

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

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

For the year ended December 31, 2001

OR

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

For the transition period from to

Commission file number 1-13395

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

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)

56-2010790 (I.R.S. Employer Identification No.)

5401 EAST INDEPENDENCE BOULEVARD P.O. BOX 18747 CHARLOTTE, NORTH CAROLINA (Address of Principle Executive Offices)

28212 (Zip Code)

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

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

Table with 2 columns: TITLE OF EACH CLASS, NAME OF EACH EXCHANGE WHICH REGISTERED. Row 1: Class A Common Stock, \$.01 Par Value; New York Stock Exchange

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. [X] Yes [\_] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$816,306,901 based upon the closing sales price of the registrant's Class A common stock on March 15, 2002 of \$30.03 per share. As of March 15, 2002, there were 28,755,269 shares of Class A common stock, par value \$.01 per share, and 12,029,375 shares of Class B common stock, par value \$.01 per share, outstanding.

Documents incorporated by reference. Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 8, 2002 are incorporated by reference into Part III of this Form 10-K.

FORM 10-K TABLE OF CONTENTS

<TABLE> <CAPTION>

PAGE

<S> <C>

PART I	
Item 1.	
Business.....	4
Item 2.	
Properties.....	16
Item 3. Legal	
Proceedings.....	19
Item 4. Submission of Matters to a Vote of Security Holders.....	19
PART II	
Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.....	20
Item 6. Selected Financial Data.....	21
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	22
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	28
Item 8. Financial Statements and Supplementary Data.....	29
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	29
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	30
Item 11. Executive Compensation.....	30
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	30
Item 13. Certain Relationships and Related Transactions.....	30
PART IV	
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	31
SIGNATURES.....	35
CONSOLIDATED FINANCIAL STATEMENTS.....	F-1

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

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

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

- . our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures, our share repurchase program, and general operating activities;
- . the reputation and financial condition of vehicle manufacturers whose brands we represent, and their ability to design, manufacture, deliver and market their vehicles successfully;
- . our relationships with manufacturers which may affect our ability to complete additional acquisitions;

- . changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements, and environmental laws;
- . general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, and the level of consumer spending;
- . high competition in the automotive retailing industry which not only creates pricing pressures on the products and services we offer, but on businesses we seek to acquire;
- . our ability to successfully integrate recent and potential future acquisitions.

3

PART I

ITEM 1. BUSINESS.

Sonic Automotive, Inc. was incorporated in Delaware in 1997. We are the second largest automotive retailer in the United States, as measured by total revenue. As of March 15, 2002, we operated 160 dealership franchises at 118 dealership locations, representing 30 different brands of cars and light trucks, and 29 collision repair centers in 13 states. We have grown from 10 stores, 6 collision centers, 8 brands in 4 states since our initial public offering in November 1997. Through December 31, 2001, our five-year compound annual growth rates are 85% for revenues, 115% for net income and 63% for earnings per share. Each of our dealerships provides comprehensive services including (1) sales of both new and used cars and light trucks, (2) sales of replacement parts and performance of vehicle maintenance, warranty, paint and repair services and (3) arrangement of extended warranty contracts and financing and insurance ("F&I") for our automotive customers.

As compared to automotive manufacturers, we and other automotive retailers exhibit relatively low earnings volatility. This is primarily due to a higher ratio of variable costs that allows us to manage the majority of our expenses, such as advertising, sales commissions and vehicle carrying costs, as demand patterns change. We also have a greater diversity in our sources of revenues compared to automobile manufacturers. In addition to new vehicle sales, our revenues include used vehicle sales and parts, service and collision repair, which carry higher gross margins and are less sensitive to economic cycles and seasonal influences than are new vehicle sales. The following charts depict the diversity of our sources of revenue and gross profit for the year ended December 31, 2001:

[PIE CHART]

Revenue	
Used vehicles	25%
Parts, service and collision repair	12%
Finance and Insurance	3%
New vehicles	60%

[PIE CHART]

Gross Profit	
Used vehicles	13%
Parts, service and collision repair	37%
Finance and Insurance	19%
New vehicles	31%

4

BUSINESS STRATEGY

Further Develop Strategic Markets and Brands. Our growth strategy has been focused on metropolitan markets, predominantly in the Southeast, Southwest, Midwest and California, that on average are experiencing population growth that exceeds the national average. Where practicable, we also seek to acquire franchises that we believe have above average sales prospects. We have a dealership portfolio of 30 American, European and Asian brands. A majority of our dealerships are either luxury or mid-line import brands. Our dealership network is organized into regional dealership groups. As of December 31, 2001, we operated dealerships in the following regional areas:

	Number of Stores	Number of Franchises	Percent of 2001 Total Revenue
	-----	-----	-----
Northern California	18	23	20%
Houston	10	12	12%
Southern California/Nevada	16	18	10%
Dallas	4	4	8%
North Carolina	9	14	8%
W est Florida	8	8	7%
Birmingham/Tennessee	10	13	6%
Ohio	7	12	5%
Alabama	8	16	5%

Oklahoma	6	6	5%
Mid-Atlantic	5	6	4%
South Carolina	7	12	4%
Georgia	3	3	3%
East Florida	4	8	3%
	-----	-----	-----
	115	155	100%
	-----	-----	-----

We believe that further consolidation in the auto retailing industry is likely and we intend to seek acquisitions consistent with our operating strategy. We generally seek to acquire larger, well managed multiple franchise dealerships or multiple dealership groups located in metropolitan or high growth suburban markets. We also look to acquire smaller, single franchise dealerships that will allow us to capitalize upon professional management practices and provide greater breadth of products and services in our markets. We believe that attractive acquisition opportunities continue to exist for dealership groups with the capital and experience to identify, acquire and professionally manage dealerships.

The automotive retailing industry remains highly fragmented. We believe our "hub and spoke" acquisition strategy will allow us to realize economies of scale, offer a greater breadth of products and services and increase brand diversity. We also intend to acquire dealerships that have under performed the industry average but represent attractive franchises or have attractive locations that would immediately benefit from our professional management.

. Increase Sales of Higher Margin Products and Services. We continue to pursue opportunities to increase our sales of higher-margin products and services by expanding the following:

Retail Used Vehicles: Retail used vehicle sales typically generate higher gross margins than new vehicle sales due to limited comparability among used vehicles and the somewhat subjective nature of their valuation. Our experience indicates that there are typically opportunities at acquired dealerships to improve all aspects of used vehicle operations and used vehicle inventory control. Retail used vehicle unit sales accounted for approximately 37.0% of our new and used vehicle unit sales for the year ended December 31, 2001 and 36.2% of our new and used vehicle unit sales for the year ended December 31, 2000.

Finance and Insurance: Each sale of a new or used vehicle provides us the opportunity to earn financing fees and to sell extended warranty service contracts. We currently offer a wide range of nonrecourse financing, leasing and insurance products to our customers. We believe there are opportunities at acquired dealerships to increase earnings from the sale of finance, insurance and warranty products. As a result of our size and scale, we have also negotiated higher commissions on the origination of customer vehicle financing, insurance policies and extended warranty contracts. On a per vehicle basis, our F&I revenue for the year ended December 31, 2001 increased 12.1% to \$846 compared to 2000.

Parts, Service & Repair: Each of our dealerships offers a fully integrated service and parts department. Manufacturers permit warranty work to be performed only at franchised dealerships. As a result, our dealerships are uniquely qualified to perform work covered by manufacturer warranties on increasingly complex vehicles. We believe we can continue to grow our profitable parts and service business by using variable rate pricing structures, focusing on customer service and efficiently managing our parts inventory.

In addition, we operated collision repair centers at 29 locations at December 31, 2001. We recently added two regional managers to oversee these operations. We believe we can improve these operations by capitalizing on the synergies between our franchised dealerships and our collision repair centers. These synergies include access to customer networks, ready access to parts and the ability to share employees.

. Emphasize Expense Control. We continually focus on controlling expenses and expanding margins at the dealerships we acquire and integrate into our organization. Approximately 63.1% of our selling, general and administrative expenses for the year ended December 31, 2001 were variable. We are able to adjust these expenses as the operating or economic environment impacting our dealerships changes. We manage these variable costs, such as advertising (7.0% of selling, general and administrative expenses) and non-salaried compensation (50.1%) expenses, so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and all other non-clerical dealership personnel are paid either a commission or a modest salary plus commissions. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options.

. Effectively Manage Inventory Levels. Maintaining appropriate levels of both vehicle and parts inventories has a direct impact on profitability. We believe that vehicle gross margins decline as inventory levels increase and more pressure is exerted on the sales staff to close deals. In addition, net profitability is negatively affected by the higher costs (floor plan interest and insurance) of carrying that inventory. We have implemented financial reporting systems that give us the ability to analyze our vehicle inventory on a consolidated basis. Inventory management is also a key component of the various incentive programs we have implemented at our dealerships. During 2001, we reduced our new vehicle inventory levels from 68.1 days supply at the beginning of the year to 45.4 days supply at year end and our used vehicle inventory levels from 40.1 days supply to 35.1 days supply.

. Train, Develop and Motivate Qualified Management. We believe that our well-trained dealership personnel are key to our long-term prospects. We require all of our employees, from service technicians to regional vice presidents, to participate in in-house training programs each year. We have expanded our Sonic Dealer Academy to include modules not only for our dealer operators but also for general sales managers and fixed operations managers. We believe that our comprehensive training of all employees and professional, multi-tiered management structure provide us with a competitive advantage over other dealership groups. This training and organizational structure provides high-level supervision over the dealerships, accurate financial reporting and the ability to maintain effective controls as we expand. In order to motivate management, we employ an incentive compensation program for each officer, vice president and dealer operator, a portion of which is provided in the form of Sonic stock options with additional incentives based on the performance of individual profit centers. We believe that this organizational structure, together with the opportunity for promotion within our large organization and for equity participation, serve as a strong motivation for our employees.

. Achieve High Levels of Customer Satisfaction. We focus on maintaining high levels of customer satisfaction. Our personalized sales process is designed to satisfy customers by providing high-quality vehicles in a positive, "consumer friendly" buying environment. Some manufacturers offer specific performance incentives on a per vehicle basis if certain Customer Satisfaction Index ("CSI") levels (which vary by manufacturer) are achieved by a dealer. In addition, all manufacturers consider CSI scores in approving acquisitions. In order to keep management focused on customer satisfaction, we include CSI results as a component of our incentive compensation programs. Our success in this area is evident by the number of manufacturer awards our dealerships have received. In 2001, a number of our dealerships received BMW's Center of Excellence award, Chrysler's Five Star Certification, the Lexus Elite Award, Toyota's President's Award, Honda's President's Award and Infiniti's Reward of Excellence.

. Management Information System. Our dealerships process their financial and operating data through their individual dealer management system using software provided by ADP, Inc., Reynolds & Reynolds, Co. or UCS, Inc. We then consolidate the data received from our dealers using an exclusive private communication network. We aggregate the information at our corporate headquarters using Hyperion financial systems. This technology allows us to quickly integrate the information from a new acquisition. Using our private network, we upload the financial and operational data of a newly acquired dealership and thereby efficiently integrate the acquired dealership into our operational strategy.

. Customer Relationship Management. We believe that we can increase customer loyalty and reduce marketing costs by using Customer Relationship Management ("CRM") software to more efficiently target our advertising communications. We expect these systems to allow us to capture a greater percentage of our targeted customers' automotive spending. We are implementing a standardized system throughout our dealership network to allow us access to centralized information. We completed our pilot program and have successfully deployed our CRM system in fifty percent of our dealerships.

6

#### Dealership Management

Our dealership operations are overseen by regional, senior regional or divisional vice presidents for a particular geographic area. These vice presidents are geographically aligned with regional and divisional controllers who are responsible for maintaining effective internal controls and accurate financial reporting at each dealership. Our divisional and regional management teams use our computer-based information systems to monitor each dealership's sales, profitability, inventory and other financial and operating data. We believe this regional management structure gives us a competitive advantage over many dealerships. It allows us to effectively oversee our operations, recruit new employees and implement best practices using employees that have a thorough understanding of the local market. In addition, it gives us the ability to quickly field an experienced team of professionals to lead our acquisition due diligence and integration efforts thereby increasing the speed with which we deploy our operating strategy at acquired dealerships.

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

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

Sonic's dealer operators are also supported by national directors of fixed operations, field operations, sales and finance & insurance, respectively. Each of these national directors assist the dealer operators in implementing organizational best practices. Regional directors of fixed operations, collision repair centers and finance & insurance support the national directors.

#### New Vehicle Sales

As of December 31, 2001, Sonic sold 30 brands of new cars and light trucks. The products have a broad range of prices from lower priced, or economy vehicles, to luxury vehicles. We believe that our brand, product and price diversity reduces the risk of changes in customer preferences, product supply shortages and aging products. Approximately 25.4% of new vehicle sales during the year ended December 31, 2001 were luxury brands (such as Mercedes, Lexus, BMW, Infiniti and Volvo) compared to 26.5% for the same period in 2000. In addition, approximately 59.7% of our new vehicle sales in 2001 were import brands and 40.3% were domestic brands.

Our leading new vehicle brands accounted for our 2001 revenue as depicted in the following chart:

[PIE CHART]

<TABLE>

<S>	<C>
General Motors(2)	12.2%
Toyota	11.3%
Nissan	5.3%
Lexus	5.3%
Other(3)	15.3%
Honda	13.0%
Ford	18.6%
Chrysler(1)	8.3%
BMW	10.7%

</TABLE>

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

7

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

<TABLE>

<CAPTION>

	Year ended December 31,		
	1999	2000	2001
	-----		
	-----		
	(dollars in thousands, except per vehicle selling prices)		
<S>	<C>	<C>	<C>
Unit sales .....	79,294	135,919	142,720
Vehicle Revenue (1) .....	\$ 1,962,129	\$ 3,499,546	\$ 3,772,133
Average vehicle Selling Price ...	\$ 24,745	\$ 25,747	\$ 26,430
Gross Profit .....	\$ 161,205	\$ 293,034	\$ 298,589
Gross Margin .....	8.2%	8.4%	7.9%

</TABLE>

- (1) In order to maintain consistency and comparability of financial information between periods presented, certain reclassifications have been made to prior year financial statements to conform to the current

year presentation.

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

#### Used Vehicle Sales

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

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

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	Year ended December 31,		
	1999	2000	2001
	(dollars in thousands, except per vehicle selling prices)		
<S>	<C>	<C>	<C>
Retail unit sales .....	47,345	79,749	81,122
Retail vehicle revenue (1) .....	\$ 651,461	\$ 1,174,660	\$ 1,174,064
Average retail selling price .....	\$ 13,760	\$ 14,729	\$ 14,473
Retail gross profit .....	\$ 72,627	\$ 135,736	\$ 134,823
Retail gross margin (1) .....	11.2%	11.6%	11.5%
Wholesale unit sales .....	39,834	67,835	70,200
Wholesale vehicle revenue .....	\$ 250,794	\$ 430,513	\$ 418,006
Average wholesale vehicle selling price ..	\$ 6,296	\$ 6,346	\$ 5,955
Wholesale gross profit .....	\$ (3,734)	\$ (7,587)	\$ (9,382)
Wholesale gross margin .....	-1.5%	-1.8%	-2.2%
Total unit sales .....	87,179	147,584	151,322
Total revenue .....	\$ 902,225	\$ 1,605,173	\$ 1,592,070
Total gross profit .....	\$ 68,893	\$ 128,149	\$ 125,441
Total gross margin .....	7.6%	8.0%	7.9%

(1) In order to maintain consistency and comparability of financial information between periods presented, certain reclassifications have been made to prior year financial statements to conform to the current year presentation.

8

#### Service and Parts Sales

Sonic sells parts and provides maintenance and both warranty and non-warranty repair services at each of our franchised dealerships. Service and parts sales provide higher gross margins than vehicle sales and, generally, are not as sensitive to economic cycles and seasonality factors as vehicle sales.

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

	Year ended December 31,		
	1999	2000	2001
	(dollars in thousands)		
Sales revenue .....	\$ 333,161	\$ 640,662	\$ 733,242
Gross profit .....	\$ 139,738	\$ 283,124	\$ 335,510
Gross margin .....	41.9%	44.2%	45.8%

#### Collision Repair Operations

As of December 31, 2001, Sonic operated 29 collision repair centers. Our collision repair business provides favorable margins and, similar to service and parts, is not significantly affected by business cycles or consumer preferences. In addition, because of the higher cost of used vehicles, insurance adjusters

are more hesitant to declare a vehicle a total loss, resulting in more significant, and higher cost, repair jobs.

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

	Year ended December 31,		
	1999	2000	2001
	(dollars in thousands)		
Sales revenue .....	\$ 31,023	\$ 47,312	\$ 50,587
Gross profit .....	\$ 14,933	\$ 23,882	\$ 25,868
Gross margin .....	48.1%	50.5%	51.1%

#### Finance and Insurance Operations

Sonic offers its customers a wide range of financing and leasing alternatives for the purchase of vehicles as well as third-party warranty or extended service contracts. We assign our vehicle financing contracts and leases to other parties, instead of directly financing sales, which reduces our exposure to loss from financing activities. Sonic receives a commission from the provider of the finance, lease or extended warranty contract but is assessed a chargeback fee by that provider if a contract is canceled, in most cases, within 90 days of originating the contract. Early cancellation can result from early repayment because of refinancing of the loan, the sale or trade-in of the vehicle, or default on the contract. We establish an allowance to absorb estimated chargebacks and refunds. Finance and insurance commission revenue is recorded net of such chargebacks. Commission expense related to finance and insurance commission revenue is charged to selling, general and administrative expenses upon recognition of such revenue.

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

	Year ended December 31,		
	1999	2000	2001
	(dollars in thousands, except per unit data)		
Commission revenue .....	\$ 82,771	\$ 162,751	\$ 189,325
Revenue per unit retailed...	\$ 654	\$ 755	\$ 846
Gross profit (1) .....	\$ 82,771	\$ 162,751	\$ 189,325
Gross margin .....	100.0%	100.0%	100.0%

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

#### Sales and Marketing

Sonic's marketing and advertising activities vary among our dealerships and among our markets. We advertise primarily through television, newspapers, radio and direct mail and regularly conduct special promotions designed to focus vehicle buyers on our product offerings. We also utilize computer technology to aid sales people in prospecting for customers.

#### Relationships with Manufacturers

Each of Sonic's dealerships operates under a separate franchise or dealer agreement that governs the relationship between the dealership and the manufacturer. In general, each dealer agreement specifies the location of the dealership for the sale of vehicles and for the performance of certain approved services in a specified market area. The designation of such areas generally does not guarantee exclusivity within a specified territory. In addition, most manufacturers allocate vehicles on a "turn and earn" basis that rewards high volume. A dealer agreement requires the dealer to meet specified standards regarding showrooms, the facilities and equipment for servicing vehicles, inventories, minimum net working capital, personnel training, and other aspects of the business. The dealer agreement with each dealership also gives the related manufacturer the right to approve the dealership's general manager and any material change in management or ownership of the dealership. Each manufacturer may terminate a dealer agreement under certain circumstances, such as a change in control of the dealership without manufacturer approval, the impairment of the reputation or financial condition of the dealership, the death, removal or withdrawal of the dealership's general manager, the conviction of the dealership or the dealership's owner or general manager of certain crimes, the failure to adequately operate the dealership or maintain wholesale financing arrangements, insolvency or bankruptcy of the dealership or a material



breach of other provisions of the dealer agreement.

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

- . Ford may cause Sonic to sell or resign from one or more of Sonic's Ford, Lincoln or Mercury franchises if any person or entity (other than O. Bruton Smith and any entity controlled by him) acquires securities or has a binding agreement to acquire securities having 50% or more of the voting power of Sonic's securities.
- . General Motors and Infiniti may force the sale of their respective franchises if 20% or more of Sonic's voting securities are similarly acquired.
- . Toyota may force the sale of one or more of Sonic's Toyota or Lexus dealerships if (1) an automobile manufacturer or distributor acquires securities, or the right to vote securities by proxy or voting agreement, having more than 5% of the voting power of Sonic's securities, (2) any individual or entity acquires securities, or the right to vote securities by proxy or voting agreement, having more than 20% of the voting power of Sonic's securities, (3) there is a material change in the composition of Sonic's 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.
- . Honda may force the sale of one or more of Sonic's Honda or Acura franchises if (1) an automobile manufacturer or distributor acquires securities having 5% or more of the voting power of Sonic's securities, (2) an individual or entity that has either a felony criminal record or a criminal record relating solely to dealings with an automobile manufacturer, distributor or dealership acquires securities having 5% or more of the voting power of Sonic's securities or (3) any individual or entity acquires securities having 20% or more of the voting power of Sonic's securities and Honda reasonably deems such acquisition to be detrimental to Honda's interests in any material respect.
- . Chrysler requires prior approval of any future sales that would result in a change in voting or managerial control of Sonic.
- . Volkswagen has approved the sale of no more than 25% of the voting control of Sonic, and any future changes in ownership or transfers among Sonic's current stockholders that could effect the voting or managerial control of Sonic's Volkswagen franchisee subsidiaries require the prior approval of Volkswagen.
- . Mercedes requires 60 days advance notice to approve any acquisition of 20% or more of Sonic's voting securities.

10

- . Other manufacturers may impose similar restrictions.

Many states have placed limitations upon manufacturers' and distributors' ability to sell new motor vehicles directly to customers in their respective states in an effort to protect dealers from unfair competition. In general, these statutes make it unlawful for a manufacturer or distributor to compete with a new motor vehicle dealer in the same line-make operating under an agreement or franchise from the manufacturer or distributor in the relevant market area. However, a manufacturer or distributor is not deemed to be competing when:

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

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

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

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

Alabama. Alabama law prohibits manufacturers from terminating or refusing to continue or renew a franchise agreement except for "good cause." "Good cause" to discontinue a relationship may exist if, for example, a dealer violates a material term of, or fails to perform its duties under, a franchise agreement. In addition, a manufacturer is prohibited from interfering with the transfer of a dealership unless the transfer is to a person who would not qualify for a dealer's license under Alabama law. Finally, a manufacturer may not unreasonably establish a new dealership within the market area of an existing dealer. A manufacturer who violates Alabama law may be required to pay the dealer for the damages incurred, as well as the costs of suing the manufacturer for damages, including attorney's fees.

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

Florida. Under Florida law, notwithstanding any contrary terms in a dealer agreement, manufacturers may not unreasonably withhold approval for the sale of a dealership. Acceptable grounds for disapproval include material shortcomings in the character, financial condition or business experience of the proposed transferee. In addition, dealerships may challenge manufacturers' attempts to establish new dealerships in the dealer's markets, and state regulators may deny applications to establish new dealerships for a number of reasons, including a determination that the manufacturer is adequately represented in the area. Manufacturers must have "good cause" for any termination or failure to renew a dealer agreement, and an automaker's license to distribute vehicles in Florida may be revoked if, among other things, the automaker has forced or attempted to force an automobile dealer to accept delivery of motor vehicles not ordered by that dealer.

Georgia. Georgia law provides that no manufacturer may arbitrarily reject a proposed change of control or sale of an automobile dealership, and any manufacturer challenging such a transfer of a dealership must provide written reasons for its rejection to the dealer. Manufacturers bear the burden of proof to show that any disapproval of a proposed transfer of a dealership is not arbitrary. It is unlawful for

a manufacturer to cancel a franchise agreement for any reason not constituting good cause under Georgia law. As an alternative to rejecting or accepting a proposed transfer of a dealership or terminating the franchise agreement, Georgia law provides that a manufacturer may offer to purchase the dealership on

the same terms and conditions offered to the prospective transferee.

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

Nevada. Nevada law makes it unlawful for a manufacturer to terminate or refuse to continue any franchise unless it has received the written consent of the dealer or it gives written notice of its intention to the dealer and to the state and either the dealer does not file a protest; or after the dealer has filed a protest and the state has conducted a hearing on the matter, the state issues an order authorizing the manufacturer to terminate the franchise or permit it to lapse. Possible grounds for termination of a franchise include transfer of an ownership or interest in a dealership without the consent of the manufacturer unless the consent has been unreasonably withheld, material misrepresentation by the dealer in applying for franchise, insolvency of the dealer, revocation of a dealer's license, conviction of the dealer for a felony, any unfair business practice by the dealer after the manufacturer has issued a written warning to the dealer to desist from that practice, or closure by the dealer for a period of longer than 14 days unless the closure was beyond the dealer's control. In Nevada, a manufacturer may not enter into a franchise which would establish an additional dealership within the relevant market area of another dealer in the same line and make of vehicles unless the manufacturer has given written notice to each dealer in the same line in the relevant market area and either none of the dealers protest or after a protest is filed the state finds that there is not good cause for preventing the intended establishment or relocation of a dealership and issues an order authorizing the manufacturer or distributor to establish the additional dealership.

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

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

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

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

punitive damages in limited circumstances.

Tennessee. Under Tennessee law, a manufacturer may not modify, terminate or refuse to renew a franchise agreement with a dealer except for good cause, as defined in the governing Tennessee statutes. Further, a manufacturer may be denied a Tennessee license, or have an existing license revoked or suspended if the manufacturer modifies, terminates, or suspends a franchise agreement due to an event not constituting good cause. Good cause includes material shortcomings in the character, financial condition or business experience of the

12

dealer. A manufacturer's Tennessee license may also be revoked if the manufacturer prevents or attempts to prevent the sale or transfer of the dealership by unreasonably withholding consent to the transfer.

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

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

#### Competition

The retail automotive industry is highly competitive. Depending on the geographic market, we compete both with dealers offering the same brands and product lines as ours and dealers offering other manufacturers vehicles. We also compete for vehicle sales with auto brokers and leasing companies, and with internet companies that provide customer referrals to other dealerships or who broker vehicle sales between customers and other dealerships. We compete with small, local dealerships and with large multi-franchise auto dealerships. Some of our competitors are larger and have greater financial and marketing resources and are more widely known than we are. Some of our competitors also may utilize marketing techniques, such as "no negotiation" sales methods, not extensively used by us.

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

In addition to competition for vehicle sales, we also compete with other auto dealers, service stores, auto parts retailers and independent mechanics in providing parts and service. We believe that the principal competitive factors in parts and service sales are price, the use of factory-approved replacement parts, the familiarity with a dealer's makes and models and the quality of customer service. A number of regional and national chains offer selected parts and service at prices that may be lower than our prices.

In arranging or providing financing for our customers' vehicle purchases, we compete with a broad range of financial institutions. In addition, financial institutions are now offering F&I products through the Internet, which may

reduce our profits on these items. We believe that the principal competitive factors in providing financing are convenience, interest rates and contract terms.

Our success depends, in part, on national and regional automobile-buying trends, local and regional economic factors and other regional competitive pressures. Conditions and competitive pressures affecting the markets in which we operate, such as price-cutting by dealers in these areas, or in any new markets we enter, could adversely affect us, although the retail automobile industry as a whole might not be affected.

#### Governmental Regulations and Environmental Matters

Numerous federal and state regulations govern Sonic's business of marketing, selling, financing and servicing automobiles. Sonic also is subject to laws and regulations relating to business corporations generally.

Under the laws of the states in which we currently operate as well as the laws of other states into which we may expand, we must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. These laws also regulate our conduct of business, including our sales, operating, advertising, financing and employment practices. These laws also include federal and state wage-hour, anti-discrimination and other employment practices laws.

13

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

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

Our financing activities with customers are subject to federal truth-in-lending, consumer leasing and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Some states regulate finance fees that may be paid as a result of vehicle sales.

Federal, state and local environmental regulations, including regulations governing air and water quality, the clean-up of contaminated property and the use, storage, handling, recycling and disposal of gasoline, oil and other materials, also apply to us and our dealership properties.

We believe that we comply in all material respects with the laws affecting our business. However, claims arising out of actual or alleged violations of laws may be asserted against us or our dealerships by individuals or governmental entities, and may expose us to significant damages or other penalties, including possible suspension or revocation of our licenses to conduct dealership operations and fines.

As with automobile dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes and other environmentally sensitive materials. Our business also involves the past and current operation and/or removal of aboveground and underground storage tanks containing such substances or wastes. Accordingly, we are subject to regulation by federal, state and local authorities that establish health and environmental quality standards, provide for liability related to those standards, and in certain circumstances provide penalties for violations of those standards. We are also subject to laws, ordinances and regulations governing remediation of contamination at facilities we own or operate or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

We believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. However, soil and groundwater contamination is known to exist at certain properties used by us. Further, environmental laws and regulations are complex and subject to frequent change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. We cannot assure you that compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions will not

require additional expenditures by Sonic, or that such expenditures will not be material.

#### Executive Officers of the Registrant

The executive officers are elected annually by, and serve at the discretion of, Sonic's Board of Directors. Sonic's executive officers as of the date of this Form 10-K, are as follows:

<TABLE>  
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NAME	AGE	POSITION(S) WITH SONIC
O. Bruton Smith.....	75	Chairman, Chief Executive Officer and Director
Thomas A. Price.....	58	Vice Chairman and Director
B. Scott Smith.....	34	President, Chief Operating Officer and Director
Theodore M. Wright.....	39	Chief Financial Officer, Vice President, Treasurer and Director
Jeffrey C. Rachor.....	40	Executive Vice President of Retail Operations and Director
Mark J. Iuppenlatz.....	42	Vice President of Corporate Development

</TABLE>

O. Bruton Smith has been the Chairman, Chief Executive Officer and a director of Sonic since its organization in 1997, and he currently is a director and executive officer of many of Sonic's dealerships. Mr. Smith has worked in the retail automobile industry since 1966. Mr. Smith is also the chairman and chief executive officer, a director and controlling stockholder of Speedway Motorsports, Inc. ("SMI"). SMI is a public company traded on the New York Stock Exchange (the "NYSE"). Among other things, it owns and operates the following NASCAR racetracks: Atlanta MotorSpeedway, Bristol MotorSpeedway, Lowe's MotorSpeedway at Charlotte, Las Vegas MotorSpeedway, Sears Point Raceway and Texas MotorSpeedway. He is also the executive officer and a director of each of SMI's operating subsidiaries. Mr. Smith's term as a director of Sonic will expire at the 2003 annual stockholders' meeting.

14

Thomas A. Price was appointed Vice Chairman and a director of Sonic in January 2000. Before joining Sonic, Mr. Price had been Chief Executive Officer, President and a director of FirstAmerica Automotive, Inc. ("FirstAmerica") since September 1996. From March 1976 to June 1997, Mr. Price owned and operated nine vehicle dealerships. Mr. Price has worked in the automotive industry since 1963 in various capacities including marketing and field assignments at Ford Motor Company. He is a charter member of the J.D. Power Superdealer Roundtable. Mr. Price has agreed to stand for re-election as a director of Sonic at the Annual Meeting.

B. Scott Smith has been the President and Chief Operating Officer of Sonic since April 1997 and a Sonic director since its organization in January 1997. Mr. Smith also serves as a director and executive officer of many of Sonic's subsidiaries. Mr. Smith, who is the son of O. Bruton Smith, has been an executive officer of Town and Country Ford since 1993, and was a minority owner of both Town and Country Ford and Fort Mill Ford before Sonic's acquisition of those dealerships in 1997. Mr. Smith became the General Manager of Town & Country Ford in November 1992 where he remained until his appointment to President and Chief Operating Officer of Sonic in April 1997. Mr. Smith's term as a director of Sonic will expire at the 2004 annual stockholders' meeting.

Theodore M. Wright has been the Chief Financial Officer, Vice President and Treasurer of Sonic since April 1997, and a Sonic director since June 1997. He served as Sonic's secretary until February 9, 2000. Mr. Wright also serves as a director and executive officer of many of Sonic's subsidiaries. Before joining Sonic, Mr. Wright was a Senior Manager and in charge of the Columbia, South Carolina office of Deloitte & Touche LLP. Before joining the Columbia office, Mr. Wright was a Senior Manager in Deloitte & Touche LLP's National Office Accounting Research and SEC Services Departments from 1994 to 1995. From 1992 to 1994, Mr. Wright was an audit manager with Deloitte & Touche LLP. Mr. Wright has agreed to stand for re-election as a director of Sonic at the Annual Meeting.

Jeffrey C. Rachor is Sonic's Executive Vice President of Retail Operations. In May 1999, Mr. Rachor was appointed a director of Sonic and promoted to executive officer status. He originally joined Sonic as its Regional Vice President -- Mid-South region upon Sonic's 1997 acquisition of dealerships in Chattanooga, Tennessee and was subsequently promoted to Vice President of Retail Operations in September 1998. Mr. Rachor has over 14 years experience in automobile retailing and was the chief operating officer of the Chattanooga dealerships from 1989 until their acquisition by Sonic in 1997. During this period, Mr. Rachor has also served at various times as the general manager of Toyota, Saturn and Chrysler-Plymouth-Jeep-Eagle dealerships. Before then, Mr. Rachor was an assistant regional manager with American Suzuki Motor Corporation from 1987 to 1989 and a metro sales manager and a district sales manager with GM's Buick Motor Division from 1983 to 1987. Mr. Rachor's term as a director of Sonic will expire at the 2003 annual stockholders' meeting.

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

#### Employees

As of December 31, 2001, Sonic employed approximately 10,000 people. We believe that many dealerships in the retail automobile industry have difficulty in attracting and retaining qualified personnel for a number of reasons, including the historical inability of dealerships to provide employees with an equity interest in the profitability of the dealership. We provide certain executive officers, managers and other employees with stock options and all employees with a stock purchase plan. We believe this type of equity incentive is attractive to our existing and prospective employees.

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

#### Item 2: Properties.

Sonic's principal executive offices are located at 5401 East Independence Boulevard, Charlotte, North Carolina 28212, and our telephone number is (704) 566-2400. These executive offices are located on the premises owned by affiliates of Capital Automotive REIT.

Our dealerships are generally located along major U.S. or interstate highways. One of the principal factors considered by Sonic in

15

evaluating an acquisition candidate is its location. We prefer to acquire dealerships located along major thoroughfares, primarily interstate highways with ease of access, which can be easily visited by prospective customers.

We lease substantially all of the properties utilized by our dealership operations. Our leased properties are leased from affiliates of Capital Automotive REIT and other individuals and entities. We believe that our facilities are adequate for our current needs.

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

#### Item 3: Legal Proceedings

Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. Currently, no legal proceedings are pending against or involve the Company that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

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

Not Applicable.

16

## PART II

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

Sonic's Class A common stock is currently traded on the NYSE under the symbol "SAH."

As of March 15, 2002, there were 28,755,269 shares of Sonic's Class A common stock and 12,029,375 shares of Sonic's Class B common stock outstanding. As of March 15, 2002, there were 97 record holders of the Class A common stock and four record holders of the Class B common stock. As of March 15, 2002, the closing stock price for the Class A common stock was \$30.03.

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

We do not anticipate paying any dividends in the foreseeable future. The credit agreement related to our senior credit facility and the indentures governing the terms of our senior subordinated notes due 2008 prohibit the payment of dividends by Sonic.

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

2001	HIGH	LOW
- - - - -	-----	---
First Quarter.....	8.45	6.00
Second Quarter.....	19.10	7.69
Third Quarter.....	22.75	10.90
Fourth Quarter.....	23.86	13.00
2000	HIGH	LOW
- - - - -	-----	---
First Quarter.....	9.81	7.69
Second Quarter.....	11.25	9.50
Third Quarter.....	12.13	8.31
Fourth Quarter.....	9.00	6.00

During 2001, there were no issuances of equity securities by Sonic that were not registered under the Securities Act.

17

## Item 6: Selected Financial Data.

The selected consolidated income statement data for the years ended December 31, 1997, 1998, 1999, 2000, and 2001 and the selected consolidated balance sheet data as of December 31, 1997, 1998, 1999, 2000, and 2001 are derived from Sonic's audited financial statements. In accordance with accounting principles generally accepted in the United States of America, the selected consolidated financial data have been retroactively restated to reflect Sonic's two-for-one common stock split that occurred on January 25, 1999. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired by us. The selected consolidated financial data of Sonic discussed on the following page reflect the results of operations and financial positions of each of our dealerships acquired prior to December 31, 2001. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in selected consolidated financial data is not necessarily indicative of the results of operations and financial position of Sonic in the future or the results of operations and financial position that would have resulted had such acquisitions occurred at the beginning of the periods presented in the selected consolidated financial data.

18

&lt;TABLE&gt;





Consolidated Balance Sheet Data:

Working capital.....	\$ 44,098	\$ 79,155	\$ 177,657	\$ 214,410	\$ 219,043
Total assets.....	291,450	576,103	1,501,102	1,784,576	1,805,926
Long-term debt (2).....	49,653	145,790	425,894	493,309	519,963
Total liabilities.....	207,085	433,674	1,098,529	1,333,654	1,288,665
Stockholders' equity.....	84,365	142,429	402,573	450,922	517,261

- (1) Amounts reflect certain reclassifications in order to make Sonic's presentation more consistent with our peer group and revised accounting standards regarding manufacturer incentives.
- (2) Long-term debt includes current maturities of long-term debt and the payable to Sonic's Chairman. See Sonic's Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Overview

We are the second largest automotive retailer in the United States, as measured by total revenue, operating 160 dealership franchises at 118 locations and 29 collision repair centers throughout the United States as of March 22, 2002. We own and operate franchises for 30 different brands of cars and light trucks, providing comprehensive services including sales of both new and used cars and light trucks, replacement parts and vehicle maintenance, warranty, paint and repair services. We also arrange extended warranty contracts and financing and insurance for our automotive customers.

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

<TABLE>  
<CAPTION>

	Percentage of New Vehicle Revenues Year Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Brand (1)			
Ford .....	23.3%	13.5%	18.6%
Honda .....	6.7%	14.4%	13.0%
General Motors (2) ....	13.5%	10.8%	12.2%
Toyota .....	7.9%	8.4%	11.3%
BMW .....	9.3%	10.4%	10.7%
Chrysler (3) .....	14.0%	12.1%	8.3%
Nissan .....	3.1%	6.5%	5.3%
Lexus .....	3.8%	5.3%	5.3%
Other (4) .....	18.4%	18.6%	15.3%
Total .....	100.0%	100.0%	100.0%

</TABLE>

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

New vehicle revenues include both the sale and lease of new vehicles. Used vehicle revenues include amounts received for used vehicles sold to retail customers, other dealers and wholesalers. Other operating revenues include parts and services revenues, fees and commissions for arranging financing and insurance and sales of third party extended warranties for vehicles. In connection with vehicle financing, warranty and insurance contracts, we receive a commission from the provider for originating the contract. If, within 90 days of origination, the customer cancels or defaults on the contract, the provider will assess a charge (a "chargeback") for a portion of the original commission. The amount of the chargeback depends on how long the related contract was outstanding. As a result, we have established reserves based on our historical chargeback experience.

The automobile manufacturing 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, manufacturer incentives and available credit. New and used vehicle sales slowed substantially for several weeks following September 11, 2001. In response certain manufacturers, especially of domestic brands, introduced incentive programs, which contributed to a significant increase in new vehicle sales in the fourth quarter of 2001. In addition, our dealerships in Northern California experienced significant declines in revenue run rates due to the depressed economic conditions in that market compared to the rest of the country. While the automotive retailing business is cyclical, we sell several products and services that are not closely tied to the sale of new and used vehicles. These products and services include our parts, service and collision repair businesses, none of which are dependent upon near-term new vehicle sales volume.

Our cost of sales and profitability are also affected by the allocations of new vehicles that our dealerships receive from

20

manufacturers. When we do not receive allocations of new vehicle models adequate to meet customer demand, we may purchase additional vehicles from other dealers at a premium to the manufacturer's invoice, reducing the gross margin realized on the sales of such vehicles. In addition, we follow a disciplined approach in selling vehicles to other dealers and wholesalers when the vehicles have been in our inventory longer than the guidelines set by us. These sales are frequently at or below cost and, therefore, reduce our overall gross margin on vehicle sales.

Salary expense, employee benefits costs, facility rent and advertising expenses comprise the majority of our selling, general and administrative expenses. Approximately 63.1% of our selling, general and administrative expenses for the year ended December 31, 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 (7.0% of selling, general and administrative expenses) and non-salaried sales compensation (50.1%) expenses, so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and all other non-clerical dealership personnel are paid either a commission or a modest salary plus commissions. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options.

Interest expense fluctuates based primarily on the level of the inventory of new vehicles held at our dealerships, substantially all of which is financed through floor plan financing, as well as the amount of indebtedness incurred for acquisitions. Our floor plan expenses are substantially offset by amounts received from manufacturers, in the form of floor plan inventory incentives. These payments are credited against our cost of sales. In 2001, we received approximately \$33.8 million in manufacturer inventory incentives that resulted in an effective borrowing rate under our floor plan facilities of approximately 0.3%.

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

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired. Our Consolidated Financial Statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to December 31, 2001. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is not necessarily

indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

#### Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain of our accounting policies employing the use of significant estimates are as follows:

Accounts receivable - Our accounts receivable consist primarily of amounts due from the manufacturers for repair services performed on vehicles with a remaining factory warranty and amounts due from third parties from the sale of parts. We believe that there is minimal risk of uncollectability on warranty receivables. We evaluate parts and other receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts we have recorded for accounts receivable is not significant. As of December 31, 2001, we also had outstanding notes receivable from finance contracts of \$13.7 million (net of an allowance for credit losses of \$1.8 million). These notes have average terms of approximately 30 months and are secured by the related vehicles. The assessment of our allowance for credit losses considers historical loss ratios and the performance of the current portfolio with respect to past due accounts.

Inventories - Inventories of new and used vehicles, including demonstrators, are stated at the lower of specific cost or market. Inventories of parts and accessories are accounted for using the "first-in, first-out" ("FIFO") method of inventory accounting and are stated at the lower of FIFO cost or market. Other inventories, which primarily include rental and service vehicles, are stated at the lower of specific cost or market.

We assess the valuation of all of our vehicle and parts inventories and maintain a reserve where the cost basis exceeds the fair market value. In making this assessment for new vehicles, we primarily consider the age of the vehicles along with the timing of annual and model changeovers. For used vehicles we consider recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are assessed considering primarily excess quantity and continued usefulness of the part. The risk with parts

21

inventories is minimized by the fact that, generally, excess or obsolete parts can be returned to the manufacturer. We have not recorded any significant reserves on any of our inventory balances.

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

Goodwill -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. As of 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 December 31, 2001, the carrying amount of goodwill was \$738.1 million and represented 40.9% of total assets and 142.7% of total stockholders' equity. Prior to the issuance of Statement of Financial Accounting Standards ("SFAS") No. 141 and SFAS No. 142, generally accepted accounting principles required that goodwill be amortized over the period benefited, limited to a period of 40 years. Sonic has determined that the period benefited by goodwill will be no less than 40 years. Accordingly, goodwill acquired in business combinations completed prior to July 1, 2001 has been amortized over 40 years. In order to evaluate the recoverability of goodwill, Sonic periodically compares the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the business acquired. Sonic has concluded that the anticipated future cash flows associated with intangible assets recognized in its acquisitions will continue indefinitely, and there is no pervasive evidence that any material portion will dissipate over a period shorter than 40 years. Pursuant to the provisions of SFAS No. 142, goodwill acquired in business combinations completed subsequent to June 30, 2001 has not been amortized, but will be tested for impairment in accordance with the provisions of SFAS No. 142. Upon full adoption of SFAS No. 142 in January 2002, all goodwill will no longer be amortized. See discussion of "Recent Accounting Pronouncements."

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

Results of Operations

The following table summarizes, for the periods presented, the percentages of total revenues represented by certain items reflected in our Consolidated Statements of Income.

<TABLE>  
<CAPTION>

		Percentage of Total Revenues for the Year ended December 31,		
		1999	2000	2001
		-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenues (1):				
59.5%	New Vehicles .....	59.3%	58.8%	
18.5%	Used Vehicles .....	19.7%	19.7%	
6.6%	Wholesale Vehicles .....	7.6%	7.2%	
12.4%	Parts, service and collision repair .....	10.9%	11.6%	
3.0%	Finance and insurance and other .....	2.5%	2.7%	
		-----	-----	-----
100.0%	Total revenues .....	100.0%	100.0%	
84.6%	Cost of sales (1) .....	85.9%	85.0%	
		-----	-----	-----
15.4%	Gross profit (1) .....	14.1%	15.0%	
11.8%	Selling, general and administrative (1) .....	10.2%	11.1%	
0.1%	Depreciation .....	0.1%	0.1%	
0.3%	Goodwill amortization .....	0.3%	0.3%	
		-----	-----	-----
3.2%	Operating income .....	3.5%	3.5%	
0.6%	Interest expense, floor plan .....	0.7%	0.8%	
0.6%	Interest expense, other .....	0.6%	0.7%	
		-----	-----	-----
2.0%	Income before income taxes .....	2.2%	2.0%	
0.8%	Income tax expense .....	0.9%	0.8%	
		-----	-----	-----
1.2%	Net Income .....	1.3%	1.2%	
		=====	=====	

</TABLE>

(1) Amounts reflect certain reclassifications in order to make Sonic's presentation more consistent with our peer group and revised accounting standards regarding manufacturer incentives.

Revenues

Total revenues increased \$381.9 million, or 6.4% in 2001, reflecting increases in new vehicle revenues; parts, service, and collision repair; and finance and insurance revenues, offset slightly by decreases in used and wholesale vehicle revenues. The overall increase was primarily due to acquisitions, which contributed \$672.2 million in revenue in 2001. This increase was offset by lower revenues from dealerships owned longer than one year ("same store") of approximately \$290.3 million, or 5.2% in 2001. The majority of this

decline was due to our Northern California, North Carolina, and South Carolina regions, which accounted for \$260.0 million of the same store revenue decrease. In 2000, total revenues increased 80.6% over the previous year. Of this increase, approximately 97.5% resulted from acquisitions and approximately 2.5% was contributed by dealerships owned longer than one year.

22

**New Vehicles:** Revenues from the sale of new vehicles increased approximately \$272.6 million, or 7.8%, in 2001 over 2000, reflecting an increase in units sold of approximately 5.0%, or 6,801 units, and a slight increase in the average new vehicle selling price of approximately \$683, or 2.7%. The impact of dealerships acquired in 2000 and 2001 by a decline in same store unit sales of 11,511 units, or 9.0%. The decline in same store unit sales was primarily isolated to domestic brands, which are generally more sensitive to weaker economic conditions than import brands. Sales of domestic brands on a same store basis declined approximately 19.2% in 2001, and accounted for approximately 76.0% of the total decline in same store unit sales. Sales of import brands on a same store basis declined only 3.9% in 2001. Same store unit sales were also negatively affected by weaker economic conditions in our Northern California region where same store unit sales declined 13.7%, representing 40.0% of the total decline in same store sales. We also saw relatively significant declines in same store unit sales in our North and South Carolina regions of 19.7% and 26.6%, respectively, primarily as a result of a heavier concentration of domestic versus import brands in those regions. These regions represented 32.8% of the total decline in same store unit sales. While we saw declines in same store unit sales in most of our other regions, no other region accounted for more than 10% of the total decline.

In 2000, revenues from the sale of new vehicles increased approximately 78.4%, representing an increase in unit sales of approximately 71.4% and an increase in the average selling price of approximately 4.1%. The increase in unit sales resulted primarily from acquisitions, which was partially offset by an approximate decline of 5.4% in same store unit sales. The increase in the average selling price resulted primarily from an increase in the percentage of higher-priced luxury brand units sold. Luxury brands comprised 16.5% of our new vehicle unit sales in 2000 compared to 13.5% in 1999.

**Used Vehicles:** Revenues from retail sales of used vehicles remained mostly flat in 2001. Revenues from acquisitions contributed \$103.3 million, but this increase was offset by a decrease in same store sales of \$103.9 million. The decrease in same store sales was due to decreases in both selling price, of \$105 per unit, and units sold of 6,549. Dealerships acquired contributed 7,922 units in 2001. Half of the decline in same store unit sales was due to our Northern California and Birmingham/Tennessee markets, which made up \$52.6 million of the \$103.9 million decline in used vehicle revenues.

Revenues from retail sales of used vehicles increased approximately 80.3% in 2000. The increase was primarily due to an increase in unit sales of approximately 68.4% and an increase in the average selling price of approximately 7.0%. Of the increase in unit sales, approximately 94.6% resulted from acquisitions and 5.4% resulted from same store sales.

**Wholesale Vehicles:** Wholesale revenues decreased 2.9% in 2001. The majority of the decline was due to a reduction in same store revenue of \$48.1 million, offset by an increase from acquisitions, of \$35.6 million. The majority of the decline in same store sales resulted from a lower selling price of \$331 per unit and a decrease in units of 4,633 in 2001. The decrease in average price per unit was caused by the declines in values of used units at the wholesale level, especially in the fourth quarter.

Wholesale revenues in 2000 increased 71.7% over 1999. The increase was due primarily to an increase in unit sales of 70.3% and an increase in the average price per unit of 0.8%. Of the increase in unit sales, approximately 93.2% resulted from acquisitions and 6.8% resulted from same store sales.

**Fixed Operations:** Revenues from parts, service and collision repair increased approximately 13.9% in 2001, of which approximately 29.5% resulted from same store sales with the remaining 70.5% coming from acquisitions. Same store revenues increased \$28.2 million, or 4.5%, resulting in part from investments in real estate and construction projects on collision facilities, which allowed us to increase our overall service and parts capacity. Revenues from parts, service and collision repair increased approximately 88.9% in 2000, of which approximately 93.8% resulted from acquisitions.

**Finance and Insurance:** Finance and insurance revenue increased 16.3% in 2001 resulting primarily from increases in revenues from the retail sale of new vehicles in 2001. Finance and insurance revenue increased 96.6% in 2000 resulting primarily from increases in revenues from the retail sale of new and used vehicles. The total increase in 2001 of \$26.6 million was made up of \$19.0 million from acquisitions, and \$7.6 million from same store sale growth. Finance and insurance revenue per unit increased \$91 per unit in 2001. Finance and insurance revenue increased \$101 per unit in 2000. The increase in per unit revenue in both years reflects our continued focus on training programs for

finance and insurance sales people along with our ability to negotiate higher commissions on the origination of customer vehicle financing, insurance policies and extended warranty contracts.

#### Gross profit and gross margins

Gross profit increased 9.4% in 2001, primarily as a result of acquisitions. Gross profit as a percentage of revenues ("gross margins") increased to 15.4% from 15.0% due primarily to an increase in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products, which earn higher margins than vehicles sales. Parts, service and collision repair revenues as a percentage of total revenues increased to 12.4% in 2001 from 11.6% in 2000. Finance and insurance revenues as a percentage of total revenues increased to 3.0% in 2001 from 2.7% in 2000. In addition, the gross profit percentage earned on our parts, service, and collision repair and finance and insurance products increased to 56.6% in 2001 from 55.2% in 2000. The overall increase in gross margin

23

was offset by a decrease in floor plan assistance received from manufacturers to \$33.8 million in 2001, from \$37.3 million in 2000 as a result off a decline in interest rates (see additional discussion of floor plan assistance under Liquidity and Capital Resources: Floor Plan Facilities).

Gross profit increased 90.6% in 2000, the majority of which resulted from acquisitions. Gross margin increased to 15.0% in 2000 from 14.1% in 1999 due primarily to an increase in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products, which earn higher margins than vehicles sales. Parts, service and collision repair revenues as a percentage of total revenues increased to 11.6% in 2000 from 11.0% in 1999. Finance and insurance revenues as a percentage of total revenues increased to 2.7% in 2000 from 2.5% in 1999. In addition, the gross profit percentage earned on our parts, service, and collision repair and finance and insurance products increased to 55.2% in 2000 from 53.1% in 1999.

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

[GRAPHS]

The above chart reflects certain reclassifications in order to make Sonic's presentation more consistent with peer group and revised accounting standards regarding manufacturer incentives.

#### Selling, general and administrative expenses

Selling, general and administrative expenses increased 13.4% in 2001, with approximately 80.8% of the increase coming primarily from acquisitions. Of our total selling, general and administrative expenses, approximately 63.1% were variable, comprised primarily of non-salaried sales compensation and advertising, and approximately 36.9% were fixed, comprised primarily of rent expense and fixed compensation. Variable selling, general and administrative expenses are generally tied to vehicle sales and can be adjusted in response to changes in sales volume or gross profits. As a percentage of gross profits, variable expenses actually declined slightly in 2001 to 48.4% from 48.5% in 2000. These declines were offset by fixed expenses, which increased as a percentage of gross profits to 28.3% in 2001 from 25.5% in 2000, primarily as a result of increases in rent expense due to investments in dealership facilities, and increases in medical insurance costs. Total selling, general, and administrative expenses as a percentage of gross profit increased to 76.7% in 2001 from 74.0% in 2000 as a result of these factors, as well as a result of a decline in floor plan assistance received from manufacturers, which are included in gross profits. Floor plan assistance declined to \$33.8 million in 2001, from \$37.3 million in 2000 primarily as a result off a decline in interest rates (see additional discussion of floor plan assistance under Liquidity and Capital Resources: Floor Plan Facilities).

24

Selling, general and administrative expenses increased 93.8% in 2000, primarily as a result of acquisitions. Of our total selling, general and administrative expenses, approximately 65.6% were variable, comprised primarily of non-salaried sales compensation and advertising, and approximately 34.4% were fixed, comprised primarily of rent expense and fixed compensation. Variable selling, general and administrative expenses are generally tied to vehicle sales and can be adjusted in response to changes in sales volume or gross profits. As a percentage of gross profits, variable expenses actually declined slightly in 2000 to 48.5% from 48.7% in 1999. These declines were offset by fixed expenses, which increased as a percentage of gross profits to 25.5% in 2000 from 24.0% in 1999, primarily as a result of increases in rent expense due to acquisitions of dealerships located in higher rent markets and increased lease costs on newly constructed dealerships. As a result, total selling, general, and administrative

expenses as a percentage of gross profit increased to 74.0% in 2000 from 72.7% in 1999.

#### Depreciation and amortization

Depreciation expense, excluding goodwill amortization, increased approximately 25.3% in 2001. The balance of gross property and equipment, excluding land and construction in process, increased approximately \$17.6 million in 2001, of which approximately \$7.4 million resulted from dealership acquisitions and approximately \$9.5 million from additional capital expenditures. In 2000, depreciation expense increased approximately 89.4%. The balance of property and equipment, excluding construction in process, increased approximately \$8.9 million in 2000, of which approximately \$4.3 million resulted from dealership acquisitions and approximately \$4.6 million resulted from additional capital expenditures. As a percentage of total revenues, depreciation expense was at 0.1% in 2000 and 2001.

Goodwill amortization expense increased 9.4% in 2001 due to an increase of \$22.5 million in amortizable goodwill arising from acquisitions. An additional \$65.9 million of goodwill was acquired but not amortized in accordance with SFAS No. 142.

#### Floor plan interest expense

Floor plan interest expense decreased by \$11.6 million, or 24.6% in 2001. As a percentage of total revenues, floor plan interest expense decreased to 0.6% in 2001 from 0.8% in 2000. The change reflects a same store decrease of \$14.6 million offset by an increase due to acquisitions of \$3.0 million. Of the same store decrease, \$12.6 million was due to a decrease in the average floor plan interest rate to 5.9% in 2001 from 7.9% in 2000. The remainder of the same store decrease was due to a decrease in the average floor plan liability to \$485.4 million in 2001 from \$519.9 million in 2000. Contributing to a lower floor plan liability was a decrease in our average days supply of new vehicles in inventory to approximately 45.4 days at December 31, 2001 from 68.1 days at December 31, 2000.

Floor plan interest expense increased 109% in 2000 compared to 1999. Approximately 77.4% of the increase resulted from acquisitions, and 22.6% was contributed by dealerships owned longer than one year. As a percentage of total revenues, floor plan interest increased to 0.8% in 2000 from 0.7% in 1999. These increases resulted from an increase in the average interest rate to approximately 7.9% in 2000 from 6.9% in 1999, as well as an increase in our days supply of new vehicles in inventory to approximately 68.1 days at December 31, 2000 from 53.9 days at December 31, 1999. This increase in our days supply resulted in larger inventory and floor plan balances.

#### Other interest expense

Other interest expense decreased by \$6.4 million, or 15.1% in 2001. Of the total decrease, approximately \$7.0 million was attributable to the decrease in the average interest rate incurred on our senior credit facility to approximately 6.9% in 2001 from 9.0% in 2000. This decrease was partially offset by an increase in the average outstanding balance of the revolving credit agreement to \$341.9 million in 2001 from \$331.8 in 2000 due to additional borrowings for acquisitions.

Other interest expense increased \$20.6 million in 2000, due primarily to an increase in the average balance under our senior credit facility to \$331.8 million in 2000 from \$76.3 million in 1999, as well as an increase in the average interest rate to approximately 9.0% in 2000 from 7.9% in 1999. This increase was partially offset by the capitalization of an additional \$1.9 million of interest costs on construction projects compared to 1999.

#### Provision for income taxes

The effective tax rate was 39.0% in 2001 compared to 38.1% in 2000. The increase was primarily attributable to the number of stock purchases of dealerships in which the goodwill amortization is not deductible for income tax purposes. The effective tax rate was 38.8% in 1999. The decrease in 2000 compared to 1999 was primarily attributable to the realization of the benefits of certain tax planning strategies, offset somewhat by acquisitions we made in the latter part of 1999 which were either (1) companies operating in states with higher income tax rates, or (2) stock purchases in which the goodwill amortization is not deductible for income tax purposes. We expect our effective tax rate for 2002 to be in the 37% to 38% range due to the changes in accounting for goodwill amortization.

#### Liquidity and Capital Resources

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





\* denotes less than.  
\*\* denotes greater than.

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or our failure, with certain exceptions, to own all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default under the Revolving Facility. We were in compliance with all restrictive covenants as of December 31, 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 in 2001 were approximately \$4.0 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of December 31, 2001 was approximately \$8.5 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed and can finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. Advances can be made under the Permanent Loan until June 2005. All advances under the Permanent Loan mature on June 22, 2010, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan. Borrowings under the Permanent Loan in 2001 were approximately \$4.8 million and were used to finance the acquisition of real estate. The total outstanding balance as of December 31, 2001 was approximately \$4.7 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 December 31, 2001.

**The Senior Subordinated Notes:** We currently have an aggregate principal balance of \$200 million in senior subordinated notes outstanding which mature on August 1, 2008 and bear interest at a stated rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Interest payments are due semi-annually on February 1 and August 1. The notes are subordinated to all of our present and future senior indebtedness, including the Revolving Facility. Redemption prices during the 12-month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter.

The indentures governing the senior subordinated notes contain certain specified restrictive and required financial covenants. We have agreed not to pledge our assets to any third party except under certain limited circumstances (for example, floor plan indebtedness). We have also agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to shareholders, distributions and redemptions. We were in compliance with all restrictive covenants as of December 31, 2001.

**Dealership acquisitions and dispositions:**

During 2001, we acquired 12 dealerships for approximately \$129.9 million in cash. The purchases were financed with a combination of cash borrowed under our revolving acquisition line of credit and cash generated from our existing operations.

As of March 22, 2002, we have acquired six dealerships for approximately \$25.1 million in cash and have entered into an agreement to purchase 16 Don Massey dealerships, which is expected to close by the end of the first quarter 2002. This acquisition will be paid for with a combination of cash borrowed under our Revolving Facility and 1,470,588 shares of Sonic Automotive,

Inc. Class A Common Stock. The shares to be issued will be restricted from sale for one year after closing, but will have certain piggy-back registration rights in the event of a future underwritten stock offering. After completing the Massey acquisition, we expect the size and frequency of our acquisitions to diminish in the second quarter of 2002 and increase again in the second half of the year.

In the ordinary course of business, we evaluate dealerships or dealership franchises for possible disposition based on various performance criteria. During 2001, we sold or otherwise disposed of assets from 15 of our franchises, resulting in the closing of nine dealerships, which contributed approximately \$81.6 million in 2001 revenues. In addition, in connection with General Motor's decision to discontinue its Oldsmobile brand and Chrysler's decision to discontinue its Plymouth brand, we terminated four Oldsmobile and seven Plymouth franchises in 2001. Net proceeds for all of our 2001 dealership dispositions were approximately \$14.1 million resulting in no material gain or loss. As of December 31, 2001, we had three remaining Oldsmobile franchises which may be terminated with 30 days notice any time between now and 2005.

27

#### Investments in Unconsolidated Affiliates:

We currently have 50% joint venture investments in North Point Volvo, LLC, a Volvo automobile dealership in the greater Atlanta area, and Fort Myers Collision Center, LLC, located in Florida, in which we initially invested \$900,000 and \$100,000, respectively. The partners in these joint ventures are not affiliated with Sonic. These entities are not consolidated into Sonic's financial statements because we do not have operating control of the entities. However, we have guaranteed \$6.0 million in indebtedness between North Point Volvo, LLC and Bank of America, including a \$5.5 million revolving floor plan financing agreement expiring in 2003, of which \$3.1 million was outstanding as of December 31, 2001, and a \$0.5 million term loan expiring in 2007. We have guaranteed no other obligations of either company. The investments are accounted for under the equity method whereby we record our share of each respective joint venture's pretax profit or loss. We recorded \$264,023 in net income in 2001 and \$119,672 in net losses in 2000 related to these investments. We may elect to make future investments in these entities.

#### Sale-Leaseback Transactions:

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

#### 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 2001 were approximately \$43.6 million, of which approximately \$34.1 million related to the construction of new dealerships and collision repair centers. Once completed, these new dealerships and collision repair centers are generally sold in sale-leaseback transactions. We sold approximately \$9.0 million of completed construction projects in sale-leaseback transactions during 2001. There were no material gains or losses on these sales. As of December 31, 2001, total construction in progress was approximately \$34.0 million, of which approximately \$18.0 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 Consolidated Balance Sheet as of December 31, 2001. We do not expect any significant gains or losses from these sales. Through March 22, 2002, there have been no additional sale/leaseback transactions.

#### 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. From inception through December 31, 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. We have limited our stock repurchase activity recently and anticipate that we will continue to limit such activity to utilizing option exercise proceeds to repurchase shares on an opportunistic basis.

Cash Flows:

During 2001, net cash provided by operating activities was approximately \$146.6 million, which was generated primarily by net income plus non-cash items such as depreciation, amortization and deferred income taxes. A decrease in inventory levels of \$219.1 million was offset by a related decrease in floor plan liabilities of \$203.8 million. Cash used for investing activities in 2001 was approximately \$136.9 million. Our principal investing activities include dealership acquisitions, capital expenditures and dealership dispositions. During 2001, net cash provided by financing activities was approximately \$8.9 million and primarily related to proceeds from the issuance of senior subordinated notes of \$74.6 million coupled with issuances of stock under stock compensation plans of approximately \$10.0 million, offset by net payments on our revolving credit facilities of \$45.9 million and repurchases of stock under our stock repurchase program of approximately \$26.5 million.

Future Liquidity Outlook:

Our obligations under our existing credit facilities, indentures and leasing programs are as follows:

<TABLE> <CAPTION>	2002	2003	2004	2005	2006	Thereafter
Total	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Floor Plan Financing \$ 587,914	\$ 587,914	\$ -	\$ -	\$ -	\$ -	\$ -
Long Term Debt 518,767	2,586	1,932	300,676	8,605	72	204,896
Operating Leases:						
Third Party 602,667	58,483	58,458	57,961	57,370	55,632	314,763
Related Parties 42,626	4,587	4,410	4,319	4,319	4,319	20,672
</TABLE>						

We believe our best source of liquidity for future growth remains our cash flows generated from operations. Our availability of borrowings under our floor plan financing (or any replacements thereof) and other credit arrangements will be sufficient to fund our debt service and working capital requirements and any seasonal operating requirements, including our currently anticipated internal growth for our existing businesses, for the foreseeable future. With forecasted capital expenditures that will not be funded by sale leaseback financing transactions of approximately \$12 to \$15 million for the year 2002, we expect to generate substantial "free" cash flow to support our acquisition strategy.

Seasonality

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

Effect of New Accounting Pronouncements:

Recent Accounting Pronouncements: In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 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 are required to classify certain intangible assets, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of our recent acquisitions, including the calculation of any franchise rights, if any, we may need to recognize.

In June 2001, the FASB also issued SFAS 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 (with an initial review within six months of adopting the new standard), but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction

in value. SFAS 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. Intangible assets determined to have a finite life are required to be reviewed for impairment in accordance with SFAS 144: Accounting for Impairment or Disposal of Long-Lived Assets. Intangible assets that are determined to have an indefinite economic life are not amortized and must be reviewed for impairment in accordance with the terms of SFAS 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 have not been amortized. We are currently evaluating the provisions of SFAS 142 and we have not yet determined the impact on our consolidated financial statements.

The cumulative gross goodwill balance was approximately \$785.2 million at December 31, 2001 and approximately \$697.8 million at December 31, 2000. Goodwill, net of accumulated amortization, represented 40.9% of total assets at December 31, 2001 and 37.4% at December 31, 2000. Net goodwill represented 142.7% of stockholders' equity at December 31, 2001 and 148.3% at December 31, 2000.

In August 2001, the FASB issued SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance in asset valuation and measuring impairment. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the provisions of SFAS No. 144 and have not yet determined the impact on our consolidated financial statements.

29

#### Item 7A: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our variable rate floor plan notes payable, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately \$911.3 million at both December 31, 2001 and 2000. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$9.7 million in 2001 and approximately \$9.5 million in 2000. Of the total change in interest expense, approximately \$6.2 million in 2001 and approximately \$5.9 million in 2000 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes payable is mitigated by floor plan assistance received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. Our floor plan interest expense in 2001 exceeded the amounts we received from manufacturer floor plan assistance by approximately \$1.7 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to an annualized rate of approximately 0.3% after considering these

30

incentives. A change in interest rates of 100 basis points would have had an estimated impact on floor plan assistance of approximately \$5.4 million in 2001.

While interest expense incurred under our fixed rate senior subordinated notes is not affected by fluctuations in interest rates, such fluctuations do affect the fair value of those notes. Based on the quoted bid price as of December 31, 2001 and 2000, the fair value of our senior subordinated notes was approximately \$207.0 million and \$106.3 million, respectively. The carrying value of our senior subordinated notes was approximately \$195.7 million and \$121.3 million at December 31, 2001 and 2000, respectively.

In addition to our variable rate debt, we also have lease agreements on a portion of our dealership facilities where the monthly lease payment fluctuated based on LIBOR interest rates. A change of 100 basis points in the underlying rates would have caused a change in rent expense of approximately \$2.6 million in 2001 and \$2.1 million in 2000.

In order to reduce its exposure to market risks from changing interest rates, on January 15, 2002, Sonic entered into an interest rate swap agreement with a financial institution to effectively convert a notional principal amount of \$100 million of its LIBOR-based debt from variable to fixed rate. Under the agreement, we will receive interest payments on the notional \$100 million at a variable rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 3.88%. This interest rate swap has been designated as a cash flow hedging relationship and, as a result, any changes in fair value will be reflected in other comprehensive income in our statement of stockholders' equity rather than our statement of income. While we may enter into additional interest rate swaps in order to hedge our interest rate cash

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

Item 8. Financial Statements and Supplementary Data.

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

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

None.

31

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item with respect to compliance by Sonic's directors, executive officers and certain beneficial owners of Sonic's Common Stock with Section 16(a) of the Securities Exchange Act of 1934 is furnished by incorporation by reference to all information under the captions entitled "Election of Directors" and "General Ownership of Voting Stock" in the Proxy Statement (to be filed hereafter) for Sonic's Annual Meeting of the Stockholders to be held on May 8, 2002 (the "Proxy Statement"). The information required by this item with respect to Sonic's executive officers appears in Part I of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation.

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

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

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

Item 13. Certain Relationships and Related Transactions.

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

32

PART IV

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

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

- (a) (1) Financial Statements:
  - . Consolidated Balance Sheets as of December 31, 2000 and 2001
  - . Consolidated Statements of Income for the Years Ended December 31, 1999, 2000 and 2001
  - . Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1999, 2000 and 2001
  - . Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 2000 and 2001.
- (2) Financial Statement Schedules: No financial statement schedules are required to be filed as part of this Annual Report on Form 10-K.
- (3) Exhibits: Exhibits required in connection with this Annual Report on Form 10-K are listed below. Certain of such exhibits, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the Securities and Exchange Commission with which they are physically filed, to be a part hereof as of their respective dates.

EXHIBIT NO.  
- - - - -

DESCRIPTION  
- - - - -

3.1\* Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic's Registration Statement on Form S-1 (Reg. No. 333-33295) (the "Form S-1")).

- 3.2\* Certificate of Amendment to Sonic's Amended and Restated Certificate of Incorporation effective June 18, 1999 (incorporated by reference to Exhibit 3.2 to Sonic's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K")).
- 3.3\* Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to Sonic's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
- 3.4 Bylaws of Sonic (as amended December 14, 2001).
- 4.1\* Specimen Certificate representing Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Form S-1).
- 4.2\* Form of 11% Senior Subordinated Note due 2008, Series B (incorporated by reference to Exhibit 4.3 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-64397 and 333-64397-001 through 333-64397-044) (the "1998 Exchange Offer Form S-4")).
- 4.3\* Indenture dated as of July 1, 1998 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and U.S. Bank Trust National Association, as trustee (the "Trustee"), relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2 to the 1998 Exchange Offer Form S-4).
- 4.4\* First Supplemental Indenture.4 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "September 30, 2000 Form 10-Q").
- 4.5\* Second Supplemental Indenture dated as of September 15, 2000 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4 Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic's Registration Statement on Form S-1 (Reg. No. 333-33295) (the "Form S-1")).
- 4.6\* Third Supplemental Indenture dated as of March 31, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.6 to Sonic's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (the "June 30, 2001 Form 10-Q")).
- 4.7\* Fourth Supplemental Indenture dated as of November 19, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.7 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-75220 and 333-75220-01 through 333-75220-I2) (the "2001/2002 Exchange Offer Form S-4")).
- 33
- 4.8\* Form of 11% Senior Subordinated Note due 2008, Series D (incorporated by reference to Exhibit 4.9 to the 2001/2002 Exchange Offer Form S-4).
- 4.9\* Indenture dated as of November 19, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008, Series C and Series D. (incorporated by reference to Exhibit 4.9 to the 2001/2002 Exchange Offer Form S-4).
- 4.10\* Registration Rights Agreement dated as of June 30, 1997 among Sonic, O. Bruton Smith, Bryan Scott Smith, William S. Egan and Sonic Financial Corporation (incorporated by reference to Exhibit 4.2 to the Form S-1).
- 10.1\* Credit Agreement dated as of June 20, 2001 (the "Credit Agreement") between Sonic, as Borrower, Ford Motor Credit Company ("Ford Credit"), as Agent and Lender, Chrysler Financial Company, L.L.C. ("Chrysler Financial"), as Lender, and Toyota Motor Credit Corporation ("Toyota Credit"), as Lender (incorporated by reference to Exhibit 10.1 to the June 30, 2001 Form 10-Q).
- 10.2\* 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 Credit, as Agent and Lender, Chrysler Financial, as Lender, and Toyota Credit, as Lender (incorporated by reference to Exhibit 10.1 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (the "September 30, 2001 Form 10-Q")).
- 10.3\* Amended and Restated Promissory Note dated August 15, 2001 executed by

Sonic in favor of Ford Credit pursuant to the Credit Agreement (incorporated by reference to Exhibit 10.2 to the September 30, 2001 Form 10-Q).

- 10.4\* Promissory Note dated June 20, 2001 executed by Sonic in favor of Chrysler Financial pursuant to the Credit Agreement (incorporated by reference to Exhibit 10.3 to the June 30, 2001 Form 10-Q).
  - 10.5\* Promissory Note dated June 20, 2001 executed by Sonic in favor of Toyota Credit pursuant to the Credit Agreement (incorporated by reference to Exhibit 10.4 to the June 30, 2001 Form 10-Q).
  - 10.6\* Guaranty dated June 20, 2001 by the subsidiaries of Sonic named therein, as Guarantors, in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement (incorporated by reference to Exhibit 10.5 to the June 30, 2001 Form 10-Q).
  - 10.7\* Security Agreement dated June 20, 2001 by Sonic in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement (incorporated by reference to Exhibit 10.6 to the June 30, 2001 Form 10-Q).
  - 10.8\* Security Agreement dated June 20, 2001 by the subsidiaries of Sonic named therein in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement (incorporated by reference to Exhibit 10.7 to the June 30, 2001 Form 10-Q).
  - 10.9\* Master Construction Loan Agreement dated as of June 23, 2000 (the "Construction Loan Agreement") between the subsidiaries of Sonic named therein, as borrowers, and Ford Credit, as lender (incorporated by reference to Exhibit 10.7 to the September 30, 2000 Form 10-Q).
  - 10.10\* Permanent Loan Agreement dated as of June 23, 2000 (the "Permanent Loan Agreement") between the subsidiaries of Sonic named therein, as borrowers, and Ford Credit, as lender (incorporated by reference to Exhibit 10.8 to the September 30, 2000 Form 10-Q).
  - 10.11\* Promissory Note dated June 23, 2000 by the subsidiaries of Sonic named therein, as borrowers, in favor of Ford Credit, as lender, pursuant to the Construction Loan Agreement (incorporated by reference to Exhibit 10.9 to the September 30, 2000 Form 10-Q).
  - 10.12\* Promissory Note dated June 23, 2000 by the subsidiaries of Sonic named therein, as borrowers, in favor of Ford Credit, as lender, pursuant to the Permanent Loan Agreement (incorporated by reference to Exhibit 10.10 to the September 30, 2000 Form 10-Q).
  - 10.13\* Guaranty dated June 23, 2000 by Sonic in favor of Ford Credit guaranteeing the obligations of the subsidiaries of Sonic under the Construction Loan Agreement and the Permanent Loan Agreement (incorporated by reference to Exhibit 10.11 to the September 30, 2000 Form 10-Q).
  - 10.14\* Security Agreement dated June 23, 2000 by Sonic in favor of Ford Credit pursuant to the Construction Loan Agreement and the Permanent Loan Agreement (incorporated by reference to Exhibit 10.12 to the September 30, 2000 Form 10-Q).
  - 10.15\* Sonic Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of June 5, 2000 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-46272)).(1)
- 34
- 10.16\* Sonic Automotive, Inc. Employee Stock Purchase Plan, Amended and Restated as of June 5, 2000 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-46274)). (1)
  - 10.17\* Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors (incorporated by reference to Exhibit 10.69 to Sonic's Amended Annual Report on Form 10-K/A for the year ended December 31, 1997 (the "1997 Form 10-K/A")). (1)
  - 10.18\* FirstAmerica Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of December 10, 1999 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-95791)). (1)
  - 10.19\* Employment Agreement between Sonic and Thomas A. Price (the "Price Employment Agreement") (incorporated by reference to Exhibit 10.2 to the 1999 Form 10-K). (1)
  - 10.20\* First Amendment to the Price Employment Agreement (incorporated by



reference to Exhibit 10.18a to Sonic's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 Form 10-K"). (1)

- 10.21\* Employment Agreement between Sonic and Theodore M. Wright (incorporated by reference to Exhibit 10.20 to the 2000 Form 10-K). (1)
- 10.22 Employment Agreement between Sonic and Jeffrey C. Rachor. (1)
- 10.23\* Tax Allocation Agreement dated as of June 30, 1997 between Sonic and Sonic Financial Corporation (incorporated by reference to Exhibit 10.33 to the Form S-1).
- 10.24\* Subordinated Promissory Note dated December 1, 1997 (the "Smith Subordinated Note") in the amount of \$5.5 million by Sonic, as borrower, in favor of O. Bruton Smith, as lender (incorporated by reference to Exhibit 10.72 to the 1997 Form 10-K/A).
- 10.25\* Subordination Agreement dated as of July 31, 1998 between O. Bruton Smith and the Trustee, acting for the benefit of the holders of the Senior Subordinated Notes, Series A and Series B, and acknowledged by Sonic, re: the Smith Subordinated Note (incorporated by reference to Exhibit 10.89 to the 1998 Exchange Offer Form S-4).
- 10.26\* Subordination Agreement dated as of November 19, 2001 between O. Bruton Smith and the Trustee, acting for the benefit of the holders of the Senior Subordinated Notes, Series C and Series D, and acknowledged by Sonic, re: the Smith Subordinated Note (incorporated by reference to Exhibit 4.13 to the 2001/2002 Exchange Offer Form S-4).
- 21.1 Subsidiaries of Sonic.
- 23.1 Consent of Deloitte & Touche LLP.
- 99.1 Risk Factors.

\* Filed Previously

(1) Indicates a management contract or compensatory plan or arrangement.

b) Reports on Form 8-K

No reports on Form 8-K have been filed by Sonic during the quarter ended December 31, 2001.

35

SIGNATURES

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

SONIC AUTOMOTIVE, INC.

BY /s/ Theodore M. Wright  
-----

Theodore M. Wright  
Chief Financial Officer, Vice President  
and Treasurer

Date: March 27, 2002

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

<TABLE>  
<CAPTION>

Signature - -----	Title -----	Date ----
<S> /s/ O. Bruton Smith ----- O. Bruton Smith	<C> Chief Executive Officer (principal executive officer) and Chairman	<C> March 27, 2002
/s/ Thomas A. Price ----- Thomas A. Price	Vice Chairman and Director	March 27, 2002
/s/ B. Scott Smith	President, Chief Operating Officer and	March 27, 2002

----- B. Scott Smith	Director	
/s/ Theodore M. Wright ----- Theodore M. Wright	Chief Financial Officer, Vice President and Treasurer (principal financial and accounting officer) and Director	March 27, 2002
/s/ Jeffrey C. Rachor ----- Jeffrey C. Rachor	Executive Vice President of Retail Operations and Director	March 27, 2002
/s/ William R. Brooks ----- William R. Brooks	Director	March 27, 2002
/s/ William P. Benton ----- William P. Benton	Director	March 27, 2002
/s/ William I. Belk ----- William I. Belk	Director	March 27, 2002
/s/ H. Robert HelleR ----- H. Robert Heller	Director	March 27, 2002
/s/ Maryann N. Keller ----- Maryann N. Keller	Director	March 27, 2002
/s/ Robert L. Rewey ----- Robert L. Rewey	Director	March 27, 2002
/s/ Thomas P. Capo ----- Thomas P. Capo	Director	March 27, 2002

</TABLE>

36

#### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Sonic Automotive, Inc. and Subsidiaries (the "Company") as of December 31, 2000 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Charlotte, North Carolina  
February 25, 2002

F-1

December 31, 2000 and 2001  
(Dollars in thousands)

<TABLE>  
<CAPTION>

	2000	2001
	-----	-----
ASSETS		
<S>	<C>	<C>
Current Assets:		
Cash and cash equivalents	\$ 109,325	\$ 127,943
Receivables, net	127,865	134,968
Inventories	773,785	664,258
Other current assets	21,756	29,127
	-----	-----
Total current assets	1,032,731	956,296
Property and Equipment, net	72,966	98,972
Goodwill, net	668,782	738,103
Other Assets	10,097	12,555
	-----	-----
Total Assets	\$ 1,784,576	\$ 1,805,926
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan	\$ 684,718	\$ 587,914
Trade accounts payable	50,274	44,802
Accrued interest	10,279	9,676
Other accrued liabilities	70,453	92,275
Current maturities of long-term debt	2,597	2,586
	-----	-----
Total current liabilities	818,321	737,253
Long-Term Debt	485,212	511,877
Other Long-Term Liabilities	8,200	5,836
Payable to the Company's Chairman	5,500	5,500
Deferred Income Taxes	16,421	28,199
Stockholders' Equity:		
Class A Convertible Preferred Stock	251	-
Class A Common Stock, 33,291,933 shares issued at December 31, 2000 and 34,850,738 shares issued at December 31, 2001	333	348
Class B Common Stock, 12,250,000 shares at December 31, 2000 and 12,029,375 shares at December 31, 2001, were issued and outstanding.	123	121
Paid-in capital	329,489	343,256
Retained earnings	153,564	232,893
Treasury Stock, at cost (3,576,363 shares held at December 31, 2000 and 6,330,264 at December 31, 2001)	(32,838)	(59,357)
	-----	-----
Total stockholders' equity	450,922	517,261
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,784,576	\$ 1,805,926
	=====	=====

</TABLE>

See notes to consolidated financial statements.

F-2

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1999, 2000 and 2001  
(Dollars and shares in thousands, except per share amounts)

<TABLE>  
<CAPTION>

	Year Ended December 31,	
	1999	2000
	-----	-----
<S>	<C>	<C>
<C>		
Revenues:		
New vehicles	\$ 1,962,129	\$ 3,499,546
3,772,133		
Used vehicles	651,461	1,174,660
1,174,064		
Wholesale vehicles	250,794	430,513
418,006		
	-----	-----
Total vehicles	2,864,384	5,104,719

5,364,203				
Parts, service and collision repair	364,184	687,975		
783,830				
Finance & insurance and other	82,771	162,751		
189,325				
-----				
Total revenues	3,311,339	5,955,445		
6,337,358				
Cost of sales	2,843,800	5,064,505		
5,362,623				
-----				
Gross profit	467,539	890,940		
974,735				
Selling, general and administrative expenses	340,030	659,109		
747,656				
Depreciation	3,138	5,944		
7,445				
Goodwill amortization	8,561	16,770		
18,345				
-----				
Operating income	115,810	209,117		
201,289				
Other income and expense:				
Interest expense, floor plan	22,536	47,108		
35,501				
Interest expense, other	21,586	42,244		
35,869				
Other income	1,286	107		
124				
-----				
Total other expense	42,836	89,245		
71,245				
-----				
Income before income taxes	72,974	119,872		
130,044				
Provision for income taxes	28,325	45,700		
50,715				
-----				
Net income	\$ 44,649	\$ 74,172	\$	
79,329				
-----				
Basic net income per share	\$ 1.41	\$ 1.74	\$	
1.96				
=====				
Weighted average number of basic shares outstanding	31,744	42,518		
40,541				
=====				
Diluted net income per share	\$ 1.27	\$ 1.69	\$	
1.91				
=====				
Weighted average number of diluted shares outstanding	35,248	43,826		
41,609				
=====				

</TABLE>

See notes to consolidated financial statements.

F-3

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1999, 2000 and 2001  
(Dollars and shares in thousands)

Class B Common Stock	Preferred Stock		Class A Common Stock		
	Shares	Amount	Shares	Amount	Shares
<TABLE>					
<CAPTION>					

Amount					
-					
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1998	22	\$ 20,431	11,959	\$ 120	12,400
\$ 124					
Issuance of Preferred Stock	59	59,045	-	-	-
Issuance of Class A Common Stock	-	-	12,852	129	-
Shares awarded under stock compensation plans	-	-	281	3	-
Conversion of Preferred Stock	(53)	(52,285)	3,833	38	-
Conversion of Class B Common Stock	-	-	150	1	-
(150) (1)					
Purchase of Treasury Stock	-	-	-	-	-
Net income	-	-	-	-	-
BALANCE AT DECEMBER 31, 1999	28	27,191	29,075	291	12,250
123					
Issuance of Preferred Stock	11	11,589	-	-	-
Issuance of Class A Common Stock	-	-	809	8	-
Shares awarded under stock compensation plans	-	-	441	4	-
Conversion of Preferred Stock	(26)	(25,947)	2,967	30	-
Redemption of Preferred Stock	(13)	(12,582)	-	-	-
Purchase of Treasury Stock	-	-	-	-	-
Net income	-	-	-	-	-
BALANCE AT DECEMBER 31, 2000	-	251	33,292	333	12,250
123					
Shares awarded under stock compensation plans	-	-	1,257	12	-
Conversion of Class B Common Stock	-	-	221	2	-
(221) (2)					
Redemption of Preferred Stock	-	(251)	-	-	-
Exercise of Warrants	-	-	81	1	-
Purchase of Treasury Stock	-	-	-	-	-
Income tax benefit associated with stock compensation plans	-	-	-	-	-
Net Income	-	-	-	-	-
BALANCE AT DECEMBER 31, 2001	-	-	34,851	\$ 348	12,029
\$ 121					

F-4

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

Years Ended December 31, 1999, 2000 and 2001  
(Dollars and shares in thousands)

<TABLE>  
<CAPTION>

	Paid-In	Retained	Treasury	Total
	Capital	Earnings	Stock	Equity
	-----	-----	-----	-----
Stockholders'				
<S>	<C>	<C>	<C>	<C>

BALANCE AT DECEMBER 31, 1998	\$ 87,011	\$ 34,743	-	\$ 142,429
Issuance of P referred Stock	-	-	-	59,045
Issuance of Class A Common Stock	160,665	-	-	160,794
Shares awarded under stock compensation plans	2,011	-	-	2,014
Conversion of P referred Stock	52,247	-	-	-
Conversion of Class B Common Stock	-	-	-	-
Purchase of Treasury Stock	-	-	(6,358)	(6,358)
Net income	-	44,649	-	44,649
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1999	301,934	79,392	(6,358)	402,573
Issuance of Preferred Stock	-	-	-	11,589
Issuance of Class A Common Stock	(8)	-	-	-
Shares awarded under stock compensation plans	2,615	-	-	2,619
Conversion of Preferred Stock	25,917	-	-	-
Redemption of Preferred Stock	(969)	-	-	(13,551)
Purchase of Treasury Stock	-	-	(26,480)	(26,480)
Net income	-	74,172	-	74,172
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000	329,489	153,564	(32,838)	450,922
Shares awarded under stock compensation plans	9,970	-	-	9,982
Conversion of Class B Common Stock	-	-	-	-
Redemption of Preferred Stock	-	-	-	(251)
Exercise of Warrants	(1)	-	-	-
Purchase of Treasury Stock	-	-	(26,519)	(26,519)
Income tax benefit associated with stock compensation plans	3,798	-	-	3,798
Net Income	-	79,329	-	79,329
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2001	\$ 343,256	\$ 232,893	\$ (59,357)	\$ 517,261
	=====	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

F-5

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1999, 2000 and 2001  
(Dollars in thousands)

	Years Ended December	
	1999	2000
	----	----
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 44,649	\$ 74,172
79,329		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,699	22,714
25,790		
Deferred income taxes	2,075	12,384
11,788		
Equity interest in earnings of investees	-	119
(264)		
(Gain)/Loss on disposal of assets	249	317
(897)		
Changes in assets and liabilities that relate to operations:		
Receivables	(27,860)	(25,167)
8,380		
Inventories	(45,665)	(72,080)
219,135		
Other assets	7,118	2,518
(2,258)		
Notes payable - floor plan	50,707	105,809
(203,840)		
Trade accounts payable and other liabilities	2,831	(14,590)
9,391		
	-----	-----
Total adjustments	1,154	32,024
67,225		
	-----	-----
Net cash provided by operating activities	45,803	106,196

146,554			
-----	-----	-----	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of businesses, net of cash acquired (120,158)	(362,383)	(91,554)	
Purchases of property and equipment (43,600)	(21,548)	(73,171)	
Proceeds from sales of property and equipment 12,810	13,600	47,943	
Proceeds from sale of dealerships 14,068	1,700	7,148	
-----	-----	-----	
Net cash used in investing activities (136,880)	(368,631)	(109,634)	
-----	-----	-----	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings/(repayments) on revolving credit facilities (45,885)	280,116	69,342	
Proceeds from long-term debt 74,583	1,380	1,418	
Payments on long-term debt (2,966)	(8,037)	(3,696)	
Public offering of Class A Common Stock	84,990	-	
Redemptions of Preferred Stock (251)	-	(13,551)	
Purchases of Class A Common Stock (26,519)	(6,358)	(26,480)	
Issuance of shares under stock compensation plans 9,982	2,014	2,619	
-----	-----	-----	
Net cash provided by financing activities 8,944	354,105	29,652	
-----	-----	-----	
NET INCREASE IN CASH AND CASH EQUIVALENTS 18,618	31,277	26,214	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 109,325	51,834	83,111	
-----	-----	-----	
CASH AND CASH EQUIVALENTS, END OF YEAR 127,943	\$ 83,111	\$ 109,325	\$
=====	=====	=====	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 39,575	\$ 90,678	\$
71,972			
Income taxes	\$ 20,681	\$ 36,821	\$
30,553			
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Class A Convertible Preferred Stock issued for acquisitions and contingent consideration	\$ 59,045	\$ 11,589	\$
-			
Conversion of Class A Convertible Preferred Stock	\$ 52,285	\$ 25,947	\$
-			
Class A Common Stock issued for acquisitions	\$ 75,802	\$ -	\$
-			

</TABLE>

See notes to consolidated financial statements.

F-6

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tables in thousands except per share amounts)

1. Description Of Business And Summary Of Significant Accounting Policies

Organization and Business -- Sonic Automotive, Inc ("Sonic") is the second largest automotive retailer in the United States (as measured by total revenue), operating 155 dealership franchises and 29 collision repair centers throughout the United States as of December 31, 2001. Sonic sells new and used cars and light trucks, sells replacement parts, provides vehicle maintenance,

warranty, paint and repair services, and arranges related financing and insurance for its automotive customers. As of December 31, 2001, Sonic sold a total of 30 foreign and domestic brands of new vehicles.

Principles of Consolidation -- All material intercompany balances and transactions have been eliminated in the consolidated financial statements. In addition, Sonic has a 50% ownership interest in two joint ventures where the partners are not affiliated with Sonic. These investments are accounted for under the equity method whereby we record our share of each respective joint venture's pretax profit or loss. We recorded \$0.3 million in net income in 2001 and \$0.1 million in net loss in 2000 related to these investments. These entities are not consolidated into Sonic's financial statements because Sonic does not have operating control of the entities. However, Sonic has guaranteed \$6.0 million in indebtedness between North Point Volvo, LLC and Bank of America, including a \$5.5 million revolving floor plan agreement, expiring in 2003 of which \$3.1 million was outstanding at December 31, 2001 and a \$0.5 million term loan expiring in 2007. We have guaranteed no other obligations of either company.

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

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

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

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

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

Cash and Cash Equivalents -- Sonic considers contracts in transit and all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents. Contracts in transit represent cash in transit to Sonic from finance companies related to vehicle purchases. Sonic had \$108.1 million and \$127.9 million in contracts in transit at December 31, 2000 and 2001, respectively.

Inventories -- Inventories of new and used vehicles, including demonstrators, are stated at the lower of specific cost or market. Inventories of parts and accessories are accounted for using the "first-in, first-out" ("FIFO") method of inventory accounting and are stated at the lower of FIFO cost or market. Other inventories, which primarily include rental and service vehicles, are stated at the lower of specific cost or market.

F-7

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. Description Of Business And Summary Of Significant Accounting Policies --  
(Continued)

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

<TABLE>

<S>

<C>



Building and improvements.....	5-40 years
Office equipment and fixtures.....	5-15 years
Parts and service equipment.....	15 years
Company vehicles.....	5 years

</TABLE>

Goodwill -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. 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 December 31, 2001, the carrying amount of goodwill was \$738.1 million and represented 40.9% of total assets and 142.7% of total stockholders' equity. Prior to the issuance of Statement of Financial Accounting Standards ("SFAS") No. 141 and SFAS No. 142, generally accepted accounting principles required that goodwill be amortized over the period benefited, limited to a period of 40 years. Sonic has determined that the period benefited by goodwill will be no less than 40 years. Accordingly, goodwill acquired in business combinations completed prior to July 1, 2001 has been amortized over 40 years. In order to evaluate the recoverability of goodwill, Sonic periodically compares the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the business acquired. Sonic has concluded that the anticipated future cash flows associated with intangible assets recognized in its acquisitions will continue indefinitely, and there is no pervasive evidence that any material portion will dissipate over a period shorter than 40 years. Pursuant to the provisions of SFAS No. 142, goodwill acquired in business combinations completed subsequent to June 30, 2001 has not been amortized, but will be tested for impairment in accordance with the provisions of SFAS No. 142. Upon full adoption of SFAS No. 142 in January 2002, all goodwill will no longer be amortized. See discussion of "Recent Accounting Pronouncements."

Recent Accounting Pronouncements -- In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. In addition, SFAS No. 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 are required to classify certain intangible assets, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of our recent acquisitions, including the calculation of any franchise rights, if any, we may need to recognize (see Note 2).

In June 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS No. 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis (with an initial review within six months of adopting the new standard), but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS No. 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. These intangible assets are required to be reviewed for impairment in accordance with SFAS No. 144: Accounting for Impairment or Disposal of Long-Lived Assets. Intangible assets that are determined to have an indefinite economic life may not be amortized and must be reviewed for impairment in accordance with the terms of SFAS No. 142. The provisions of SFAS No. 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 have not been amortized. We are currently evaluating the provisions of SFAS No. 142 and have not yet determined its full impact on our consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance on asset valuation and measuring impairment. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We are currently evaluating the provisions of SFAS No. 144 and have not yet determined the impact on our consolidated financial statements.

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. Description Of Business And Summary Of Significant Accounting Policies --  
(Continued)

Stock-Based Compensation --Sonic accounts for its stock-based compensation plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Sonic has adopted the disclosure option of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Under the provisions of APB No. 25, compensation cost is generally measured based on the intrinsic value of the equity instrument when it is awarded. Sonic has granted options at market value and, accordingly, no compensation expense has been recorded for our option plans.

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

As of December 31, 2001, Sonic has outstanding notes receivable from finance contracts of \$13.7 million, net of an allowance for credit losses of \$ 1.8 million. Outstanding notes receivable at December 31, 2000 \$9.5 million, net of an allowance of \$1.3 million. These notes have average terms of approximately 30 months and are secured by the related vehicles. The assessment of our allowance for credit losses considers historical loss ratios and the performance of the current portfolio with respect to past due accounts. These notes are recorded in other current and long-term assets on the accompanying Consolidate Balance Sheets.

Financial Instruments and Market Risks --As of December 31, 2000 and 2001 the fair values of Sonic's financial instruments including receivables, notes payable-floor plan, trade accounts payable, payables to Sonic's Chairman, payables for acquisitions and long-term debt, excluding Sonic's senior subordinated notes, approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates. The fair value of Sonic's senior subordinated notes based on the quoted bid price as of December 31, 2000 and 2001 was approximately \$106.3 million and \$207.0 million, respectively. The carrying value of Sonic's senior subordinated notes as of December 31, 2000 and 2001 was approximately \$121.3 million and \$195.7 million, respectively.

Sonic has variable rate floor plan note facilities, revolving credit facilities and other variable rate notes that expose it to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such facilities was approximately \$1.1 billion at December 31, 2000 and \$911.3 million at December 31, 2001.

In order to reduce its exposure to market risks from changing interest rates, on January 15, 2002, Sonic entered into an interest rate swap agreement with a financial institution to effectively convert a notional principal amount of \$100 million of its LIBOR-based debt from variable to fixed rate. Under the agreement, Sonic will receive interest payments on the notional \$100 million at a variable rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 3.88%. This swap qualifies as a cash flow hedging relationship and, as a result, any changes in fair value will be reflected in other comprehensive income in our statement of stockholders' equity.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates particularly related to allowance for credit loss, realization of inventory, intangible asset and deferred tax asset values, reserves for future chargebacks, insurance reserves and certain accrued expenses.

Advertising -- Sonic expenses advertising costs in the period incurred. Advertising expense amounted to \$31.0 million, \$54.3 million and \$52.2 million for the years ended December 31, 1999, 2000 and 2001, respectively.

Segment Information -- Sonic has adopted the provisions of SFAS No. 131, "Disclosures about segments of an Enterprise and Related Information." We sell similar products and services (new and used vehicles, parts, service and collision repair services), use similar processes in selling our products and

services, and sell our products and services to similar classes of customers. As a result of this and the way we manage our business, we have aggregated our results into a single segment for purposes of reporting financial condition and results of operations.

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

F-9

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. Description of Business and Summary of Significant Accounting Policies --  
(Continued)

relate primarily to manufacturer incentives and certain other amounts that have been reclassified from sales revenues to cost of sales. Additionally, all finance and insurance sales commissions have been reclassified from cost of sales to selling, general and administrative expenses to conform with the industry classification of such amounts.

2. Business Acquisitions and Dispositions

Completed Acquisitions

During 2001, Sonic acquired 12 dealerships for approximately \$129.9 million in cash. The material acquisitions completed subsequent to the adoption of SFAS 141 on July 1, 2001 were as follows:

- . On October 8, 2001, Sonic acquired Buena Park Honda, Harbor City Honda and Coast Cadillac as part of its acquisition of the Salta dealership group located in Los Angeles, California. On November 19, 2001 Sonic acquired West Covina Toyota also as part of this dealership group. These dealerships had combined estimated annual revenues of approximately \$171 million.
- . On October 29, 2001 Sonic acquired Lawrence Marshall Chevrolet, located in Houston, Texas, which had estimated annual revenues of approximately \$233 million.

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

During 1999, Sonic acquired 72 dealerships for \$420.4 million in cash, 52,065 shares of Class A convertible preferred stock (6,282 shares of Series II and 45,783 shares of Series III) recorded at an estimated value of approximately \$52.0 million, and 6,784,347 shares of Class A common stock recorded at a value of approximately \$75.8 million.

All of our acquisitions have been accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying consolidated financial statements from their respective acquisition dates. The purchase price of these acquisitions has been allocated to the assets and liabilities acquired based on their estimated fair market value at 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 our recent acquisitions. As a result, the values of assets and liabilities included in the table below for 2001 reflect preliminary estimates where values have not yet been determined and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of assets and liabilities will be recorded against goodwill.

<TABLE>  
<CAPTION>

	1999	2000	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
Inventories	\$ 321,941	\$ 95,160	\$ 119,186
Floor plan notes payable	(242,238)	(84,413)	(113,839)
Other working capital	23,866	1,241	19,935
Property and equipment	38,497	4,459	17,710
Goodwill	417,251	88,070	88,155
Non-current liabilities assumed	(11,033)	(943)	(1,266)
	-----	-----	-----
Total purchase price	\$ 548,284	\$ 103,574	\$ 129,881
	=====	=====	=====

</TABLE>

Pro Forma Results of Operations

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

F-10

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2. Business Acquisitions And Dispositions-(Continued)

	Year Ended December 31,	
	2000	2001
Total revenues	\$ 7,223,746	\$ 6,828,165
Gross profit	\$ 1,023,869	\$ 1,027,501
Net income	\$ 78,256	\$ 81,728
Diluted net income per share	\$ 1.79	\$ 1.96

Sale of Dealership Subsidiaries

In the ordinary course of business, we evaluate dealerships or dealership franchises for possible disposition based on various performance criteria. During 2001, we sold or otherwise disposed of assets from 15 of our franchises, resulting in the closing of nine dealerships, which contributed approximately \$81.6 million in revenues for the year ended December 31, 2001. In addition, in connection with General Motor's decision to discontinue its Oldsmobile brand and Chrysler's decision to discontinue its Plymouth brand, we terminated four Oldsmobile and seven Plymouth franchises in 2001. During 2000, we sold or otherwise disposed of assets from eight dealership franchises which contributed approximately \$65.5 million in revenues for the year ended December 31, 2000. Net proceeds for our 2001 dealership dispositions were approximately \$14.1 million and for our 2000 dispositions were approximately \$7.1 million. There were no material gains or losses on these dispositions. As of December 31, 2001, we had three remaining Oldsmobile franchises which may be terminated with 30 days notice any time between now and 2005.

Subsequent Acquisitions

Subsequent to December 31, 2001, we have closed on six dealership acquisitions for approximately \$26.4 million in cash. In addition, we have entered into an agreement to purchase 16 dealerships. This acquisition is expected to close by the end of the first quarter 2002 and will be paid for in cash and 1,470,588 shares of Sonic's Class A common stock.

3. Inventories and Related Notes Payable - Floor Plan

Inventories consist of the following:

	December 31,	
	2000	2001
New vehicles	\$ 591,583	\$ 478,077
Used vehicles	116,836	111,656
Parts and accessories	48,916	48,705
Other	16,450	25,820
Total	\$ 773,785	\$ 664,258

We finance all of our new and certain of our used vehicle inventory through standardized floor plan credit facilities with the following:

<TABLE>  
<CAPTION>

	2001	Outstanding Balance	
		December 31, 2001	December 31,
-----			
Lender	Availability		

<S>	<C>	<C>	<C>
Chrysler Financial Company, LLC ("Chrysler Financial") million	\$750 million	\$ 142.6 million	\$ 143.0
General Motors Acceptance Corporation ("GMAC") million	\$ 94 million	\$ 51.7 million	\$ 70.8
Ford Motor Credit Company ("Ford Motor Credit") million	\$650 million	\$ 377.2 million	\$ 470.9
Toyota Motor Credit Corporation ("Toyota Credit")	\$100 million	\$ 16.4 million	----

F-11

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. Inventories and Related Notes Payable - Floor Plan - (Continued)

Amounts outstanding under the Chrysler Financial and Toyota Credit floor plan facilities bear interest at 1.25% above LIBOR (LIBOR was 1.87% at December 31, 2001). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at the prime rate (prime was 4.75% at December 31, 2001), subject to certain incentives and other adjustments. The weighted average interest rate for our floor plan facilities was 5.63% for the year ended December 31, 2001 and 7.93% for the year ended December 31, 2000. Our floor plan interest expenses are substantially offset by amounts received from manufacturers, in the form of floor plan assistance, which is recorded as a reduction of cost of sales. In 2001 we received approximately \$33.8 million in manufacturer assistance, which resulted in an effective borrowing rate under our floor plan facilities of approximately 0.3%. Interest payments under each of our floor plan facilities are due monthly, but we are not required to make principal repayments prior to the sale of the vehicles.

The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of December 31, 2001.

4. Property and Equipment

Property and equipment is comprised of the following:

<TABLE>  
<CAPTION>

	December 31,	
	2000	2001
<S>	<C>	<C>
Land	\$ 53	\$ 10,863
Building and improvements	25,771	34,387
Office equipment and fixtures	23,599	29,492
Parts and service equipment	20,132	21,917
Company vehicles	5,812	7,078
Construction in progress	12,244	16,003
Total, at cost	87,611	119,740
Less accumulated depreciation	(14,645)	(20,768)
Property and equipment, net	\$ 72,966	\$ 98,972

</TABLE>

In addition to the amounts classified as construction in progress at December 31, 2001 and December 31, 2000, Sonic incurred approximately \$18.0 million in construction costs in 2001 and \$5.2 million in 2000 on facilities that are or were expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs are included in other current assets on the accompanying consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the properties to a third party entity and enters into long-term operating leases on the facilities. Sonic has no obligations under these arrangements other than lease payments.

F-12

5. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	-----	
	2000	
	-----	
2001		
<S>	<C>	<C>
Senior Subordinated Notes bearing interest at 11%, maturing August 1, 2008 .....	\$ 125,000	\$
200,000		
\$600 million revolving credit facility with Ford Motor Credit, Chrysler Financial and Toyota Credit bearing interest at 2.50% above LIBOR and maturing in October 2004, collateralized by all assets of Sonic .....	353,787	
299,193		
\$50 million revolving construction line of credit with Ford Motor Credit bearing interest at 2.25% above LIBOR and maturing in September 2005, collateralized by the underlying real estate and other assets .....	4,559	
8,533		
\$50 million revolving real estate acquisition line of credit with Ford Motor Credit bearing interest at 2.00% above LIBOR and maturing in June 2010, collateralized by the underlying real estate and other assets .....	-	
4,735		
Other notes payable (primarily equipment notes) .....	8,181	
6,306		
	-----	---
	491,527	
518,767		
Less unamortized discount on Senior Subordinated Notes .....	(3,718)	
(4,304)		
Less current maturities .....	(2,597)	
(2,586)		
	-----	---
Long-term debt .....	\$ 485,212	\$
511,877		
	=====	

</TABLE>

Future maturities of debt are as follows:

Year ending December 31,	
-----	
2002 .....	\$ 2,586
2003 .....	1,932
2004 .....	300,676
2005 .....	8,605
2006 .....	72
Thereafter .....	204,896
	-----
Total .....	\$518,767
	=====

Senior Subordinated Notes

At December 31, 2000 and 2001, Sonic had \$125,000,000 and \$200,000,000, respectively, in aggregate principal outstanding of its 11% senior subordinated notes. The senior subordinated notes are unsecured, mature on August 1, 2008, and are redeemable at Sonic's option after August 1, 2003. Interest payments are due semi-annually on February 1 and August 1.

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

The indentures governing the senior subordinated notes contain certain specified restrictive and required financial covenants. Sonic has agreed not to pledge its assets to any third party except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to shareholders, distributions and redemptions. Sonic is in compliance with all restrictive covenants as of December 31, 2001.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. Long-term Debt -(Continued)

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 \$456.0 million at December 31, 2001). The Revolving Facility replaced our prior revolving credit facility with Ford Motor Credit and Chrysler Financial, which had a borrowing limit of \$500 million, subject to a similar borrowing base. The amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 1.87% at December 31, 2001) and will mature on October 31, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The Revolving Facility includes a commitment fee equal to .25% of the unused portion of the facility. This fee was approximately \$0.5 million in 2000 and approximately \$0.2 million in 2001. The total outstanding balance was approximately \$353.8 million as of December 31, 2000 and approximately \$299.2 million as of December 31, 2001.

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

Covenant	Required	Actual
-----	-----	-----
Current ratio	**1.23	1.30
Fixed charge coverage	**1.41	1.66
Interest coverage	**2.00	3.18
Adjusted debt to EBITDA	*2.25	1.40

\* denotes less than.

\*\* denotes greater than.

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 December 31, 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 in 2001 were approximately \$4.0 million and were primarily used in construction of dealership facilities. The total outstanding balance under the Construction Loan as of December 31, 2001 was approximately \$8.5 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed and can finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. Advances can be made under the Permanent Loan until June 2005. All advances under the Permanent Loan mature on June 22, 2010, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan. Borrowings under the Permanent Loan in 2001 were approximately \$4.8 million and were used to finance the acquisition of real estate. The total outstanding balance as of December 31, 2001 was approximately \$4.7 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

F-14

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. Long-term Debt -(Continued)

family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2001.

Subsidiary Guarantees

Balances outstanding under Sonic's revolving credit facilities and senior subordinated notes are guaranteed by all of Sonic's operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations and subsidiaries that are not guarantors are minor.

6. Income Taxes

The provision for income taxes consists of the following:

<TABLE>  
<CAPTION>

	1999	2000	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal .....	\$24,198	\$29,177	\$34,426
State .....	2,052	4,139	4,501
	-----	-----	-----
Deferred .....	26,250	33,316	38,927
	2,075	12,384	11,788
	-----	-----	-----
Total provision for income taxes .....	\$28,325	\$45,700	\$50,715
	=====	=====	=====

</TABLE>

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

<TABLE>  
<CAPTION>

	1999	2000	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
Statutory federal rate .....	35.00 %	35.00 %	35.00 %
Effective state income tax rate .....	2.26	1.87	1.79
Nondeductible goodwill amortization .....	1.20	1.36	1.57
Other .....	0.36	(0.11)	0.64
	-----	-----	-----
Effective tax rate .....	38.82 %	38.12 %	39.00 %
	=====	=====	=====

</TABLE>

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

<TABLE>  
<CAPTION>

	2000	2001
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Allowance for bad debts .....	\$ 918	\$ 720
Inventory .....	972	829
Accrued severance .....	281	345
Net operating loss carryforwards .....	2,949	6,028
Other .....	1,894	3,704
	-----	-----
Total deferred tax assets .....	7,014	11,626
Deferred tax liabilities:		
Basis difference in property and equipment .....	(6,387)	(5,913)



Basis difference in goodwill .....	(13,116)	(28,315)
Other .....	(1,590)	(3,265)
	-----	-----
Total deferred tax liability .....	(21,093)	(37,493)
	-----	-----
Net deferred tax liability .....	\$ (14,079)	\$ (25,867)
	-----	-----

</TABLE>

Net current deferred tax assets are recorded in other current assets on the accompanying consolidated balance sheets. At December 31, 2001, Sonic had state net operating loss carryforwards of \$98.5 million that will expire between 2012 and 2021.

F-15

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. Related Parties

Registration Rights Agreement

Prior to its initial public offering, Sonic signed a Registration Rights Agreement dated as of June 30, 1997 with Sonic Financial Corporation ("SFC"), 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 32,000 shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

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

Payable to Company's Chairman

Sonic has a note payable to Bruton Smith in the amount of \$5.5 million (the "Subordinated Smith Loan"). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus 0.5% (prime rate was 4.75% at December 31, 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 under its revolving credit facilities, floor plan financing facilities and senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

Dealership Leases:

Sonic leases three dealership properties in Northern California from the Price Trust. Tom Price, Sonic's Vice Chairman, and his wife are the sole beneficiaries of the Price Trust. Lease expense associated with these leases was approximately \$2.2 million in 2000, \$2.8 million 2001 and nothing in 1999.

Sonic leases three dealership properties in Northern California from Bay Automotive, LLC, in which Mr. Price owns a 50% interest. Annual aggregate rent under these leases was approximately \$872,260 in 2000, \$2.2 million in 2001 and nothing in 1999.

Sonic leases office space in Charlotte from a subsidiary of SFC for a majority of its headquarters personnel. Annual aggregate rent under this lease was approximately \$50,000 in 1999, \$210,000 in 2000 and \$268,000 in 2001.

Sale of Land Rover of Marin:

Pursuant to the terms of an Asset Purchase Agreement dated November 22, 2000, Sonic sold substantially all of the assets of its Land Rover of Marin dealership to Marin Luxury Cars, LLC, an entity owned by Mr. Price. The Land Rover of Marin dealership, along with certain other smaller dealerships owned by Sonic, had previously been identified for disposition during the 2000 calendar year by Sonic's management. Marin Luxury Cars paid Sonic approximately \$5.0 million to acquire the Land Rover of Marin assets. No material gain or loss was recognized on this sale. This disposition was consummated by Sonic on January 4,

2001 following the respective determinations by Sonic's board, disinterested directors and independent directors that the terms of the transaction were no less favorable to Sonic than could be obtained in an arms-length transaction with an unrelated third party.

#### Other Transactions:

Sonic rents various aircraft owned by SFC, subject to their availability, for business-related travel by Sonic executives. Sonic paid SFC approximately \$1.1 million in 2000 and \$562,000 in 2001 for the use of these aircrafts.

F-16

### SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 7. Related Parties -- (Continued)

Certain of Sonic's dealerships purchase the Z-Max oil additive product from Oil Chem Research Company, a subsidiary of SMI, for resale to service customers of the dealerships in the ordinary course of business. Total purchases from Oil Chem by Sonic dealerships totaled approximately \$389,000 in 2000 and approximately \$665,000 in 2001.

Sonic and its dealerships frequently purchase apparel items, which are screen-printed with Sonic and dealership logos, as part of internal marketing and sales promotions. Sonic and its dealerships purchase such items from several companies, including Speedway Systems, LLC, a company owned by SMI. Total purchases from Speedway Systems by Sonic and its dealerships totaled approximately \$160,000 in 2000 and \$218,000 in 2001.

In 2001, Las Vegas MotorSpeedway leased a fleet of new vehicles for use by its employees from a Sonic dealership, a subsidiary of SAI, for approximately \$217,000.

In connection with the supervision and management of significant construction and renovation projects at Sonic dealerships in 2000, Sonic paid approximately \$110,000 to SMI in 2000 for project management services provided to Sonic by SMI employees.

#### 8. Capital Structure and Per Share Data

Preferred Stock -- Sonic has 3 million shares of "blank check" preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value \$0.10 per share (the "Preferred Stock") which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. As of December 31, 2000 there were 250.5 shares of Series II Preferred Stock issued and outstanding. There were no shares of Preferred Stock issued or outstanding at December 31, 2001.

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

The Preferred Stock is redeemable at Sonic's option at any time after the date of issuance. The redemption price of the Series I Preferred Stock is \$1,000 per share. The redemption price for the Series II Preferred Stock and Series III Preferred Stock is as follows: (i) prior to the second anniversary of the date of issuance, the redemption price is the greater of \$1,000 per share or the aggregate Market Price of the Class A common stock into which it could be converted at the time of redemption, and (ii) after the second anniversary of the date of issuance, the redemption price is the aggregate Market Price into which it could be converted at the time of redemption. Through December 31, 2001, we had redeemed 13,800 shares of Preferred Stock at a total cost of approximately \$13.8 million.

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

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 34,850,738 shares of Class A common stock issued at December 31, 2000 and 2001, respectively. Of these issued shares, there were 29,715,570 and 28,520,474 shares outstanding at December 31, 2000 and 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 issued and outstanding 12,250,000 and 12,029,375 shares of Class B common stock at December 31, 2000 and 2001, respectively.

Treasury Stock - Sonic's Board of Directors has authorized Sonic to expend up to \$100 million to repurchase shares of its Class A common stock or redeem securities convertible into Class A common stock. Through December 31, 2001, Sonic has repurchased 6,330,264 shares of Class A common stock at an average price per share of approximately \$9.38. Through December 31, 2000, Sonic had repurchased 3,576,363 shares of Class A common stock at an average price per share of \$9.18. Sonic will continue to repurchase shares in the open market from time to time subject to market conditions.

F-17

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. Capital Structure and Per Share Data-(continued)

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

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

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

<TABLE>  
<CAPTION>

	For the year ended December 31, 1999			For the year ended December 31, 2000			For the year ended December 31, 2001		
	Net Income	Per-Share Shares	Per-Share Amount	Net Income	Per-Share Shares	Per-Share Amount	Net Income	Per-Share Shares	Per-Share Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share	\$ 44,649	31,744	\$ 1.41	\$ 74,172	42,518	\$ 1.74	\$ 79,329	40,541	\$ 1.96
Effect of Dilutive Securities			=====			=====			=====
Stock compensation plans	-	949		-	455		-	1,048	
Warrants	-	78		-	31		-	14	
Convertible Preferred	-	2,477		-	822		-	6	
Stock	-	-----		-	---		-	-	
Diluted Net Income Per Share	\$ 44,649	35,248	\$ 1.27	\$ 74,172	43,826	\$ 1.69	\$ 79,329	41,609	\$ 1.91
	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

9. Employee Benefit Plans

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

Stock Option Plans

Sonic currently has three option plans, the Sonic Automotive, Inc. 1997 Stock Option Plan (the "Stock Option Plan"), the Sonic Automotive, Inc. Formula

Stock Option Plan (the "Directors' Plan"), and the FirstAmerica Automotive, Inc. 1997 Stock Option Plan (the "First America Plan").

The Stock Option Plan was adopted by the Board of Directors in order to attract and retain key personnel. Subsequent to December 31, 2001 the Board of Directors approved an increase in the shares authorized for issuance from 6.0 million shares to 8.0 million shares under the Stock Option Plan. The increase is pending stockholder approval at Sonic's Annual Meeting. Under the Stock Option Plan, options to purchase shares of Class A common stock may be granted to key employees of Sonic and its subsidiaries and to officers, directors, consultants and other individuals providing services to Sonic. The options are granted at the fair market value of Sonic's Class A common stock at the date of grant, vest over a three year period, are exercisable upon vesting and expire ten years from the date of grant.

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

F-18

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. EMPLOYEE BENEFIT PLANS -- (Continued)

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

A summary of the status of Sonic's stock option plans as of December 31, 1999, 2000 and 2001 and changes during the years ended on those dates is presented below.

<TABLE>  
<CAPTION>

average Exercise Price		Number of Options	Exercise Price Per Share	Weighted
		(shares in thousands)		
	<S>	<C>	<C>	<C>
\$7.48	Outstanding at December 31, 1998.....	2,537	\$6.00-9.19	
14.27	Granted .....	1,643	10.06-15.44	
9.73	Options assumed from acquired company	467	2.85-13.12	
6.18	Exercised .....	(212)	6.00-7.25	
9.29	Forfeited .....	(248)	6.00-15.44	
10.35	Outstanding at December 31, 1999	4,187	2.85-15.44	
9.15	Granted .....	1,868	7.94-11.19	
5.95	Exercised .....	(300)	2.85-13.12	
10.33	Forfeited .....	(694)	2.85-15.44	
10.06	Outstanding at December 31, 2000 .....	5,061	2.85-15.44	
12.79	Granted .....	1,156	7.01-16.51	

8.88	Exercised .....	(990)	2.85-15.44
10.57	Forfeited .....	(379)	7.94-15.44
10.91	Outstanding at December 31, 2001 .....	4,848	2.85-16.51

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 2001:

<TABLE>  
<CAPTION>

Average Range of Exercise Prices	Shares Outstanding at 12/31/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable at 12/31/01	Weighted Exercise Price
(shares in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
\$2.85.....	60	5.5 years	\$ 2.85	60	
\$ 2.85					
\$2.86-7.25 .....	439	5.8	6.30	429	
6.28					
\$7.26-8.19 .....	959	8.5	8.05	527	
7.99					
\$8.20-13.12.....	2,046	8.1	10.31	999	
9.87					
\$13.13-15.44 .....	865	7.3	15.29	543	
15.30					
\$16.51.....	479	9.8	16.51	0	
0.00					
	4,848	8.0 years	\$10.91	2,558	
\$ 9.86					

</TABLE>

F-19

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. EMPLOYEE BENEFIT PLANS -- (Continued)

The weighted average fair value of options granted or assumed was \$6.76, \$4.41, and \$3.79 per share in 1999, 2000 and 2001, respectively. The fair value of each option granted during 1999, 2000 and 2001 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions.

<TABLE>  
<CAPTION>

	1999	2000	2001
<S>	<C>	<C>	<C>
Employee Stock Purchase Plan			
Dividend yield.....	n/a	n/a	n/a
Risk free interest rates.....	4.49%-6.15%	5.32-6.74%	2.17-4.30%
Expected lives.....	.25-1.0 year	0.25-1.0 year	0.25-1.0 year
Volatility.....	53.15%	44.85%	55.21%
Stock Option Plans			
Dividend yield.....	n/a	n/a	n/a
Risk free interest rates.....	4.53%-6.15%	5.92%-6.53%	3.47-5.07%
Expected lives.....	3-5 years	5 years	5 years
Volatility.....	53.15%	44.85%	55.21%

</TABLE>

Employee Stock Purchase Plan

The Board of Directors and stockholders of Sonic adopted the Sonic Automotive, Inc. Employee Stock Purchase Plan (the "ESPP") to attract and retain

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

Subsequent to December 31, 2001, the Board of Directors, pursuant to Sonic's ESPP and pending the approval of the stockholders at Sonic's Annual Meeting, increased the authorized shares from 1.8 million to 3.0 million.

#### Nonqualified Employee Stock Purchase Plan

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

The purchase price at which Class A common stock will be purchased through the Nonqualified ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted. In adopting the Nonqualified ESPP the Board of Directors authorized options for 300,000 shares of Class A common stock to be granted under the Nonqualified ESPP.

Under both the ESPP and the Nonqualified ESPP, we issued options exercisable for approximately 420,000, 524,000 and 456,000 shares in 1999, 2000 and 2001, respectively. We issued approximately 93,600, 147,800 and 282,076 shares to employees in 1999, 2000 and 2001 at a weighted average purchase price of \$10.70, \$7.27 and \$5.84 per share, respectively. The weighted average fair value of shares granted under both plans was \$2.91, \$2.95 and \$10.94 per share in 1999, 2000 and 2001, respectively.

F-20

#### SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 9. EMPLOYEE BENEFIT PLANS -- (Continued)

Sonic has adopted the disclosure-only provisions of SFAS No. 123. No compensation cost has been recognized for Sonic's stock-based compensation plans in the accompanying consolidated financial statements. Had compensation cost for the stock-based compensation plans been determined based on their fair value as prescribed by SFAS No. 123, Sonic's pro forma net income and diluted net income per share would have been \$39.9 million and \$1.13, respectively for 1999, \$70.4 million and \$1.61, respectively for 2000 and \$72.1 million and \$1.73, respectively, for 2001.

#### 10. Commitments and Contingencies

##### Facility Leases

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

<TABLE>

<CAPTION>

Year Ending December 31,	Related Parties	Third Parties	Total
	-----	-----	-----

<S>	<C>	<C>	<C>
2002	\$ 5,133	\$ 57,936	\$ 63,069
2003	4,956	57,912	62,868
2004	4,865	57,415	62,280
2005	4,865	56,824	61,689
2006	4,865	55,086	59,951
Thereafter	26,920	308,514	335,434
	-----	-----	-----
Total	\$51,604	\$593,687	\$645,291
	=====	=====	=====

</TABLE>

Total rent expense for the years ended December 31, 1999, 2000 and 2001 was approximately \$26.4 million, \$54.7 million and \$64.4 million, respectively. Of these amounts, approximately \$7.7 million, \$3.3 million, and \$5.3, respectively, were paid to related parties.

#### Other Contingencies

Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. Currently, no legal proceedings are pending against or involve Sonic that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

F-21

#### SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 11. Summary of Quarterly Financial Data (Unaudited)

The following table summarizes Sonic's results of operations as presented in the Consolidated Statements of Income by quarter for 2000 and 2001.

<TABLE> <CAPTION>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<S>	<C>	<C>	<C>	<C>
Year Ended December 31, 2000:				
Total revenues (3) .....	\$1,441,676	\$1,523,331	\$1,569,781	\$1,420,657
Gross profit (3) .....	\$ 214,268	\$ 226,139	\$ 235,438	\$ 215,095
Operating income .....	\$ 49,001	\$ 58,655	\$ 57,328	\$ 44,133
Income before taxes .....	\$ 28,416	\$ 36,347	\$ 35,119	\$ 19,990
Net income .....	\$ 17,371	\$ 22,452	\$ 22,059	\$ 12,290
Diluted net income per share (2) .....	\$ 0.39	\$ 0.51	\$ 0.51	\$ 0.29
Year Ended December 31, 2001:				
Total revenues (3) .....	\$1,511,848	\$1,610,523	\$1,535,702	\$1,679,285
Gross profit (3) .....	\$ 228,251	\$ 249,145	\$ 241,832	\$ 255,507
Operating income .....	\$ 44,296	\$ 55,778	\$ 52,205	\$ 49,010
Income before taxes .....	\$ 22,108	\$ 36,836	\$ 36,278	\$ 34,822
Net income (1) .....	\$ 13,483	\$ 22,486	\$ 22,118	\$ 21,241
Diluted net income per share (2) .....	\$ 0.33	\$ 0.55	\$ 0.53	\$ 0.51

</TABLE>

- (1) Our operations are subject to seasonal variations. The first and fourth quarters generally contribute less revenue and operating profits than the second and third quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality in new vehicle demand. Parts and service demand remains more stable throughout the year.
- (2) The sum of diluted net income per share for the quarters may not equal the full year amount due to weighted average common stock equivalents being calculated on a quarterly versus annual basis.
- (3) Amounts reflect certain reclassifications in order to make Sonic's presentation more consistent with our peer group and revised accounting standards regarding manufacturer incentives.

F-22

EXHIBIT 3.4

BYLAWS

OF

SONIC AUTOMOTIVE, INC.

(amended through December 14, 2001)

TABLE OF CONTENTS

<TABLE>  
<S> <C>

ARTICLE 1 - REGISTERED AND OTHER OFFICES		
SECTION 1.01.	REGISTERED OFFICE .....	1
SECTION 1.02.	OTHER OFFICES .....	1
ARTICLE 2 - MEETINGS OF STOCKHOLDERS		
SECTION 2.01.	ANNUAL MEETINGS .....	1
SECTION 2.02.	SPECIAL MEETINGS .....	1
SECTION 2.03.	NOTICE OF MEETINGS .....	2
SECTION 2.04.	STOCKHOLDER LIST .....	2
SECTION 2.06.	VOTING .....	2
SECTION 2.07.	NO ACTION WITHOUT A MEETING .....	3
SECTION 2.08.	ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND OTHER BUSINESS ..	3
ARTICLE 3 - DIRECTORS		
SECTION 3.01.	POWERS .....	4
SECTION 3.02.	NUMBER AND TERM .....	4
SECTION 3.03.	RESIGNATIONS .....	5
SECTION 3.04.	VACANCIES .....	5
SECTION 3.05.	REMOVAL .....	5
SECTION 3.06.	MEETINGS; PLACE AND TIME .....	5
SECTION 3.07.	REGULAR ANNUAL MEETING .....	5
SECTION 3.08.	OTHER REGULAR MEETINGS .....	5
SECTION 3.09.	SPECIAL MEETINGS; NOTICE .....	6
SECTION 3.10.	QUORUM .....	6
SECTION 3.11.	ACTION WITHOUT MEETING .....	6
SECTION 3.12.	TELEPHONE MEETINGS .....	6
SECTION 3.13.	COMMITTEES OF DIRECTORS .....	6
SECTION 3.14.	COMPENSATION OF DIRECTORS .....	6
SECTION 3.15.	DIRECTOR CONFLICTS OF INTEREST .....	7
ARTICLE 4 - OFFICERS		
SECTION 4.01.	OFFICERS .....	7
SECTION 4.02.	CHAIRMAN; CHIEF EXECUTIVE OFFICER .....	8
SECTION 4.03.	PRESIDENT .....	8
SECTION 4.04.	CHIEF OPERATING OFFICER .....	8
SECTION 4.05.	CHIEF FINANCIAL OFFICER .....	8
SECTION 4.07.	TREASURER .....	8
SECTION 4.08.	SECRETARY .....	9
SECTION 4.09.	CONTROLLER, ASSISTANT TREASURERS AND ASSISTANT SECRETARIES .	9
SECTION 4.10.	REMOVAL; RESIGNATIONS; VACANCIES .....	9
SECTION 4.11.	COMPENSATION .....	9
SECTION 4.12.	MECHANICAL ENDORSEMENT .....	9
ARTICLE 5 - MISCELLANEOUS		
SECTION 5.01.	STOCK CERTIFICATES .....	10
SECTION 5.02.	STOCKHOLDERS RECORD DATE .....	11
SECTION 5.03.	REGISTERED STOCKHOLDERS .....	11
SECTION 5.04.	DIVIDENDS .....	11
SECTION 5.05.	SEAL .....	11
SECTION 5.06.	FISCAL YEAR .....	11
SECTION 5.07.	CHECKS .....	12
SECTION 5.08.	NOTICE AND WAIVER OF NOTICE .....	12
SECTION 5.09.	BOOKS AND RECORDS .....	12
ARTICLE 6 - INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS		
SECTION 6.01.	INDEMNIFICATION .....	12

</TABLE>

<TABLE>  
<S> <C>

SECTION 6.02.	PROCEDURE FOR INDEMNIFICATION OF DIRECTORS AND OFFICERS ...	13
SECTION 6.03.	PAYMENT OF EXPENSES IN ADVANCE .....	14
SECTION 6.04.	INDEMNIFICATION NOT EXCLUSIVE .....	14
SECTION 6.05.	OTHER .....	14
SECTION 6.06.	INDEMNIFICATION AGREEMENTS .....	14
SECTION 6.07.	INSURANCE .....	14
SECTION 6.08.	CONTINUED COVERAGE .....	14
ARTICLE 7- AMENDMENTS		
ARTICLE 8- CONFLICT OF TERMS		

</TABLE>



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

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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

2

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

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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

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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.

3

(b) Stockholder Business. At any meeting of the stockholders, only such

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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

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Notice") shall set forth, as to each matter the stockholder proposes to bring

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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

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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.

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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.

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The Board shall consist of not less than three (3) nor more than thirteen (13) 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

4

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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.

5

#### 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

6

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  
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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.

7

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.

8

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.

9

ARTICLE 5 - MISCELLANEOUS  
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SECTION 5.01. STOCK CERTIFICATES.

(a) Issuance. The Corporation may issue the shares of stock authorized  
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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  
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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  
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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  
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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,  
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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  
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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  
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Board may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or

10

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  
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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  
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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),

12

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  
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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  
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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.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") made this 1st day of November, 1997 between SONIC AUTOMOTIVE, INC. (formerly named Sonic Auto World, Inc.), its successors or assigns, subsidiary corporations or affiliates (collectively, the "Employer") and JEFFREY C. RACHOR ("Employee") and SONIC FINANCIAL CORP ("Guarantor").

RECITALS

WHEREAS, Employer desires to acquire certain of the automobile dealership assets of Employee within the State of Tennessee; and

WHEREAS, Employer desires to retain the services of Employee in order to manage the existing dealerships and acquire and manage additional dealerships in the states of Kentucky, Tennessee, Alabama and Georgia (the "Region").

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

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

1. Term of Employment. Employer hereby employs Employee, and Employee

hereby accepts employment from Employer for the period commencing with the closing of the sale transferring those assets in which Employee has an interest in various dealerships in the State of Tennessee to Employer (the "Commencement Date") and ending five (5) years thereafter, unless sooner terminated pursuant to the provisions of paragraph 5 hereof (the "Employment Period"), It is the intention of Employer and Employee that the term of this employment coincide with the term of the Non-Competition Agreement executed in connection with that certain Asset Purchase Agreement dated June 24, 1997 pursuant to which Employer shall acquire certain of the automobile dealership assets of Employee.

2. Duties of Employee. Employee shall be employed by Employer as

Regional Vice President over all of the automobile dealerships in which Employer acquires a controlling ownership interest and which are located in the Region. Employee's duties shall include, but not be limited to, acquisitions of additional automobile dealerships within the Region for Employer. Employee shall manage and supervise all Employer-owned dealerships within the Region and shall report directly to the President. Employee shall serve Employer faithfully and exclusively in the performance of Employee's duties and shall devote his full time and best efforts to his employment, including the regularly established working hours and such additional time as the requirements of Employer and the performance of the Employee's duties require. Employee agrees to observe and comply with all the rules and regulations of Employer as adopted and furnished to Employee by Employer's Board of Directors from time to time. Employee specifically understands that Employer shall have final authority over the terms and conditions of all acquisitions.

3. Compensation. For all services rendered by Employee under

this Agreement, he shall be entitled to compensation in accordance with the following:

(a) Base Salary. During the Employment Period, the Employee

shall receive an annual base salary ("Annual Base Salary") of ONE HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$150,000.00) which shall be paid in equal monthly installments in the amount of TWELVE THOUSAND FIVE HUNDRED AND NO/100 DOLLARS (\$12,500.00).

(b) Special Bonus. In addition to the Annual Base Salary as

hereinabove provided, as long as Employee remains employed with Employer, the Employer shall pay to the Employee a special bonus (the "Special Bonus") in recognition of the Employee's

services. Said Special Bonus shall be two and eight tenths percent (2.8%) of the annual net profit based on pre-tax earnings of all dealerships owned by the Employer within the Region, exclusive of any group or groups of commonly owned dealerships with gross revenues in excess of three hundred million dollars (\$300,000,000) in sales acquired in a single transaction and/or as a part of a single transaction by Employer after the Commencement Date (the "Subsequently

Acquired Large Dealerships"). The Special Bonus shall be paid in monthly installments based on 2.8% of net profit based on pre-tax earnings as determined from the prior month's manufacturer's monthly financial statement for each dealership owned by the Employer in the Region, exclusive of the Subsequently Acquired Large Dealerships. Such monthly installments shall be subject to a fifteen percent (15%) retainage which shall be held by Employer. Following the close of Employer's fiscal year, but in no event later than ninety (90) days after the close of Employer's fiscal year, payments from or withholding of such retainage shall be used, in addition to other funds if necessary, to settle any overpayment or underpayment of Employee's Special Bonus.

c. Override For Subsequently Acquired Large Dealerships. With  
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respect to the Subsequently Acquired Large Dealerships, Employee shall receive an override of one percent (1%) of the annual net profit for each such dealership (the "Subsequently Acquired Large Dealership Override"). The Subsequently Acquired Large Dealership Override shall be paid in monthly installments based on one percent (1%) of net profit based on pre-tax earnings as determined from the prior month's manufacturer's monthly financial statement for such dealerships. Such monthly installments shall be subject to a fifteen percent (15%) retainage which shall be held by Employer. Following the close of

3

Employer's fiscal year, but in no event later than ninety (90) days after the close of Employer's fiscal year, payments from or withholding of such retainage shall be used, in addition to other funds, if necessary, to settle any overpayment or underpayment of the Subsequently Acquired Large Dealership Override.

(d) Initial Year Bonus. For the twelve months immediately  
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following the Commencement Date, Employee shall have the opportunity to earn an initial year bonus (the "Initial Year Bonus"), calculated as set forth below. If the net profit based on pre-tax earnings for such twelve month period for the Region, exclusive of Subsequently Acquired Large Dealerships, exceeds five million five hundred thousand dollars (\$5,500,000), the Employee shall be entitled to an Initial Year Bonus in the amount of fifty thousand dollars (\$50,000). If the net profit based on pre-tax earnings for such twelve month period for the Region, exclusive of Subsequently Acquired Large Dealerships, exceeds six million dollars (\$6,000,000), then Employee shall be entitled to an Initial Year Bonus in the total amount of one hundred thousand dollars (\$100,000). Any initial Year Bonus earned by Employee shall be payable within sixty (60) days of the close of such twelve month period.

(e) In determining pre-tax earning for the purpose of computing Employee's Special Bonus, the Subsequently Acquired Large Dealership Override and the Initial Year Bonus, the following shall apply:

(1) No deduction shall be taken for federal and state income taxes owed by the dealerships;

(2) No deduction shall be taken for bad debts which have not been processed through the company's customary credit approval procedures;

4

(3) Pre-tax profits shall be determined before any management fee expense allocation from Employer;

(4) Overhead expenses or other expenses which have been incurred by any dealership which are allocated to said dealership but do not directly relate to the operation of said dealership or that portion so allocated which is not reasonably related to the operation of the dealership shall not be deducted in determining pre-tax profits. To illustrate, expenses incurred by a parent corporation or an affiliate which do not have a direct bearing on the operation of the dealership would be deducted in arriving at Employee's Special Bonus.

(5) Pre-tax profits shall be determined before Employee's Special Bonus, the Subsequently Acquired Large Dealership Override and the Initial Year Bonus.

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

(a) The use of two luxury demonstrator vehicles annually of Employee's choice, including all reasonable related expenses such as insurance, maintenance and gasoline.

(b) Medical insurance coverage for Employee and his dependents and reimbursement of the Employee for the reasonable costs of disability insurance with a reasonable monthly benefit for life and with a waiting period of no more than ninety (90) days. This disability insurance shall contain other provisions so that it will replace to the

5

extent reasonably possible Employee's Base Salary in case Employer terminates this Agreement upon Employee's disability as set forth herein.

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

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

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

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

6

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

(b) Cause. The Employer may terminate the Employee's employment at any time, without notice and with immediate effect for Cause. For purposes of this Agreement "Cause" shall mean

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

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

(iii) actions by Employee involving moral turpitude;

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

(v) chronic absenteeism of Employee;

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

7

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

(c) Good Reason. The Employee's employment may be terminated by the

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Employee during the Employment Period for good reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Employee of any duties materially inconsistent in any respect with the Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by this Agreement or any other action by the Employer which results in a substantial diminution in such position, authority, duties or responsibilities, excluding for this purpose, isolated, unsubstantial and inadvertent action not taken in bad faith and which is remedied by the Employer promptly after receipt of written notice thereof given by the Employee;

(ii) any failure by the Employer to comply with any of the material provisions of this Agreement other than isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Employer promptly after receipt of notice thereof given by the Employee;

(iii) the Employer's requiring the Employee to be based at any office or location other than in Tennessee;

(iv) any failure of the Employer to comply with and satisfy the provisions of paragraph 7 of this Agreement.

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

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

8

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

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as follows:

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

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terminated by reason of the Employee's death or disability during the Employment Period, Employee or Employee's estate shall be paid the Employee's Annual Base Salary together with those fringe benefits described in paragraphs 4(a) and 4(b) hereof through the remaining term of this Agreement.

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

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for Cause during the Employment Period, Employee shall be paid the Employee's Annual Base Salary together with those fringe benefits described in paragraph 4(a) and 4(b) hereof throughout the remaining term of this Agreement.

(c) Reason. If, during the Employment Period, the Employee

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shall terminate employment for Good Reason, he shall be paid his Annual Base Salary together with those fringe benefits described in paragraphs 4(a) and 4(b) hereof throughout the remaining term of this Agreement.

(d) Without Cause. If Employee's employment is terminated

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without cause, then Employer shall continue to pay Employee his Annual Base Salary together with those fringe benefits described in paragraphs 4(a) and 4(b) hereof throughout the remaining term of this Agreement.

7. Stock Option. If and when Employer completes an initial public

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offering of its common stock pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "IPO"), Employee shall be eligible to participate in a stock option plan to be adopted by Employer for its employees at such time (the "Stock Option Plan"). Employee's initial grant under the Stock Option Plan shall be in an amount equal to at least

9

forty percent (40%) of the highest number of options granted to any employee of Employer pursuant to Employer's initial round of grants under the Stock Option Plan. The exercise price of such initial options shall be the fair market value of the shares of the common stock on the date of such initial grant, it being the intention of Employer to set such initial exercise price at the same price per share of Employer's common stock sold in the IPO. Any grants of options thereafter under the Stock Option Plan shall be at the discretion of Employer's Board of Directors. The terms and conditions of any options granted to Employee pursuant to the Stock Option Plan shall otherwise be governed by the provisions of the Stock Option Plan.

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

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Covenants" mean the provisions of this paragraph 8. It is stipulated and agreed that Employer is engaged in the business of owning and operating automobile and/or truck dealerships, which business includes, without limitation, the marketing and selling of new and used vehicles and the servicing of automobiles and trucks (the "Business"). It is further stipulated and agreed that as a result of Employee's employment by Employer, and as a result of Employee's continued employment hereunder, Employee has and will have access to valuable, highly confidential, privileged and proprietary information relating to Employer's Business, including, without limitation, existing and future inventory information, customer lists, sales methods and techniques, costs and costing methods, pricing techniques and strategies, sales agreements with customers, profits and product line profitability information, unpublished present and future marketing strategies and promotional programs, and other information regarded by Employer as proprietary and confidential (the "Confidential Information"). It is further acknowledged that the unauthorized use or disclosure by Employee of any of the Confidential Information would seriously damage Employer in its Business.

10

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

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

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

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

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

(iii) Interfere or attempt to interfere with the terms or other aspects of the relationship between Employer and any person or entity from whom

11

Employer has purchased automobiles, trucks, parts, supplies, inventory or services at any time during the twelve (12) calendar months immediately preceding the termination or expiration of this Agreement for any reason;

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

(v) Provide information to, solicit or sell for, organize or own any interest in (either directly or through any parent, affiliate or subsidiary corporation, partnership, or other entity), or become



employed or engaged by, or act as agent for, any person, corporation or other entity that is directly or indirectly engaged in a business in the "Restricted Territory," as hereinafter defined, which is substantially similar to the Business or competitive with Employer's business; provided, however, that nothing herein shall preclude the Employee from holding not more than three percent (3%) of the outstanding shares of any publicly held company which may be so engaged in a trade or business identical or similar to the Business of the Employer. As used herein, "Restricted Territory" means the Standard Metropolitan Statistical Areas, as determined by the United States Office of Management and Budget, for Houston, Texas; Charlotte, North Carolina; Chattanooga, Tennessee; and Nashville, Tennessee. (c) Notwithstanding anything to the contrary contained in this Agreement, paragraphs 8(b) (ii), 8(b) (iv) and 8(b) (v) shall not preclude Employee from maintaining his investment in NEBCO of Cleveland, L.L.C. d/b/a Toyota of

12

Cleveland and Abra Auto Body and Glass, L.L.C., so long as Employee does not, directly or indirectly, engage in the active management of or participate in the operation of such entities during the term of this Agreement or the Restrictive Period, subject to the last sentence of this paragraph 8(c). Notwithstanding the foregoing sentence, Employee shall be permitted to engage in the active management and/or participate in the operation of NEBCO of Cleveland, L.L.C. d/b/a Toyota of Cleveland and Abra Auto Body and Glass, LL.C. in the event that Employee's employment with Employer is terminated "without cause" by Employer.

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

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

10. Acknowledgment of Reasonableness. Employee has carefully read and

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considered the provisions of this Agreement and has had the opportunity for consultation with an

13

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

11. Surrender of Books and Records. Employee acknowledges that all files,

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

12. Entire Agreement. This Agreement contains the entire agreement of the

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parties hereto, and shall not be modified or changed in any respect except by a writing executed by the parties hereto.

13. Successors and Assigns. The rights and obligations of Employee under

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this Agreement shall inure to the benefit of Employer, its successors and assigns, and shall be binding upon Employee and his respective successors, heirs and assigns. Employer shall have the right to assign, transfer, or convey this Agreement to its affiliated companies, successor entities, or assignees or



<TABLE>  
<CAPTION>

Name of Entity Name	Domestic State	Certificate of Assumed
<S> Autobahn, Inc.	<C> California	<C> Autobahn Motors Mercedes-Benz of Belmont
Avalon Ford, Inc.	Delaware	Don Kott Chrysler Jeep Don Kott Mazda Don Kott Kia Don Kott Hino
Capitol Chevrolet and Imports, Inc.	Alabama	Capitol Kia Capitol Chevrolet Capitol Hyundai Capitol Mitsubishi
Casa Ford of Houston, Inc.	Texas	
Cobb Pontiac Cadillac, Inc.	Alabama	Classic Cadillac Pontiac
FA Service Corporation	California	First Automotive Service Corp.
FAA Auto Factory, Inc.	California	
FAA Beverly Hills, Inc.	California	Beverly Hills BMW
FAA Capitol F, Inc.	California	Capitol Ford Friendly Ford
FAA Capitol N, Inc.	California	Capitol Nissan
FAA Concord H, Inc.	California	Concord Honda
FAA Concord N, Inc.	California	Concord Nissan
FAA Concord T, Inc.	California	Concord Toyota
FAA Dublin N, Inc.	California	Dublin Nissan
FAA Dublin VWD, Inc.	California	Dublin Volkswagen Dublin Dodge Hyundai of Dublin
FAA Holding Corp.	California	
FAA Las Vegas H, Inc.	Nevada	Honda West
FAA Marin D, Inc.	California	First Dodge - Marin
FAA Marin F, Inc.	California	Ford of San Rafael
FAA Marin LR, Inc.	California	
FAA Monterey F, Inc.	California	

FAA Poway D, Inc.	California	Poway Dodge
FAA Poway G, Inc.	California	Ritchey Fipp Poway Chevrolet Poway Chevrolet
FAA Poway H, Inc.	California	Poway Honda
FAA Poway T, Inc.	California	Poway Toyota
FAA San Bruno, Inc.	California	Melody Toyota
FAA Santa Monica V, Inc.	California	Volvo of Santa Monica
FAA Serramonte H, Inc.	California	Honda of Serramonte
FAA Serramonte L, Inc.	California	Lexus of Serramonte Lexus of Marin

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Name of Entity Name	Domestic State	Certificate of Assumed
<S> FAA Serramonte, Inc.	<C> California	<C> Serramonte Auto Plaza Dodge of Serramonte Serramonte Isuzu Serramonte Mitsubishi Serramonte Nissan
FAA Stevens Creek, Inc.	California	Stevens Creek Nissan
FAA Torrance CPJ, Inc.	California	South Bay Chrysler Plymouth Jeep
FirstAmerica Automotive, Inc.	Delaware	
Fort Mill Ford, Inc.	South Carolina	
Franciscan Motors, Inc.	California	Acura of Serramonte
Freedom Ford, Inc.	Florida	
Frontier Oldsmobile-Cadillac, Inc. Cadillac	North Carolina	Frontier Hyundai Freedom Chevrolet-Oldsmobile-
HMC Finance Alabama, Inc.	Alabama	HMC Finance
Kramer Motors Incorporated	California	Honda of Santa Monica
L Dealership Group, Inc.	Texas	
Marcus David Corporation	North Carolina	Town & Country Toyota

Philpott Motors, Ltd.	Texas	Philpott Ford Philpott Toyota
Riverside Nissan, Inc.	Oklahoma	
Royal Motor Company, Inc.	Alabama	City Chrysler Plymouth Jeep
Santa Clara Imported Cars, Inc.	California	Honda of Stevens Creek Stevens Creek Used Cars
Smart Nissan, Inc.	California	First Nissan-Marin Marin Nissan
Sonic Automotive - Bondesen, Inc. Oldsmobile, Cadillac	Florida	Fred Bondesen Chevrolet,
Sonic Automotive of Chattanooga, LLC Chattanooga	Tennessee	Town and Country Volvo of BMW of Chattanooga Volvo of Chattanooga
Sonic Automotive-Clearwater, Inc.	Florida	Clearwater Toyota
Sonic Automotive Collision Center of Clearwater, Inc.	Florida	
Sonic Automotive F&I, LLC	Nevada	
Sonic Automotive of Georgia, Inc.	Georgia	
Sonic Automotive of Nashville, LLC Nashville	Tennessee	Town and Country of Nashville BMW of Nashville Town and Country Volkswagen of Volkswagen of Nashville Sonic Automotive Body Shop
Sonic Automotive of Nevada, Inc.	Nevada	
Sonic Automotive Servicing Company, LLC	Nevada	
Sonic Automotive of Tennessee, Inc.	Tennessee	
Sonic Automotive of Texas, L.P.	Texas	Lone Star Ford
Sonic Automotive West, LLC	Nevada	

<TABLE>  
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Name of Entity Name	Domestic State	Certificate of Assumed
<S> Sonic Automotive - 1307 N. Dixie Hwy., NSB, Inc.	<C> Florida	<C> Halifax Ford-Mercury Halifax Ford Truck Center Halifax Ford Used Cars
Sonic Automotive-1400 Automall Drive, Columbus, Inc.	Ohio	Hatfield Hyundai Hatfield Isuzu

		Hatfield Subaru
Sonic Automotive-1455 Automall Drive, Columbus, Inc.	Ohio	Volkswagen West Hatfield Kia
Sonic Automotive-1495 Automall Drive, Columbus, Inc.	Ohio	Hatfield Lincoln Mercury
Sonic Automotive-1500 Automall Drive, Columbus, Inc.	Ohio	Toyota West
Sonic Automotive - 1720 Mason Ave., DB, Inc.	Florida	
Sonic Automotive - 1720 Mason Ave., DB, LLC	Florida	Mercedes-Benz of Daytona Beach
Sonic Automotive - 1919 N. Dixie Hwy., NSB, Inc.	Florida	Halifax Chevrolet-Oldsmobile
Sonic Automotive - 21699 U.S. Hwy 19 N., Inc.	Florida	Clearwater Mitsubishi
Sonic Automotive - 241 Ridgewood Ave., HH, Inc.	Florida	Sunrise Auto World Sunrise Fleet Sales
Sonic Automotive 2424 Laurens Rd., Greenville, Inc.	South Carolina	
Sonic Automotive - 2490 South Lee Highway, LLC	Tennessee	Town and Country Honda of Cleveland Racetrack Motors Cleveland Honda
Sonic Automotive 2752 Laurens Rd., Greenville, Inc.	South Carolina	Century BMW
Sonic Automotive - 3401 N. Main, TX, L.P.	Texas	Ron Craft Chevrolet Cadillac Baytown Auto Collision Center
Sonic Automotive-3700 West Broad Street, Columbus, Inc.	Ohio	Trader Bud's Westside Chrysler Jeep
Sonic Automotive - 3741 S. Nova Rd., PO, Inc.	Florida	HMC Finance (FL) HMC Finance (TX) HMC Finance (AL) HMC Finance (OK) HMC Finance (GA) HMC Finance (TN) HMC Finance (OH)
Sonic Automotive-4000 West Broad Street, Columbus, Inc.	Ohio	Trader Bud's Westside Dodge
Sonic Automotive - 4701 I-10 East, TX, L.P.	Texas	Baytown Ford
Sonic Automotive - 5221 I-10 East, TX, L.P.	Texas	Casa Chrysler-Plymouth-Jeep Baytown Chrysler-Jeep
Sonic Automotive 5260 Peachtree Industrial Blvd., LLC location)	Georgia	Dyer and Dyer Volvo (Chamblee Dyer & Dyer Volvo of Southlake
Sonic Automotive-5585 Peachtree Industrial Blvd., LLC	Georgia	

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## Name

<S>	<C>	<C>
Sonic Automotive - 6008 N. Dale Mabry, FL, Inc.	Florida	Volvo of Tampa
Sonic Automotive - 6025 International Drive, LLC Chattanooga	Tennessee	Town and Country KIA of Chattanooga Town and Country Volkswagen of Volkswagen of Chattanooga Kia of Chattanooga
Sonic Automotive - 9103 E. Independence, NC, LLC	North Carolina	Infiniti of Charlotte
Sonic - 2185 Chapman Rd., Chattanooga, LLC	Tennessee	Economy Honda Cars Sonic Automotive Collision Center Economy Honda Superstore
Sonic - Bethany H, Inc.	Oklahoma	Steve Bailey Honda
Sonic - Buena Park H, Inc.	California	Buena Park Honda
Sonic - Cadillac D, L.P.	Texas	
Sonic - Camp Ford, L.P.	Texas	LaPorte Ford
Sonic - Capital Chevrolet, Inc.	Ohio	Capital Chevrolet
Sonic - Capitol Cadillac, Inc.	Michigan	
Sonic - Carson F, Inc.	California	
Sonic - Carson LM, Inc.	California	
Sonic - Carrollton V, L.P.	Texas	Volvo of Dallas
Sonic - Chattanooga D East, LLC	Tennessee	Airport Dodge
Sonic - Classic Dodge, Inc.	Alabama	Classic Dodge
Sonic - Coast Cadillac, Inc.	California	Coast Cadillac
Sonic - Crest Cadillac, LLC	Tennessee	Cleveland Chrysler-Plymouth-Jeep
Sonic - Crest H, LLC	Tennessee	Dodge of Chattanooga
Sonic Development, LLC	North Carolina	Not New Car Store
Sonic - Downey Cadillac, Inc.	California	
Sonic - Englewood M, Inc.	Colorado	
Sonic eStore, Inc.	North Carolina	
Sonic - FM Automotive, LLC	Florida	Mercedes-Benz of Fort Myers
Sonic - FM, Inc.	Florida	BMW of Fort Myers
Sonic - FM VW, Inc.	Florida	Volkswagen of Fort Myers

Sonic - Fort Mill Chrysler Jeep, Inc.	South Carolina	Town and Country Hyundai Fort Mill Chrysler Jeep
Sonic - Fort Mill Dodge, Inc.	South Carolina	Fort Mill Dodge
Sonic - Fort Worth T, L.P.	Texas	Garry McKinney Toyota
Sonic - Freeland, Inc.	Florida	Honda of Fort Myers
Sonic - Global Imports, L.P.	Georgia	
Sonic-Glover, Inc.	Oklahoma	Expressway Dodge
Sonic - Harbor City H, Inc.	California	Harbor City Honda
Sonic - Houston V, L.P.	Texas	Volvo of Houston
Sonic - Integrity Dodge IV, LLC	Nevada	Nevada Dodge
Sonic - LS, LLC	Delaware	
Sonic - LS Chevrolet, L.P.	Texas	Lone Star Chevrolet

<TABLE>  
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Name of Entity Name	Domestic State	Certificate of Assumed
Sonic - Lake Norman Chrysler Jeep, LLC	North Carolina	Lake Norman Chrysler-Plymouth-Jeep Lake Norman Used Car Center Lake Norman Pre-Owned Lake Norman Collision Center Lake Norman Chrysler Jeep
Sonic - Lake Norman Dodge, LLC	North Carolina	Lake Norman Dodge
Sonic - Las Vegas C East, LLC	Nevada	Cadillac of Las Vegas
Sonic - Las Vegas C West, LLC	Nevada	Cadillac of Las Vegas - West
Sonic - Lloyd Nissan, Inc.	Florida	Lloyd Nissan Lloyd Automotive
Sonic - Lloyd Pontiac - Cadillac, Inc.	Florida	Lloyd Pontiac-Cadillac-GMC
Sonic - Lone Tree Cadillac, Inc.	Colorado	
Sonic - Lute Riley, L. P.	Texas	Lute Riley Honda
Sonic - Manhattan Fairfax, Inc.	Virginia	BMW of Fairfax
Sonic - Manhattan Waldorf, Inc.	Maryland	
Sonic - Massey Cadillac, L.P.	Texas	



Sonic - Massey Pontiac Buick GMC, Inc.	Colorado	
Sonic - Massey Chevrolet, Inc.	California	
Sonic-Montgomery FLM, Inc.	Alabama	Friendly Ford Lincoln Mercury
Sonic - Newsome Chevrolet World, Inc.	South Carolina	Newsome Chevrolet World
Sonic - Newsome of Florence, Inc.	South Carolina	Newsome Automotive (Mercedes) Imports of Florence (BMW) Newsome Chevrolet Isuzu of Florence (Isuzu)
Sonic - North Cadillac, Inc.	Florida	Nissan of Fort Myers
Sonic - North Charleston, Inc.	South Carolina	Altman Lincoln- Mercury Altman Hyundai
Sonic - North Charleston Dodge, Inc.	South Carolina	Altman Dodge
Sonic Peachtree Industrial Blvd., L.P.	Georgia	
Sonic - Plymouth Cadillac, Inc.	Michigan	
Sonic - Reading, L.P.	Texas	Reading Buick-Pontiac-GMC Reading Toyota Toyota of Baytown Baytown Pontiac-GMC-Buick
Sonic Resources, Inc.	Nevada	
Sonic - Richardson F, L.P.	Texas	North Central Ford
Sonic-Riverside, Inc.	Oklahoma	Riverside Chevrolet
Sonic - Riverside Auto Factory, Inc.	Oklahoma	
Sonic - Rockville Imports, Inc.	Maryland	Rockville Porsche-Audi
Sonic - Rockville Motors, Inc.	Maryland	Lexus of Rockville
Sonic - Sam White Nissan, L.P.	Texas	Lone Star Nissan
Sonic - Sam White Oldsmobile, L.P.	Texas	
Sonic - Sanford Cadillac, Inc.	Florida	
Sonic - Shottenkirk, Inc.	Florida	Pensacola Honda
Sonic - South Cadillac, Inc.	Florida	

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<TABLE>  
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Name of Entity Name	Domestic State	Certificate of Assumed
<S> Sonic - Stevens Creek B, Inc.	<C> California	<C> Stevens Creek BMW
Sonic - Superior Oldsmobile, LLC	Tennessee	
Sonic of Texas, Inc.	Texas	
Sonic - University Park A, L.P.	Texas	University Park Audi
Sonic-Volvo LV, LLC	Nevada	Volvo of Las Vegas
Sonic - West Covina T, Inc.	California	West Covina Toyota
Sonic - West Reno Chevrolet, Inc.	Oklahoma	City Chevrolet
Sonic - Williams Buick, Inc.	Alabama	Montgomery Auto Factory
Sonic - Williams Cadillac, Inc.	Alabama	Tom Williams Cadillac
Sonic - Williams Imports, Inc.	Alabama	Tom Williams Imports
Sonic - Williams Motors, LLC	Alabama	Tom Williams Lexus
Speedway Chevrolet, Inc.	Oklahoma	
SRE Alabama - 2, LLC	Alabama	
SRE Alabama - 3, LLC	Alabama	
SRealEstate Arizona - 1, LLC	Arizona	
SRealEstate Arizona - 2, LLC	Arizona	
SRealEstate Arizona - 3, LLC	Arizona	
SRealEstate Arizona - 4, LLC	Arizona	
SRE California - 1, LLC	California	
SRE California - 2, LLC	California	
SRE California - 3, LLC	California	
SRE California - 4, LLC	California	
SRE California - 5, LLC	California	
SRE California - 6, LLC	California	
SRE Florida - 1, LLC	Florida	
SRE Florida - 2, LLC	Florida	
SRE Florida - 3, LLC	Florida	

SRE Georgia - 1, L.P.	Georgia
SRE Georgia - 2, L.P.	Georgia
SRE Georgia - 3, L.P.	Georgia
SRE Holding, LLC	North Carolina
SRE Michigan - 1, LLC	Michigan
SRE Michigan - 2, LLC	Michigan
SRE Michigan - 3, LLC	Michigan
SRE Nevada - 1, LLC	Nevada
SRE Nevada - 2, LLC	Nevada
SRE Nevada - 3, LLC	Nevada
SRE Nevada - 4, LLC	Nevada
SRE Nevada - 5, LLC	Nevada
SRE South Carolina - 2, LLC	South Carolina
SRE South Carolina - 3, LLC	South Carolina
SRE South Carolina - 4, LLC	South Carolina

Name of Entity Name	Domestic State	Certificate of Assumed
SRE Tennessee - 1, LLC	Tennessee	
SRE Tennessee - 2, LLC	Tennessee	
SRE Tennessee - 3, LLC	Tennessee	
SRE Texas - 1, L.P.	Texas	
SRE Texas - 2, L.P.	Texas	
SRE Texas - 3, L.P.	Texas	
SRE Texas - 4, L.P.	Texas	
SRE Texas - 5, L.P.	Texas	

SRE Texas - 6, L.P.	Texas	
SRE Texas - 7, L.P.	Texas	
SRE Texas - 8, L.P.	Texas	
SRE Virginia - 1, LLC	Virginia	
Stevens Creek Cadillac, Inc.	California	St. Claire Cadillac
Town and Country Ford, Incorporated	North Carolina	
Town and Country Ford of Cleveland, LLC	Tennessee	
Town and Country Jaguar, LLC Chattanooga	Tennessee	Town and Country Infiniti of Town and Country Jaguar of Jaguar of Chattanooga Infiniti of Chattanooga
Transcar Leasing, Inc.	California	
Village Imported Cars, Inc.	Maryland	Village Volvo
Windward, Inc.	Hawaii	Honda of Hayward

</TABLE>

INDEPENDENT AUDITORS' CONSENT

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

- . Registration Statement No. 333-82615 on Form S-3;
- . Registration Statement No. 333-81059 on Form S-8;
- . Registration Statement No. 333-81053 on Form S-8;
- . Registration Statement No. 333-71803 on Form S-3;
- . Registration Statement No. 333-69907 on Form S-8;
- . Registration Statement No. 333-69899 on Form S-8;
- . Registration Statement No. 333-68183 on Form S-3;
- . Registration Statement No. 333-65447 on Form S-8;
- . Registration Statement No. 333-49113 on Form S-8;
- . Registration Statement No. 333-96023 on Form S-3;
- . Registration Statement No. 333-51978 on Form S-4;
- . Registration Statement No. 333-50430 on Form S-3;
- . Post-Effective Amendment No. 2 to the Registration Statement No. 333-69901 on Form S-8;
- . Post-Effective Amendment No. 1 to the Registration Statement No. 333-95791 on Form S-8;
- . Post-Effective Amendment No. 1 to the Registration Statement No. 333-46272 on Form S-8;
- . Post-Effective Amendment No. 1 to the Registration Statement No. 333-46274 on Form S-8; and
- . Amendment No. 1 to the Registration Statement No. 333-75520 and Nos. 333-75220-01 through 333-75220-12 on Form S-4,

of our report dated February 25, 2002, appearing in this Annual Report on Form 10-K of Sonic Automotive, Inc. for the year ended December 31, 2001.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina  
March 25, 2002

## RISK FACTORS

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

As of December 31, 2001, our total outstanding indebtedness was approximately \$1,102.4 million, including the following:

- . \$287.8 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;
- . \$377.2 million under a standardized secured inventory floor plan facility (the "Ford Floor Plan Facility") with Ford Motor Credit;
- . \$142.6 million under a standardized secured floor plan facility (the "Chrysler Floor Plan Facility") with Chrysler Financial;
- . \$16.4 million under a standardized secured floor plan facility (the "Toyota Floor Plan Facility") with Toyota Credit;
- . \$51.7 million under a standardized secured floor plan facility (the "GMAC Floor Plan Facility" and together with the Ford Floor Plan Facility, the Toyota Floor Plan Facility and the Chrysler Floor Plan Facility, the "Floor Plan Facilities") with General Motors Acceptance Corporation ("GMAC");
- . \$195.7 million in 11% Senior Subordinated Notes due 2008 representing \$200.0 million in aggregate principal amount less unamortized discount of approximately \$4.3 million; and
- . \$31.0 million of other secured debt, including \$13.3 million under a revolving real estate acquisition and new dealership construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit.

As of December 31, 2001, we had approximately \$168.2 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 \$86.7 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

1

Revolving Facility and the Floor Plan Facilities and other indebtedness, thereby reducing the funds available to us for our operations and other purposes;

- . some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates;
- . the indebtedness outstanding under our credit facilities is secured by a pledge of substantially all the assets of our dealerships; and
- . we may be substantially more leveraged than some of our

competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

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

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

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

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

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

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

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

- . incurring significantly higher capital expenditures and operating expenses;
  - . failing to assimilate the operations and personnel of the acquired dealerships;
  - . entering new markets with which we are unfamiliar;
- 2
- . potential undiscovered liabilities at acquired dealerships;
  - . disrupting our ongoing business;
  - . diverting our limited management resources;
  - . failing to maintain uniform standards, controls and policies;
  - . impairing relationships with employees, manufacturers and customers as a result of changes in management;
  - . causing increased expenses for accounting and computer systems, as well as integration difficulties; and
  - . failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises.

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

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

dealership.

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

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

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

Vehicles manufactured by the following manufacturers accounted for the indicated approximate percentage of our new vehicle revenue for the year ended December 31, 2001:

Manufacturer	Percentage of Historical New Vehicle Revenues for the Year Ended December 31, 2001
Ford	18.6%
Honda	13.0%
General Motors	12.2%
Toyota	11.3%
BMW	10.7%
Chrysler	8.3%
Lexus	5.3%
Nissan	5.3%

3

No other manufacturer accounted for more than 5% of our new vehicle sales during 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. DaimlerChrysler phased out the Plymouth division effective October 1, 2001 and General Motors is in the process of phasing out the Oldsmobile division. Neither of these actions will materially affect us.

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



- . dealer incentives on new vehicles;
- . special financing or leasing terms;
- . warranties on new and used vehicles; and
- . sponsorship of used vehicle sales by authorized new vehicle dealers.

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

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

- . financial condition;
- . marketing;
- . vehicle design;

4

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

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

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

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

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

- . Honda may force the sale of our Honda or Acura franchises if (1) an automobile manufacturer or distributor acquires securities having 5% or more of the voting power of Sonic's securities, (2) an individual or entity that has either a felony criminal record or a criminal record relating solely to dealings with an automobile manufacturer, distributor or dealership acquires securities having 5% or more of the voting power of Sonic's securities or (3) any individual or entity acquires securities having 20% or more of the voting power of Sonic's securities and Honda reasonably deems such acquisition to be detrimental to Honda's interests in any material respect.
- . Ford may cause us to sell or resign from one or more of our Ford, Lincoln or Mercury franchises if any person or entity (other than O. Bruton Smith and any entity controlled by him) acquires or has a binding agreement to acquire securities having 50% or more of the voting power of Sonic's securities.
- . General Motors and Infiniti may force the sale of their

respective franchises if 20% of more of Sonic's voting securities are similarly acquired.

- Toyota may force the sale of one or more of Sonic's Toyota or Lexus dealerships if (1) an automobile manufacturer or distributor acquires securities, or the right to vote securities by proxy or voting agreement, having more than 5% of the voting power of Sonic's securities, (2) any individual or entity acquires securities, or the right to vote securities by proxy or voting agreement, having more than 20% of the voting power of Sonic's

5

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 March 15, 2002, we owned the following number of franchises for the following manufacturers:

8

<TABLE>  
<CAPTION>

Manufacturer - - - - -	Number of Franchises - - - - -	Manufacturer - - - - -	Number of Franchises - - - - -
<S>	<C>	<C>	<C>
Honda	14	Lincoln	4
Chevrolet	13	Mercedes	4
Ford	13	Hyundai	3
BMW	10	Oldsmobile	3
Cadillac	10	Mitsubishi	3
Toyota	10	Kia	3
Nissan	9	Audi	3
Chrysler	8	Porsche	2
Dodge	8	Pontiac	2
Volvo	8	Infiniti	1
Jeep	7	GMC	1
Mercury	5	Acura	1
Isuzu	4	Land Rover	1
Volkswagen	4	Subaru	1
Lexus	4	Mazda	1

</TABLE>

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 December 31, 2001, we had approximately \$268.1 million available for additional borrowings under the Revolving Facility, based on a borrowing base calculated on the basis of

9

our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (which borrowing base was \$456.0 million of the \$600.0 million facility at December 31, 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 our floor plan indebtedness and the indebtedness under the Revolving Facility. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our Mortgage Facility with Ford Motor Credit. These pledges may impede our ability to borrow from other sources.

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

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

Mr. Smith initially guaranteed obligations under the Revolving Facility. Such obligations were further secured with a pledge of shares of common stock of Speedway Motorsports, Inc. ("SMI") owned by Sonic Financial Corporation ("SFC"), a corporation controlled by Mr. Smith having an estimated value at the time of the pledge of approximately \$50.0 million (the "Revolving Pledge"). When the Revolving Facility's borrowing limit was increased to \$75.0 million in 1997, Mr. Smith's personal guarantee of Sonic's obligations under the Revolving Facility was released, although the Revolving Pledge remained in place. Mr. Smith was also required by Ford Motor Credit to lend \$5.5 million (the "Subordinated Smith Loan") to Sonic to increase our capitalization because the net proceeds from our November 1997 initial public offering were

significantly less than expected. In August 1998, Ford Motor Credit released the Revolving Pledge. In November 1999, Ford Motor Credit further increased the borrowing limit under the Revolving Facility to \$350.0 million subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a continuing pledge by SFC of five million shares of SMI common stock. Presently, the borrowing limit of the Revolving Facility is \$600.0 million, subject to a similar borrowing base, including SFC's continuing pledge of SMI stock.

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

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

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

10

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

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

Automobile retailing is a highly competitive business. Our competition includes:

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

Our financing and insurance ("F&I") business and other related businesses, which 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. 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.

11

- . 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 affect our business.

Local economic, competitive and other conditions also affect the performance of dealerships. We intend to pursue acquisitions outside of these markets, but our operational focus is on our current markets. As a result, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented 20% of our sales for the year ended December 31, 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.

12

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.

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.

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,

13

manufacturer franchise agreements may require the prior approval of the applicable manufacturer before any change is made in franchise general managers. We do not have employment agreements with most of our dealership managers and other key dealership personnel. Consequently, the loss of the services of one or more of these key employees could have a material adverse effect on our results of operations.

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we



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

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

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

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

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

We are subject to numerous legal and administrative proceedings.

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits and actions brought by governmental authorities. A significant judgment against us or the imposition of a significant fine could have material adverse effect on our business, financial condition, results of operations, cash flows and prospects. We cannot assure you with respect to the outcome of these administrative and legal proceedings and the effect such outcomes may have on us.

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

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

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

liable under these laws and regulations include the present or former owner or operator of a contaminated property and companies that generated, transported, disposed of or arranged for the transportation or disposal of hazardous substances found at the property.

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

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

Concentration of voting power and 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

15

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.

Recent Accounting Pronouncements: In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 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 are required to classify certain intangible assets, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of our recent acquisitions, including the calculation of any franchise rights, if any, we may need to recognize.

In June 2001, the FASB also issued SFAS 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 (with an initial review within six months of adopting the new standard) 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. Intangible assets determined to have a finite life 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 are not 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 have not been amortized. We are currently evaluating the provisions of SFAS 142; and have not yet determined its full impact on our consolidated financial statements.

The cumulative gross goodwill balance was approximately \$785.2 million at December 31, 2001 and approximately \$697.8 million at December 31, 2000. Goodwill, net of accumulated amortization, represented 40.9% of total assets at December 31, 2001 and 37.4% at December 31, 2000. Net goodwill represented 142.7% of stockholders' equity at December 31, 2001 and 148.3% at December 31, 2000.

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