
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date to earliest event reported): March 24, 1998

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as Specified in Charter)

Delaware	1-13395	56-2010790
-----	-----	-----
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

5401 East Independence Boulevard
P.O. Box 18747
Charlotte, North Carolina

28026

(Address of Principal Executive Offices)

(Zip Code)

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

(Former Name or Former Address, if Changed Since Last Report)

ITEM 2. ACQUISITION OF DISPOSITION OF ASSETS

On March 24, 1998, Sonic Automotive, Inc. (the "Company") acquired certain tangible and intangible assets, including machinery, equipment, furnishings, automobiles, supplies, accounts and notes receivable, new and used vehicle inventories, parts inventories and supplies, leases, contract rights, and goodwill (the "Assets"), and assumed certain liabilities, including all current liabilities, of M&S Auto Resources, Inc. (d/b/a Clearwater Toyota), Clearwater Auto Resources, Inc. (d/b/a Clearwater Mitsubishi), and Clearwater Collision Center, Inc. (collectively, the "Clearwater Dealerships") pursuant to an Asset Purchase Agreement dated as of December 30, 1997 among the Company, as buyer, the Clearwater Dealership as sellers, and Scott Fink, Michael Cohen, Jeffrey Schuman, and Timothy McCabe as shareholders of the sellers, as amended, by Amendment No. 1 and Supplement to Asset Purchase Agreement dated as of March 24, 1998 (as amended the "Agreement"). Other terms of the Agreement provide for the leasing of the Clearwater Dealerships' real property for a period of ten years from M&S Auto Resources, Inc. with the option to renew for two successive periods of five years each.

The aggregate consideration for the acquisition was approximately \$15 million, consisting of approximately \$11.04 million in cash obtained from the Company's Amended and Restated Credit Agreement dated December 15, 1997 with Ford Motor Credit Company, and 3,960 shares of the Company's Class A Series III Convertible Preferred Stock, par value \$.01 per share, valued at approximately \$3.96 million as of their date of issuance on March 24, 1998. By April 30, 1999, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the combined pre-tax earnings of the Clearwater Dealerships for the fiscal year ended December 31, 1998. The amount of consideration paid by the Company was determined through arms length negotiations with the sellers.

The Assets were used in the operations of two automobile dealerships and a collision repair center. Such operations consisted of selling new and used cars and light trucks, selling replacement parts, providing vehicle maintenance, warranty, paint, and repair services, and arranging financing and insurance. The Company intends to continue such use.

For additional information concerning the transaction, reference is made to the Agreement and to a press release issued as of January 6, 1998, copies of all of which are attached as exhibits hereto.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(A) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED. Not required

(B) PRO FORMA FINANCIAL INFORMATION. Attached as an exhibit to this report on Form 8-K are the following:

UNAUDITED PRO FORMA FINANCIAL STATEMENTS REFLECTING THE BUSINESS COMBINATION OF SONIC AUTOMOTIVE, INC. AND CLEARWATER DEALERSHIPS

Description of Unaudited Pro Forma Financial Statements
Pro Forma Balance Sheet at December 31, 1997 (Unaudited) and Notes thereto.
Pro Forma Statement of Income for the Year Ended December 31, 1997 (Unaudited) and Notes thereto.

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(C) EXHIBITS

<TABLE>
<CAPTION>

Exhibit Number	Description
<S>	<C>
99.1	Asset Purchase Agreement dated December 30, 1997 between Sonic Automotive, Inc., as buyer, and M&S Resources, Inc., Clearwater Auto Resources, Inc., and Clearwater Collision Center, Inc., as sellers and Scott Fink, Michael Cohen, Jeffrey Schuman, and Timothy McCabe as shareholders of the sellers.
99.2	Amendment No. 1 and Supplement to Asset Purchase Agreement dated as of March 24, 1998 between Sonic Automotive, Inc., as buyer, and M&S Resources, Inc., Clearwater Auto Resources, Inc., and Clearwater Collision Center, Inc., as sellers and Scott Fink, Michael Cohen, Jeffrey Schuman, and Timothy McCabe as shareholders of the sellers.
99.3	Press Release dated January 6, 1998
99.4	Unaudited Pro Forma Financial Statements Reflecting the Business Combination of Sonic Automotive, Inc. and Clearwater Dealerships for the year ended December 31, 1997.

</TABLE>

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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 hereunto duly authorized.

SONIC AUTOMOTIVE, INC.

Date: March 30, 1998

By: /s/ Theodore M. Wright

Theodore M. Wright
Chief Financial Officer, Vice
President-Finance, Treasurer,
Secretary and Director

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Pro Forma Combined Statement of Operations
Year Ended December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

<TABLE>
<CAPTION>

	Historical					
	Sonic Automotive, Inc.	Clearwater Dealerships	Pro Forma Adjustments			Pro Forma
<S>	<C>	<C>	<C>			<C>
REVENUES:						
Vehicle Sales	\$ 467,858	\$ 108,812	\$ -			\$ 576,670
Parts, service and collision repair	57,537	10,500	-			68,037
Finance and insurance	10,606	2,587	-			13,193
	536,001	121,899	-			657,900
COST OF SALES	471,253	105,786	(41)			576,998
	64,748	16,113	41			80,902
GROSS PROFIT	48,520	12,226	864	(1)		60,729
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			(688)	(2)		
			(118)	(3)		
			(75)	(4)		
DEPRECIATION AND AMORTIZATION	1,322	390	(143)	(1)		1,768
			(133)	(5)		
			332	(6)		
OPERATING INCOME	14,906	3,497	2			18,405
OTHER INCOME AND EXPENSE:						
Interest expense, floorplan	8,007	779	(83)	(7)		8,703
Interest expense, other	1,199	721	(557)	(1)		2,407
			(164)	(8)		
			1,208	(9)		
Gain on sale of marketable equity securities	298	-	-			298
Other income	-	194	-			194
	8,908	1,306	404			10,618
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	5,998	2,191	(402)			7,787
INCOME TAX PROVISION (BENEFIT)	2,249	-	854	(11)		2,613
			(490)	(12)		
INCOME BEFORE MINORITY INTEREST	3,749	2,191	(766)			5,174
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	47	-	-			47
NET INCOME (LOSS)	\$ 3,702	\$ 2,191	\$ (766)			\$ 5,127
BASIC NET INCOME PER SHARE	\$ 0.53					\$ 0.74
WEIGHTED AVERAGE SHARES OUTSTANDING	6,949					6,949
DILUTED NET INCOME PER SHARE	\$ 0.51					\$ 0.71
WEIGHTED AVERAGE SHARES OUTSTANDING	7,204					7,204

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See notes to proforma financial statements

NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

- (1) Reflects the Company's estimate of the increase in rent expense related to lease agreements entered into with the seller of the Clearwater Dealerships for the dealerships' real property that will not be acquired by the Company, and decreases in

depreciation expense (based on useful lives ranging from 31.5 to 39 years) and interest expense related to mortgage indebtedness encumbering such property. The related mortgage indebtedness was approximately \$5.9 million with interest charged at rates ranging from 9.0% to 9.5% annually.

- (2) The decrease in selling, general and administrative expenses reflects the elimination of salaries paid to the owner and employees of the dealerships acquired in the acquisition whose position and salary will be eliminated in conjunction with the acquisition of the Clearwater Dealerships'.
- (3) Reflects the net decrease in selling, general and administrative expenses related to the net reduction in salaries and fringe benefits of owners and employees of the acquired dealerships who will become employees of the Company, consistent with reduced salaries pursuant to certain employees' employment agreements with the Company.
- (4) Reflects the decrease in selling, general and administrative expenses resulting from the conversion of the Clearwater Dealerships workers compensation policy to the Company's workers compensation policy.
- (5) Reflects the elimination of amortization expense related to goodwill that arose in the acquisition of the Clearwater Dealerships by the previous owner, assuming that the acquisition giving rise to goodwill was consummated on January 1, 1997.
- (6) Reflects the amortization over an amortization period of 40 years of approximately \$13.3 million in goodwill resulting from the acquisition of the Clearwater Dealerships which was assumed to have occurred on January 1, 1997. Subject to the Agreement, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the pre-tax earnings of the Clearwater Dealerships for fiscal year ended December 31, 1998. Goodwill was calculated based on a \$1.67 million earnout payment based on the estimated 1998 pre-tax earnings of the Clearwater Dealerships. The amount of the earnout payment actually recorded may be different from the amount estimated here, depending on the actual fiscal year 1998 pre-tax earnings of the Clearwater Dealerships.
- (7) Reflects the decrease in floor plan interest expense resulting from the refinancing of the floor plan notes payable arrangements of the Clearwater Dealerships to the Company's master floor plan agreement. The average interest rate under the master agreement with Ford Motor Credit Company is approximately 7.60% compared to 8.50% interest rate for the Clearwater Dealerships.
- (8) Reflects the decrease in other interest expense resulting from the Company not assuming the Clearwater Dealerships notes payable to affiliates and other long-term obligations.
- (9) Reflects the increase in interest expense associated with the borrowings made under the Company's credit arrangement with Ford Motor Credit Company to provide the funds necessary for the acquisition of the Clearwater Dealerships.
- (10) Reflects the decrease in Cost of Sales resulting from a parts inventory adjustment.

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NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

- (11) The Clearwater Dealerships were not subject to federal and state income taxes because they were organized as S corporations during the period indicated. This adjustment reflects an increase in the federal and state income tax provision as if the Clearwater Dealerships had been taxable at the combined statutory income tax rate of 39%. Upon completion of the Acquisition, this entity that has historically not been subject to corporate income tax will thereafter be subject to federal and state income tax as a C corporation.

(12) Reflects the net decrease in the provision for income taxes resulting from adjustments (1) through (11) above, computed using an effective income tax rate of 39%.

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Pro Forma Balance Sheet
December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

<TABLE>
<CAPTION>

	Historical		Pro Forma Adjustments	Pro Forma
	Sonic Automotive, Inc.	Clearwater Dealerships		
<S>	<C>	<C>	<C>	<C>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 18,304	\$ 2,065	\$ -	\$
20,369				
Marketable Equity Securities	270	-	-	
270				
Receivables	19,784	1,138	-	
20,922				
Inventories	156,514	9,215	-	
165,729				
Deferred income taxes	405	-	-	
405				
Other current assets	1,048	282	-	
1,330				
<hr/>				
Total current assets	196,325	12,700	-	
209,025				
PROPERTY AND EQUIPMENT, NET	19,081	7,829	(7,550)	(2)
19,360				
GOODWILL, NET	74,362	1,736	13,271	(1)
87,633			(1,736)	(3)
DUE FROM AFFILIATES	1,047	-	-	
1,047				
OTHER ASSETS	635	-	-	
635				
<hr/>				
TOTAL ASSETS	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
<hr/>				
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Notes payable - floor plan	\$ 133,236	\$ 8,321	\$ -	\$
141,557				
Trade accounts payable	6,612	789	-	
7,401				
Accrued interest	1,071	-	-	
1,071				
Other accrued liabilities	10,280	466	-	
10,746				
Payable to affiliates	445	500	(500)	(4)
445				
Current maturities of long term debt	584	1,090	(1,090)	(2) (6)
584				
<hr/>				
Total current liabilities	152,228	11,166	(1,590)	
161,804				
LONG-TERM DEBT	38,640	6,117	(6,117)	(2) (6)
51,354			12,714	(5)
PAYABLE TO COMPANY'S CHAIRMAN	5,500	-	-	
5,500				
PAYABLE TO AFFILIATES	4,394	-	-	
4,394				
DEFERRED INCOME TAXES	1,547	-	-	

1,547				
INCOME TAX PAYABLE	4,776	-	-	
4,776				
STOCKHOLDERS' EQUITY				
Preferred stock	-	-	3,960	(1)
3,960				
Class A Common Stock	50	-	-	
50				
Class B Common Stock	63	-	-	
63				
Common Stock of Acquired Entity	-	1,202	(1,202)	(1)
-				
Paid in capital	68,045	1,210	(1,210)	(1)
68,045				
Retained earnings	16,186	2,570	(2,570)	(1)
16,186				
Unrealized gain on marketable equity securities	21	-	-	
21				

Total stockholders' equity	84,365	4,982	(1,022)	
88,325				
=====				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
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</TABLE>

See notes to pro forma statements

NOTES TO UNAUDITED PRO FORMA BALANCE SHEET
DECEMBER 31, 1997

ADJUSTMENT

- (1) Reflects the preliminary allocation of the aggregate purchase price of the Clearwater Dealerships based on the estimated fair value of the net assets acquired. Because the carrying amount of the net assets acquired, which primarily consist of accounts receivable, inventory, equipment, and floor plan indebtedness, approximates their fair value, management believes the application of purchase accounting will not result in an adjustment to the carrying amount of those net assets. The amount of goodwill and corresponding amortization expense actually recorded may ultimately be different from the amounts estimated here, depending upon the actual fair value of tangible net assets acquired at closing. The estimated purchase price allocation consists of the following:

Estimated total consideration:	
Cash	\$ 11,044,000
Preferred stock	3,960,000
Earnout payment (7)	1,670,000

	16,674,000
Less tangible net assets acquired	3,403,000

Excess of purchase price over fair value of net tangible assets acquired	\$ 13,271,000
	=====

- (2) Reflects the real property of the Clearwater Dealerships, which is not being acquired in the Acquisition and the related mortgage indebtedness in the amount of \$5.9 million.
- (3) Reflects the elimination of goodwill that arose in the acquisition of the Clearwater Dealerships by the previous owner.
- (4) Reflects the Payable to a Clearwater Dealership stockholder that will not be assumed by the Company.
- (5) Reflects borrowings made under the Company's credit arrangement to provide a portion of the funds necessary for acquisition of the Clearwater Dealerships.

- (6) Reflects capital loans of the Clearwater Dealerships which will not be assumed by the Company.

- (7) Subject to the Agreement, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the pre-tax earnings of the Clearwater Dealerships for fiscal year ended December 31, 1998. The amount of the earnout payment actually recorded may be different from the amount estimated here, depending on the actual fiscal year 1998 pre-tax earnings of the Clearwater Dealerships.

Pro Forma Combined Statement of Operations
Year Ended December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

<TABLE>
<CAPTION>

	Historical				Pro Forma
	Sonic Automotive, Inc.	Clearwater Dealerships	Pro Forma Adjustments		
<S>	<C>	<C>	<C>		<C>
REVENUES:					
Vehicle Sales	\$ 467,858	\$ 108,812	\$ -		\$ 576,670
Parts, service and collision repair	57,537	10,500	-		68,037
Finance and insurance	10,606	2,587	-		13,193
Total revenues	536,001	121,899	-		657,900
COST OF SALES	471,253	105,786	(41)		576,998
GROSS PROFIT	64,748	16,113	41		80,902
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	48,520	12,226	864 (1)		60,729
			(688) (2)		
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DEPRECIATION AND AMORTIZATION	1,322	390	(143) (1)		1,768
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OPERATING INCOME	14,906	3,497	2		18,405
OTHER INCOME AND EXPENSE:					
Interest expense, floorplan	8,007	779	(83) (7)		8,703
Interest expense, other	1,199	721	(557) (1)		2,407
			(164) (8)		
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Gain on sale of marketable equity securities	298	-	-		298
Other income	-	194	-		194
Total other expense	8,908	1,306	404		10,618
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	5,998	2,191	(402)		7,787
INCOME TAX PROVISION (BENEFIT)	2,249	-	854 (11)		2,613
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INCOME BEFORE MINORITY INTEREST	3,749	2,191	(766)		5,174
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NET INCOME (LOSS)	\$ 3,702	\$ 2,191	\$ (766)		\$ 5,127
BASIC NET INCOME PER SHARE	\$ 0.53				\$ 0.74
WEIGHTED AVERAGE SHARES OUTSTANDING	6,949				6,949
DILUTED NET INCOME PER SHARE	\$ 0.51				\$ 0.71
WEIGHTED AVERAGE SHARES OUTSTANDING	7,204				7,204

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See notes to proforma financial statements

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NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

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depreciation expense (based on useful lives ranging from 31.5 to 39 years) and interest expense related to mortgage indebtedness encumbering such property. The related mortgage indebtedness was approximately \$5.9 million with interest charged at rates ranging from 9.0% to 9.5% annually.

- (2) The decrease in selling, general and administrative expenses reflects the elimination of salaries paid to the owner and employees of the dealerships acquired in the acquisition whose position and salary will be eliminated in conjunction with the acquisition of the Clearwater Dealerships'.
- (3) Reflects the net decrease in selling, general and administrative expenses related to the net reduction in salaries and fringe benefits of owners and employees of the acquired dealerships who will become employees of the Company, consistent with reduced salaries pursuant to certain employees' employment agreements with the Company.
- (4) Reflects the decrease in selling, general and administrative expenses resulting from the conversion of the Clearwater Dealerships workers compensation policy to the Company's workers compensation policy.
- (5) Reflects the elimination of amortization expense related to goodwill that arose in the acquisition of the Clearwater Dealerships by the previous owner, assuming that the acquisition giving rise to goodwill was consummated on January 1, 1997.
- (6) Reflects the amortization over an amortization period of 40 years of approximately \$13.3 million in goodwill resulting from the acquisition of the Clearwater Dealerships which was assumed to have occurred on January 1, 1997. Subject to the Agreement, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the pre-tax earnings of the Clearwater Dealerships for fiscal year ended December 31, 1998. Goodwill was calculated based on a \$1.67 million earnout payment based on the estimated 1998 pre-tax earnings of the Clearwater Dealerships. The amount of the earnout payment actually recorded may be different from the amount estimated here, depending on the actual fiscal year 1998 pre-tax earnings of the Clearwater Dealerships.
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- (8) Reflects the decrease in other interest expense resulting from the Company not assuming the Clearwater Dealerships notes payable to affiliates and other long-term obligations.
- (9) Reflects the increase in interest expense associated with the borrowings made under the Company's credit arrangement with Ford Motor Credit Company to provide the funds necessary for the acquisition of the Clearwater Dealerships.
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NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

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(12) Reflects the net decrease in the provision for income taxes resulting from adjustments (1) through (11) above, computed using an effective income tax rate of 39%.

7

Pro Forma Balance Sheet
December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

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CURRENT ASSETS:				
Cash and cash equivalents	\$ 18,304	\$ 2,065	\$ -	\$
20,369				
Marketable Equity Securities	270	-	-	
270				
Receivables	19,784	1,138	-	
20,922				
Inventories	156,514	9,215	-	
165,729				
Deferred income taxes	405	-	-	
405				
Other current assets	1,048	282	-	
1,330				

Total current assets	196,325	12,700	-	
209,025				
PROPERTY AND EQUIPMENT, NET	19,081	7,829	(7,550) (2)	
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GOODWILL, NET	74,362	1,736	13,271 (1)	
87,633			(1,736) (3)	
DUE FROM AFFILIATES	1,047	-	-	
1,047				
OTHER ASSETS	635	-	-	
635				
=====				
TOTAL ASSETS	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
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LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Notes payable - floor plan	\$ 133,236	\$ 8,321	\$ -	\$
141,557				
Trade accounts payable	6,612	789	-	
7,401				
Accrued interest	1,071	-	-	
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Other accrued liabilities	10,280	466	-	
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Payable to affiliates	445	500	(500) (4)	
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Current maturities of long term debt	584	1,090	(1,090) (2) (6)	
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Total current liabilities	152,228	11,166	(1,590)	
161,804				
LONG-TERM DEBT	38,640	6,117	(6,117) (2) (6)	
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PAYABLE TO COMPANY'S CHAIRMAN	5,500	-	-	
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DEFERRED INCOME TAXES	1,547	-	-	

1,547				
INCOME TAX PAYABLE	4,776	-	-	
4,776				
STOCKHOLDERS' EQUITY				
Preferred stock	-	-	3,960	(1)
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DECEMBER 31, 1997

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Excess of purchase price over fair value of net tangible assets acquired	\$ 13,271,000
	=====

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Year Ended December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

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COST OF SALES	471,253	105,786	(41)		576,998
GROSS PROFIT	64,748	16,113	41		80,902
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	48,520	12,226	864 (1)		60,729
			(688) (2)		
			(118) (3)		
			(75) (4)		
DEPRECIATION AND AMORTIZATION	1,322	390	(143) (1)		1,768
			(133) (5)		
			332 (6)		
OPERATING INCOME	14,906	3,497	2		18,405
OTHER INCOME AND EXPENSE:					
Interest expense, floorplan	8,007	779	(83) (7)		8,703
Interest expense, other	1,199	721	(557) (1)		2,407
			(164) (8)		
			1,208 (9)		
Gain on sale of marketable equity securities	298	-	-		298
Other income	-	194	-		194
Total other expense	8,908	1,306	404		10,618
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	5,998	2,191	(402)		7,787
INCOME TAX PROVISION (BENEFIT)	2,249	-	854 (11)		2,613
			(490) (12)		
INCOME BEFORE MINORITY INTEREST	3,749	2,191	(766)		5,174
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	47	-	-		47
NET INCOME (LOSS)	\$ 3,702	\$ 2,191	\$ (766)		\$ 5,127
BASIC NET INCOME PER SHARE	\$ 0.53				\$ 0.74
WEIGHTED AVERAGE SHARES OUTSTANDING	6,949				6,949
DILUTED NET INCOME PER SHARE	\$ 0.51				\$ 0.71
WEIGHTED AVERAGE SHARES OUTSTANDING	7,204				7,204

</TABLE>

See notes to proforma financial statements

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NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

- (1) Reflects the Company's estimate of the increase in rent expense related to lease agreements entered into with the seller of the Clearwater Dealerships for the dealerships' real property that will not be acquired by the Company, and decreases in

depreciation expense (based on useful lives ranging from 31.5 to 39 years) and interest expense related to mortgage indebtedness encumbering such property. The related mortgage indebtedness was approximately \$5.9 million with interest charged at rates ranging from 9.0% to 9.5% annually.

- (2) The decrease in selling, general and administrative expenses reflects the elimination of salaries paid to the owner and employees of the dealerships acquired in the acquisition whose position and salary will be eliminated in conjunction with the acquisition of the Clearwater Dealerships'.
- (3) Reflects the net decrease in selling, general and administrative expenses related to the net reduction in salaries and fringe benefits of owners and employees of the acquired dealerships who will become employees of the Company, consistent with reduced salaries pursuant to certain employees' employment agreements with the Company.
- (4) Reflects the decrease in selling, general and administrative expenses resulting from the conversion of the Clearwater Dealerships workers compensation policy to the Company's workers compensation policy.
- (5) Reflects the elimination of amortization expense related to goodwill that arose in the acquisition of the Clearwater Dealerships by the previous owner, assuming that the acquisition giving rise to goodwill was consummated on January 1, 1997.
- (6) Reflects the amortization over an amortization period of 40 years of approximately \$13.3 million in goodwill resulting from the acquisition of the Clearwater Dealerships which was assumed to have occurred on January 1, 1997. Subject to the Agreement, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the pre-tax earnings of the Clearwater Dealerships for fiscal year ended December 31, 1998. Goodwill was calculated based on a \$1.67 million earnout payment based on the estimated 1998 pre-tax earnings of the Clearwater Dealerships. The amount of the earnout payment actually recorded may be different from the amount estimated here, depending on the actual fiscal year 1998 pre-tax earnings of the Clearwater Dealerships.
- (7) Reflects the decrease in floor plan interest expense resulting from the refinancing of the floor plan notes payable arrangements of the Clearwater Dealerships to the Company's master floor plan agreement. The average interest rate under the master agreement with Ford Motor Credit Company is approximately 7.60% compared to 8.50% interest rate for the Clearwater Dealerships.
- (8) Reflects the decrease in other interest expense resulting from the Company not assuming the Clearwater Dealerships notes payable to affiliates and other long-term obligations.
- (9) Reflects the increase in interest expense associated with the borrowings made under the Company's credit arrangement with Ford Motor Credit Company to provide the funds necessary for the acquisition of the Clearwater Dealerships.
- (10) Reflects the decrease in Cost of Sales resulting from a parts inventory adjustment.

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NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

- (11) The Clearwater Dealerships were not subject to federal and state income taxes because they were organized as S corporations during the period indicated. This adjustment reflects an increase in the federal and state income tax provision as if the Clearwater Dealerships had been taxable at the combined statutory income tax rate of 39%. Upon completion of the Acquisition, this entity that has historically not been subject to corporate income tax will thereafter be subject to federal and state income tax as a C corporation.

(12) Reflects the net decrease in the provision for income taxes resulting from adjustments (1) through (11) above, computed using an effective income tax rate of 39%.

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Pro Forma Balance Sheet
December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

<TABLE>
<CAPTION>

	Historical		Pro Forma	Pro Forma
	Sonic Automotive, Inc.	Clearwater Dealerships	Adjustments	Pro Forma
----- <S>	<C>	<C>	<C>	<C>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 18,304	\$ 2,065	\$ -	\$
20,369				
Marketable Equity Securities	270	-	-	
270				
Receivables	19,784	1,138	-	
20,922				
Inventories	156,514	9,215	-	
165,729				
Deferred income taxes	405	-	-	
405				
Other current assets	1,048	282	-	
1,330				
-----	-----	-----	-----	-----
Total current assets	196,325	12,700	-	
209,025				
PROPERTY AND EQUIPMENT, NET	19,081	7,829	(7,550) (2)	
19,360				
GOODWILL, NET	74,362	1,736	13,271 (1)	
87,633			(1,736) (3)	
DUE FROM AFFILIATES	1,047	-	-	
1,047				
OTHER ASSETS	635	-	-	
635				
=====	=====	=====	=====	
TOTAL ASSETS	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
=====	=====	=====	=====	
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Notes payable - floor plan	\$ 133,236	\$ 8,321	\$ -	\$
141,557				
Trade accounts payable	6,612	789	-	
7,401				
Accrued interest	1,071	-	-	
1,071				
Other accrued liabilities	10,280	466	-	
10,746				
Payable to affiliates	445	500	(500) (4)	
445				
Current maturities of long term debt	584	1,090	(1,090) (2) (6)	
584				
-----	-----	-----	-----	-----
Total current liabilities	152,228	11,166	(1,590)	
161,804				
LONG-TERM DEBT	38,640	6,117	(6,117) (2) (6)	
51,354			12,714 (5)	
PAYABLE TO COMPANY'S CHAIRMAN	5,500	-	-	
5,500				
PAYABLE TO AFFILIATES	4,394	-	-	
4,394				
DEFERRED INCOME TAXES	1,547	-	-	

1,547				
INCOME TAX PAYABLE	4,776	-	-	
4,776				
STOCKHOLDERS' EQUITY				
Preferred stock	-	-	3,960	(1)
3,960				
Class A Common Stock	50	-	-	
50				
Class B Common Stock	63	-	-	
63				
Common Stock of Acquired Entity	-	1,202	(1,202)	(1)
-				
Paid in capital	68,045	1,210	(1,210)	(1)
68,045				
Retained earnings	16,186	2,570	(2,570)	(1)
16,186				
Unrealized gain on marketable equity securities	21	-	-	
21				
	-----	-----	-----	-----

Total stockholders' equity	84,365	4,982	(1,022)	
88,325				
	=====	=====	=====	
=====				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
	=====	=====	=====	
=====				

</TABLE>

See notes to pro forma statements

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NOTES TO UNAUDITED PRO FORMA BALANCE SHEET
DECEMBER 31, 1997

ADJUSTMENT

- (1) Reflects the preliminary allocation of the aggregate purchase price of the Clearwater Dealerships based on the estimated fair value of the net assets acquired. Because the carrying amount of the net assets acquired, which primarily consist of accounts receivable, inventory, equipment, and floor plan indebtedness, approximates their fair value, management believes the application of purchase accounting will not result in an adjustment to the carrying amount of those net assets. The amount of goodwill and corresponding amortization expense actually recorded may ultimately be different from the amounts estimated here, depending upon the actual fair value of tangible net assets acquired at closing. The estimated purchase price allocation consists of the following:

Estimated total consideration:	
Cash	\$ 11,044,000
Preferred stock	3,960,000
Earnout payment (7)	1,670,000

	16,674,000
Less tangible net assets acquired	3,403,000

Excess of purchase price over fair value of net tangible assets acquired	\$ 13,271,000
	=====

- (2) Reflects the real property of the Clearwater Dealerships, which is not being acquired in the Acquisition and the related mortgage indebtedness in the amount of \$5.9 million.
- (3) Reflects the elimination of goodwill that arose in the acquisition of the Clearwater Dealerships by the previous owner.
- (4) Reflects the Payable to a Clearwater Dealership stockholder that will not be assumed by the Company.
- (5) Reflects borrowings made under the Company's credit arrangement to provide a portion of the funds necessary for acquisition of the Clearwater Dealerships.

- (6) Reflects capital loans of the Clearwater Dealerships which will not be assumed by the Company.

- (7) Subject to the Agreement, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the pre-tax earnings of the Clearwater Dealerships for fiscal year ended December 31, 1998. The amount of the earnout payment actually recorded may be different from the amount estimated here, depending on the actual fiscal year 1998 pre-tax earnings of the Clearwater Dealerships.

Pro Forma Combined Statement of Operations
Year Ended December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

<TABLE>
<CAPTION>

	Historical				Pro Forma
	Sonic Automotive, Inc.	Clearwater Dealerships	Pro Forma Adjustments		
<S>	<C>	<C>	<C>		<C>
REVENUES:					
Vehicle Sales	\$ 467,858	\$ 108,812	\$ -		\$ 576,670
Parts, service and collision repair	57,537	10,500	-		68,037
Finance and insurance	10,606	2,587	-		13,193
Total revenues	536,001	121,899	-		657,900
COST OF SALES	471,253	105,786	(41)		576,998
GROSS PROFIT	64,748	16,113	41		80,902
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	48,520	12,226	864 (1)		60,729
			(688) (2)		
			(118) (3)		
			(75) (4)		
DEPRECIATION AND AMORTIZATION	1,322	390	(143) (1)		1,768
			(133) (5)		
			332 (6)		
OPERATING INCOME	14,906	3,497	2		18,405
OTHER INCOME AND EXPENSE:					
Interest expense, floorplan	8,007	779	(83) (7)		8,703
Interest expense, other	1,199	721	(557) (1)		2,407
			(164) (8)		
			1,208 (9)		
Gain on sale of marketable equity securities	298	-	-		298
Other income	-	194	-		194
Total other expense	8,908	1,306	404		10,618
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	5,998	2,191	(402)		7,787
INCOME TAX PROVISION (BENEFIT)	2,249	-	854 (11)		2,613
			(490) (12)		
INCOME BEFORE MINORITY INTEREST	3,749	2,191	(766)		5,174
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	47	-	-		47
NET INCOME (LOSS)	\$ 3,702	\$ 2,191	\$ (766)		\$ 5,127
BASIC NET INCOME PER SHARE	\$ 0.53				\$ 0.74
WEIGHTED AVERAGE SHARES OUTSTANDING	6,949				6,949
DILUTED NET INCOME PER SHARE	\$ 0.51				\$ 0.71
WEIGHTED AVERAGE SHARES OUTSTANDING	7,204				7,204

</TABLE>

See notes to proforma financial statements

5

NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

- (1) Reflects the Company's estimate of the increase in rent expense related to lease agreements entered into with the seller of the Clearwater Dealerships for the dealerships' real property that will not be acquired by the Company, and decreases in

depreciation expense (based on useful lives ranging from 31.5 to 39 years) and interest expense related to mortgage indebtedness encumbering such property. The related mortgage indebtedness was approximately \$5.9 million with interest charged at rates ranging from 9.0% to 9.5% annually.

- (2) The decrease in selling, general and administrative expenses reflects the elimination of salaries paid to the owner and employees of the dealerships acquired in the acquisition whose position and salary will be eliminated in conjunction with the acquisition of the Clearwater Dealerships'.
- (3) Reflects the net decrease in selling, general and administrative expenses related to the net reduction in salaries and fringe benefits of owners and employees of the acquired dealerships who will become employees of the Company, consistent with reduced salaries pursuant to certain employees' employment agreements with the Company.
- (4) Reflects the decrease in selling, general and administrative expenses resulting from the conversion of the Clearwater Dealerships workers compensation policy to the Company's workers compensation policy.
- (5) Reflects the elimination of amortization expense related to goodwill that arose in the acquisition of the Clearwater Dealerships by the previous owner, assuming that the acquisition giving rise to goodwill was consummated on January 1, 1997.
- (6) Reflects the amortization over an amortization period of 40 years of approximately \$13.3 million in goodwill resulting from the acquisition of the Clearwater Dealerships which was assumed to have occurred on January 1, 1997. Subject to the Agreement, the Company will be required to make an additional payment, not to exceed \$1.75 million, equal to 50% of the pre-tax earnings of the Clearwater Dealerships for fiscal year ended December 31, 1998. Goodwill was calculated based on a \$1.67 million earnout payment based on the estimated 1998 pre-tax earnings of the Clearwater Dealerships. The amount of the earnout payment actually recorded may be different from the amount estimated here, depending on the actual fiscal year 1998 pre-tax earnings of the Clearwater Dealerships.
- (7) Reflects the decrease in floor plan interest expense resulting from the refinancing of the floor plan notes payable arrangements of the Clearwater Dealerships to the Company's master floor plan agreement. The average interest rate under the master agreement with Ford Motor Credit Company is approximately 7.60% compared to 8.50% interest rate for the Clearwater Dealerships.
- (8) Reflects the decrease in other interest expense resulting from the Company not assuming the Clearwater Dealerships notes payable to affiliates and other long-term obligations.
- (9) Reflects the increase in interest expense associated with the borrowings made under the Company's credit arrangement with Ford Motor Credit Company to provide the funds necessary for the acquisition of the Clearwater Dealerships.
- (10) Reflects the decrease in Cost of Sales resulting from a parts inventory adjustment.

6

NOTES TO UNAUDITED PRO FORMA STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997

ADJUSTMENT

- (11) The Clearwater Dealerships were not subject to federal and state income taxes because they were organized as S corporations during the period indicated. This adjustment reflects an increase in the federal and state income tax provision as if the Clearwater Dealerships had been taxable at the combined statutory income tax rate of 39%. Upon completion of the Acquisition, this entity that has historically not been subject to corporate income tax will thereafter be subject to federal and state income tax as a C corporation.

(12) Reflects the net decrease in the provision for income taxes resulting from adjustments (1) through (11) above, computed using an effective income tax rate of 39%.

7

Pro Forma Balance Sheet
December 31, 1997
(Unaudited)
(In Thousands except per share amounts)

<TABLE>
<CAPTION>

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	Sonic Automotive, Inc.	Clearwater Dealerships	Adjustments	Pro Forma
----- <S>	<C>	<C>	<C>	<C>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 18,304	\$ 2,065	\$ -	\$
20,369				
Marketable Equity Securities	270	-	-	
270				
Receivables	19,784	1,138	-	
20,922				
Inventories	156,514	9,215	-	
165,729				
Deferred income taxes	405	-	-	
405				
Other current assets	1,048	282	-	
1,330				
-----	-----	-----	-----	-----
Total current assets	196,325	12,700	-	
209,025				
PROPERTY AND EQUIPMENT, NET	19,081	7,829	(7,550) (2)	
19,360				
GOODWILL, NET	74,362	1,736	13,271 (1)	
87,633				
			(1,736) (3)	
DUE FROM AFFILIATES	1,047	-	-	
1,047				
OTHER ASSETS	635	-	-	
635				
=====	=====	=====	=====	
TOTAL ASSETS	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
=====	=====	=====	=====	
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Notes payable - floor plan	\$ 133,236	\$ 8,321	\$ -	\$
141,557				
Trade accounts payable	6,612	789	-	
7,401				
Accrued interest	1,071	-	-	
1,071				
Other accrued liabilities	10,280	466	-	
10,746				
Payable to affiliates	445	500	(500) (4)	
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Current maturities of long term debt	584	1,090	(1,090) (2) (6)	
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Total current liabilities	152,228	11,166	(1,590)	
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LONG-TERM DEBT	38,640	6,117	(6,117) (2) (6)	
51,354				
			12,714 (5)	
PAYABLE TO COMPANY'S CHAIRMAN	5,500	-	-	
5,500				
PAYABLE TO AFFILIATES	4,394	-	-	
4,394				
DEFERRED INCOME TAXES	1,547	-	-	

1,547				
INCOME TAX PAYABLE	4,776	-	-	
4,776				
STOCKHOLDERS' EQUITY				
Preferred stock	-	-	3,960	(1)
3,960				
Class A Common Stock	50	-	-	
50				
Class B Common Stock	63	-	-	
63				
Common Stock of Acquired Entity	-	1,202	(1,202)	(1)
-				
Paid in capital	68,045	1,210	(1,210)	(1)
68,045				
Retained earnings	16,186	2,570	(2,570)	(1)
16,186				
Unrealized gain on marketable equity securities	21	-	-	
21				
	-----	-----	-----	-----

Total stockholders' equity	84,365	4,982	(1,022)	
88,325				
	=====	=====	=====	
=====				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 291,450	\$ 22,265	\$ 3,985	\$
317,700				
	=====	=====	=====	
=====				

</TABLE>

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8

NOTES TO UNAUDITED PRO FORMA BALANCE SHEET
DECEMBER 31, 1997

ADJUSTMENT

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Estimated total consideration:	
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Less tangible net assets acquired	3,403,000

Excess of purchase price over fair value of net tangible assets acquired	\$ 13,271,000
	=====

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