

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended March 31, 2001

OR

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

Commission file number 1-13395

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

5401 E. Independence Blvd., Charlotte, North Carolina
(Address of principal executive offices)

28212
(Zip Code)

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

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

Yes No
--- -----

As of May 10, 2001, there were 27,639,442 shares of Class A Common Stock and
12,250,000 shares of Class B Common Stock outstanding.

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PART I - FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements.

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

<TABLE>
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	Three Months Ended March 31,	
	2000	2001
	-----	-----
<S>	<C>	<C>
REVENUES:		
New vehicles	\$ 854,034	\$ 878,608
Used vehicles	305,431	314,347
Wholesale vehicles	101,012	116,853
	-----	-----
Total vehicles	1,260,477	1,309,808
Parts, service and collision repair	165,587	189,361
Finance, insurance and other	38,337	41,036
	-----	-----
Total revenues	1,464,401	1,540,205
COST OF SALES	1,256,367	1,318,266
	-----	-----
GROSS PROFIT	208,034	221,939
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	153,466	171,467
DEPRECIATION	1,517	1,725
GOODWILL AMORTIZATION	4,050	4,451
	-----	-----
OPERATING INCOME	49,001	44,296
OTHER INCOME AND EXPENSE:		
Interest expense, floor plan	10,357	12,242
Interest expense, other	10,266	10,005
Other income	38	59
	-----	-----
Total other expense, net	20,585	22,188
	-----	-----
INCOME BEFORE INCOME TAXES	28,416	22,108
PROVISION FOR INCOME TAXES	11,045	8,625
	-----	-----
NET INCOME	\$ 17,371	\$ 13,483
	=====	=====
BASIC NET INCOME PER SHARE	\$ 0.41	\$ 0.33
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	42,088	41,271
	-----	-----
DILUTED NET INCOME PER SHARE	\$ 0.39	\$ 0.33
	=====	=====
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING	44,877	41,473
	=====	=====

</TABLE>

See notes to unaudited consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

<TABLE>
<CAPTION>

	December 31, 2000	March 31, 2001 (Unaudited)
<S> ASSETS	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 109,325	\$ 103,699
Receivables, net	127,865	125,528
Inventories	773,785	741,978
Other current assets	26,428	22,618
	1,037,403	993,823
PROPERTY AND EQUIPMENT, NET	72,966	84,009
GOODWILL, NET	668,782	685,808
OTHER ASSETS	10,097	10,904
	\$ 1,789,248	\$ 1,774,544
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable - floor plan	\$ 684,718	\$ 643,965
Trade accounts payable	50,274	49,742
Accrued interest	10,279	5,784
Other accrued liabilities	70,453	79,283
Current maturities of long-term debt	2,597	2,597
	818,321	781,371
LONG-TERM DEBT	485,212	504,315
OTHER LONG-TERM LIABILITIES	5,733	5,731
PAYABLE TO THE COMPANY'S CHAIRMAN	5,500	5,500
DEFERRED INCOME TAXES	21,093	22,887
INCOME TAX PAYABLE	2,467	2,923
STOCKHOLDERS' EQUITY:		
Class A Convertible Preferred Stock	251	-
Class A Common Stock	333	333
Class B Common Stock	123	123
Paid-in capital	329,489	329,721
Retained earnings	153,564	167,047
Treasury Stock, at cost	(32,838)	(45,407)
	450,922	451,817
	\$ 1,789,248	\$ 1,774,544
	=====	=====

</TABLE>

See notes to unaudited consolidated financial statements.

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

<TABLE>
<CAPTION>

	Preferred		Class A		Class B				
Total									
Stockholders'	Stock		Common Stock		Common Stock		Paid-In	Retained	Treasury
Equity	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Stock

	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT December 31, 2000 (32,838) \$ 450,922	--	\$ 251	33,292	\$ 333	12,250	\$ 123	\$ 329,489	\$ 153,564	\$
Shares awarded under stock compensation plans			39				232		
Redemption of Preferred Stock (251)		(251)							
Purchase of Treasury Stock (12,569) (12,569)									
Net income 13,483								13,483	
BALANCE AT March 31, 2001 (45,407) \$ 451,817	-	\$ -	33,331	\$ 333	12,250	\$ 123	\$ 329,721	\$ 167,047	\$

See notes to unaudited consolidated financial statements.

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

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2000	2001
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,371	\$ 13,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,567	6,176
Changes in assets and liabilities that relate to operations:		
Receivables	(11,679)	10,263
Inventories	(22,880)	69,465
Other assets	(1,712)	2,319
Notes payable - floor plan	16,551	(88,057)
Trade accounts payable and other liabilities	11,548	4,058
Total adjustments	(2,605)	4,224
Net cash provided by operating activities	14,766	17,707
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of dealerships, net of cash acquired	(47,152)	(25,733)
Purchases of property and equipment	(9,519)	(11,323)
Proceeds from sales of property and equipment	1,168	865
Proceeds from sales of dealerships	550	7,042
Net cash used in investing activities	(54,953)	(29,149)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on revolving credit facilities	47,763	19,182
Payments on long-term debt	(1,459)	(575)
Purchases of Class A common stock	(5,660)	(12,569)
Redemptions of Preferred Stock	(3,500)	(251)
Issuance of shares under stock compensation plans	243	232
Advances to (repayments from) affiliated companies	2,084	(203)
Net cash provided by financing activities	39,471	5,816
NET DECREASE IN CASH AND CASH EQUIVALENTS	(716)	(5,626)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	83,111	109,325
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 82,395	\$ 103,699

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

Preferred Stock issued for acquisitions and contingent consideration	\$ 11,589	-
Conversion of Preferred Stock	\$ 21,904	-

</TABLE>

See notes to unaudited consolidated financial statements.

The following Notes to Unaudited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contain estimates and forward-looking statements as indicated herein by the use of such terms as "estimated", "expects", "approximate", "projected" or similar terms. Such statements reflect management's current views, are based on certain assumptions and are subject to risks and uncertainties. No assurance can be given that actual results or events will not differ materially from those projected, estimated, assumed, or anticipated in any such forward-looking statements. Important factors that could cause actual results to differ from those projected or estimated are discussed herein and in our other filings with the Securities and Exchange Commission.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Commissions expense related to finance and insurance commission revenue is charged to cost of sales upon recognition of such revenue, net of estimated chargebacks. Commission expense charged to cost of sales was approximately \$6.2 million and \$6.3 million for the three months ended March 31, 2000 and 2001, respectively.

Goodwill -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. The cumulative gross amount of goodwill at December 31, 2000 was \$ 697.8 million and at March 31, 2001 was \$719.2 million. As a percentage of total assets and stockholders' equity, goodwill, net of accumulated amortization, represented 37.4% and 148.3%, respectively, at December 31, 2000 and 38.6% and 151.8%, respectively, at March 31, 2001. Generally accepted accounting principles in the United States of America require that goodwill and all other intangible assets be amortized over the period benefited. Sonic has determined that the period benefited by the goodwill will be no less than 40 years. Accordingly, Sonic is amortizing goodwill over a 40 year period. Earnings reported in periods immediately following an acquisition would be overstated if Sonic attributed a 40 year benefit to an intangible asset that should have had a

shorter benefit period. In later years, Sonic would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at the price paid for the businesses acquired. Earnings in later years also could be significantly affected if management then determined that the remaining balance of goodwill was impaired. Sonic periodically compares the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the businesses acquired in order to evaluate the recoverability of goodwill. 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. Sonic will incur additional goodwill in future acquisitions.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Financial Accounting Standards Board recently proposed new rules relating to the accounting for business combinations and intangible assets. One aspect of the proposal would not permit amortization of goodwill, but would require the carrying amount of goodwill to be reduced only if it was found to be impaired or was associated with assets to be sold or otherwise disposed. If the proposed rules are adopted, goodwill arising from acquisitions completed prior to the date of adoption would no longer be amortized, though reversal of goodwill amortization recognized in prior periods would not be permitted.

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

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

2. BUSINESS ACQUISITIONS

Acquisitions Completed During the Three Months Ended March 31, 2001:

During the first three months of 2001, Sonic acquired three dealerships for approximately \$31.2 million in cash. The acquisitions were accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying unaudited consolidated financial statements from their respective acquisition dates. The aggregate purchase price of these acquisitions has been allocated to the assets and liabilities acquired based on their estimated fair market value at the acquisition date as shown in the table below. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of these acquisitions. As a result, the values of assets and liabilities included in the table below reflect preliminary estimates where actual values have not yet been determined, and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of the assets and liabilities will be recorded against goodwill.

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Working capital	\$	8,167
Property and equipment		2,703
Goodwill		21,639
Non-current liabilities assumed		(1,345)

Total purchase price	\$	31,164
		=====

</TABLE>

The following unaudited pro forma financial information presents a summary of consolidated results of operations as if the acquisitions completed during the three months ended March 31, 2000 and March 31, 2001 had occurred as of the beginning of the year in which the acquisitions were completed, and at

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2. BUSINESS ACQUISITIONS - (Continued)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2000	2001
	-----	-----
<S>	<C>	<C>
Total revenues	\$ 1,704,557	\$ 1,548,321
Gross profit	\$ 231,000	\$ 222,818
Net income	\$ 18,370	\$ 12,984
Diluted income per share	\$ 0.41	\$ 0.31

</TABLE>

Sale of Dealership Subsidiaries:

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During the three months ended March 31, 2001, we sold or otherwise disposed of assets from six of our dealership franchises which contributed approximately \$25.7 million in revenues in 2001. Proceeds, net of disposal costs, from these dispositions were approximately \$7.0 million, and we have recognized no material gains or losses on these dispositions.

3. INVENTORIES

Inventories consist of the following:

	December 31, 2000	March 31, 2001
	-----	-----
New vehicles	\$ 591,583	\$ 547,997
Used vehicles	116,836	126,785
Parts and accessories	48,916	47,523
Other	16,450	19,673
	-----	-----
Total	\$ 773,785	\$ 741,978
	=====	=====

4. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

<TABLE>
<CAPTION>

	December 31, 2000	March 31, 2001
	-----	-----
<S>	<C>	<C>
Land	\$ 53	\$ 1,802
Building and improvements	25,771	26,064
Office equipment and fixtures	23,599	24,805
Parts and service equipment	20,132	20,204
Company vehicles	5,812	6,001
Construction in progress	12,244	21,349
	-----	-----
Total, at cost	87,611	100,225
Less accumulated depreciation	(14,645)	(16,216)
	-----	-----
Property and equipment, net	\$ 72,966	\$ 84,009
	=====	=====

</TABLE>

In addition to the \$21.3 million classified as construction in progress at March 31, 2001, Sonic has incurred approximately \$5.1 million in construction costs on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying unaudited consolidated balance sheet as

of March 31, 2001. At December 31, 2000 Sonic had classified \$5.2 million of such construction costs in other current assets.

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

5. LONG-TERM DEBT

Revolving Facility

We currently have a revolving credit facility (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit") and Chrysler Financial Corporation ("Chrysler Financial") with a borrowing limit of \$500 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 \$433.0 million at March 31, 2001). Amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 5.08% at March 31, 2001) and will mature on October 31, 2003 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit and Chrysler Financial). The weighted average interest rate on the Revolving Facility was 8.53% for the three months ended March 31, 2001. Borrowings, net of repayments, under the Revolving Facility for the three months ended March 31, 2001 were approximately \$19.2 million and were primarily used to finance acquisitions. The total outstanding balance as of March 31, 2001 was approximately \$373.0 million. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for the general working capital needs of Sonic and other general corporate purposes.

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

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

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or the failure by Sonic, with certain exceptions, to own all the outstanding equity, membership or partnership interests in its dealership subsidiaries will constitute an event of default under the Revolving Facility. Sonic is in compliance with all restrictive covenants as of March 31, 2001.

Mortgage Facility

We currently have a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until December 2003. All advances will mature on June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. The total outstanding balance under the Construction Loan as of March 31, 2001 was approximately \$4.6 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed. 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. As of March 31, 2001, no amounts were outstanding under the Permanent Loan.

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 March 31, 2001.

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

5. LONG-TERM DEBT - (Continued)

Subsidiary Guarantees

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

6. RELATED PARTIES

Registration Rights Agreement

When Sonic acquired Town & Country Ford, Lone Star Ford, Fort Mill Ford, Town & Country Toyota and Frontier Oldsmobile-Cadillac in 1997, Sonic signed a Registration Rights Agreement dated as of 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, 2,071,250 shares; Scott Smith, 956,250 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 341,250 shares, all of which are covered by the Registration Rights Agreement. The Egan Group also owns certain shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

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

Payable to Company's Chairman

Sonic has a note payable to Mr. Smith in the amount of \$5.5 million (the "Subordinated Smith Loan"). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus 0.5% (prime rate was 8% at March 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 the Revolving Facility, Sonic's floor plan financing facility with Ford Motor Credit and Sonic's senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

7. CAPITAL STRUCTURE AND PER SHARE DATA

Preferred Stock - Sonic has 3 million shares of "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 March 31, 2001 there were no shares issued and outstanding.

Common Stock - Sonic has two classes of common stock. Sonic has authorized 100 million shares of Class A common stock at a per value of 0.01 per share. Class A common stock entitles its holder to one vote per share. Sonic had 33,291,933 and 33,331,106 shares of Class A common stock issued at December 31, 2000 and March 31, 2001, respectively. Of these issued shares, there were 29,715,570 and 28,098,943 shares outstanding at December 31, 2000 and March 31, 2001, respectively. Sonic has also authorized 30 million shares of Class B common stock at a per value of \$.01 pre 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 shares of Class B common stock at December 31, 2000 and March 31, 2001.

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

7. CAPITAL STRUCTURE AND PER SHARE DATA - (Continued)

Treasury Stock/Share Repurchase Program - Our Board of Directors has authorized us to expend up to \$100 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. As of March 31, 2001 we had repurchased 5,232,163 million shares of Class A common stock for approximately \$45.4 million and had also redeemed 13,801.50 shares of Class A convertible preferred stock at a total cost of approximately \$13.8 million. Through May 10, 2001, we have repurchased approximately 5,691,664 million shares of Class A common stock for approximately \$49.1 million and have redeemed 13,801.5 shares of Class A convertible preferred stock for approximately \$13.8 million. We will continue to repurchase shares from time to time subject to market conditions.

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 three months ended March 31, 2000			For the three months ended March 31, 2001		
	Income	Shares	Per-share amount	Income	Shares	Per-share amount
	(Dollars and Shares in thousands except per share amounts)			(Dollars and Shares in thousands except per share amounts)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share	\$ 17,371	42,088	\$ 0.41	\$ 13,483	41,271	\$ 0.33
Effect of Dilutive Securities:						
Stock compensation plans		384			161	
Warrants		28			18	
Convertible Preferred Stock		2,377			23	
Diluted Net Income Per Share	\$ 17,371	44,877	\$ 0.39	\$ 13,483	41,473	\$ 0.33

</TABLE>

In addition to the stock options included in the table above, options to purchase 4,351,124 shares of Class A common stock were outstanding during the three months ended March 31, 2001 but were not included in the computation of diluted net income per share because the options were antidilutive.

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Unaudited Consolidated Financial Statements and the related notes thereto.

Overview

We are the second largest automotive retailer in the United States, as measured by total revenue, operating 165 dealership franchises and 30 collision repair centers throughout the United States as of May 15, 2001. We own and operate franchises for 31 different brands of cars and light trucks, providing comprehensive services including sales of both new and used cars and light trucks, replacement parts and vehicle maintenance, warranty, paint and repair services. We also arrange extended warranty contracts and financing and insurance for our automotive customers.

The following table depicts the breakdown of our new vehicle revenues by brand for the first quarter of 2001 compared to the first quarter of 2000:

<TABLE>
 <CAPTION>

for
 31,

Percentage of New Vehicle Revenues
 the three months ended March

	2000	2001
	-----	-----
<S>	<C>	<C>
Brand		
Ford.....	14.5%	16.7%
Honda.....	13.8%	13.6%
Toyota.....	8.3%	11.5%
BMW.....	10.1%	11.1%
General Motors (1).....	10.9%	11.0%
Chrysler (2).....	12.9%	9.6%
Nissan.....	6.6%	5.8%
Lexus.....	4.7%	5.6%
Other (3).....	18.2%	15.1%
	-----	-----
Total.....	100.0%	100.0%
	=====	=====

</TABLE>

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

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

The automobile industry is cyclical and historically has experienced periodic downturns, characterized by oversupply and weak demand. Many factors affect the industry including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and available credit. During the first quarter of 2001, we saw a significant decline in vehicle sales of domestic manufacturer brands as compared to the same period in the prior year as a result of these factors. On a same store basis, new vehicle revenues declined by approximately 6.9% in the first quarter of 2001 compared to the same period last year, and used vehicle revenues declined by approximately 7.3% compared to the same period last year. We expect this slowdown in domestic vehicle sales to continue during 2001.

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

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

Salary expense, employee benefits costs, facility rent and advertising expenses comprise the majority of our selling, general and administrative expenses. Approximately 62.0% of our selling, general and administrative expenses for the three months ended March 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 (7.5% of selling, general and administrative expenses) and non-salaried sales compensation (48.6%) expenses, so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options.

Interest expense fluctuates based primarily on the level of the inventory of new vehicles held at our dealerships, substantially all of which is financed through floor plan financing, as well as the amount of indebtedness incurred for acquisitions. Our floor plan expenses are substantially offset by

amounts received from manufacturers, in the form of floor plan inventory incentives. These payments are credited against our cost of sales. During the three months ended March 31, 2000, we received approximately \$8.1 million in manufacturer inventory incentives which resulted in an effective borrowing rate under our floor plan facilities of approximately 2.5%.

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

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired. Our Unaudited Consolidated Financial Statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to March 31, 2001. As a result of the effects of our acquisitions, the historical unaudited consolidated financial information described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is not necessarily indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Results of Operations

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

<TABLE>
<CAPTION>

for	Percentage of total revenues	
31,	the three months ended March	
	2000	2001
	-----	-----
<S>	<C>	<C>
Revenues:		
New vehicle	58.3%	57.0%
Used vehicle (including wholesale).....	27.8%	28.0%
Parts, service and collision repair.....	11.3%	12.3%
Finance, insurance and other.....	2.6%	2.7%
	-----	-----
Total revenues.....	100.0%	100.0%
Cost of sales.....	85.8%	85.6%
	-----	-----
Gross profit.....	14.2%	14.4%
Selling, general and administrative expenses.....	10.5%	11.1%
Depreciation.....	0.1%	0.1%
Goodwill amortization.....	0.3%	0.3%
	-----	-----
Operating income.....	3.3%	2.9%
Interest expense, floor plan.....	0.7%	0.8%
Interest expense, other.....	0.7%	0.7%
	-----	-----
Income before income taxes.....	1.9%	1.4%
Income tax expense.....	0.7%	0.5%
	-----	-----
Net Income.....	1.2%	0.9%
	=====	=====

</TABLE>

Revenues

Revenues grew in each of our primary revenue areas in the first quarter of 2001, causing total revenues to increase \$75.8 million, or 5.2%, over the same period in the previous year. The increase resulted from approximately \$141.9 million in revenues contributed by acquisitions completed in 2000 and 2001, net of \$25.7 million in revenues associated with dealership dispositions, which was offset by an approximate \$66.1 million decline in revenues from dealerships owned longer than one year.

New Vehicles: Revenues from the sale of new vehicles increased approximately \$24.6 million, or 2.9%, in the first quarter of 2001 compared to

the first quarter of 2000, representing a decrease in unit sales of approximately 0.4% but an increase in the average selling price of approximately 3.3%. The overall decrease in unit sales resulted from a decrease of 3,389 units from dealerships owned longer than one year offset by unit sales of 3,240 contributed by dealerships acquired, net of dealerships disposed, in 2000 and 2001. The decline in units from dealerships owned longer than one year was primarily isolated to domestic brands which have experienced weaker demand under deteriorating economic conditions.

The following charts depict the percentage of new vehicle units and revenues contributed by domestic, import and luxury import brands in the first quarter of 2001 compared to the first quarter of 2000:

[2 Graphs depicting Revenues and Units appears here]

	Revenues		Units	
	Q1 2000 -----	Q1 2001 -----	Q1 2000 -----	Q1 2001 -----
Luxury Import	25.3%	25.5%	15.3%	15.5%
Import	34.7%	35.9%	42.5%	44.4%
Domestic	40.0%	38.6%	42.2%	40.1%

Used Vehicles: Revenues from retail sales of used vehicles increased approximately 2.9% in the first quarter of 2001 compared to the first quarter of 2000, representing an increase in unit sales of approximately 0.6% and an increase in the average selling price of approximately 2.3%. The increase in unit sales resulted from sales of 2,120 units contributed by dealerships acquired in 2000 and 2001, net of dealerships disposed, offset by a decrease of 2,004 units from dealerships owned longer than one year. The decline in unit sales from dealerships owned longer than one year was isolated to dealerships representing predominantly domestic franchises, in which used unit sales declined approximately 26.5%, compared to dealerships representing predominantly import franchises in which used unit sales declined only 0.2%.

Fixed Operations and Finance and Insurance: Revenues from parts, service and collision repair increased approximately 14.4% in the first quarter of 2001 compared to the same period last year, of which approximately 66.5% resulted from acquisitions, net of dealerships disposed. Parts, service and collision repair revenues from dealerships owned longer than one year increased approximately 5.4% resulting from continuing emphasis on training and development as well as implementation of best business practices. Finance and insurance revenue increased approximately 7.0% in the first quarter of 2001 compared with the same period last year, the majority of which resulted from acquisitions. Finance and insurance revenues per vehicle increased approximately 7.1% in the first quarter of 2001 compared to the first quarter of 2000. In addition, despite a decrease in new vehicle revenues from dealerships owned longer than one year of approximately 6.9% in the first quarter of 2001 compared to the first quarter of 2000, finance and insurance revenues from those dealerships declined only 0.4%, reflecting an increase in finance and insurance revenues per vehicle of 12.2%. These increases result from management's continued focus on improving training and development programs for finance and insurance sales people.

Gross profit and gross margins

Gross profit increased 6.7% in the first quarter of 2001 compared to the same period last year. The increase resulted primarily from the additional revenues from acquisitions net of dealership dispositions, offset by a slight decline in gross profit from dealerships owned longer than one year of approximately 1.0%. Our overall gross margin percentage increased to 14.4% in the first quarter of 2001 from 14.2% in the first quarter of 2000, 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 12.3% in the first quarter of 2001 from 11.3% in the first quarter of 2000. Finance and insurance revenues as a percentage of total revenues increased to 2.7% in the first quarter of 2001 from 2.6% in the first quarter of 2000. In addition, the gross margins earned on our parts, service, collision repair and finance and insurance products increased to 52.3% in the first quarter

of 2001 from 51.6% in the first quarter of 2000 reflecting management's increasing emphasis on training and development and the implementation of best business practices, including variable pricing structures, expense controls and compensation controls.

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

[2 Graphs appear here for Revenue and Gross Profit]

	-----	-----	-----	-----
	Revenue	Gross Profit	Revenue	Gross Profit
	-----	-----	-----	-----
New vehicles	58.3%	33.4%	57.0%	30.9%
Used vehicles	27.8%	16.1%	28.0%	14.8%
Parts, service and collision repair	11.3%	35.1%	12.3%	38.7%
Finance and insurance	2.6%	15.4%	2.7%	15.6%

Selling, general and administrative expenses

Selling, general and administrative expenses increased 11.7% in the first quarter of 2001 compared to the first quarter of 2000, of which approximately 76.5% resulted from acquisitions, net of dealerships disposed. In the first quarter of 2001, approximately 62.0% of selling, general, and administrative expenses were variable, compared to 64.2% in the first quarter of 2000, and approximately 38.0% were fixed, compared to 35.8% in the first quarter of 2000. As a percentage of total revenues, total selling, general and administrative expenses increased to 11.1% in the first quarter of 2001 from 10.5% in the first quarter of 2000. These increases resulted from declines in revenues from dealerships owned longer than one year, which resulted in fewer revenues available to cover fixed expenses, as well as increases in compensation expense and rent and related expenses. Compensation programs, which represent over 50% of total selling, general, and administrative expenses, are primarily based on gross profits. As a result, the improvement in gross profit margins resulted in an increase in compensation expense as a percentage of revenues to 6.6% in the first quarter of 2001 from 6.4% in the first quarter of 2000. Rent and related expenses increased approximately 26.3% in the first quarter of 2001 compared to the first quarter of 2000 due primarily to the completion of new facility projects which were sold in sale-leaseback transactions.

Depreciation and amortization

Depreciation expense, excluding goodwill amortization, increased approximately 13.7% in the first quarter of 2001 compared to the same period last year. The balance of gross property and equipment, excluding land and construction in process, increased approximately \$1.7 million in the first quarter 2001, resulting from approximately \$1.0 million in property and equipment acquired through dealership acquisitions, approximately \$2.0 million in capital expenditures, offset by approximately \$1.3 million in disposals and other adjustments. As a percentage of total revenues, depreciation expense was 0.1% in both the first quarter of 2001 and 2000. Goodwill amortization expense increased 9.9% in the first quarter of 2001 compared to the same period last year as a result of additional acquisitions. Goodwill arising from acquisitions was approximately \$21.6 million in the first quarter of 2001.

Interest Expense, floor plan

Interest expense, floor plan increased 18.2% in the first quarter of 2001 compared to the same period last year, approximately 71.9% of which resulted from acquisitions and 28.1% of which was contributed by stores owned longer than one year. As a percentage of total revenues, floor plan interest increased to 0.8% in the first quarter of 2001 from 0.7% in the first quarter of 2000. The increase in interest expense from stores owned longer than one year, as well as the increase in interest expense as a percentage of revenues, was due to primarily to an increase in our average days supply of new vehicles in inventory to approximately 63.5 days in the first quarter of 2001 from approximately 62.4 days in the first quarter of 2000 which resulted in larger inventory and floor plan balances.

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Interest Expense, other

Interest expense, other decreased \$0.3 million in the first quarter of 2001 compared to the same period last year. The decrease results primarily from an increase in the amount of interest capitalized on construction projects to \$0.8 million in the first quarter of 2001 compared to \$0.2 million in the first quarter of 2000 as well as a slight decrease in the weighted average interest rate incurred under our \$500 million revolving credit agreement (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit") and Chrysler Financial Company, LLC ("Chrysler Financial") to approximately 8.5% in the first quarter of 2001 from approximately 8.7% in the first quarter of 2000. These decreases were offset by an increase in the balance outstanding under our Revolving Facility to \$373.0 million as of March 31, 2001 from \$336.7 million as of March 31, 2000.

Liquidity and Capital Resources

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

Cash from operations:

During the three months ended March 31, 2001, net cash provided by operating activities was approximately \$17.7 million compared to \$14.8 million in 2000. The increase was primarily due to decreases in receivables.

Cash flows from operations include the effect of vehicle purchases and related floor plan financing. We currently have standardized floor plan credit facilities with Chrysler Financial, General Motors Acceptance Corporation ("GMAC") and Ford Motor Credit. The floor plan credit facility with Chrysler Financial provides up to \$750 million for the purchase of vehicles at our Chrysler dealerships. The floor plan credit facility with GMAC provides for the purchase of vehicles at ten of our General Motors dealerships. The floor plan facility with Ford Motor Credit provides up to \$550 million for the purchase of vehicles at all of our other dealerships. As of March 31, 2001, there was an aggregate of approximately \$110.2 million outstanding under the Chrysler Financial floor plan facility, \$52.1 million outstanding under the GMAC floor plan facility and \$481.7 million outstanding under the Ford Motor Credit floor plan facility. Balances outstanding under new vehicle floor plan indebtedness generally exceed the related inventory balances, which are generally reduced by purchase discounts from manufacturers that are not reflected in the related floor plan liability. These manufacturer purchase discounts are standard in the automotive retail industry, typically occur on all new vehicle purchases and are not used to offset the related floor plan liability. These discounts are aggregated and generally paid to us by the manufacturers on a quarterly basis.

Amounts outstanding under the Chrysler Financial floor plan facility bear interest at 1.25% above LIBOR (LIBOR was 5.08% at March 31, 2001). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at the prime rate (prime was 8.0% at March 31, 2001), subject to certain incentives and other adjustments. Interest payments under each of our floor plan facilities are due monthly, but we are not required to make principal repayments prior to the sale of the vehicles. The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of March 31, 2001.

Investing activities:

Cash used for investing activities in the three months ended March 31, 2001 was approximately \$29.1 million, compared to \$55.0 million in the same period of 2000. Our principal investing activities include capital expenditures, dealership acquisitions, and dispositions.

Capital Expenditures: Other than construction of new dealerships and collision repair centers, our capital expenditures generally include building improvements and equipment for use in our dealerships. Capital expenditures in the three months ended March 31, 2001 were approximately \$11.3 million, compared to \$9.5 million in 2000. The year over year increases primarily represent expenditures for the construction and renovation of dealerships and collision repair centers. Of the capital expenditures in 2001, approximately \$ 9.3 million related to the construction of new dealerships and collision repair centers compared to \$5.7 million for similar expenditures in 2000. Once completed, these new dealerships and collision repair centers are generally sold to third parties in sale-leaseback transactions. As of March 31, 2001, total construction in progress was approximately \$26.4 million, of which approximately \$5.1 million represented construction costs on facilities which are expected to be completed and sold within one year

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in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying Consolidated Balance Sheet as of March 31, 2001. We do not expect any significant gains or losses from these sales.

Dealership acquisitions and dispositions: During the three months ended March 31, 2001, we acquired three dealerships for approximately \$31.2 million in cash. The purchases were financed with a combination of cash borrowed under our Revolving Facility and cash generated from our existing operations.

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During the three months ended March 31, 2001, we sold or otherwise disposed of assets from six of our dealership franchises which contributed approximately \$25.7 million in revenues in 2001. Proceeds, net of disposal costs, from these dispositions were approximately \$7.0 million, and we have recognized no material gains or losses on these dispositions.

Financing activities:

Cash flows from financing activities were approximately \$5.8 million in the first three months of 2001 compared to \$39.5 million in 2000 and primarily related to net borrowings under our Revolving Facility of approximately \$19.2 million offset by repurchases of stock under our stock repurchase program of approximately \$12.6 million.

The Revolving Facility: The Revolving Facility has a borrowing limit of \$500 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by one of our affiliated companies (the borrowing base was approximately \$433.0 million at March 31, 2001). Amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 5.08% at March 31, 2001) and will mature on October 31, 2003. The maturity date may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit and Chrysler Financial. Borrowings, net of repayments, under the Revolving Facility for the quarter ended March 31, 2001 were approximately \$19.2 million and were primarily used to finance acquisitions. The total outstanding balance as of March 31, 2001 was approximately \$373.0 million. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for general working capital and other general corporate purposes.

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

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

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Office, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or our failure, with certain exceptions, to own all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default under the Revolving Facility. We are in compliance with all restrictive covenants as of March 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 June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. The total outstanding balance under the Construction Loan as of March 31, 2001 was approximately \$4.6 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed. 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. As of March 31, 2001, no amounts were outstanding under the Permanent Loan.

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

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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 March 31, 2001.

The Senior Subordinated Notes: We currently have an aggregate principal balance of \$125 million in senior subordinated notes outstanding which mature on August 1, 2008 and bear interest at a stated rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Interest

payments are due semi-annually on August 1 and February 1. The notes are subordinated to all of our present and future senior indebtedness, including the Revolving Facility. Redemption prices during 12 month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter.

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

Stock Repurchase Program: Our Board of Directors has authorized us to expend up to \$100 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. As of March 31, 2001 we had repurchased 5,232,163 million shares of Class A common stock for approximately \$45.4 million and had also redeemed 13,801.5 shares of Class A convertible preferred stock at a total cost of approximately \$13.8 million. Through May 10, 2001, we have repurchased approximately 5,691,664 million shares of Class A common stock for approximately \$49.1 million and have redeemed 13,801.5 shares of Class A convertible preferred stock for approximately \$13.8 million. We will continue to repurchase shares from time to time subject to market conditions.

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

Seasonality

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

Significant Materiality of Goodwill

Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. The cumulative gross amount of goodwill at December 31, 2000 was \$ 697.8 million and at March 31, 2001 was \$719.2 million. As a percentage of total assets and stockholders' equity, goodwill, net of accumulated amortization, represented 37.4% and 148.3%, respectively, at December 31, 2000 and 38.6% and 151.8%, respectively, at March 31, 2001. Generally accepted accounting principles in the United States of America require that goodwill and all other intangible assets be amortized over the period benefited. Sonic has determined that the period benefited by the goodwill will be no less than 40 years. Accordingly, Sonic is amortizing goodwill over a 40 year period. Earnings reported in periods immediately following an acquisition would be overstated if Sonic attributed a 40 year benefit to an intangible asset that should have had a shorter benefit period. In later years, Sonic would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at the price paid for the businesses acquired. Earnings in later years also could be significantly affected if management then determined that the remaining balance of goodwill was impaired. Sonic periodically compares the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the businesses acquired in order to evaluate the recoverability of goodwill. 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. Sonic will incur additional goodwill in future acquisitions.

The Financial Accounting Standards Board recently proposed new rules relating to the accounting for business combinations and intangible assets. One aspect of the proposal would not permit amortization of goodwill, but would require the carrying amount of goodwill to be reduced only if it was found to be impaired or was associated with assets to be sold or otherwise disposed. If the proposed rules are adopted, goodwill arising from acquisitions completed prior to the date of adoption would no longer be amortized, though reversal of goodwill amortization recognized in prior periods would not be permitted.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our variable rate floor plan notes payable, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately \$1.0 billion at March 31, 2001 and approximately \$931.1 million at March 31, 2000. A change of one percent in the interest rate would have caused a change in interest expense of approximately \$2.6 million in the first quarter of 2001 and approximately \$2.4 million in the first quarter of 2000. Of the total change in interest expense, approximately \$1.7 million in the first quarter of 2001 and approximately \$1.4 million in the first quarter of 2000 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes payable is mitigated by floor plan incentives received from manufacturers which are generally based on rates similar to those incurred under our floor plan financing arrangements. Our floor plan interest expense in the first quarter of 2001 exceeded the amounts we received from these manufacturer floor plan incentives by only approximately \$4.1 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to an annualized rate of approximately 2.5% after considering these incentives.

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PART II - OTHER INFORMATION

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

(a) Exhibits:

<TABLE>
<CAPTION>
<S>

<C>

- | | |
|------|---|
| 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 (incorporated by reference to Exhibit 3.2 to the Form S-1). |
| 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 "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 Form S-4). |
| 4.4* | First Supplemental Indenture dated as of December 31, 1999 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 4.2a to the 1999 Form 10-K). |
| 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 4.4 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "September 30, 2000 Form 10-Q")). |
| 4.6* | 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). |

</TABLE>

(b) Reports on Form 8-K:

Sonic filed a report on Form 8-K on January 17, 2001 reporting, under Item 5 of such report, that Sonic had announced in a press release preliminary earnings results for the fourth quarter of 2000 and management's targeted earnings for the first quarter of 2001 and the 2001 calendar year.

* Filed previously.

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SIGNATURES

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

SONIC AUTOMOTIVE, INC.

Date: May 15, 2001

By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

Date: May 15, 2001

By: /s/ Theodore M. Wright

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

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INDEX TO EXHIBITS TO
QUARTERLY REPORT ON FORM 10-Q FOR
SONIC AUTOMOTIVE, INC.
FOR THE THREE MONTHS ENDED MARCH 31, 2001

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
-----	-----
<S>	<C>
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 (incorporated by reference to Exhibit 3.2 to the Form S-1).
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 "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 Form S-4).

- 4.4* First Supplemental Indenture dated as of December 31, 1999 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 4.2a to the 1999 Form 10-K).
- 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 4.4 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "September 30, 2000 Form 10-Q")).
- 4.6* 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).
- 99.1 Risk Factors.

</TABLE>

* Filed previously.

Risk Factors

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

As of March 31, 2001, our total outstanding indebtedness was approximately \$1,150.9 million, including the following:

- . \$373.0 million under a revolving credit agreement with Ford Motor Credit Company ("Ford Motor Credit") and Chrysler Financial Company, LLC ("Chrysler Financial") (the "Revolving Facility") with a borrowing limit of \$500 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;
- . \$481.7 million under a standardized secured inventory floor plan facility (the "Ford Floor Plan Facility") with Ford Motor Credit;
- . \$110.2 million under a standardized secured floor plan facility (the "Chrysler Floor Plan Facility") with Chrysler Financial;
- . \$52.1 million under a standardized secured floor plan facility (the "GMAC Floor Plan Facility" and together with the Ford Floor Plan Facility and the Chrysler Floor Plan Facility, the "Floor Plan Facilities") with General Motors Acceptance Corporation ("GMAC");
- . \$121.3 million in 11% Senior Subordinated Notes due 2008 representing \$125.0 million in aggregate principal amount less unamortized discount of approximately \$3.7 million; and
- . \$12.6 million of other secured debt, including \$4.6 million under a revolving real estate acquisition and new dealership construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit.

As of March 31, 2001 we had approximately \$60.1 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 \$95.4 million available for additional borrowings under the Mortgage Facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the Floor Plan Facilities. In addition, the indentures relating to our senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

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

- . our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- . a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our senior subordinated notes, borrowings under the Revolving Facility and the Floor Plan Facilities and other indebtedness, thereby reducing the funds available to us for our operations and other purposes;
- . some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increased interest rates;
- . the indebtedness outstanding under our credit facilities is secured by a pledge of substantially all the assets of our dealerships; and
- . we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

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

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

Our future operating results depend on our ability to integrate the operations of our recently acquired dealerships, as well as dealerships we

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

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

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

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

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

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

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

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

Failure to retain qualified management personnel at any acquired dealership may increase the risk associated with integrating the acquired dealership. Installing new computer systems has disrupted existing operations in the past as management and salespersons adjust to new technologies. We cannot assure you that we will overcome these risks or any other problems encountered with either our past or future acquisitions.

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

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

Vehicles manufactured by the following manufacturers accounted for the indicated approximate percentage of our new vehicle revenue for the year ended December 31, 2000 and the three months ended March 31, 2001:

<TABLE>
<CAPTION>

	Percentage of New Vehicle Revenue for The Year Ended December 31, 2000	Percentage of New Vehicle Revenue for the Three Months Ended March 31, 2000
<S>	<C>	<C>
Honda.....	14.4%	13.6%
Ford.....	13.5%	16.7%
Chrysler.....	12.0%	9.6%
BMW.....	10.7%	11.1%
General Motors.....	10.7%	11.0%
Toyota.....	8.3%	11.5%
Nissan.....	6.5%	5.8%
Lexus.....	5.3%	5.6%

</TABLE>

No other manufacturer accounted for more than 5% of our new vehicle sales during these periods. A significant decline in the sale of Ford, Honda, Chrysler, General Motors ("GM"), 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.

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

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

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

- . financial condition;

- . marketing;
- . vehicle design;
- . production capabilities;
- . management; and
- . labor relations.

Nissan, Dodge (a Chrysler brand) and Volvo have had significant difficulty in the U.S. market in the recent past. If any of our manufacturers, particularly Ford, Honda, Chrysler, GM, BMW, Toyota, Nissan, or Lexus were unable to successfully design, manufacture, deliver and market their vehicles, 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, GM, BMW, Toyota, Nissan or Lexus in particular, could have a material adverse effect on our results of operations. For example, in June 1998, the United Auto Workers went on strike at two GM facilities in Flint, Michigan. The strike lasted 53 days, causing 27 GM manufacturing facilities to shut down during the strike and severely affecting production of GM vehicles during the strike. In the event of another 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.

- . 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.
- . GM 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

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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 shareholders 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 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.

- . 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. Jaguar declined to consent to our proposed 1997 acquisitions of franchises associated with dealerships in Chattanooga, Tennessee and Greenville, South Carolina, and we subsequently agreed with Jaguar not to acquire any Jaguar franchise before August 3, 2001.

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;

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

- . In September 1999, Ford and Sonic signed a new framework agreement. The agreement 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.
- . In December 2000, Toyota and Sonic entered into a new framework agreement that 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.
- . In September 1999, Honda and Sonic signed a new framework agreement. This framework agreement 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 (1) two Acura dealerships in a Honda-defined metropolitan market, (2) three Acura dealerships in any one of six Honda-defined geographic zones and (3) five Acura dealerships nationally.
- . 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.

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- . GM currently limits the maximum number of GM dealerships that we may acquire to 50% of the GM dealerships, by brand line, in a GM-defined geographic market area having multiple GM 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 5% of all BMW sales in the U.S. or more than 50% of BMW dealerships in a given metropolitan market. We believe we are currently at BMW's national sales limitation.
- . Toyota, Honda and Mercedes also prohibit the coupling of a franchise with any other brand without their consent.
- . Honda also prohibits ownership of contiguous dealerships.

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.

We own the following number of franchises for the following manufacturers:

Manufacturer	Number of Franchises
Ford.....	13
Chevrolet.....	11
Honda.....	11
BMW.....	10
Cadillac.....	10
Nissan.....	10
Toyota.....	9
Dodge.....	8
Volvo.....	8
Chrysler.....	7
Jeep.....	7
Oldsmobile.....	7
Plymouth.....	7
Mercury.....	5
Volkswagen.....	5

Manufacturer	Number of Franchises
Lexus.....	4
Lincoln.....	4
Mercedes.....	4
Hyundai.....	3
Isuzu.....	3
Kia.....	3
Mitsubishi.....	3
Audi.....	2
GMC.....	2
Infiniti.....	2
Pontiac.....	2
Porsche.....	2
Acura.....	1
Land Rover.....	1
Subaru.....	1

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

Many manufacturers attempt to measure customers' satisfaction with their sales and warranty service experiences through systems which vary from manufacturer to manufacturer, but which are generally known as "CSI." 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.

We estimate that as of March 31, 2001, we had approximately \$60.1 million available for additional borrowings under the 2000 Revolving Facility, based on a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (which borrowing base was \$433.0 million of the \$500.0 million facility at March 31, 2001).

- . 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.

In addition, we are dependent to a significant extent on our ability to finance our inventory. Automotive retail inventory financing involves significant sums of money in the form of "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 such financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure this floor plan indebtedness. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our newly obtained 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, as well as GM and GMAC.

Although our officers and directors have previously facilitated our acquisition financing, we cannot assure you that these individuals will be willing or able to assist in our financing needs in the future.

O. Bruton Smith, our Chief Executive Officer and Chairman of the Board, previously guaranteed our credit facilities and other financing arrangements to facilitate our acquisitions. Mr. Smith may be unwilling to make any such commitments in the future if such commitments are needed.

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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, a corporation controlled by Mr. Smith ("SFC"), having an estimated value at the time of 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 1999 Revolving Facility to \$350.0 million subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge by SFC of five million shares of SMI common stock. The 2000 Revolving Facility is subject to a similar borrowing base, including SFC's continuing pledge of SMI stock.

Before our acquisition of 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 5.0 million shares of SMI common stock owned by SFC. We assumed FirstAmerica's obligations to Ford Motor Credit under our 1999 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 1999

Revolving Facility. Under the 2000 Revolving Facility, Mr. Smith did not provide a guarantee in favor of the lenders, but SFC continues to pledge SMI stock as collateral. We cannot assure you that Mr. Smith will be willing or able to provide similar guarantees or credit support in the future to facilitate Sonic's future acquisitions.

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

The United States automobile dealership industry is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. As a consequence, growth in our revenues and earnings is likely to be significantly affected by our success in acquiring and integrating dealerships and the pace and size of such acquisitions.

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

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

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

Our 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.

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

- . The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for cars and related F&I services, which may further reduce margins for new and used cars and profits for related F&I services. In addition, CarsDirect.com and others are selling vehicles over the Internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. CarsDirect.com has entered into an alliance with United Auto Group to facilitate their sourcing of vehicles. Also, AutoNation is selling vehicles for its new car dealerships through its AutoNationDirect.com web site. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with Internet car sellers or are spending significant sums on developing their own Internet capabilities, which could materially adversely affect our business.
- . Our revenues and profitability could be materially adversely affected should manufacturers decide to directly enter the retail market.
- . The increased popularity of short-term vehicle leasing also has resulted, as these leases expire, in a large increase in the number of late model vehicles available in the market, which puts added pressure on new and used vehicle margins.
- . Some of our competitors may be capable of operating on smaller gross margins than we are, and the on-line auto brokers have been operating at

a loss.

- . As we seek to acquire dealerships in new markets, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. This competition includes other large dealer groups and dealer groups that have publicly traded equity.

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

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

The automobile industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and credit availability. For example, recent interest rate increases and other factors have impacted the market and have reduced the seasonally adjusted annualized selling rate of new cars since the beginning of the year.

Future recessions may have a material adverse effect on our business. In addition, significant changes in interest rates may significantly impact our car sales since many car buyers finance their purchases. Furthermore, higher gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury/SUV models (which typically provide high profit margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

Local economic, competitive and other conditions also affect the performance of dealerships. Our dealerships currently are located in the Atlanta, Baltimore, Birmingham, Charleston, Charlotte, Chattanooga, Columbia, Columbus, Dallas, Daytona Beach, Fort Myers, Greenville/Spartanburg, Houston, Las Vegas, Los Angeles, Mobile/Pensacola, Montgomery, Nashville, San Diego, San Francisco, San Jose/Silicon Valley,

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Tampa/Clearwater, Tulsa and Washington, D.C. markets. We intend to pursue acquisitions outside of these markets, but our operational focus is on our current markets. As a result, our results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented 16.3% of our sales for the year ended December 31, 2000. Our results of operations also depend on other factors, such as tax rates and state and local regulations specific to the states in which we currently operate. Sonic may not be able to expand geographically and any such expansion may not adequately insulate it from the adverse effects of local or regional economic conditions.

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

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

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

. general economic and business conditions.

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

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

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

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

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

Sonic has in the past and will likely in the future enter into transactions with Mr. Smith, entities controlled by Mr. Smith or other affiliates of Sonic. For example, Sonic previously entered into property transactions with MMR Holdings, L.L.C. and its subsidiaries (the "MMR Group"). The MMR Group was owned, directly and indirectly, and controlled by Mr. Smith. On August 13, 1999, Mr. Smith and SFC sold the ownership of the MMR Group to CAR MMR L.L.C. ("CAR MMR"), an affiliate of Capital Automotive REIT, which is unaffiliated

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with Sonic or Mr. Smith. The MMR Group owned 50 properties leased to 42 Sonic dealerships at the time of the MMR Group sale. As a part of the sale of the MMR Group, Mr. Smith and SFC signed agreements with Sonic to induce Sonic to sign its agreement with CAR MMR. Mr. Smith and SFC, under these agreements, paid approximately \$2.5 million to Sonic, which amount represented Mr. Smith's and SFC's profits on the sale of the MMR Group less their expenses in selling the MMR Group and a 14% annual return on their initial investment in the MMR Group, net of any advances previously made by Sonic to the MMR Group.

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 its independent directors. If not so approved, Sonic must obtain an opinion as to the financial fairness of the transaction to be issued by an investment banking or appraisal firm of national standing. In addition, the terms of the Revolving Facility and Sonic's existing senior subordinated notes restrict transactions with affiliates in a manner similar to Sonic's charter restrictions.

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

performance.

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

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

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

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

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

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

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

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

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

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

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

Our past and present business operations are subject to environmental laws and regulations governing the use, storage, handling, recycling and disposal of hazardous or toxic substances such as new and waste motor oil, oil filters, transmission fluid, antifreeze, freon, new and waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and

diesel fuels. We are also subject to laws and regulations relating to underground storage tanks that exist or used to exist at many of our properties. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations. In addition, soil and groundwater contamination exists at certain of our properties. We cannot assure you that our other properties have not been or will not become similarly contaminated. In addition, we could become subject to potentially material new or unforeseen environmental costs or liabilities because of our acquisitions.

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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 stock holder or otherwise benefiting the Class B common stock holders constituting a:

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

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

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

Amortization of goodwill from acquisitions could change, resulting in significant reduction in earnings for future periods.

Goodwill, net of accumulated amortization, represented approximately 38.6% of our total assets and 151.8% of our stockholders' equity as of March 31, 2001. Goodwill arises when an acquiror pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Accounting principles generally accepted in the United States of America require that this and all other intangible assets be amortized over the period benefited. We determined that the period benefited by all of the goodwill will be no less than 40 years. Accordingly, we amortize goodwill over a 40 year period. Earnings reported in periods immediately following the acquisition would be overstated if we attributed a 40 year benefit period to an intangible asset that should have had a shorter benefit period. In later years, we would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at

the price paid for the businesses. Earnings in later years also could be significantly affected if management determined then that the remaining balance of goodwill was impaired. We periodically compare the carrying value of goodwill with anticipated undiscounted future cash flows from operations of the businesses we have acquired to evaluate the recoverability of goodwill. We have concluded that the anticipated future cash flows associated with intangible assets recognized in the acquisitions will continue indefinitely, and there is no persuasive evidence that any material portion will dissipate over a period shorter than 40 years. We will incur additional goodwill in our future acquisitions.

The Financial Accounting Standards Board recently proposed new rules relating to the accounting for business combinations and intangible assets. One aspect of the proposal would not permit amortization of goodwill, but would require the carrying amount of goodwill to be reduced only if it was found to be impaired or was associated with assets to be sold or otherwise disposed. If the proposed rules are adopted, goodwill arising from acquisitions completed prior to the date of adoption would no longer be amortized, though reversal of goodwill amortization recognized in prior periods would not be permitted.