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 September 30, 2001

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 November 13, 2001, there were 28,308,039 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)

	Three Months Ended September 30, 2000	Three Months Ended September 30, 2001
REVENUES:		
New vehicles	$ 924,040	$ 919,868
Used vehicles	335,638	302,401
Wholesale vehicles	112,256	99,497
Total vehicles	1,371,934	1,321,766
Parts, service and collision repair	177,788	197,001
Finance, insurance and other	45,139	48,073
Total revenues	1,594,861	1,566,840
COST OF SALES	1,366,120	1,331,993
GROSS PROFIT	228,741	234,847
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	165,460	176,163
DEPRECIATION	1,769	1,864
GOODWILL AMORTIZATION	4,184	4,615
OPERATING INCOME	57,328	52,205
OTHER INCOME AND EXPENSE:		
Interest expense, floor plan	11,607	7,496
Interest expense, other	10,637	8,476
Other income	35	45
Total other expense, net	22,209	15,927
INCOME BEFORE INCOME TAXES	35,119	36,278
PROVISION FOR INCOME TAXES	13,060	14,160
NET INCOME	$ 22,059	$ 22,118
BASIC NET INCOME PER SHARE	$ 0.52	$ 0.55
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	42,693	40,449
DILUTED NET INCOME PER SHARE	$ 0.51	$ 0.53
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING	43,571	41,994

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)

	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 2001
REVENUES:		
New vehicles	$ 2,682,696	$ 2,770,064
Used vehicles	962,392	936,990
Wholesale vehicles	323,231	319,416
Total vehicles	3,968,319	4,026,470
Parts, service and collision repair	513,920	581,153
Finance, insurance and other	125,362	139,802
Total revenues	4,607,601	4,747,425
COST OF SALES	3,951,528	4,048,753
GROSS PROFIT	656,073	698,672
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	473,745	527,009
DEPRECIATION	4,930	5,663
GOODWILL AMORTIZATION	12,414	13,721
OPERATING INCOME	164,984	152,279
OTHER INCOME AND EXPENSE:		
Interest expense, floor plan	34,012	30,188
Interest expense, other	31,200	26,989
Other income	109	120
Total other expense, net	65,103	57,057
INCOME BEFORE INCOME TAXES	99,881	95,222
PROVISION FOR INCOME TAXES	38,000	37,135
NET INCOME	$ 61,881	$ 58,087
BASIC NET INCOME PER SHARE	$ 1.45	$ 1.43
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	42,584	40,591
DILUTED NET INCOME PER SHARE	$ 1.40	$ 1.40
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING	44,257	41,511

See notes to unaudited consolidated financial statements.

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

	December 31, 2000	September 30, 2001 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 109,325	$ 103,431

Receivables, net	127,865	114,992
Inventories	773,785	654,762
Other current assets	26,428	29,596
Total current assets	1,037,403	902,781
PROPERTY AND EQUIPMENT, NET	72,966	85,329
GOODWILL, NET	668,782	689,200
OTHER ASSETS	10,097	12,004
TOTAL ASSETS	$ 1,789,248	$ 1,689,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable - floor plan	$ 684,718	$ 557,301
Trade accounts payable	50,274	44,669
Accrued interest	10,279	4,757
Other accrued liabilities	70,453	101,041
Current maturities of long-term debt	2,597	2,597
Total current liabilities	818,321	710,365
LONG-TERM DEBT	485,212	448,935
OTHER LONG-TERM LIABILITIES	8,200	8,318
PAYABLE TO THE COMPANY'S CHAIRMAN	5,500	5,500
DEFERRED INCOME TAXES	21,093	26,277
STOCKHOLDERS' EQUITY:		
Class A convertible preferred stock	251	-
Class A common stock	333	345
Class B common stock	123	121
Paid-in capital	329,489	337,160
Retained earnings	153,564	211,651
Treasury stock, at cost	(32,838)	(59,358)
Total stockholders' equity	450,922	489,919
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,789,248	$ 1,689,314

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See notes to unaudited consolidated financial statements.

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

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	Preferred Stock		Class A Common Stock		Class B Common Stock		Paid-In	Retained	Treasury	Total Stock-holders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT December 31, 2000	-	$ 251	33,292	$ 333	12,250	$ 123	$ 329,489	$153,564	$(32,838)	$450,922
Shares awarded under stock compensation plan			942	9			7,672			7,681
Repurchase of Class A Common Stock									(26,520)	(26,520)
Conversion of Class B Common Stock			221	2	(221)	(2)				-
Redemption of Preferred Stock	-	(251)								(251)
Exercise of warrants			81	1			(1)			-
Net income								58,087		

58,087

BALANCE AT September 30, 2001	-	$ -	34,535	$ 345	12,029	$ 121	$ 337,160	$211,651	$(59,358)	$489,919

</TABLE>

See notes to unauited consolidated financial statements.

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

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	Nine Months Ended September 30, 2000	2001
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 61,881	$ 58,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,344	19,384
Gain/loss on disposal of dealership assets	43	(794)
Changes in assets and liabilities that relate to operations:		
Receivables	(26,563)	21,617
Inventories	16,590	172,587
Other assets	(5,388)	(2,737)
Notes payable - floor plan	(18,966)	(184,342)
Trade accounts payable and other liabilities	11,482	19,508
Total adjustments	(5,458)	45,223
Net cash provided by operating activities	56,423	103,310
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of dealerships, net of cash acquired	(54,918)	(46,703)
Purchases of property and equipment	(57,993)	(30,909)
Proceeds from sales of property and equipment	15,199	13,974
Proceeds from sales of dealerships	4,450	10,394
Net cash used in investing activities	(93,262)	(53,244)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings/(repayments) on revolving credit facilities	74,191	(35,208)
Payments on long-term debt	(2,405)	(1,850)
Proceeds from long-term debt	924	188
Purchases of Class A common stock	(34,685)	(26,520)
Redemptions of Preferred Stock	-	(251)
Issuance of shares under stock compensation plans	2,144	7,681
Advances to affiliated companies	3,372	-
Net cash provided by/(used in) financing activities	43,541	(55,960)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,702	(5,894)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	83,111	109,325
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 89,813	$ 103,431
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Preferred Stock issued for acquisitions and contingent consideration	$ 11,589	$ -
Conversion of Preferred Stock	$ 25,947	$ -

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See notes to unaudited consolidated financial statements.

The following Notes to Unaudited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contain estimates and forward-looking statements as indicated herein

by the use of such terms as "estimated", "expects", "approximate", "projected" or similar terms. Such statements reflect management's current views, are based on certain assumptions and are subject to risks and uncertainties. No assurance can be given that actual results or events will not differ materially from those projected, estimated, assumed, or anticipated in any such forward-looking statements. Important factors that could cause actual results to differ from those projected or estimated are discussed herein, including without limitation, Exhibit 99.1 hereto, and in our other filings with the Securities and Exchange Commission.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(All tables in thousands except per share amounts)

1. Summary of Significant Accounting Policies

Basis of Presentation -- The accompanying unaudited financial information for the three and nine months ended September 30, 2000 and 2001 has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the audited consolidated financial statements of Sonic Automotive, Inc. ("Sonic") for the year ended December 31, 2000.

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 credit life, accident, health and disability insurance contracts to customers. Sonic may be assessed a chargeback fee in the event of early cancellation of a loan or insurance contract by the customer. Finance and insurance commission revenue is recorded net of estimated chargebacks at the time the related contract is placed with the financial institution.

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

Commissions expense related to finance and insurance commission revenue is charged to cost of sales upon recognition of such revenue, net of estimated chargebacks. Commission expense charged to cost of sales was approximately $6.7 million and $7.0 million for the three months ended September 30, 2000 and 2001, respectively, and approximately $19.8 million and $20.6 million for the nine months ended September 30, 2000 and 2001, respectively.

Recent Accounting Pronouncements -- In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141: Business Combinations. SFAS 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. In addition, SFAS 141 provides additional guidance regarding the measurement and recognition of goodwill and other acquired intangible assets. The provisions of this standard became effective beginning July 1, 2001. For acquisitions after this date, we will be required to classify certain intangible assets, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill.

In July 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS 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, but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS 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 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 142. The provisions of SFAS 142 become effective for us beginning January 1, 2002; however, goodwill and other intangible assets determined to have an indefinite useful life acquired in

business combinations completed after June 30, 2001 will not be amortized. Early adoption and retroactive application is not permitted. While we are currently evaluating the provisions of SFAS 142, we have not yet determined its full impact on our consolidated financial statements. As of December 31, 2000, the carrying amount of goodwill was $668.8 million and represented 37.4% of total assets and 148.3% of total stockholders' equity. As of September 30, 2001, the carrying amount of goodwill was $689.2 million and represented 40.8% of total assets and 140.7% of total stockholders' equity.

1. Summary of Significant Accounting Policies - (Continued)

In August 2001, the FASB issued SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS 144 is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the provisions of SFAS 144 and have not yet determined the impact on our consolidated financial statements.

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

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

2. Business Acquisitions

Acquisitions Completed Subsequent to September 30, 2001 (through November 12, 2001):

Subsequent to September 30, 2001, Sonic acquired five dealerships for approximately $74.7 million in cash financed with a combination of cash borrowed under our $600 million revolving credit facility and cash generated from operations.

Acquisitions Completed During the Nine months ended September 30, 2001:

During the first nine months of 2001, Sonic acquired five dealerships for approximately $51.9 million in cash. The acquisitions were accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying unaudited consolidated financial statements from their respective acquisition dates. The aggregate purchase price of these acquisitions has been allocated to the assets and liabilities acquired based on their estimated fair market value at the acquisition date as shown in the table below. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of certain of these acquisitions. As a result, the values of assets and liabilities included in the table below reflect preliminary estimates where actual values have not yet been determined, and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of the assets and liabilities will be recorded against goodwill.

Working capital	$ 10,179
Property and equipment	9,704
Goodwill	33,795
Non-current liabilites assumed	(1,784)
Total purchase price	$ 51,894

2. Business Acquisitions - (Continued)

The following unaudited pro forma financial information presents a summary of consolidated results of operations as if the acquisitions completed during the three and nine months ended September 30, 2000 and September 30, 2001 had occurred as of the beginning of the year in which the acquisitions were completed, and at the beginning of the immediately preceding year, after giving effect to certain adjustments, including amortization of goodwill, interest expense on acquisition debt and related income tax effects. The pro forma financial information does not give effect to adjustments relating to net reductions in floor plan interest expense resulting from floor plan financing agreements or to reductions in salaries and fringe benefits of former owners or officers of acquired dealerships who have not been retained by Sonic or whose salaries have been reduced pursuant to employment agreements with Sonic. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisitions been completed at the beginning of the period presented. These results are also not necessarily indicative of the results of future operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
Total revenues	$ 1,780,047	$ 1,571,783	$ 5,244,343	$ 4,792,975
Gross profit	$ 278,023	$ 235,420	$ 724,060	$ 705,271
Net income	$ 22,705	$ 21,947	$ 63,081	$ 56,618
Diluted net income per share	$ 0.52	$ 0.52	$ 1.43	$ 1.36

Sale of Dealership Subsidiaries:

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During the nine months ended September 30, 2001, we sold or otherwise disposed of assets from ten of our dealership franchises which contributed approximately $41.7 million in revenues in the first nine months of 2001. Proceeds, net of disposal costs, from these dispositions were approximately $10.4 million, resulting in a gain of approximately $0.8 million which has been included within selling, general and administrative expenses on the accompanying unaudited consolidated statements of income for the nine months ended September 30, 2001.

3. Inventories

Inventories consist of the following:

	December 31, 2000	September 30, 2001
New vehicles	$ 591,583	$ 466,107
Used vehicles	116,836	118,531
Parts and accessories	48,916	46,287
Other	16,450	23,837
Total	$ 773,785	$ 654,762

4. Property and Equipment

Property and equipment is comprised of the following:

	December 31, 2000	September 30, 2001
Land	$ 53	$ 7,392
Building and improvements	25,771	30,313
Office equipment and fixtures	23,599	25,962
Parts and service equipment	20,132	20,773
Company vehicles	5,812	6,678
Construction in progress	12,244	13,772

Total, at cost	87,611	104,890
Less accumulated depreciation	(14,645)	(19,561)
Property and equipment, net	$ 72,966	$ 85,329

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In addition to the $13.8 million classified as construction in progress at September 30, 2001, Sonic has incurred approximately $13.0 million in construction costs during the first nine months of 2001 on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying unaudited consolidated balance sheet as of September 30, 2001. At December 31, 2000 Sonic had classified $5.2 million of such construction costs in other current assets. We sold approximately $9.0 million of completed construction projects in sale-leaseback transactions during the nine months ended September 30, 2001. There were no material gains or losses on these sales.

5. LONG-TERM DEBT

Revolving Facility

On June 20, 2001 we entered into a new revolving credit facility (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company, L.L.C ("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 $541.6 million at September 30, 2001). The Revolving Facility replaced our prior revolving credit facility with Ford Motor Credit and Chrysler Financial, as lenders, which had a borrowing limit of $500 million, subject to a similar borrowing base. Of the amounts outstanding under the Revolving Facility, $75 million bears interest at a fixed rate of 7.23% while remaining amounts outstanding bear interest at 2.50% above LIBOR (LIBOR was 2.63% at September 30, 2001) and will mature on October 1, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The weighted average interest rate on the Revolving Facility was 6.37% and 7.33% for the three and nine months ended September 30, 2001, respectively. Repayments, net of borrowings, under the Revolving Facility for the nine months ended September 30, 2001 were approximately $41.4 million. The total outstanding balance was approximately $312.4 million as of September 30, 2001 and approximately $353.8 million as of December 31, 2000. The outstanding balance as of November 9, 2001 was approximately $333.5 million, reflecting borrowings made to finance acquisitions completed after September 30, 2001. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for the general working capital needs of Sonic and other general corporate purposes.

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

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

5. LONG-TERM DEBT - (Continued)

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or the failure by Sonic, with certain exceptions, to own all the outstanding equity, membership or partnership interests in its dealership subsidiaries will constitute an event of default under the Revolving Facility. Sonic is in compliance with all restrictive covenants as of September 30, 2001.

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 June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. Borrowings, net of repayments, under the Construction Loan for the nine months ended September 30, 2001 were approximately $1.4 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan was approximately $5.9 million as of September 30, 2001 and approximately $4.6 million as of December 31, 2000.

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. Borrowings under the Permanent Loan for the nine months ended September 30, 2001 were approximately $4.8 million and were used to finance the acquisition of real estate. The total outstanding balance as of September 30, 2001 was approximately $4.8 million. No balances were outstanding as of December 31, 2000.

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 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 September 30, 2001.

The Senior Subordinated Notes

We currently have an aggregate principal balance of $125 million in senior subordinated notes outstanding which mature on August 1, 2008 and bear interest at a stated rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Interest payments are due semi-annually on August 1 and February 1. 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 indenture governing the senior subordinated notes contains certain specified restrictive and required financial covenants. We have agreed not to pledge our assets to any third party except under certain limited 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 are in compliance with all restrictive covenants as of September 30, 2001.

On November 8, 2001, we priced $75 million aggregate principal amount of 11% senior subordinated notes due in 2008. Upon closing, we expect to use the net proceeds from the offering to refinance a portion of our Revolving Facility. These amounts may be subsequently borrowed and utilized to finance acquisitions and other general corporate purposes.

Subsidiary Guarantees

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

6. RELATED PARTIES

Registration Rights Agreement

When Sonic acquired Town & Country Ford, Lone Star Ford, Fort Mill Ford, Town & Country Toyota and Frontier Oldsmobile-Cadillac in 1997, Sonic signed a Registration Rights Agreement dated as of September 30, 1997 with Sonic

Financial Corporation ("SFC"), Bruton Smith, Scott Smith and William S. Egan (collectively, the "Class B Registration Rights Holders"). SFC currently owns 8,881,250 shares of Class B common stock; Bruton Smith, 2,171,250 shares; Scott Smith, 956,250 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 20,625 shares, all of which are covered by the Registration Rights Agreement. The Egan Group also owns certain shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

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

Payable to Company's Chairman

Sonic has a note payable to Mr. Smith in the amount of $5.5 million (the "Subordinated Smith Loan"). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus 0.5% (prime rate was 6.0% at September 30, 2001) 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 to Ford Motor Credit under the Revolving Facility, Sonic's floor plan financing facility with Ford Motor Credit and Sonic's senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

7. Capital Structure and Per Share Data

Preferred Stock - Sonic has 3 million shares of preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value $0.10 per share (the "Preferred Stock") which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. As of September 30, 2001 there were no shares issued and outstanding.

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 33,291,933 and 34,535,196 shares of Class A common stock issued at December 31, 2000 and September 30, 2001, respectively. Of these issued shares, there were 29,715,570 and 28,204,932 shares outstanding at December 31, 2000 and September 30, 2001, respectively. Sonic has also authorized 30 million shares of Class B common stock at a par value of $.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter. Sonic had 12,250,000 and 12,029,375 shares of Class B common stock issued and outstanding at December 31, 2000 and September 30, 2001, respectively.

Treasury Stock/Share Repurchase Program - The Board of Directors has authorized Sonic to expend up to $100 million to repurchase shares of Class A common stock or redeem securities convertible into Class A common stock. As of September 30, 2001 Sonic had repurchased a total of 6,330,264 shares of Class A common stock for approximately $59.4 million and had also redeemed 13,801.5 shares of Class A convertible preferred stock at a total cost of approximately $13.8 million.

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 tables illustrate the dilutive effect of such items on net income per share.

<TABLE>
<CAPTION>

	For the nine months ended September 30, 2000			For the nine months ended September 30, 2001		
	Income	Shares	Per-share amount	Income	Shares	Per-share amount

	(Dollars and Shares in thousands except per share amounts)			(Dollars and Shares in thousands except per share amounts		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share	$ 61,881	42,584	$ 1.45	$ 58,087	40,591	$ 1.43
Effect of Dilutive Securities:						
Stock compensation plans	-	549		-	894	
Warrants	-	35		-	18	
Convertible Preferred Stock	-	1,089		-	8	
Diluted Net Income Per Share	$ 61,881	44,257	$ 1.40	$ 58,087	41,511	$ 1.40

</TABLE>

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	For the three months ended September 30, 2000			For the three months ended September 30, 2001		
	Income	Shares	Per-share amount	Income	Shares	Per-share amount
	(Dollars and Shares in thousands except per share amounts)			(Dollars and Shares in thousands except per share amounts		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share	$ 22,059	42,693	$ 0.52	$ 22,118	40,449	$ 0.55
Effect of Dilutive Securities						
Stock compensation plans	-	644		-	1,544	
Warrants	-	39		-	1	
Convertible Preferred Stock	-	195		-	-	
Diluted Net Income Per Share	$ 22,059	43,571	$ 0.51	$ 22,118	41,994	$ 0.53

</TABLE>

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 Unaudited Consolidated Financial Statements and the related notes thereto.

Overview

We are the second largest automotive retailer in the United States, as measured by total revenue, operating 155 dealership franchises and 29 collision repair centers throughout the United States as of November 12, 2001. We own and operate franchises for 29 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 nine months ended September 30, 2001 compared to the three and nine months ended September 30, 2000:

<TABLE>
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	Percentage of New Vehicle Revenues for the Three Months Ended September 30		Percentage of New Vehicle Revenues for the Nine Months Ended September 30,	
	2000	2001	2000	2001
<S>	<C>	<C>	<C>	<C>
Brand				
Ford.................	12.8%	18.9%	13.8%	18.8%
Honda................	15.3%	13.0%	14.6%	13.1%
Toyota...............	8.6%	12.1%	8.5%	11.1%
BMW..................	10.1%	10.5%	10.1%	11.1%
General Motors (1)...	10.8%	10.8%	10.9%	10.8%
Chrysler (2).........	12.6%	8.2%	12.3%	8.6%
Nissan...............	6.6%	5.2%	6.4%	5.3%
Lexus................	5.5%	5.1%	5.0%	5.3%
Other (3)............	17.7%	16.2%	18.4%	15.9%
Total................	100.0%	100.0%	100.0%	100.0%

</TABLE>

(1) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile and Pontiac
(2) Includes Chrysler, Dodge, Jeep and Plymouth
(3) Includes Acura, Audi, Hyundai, Infiniti, Isuzu, KIA, Land Rover, Lincoln, Mercedes, Mercury, Mitsubishi, Porsche, Subaru, Volkswagen and Volvo

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

The automobile industry is cyclical and historically has experienced periodic downturns, characterized by oversupply and weak demand. Many factors affect the industry including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and available credit. These factors contributed to a significant decline in vehicle sales, primarily of domestic brands during the first nine months of 2001 as compared to the same period last year. On a same store basis, new vehicle revenues declined by approximately 8.0% in the first nine months of 2001 compared to the same period last year, and used vehicle revenues declined by approximately 11.2% compared to the same period last year. New and used vehicle sales substantially slowed immediately following the terrorist attacks of September 11, 2001. In response, certain manufacturers, especially of domestic brands, have introduced incentive programs, which have contributed to a significant increase in the pace of new vehicle sales in October. In addition, we have seen an increase in used vehicle sales in October as well as an increase in sales of brands of new vehicles whose manufacturers have not offered similar incentive programs. We are not able to determine how long the manufacturers will continue to offer these aggressive incentive programs or how long the overall increase in demand will continue, but expect that, absent these incentive programs, vehicle sales may begin to slow again in November and December and continue slowing into 2002.

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

Our cost of sales and profitability are also affected by the allocations of new vehicles 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. Such sales are frequently at or below cost and, therefore, reduce our overall gross margin on vehicle sales.

Salary expense, employee benefits costs, facility rent and advertising expenses comprise the majority of our selling, general and administrative expenses. Approximately 61.8% of our selling, general and administrative expenses for the nine months ended September 30, 2001 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 (approximately 7.3% of selling, general and administrative expenses) and non-salaried sales compensation (approximately 48.4%), so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options.

Interest expense fluctuates based primarily on the level of the inventory of new vehicles held at our dealerships, substantially all of which is financed through floor plan financing, as well as the amount of indebtedness incurred for acquisitions. Our floor plan expenses are substantially offset by amounts received from manufacturers, in the form of floor plan inventory incentives. These payments are credited against our cost of sales. We received approximately $24.9 million in these manufacturer inventory incentives during the nine months ended September 30, 2001 and approximately $8.5 million during the quarter ended September 30, 2001. Netting these incentives against floorplan interest expense would have resulted in an effective borrowing rate under our floor plan

facilities of approximately 1.1% for the nine months ended September 30, 2001 and an effective rate of zero for the quarter ended September 30, 2001.

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

We have accounted for all of our dealership acquisitions using the purchase 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 September 30, 2001. As a result of the effects of our acquisitions, the historical unaudited 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.

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 September 30,		Percentage of Total Revenues for the Nine Months Ended September 30,	
	2000	2001	2000	2001
Revenues:				
New vehicle revenues	57.9%	58.7%	58.2%	58.3%
Used vehicle revenues (retail)	21.1%	19.3%	20.9%	19.7%
Wholesale vehicle revenues	7.0%	6.3%	7.0%	6.7%
Parts, service and collision repair	11.2%	12.7%	11.2%	12.3%
Finance, insurance and other	2.8%	3.0%	2.7%	3.0%
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	85.7%	85.0%	85.8%	85.3%
Gross profit	14.3%	15.0%	14.2%	14.7%
Selling, general and administrative expenses	10.3%	11.3%	10.2%	11.1%
Depreciation	0.1%	0.1%	0.1%	0.1%
Goodwill amortization	0.3%	0.3%	0.3%	0.3%
Operating income	3.6%	3.3%	3.6%	3.2%
Interest expense, floorplan	0.7%	0.5%	0.7%	0.6%
Interest expense, other	0.7%	0.5%	0.7%	0.6%
Income before income taxes	2.2%	2.3%	2.2%	2.0%
Income tax expense	0.8%	0.9%	0.9%	0.8%
Net Income	1.4%	1.4%	1.3%	1.2%

Revenues

In the third quarter of 2001, total revenues decreased $28.0 million, or 1.8%, over the same period last year, reflecting decreases in revenues from the sale of new and used vehicles, which were partially offset by increases in revenues from parts, service, collision repair and finance

and insurance. Revenues grew in most of these areas in the first nine months of 2001, causing total revenues to increase $139.8 million, or 3.0%, over the same period last year. Dealerships acquired in 2000 and 2001, net of dealerships disposed, accounted for approximately $123.0 million of increased revenues in the third quarter and approximately $451.2 million of the increases in the first nine months of 2001. These increases were offset by declines in revenues from dealerships owned longer than one year of approximately $151.0 million in the third quarter of 2001 compared to the same period last year, and $311.3 million in the first nine months of 2001 compared to the same period last year.

New Vehicles: Revenues from the sale of new vehicles decreased approximately $4.2 million, or 0.5%, in the third quarter of 2001 compared to the same period last year, but increased approximately $87.4 million, or 3.3%, in the first nine months of 2001 compared to the same period last year. The average selling price of new vehicles increased 3.4% in both the third quarter and first nine months of 2001, primarily as a result of a shift in mix to higher priced import brands.

The increase in average selling price in the third quarter was offset by a decline in unit sales of 3.7%, or 1,342 units, reflecting an increase of 3,551 units from dealership acquired, net of dealerships disposed, but a decrease of 4,893 units from dealerships owned longer than one year. Of this decrease, approximately 53% occurred within the month of September 2001, compared with the same period last year. The decrease was also largely caused by decreased sales of domestic brands, which accounted for approximately 58% of the decrease, as well as weak economic conditions in our Northern California markets, which accounted for approximately 41% of the decrease.

Unit sales in the first nine months of 2001 declined only 0.1% compared to the first nine months of 2000. Dealerships acquired contributed 12,129 units, net of dealership disposed, in the first nine months of 2001, which was offset by a decline of 12,228 units from dealerships owned longer than one year. This decline was primarily isolated to sales of domestic brands, which are generally more sensitive to weaker economic conditions than import brands. Sales of domestic brands accounted for approximately 74% of the total decline in units from stores owned longer than one year. The decline was also largely impacted by weak economic conditions in Northern California, where revenues declined approximately 14% over the same period last year.

Used Vehicles: Revenues from retail sales of used vehicles decreased approximately 9.9% in the third quarter of 2001 compared to the same period last year, and approximately 2.6% in the first nine months of 2001 compared to the same period last year. The decreases reflect decreases in both unit sales, which decreased 6.4% in the third quarter of 2001 and 2.0% in the first nine months of 2001, compared to the same periods last year, and decreases in average selling price, which decreased approximately 3.7% in the third quarter of 2001 and 0.7% in the first nine months of 2001, compared to the same periods last year. The decrease in unit sales in both the third quarter and first nine months of 2001 resulted from dealerships owned longer than one year, which decreased by 2,485 units in the third quarter of 2001, and 6,704 units in the first nine months of 2001, compared to the same periods last year. This was offset by increases in unit sales from dealerships acquired, which contributed 1,134 units in the third quarter and 5,499 units in the first nine months, net of dealerships disposed, compared to the same periods last year. The decline in unit sales from dealerships owned longer than one year was experienced primarily by dealerships in our Northern California market in which used unit sales declined approximately 20.7% in the third quarter of 2001. Slow used vehicle revenues sales in September comprised approximately 45.0% of the decline in third quarter revenues from dealerships owned longer than one year.

Wholesale Vehicles: Wholesale revenues decreased 11.4% in the third quarter and 1.2% in the first nine months of 2001 compared to the same periods last year. The majority of these decreases resulted from decreases in average price per unit of approximately 12.5% in the quarter and 2.0% in the first nine months, compared to the same periods last year, primarily caused by the declines in wholesale values of used units in the overall wholesale market that were more rapid than last year. The decreases in average price per unit were partially offset by increases in unit sales of approximately 1.3% in the third quarter and 0.9% in the first nine months compared to the same periods last year. Dealerships acquired contributed 2,461 units, net of dealerships disposed, in the third quarter of 2001, and 5,450 units, net of dealerships disposed, in the first nine months of 2001. These increases were offset by declines in wholesale units from dealerships owned longer than one year of 2,212 in the third quarter of 2001 and 4,994 in the first nine months of 2001, compared to the same periods last year.

Fixed Operations: Revenues from parts, service and collision repair increased approximately 10.8% in the third quarter of 2001, and approximately 13.1% in the first nine months of 2001, compared to the same periods last year. The majority of these increases resulted from dealership acquisitions, net of dealership dispositions, which accounted for approximately 69.8% of the increase in the third quarter of 2001 and approximately 69.5% in the first nine months of 2001. Parts, service and collision repair revenues from dealerships owned longer than one year increased approximately 3.5% in the third quarter of 2001 over the same period last year, and approximately 4.3% in the first nine months of 2001 over the same period last year, resulting in part from investments in real estate and construction projects which allowed us to increase our overall service and parts capacity.

Finance and Insurance: Finance and insurance revenue increased approximately 9.9% in the third quarter of 2001 compared with the same period last year, and approximately 12.8% in the first nine months of 2001 compared with the same period last year. Approximately 129.2% of the increase in the third quarter and approximately 82.6% of the increase in the first nine months resulted from dealership acquisitions, net of dealership dispositions. Finance

and insurance revenues per vehicle increased approximately 11.8% in the third quarter of 2001 and approximately 12.4% in the first nine months of 2001, compared to the same periods last year. In addition, despite decreases in new vehicle revenues from dealerships owned longer than one year of approximately 10.2% in the third quarter and approximately 8.0% in the first nine months of 2001, compared to the same periods last year, finance and insurance revenues from those dealerships decreased only 2.0% in the third quarter and increased 2.1% in the first nine months, reflecting increases in finance and insurance revenues per vehicle of 13.6% in the third quarter and 16.2% in the first nine months. Excluding our Northern California market from dealerships owned longer than one year, finance and insurance revenues increased by 2.3% for the third quarter 2001 over last year. These increases results from management's continued focus on improving training and development programs for finance and insurance sales people.

Gross profit and gross margins

Gross profit increased 2.7% in the third quarter of 2001 compared to the same period last year, and approximately 6.5% in the first nine months of 2001 compared to the same period last year. The increases resulted primarily from the additional revenues contributed by dealership acquisitions, net of dealership dispositions, offset by declines in gross profit from dealerships owned longer than one year of approximately 4.4% in the third quarter of 2001 and 2.0% in the first nine months of 2001. Gross profits as a percentage of revenues ("gross margins") increased to 15.0% in the third quarter of 2001 and 14.7% in the first nine months of 2001, from 14.3% in the third quarter of 2000 and 14.2% in the first nine months of 2000, despite declines in gross margins from retail vehicle sales resulting from weaker economic conditions. The increases in overall gross margins were primarily driven by increases in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products, which earn higher margins than vehicles sales, as well as increases in gross margins earned on those products. Parts, service and collision repair revenues as a percentage of total revenues increased to 12.6% in the third quarter of 2001, from 11.1% in the third quarter of 2000, and to 12.2% in the first nine months of 2001 compared to 11.2% in the first nine months of 2000, reflecting investments in real estate and construction projects which allowed us to increase our overall service and parts capacity. Gross margins earned on parts, service, collision repair and finance and insurance products increased to 53.8% in the third quarter of 2001 from 52.9% in the third quarter of 2000, and to 53.6% in the first nine months of 2001 from 52.3% in the first nine months of 2000, reflecting management's increasing emphasis on training and development and the implementation of best business practices, including variable pricing structures and expense controls.

The following graph depicts our mix of revenue and gross profit for the third quarter of 2001 compared to the third quarter of 2000 and for the first nine months of 2001 compared to the first nine months of 2000:

	New Vehicles	Used Vehicles	Part Service and Collision Repair	Finance and Insurance	
Revenue	58.0%	28.0%	11.2%	2.8%	Q3 2000
Gross Profit	33.3%	15.1%	34.8%	16.8%	
Revenue	58.7%	25.7%	12.5%	3.1%	Q3 2001
Gross Profit	31.0%	12.8%	38.7%	17.5%	
Revenue	58.2%	27.9%	11.2%	2.7%	YTD 2000
Gross Profit	33.6%	15.4%	34.9%	16.1%	
Revenue	58.3%	26.5%	12.3%	2.9%	YTD 2001
Gross Profit	31.0%	13.7%	38.2%	17.1%	

Selling, general and administrative expenses

Selling, general and administrative expenses increased 6.5% in the third quarter of 2001 and 11.2% in the first nine months of 2001, compared to the same periods in the prior year. Approximately 94.6% of the increase in the third quarter, and approximately 82.1% of the increase in the first nine months, resulted from dealership acquisitions, net of dealerships dispositions. As a percentage of gross profits, selling, general and administrative expenses increased to 75.0% in the third quarter of 2001 from 72.3% in the third quarter of 2000, and to 75.4% in the first nine months of 2001 from 72.2% in the first nine months of 2000. The majority of these increases are attributable to fixed expenses, which increased to 28.6% in the third quarter of 2001 from 26.0% in the third quarter of 2000 and to 28.8% in the first nine months of 2001 from 25.8% in the first nine months of 2000, as compared to variable expenses which

increased only slightly to 46.4% in the third quarter of 2001 from 46.3% in the third quarter of 2000 and to 46.7% in the first nine months of 2001 from 46.4% in the first nine months of 2000. Fixed expenses increased largely as a result of investments in real estate and completed construction projects sold in sale-leaseback transactions which resulted in increases in rent expense of 16.9% in the third quarter and 21.7% in the first nine months, and as a result of increases in health care costs, which more than doubled in both the third quarter and first nine months of 2001 as compared to the same periods last year.

Depreciation and amortization

Depreciation expense, excluding goodwill amortization, increased approximately 5.4% in the third quarter of 2001 and 14.9% in the first nine months of 2001, compared to the same periods in the prior year. The balance of gross property and equipment, excluding land and construction in process, increased approximately $2.0 million in the third quarter 2001 and $8.5 million in the first nine months of the 2001. The third quarter increase primarily resulted from $2.8 million in capital expenditures partially offset by $0.8 million in property and equipment acquired through dealership acquisitions, net of disposals and other adjustments. The increase in the first nine months of the year primarily resulted from $7.3 million in capital expenditures and $1.2 million in property and equipment acquired through dealership acquisitions, net of disposals and other adjustments. As a percentage of total revenues, depreciation expense was 0.1% in both the third quarter and first nine months of 2001 and 2000. Goodwill amortization expense increased 10.3% in the third quarter of 2001 and 10.5% in the first nine months of 2001, compared to the same periods in the prior year, as a result of $62.9 million in goodwill acquired since the third quarter of 2000, excluding $2.2 million acquired subsequent to July 1, 2001 which is not amortizable in accordance with SFAS No. 142: Goodwill and Other Intangible Assets.

Interest expense, floor plan

Interest expense, floor plan decreased by $4.1 million, or 35.4%, in the third quarter of 2001 and $3.8 million, or 11.2%, in the first nine months of 2001, compared to the same periods last year. The changes in interest expense floor plan reflected decreases from stores owned longer than one year of approximately $4.2 million, or 40.0%, in the third quarter of 2001, and approximately $6.5 million, or 21.2%, in the first nine months of 2001 compared with the same periods last year. As a percentage of total revenues, floor plan interest decreased to 0.5% in the third quarter of 2001 from 0.7% in the third quarter of 2000, and decreased to 0.6% in the first nine months of 2001 from 0.7% in the first nine months of 2000. The decreases in floor plan interest expense during the third quarter resulted primarily from decreases in interest rates from the same period last year. Of the $4.2 million decrease in interest expense from stores owned longer than one year during the third quarter of 2001, an estimated $3.4 million resulted from decreases in interest rates. The remainder of the decrease was due to a decrease in average floor plan balances to approximately $460.9 million in the third quarter 2001 from approximately $521.7 million in the third quarter 2000 and $497.8 million in the first nine months of 2001 from approximately $508.3 million in the first nine months of 2000.

Interest expense, other

Interest expense, other decreased $2.2 million in the third quarter of 2001 compared to the same period last year, and $4.2 million in the first nine months of 2001 compared to the same period last year. These decreases primarily resulted from decreases of approximately $2.5 million in the third quarter and approximately $4.0 million in the first nine months resulting from declines in the weighted average interest rate incurred under our $600 million revolving credit to approximately 6.4% in the third quarter of 2001 and approximately 7.3% in the first nine months of 2001 from approximately 9.2% in the third quarter of 2000 and approximately 9.0% in first nine months of 2000.

Liquidity and Capital Resources

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

Cash from operations:

During the first nine months of 2001, net cash provided by operating activities was approximately $103.3 million compared to $56.4 million in 2000. The increase was primarily due to a decrease in receivables of approximately $21.6 million in the first nine months of 2001 compared to an increase of approximately $26.6 million in the first nine months of 2000.

Cash flows from operations include the effect of vehicle purchases and related floor plan financing. We currently have standardized floor plan credit facilities with Chrysler Financial Company, LLC ("Chrysler Financial"), General Motors Acceptance Corporation ("GMAC"), Ford Motor Credit Company ("Ford Motor Credit") and Toyota Motor Credit Corporation ("Toyota Credit"). In general, the floor plan facility with Chrysler Financial provides up to $750 million in floor plan financing to dealerships with franchises issued by DaimlerChrysler AG or any of its affiliates ("Chrysler"), the floor plan facility with GMAC provides floor plan financing to dealerships with franchises issued by General Motors Corporation or any of its affiliates ("GM"), the floor plan facility with Ford Motor Credit provides up to $650 million in floor plan financing to dealerships with franchises issued by Ford Motor Company or any of its affiliates ("Ford"), and the floor plan facility with Toyota Credit provides up to $100 million in floor plan financing to dealerships with franchises issued by Toyota Motor Corporation or any of its affiliates ("Toyota"). Prior to an agreement dated June 20, 2001 between us, Ford Motor Credit, Chrysler Financial and Toyota Credit (the "Wholesale Agreement"), floor plan financing to dealerships with franchises other than those issued by Chrysler, GM, Ford or Toyota had been provided by Ford Motor Credit. In accordance with the Wholesale Agreement, we agreed that, beginning June 20, 2001, floor plan financing to these dealerships would be provided 41.67% by Ford Motor Credit, 41.67% by Chrysler Financial and 16.67% by Toyota Credit, subject to the borrowing limits discussed above. As of September 30, 2001, there was an aggregate of approximately $115.6 million outstanding under the Chrysler Financial floor plan facility, $61.8 million outstanding under the GMAC floor plan facility, $368.4 million outstanding under the Ford Motor Credit floor plan facility, and $11.5 million outstanding under the Toyota Credit floor plan facility. Balances outstanding under new vehicle floor plan indebtedness generally exceed the related inventory balances, which are generally reduced by purchase discounts from manufacturers that are not reflected in the related floor plan liability. These manufacturer purchase discounts are standard in the automotive retail industry, typically occur on all new vehicle purchases and are not used to offset the related floor plan liability. These discounts are aggregated and generally paid to us by the manufacturers on a quarterly basis.

Amounts outstanding under the Chrysler Financial and Toyota Credit floor plan facilities bear interest at 1.25% above LIBOR (LIBOR was 2.63% at September 30, 2001). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at the prime rate (prime was 6.0% at September 30, 2001), subject to certain incentives and other adjustments. Interest payments under each of our floor plan facilities are due monthly, but we are not required to make principal repayments prior to the sale of the vehicles. The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of September 30, 2001.

Investing activities:

Cash used for investing activities in the nine months ended September 30, 2001 was approximately $53.2 million, compared to $93.3 million in the same period of 2000. Our principal investing activities include capital expenditures, dealership acquisitions and dispositions.

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 nine months ended September 30, 2001 were approximately $30.9 million, compared to $58.0 million in 2000. The year over year decrease primarily represents a decrease in expenditures for the construction and renovation of dealerships and collision repair centers. Of the capital expenditures in 2001, approximately $23.6 million related to the construction of new dealerships and collision repair centers compared to $44.1 million for similar expenditures in 2000. Once completed, these new dealerships and collision repair centers are generally sold to third parties in sale-leaseback transactions. We sold approximately $9.0 million of completed construction projects in sale leaseback transactions during the nine months ended September 30, 2001 There were no material gains or losses on these sales. As of September 30, 2001, total construction in progress was approximately $26.8 million, of which approximately $13.0 million represented construction costs on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying Unaudited Consolidated Balance Sheet as of September 30, 2001. We do not expect any significant gains or losses from these sales.

Dealership acquisitions and dispositions: During the nine months ended September 30, 2001, we acquired five dealerships for approximately $51.9 million

in cash. The purchases were financed with a combination of cash borrowed under our Revolving Facility and cash generated from our existing operations.

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During the nine months ended September 30, 2001, we sold or otherwise disposed of assets from ten of our dealership franchises which contributed approximately $41.7 million in revenues in 2001. Proceeds, net of disposal costs, were approximately $10.4 million, resulting in a gain of approximately $0.8 million for the nine months ended September 30, 2001.

In connection with General Motor's decision to discontinue the Oldsmobile brand, we have entered into termination agreements with General Motors to terminate all of our existing Oldsmobile franchises. As of September 30, 2001, we had terminated one of our Oldsmobile franchises and have terminated two additional Oldsmobile franchises subsequent to September 30, 2001. In accordance with the termination agreements, we may terminate our remaining Oldsmobile franchises with 30 days notice any time between now and 2005.

In connection with DaimlerChrysler's decision to discontinue the Plymouth brand, we have entered into termination agreements with DaimlerChrysler to terminate all our existing Plymouth franchises effective October 1, 2001.

Financing activities:

Cash used for financing activities was approximately $56.0 million in the first nine months of 2001 compared to cash provided by financing activities of $43.5 million in 2000. Cash used for financing activities in the first nine months of 2001 primarily related to net payments on our revolving credit facilities of $35.2 million and repurchases of stock under our stock repurchase program of approximately $26.5 million offset by issuances of stock under stock compensation plans of approximately $7.7 million. Cash provided by financing activities in the first nine months of 2000 primarily related to net borrowings under our Revolving Facility of approximately $74.2 million, offset by repurchases of stock under our stock repurchase program of approximately $34.7 million.

The Revolving Facility: On June 20, 2001 we entered into a new revolving credit facility (the "Revolving Facility") with Ford Motor Credit Chrysler Financial and Toyota Credit with a borrowing limit of $600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately $541.6 million at September 30, 2001). The Revolving Facility replaced our prior revolving credit facility with Ford Motor Credit and Chrysler Financial, as lenders, which had a borrowing limit of $500 million, subject to a similar borrowing base. Of the amounts outstanding under the Revolving Facility, $75 million bears interest at a fixed rate of 7.23% while remaining amounts outstanding bear interest at 2.50% above LIBOR (LIBOR was 2.63% at September 28, 2001) and will mature on October 1, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The weighted average interest rate on the Revolving Facility was 6.37% and 7.33% for the three and nine months ended September 30, 2001, respectively. Repayments, net of borrowings, under the Revolving Facility for the nine months ended September 30, 2001 were approximately $41.4 million. The total outstanding balance was approximately $312.4 million as of September 30, 2001 and approximately $333.5 million as of November 9, 2001, reflecting borrowings made to finance acquisitions completed after September 30, 2001. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for the general working capital needs of Sonic and other general corporate purposes.

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

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

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

covenants as of September 30, 2001.

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 for the nine months ended September 30, 2001 were approximately $1.4 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of September 30, 2001 was approximately $5.9 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. Borrowings under the Permanent Loan for the nine months ended September 30, 2001 were approximately $4.8 million and were used to finance the acquisition of real estate. The total outstanding balance as of September 30, 2001 was approximately $4.8 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 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 September 30, 2001.

The Senior Subordinated Notes: We currently have an aggregate principal balance of $125 million in senior subordinated notes outstanding which mature on August 1, 2008 and bear interest at a stated rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Interest payments are due semi-annually on August 1 and February 1. 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 indenture governing the senior subordinated notes contains certain specified restrictive and required financial covenants. We have agreed not to pledge our assets to any third party except under certain limited 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 are in compliance with all restrictive covenants as of September 30, 2001.

On November 8, 2001, we priced $75 million aggregate principal amount of 11% senior subordinated notes due in 2008. Upon closing, we expect to use the net proceeds from the offering to refinance a portion of our Revolving Facility. These amounts may be subsequently borrowed and utilized to finance acquisitions and other general corporate purposes.

Stock Repurchase Program: Our Board of Directors has authorized us to expend up to $100 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. As of September 30, 2001 we had repurchased a total of 6,330,264 shares of Class A common stock for approximately $59.4 million and had also redeemed 13,801.5 shares of Class A convertible preferred stock at a total cost of approximately $13.8 million.

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

Acquisitions Completed Subsequent to September 30, 2001 (through November

12, 2001): Subsequent to September 30, 2001, Sonic acquired five dealerships for approximately $74.7 million in cash financed with a combination of cash borrowed under the Revolving Facility and cash generated from Sonic's existing operations.

Seasonality

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

Effect of New Accounting Pronouncements:

Recent Accounting Pronouncements: In July 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. In addition, SFAS 141 provides additional guidance regarding the measurement and recognition of goodwill and other acquired intangible assets. The provisions of this standard became effective beginning July 1, 2001. For acquisitions after this date, we will be required to classify certain intangible assets, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill.

In July 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS 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, but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS 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 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 142. The provisions of SFAS 142 become effective for us beginning January 1, 2002; however, goodwill and other intangible assets determined to have an indefinite useful life acquired in business combinations completed after June 30, 2001 will not be amortized. Early adoption and retroactive application is not permitted. While we are currently evaluating the provisions of SFAS 142, we have not yet determined its full impact on our consolidated financial statements. As of December 31, 2000, the carrying amount of goodwill was $668.8 million and represented 37.4% of total assets and 148.3% of total stockholders' equity. As of September 30, 2001, the carrying amount of goodwill was $689.2 million and represented 40.8% of total assets and 140.7% of total stockholders' equity.

In August 2001, the FASB issued SFAS 144: Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS 144 is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the provisions of SFAS 144 and have not yet determined the impact on our consolidated financial statements.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our variable rate floor plan notes facilities, Revolving Facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately $1.0 billion at September 30, 2001 and approximately $918.2 million at September 30, 2000. A change of one percent in the interest rate would have caused a change in interest expense of approximately $7.3 million in the first nine months of 2001 and approximately $7.0 million in the first nine months of 2000. Of the total change in interest expense, approximately $4.6 million in the first nine months of 2001 and approximately $4.4 million in the nine months of 2000 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes facilities is mitigated by floor plan incentives received from manufacturers, which are generally based on rates similar to those incurred under our floor plan financing arrangements. Our floor plan interest expense in the first nine months of 2001 exceeded the amounts we received from these manufacturer floor plan incentives by only approximately $5.3 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to an annualized rate of approximately 1.1% after considering these incentives.

PART II - OTHER INFORMATION

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

Exhibits:

3.1 Bylaws of Sonic (as amended August 8, 2001).

10.1 Amendment to Credit Agreement and Reaffirmation of Guaranty dated August 15, 2001 between Sonic, as Borrower, the subsidiaries of Sonic named therein, as Guarantors, Ford Motor Credit Company ("Ford Credit"), as Agent and Lender, Chrysler Financial Company, L.L.C., as Lender, and Toyota Motor Credit Corporation, as Lender.

10.2 Amended and Restated Promissory Note dated August 15, 2001 executed by Sonic in favor of Ford Credit pursuant to the Credit Agreement.

99.1 Risk Factors.

Exhibit 3.1

BYLAWS

OF

SONIC AUTOMOTIVE, INC.

(amended through August 8, 2001)

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BYLAWS

OF

SONIC AUTOMOTIVE, INC.

ARTICLE 1 - REGISTERED AND OTHER OFFICES

SECTION 1.01. REGISTERED OFFICE.

The address of the initial registered office in the State of Delaware and the name of the initial registered agent of Sonic Automotive, Inc. (the "Corporation") at such address are set forth in the Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"). The Corporation may, from time to time, designate a different address as its registered office or a different person as its registered agent, or both; *provided, however*, that such designation shall become effective upon the filing of a statement of such change with the Department of State of the State of Delaware as is required by law.

SECTION 1.02. OTHER OFFICES.

The Corporation may have other offices, either within or without the State of Delaware, at such place or places as the Board of Directors (the "Board") may from time to time determine or the business of the Corporation may require.

ARTICLE 2 - MEETINGS OF STOCKHOLDERS

SECTION 2.01. ANNUAL MEETINGS.

Annual meetings of stockholders for the election of directors and for the transaction of any other business properly brought before the stockholders in accordance with Section 2.08 hereof shall be held at such place, either within or without the State of Delaware, and at such time and date as the Board, by resolution, shall determine and as set forth in the notice of the meeting.

If the date of the annual meeting shall fall upon a legal holiday, the meeting shall be held on the next succeeding business day. At each annual meeting, the stockholders entitled to vote shall elect directors to succeed those directors whose term expires at such annual meeting and may transact such other business as is properly brought before the stockholders in accordance with Section 2.08 hereof.

SECTION 2.02. SPECIAL MEETINGS.

Special meetings of the stockholders, for any purpose, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called only by the Chairman of the Board and shall be called by the Secretary or any Assistant Secretary, at the request in writing of a majority of the directors. Such request shall state the purpose of the proposed meeting. At each

special meeting, the stockholders may transact only the business that is properly brought before the stockholders in accordance with Section 2.08 hereof. If a special meeting is adjourned to another time or place, the stockholders may only transact business at the adjourned meeting that may have properly been transacted at the original meeting.

SECTION 2.03. NOTICE OF MEETINGS.

Written notice, stating the place, date and time of any annual or special meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting in accordance with Delaware law, by or at the direction of the Board or the person or persons calling the meeting, not less than ten (10) nor more than sixty (60) days before the date of the meeting. If mailed, then such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation.

SECTION 2.04. STOCKHOLDER LIST.

The officer or agent who has charge of the stock ledger of the Corporation shall, at least ten (10) days before each meeting of stockholders, prepare a complete alphabetical list of the stockholders entitled to vote at the

ensuing meeting, with the address and the number and class and series, if any, of shares held by each. Said list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall be available for inspection at the meeting.

SECTION 2.05. QUORUM.

Except as otherwise required by the General Corporation Law of the State of Delaware (the "Act"), by the Certificate of Incorporation or by these Bylaws, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. When a specified item of business is required to be voted on by a class or series of stock, a majority of the shares of such class or series, represented in person or by proxy, shall constitute a quorum for the transaction of such item of business by that class or series. After a quorum has been established at a stockholders' meeting, the subsequent withdrawal of stockholders, so as to reduce the number of shares entitled to vote at the meeting below the number required for a quorum, shall not affect the validity of any action taken at the meeting or any adjournment thereof.

SECTION 2.06. VOTING.

If a quorum is present, the affirmative vote of a majority of the votes cast by shares entitled to vote on the subject matter shall be the act of the stockholders, unless the vote of a greater number or voting by class is required by the Act, the Certificate of Incorporation or these Bylaws. Where a separate vote by class is required, the affirmative vote of a majority of the votes cast by shares of such class shall be the act of such class unless the vote of a greater

number is required by the Act, the Certificate of Incorporation or these Bylaws. Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders, except as may otherwise be provided by the Act or by the Certificate of Incorporation. The affirmative vote of a plurality of the votes cast by shares entitled to vote on the election of directors shall be sufficient to elect directors. Cumulative voting of shares is prohibited. A stockholder may vote either in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact.

SECTION 2.07. NO ACTION WITHOUT A MEETING.

No action required to be taken or that may be taken at an annual or special meeting of stockholders of the Corporation may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

SECTION 2.08. ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND OTHER BUSINESS.

(a) Director Nominations. Subject to any rights of holders of Preferred Stock, only persons who are selected and recommended by the Board of Directors or a committee of the Board of Directors established to make nominations, or who are nominated by stockholders in accordance with the procedures set forth in this Section 2.08, shall be eligible for election at any annual or special stockholders meeting. Nominations of individuals for election to the Board of Directors of the Corporation at any annual meeting or any special meeting of stockholders at which directors are to be elected may be made by a stockholder of the Corporation entitled to vote for the election of directors at that meeting as hereinafter set forth. Nominations by stockholders shall be delivered to the Corporation in accordance with subsection 2.08(c) hereof and shall be made by written notice (a "Nomination Notice"), which shall set forth, (i) as to each individual nominated, (A) the name, date of birth, business address and residence address of such individual and (B) such other information regarding each individual nominated that is to be disclosed in solicitations of proxies for an election of directors, or is otherwise required, in each case pursuant to the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, and, (ii) as to the stockholder submitting the Nomination Notice and any person acting in concert with such stockholder, (w) the name and business address of such stockholder and each such person, (x) the name and business address of such stockholder and each such person as they appear on the Corporation's books along with a representation that such stockholder is a stockholder of record of shares of the Corporation's capital stock entitled to vote at the meeting to which the notice pertains and intends to appear in person or by proxy at the meeting to nominate the person(s) in the notice, (y) a description of all arrangements, understandings or relationships

between the stockholder and each nominee and any other person or persons (naming such person(s)) pursuant to which the nomination(s) are to be made by the stockholder and (z) the class and number of shares of the Corporation which are beneficially owned by such stockholder and each such person. A written consent to being named in the proxy statement as a nominee and to serving as a director of the Corporation if elected, signed by each nominee, shall be filed with any Nomination Notice. If the presiding officer at any meeting of the stockholders determines that any nomination was not made in accordance with the procedures prescribed by these Bylaws, then he shall so declare to the stockholders at the meeting, and the defective nomination shall be disregarded.

(b) Stockholder Business. At any meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (c) properly brought before the meeting by a stockholder of record (who was also a stockholder of record at the time of giving of the notice) in accordance with the procedures set forth in this Section 2.08. A stockholder's written notice (a "Business Notice") shall set forth, as to each matter the stockholder proposes to bring before the meeting: (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and business address of record of the stockholder proposing such business, (iii) the class and number of shares of the Corporation which are beneficially owned by the stockholder and (iv) any material interest of the stockholder in such business. If the presiding officer at any meeting of stockholders determines that business was not properly brought before the meeting, then he shall so declare to the stockholders at the meeting, and any such business not properly brought before the meeting shall not be transacted.

(c) Delivery of Notices. To be timely, any Nomination Notice or Business Notice must be delivered to, or mailed and received at, the principal executive office of the Corporation, (i) in the case of an annual meeting that is called for a date that is within thirty (30) days before or after the anniversary date of the immediately preceding annual meeting of stockholders, not less than sixty (60) days nor more than ninety (90) days prior to such anniversary date, and (ii) in the case of an annual meeting that is called for a date that is not within thirty (30) days before or after the anniversary date of the immediately preceding annual meeting, or in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first.

ARTICLE 3 - DIRECTORS

SECTION 3.01. POWERS.

The business of the Corporation shall be managed by or under the direction of the Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws specifically reserved to the shareholders.

SECTION 3.02. NUMBER AND TERM.

The Board shall consist of not less than three (3) nor more than eleven (11) directors as a majority of the Board shall from time to time specify. No reduction in the number of directors shall have the effect of shortening the term of any incumbent director and when so fixed such number shall continue to be the authorized number of directors until changed in accordance herewith. The Board shall be divided into three classes, as nearly equal in number as possible. Each of the Class I, Class II and Class III directors shall initially be elected to serve until the 1998, 1999 and 2000 annual meetings of stockholders, respectively, and, thereafter, the

successors in each class of directors shall be elected to serve until the third (3rd) annual meeting of stockholders following his election and qualification. Each director shall serve until his successor shall have been elected and qualified or until his earlier resignation, removal or death.

SECTION 3.03. RESIGNATIONS.

Any director or member of a committee may resign at any time. Such resignation shall be made in writing, and shall take effect at the time

specified therein, and, if no time be specified, at the time of its receipt by the Chairman of the Board, the President or the Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless otherwise specified therein.

SECTION 3.04. VACANCIES.

Subject to any rights of holders of Preferred Stock, any vacancy occurring in the Board of Directors, including any vacancy created by reason of an increase in the number of directors, removal, resignation or death, may only be filled by the affirmative vote of a majority of the remaining directors then in office though less than a quorum of the Board of Directors, or by a sole remaining director, as the case may be, and the director(s) so chosen shall hold office until the next election of the class for which such director(s) has(have) been chosen, and until his(their) successors are duly elected and qualified, or until his(their) earlier resignation or removal. In the event of any increase or decrease in the number of directors, the additional or eliminated directors shall be classified or chosen so that all classes of directors shall remain or become as nearly equal in number as possible.

SECTION 3.05. REMOVAL.

Notwithstanding any other provision of these Bylaws to the contrary, a director may not be removed during his term except for cause.

SECTION 3.06. MEETINGS; PLACE AND TIME.

The Board may hold meetings, both regular and special, either within or without the State of Delaware, as it may from time to time determine.

SECTION 3.07. REGULAR ANNUAL MEETING.

A regular annual meeting of the Board shall be held immediately following the annual meeting of stockholders at the same place or at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a majority of such Board shall be present.

SECTION 3.08. OTHER REGULAR MEETINGS.

Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

SECTION 3.09. SPECIAL MEETINGS; NOTICE.

Special meetings of the Board may be called by the Chairman of the Board or the President or by the written request of two (2) directors. Written notice of the time and place of special meetings shall be given to each director by either personal delivery, telegram, cablegram or telefax at least seven (7) days before the meeting, or by notice mailed to each director at least ten (10) days before the meeting. Notice of a meeting need not be given to any director who submits a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

SECTION 3.10. QUORUM.

At all meetings of the Board, a majority of the directors then serving shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 3.11. ACTION WITHOUT MEETING.

Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

SECTION 3.12. TELEPHONE MEETINGS.

Unless otherwise restricted by the Certificate of Incorporation, members of the Board, or of any committee thereof, may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

SECTION 3.13. COMMITTEES OF DIRECTORS.

The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Each such committee may be terminated by the Board at such time as the Board may determine.

SECTION 3.14. COMPENSATION OF DIRECTORS.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board shall have the authority to fix the compensation of directors. By resolution of the Board, the

directors may be paid their expenses, if any, of attendance at each meeting of the Board (and any committee thereof), a fixed sum for attendance at each meeting of the Board (and any committee thereof), and a stated salary as director. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 3.15. DIRECTOR CONFLICTS OF INTEREST.

No contract or other transaction between the Corporation and one or more of its directors or between the Corporation and any other corporation, firm, association or entity in which one or more of the directors of this Corporation are directors or officers or are financially interested, shall be void or voidable solely because of such relationship or interest or solely because such director or directors are present at or participate in the meeting of the Board or a committee thereof which authorizes, approves or ratifies such contract or transaction or solely because his or their votes are counted for such purpose, if:

A. The material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board or committee, and the Board or committee in good faith authorizes, approves or ratifies the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

B. The material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of such stockholders, or

C. The contract or transaction is fair as to the corporation at the time it is authorized, approved or ratified by the Board, a committee or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or a committee thereof which authorizes, approves or ratifies such contract or transaction.

ARTICLE 4 - OFFICERS

SECTION 4.01. OFFICERS.

The officers of the Corporation shall consist of a President, a Treasurer and a Secretary, shall be elected by the Board and shall hold office until their successors are elected and qualified, unless such officers resign, die or are removed prior thereto. In addition, the Board may elect a Chairman, a Vice Chairman, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, a Controller, one or more Vice Presidents or Executive Vice Presidents, and such Assistant Secretaries and Assistant Treasurers or other officers as it may deem proper. None of the officers of the Corporation need be stockholders. The officers shall be elected at the first meeting of the Board after each annual meeting. More than two offices may be held by the same person, except the offices of President and Secretary, unless the Certificate of Incorporation or these Bylaws otherwise provide. The Board shall designate the Chairman of the Board or the President as the Chief Executive Officer of the Corporation.

SECTION 4.02. CHAIRMAN; CHIEF EXECUTIVE OFFICER.

The Chairman of the Board, if one is elected, shall preside at all meetings of the shareholders and of the Board. The Chairman shall also have and perform such other duties as from time to time may be assigned to him by the Board. The Chief Executive Officer of the Corporation shall, subject to the direction of the Board, supervise and control the business and management of the Corporation. The Chief Executive Officer shall also have and perform such other duties as from time to time may be assigned to him by the Board.

SECTION 4.03. PRESIDENT.

The President shall have and perform all duties incident to the office of President and such other duties as from time to time may be assigned to him by the Board. If designated as the Chief Executive Officer by the Board, the President shall, subject to the direction of the Board, supervise and control the business and management of the Corporation. If there is no Chairman, or in his absence, the President shall preside at all meetings of the stockholders.

SECTION 4.04. CHIEF OPERATING OFFICER.

The Chief Operating Officer, if one is elected, shall have and perform such duties as from time to time may be assigned to him by the Chief Executive Officer.

SECTION 4.05. CHIEF FINANCIAL OFFICER.

The Chief Financial Officer, if one is elected, shall have and perform such duties as from time to time may be assigned to him by the Chief Executive Officer.

SECTION 4.06. VICE PRESIDENTS OR EXECUTIVE VICE PRESIDENTS.

If Vice Presidents or Executive Vice Presidents be elected, they shall have such powers and shall perform such duties as shall be assigned to them by the President.

SECTION 4.07. TREASURER.

The Treasurer shall be responsible for the administration of the corporate funds and securities and shall keep full and accurate account of receipts and disbursements in books belonging to the Corporation. The Treasurer shall disburse the funds of the Corporation as may be ordered by the President, taking proper vouchers for such disbursements. He shall render to the Chairman, the President and the Board at the regular meetings of the Board, or whenever they may request it, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board, he shall give the Corporation a bond for the faithful performance of his duties in such amount and with such surety as the Board shall prescribe.

SECTION 4.08. SECRETARY.

The Secretary shall give, or cause to be given, notice of all meetings of stockholders and directors, and all other notices required by law or by these Bylaws, and in case of his absence or refusal or neglect so to do, any such notice may be given by any person thereunto directed by the Chairman of the Board, the President or the Board. He shall record all the proceedings of the meetings of the Corporation and of the Board in a book to be kept for that purpose. He shall keep in safe custody the seal of the Corporation, and, when authorized by the Board, shall affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of any Assistant Secretary.

SECTION 4.09. CONTROLLER, ASSISTANT TREASURERS AND ASSISTANT SECRETARIES.

Controller, Assistant Treasurers and Assistant Secretaries, if any be elected, shall have such powers and shall perform such duties as shall be assigned to them, respectively, by the Chairman of the Board or the President.

SECTION 4.10. REMOVAL; RESIGNATIONS; VACANCIES.

Any officer elected or appointed by the Board may be removed at any time, either for or without cause, by the affirmative vote of a majority of the Board. Section 3.03 shall apply similarly to resignations of officers. Any vacancy occurring in any office of the Corporation may be filled by the Board.

SECTION 4.11. COMPENSATION.

The compensation of officers of the Corporation shall be established by the Board or any compensation committee thereof. The fact that an officer is also a director shall not preclude such person from receiving compensation as either a director or officer, nor shall it affect the validity of any resolution by the Board fixing such compensation. If the Chairman of the Board is also the Chief Executive Officer of the Corporation, the Chairman shall have authority to establish the salaries of all other employees of the Corporation. If the Chairman of the Board is not the Chief Executive Officer of the Corporation, the President shall have authority to establish the salaries of all other employees of the Corporation.

SECTION 4.12. MECHANICAL ENDORSEMENT.

The Chairman of the Board, the President, any Executive Vice President, any Vice President, or the Secretary may authorize any endorsement on behalf of the Corporation to be made by such mechanical means or stamps as any of such officers may deem appropriate.

ARTICLE 5 - MISCELLANEOUS

SECTION 5.01. STOCK CERTIFICATES.

(a) Issuance. The Corporation may issue the shares of stock authorized by its Certificate of Incorporation and none other. Shares may be issued only pursuant to a resolution adopted by the Board. Every holder of shares in the Corporation shall be entitled to have a certificate representing all shares to which he is entitled. No certificate shall be issued for any share until such share is fully paid.

(b) Signatures. Certificates representing shares in the Corporation shall be signed by or in the name of the Corporation by the Chairman or Vice Chairman, or the President, Executive Vice President or Vice President, and by the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

(c) Form. Each certificate representing shares shall state upon the face thereof: the name of the Corporation; that the Corporation is organized under the laws of Delaware; the name of the person or persons to whom it is issued; the number and class of shares, and the designation of the series, if any, which such certificate represents; and the par value of each share represented by such certificate, or a statement that the shares are without par value. Each certificate shall otherwise comply, in all respects, with the requirements of the Act.

(d) Transfer of Stock. The Corporation shall register a stock certificate presented to it for transfer if the certificate is properly endorsed by the holder of record or by his duly authorized attorney; provided, however, that the Corporation or its transfer agent may require the signature of such person to be guaranteed by a commercial bank or trust company or by a member of the New York or American Stock Exchange.

(e) Lost, Stolen or Destroyed Certificates. The Board may authorize the Corporation to issue a new stock certificate in the place of any certificate previously issued if the holder of record of the certificate (i) makes proof in affidavit form that it has been lost, destroyed or wrongfully taken; (ii) requests the issue of a new certificate before the Corporation has notice that the certificate has been acquired by a purchaser for value in good faith and without notice of any adverse claim; (iii) gives bond in such form, if any, as the Corporation may direct, to indemnify the Corporation, the transfer agent and registrar against any claim that may be made on account of the alleged loss, destruction or theft of a certificate; and (iv) satisfies any other reasonable requirements imposed by the Corporation.

(f) Transfer Agents; Registrars; Rules Respecting Certificate. The Board may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or

more registrars. The Board may make such further rules and regulations as it may deem expedient concerning the issue, transfer and registration of stock certificates of the Corporation.

SECTION 5.02. STOCKHOLDERS RECORD DATE.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted

and, with respect to record dates to be established in connection with stockholders meetings, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, or, with respect to record dates to be established in connection with other actions, which shall not be more than sixty (60) days prior to such other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board may fix a new record date for the adjourned meeting.

SECTION 5.03. REGISTERED STOCKHOLDERS.

The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

SECTION 5.04. DIVIDENDS.

Subject to the provisions of the Certificate of Incorporation, the Board may, out of funds legally available therefor at any regular or special meeting, declare dividends upon the capital stock of the Corporation as and when they deem expedient. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation. Before declaring any dividends, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board from time to time in its discretion deems proper for working capital or as a reserve fund to meet contingencies or for such other purpose as the Board shall deem conducive to the interests of the Corporation, and the Board may modify or abolish any such reserve.

SECTION 5.05. SEAL.

The corporate seal shall be circular in form and shall contain the name of the Corporation and the words "CORPORATE SEAL, DELAWARE." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

SECTION 5.06. FISCAL YEAR.

The fiscal year of the Corporation shall be determined by the Board.

SECTION 5.07. CHECKS.

All checks, drafts, or other orders for the payment of money and notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation, and in such manner as shall be determined from time to time by resolution of the Board. The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Corporation in such depositories as may be authorized by the Chairman of the Board or the President.

SECTION 5.08. NOTICE AND WAIVER OF NOTICE.

Whenever any notice is required by these Bylaws to be given, personal notice is not meant unless expressly stated, and any notice so required shall be deemed to be sufficient if given by depositing the same in the United States mail, airmail postage prepaid, addressed to the person entitled thereto at his address as it appears on the records of the Corporation, and such notice shall be deemed to have been given on the day of such mailing. Stockholders not entitled to vote shall not be entitled to receive notice of any meetings except as otherwise provided by statute.

Whenever any notice whatever is required to be given under the provisions of any law, or under the provisions of the Certificate of Incorporation or these Bylaws, a waiver thereof in writing signed by the person or person entitled to said notice, whether before or after the time stated therein, shall be deemed proper notice.

SECTION 5.09. BOOKS AND RECORDS.

The Corporation shall keep correct and complete books and records of accounts and shall keep minutes of the proceedings of its stockholders, the Board and committees thereof.

ARTICLE 6 - INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

SECTION 6.01. INDEMNIFICATION.

Any person who has been made or is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Corporation) (hereinafter a "proceeding"), by reason of the fact that he is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, fiduciary or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expenses (including attorneys' fees),

judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection therewith; provided, however, that the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) that was initiated by such person only if such proceeding (or part thereof) was authorized or ratified by the Board. The right to indemnification conferred in this Section 6.01 shall be a contract right.

For purposes of this Section 6.01, reference to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, fiduciaries and agents so that any person who is or was a director, officer, fiduciary or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall stand in the same position under the provisions of this Section 6.01, with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

SECTION 6.02. PROCEDURE FOR INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Any indemnification of a director or officer of the Corporation under Section 6.01 above or advance of expenses under Section 6.03 below shall be made promptly, and in any event within thirty (30) days, upon the written request of the director or officer subject to the following provisions. If a determination by the Board that the director or officer is entitled to indemnification pursuant to this Article 6 is required, and the Corporation fails to respond within sixty (60) days to a written request for indemnity, the Corporation shall be deemed to have approved the request. If the Corporation denies a written request for indemnification or advancing of expenses, in whole or in part, or if payment in full pursuant to such request is not made within thirty (30) days, the right to indemnification or advances as granted by this Article 6 shall be enforceable by the director or officer in any court of competent jurisdiction. Such person's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Act for the Corporation to indemnify the claimant for the amount claimed, but the burden of such defense shall be on the Corporation. Neither the failure of the Corporation (including the Board, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Act, nor an actual determination by the Corporation (including the Board, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

SECTION 6.03. PAYMENT OF EXPENSES IN ADVANCE.

Expenses (including attorneys' fees) incurred by any person described in Section 6.01 in defending an action, suit or proceeding referred to in Section 6.01 above may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she

is not entitled to be indemnified by the Corporation as authorized in Section 6.01.

SECTION 6.04. INDEMNIFICATION NOT EXCLUSIVE.

The indemnification and right to payment of expenses in advance of final disposition provided for under this Article 6 shall not be deemed exclusive of (i) any other rights to which those seeking indemnification may be entitled under any bylaw, any agreement, any insurance purchased by the Corporation, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office or (ii) the power of the Corporation to indemnify any person who is or was an employee or agent of the Corporation or of another corporation, joint venture, trust or enterprise that he is serving or has served at the request of the Corporation, to the same extent and in the same situations and subject to the same determinations with respect to directors and officers.

SECTION 6.05. OTHER.

Any repeal or modification of this Article 6 by the stockholders of the Corporation shall be prospective only, and shall not adversely affect the indemnification of any officer or director of the Corporation existing at the time of such repeal or modification.

SECTION 6.06. INDEMNIFICATION AGREEMENTS.

The Corporation may enter into indemnification agreements with its officers and Directors.

SECTION 6.07. INSURANCE.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such and which insurance coverage may extend indemnification protection that is broader and more comprehensive than the indemnification benefits granted under this Article.

SECTION 6.08. CONTINUED COVERAGE.

Unless otherwise provided herein, the indemnification extended to a person that has qualified for indemnification under the provisions of this Article shall not be terminated when

the person has ceased to be a director, officer, employee or agent for all causes of action against the indemnified party based on acts and events occurring prior to the termination of the relationship with the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person.

ARTICLE 7- AMENDMENTS

In furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to adopt, amend or repeal these Bylaws by a majority vote at any regular or special meeting of the Board or by written consent, subject to the power of the stockholders of the Corporation to amend or repeal any Bylaw whether adopted by the Board or the stockholders.

ARTICLE 8- CONFLICT OF TERMS

Except as otherwise explicitly provided in these Bylaws, if any provision contained in these Bylaws is in conflict with, inconsistent with, or imposes greater obligations or burdens than any provision in the Certificate of Incorporation, the provision contained in the Certificate of Incorporation shall govern and control to the extent of such conflict, inconsistency or obligation or burden.

Exhibit 10.1

AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated August 15, 2001, is among SONIC AUTOMOTIVE, INC., a Delaware corporation, (the "Borrower") FORD MOTOR CREDIT COMPANY, a Delaware corporation, ("Ford Credit") CHRYSLER FINANCIAL COMPANY, L.L.C., a Michigan limited liability company, ("Chrysler Financial"), TOYOTA MOTOR CREDIT CORPORATION, a California corporation ("Toyota Credit"), and the other Lenders from time to time party hereto, and Ford Credit, as administrative agent and collateral agent (in such capacity and together with any Successor Agent appointed pursuant to Article VII of the Original Agreement (as defined herein), the "Agent") for the Secured Parties.

WHEREAS, on August 10, 2000 Ford Credit and Chrysler Financial made a loan (the "Original Loan") to Borrower in the principal amount of $500,000,000.00, pursuant to the terms of that certain Credit Agreement dated as of August 10, 2000 (the "First Agreement"); and

WHEREAS, Borrower requested an increase of the Original Loan to the amount of $600,000,000.00 (the "Increase;" and together with the Original Loan, the "Loan"), and in order to accommodate Borrower's request for the Increase, Toyota Credit joined Ford Credit and Chrysler Financial as a Lender under the Loan pursuant to the terms of that certain Amended and Restated Credit Agreement dated as of June 20, 2001 (the First Agreement as amended by the Amended and Restated Credit Agreement is referred to as the "Original Agreement"); and

WHEREAS, Borrower has requested that Ford Credit agree for a period of three (3) years, with respect to a certain portion of the Loan, to convert Borrower's obligation to pay interest to a fixed rate of interest as more specifically described herein, from the Applicable LIBOR Rate (as defined in the Original Agreement) (such change in interest obligations is referred to herein as the "Conversion").

WHEREAS, Ford Credit has consented to the Conversion, subject to the terms of this Amendment.

NOW THEREFORE, The parties hereto agree that the Original Agreement is hereby amended as follows and that effective as of the date of this Amendment, the terms of the Original Agreement are amended in accordance herewith:

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Original Agreement is hereby amended as follows:

1. Except as modified herein, all capitalized terms shall have the meanings set forth in the Original Agreement. The amendments contained herein will be deemed effective as of August 15, 2001.

2. The definition of Applicable LIBOR Rate as set forth in the Original Agreement is hereby restated in its entirety to read as follows:

"Applicable Rate" means (i) from August 15, 2001 to and including August 14, 2004, with respect to the lesser of (a) that portion of Ford Credit's Ratable Share of the aggregate principal amount of all Advances, equal to $75,000,000.00, and having been advanced as of the earliest dates, and (b) Ford Credit's Ratable Share of the Advances outstanding from time to time (either such amount, as the case may be, is referred to as the "Fixed Sum"), the rate of seven and twenty three hundredths percent (7.23%) per annum (such fixed rate of interest is referred to herein as the "Fixed Rate"); and (ii) with respect to all Advances outstanding in excess of the Fixed Sum, and with respect to the Fixed Sum from and after August 15, 2004, the LIBOR Rate plus two and fifty hundredths percent (2.50%) per

annum (such variable rate of interest is referred to herein as the "Variable Rate")."

3. The following definitions are hereby added to the Original Agreement:

"Breakage Fees" means any and all fees incurred by Lender in connection with a prepayment made under the Related Borrowing, it being understood that if Borrower makes a prepayment pursuant to section 2.2 (A) hereof which results in Ford Credit's Ratable Share of the principal balance of the Advances being reduced to less than $75,000,000.00, Ford Credit will make a prepayment under the Related Borrowing in an amount equal to the difference between $75,000,000.00 and the Ford Credit's Ratable Share of the principal balance of the Advances after taking into account such prepayment."

"Related Borrowing" means Ford Credit's borrowing of $75,000,000.00 from investors, which borrowing was made solely for the purpose of acquiring funds to advance to Borrower at the Fixed Rate pursuant to the terms of this Agreement."

4. Section 2.1 (A) of the Original Agreement is hereby restated in its entirety as follows:

(A) Making Advances. Upon satisfaction of the conditions precedent set forth in Sections 3.1 and 3.2, from and including the Effective Date of this Agreement and prior to the Termination Date, Agent will (on behalf of each Lender) on the terms and conditions set forth in this Agreement, make Advances to the Borrower from time to time, in Dollars, in an amount not to exceed the Revolving Credit Availability at such time; provided, however, at no time shall the Revolving Credit Obligations exceed the Commitment at such time. Subject to the terms of this Agreement, the Borrower may borrow, repay and re-borrow Advances at any time prior to the Termination Date. The Borrower shall repay in full the outstanding principal balance of each Advance on or before the Termination Date. Agent may make Advances (on behalf of each Lender) in reliance upon the agreement of each Lender to make available to Agent funds required to perform the accounting as described in the following Section 2.1 (B), unless all

Lenders will have jointly decided, as provided for in Section 8.1 hereof, to terminate or suspend their obligations to make Advances hereunder. Borrower acknowledges that with respect to the Fixed Sum, Ford Credit has borrowed $75,000,000.00 from its investors, in order to facilitate advancing such amount to Borrower at the Fixed Rate.

5. Section 2.1 (B) (1) (b) of the Original Agreement is hereby restated in its entirety as follows:

(b) No later than 12:00 noon (Eastern Standard Time) on the first Business Day following a Payment Date upon which Agent has received payment in full from Borrower of the amount required pursuant to Section 2.9 (b)(ii) hereof (each such date being referred to herein as an "Interest Reconciliation Date"), Agent will make remittance to each Lender (via wire transfer, pursuant to wire transfer instructions provided to Agent by each Lender in writing from time to time) of each such Lender's Ratable Share of the Interest Due Lenders (it being understood that with respect to all Lenders other than Ford Credit, such Interest Due Lenders will be calculated and remitted at the Variable Rate only and no portion thereof will be calculated or remitted at the Fixed Rate); provided, however that the Administration Fee due to Agent (pursuant to Section 2.13 hereof) for the month immediately preceding such Interest Reconciliation Date will be netted out of the Interest Due Lenders and be maintained by Agent for the benefit of Agent; and

6. Section 2.2 (A) of the Original Agreement is hereby restated in its entirety as follows:

"2.2 (A) Optional Payments. The Borrower may from time to time repay or prepay, all or any part of outstanding Advances; provided, however, that

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(i) the Borrower may not so prepay Advances unless it shall have provided notice to Agent of such prepayment by 12:00 noon on the day such payment will be made, and the amount of such prepayment is not less than $500,000.00; and

(ii) if, prior to August 15, 2004, Borrower prepays the principal balance of the Advances such that Ford Credit's Ratable Share of the principal balance of the advances is reduced to less than $75,000,000.00, then in addition to paying interest on such amounts being prepaid through the day of prepayment, Borrower must also pay to Ford Credit the full amount of the Breakage Fees. The payment of such Breakage Fees must be made at the same time as the prepayment and in the manner described in Section 2.7 hereof."

7. All references to "Applicable LIBOR Rate" in Sections 2.4, 2.6, 2.7 and 2.14 of the Original Agreement are hereby amended to read the "Applicable Rate."

8. Borrower hereby reaffirms each representation and warranty made in the Original Agreement and represents that no Event of Default or Unmatured Default exists.

9. The security interest granted by Borrower to Lender under the Borrower Security Agreement and the terms and conditions of the Borrower Security Agreement shall apply equally to the indebtedness evidenced by the Note, and the covenants of the Borrower Security Agreement and the Original Agreement, as amended by this Amendment shall remain in full force and effect until the Principal Balance (as defined in the Notes) of each of the Notes and interest thereon is paid in full and all of the obligations of Borrower to Lender under the Original Agreement, as amended, and the Notes are fully performed and observed. Except as otherwise amended in this Amendment, the terms and conditions of the Agreement shall remain in full force and effect in accordance with the provisions thereof. Furthermore, Borrower hereby reaffirms its obligations under the Borrower Guaranty.

IN WITNESS WHEREOF, the Borrower, the Agent and each Lender have executed this Agreement as of the date first above written.

SONIC AUTOMOTIVE, INC.,
as the Borrower

By: /s/ Theodore M. Wright

Name: Theodore M. Wright
Title: Vice President

Address:
6415 Idlewild Road
Suite 109
Charlotte, North Carolina 28212
Attention: Theodore M. Wright
Telephone No.: (704) 566-2400
Facsimile No.: (704) 566-6031

[SIGNATURE PAGE TO AMENDMENT]

FORD MOTOR CREDIT COMPANY,
as Lender, and as Agent

By: /s/ W. J. Beck IV

Name: W. J. Beck, IV
Title: National Account Manager

Address:
6302 Fairview Road
Suite 500
Charlotte, North Carolina 28210
Attention: Branch Manager
Telephone No.: (704) 442-0371

Facsimile No.: (704) 442-1909

[SIGNATURE PAGE TO AMENDMENT]

CHRYSLER FINANCIAL COMPANY, LLC,
as Lender

By: /s/ R. D. Knight

Name: R. D. Knight

Title: Vice President of Credit

Address:
27777 Franklin Road, 18th floor
Southfield, MI 48034-8286
Attention: Michele Nowak
Telephone No.: (248) 948-4860
Facsimile No.: (248) 948-3848

[SIGNATURE PAGE TO AMENDMENT]

TOYOTA MOTOR CREDIT CORPORATION, as Lender

By: /s/ Tom Brubaker

Name: Tom Brubaker
Title: National Accounts Development Manager

Address:
19001 South Western Avenue
Torrance, California 90501
Attention: Tom Brubaker
Telephone No.: (310) 468-3756
Facsimile No.: (310) 468-3501

[SIGNATURE PAGE TO AMENDMENT]

REAFFIRMATION OF GUARANTY

Date: August 15, 2001

The undersigned guarantors (collectively, the "Guarantor") confirms and restates Guarantor's liabilities, obligations and agreements under the guaranty or guaranties by the undersigned of the indebtedness and obligations of SONIC AUTOMOTIVE, INC., a Delaware corporation, ("Borrower") to the Lenders and the Agent, under the Credit Agreement dated as of August 10, 2000, as amended by that certain Amended and Restated Credit Agreement dated as of June 20, 2001 (the "Agreement"), as amended by the Amendment to Credit Agreement (the "Amendment") to which this Reaffirmation of Guaranty is attached, and acknowledges and agrees that every right, power and remedy of Lender thereunder is in full force and effect, including without limitation, such right, powers and remedies relating to the Agreement, as amended, and the payment of the indebtedness and the performance of the obligations thereunder. Without limiting the foregoing, Guarantor intends by execution and delivery of this Reaffirmation of Guaranty to absolutely, irrevocably and unconditionally reaffirm Guarantor's guaranty to Lender and Agent of (i) the due and punctual payment of the indebtedness due and payable under the Agreement, as amended, and (ii) the performance by Borrower of the obligations under the Agreement. Guarantor acknowledges and declares that Guarantor has no defense, claim, charge, plea or set-off whatsoever in law or equity against the Lender, the Agent, the guaranty or guaranties, the Agreement, the Amendment, or any other

instrument or document executed by Guarantor or Borrower in connection with the Agreement, or the Amendment. Guarantor waives and releases any and all defenses which might accrue to Guarantor by the execution of the Amendment.

Guarantor has executed this Reaffirmation of Guaranty of the date first above written.

each of the entities listed on the remainder of this page and on the following three pages

By: /s/ Theodore M. Wright (SEAL)

Name: Theodore M. Wright

Title: Vice President

SONIC - MONTGOMERY FLM, INC.,
COBB PONTIAC-CADILLAC, INC.,
ROYAL MOTOR COMPANY, INC.,
CAPITAL CHEVROLET AND IMPORTS, INC.,
SONIC AUTOMOTIVE - 21699 U.S. HWY 19 N., INC.,
HMC FINANCE ALABAMA, INC.

SONIC AUTOMOTIVE OF GEORGIA, INC.,
SONIC AUTOMOTIVE 5260 PEACHTREE INDUSTRIAL BLVD., LLC,
FRONTIER OLDSMOBILE-CADILLAC, INC.,
MARCUS DAVID CORPORATION,
SONIC AUTOMOTIVE - 9103 E. INDEPENDENCE, NC, LLC,
SONIC CHRYSLER-PLYMOUTH-JEEP, LLC,
SONIC DODGE, LLC,
TOWN AND COUNTRY FORD, INCORPORATED,
SONIC AUTOMOTIVE-3700 WEST BROAD STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1455 AUTOMALL DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1495 AUTOMALL DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-4000 WEST BROAD STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1500 AUTOMALL DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1400 AUTOMALL DRIVE, COLUMBUS, INC.,
FORT MILL CHRYSLER-PLYMOUTH-DODGE, INC.,
SONIC AUTOMOTIVE 2752 LAURENS RD., GREENVILLE, INC.,
SONIC AUTOMOTIVE 2424 LAURENS RD., GREENVILLE, INC.,
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-JEEP OF ROCK HILL, INC.,
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC,
SONIC AUTOMOTIVE OF NASHVILLE, LLC,
SONIC AUTOMOTIVE - 6025 INTERNATIONAL DRIVE, LLC,
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-JEEP, LLC,
TOWN AND COUNTRY DODGE OF CHATTANOOGA, LLC,
TOWN AND COUNTRY JAGUAR, LLC,
TOWN AND COUNTRY FORD OF CLEVELAND, LLC,
SONIC - 2185 CHAPMAN RD., CHATTANOOGA, LLC,

SONIC OF TEXAS, INC.,
SONIC - WILLIAMS IMPORTS, INC.,
SONIC - WILLIAMS BUICK, INC.,
SONIC - WILLIAMS CADILLAC, INC.,
SONIC - WILLIAMS MOTORS, LLC,
SONIC - NEWSOME CHEVROLET WORLD, INC.,
SONIC - NEWSOME OF FLORENCE, INC.,
SONIC - CLASSIC DODGE, INC.
SONIC - ROCKVILLE MOTORS, INC.,
SONIC - ROCKVILLE IMPORTS, INC.,
SONIC - MANHATTAN WALDORF, INC.,
SONIC - MANHATTAN FAIRFAX, INC.,
SONIC - NORTH CHARLESTON, INC.,
SONIC AUTOMOTIVE - 5585 PEACHTREE INDUSTRIAL BLVD., LLC,
SONIC - NORTH CHARLESTON DODGE, INC.,

VILLAGE IMPORTED CARS, INC.,
FIRSTAMERICA AUTOMOTIVE, INC.,
FA SERVICE CORPORATION,
FAA AUTO FACTORY, INC.,
FAA BEVERLY HILLS, INC.,
FAA CAPITOL N, INC.,
FAA CONCORD H, INC.,
FAA CONCORD N, INC.,
FAA CONCORD T, INC.,
FAA DEALER SERVICES, INC.,
FAA DUBLIN N, INC.,
FAA MARIN D, INC.,
FAA POWAY D, INC.,
FAA POWAY G, INC.,
FAA SAN BRUNO, INC.,
FAA SERRAMONTE H, INC.,
FAA SERRAMONTE L, INC.,
FAA SERRAMONTE, INC.,
FAA STEVENS CREEK, INC.,
FAA WOODLAND HILLS VW, INC.,
SMART NISSAN, INC.,
FAA TORRANCE CPJ, INC.,
FAA DUBLIN VWD, INC.,
KRAMER MOTORS INCORPORATED,
FAA SANTA MONICA V, INC.,
FAA LAS VEGAS H, INC.,
L DEALERSHIP GROUP, INC.,
WINDWARD, INC.,
AUTOBAHN, INC.,
SONIC - STEVENS CREEK B, INC.,
FAA HOLDING CORP.,
FRANCISCAN MOTORS, INC.,
SANTA CLARA IMPORTED CARS, INC.,

STEVENS CREEK CADILLAC, INC.,
FAA MARIN F, INC.,
FAA POWAY H, INC.,
FAA POWAY T, INC.,
FAA MARIN LR, INC.,
SONIC-RIVERSIDE, INC.,
SONIC-GLOVER, INC., and
RIVERSIDE NISSAN, INC.,
SPEEDWAY CHEVROLET, INC.
FORT MILL FORD, INC.,
FREEDOM FORD, INC.,
SONIC AUTOMOTIVE - CLEARWATER, INC.,
SONIC AUTOMOTIVE COLLISION CENTER OF CLEARWATER, INC.,
SONIC AUTOMOTIVE - 1919 N. DIXIE HWY., NSB, INC.,
SONIC AUTOMOTIVE - 1307 N. DIXIE HWY., NSB, INC.,
SONIC AUTOMOTIVE- 1720 MASON AVE., DB, INC.,
SONIC AUTOMOTIVE - 3741 S. NOVA RD., PO, INC.,
SONIC AUTOMOTIVE 241 RIDGEWOOD AVE., HH, INC.,
SONIC AUTOMOTIVE - 6008 N. DALE MABRY, FL, INC.,
SONIC AUTOMOTIVE OF NEVADA, INC.,
SONIC AUTOMOTIVE OF TENNESSEE, INC.,
SONIC AUTOMOTIVE - BONDESEN, INC.,
SONIC - LLOYD PONTIAC - CADILLAC, INC.,
SONIC - LLOYD NISSAN, INC.,
SONIC - SUPERIOR OLDSMOBILE, LLC,
SONIC - SHOTTENKIRK, INC.,
SONIC - INTEGRITY DODGE LV, LLC,
SONIC - VOLVO LV, LLC,
SONIC - FM AUTOMOTIVE, LLC,
SONIC - FM, INC.,
SONIC - FM VW, INC.,
SONIC - FM NISSAN, INC.,
SONIC - FREELAND, INC., and
SONIC AUTOMOTIVE - 1720 MASON AVE., DB, LLC
SONIC AUTOMOTIVE SERVICING COMPANY, LLC
SONIC AUTOMOTIVE F & I, LLC
SONIC - RIVERSIDE AUTO FACTORY, INC.

TRANSCAR LEASING, INC.
SONIC AUTOMOTIVE - 2490 SOUTH LEE HIGHWAY, L.L.C.
FAA CAPITOL F, INC.,
SONIC - LAS VEGAS C EAST, LLC,
SONIC - LAS VEGAS C WEST, LLC,
SONIC - CAPITOL CHEVROLET, INC.

SONIC - LAS VEGAS C EAST, LLC
SONIC DEVELOPMENT, LLC

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SONIC AUTOMOTIVE OF TEXAS, L.P.,
SONIC AUTOMOTIVE-4701 I-10 EAST,
TX, L.P.,
SONIC AUTOMOTIVE - 3401 N. MAIN, TX, L.P.,
SONIC AUTOMOTIVE - 5221 I-10 EAST, TX, L.P.,
SONIC - SAM WHITE NISSAN, L.P.,
SONIC - LUTE RILEY, L.P.,
SONIC - READING, L.P., and
SONIC - CAMP FORD, L.P.,
SONIC - DALLAS AUTO FACTORY, L.P.
SONIC-FORT WORTH T, L.P.,
PHILPOTT MOTORS, LTD.
SONIC - RICHARDSON F, L.P.
SONIC - CARROLLTON V, L.P.
SONIC - HOUSTON V, L.P.

By: Sonic of Texas, Inc., a Texas
corporation, as General Partner

By: /s/ Theodore M. Wright (SEAL)

Name: Theodore M. Wright
Title: Vice President

SONIC PEACHTREE INDUSTRIAL BLVD., L.P., and
SONIC - GLOBAL IMPORTS, L.P.

By: Sonic Automotive of Georgia, Inc.,
a Georgia corporation, as General Partner

By: /s/ Theodore M. Wright (SEAL)

Name: Theodore M. Wright
Title: Vice President

Exhibit 10.2

AMENDED AND RESTATED PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

$600,000,000.00 Charlotte, North Carolina

August 15, 2001

FOR VALUE RECEIVED, SONIC AUTOMOTIVE, INC., a Delaware corporation ("Borrower"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to FORD MOTOR CREDIT COMPANY, a Delaware corporation, ("Lender"), or order, at 6302 Fairview Road, Suite 500, Charlotte, North Carolina 28210, or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of SIX HUNDRED MILLION AND 00/100 DOLLARS ($600,000,000.00), or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "Principal Balance"), in like money, from the Effective Date (as defined herein) of this Amended and Restated Promissory Note (this "Note"), to and including the Termination Date, at the following rates in effect from time to time (referred to collectively as the "Applicable Rate"):

(a) From the Effective Date to and including August 14, 2004, with respect to the lesser of (1) that portion of the Principal Balance funded by and owing to Lender, aggregating $75,000,000.00, and having been advanced as of the earliest dates, and (2) Lender's Ratable Share of the Principal Balance outstanding from time to time (either such amount, as the case may be, is referred to as the "Fixed Sum"), the rate of seven and twenty three hundredths percent (7.23%) per annum; and

(b) with respect to that portion of the Principal Balance in excess of the Fixed Sum, and with respect to the Fixed Sum from and after August 15, 2004, the LIBOR Rate plus two and fifty hundredths percent (2.50%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement dated August 10, 2000, as amended by the Amended and Restated Credit Agreement dated June 20, 2001, as amended by the Amendment to Credit Agreement dated as of even date herewith, among Borrower, the Lender and certain other lender parties thereto, and Lender, as Agent for all lender parties (the "Agreement").

The term "Effective Date" means August 15, 2001.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of

165435 ($525,000,000)
186565 ($75,000,000)

this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. Dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and (iii) contains provisions for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. In addition to the terms of prepayments described in the Agreement, should Borrower prepay the Principal Balance such that Lender's

Ratable Share (as defined in the Agreement) of the Principal Balance is reduced to less than $75,000,000.00, then in addition to paying interest accrued on such amounts being prepaid through the day of prepayment, Borrower shall also pay to Lender the full amount of the Breakage Fees (as defined in the Agreement). Any prepayments and the payment of Breakage Fees will be made in the manner set forth in Section 2.2 (A) of the Agreement.

The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

<u>In no circumstance may the aggregate principal amount of all Advances (as defined in the Agreement) outstanding under the Notes (as defined in the Agreement) exceed the aggregate amount of all Lender's Commitments (as more specifically set forth in the Agreement).</u>

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ Theodore M. Wright (SEAL)
Name: Theodore M. Wright
Title: Vice President

[SIGNATURE PAGE TO PROMISSORY NOTE]

Exhibit 99.1

RISK FACTORS

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

As of September 30, 2001, our total outstanding indebtedness was approximately $1,008.8 million, including the following:

- $312.4 million under a revolving credit agreement (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company, LLC ("Chrysler Financial") and Toyota Motor Credit Corporation ("Toyota Credit") with a borrowing limit of $600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic;

- $368.4 million under a standardized secured inventory floor plan facility (the "Ford Floor Plan Facility") with Ford Motor Credit;

- $115.6 million under a standardized secured floor plan facility (the "Chrysler Floor Plan Facility") with Chrysler Financial;

- $11.5 million under a standardized secured floor plan facility (the "Toyota Floor Plan Facility") with Toyota Credit;

- $61.8 million under a standardized secured floor plan facility (the "GMAC Floor Plan Facility" and together with the Ford Floor Plan Facility, the Toyota Floor Plan facility and the Chrysler Floor Plan Facility, the "Floor Plan Facilities") with General Motors Acceptance Corporation ("GMAC");

- $121.5 million in 11% Senior Subordinated Notes due 2008 representing $125.0 million in aggregate principal amount less unamortized discount of approximately $3.5 million; and

- $17.6 million of other secured debt, including $10.7 million under a revolving real estate acquisition and new dealership construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit.

As of September 30, 2001, we had approximately $229.2 million available for additional borrowings under the Revolving Facility, based on a borrowing base calculated on the basis of our receivables, inventory and equipment and certain additional collateral pledged by an affiliate of Sonic. We also had approximately $89.3 million available for additional borrowings under the Mortgage Facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the Floor Plan Facilities. In addition, the indentures relating to our senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

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

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;

- a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our senior subordinated notes, borrowings under the Revolving Facility and the Floor Plan Facilities and other indebtedness, thereby reducing the funds available to us for our operations and other purposes;

- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increased interest rates;

- the indebtedness outstanding under our credit facilities is secured by a pledge of substantially all the assets of our dealerships; and

- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

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

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

Our future operating results depend on our ability to integrate the operations of our recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to integrate our systems, procedures and structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 19 dealerships in 1998, 72 during 1999, 11 in 2000 and 10 to date in 2001.

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

- the difficulties of managing operations located in geographic areas where we have not previously operated;

- the management time and attention required to integrate and manage newly acquired dealerships;

- the difficulties of assimilating and retaining employees; and

- the challenges of keeping customers.

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

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

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

- incurring significantly higher capital expenditures and operating expenses;

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

- entering new markets with which we are unfamiliar;

- potential undiscovered liabilities at acquired dealerships;

- disrupting our ongoing business;

- diverting our limited management resources;

- failing to maintain uniform standards, controls and policies;

- impairing relationships with employees, manufacturers and customers as a result of changes in management;

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

- failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises.

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

Failure to retain qualified management personnel at any acquired dealership may increase the risk associated with integrating the acquired dealership.

Installing new computer systems has disrupted existing operations in the past as management and salespersons adjust to new technologies. We cannot assure you that we will overcome these risks or any other problems encountered with either our past or future acquisitions.

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

Each of our dealerships operates pursuant to a franchise agreement with the applicable automobile manufacturer or manufacturer authorized distributor. We are significantly dependent on our relationships with these manufacturers.

Without a franchise agreement, we cannot obtain new vehicles from a manufacturer.

Vehicles manufactured by the following manufacturers accounted for the indicated approximate percentage of our new vehicle revenue for the nine months ended September 30, 2001:

Manufacturer	Percentage of Historical New Vehicle Revenues for the Nine Months Ended September 30, 2001
Ford	18.8%
Honda	13.1%
BMW	11.1%
Toyota	11.1%
General Motors	10.8%
Chrysler	8.6%
Nissan	5.3%
Lexus	5.3%

No other manufacturer accounted for more than 5% of our new vehicle sales during the first nine months of 2001. A significant decline in the sale of Ford, Honda, Chrysler, General Motors, BMW, Toyota, Nissan or Lexus new vehicles could have a material adverse effect on our revenue and profitability.

Manufacturers exercise a great degree of control over the operations of our dealerships. Each of our franchise agreements provides for termination or non-renewal for a variety of causes, including any unapproved change of ownership or management and other material breaches of the franchise agreements.

Manufacturers may also have a right of first refusal if we seek to sell dealerships. We believe that we will be able to renew at expiration all of our existing franchise agreements, other than our Oldsmobile and Plymouth franchise agreements. Daimler Chrysler has phased out the Plymouth division effective October 1, 2001 and General Motors is in the process of phasing out the Oldsmobile division. Neither of these actions will materially affect us.

- We cannot assure you that any of our existing franchise agreements will be renewed or that the terms and conditions of such renewals will be favorable to us.

- If a manufacturer is allowed under state franchise laws to terminate or decline to renew one or more of our significant franchise agreements, this action could have a material adverse effect on our results of operations.

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

- Manufacturers allocate their vehicles among dealerships generally based on the sales history of each dealership. Consequently, we also depend on the manufacturers to provide us with a desirable mix of popular new vehicles. These popular vehicles produce the highest profit margins and tend to be the most difficult to obtain from the manufacturers.

- Our dealerships depend on the manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support dealership new vehicle sales. Manufacturers have historically made many changes to their incentive programs during each year. A reduction or discontinuation of a manufacturer's incentive programs may materially adversely affect our profitability. Some of these programs include:

    - customer rebates on new vehicles;

    - dealer incentives on new vehicles;

    - special financing or leasing terms;

    - warranties on new and used vehicles; and

    - sponsorship of used vehicle sales by authorized new vehicle dealers.

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

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

manufacturers':

- financial condition;
- marketing;
- vehicle design;

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

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

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

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

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

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

- Ford may cause us to sell or resign from one or more of our Ford, Lincoln or Mercury franchises if any person or entity (other than O. Bruton Smith and any entity controlled by him) acquires or has a binding agreement to acquire securities having 50% or more of the voting power of Sonic's securities.

- General Motors and Infiniti may force the sale of their respective franchises if 20% of more of Sonic's voting securities are similarly acquired.

- Toyota may force the sale of one or more of Sonic's Toyota or Lexus dealerships if (1) an automobile manufacturer or distributor acquires securities, or the right to vote securities by proxy or voting agreement, having more than 5% of the voting power of Sonic's

securities, (2) any individual or entity acquires securities, or the right to vote securities by proxy or voting agreement, having more than 20% of the voting power of Sonic's securities, (3) there is a material change in the composition of Sonic's Board of Directors that Toyota reasonably concludes will be materially incompatible with Toyota's interests or will have an adverse effect on Toyota's reputation or brands in the marketplace or the performance of Sonic or its Toyota and Lexus dealerships, (4) there occurs an extraordinary

transaction whereby Sonic's stockholders immediately prior to such transaction own in the aggregate securities having less than a majority of the voting power of Sonic or the successor entity, or (5) any individual or entity acquires control of Sonic, Sonic Financial Corporation or any Toyota or Lexus dealership owned by Sonic.

- Chrysler requires prior approval of any future sales that would result in a change in voting or managerial control of Sonic.

- Mercedes requires 60 days advance notice to approve any acquisition of 20% or more of Sonic's voting securities.

- Volkswagen has approved the sale of no more than 25% of the voting control of Sonic, and any future changes in ownership or transfers among Sonic's current stockholders that could affect the voting or managerial control of Sonic's Volkswagen franchise subsidiaries requires the prior approval of Volkswagen.

Other manufacturers may impose similar or more limiting restrictions.

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

Manufacturers' restrictions on acquisitions could limit our future growth.

We are required to obtain the consent of the applicable manufacturer before the acquisition of any additional dealership franchises. We cannot assure you that manufacturers will grant such approvals, although the denial of such approval may be subject to certain state franchise laws.

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

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

- our management's moral character;

- the business experience of the post-acquisition dealership management;

- our financial condition;

- our ownership structure; and

- manufacturer-determined consumer satisfaction index scores.

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

- Our framework agreement with Ford places the following restrictions on our ability to acquire Ford or Lincoln Mercury dealerships:

    - We may not acquire additional Ford or Lincoln Mercury dealerships unless we continue to satisfy Ford's requirement that 80% of our Ford dealerships meet Ford's performance criteria. Beyond that, we may not make an acquisition that would result in our owning Ford or Lincoln Mercury dealerships with sales exceeding 5% of the total Ford or total Lincoln Mercury retail sales of new vehicles in the United States for the preceding calendar year.

    - We may not acquire additional Ford or Lincoln Mercury dealerships in a particular state if such an acquisition would result in our owning Ford or Lincoln Mercury dealerships with sales exceeding 5% of the total Ford or total Lincoln Mercury retail sales of new vehicles in that state for the preceding calendar year.

- We may not acquire additional Ford dealerships in a Ford-defined market area if such an acquisition would result in our owning more than one Ford dealership in a market having a total of three or less Ford dealerships or owning more than 25% of the Ford dealerships in a market having a total of four or more Ford dealerships. An identical market area restriction applies for Lincoln Mercury dealerships.

- Our framework agreement with Toyota limits the number of Toyota and Lexus dealerships that we may own on a national level, in each Toyota-defined geographic region or distributor area, and in each Toyota or Lexus-defined metropolitan market. Nationally, the limitations on Toyota dealerships owned by us are for specified time periods and are based on specified percentages of total Toyota unit sales in the United States. In Toyota-defined geographic regions or distributor areas, the limitations on Toyota dealerships owned by us are specified by the applicable Toyota regional limitations policy or distributor's policy in effect at such time. In Toyota-defined metropolitan markets, the limitations on Toyota dealerships owned by us are based on Toyota's metro markets limitation policy then in effect, which currently provides a limitation based on the total number of Toyota dealerships in the particular market. For Lexus, we may own no more than one Lexus dealership in any one Lexus-defined metropolitan market and no more than three Lexus dealerships nationally.

- Our framework agreement with Honda limits the number of Honda and Acura dealerships that we may own on a national level, in each Honda and Acura-defined geographic zone, and in each Honda-defined metropolitan market. Nationally, the limitations on Honda dealerships owned by us are based on specified percentages of total Honda unit sales in the United States. In Honda-defined geographic zones, the limitations on Honda dealerships owned by us are based on specified percentages of total Honda unit sales in each of 10 Honda-defined geographic zones. In Honda-defined metropolitan markets, the limitations on Honda dealerships owned by us are specified numbers of dealerships in each market, which numerical limits vary based mainly on the total number of Honda dealerships in a particular market. For Acura, we may own no more than (A) two Acura

dealerships in a Honda-defined metropolitan market, (B) three Acura dealerships in any one of six Honda-defined geographic zones and (C) five Acura dealerships nationally. Honda also prohibits ownership of contiguous dealerships.

- Mercedes restricts any company from owning Mercedes dealerships with sales of more than 3% of total sales of Mercedes vehicles in the U.S. during the previous calendar year.

- General Motors currently limits the maximum number of General Motors dealerships that we may acquire to 50% of the General Motors dealerships, by brand line, in a General Motors-defined geographic market area having multiple General Motors dealers.

- Subaru limits us to no more than two Subaru dealerships within certain designated market areas, four Subaru dealerships within its Mid-America region and 12 dealerships within Subaru's entire area of distribution.

- BMW currently prohibits publicly held companies from owning BMW dealerships representing more than 10% of all BMW sales in the U.S. or more than 50% of BMW dealerships in a given metropolitan market.

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

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

- material changes in our company or extraordinary corporate transactions such as a merger, sale of a material amount of assets or change in our board of directors or management that could have a material adverse effect on the manufacturer's image or reputation or could be materially incompatible with the manufacturer's interests;

- the removal of a dealership general manager without the consent of the manufacturer; and

- the use of dealership facilities to sell or service new vehicles of other manufacturers.

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

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

- must sell the assets of the dealerships to the manufacturer or to a third party acceptable to the manufacturer; or

- terminate the dealership agreements with the manufacturer.

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

As of November 9, 2001, we owned the following number of franchises for the following manufacturers:

Manufacturer	Number of Franchises	Manufacturer	Number of Franchises
Chevrolet	13	Lexus	4
Honda	13	Lincoln	4
Ford	12	Mercedes	4
BMW	10	Hyundai	3
Cadillac	10	Isuzu	3
Nissan	10	Mitsubishi	3
Toyota	9	Kia	2
Volvo	9	Audi	2
Dodge	8	Infiniti	2
Chrysler	7	Pontiac	2
Jeep	6	Porsche	2
Mercury	5	GMC	1
Oldsmobile	4	Acura	1
Volkswagen	4	Land Rover	1
		Subaru	1

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

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

There are limitations on our financial resources available for acquisitions.

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

- We cannot assure you that we will be able to obtain additional financing by issuing stock or debt securities.

- Using cash to complete acquisitions could substantially limit our operating or financial flexibility.

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

We estimate that as of September 30, 2001, we had approximately $229.2 million available for additional borrowings under the Revolving Facility, based on a borrowing base calculated on the basis of

our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (which borrowing base was $541.6 million of the $600.0 million facility at September 30, 2001).

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

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

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

Although O. Bruton Smith, our Chairman and Chief Executive Officer, has previously facilitated our acquisition financing, we cannot assure you that he will be willing or able to assist in our financing needs in the future.

Mr. Smith initially guaranteed obligations under the Revolving Facility. Such obligations were further secured with a pledge of shares of common stock of Speedway Motorsports, Inc. ("SMI") owned by Sonic Financial Corporation ("SFC"), a corporation controlled by Mr. Smith having an estimated value at the time of the pledge of approximately $50.0 million (the "Revolving Pledge"). When the Revolving Facility's borrowing limit was increased to $75.0 million in 1997, Mr. Smith's personal guarantee of Sonic's obligations under the Revolving Facility was released, although the Revolving Pledge remained in place. Mr. Smith was also required by Ford Motor Credit to lend $5.5 million (the "Subordinated Smith Loan") to Sonic to increase our capitalization because the net proceeds from our November 1997 initial public offering were significantly less than expected. In August 1998, Ford Motor Credit released the Revolving Pledge. In November 1999, Ford Motor Credit further increased the borrowing limit under the Revolving Facility to $350.0 million subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a continuing pledge by SFC of five million shares of SMI common stock. Presently, the borrowing limit of the Revolving Facility is $600.0 million, subject to a similar borrowing base, including SFC's continuing pledge of SMI stock.

Before our acquisition of FirstAmerica Automotive, Inc. ("FirstAmerica") Mr. Smith guaranteed the obligations of FirstAmerica under FirstAmerica's new acquisition line of credit with Ford Motor Credit. FirstAmerica obtained this new financing to enable it to complete its then pending acquisitions. The borrowing limit on this credit facility was approximately $138 million. Mr. Smith had guaranteed approximately $107 million of this amount, which guarantee was secured by a pledge of five million shares of SMI common stock owned by SFC. We assumed FirstAmerica's obligations to Ford Motor Credit under our Revolving Facility when we acquired FirstAmerica. Mr. Smith's secured guarantee in favor of Ford Motor Credit guaranteed a portion of our obligations under the Revolving Facility until August 2000. After August 2000, Mr. Smith did not provide a guarantee in favor of the Revolving Facility lenders, but SFC continues to pledge SMI stock as collateral. We cannot assure you that Mr. Smith will be willing or able to provide similar guarantees or credit support in the future to facilitate Sonic's future acquisitions.

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

The United States automobile dealership industry is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. As a consequence, growth in our revenues and

earnings is likely to be significantly affected by our success in acquiring and integrating dealerships and the pace and size of such acquisitions.

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

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

- Franchised automobile dealerships selling the same or similar makes of

new and used vehicles that we offer in our markets and sometimes at lower prices than we offer. Some of these dealer competitors may be larger and have greater financial and marketing resources than we do;

- Other franchised dealers;
- Private market buyers and sellers of used vehicles;
- Used vehicle dealers;
- Internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- Service center chain stores; and
- Independent service and repair shops.

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

Gross profit margins on sales of new vehicles have been generally declining since 1986. We do not have any cost advantage in purchasing new vehicles from manufacturers, due to economies of scale or otherwise. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new vehicles. The following factors could have a significant impact on our business:

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

- The increased popularity of short-term vehicle leasing also has resulted, as these leases expire, in a large increase in the number of late model vehicles available in the market, which puts added pressure on new and used vehicle margins.
- Some of our competitors may be capable of operating on smaller gross margins than we are, and the on-line auto brokers have been operating at a loss.
- As we seek to acquire dealerships in new markets, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. This competition includes other large dealer groups and dealer groups that have publicly traded equity.

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

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

The automobile industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions and consumer confidence, fuel prices, the level of discretionary personal income,

unemployment rates, interest rates and credit availability. We are in the midst of an industry and general economic slowdown that could materially adversely effect our business.

New and used vehicle sales substantially slowed immediately following the terrorist attacks of September 11, 2001. In response, certain manufacturers, especially of domestic brands, have introduced incentive programs, which have contributed to a significant increase in the pace of new vehicle sales in October. In addition, we have seen an increase in used vehicle sales in October as well as an increase in sales of new vehicles whose manufacturers have not offered similar incentive programs. We are not able to determine how long the manufacturers will continue to offer these aggressive incentive programs or how long the overall increase in demand will continue, but expect that, absent these incentive programs, vehicle sales may begin to slow again in November and December and continue slowing into 2002. In addition, we are not able to determine the long-term consequences the terrorist attacks and subsequent outbreaks of hostilities will have on general economic conditions, our industry, or Sonic.

Local economic, competitive and other conditions also affect the performance of dealerships. Our dealerships currently are located in the Atlanta, Baltimore, Birmingham, Charleston, Charlotte, Chattanooga, Columbia, Columbus, Dallas, Daytona Beach, Fort Myers, Greenville/Spartanburg, Houston, Las Vegas, Los Angeles, Mobile/Pensacola, Montgomery, Nashville, Oklahoma City, San Diego, San Francisco, San Jose/Silicon Valley, Tampa/Clearwater, Tulsa and Washington, D.C. markets. We intend to pursue acquisitions outside of these markets, but our operational focus is on our current markets. As a result, our results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented 20.6% of our sales for the nine months ended September 30, 2001. Our results of operations also depend on other factors, such as tax rates and state and local regulations specific to the states in which we currently operate. Sonic may not be able to expand geographically and any such expansion may not adequately insulate it from the adverse effects of local or regional economic conditions.

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

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

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

We may be required to file applications and obtain clearances under applicable federal antitrust laws before completing an acquisition. These regulatory requirements may restrict or delay our acquisitions, and may increase the cost of completing acquisitions.

The operating condition of acquired businesses cannot be determined accurately until we assume control.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.

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

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

Sonic has in the past and will likely in the future enter into transactions with Mr. Smith, entities controlled by Mr. Smith or other affiliates of Sonic. We believe that all of our existing arrangements with affiliates are as favorable to us as if the arrangements were negotiated between unaffiliated parties, although the majority of such transactions have neither been independently verified in that regard nor are likely to be so verified in the future. Potential conflicts of interest could arise in the future between Sonic and its officers or directors in the enforcement, amendment or termination of arrangements existing between them.

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

(1) one which the corporation is financially able to undertake,
(2) is in the line of the corporation's business,

(3) is of practical advantage to the corporation, and
(4) is one in which the corporation has an interest or reasonable expectancy.

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

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

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

Independent directors do not constitute a majority of our board, and our board may not have a majority of independent directors in the future. Without a majority of independent directors, Sonic's executive officers, principal stockholders and directors could establish policies and enter into transactions without independent review and approval, subject to certain restrictions under our charter. These policies and transactions could present the potential for a conflict of interest between Sonic and its minority stockholders and the controlling officers, stockholders or directors.

The loss of key personnel and limited management and personnel resources could adversely affect our operations and growth.

Our success depends to a significant degree upon the continued contributions of Sonic's management team, particularly its senior management, and service and sales personnel. Additionally, manufacturer franchise agreements may require the prior approval of the applicable manufacturer before any change is made in franchise general managers. We do not have employment agreements with most of our dealership managers and other key dealership personnel. Consequently, the loss of the services of one or more of these key employees could have a material adverse effect on our results of operations.

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers could have a material adverse effect on our results of operations. In addition, the lack of qualified management or employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

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

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

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

Some of the vehicles and major components of vehicles we sell are manufactured in foreign countries. Accordingly, we are subject to the import and export restrictions of various jurisdictions and are dependent to some extent upon general economic conditions in, and political relations with, a number of foreign countries, particularly Germany, Japan and Sweden. Fluctuations in currency exchange rates may

also adversely affect our sales of vehicles produced by foreign manufacturers. Imports into the United States may also be adversely affected by increased transportation costs and tariffs, quotas or duties.

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

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

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

Our past and present business operations are subject to environmental laws and regulations governing the use, storage, handling, recycling and disposal of hazardous or toxic substances such as new and waste motor oil, oil filters, transmission fluid, antifreeze, freon, new and waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. We are also subject to laws and regulations relating to underground storage tanks that exist or used to exist at many of our properties. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations. In addition, soil and groundwater contamination exists at certain of our properties. We cannot assure you that our other properties have not been or will not become similarly contaminated. In addition, we could become subject to potentially material new or unforeseen environmental costs or liabilities because of our acquisitions.

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

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

Sonic's common stock is divided into two classes with different voting rights. This dual class stock ownership allows the present holders of the Class B common stock to control Sonic. Holders of Class A common stock have one vote per share on all matters. Holders of Class B common stock have 10 votes per share on all matters, except that they have only one vote per share on any transaction proposed by the Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a:

(1) "going private" transaction;

(2) disposition of substantially all of our assets;

(3) transfer resulting in a change in the nature of our business; or

(4) merger or consolidation in which current holders of common stock would own less than 50% of the common stock following such transaction.

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

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

New accounting pronouncements on business combinations and goodwill could affect future earnings.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141: Business Combinations. SFAS 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. In addition, SFAS 141 provides additional guidance regarding the measurement and recognition of goodwill and other acquired intangible assets. The provisions of this standard became effective beginning July 1, 2001. For acquisitions after this, we are required to classify certain intangible assets, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill.

In July 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS 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, but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS 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 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 142. The provisions of SFAS 142 become effective for us beginning January 1, 2002; however, goodwill and other intangible assets determined to have an indefinite useful life acquired in business combinations completed after June 30, 2001 will not be amortized. Early adoption and retroactive application is not permitted. While we are currently evaluating the provisions of SFAS 142, we have not yet determined its full impact on our consolidated financial statements. As of December 31, 2000, the carrying amount of goodwill was $668.8 million and represented 37.4% of total assets and 148.3% of total stockholders' equity. As of September 30, 2001, the carrying amount of goodwill was $689.2 million and represented 40.8% of total assets and 140.7% of total stockholders' equity.

In August 2001, the FASB issued SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS 144 is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the provisions of SFAS 144 and have not yet determined the impact on our consolidated financial statements.