19.4 million. In addition, approximately $37.3 million related to construction costs on facilities and associated land, 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 June 30, 2002. We do not expect any significant gains or losses from these sales. Through August 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 June 30, 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.

In addition to the $100 million authorized above, on August 7, 2002, Sonic's Board of Directors authorized Sonic to expend an additional $25.0 million for Sonic's share repurchase program. As of August 12, 2002, Sonic has repurchased a total of 7,031,264 shares of Class A common stock for approximately $74.1 million.

Cash Flows:

For the six months ended June 30, 2002, net cash provided by operating activities was approximately $56.1 million, which was generated primarily by net income plus non-cash items such as depreciation, amortization and deferred income taxes. Increases in inventory and accounts receivable balances of $54.8 million in total were offset by increases in notes payable-floor plan and other liabilities of $56.1 million in total.

Cash used for investing activities in the six months ended June 30, 2002 was approximately $135.6 million, the majority of which was related to dealership acquisitions. Our other principal investing activities include capital expenditures and dealership dispositions.

In the six months ended June 30, 2002, net cash provided by financing activities was approximately $86.3 million and primarily related to $145.0 million of proceeds received from the issuance of 5 1/4% Convertible Senior Subordinated Notes. Proceeds received were used to repay a portion of the amounts outstanding under our senior revolving credit facility.

Future Liquidity Outlook:

We believe our best source of liquidity for future growth remains our cash flows generated from operations. Combined with our availability of borrowings under our floor plan financing (or any replacements thereof) and other credit arrangements, we expect to generate more than sufficient cash flow 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. Once these needs are met, we may use remaining cash flow to support our acquisition strategy or repurchase publicly traded debt securities, as market conditions warrant.

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 variable instruments after considering the effect of our interest rate swaps (see below) was approximately $854.2 million at June 30, 2002 and approximately $1.0 billion at June 30, 2001. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately $3.9 million in the first half of 2002 and approximately $5.2 million in the first half of 2001. Of the total change in interest expense, approximately $3.3 million in both the first half of 2002 and 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 June 30, 2002, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately $3.9 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 $3.0 million in the first half of 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 $1.3 million in the first half of 2002 and $1.1 million in the first half of 2001.

In order to reduce our exposure to market risks from fluctuations in interest rates, we entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2000 to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The swaps each have a notional principal amount of $100 million and mature on October 31, 2004 and June 6, 2006, respectively. Under the terms of the swap agreement entered into on January 15, 2002, we receive interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 3.88%. Under the terms of the swap agreement entered into on June 6, 2002, we receive interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 4.50%. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of these interest rate swaps was $0.5 million and $0.9 million for the three and six months ended June 30, 2002, respectively, and has been included in interest expense, other in the accompanying unaudited consolidated statements of income.

The interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the interest rate swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders' equity. The fair value of the interest rate swaps as of June 30, 2002, recorded in other long-term liabilities on the accompanying unaudited balance sheet, and the amount of the related hedging loss deferred and recorded in accumulated other comprehensive loss for the six months ended June 30, 2002 was approximately $2.6 million ($1.6 million net of tax). Because the critical terms of the interest rate swaps 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.

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

At the annual meeting of stockholders held on May 8, 2002, Thomas A. Price, Theodore M. Wright, H. Robert Heller and Robert L. Rewey were elected directors by Sonic's stockholders. Directors whose terms of office continued after the meeting were O. Bruton Smith, B. Scott Smith, Jeffrey C. Rachor, William R. Brooks, William P. Benton, William I. Belk, Maryann N. Keller and Thomas P. Capo. In addition to the election of four directors, the stockholders approved the following:

- An amendment to the Sonic Automotive, Inc. 1997 Stock Option Plan (the "Stock Option Plan") to increase the number of shares of Class A Common Stock that may be issued pursuant to the Stock Option Plan from 6,000,000 to 8,000,000.

- An amendment to the Sonic Automotive, Inc. Employee Stock Purchase Plan (the "Employee Plan") to increase the number of shares of Class A Common Stock that may be issued pursuant to the Employee Plan from 1,800,000 to 3,000,000.

- The adoption of the Sonic Automotive, Inc. Incentive Compensation Plan (the "Incentive Plan").

- Ratification of the appointment of Deloitte & Touche LLP as Sonic's independent public auditors for the fiscal year ending December 31, 2002.

<TABLE>
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	Votes For	Votes Withheld	Broker Non-Votes
<S>	<C>	<C>	<C>
Election of Thomas A. Price	143,794,602	938,349	0
Election of Theodore M. Wright	142,017,489	2,715,462	0
Election of H. Robert Heller	143,921,475	811,476	0
Election of Robert L. Rewey	143,918,362	814,589	0

<CAPTION>

	Votes For	Votes Against	Votes Abstained	Broker Non-Votes
<S>	<C>	<C>	<C>	<C>

Approval of Amendment to Stock Option Plan	129,842,045	10,620,501	602,234	3,668,171
Approval of Amendment to Employee Plan	139,194,077	1,271,362	599,341	3,668,171
Approval of Incentive Plan	140,153,427	311,489	599,864	3,668,171
Ratification of Deloitte & Touche as independent public auditors	144,297,901	413,964	21,086	0

</TABLE>

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:

4.1 Supplemental Indenture by and among Sonic and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to Sonic's Amendment to Current Report on Form 8-K filed on May 6, 2002)

4.2 Form of 5-1/4% Convertible Senior Subordinated Note due 2009 (incorporated by reference to Exhibit 4.2 to Sonic's Amendment to Current Report on Form 8-K filed on May 6, 2002)

4.3 Subordination Agreement dated as of May 7, 2002 between O. Bruton Smith and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to Sonic's Amendment to Current Report on Form 8-K filed on May 6, 2002)

99.1 Risk Factors

99.2 Certification of Mr. Theodore M. Wright pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.3 Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On April 15, 2002, we filed a Current Report on Form 8-K announcing that we had acquired substantially all of the Don Massey Dealerships.

On May 3, 2002, we filed a Current Report on Form 8-K announcing our intent to sell up to $149.5 million of 5 1/4% Convertible Senior Subordinated Notes due 2009.

On May 6, 2002, we filed an amendment to our Current Report on Form 8-K, which was originally filed on May 3, 2002, to include the purchase agreement, form of supplemental indenture, form of 5 1/4% Convertible Senior Subordinated Note due 2009 and form of subordination agreement related to our offer to sell up to $149.5 million on 5 1/4% Convertible Senior Subordinated Notes due 2009.

On June 13, 2002, we filed an amendment to our Current Report on Form 8-K, which was originally filed on April 15, 2002, announcing that we had determined that the acquisition of substantially all of the Don Massey Dealerships did not meet the conditions specified by Regulation S-X that would require the filing of pro forma financial information regarding the businesses acquired.

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES

SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: August 14, 2002 By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

Date: August 14, 2002 By: /s/ Theodore M. Wright

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

Exhibit 99.1

RISK FACTORS

RISKS RELATED TO OUR INDEBTEDNESS

OUR SIGNIFICANT INDEBTEDNESS COULD MATERIALLY ADVERSELY AFFECT OUR FINANCIAL HEALTH, LIMIT OUR ABILITY TO FINANCE FUTURE ACQUISITIONS AND CAPITAL EXPENDITURES AND PREVENT US FROM FULFILLING OUR FINANCIAL OBLIGATIONS.

As of June 30, 2002, our total outstanding indebtedness was approximately $1,390.6 million, including the following:

- $239.0 million under a revolving credit facility;
- $793.2 million under standardized secured inventory floor plan facilities;
- $145.1 million in 5 1/4% convertible senior subordinated notes due 2009 representing $149.5 million in aggregate principal amount less unamortized discount of approximately $4.4 million;
- $195.9 million in 11% senior subordinated notes due 2008 representing $200.0 million in aggregate principal amount less unamortized discount of approximately $4.1 million; and
- $17.4 million of other secured debt, including $11.8 million under a revolving real estate acquisition and new dealership construction line of credit and a related mortgage refinancing facility.

As of June 30, 2002, we had approximately $280.1 million available for additional borrowings under the revolving credit facility. We also had approximately $42.2 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 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.

AN ACCELERATION OF OUR OBLIGATION TO REPAY ALL OF OUR OUTSTANDING INDEBTEDNESS WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

Our revolving credit facility, floor plan facilities and the indenture governing our senior subordinated notes contain numerous financial and operating covenants. A breach of any of these covenants could result in a default under the applicable agreement or indenture. If a default were to occur, we may be unable to adequately finance our operations and the value of our common stock would be materially adversely affected. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures, including the indenture governing our outstanding convertible senior subordinated notes, under the cross default provisions in those agreements or indentures. If a cross default were to occur, we may not be able to pay our debts or borrow

sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

OUR ABILITY TO MAKE INTEREST AND PRINCIPAL PAYMENTS WHEN DUE TO HOLDERS OF OUR DEBT SECURITIES DEPENDS UPON THE RECEIPT OF SUFFICIENT FUNDS FROM OUR SUBSIDIARIES.

Substantially all of our consolidated assets are held by our subsidiaries and substantially all of our consolidated cash flow and net income are generated by our subsidiaries. Accordingly, our cash flow and ability to service debt depends to a substantial degree on the results of operations of subsidiaries and upon the ability of our subsidiaries to provide us with cash. We may receive cash from our subsidiaries in the form of dividends, loans or otherwise. We may use this cash to service our debt obligations or for working capital. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to distribute cash to us or to make funds available to service debt. In addition, the ability of our subsidiaries to pay dividends or make loans to us are subject to contractual limitations under the floor plan facilities, minimum net capital requirements under dealership agreements and laws of the state in which a subsidiary is organized and depend to a significant degree on the results of operations of our subsidiaries and other business considerations.

RISKS RELATED TO OUR RELATIONSHIPS WITH VEHICLE MANUFACTURERS

OUR OPERATIONS MAY BE ADVERSELY AFFECTED IF ONE OR MORE OF OUR MANUFACTURER FRANCHISE AGREEMENTS IS TERMINATED OR NOT RENEWED.

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

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

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

OUR SALES VOLUME AND PROFIT MARGIN ON EACH SALE MAY BE MATERIALLY AND ADVERSELY AFFECTED IF MANUFACTURERS DISCONTINUE OR CHANGE THEIR INCENTIVE PROGRAMS.

Our dealerships depend on the manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support dealership new vehicle sales.

Manufacturers routinely modify their incentive programs in response to changing market conditions.

Some of the key incentive programs include:

- customer rebates or below market financing on new vehicles;
- dealer incentives on new vehicles;
- warranties on new and used vehicles; and
- sponsorship of used vehicle sales by authorized new vehicle dealers.

A reduction or discontinuation of a manufacturer's incentive programs may materially adversely affect our profitability.

WE DEPEND ON MANUFACTURERS TO SUPPLY US WITH SUFFICIENT NUMBERS OF POPULAR AND PROFITABLE NEW MODELS.

Manufacturers typically allocate their vehicles among dealerships based on the sales history of each dealership. Supplies of popular new vehicles may be

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

ADVERSE CONDITIONS AFFECTING ONE OR MORE KEY MANUFACTURERS MAY NEGATIVELY IMPACT OUR PROFITABILITY.

Approximately 87.7% of our new vehicle revenue (based on new vehicle revenue for the three months ended June 30, 2002) is derived from the sale of new vehicles manufactured by Ford, Honda, Chrysler, General Motors, BMW, Toyota, Nissan and Lexus. Our success depends to a great extent on these manufacturers':

- financial condition;
- marketing;
- vehicle design;
- publicity concerning a particular manufacturer or vehicle model;
- production capabilities;
- management; and
- labor relations.

Adverse conditions affecting these and other important aspects of manufacturers' operations and public relations may adversely affect our ability to sell their automobiles and, as a result, significantly and detrimentally affect our profitability.

MANUFACTURER STOCK OWNERSHIP RESTRICTIONS MAY IMPAIR OUR ABILITY TO MAINTAIN OR RENEW FRANCHISE AGREEMENTS OR ISSUE ADDITIONAL EQUITY.

Some of our franchise agreements prohibit transfers of any ownership interests of a dealership and, in some cases, its parent. A number of manufacturers impose restrictions on the transferability of our Class A common stock and our ability to maintain franchises if a person acquires a significant percentage of the voting power of our common stock. Our existing franchise agreements could be terminated if a person or entity acquires a substantial ownership interest in us or acquires voting power above certain levels without the applicable manufacturer's approval. Violations of these levels by an investor are generally outside of our control and may result in the termination or non-renewal of existing franchise agreements or impair our ability to negotiate new franchise agreements for dealerships we acquire. In addition, if we cannot obtain any requisite approvals on a timely basis, we may not be able to issue additional equity or otherwise raise capital on terms acceptable to us. These restrictions may also prevent or deter a prospective acquiror from acquiring control of us. This could adversely affect the market price of our Class A common stock.

The current holders of Sonic's Class B common stock maintain voting control over Sonic. However, we are unable to prevent our stockholders from transferring shares of our common stock, including transfers by holders of the Class B common stock. If such transfer results in a change in control of Sonic, it could result in the termination or non-renewal of one or more of our existing franchise agreements, the triggering of provisions in our agreements with certain manufacturers requiring us to sell our dealerships franchised with such manufacturers, and/or a default under our credit arrangements.

MANUFACTURERS' RESTRICTIONS ON ACQUISITIONS COULD LIMIT OUR FUTURE GROWTH.

We are required to obtain the approval of the applicable manufacturer before we can acquire an additional dealership franchise of that manufacturer. In determining whether to approve an acquisition, manufacturers may consider many factors such as our financial condition and manufacturer-determined consumer satisfaction index, or "CSI" scores. Obtaining manufacturer approval of acquisitions also takes a significant amount of time, typically three to five months. We cannot assure you that manufacturers will approve future acquisitions or do so on a timely basis, which could impair the execution of our growth strategy.

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

A manufacturer may condition approval of an acquisition on the

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

OUR FAILURE TO MEET A MANUFACTURER'S CONSUMER SATISFACTION, FINANCIAL AND SALES PERFORMANCE 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 generally known as "CSI" scores. The components of CSI vary from manufacturer to manufacturer and are modified periodically. Franchise agreements also may impose financial and sales performance standards. Under our agreements with certain manufacturers, a dealership's CSI scores and financial performance may be considered a factor in evaluating applications for additional dealership acquisitions. From time to time, some of our dealerships have had difficulty meeting various manufacturers' CSI requirements or performance standards. We cannot assure you that our dealerships will be able to comply with these requirements in the future. A manufacturer may refuse to consent to an acquisition of one of its franchises if it determines our dealerships do not comply with its CSI requirements or performance standards, which could impair the execution of our growth strategy. In addition, we receive incentive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

RISKS RELATED TO OUR ACQUISITION STRATEGY

FAILURE TO EFFECTIVELY INTEGRATE ACQUIRED DEALERSHIPS WITH OUR EXISTING OPERATIONS COULD ADVERSELY AFFECT OUR FUTURE OPERATING RESULTS.

Our future operating results depend on our ability to integrate the operations of recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to integrate our management information systems, procedures and organizational structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 72 dealerships in 1999, 11 in 2000, 12 in 2001 and 27 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.

WE MAY NOT ADEQUATELY ANTICIPATE ALL OF THE DEMANDS THAT GROWTH THROUGH ACQUISITIONS WILL IMPOSE.

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

- incurring significantly higher capital expenditures and operating expenses;

- failing to assimilate the operations and personnel of acquired dealerships;

- entering new markets with which we are unfamiliar;

- potential undiscovered liabilities and operational difficulties at acquired dealerships;

- disrupting our ongoing business;

- diverting our 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;

- increased expenses for accounting and computer systems, as well as integration difficulties;

- failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises or renew the franchise agreement on terms acceptable to us; and

- incorrectly valuing entities to be acquired.

We may not adequately anticipate all of the demands that growth will impose on our systems, procedures and structures.

WE MAY NOT BE ABLE TO CAPITALIZE ON ACQUISITION OPPORTUNITIES BECAUSE OUR FINANCIAL RESOURCES AVAILABLE FOR ACQUISITIONS ARE LIMITED.

We intend to finance our acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements. We may not be able to obtain additional financing by issuing stock or debt securities due to the market price of our Class A common stock, overall market conditions or the need for manufacturer consent to the issuance of equity securities. Using cash to complete acquisitions could substantially limit our operating or financial flexibility. If we are unable to obtain financing on acceptable terms, we may be required to reduce the scope of our presently anticipated expansion, which could materially adversely affect our overall growth strategy.

In addition, we are dependent to a significant extent on our ability to finance our new vehicle inventory with "floor plan financing." Floor plan financing arrangements allow us to borrow money to buy a particular vehicle from the manufacturer and pay off the loan when we sell that particular vehicle. We must obtain new floor plan financing or obtain consents to assume existing floor plan financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure our floor plan indebtedness and the indebtedness under the revolving credit 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. Moreover, because Ford Motor Credit is associated with Ford Motor Company, any deterioration of our relationship with one could adversely affect our relationship with the other. The same is true of our relationships with Chrysler, GM and Toyota and the floor plan financing divisions of each of these manufacturers.

WE MAY NOT BE ABLE TO CONTINUE EXECUTING OUR ACQUISITION STRATEGY WITHOUT THE COSTS OF FUTURE ACQUISITIONS ESCALATING.

We have grown our business primarily through acquisitions. We may not be able to consummate any future acquisitions at acceptable prices and terms or identify suitable candidates. In addition, increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. The magnitude, timing, pricing and nature of future acquisitions will depend upon various factors, including:

- the availability of suitable acquisition candidates;

- competition with other dealer groups for suitable acquisitions;

- the negotiation of acceptable terms;

- our financial capabilities;

- our stock price; and

- the availability of skilled employees to manage the acquired companies.

WE MAY NOT BE ABLE TO DETERMINE THE ACTUAL FINANCIAL CONDITION OF DEALERSHIPS WE ACQUIRE UNTIL AFTER WE COMPLETE THE ACQUISITION AND TAKE CONTROL OF THE DEALERSHIPS.

The operating and financial condition of acquired businesses cannot be determined accurately until we assume control. Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, in light of the

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

ALTHOUGH O. BRUTON SMITH, OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HAS PREVIOUSLY ASSISTED US WITH OBTAINING ACQUISITION FINANCING, WE CANNOT ASSURE YOU THAT HE WILL BE WILLING OR ABLE TO DO SO IN THE FUTURE.

Our obligations under the revolving credit facility are secured with a pledge of shares of common stock of Speedway Motorsports, Inc., which are beneficially owned by Sonic Financial Corporation, an entity controlled by Mr. Smith. Presently, the $600 million borrowing limit of the revolving credit facility is subject to a borrowing base calculation that is based, in part, on the value of the Speedway Motorsports, Inc. shares pledged by Sonic Financial. Consequently, a withdrawal of this pledge by Sonic Financial or a significant decrease in the value of Speedway Motorsports, Inc. common stock could reduce the amount we can currently borrow under the revolving credit facility.

Mr. Smith has also guaranteed additional indebtedness incurred to complete certain dealership acquisitions. Mr. Smith may not be willing or able to provide similar guarantees or credit support in the future. This could impair our ability to obtain acquisition financing on favorable terms.

RISKS RELATED TO THE AUTOMOTIVE RETAIL INDUSTRY

INCREASING COMPETITION IN AUTOMOTIVE RETAILERS REDUCES OUR PROFIT MARGINS ON VEHICLE SALES AND RELATED BUSINESSES. FURTHER, THE USE OF THE INTERNET IN THE CAR PURCHASING PROCESS COULD MATERIALLY ADVERSELY AFFECT US.

Automobile retailing is a highly competitive business. Our competitors include publicly and privately owned dealerships, some of which are larger and have greater financial and marketing resources than we do. Many of our competitors sell the same or similar makes of new and used vehicles that we offer in our markets at competitive prices. We do not have any cost advantage in purchasing new vehicles from manufacturers due to economies of scale or otherwise. In addition, the increased popularity of short-term vehicle leasing also has resulted, as these leases expire, in a large increase in the number of late model used vehicles available in the market, which puts added pressure on new and used vehicle margins. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if manufacturers decide to enter the retail market directly.

Our 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.

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 investing heavily in the development of their own Internet capabilities, which could materially adversely affect our business.

Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate or if existing franchised dealers increase their market share in our markets.

As we seek to acquire dealerships in new markets, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. Our gross margins may decline over time as we expand into markets where we do not have a leading position.

OUR BUSINESS WILL BE HARMED IF OVERALL CONSUMER DEMAND SUFFERS FROM A SEVERE OR SUSTAINED DOWNTURN.

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales

are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. The economic outlook appears uncertain in the aftermath of the terrorist attacks in the U.S. on September 11, 2001, and the subsequent war on terrorism. Future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury and sport utility vehicle models (which typically provide high margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

THE SEASONALITY OF OUR BUSINESS MAGNIFIES THE IMPORTANCE OF SECOND AND THIRD QUARTER OPERATING RESULTS.

Our business is subject to seasonal variations in revenues. In our experience, demand for automobiles is generally lower during the first quarter

of each year. We therefore receive a disproportionate amount of revenues generally in the second, third and fourth quarters and expect our revenues and operating results to be generally lower in the first quarter. Consequently, if conditions surface during the second, third and fourth quarters that impair vehicle sales, such as higher fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year could be disproportionately adversely affected.

GENERAL RISKS RELATED TO INVESTING IN OUR SECURITIES

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:

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

The holders of Class B common stock currently hold less than a majority of 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 the action was 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. Delaware law also makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business combination transaction with the company against its directors' wishes. Finally, restrictions imposed by our dealer agreements may impede or prevent any potential takeover bid. Generally, our franchise agreements allow the manufacturers the right to terminate the agreements upon a change of control of our company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity who may be unqualified, as defined by the manufacturer, to own one of its dealerships. The inability of a person or entity to qualify with one or more of our manufacturers may prevent or seriously impede a potential takeover bid. In addition, provisions of our lending arrangements create an event of default on a change in control. These agreements, corporate governance documents and laws may have the effect of delaying or preventing a change in control or preventing stockholders from realizing a premium on the sale of their shares upon an acquisition of Sonic.

THE OUTCOME OF LEGAL AND ADMINISTRATIVE PROCEEDINGS WE ARE OR MAY BECOME INVOLVED IN COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS AND PROFITABILITY.

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 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 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 Attorney General's investigation. Two of the private civil actions purport to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed or granted.

We intend to vigorously defend ourselves and assert available defenses with respect to each of the foregoing matters, and 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 Attorney General's office and Department of Insurance are continuing and have not resulted in formal charges to date, and because the private 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. 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.

OUR BUSINESS MAY BE ADVERSELY AFFECTED BY UNFAVORABLE CONDITIONS IN OUR LOCAL MARKETS, EVEN IF THOSE CONDITIONS ARE NOT PROMINENT NATIONALLY.

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented approximately 15% of our sales for the three months ended June 30, 2002. 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.

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.

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

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, retail financing and consumer protection laws and regulations, and wage-hour, anti-discrimination, and other employment practices laws and regulations. Our facilities and operations are also subject to federal, state and local laws and regulations relating to environmental protection and human health and safety, including

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

Our past and present business operations are subject to environmental laws and regulations. We may be required by these laws to pay the full amount of the costs of investigation and/or remediation of contaminated properties, even if we are not at fault for disposal of the materials or if such disposal was legal at the time. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with 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.

POTENTIAL CONFLICTS OF INTEREST BETWEEN SONIC AND ITS OFFICERS COULD ADVERSELY AFFECT OUR FUTURE PERFORMANCE.

O. Bruton Smith serves as the chairman and chief executive officer of Speedway Motorsports, Inc., a publicly traded owner and operator of automobile racing facilities. Accordingly, Sonic competes with Speedway Motorsports, Inc. 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.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report contains numerous "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; and
- our business and growth strategies.

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

- our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures 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; and

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

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 of Sonic Automotive, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Theodore M. Wright, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Theodore M. Wright

Theodore M. Wright
Chief Financial Officer
August 14, 2002

Exhibit 99.3

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 of Sonic Automotive, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, O. Bruton Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ O. Bruton Smith

O. Bruton Smith
Chief Executive Officer
August 14, 2002