

SONIC AUTOMOTIVE INC

Form 10-Q

October 28, 2010

Table of Contents

**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 September 30, 2010

OR

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

Commission files 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.)**

**6415 Idlewild Road, Suite 109, Charlotte, North
Carolina**

28212

(Address of principal executive offices)

(Zip Code)

(704) 566-2400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). Yes No

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

As of October 22, 2010, there were 40,707,683 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

INDEX TO FORM 10-Q

	<u>Page</u>
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1. Condensed Consolidated Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Income</u> <u>Third Quarter and Nine-month Periods Ended September 30, 2009 and September 30,</u> <u>2010</u>	3
<u>Condensed Consolidated Balance Sheets</u> <u>December 31, 2009 and September 30, 2010</u>	4
<u>Condensed Consolidated Statement of Stockholders' Equity</u> <u>Nine-month Periods Ended September 30, 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Nine-month Periods Ended September 30, 2009 and September 30,</u> <u>2010</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>ITEM 4. Controls and Procedures</u>	36
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	37
<u>ITEM 1A. Risk Factors</u>	39
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>ITEM 6. Exhibits</u>	43
<u>SIGNATURES</u>	45
<u>EX-10.24</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1: Condensed Consolidated Financial Statements.**

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

	Third Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2010	2009	2010
Revenues:				
New vehicles	\$ 903,716	\$ 937,709	\$ 2,367,236	\$ 2,611,988
Used vehicles	379,389	453,815	1,081,855	1,339,323
Wholesale vehicles	34,588	47,597	105,451	108,336
Total vehicles	1,317,693	1,439,121	3,554,542	4,059,647
Parts, service and collision repair	268,801	283,741	807,556	842,697
Finance, insurance and other	43,403	47,398	116,558	133,607
Total revenues	1,629,897	1,770,260	4,478,656	5,035,951
Cost of Sales:				
New vehicles	(840,173)	(877,691)	(2,207,435)	(2,440,097)
Used vehicles	(347,187)	(418,576)	(986,355)	(1,231,720)
Wholesale vehicles	(36,216)	(49,053)	(108,275)	(112,270)
Total vehicles	(1,223,576)	(1,345,320)	(3,302,065)	(3,784,087)
Parts, service and collision repair	(132,018)	(143,141)	(400,328)	(421,711)
Total cost of sales	(1,355,594)	(1,488,461)	(3,702,393)	(4,205,798)
Gross profit	274,303	281,799	776,263	830,153
Selling, general and administrative expenses	(214,140)	(226,331)	(619,560)	(672,542)
Impairment charges	(620)	(87)	(5,707)	(132)
Depreciation and amortization	(8,131)	(8,731)	(23,865)	(25,729)
Operating income	51,412	46,650	127,131	131,750
Other income (expense):				
Interest expense, floor plan	(4,533)	(5,430)	(14,925)	(15,615)
Interest expense, other, net	(18,277)	(15,226)	(57,998)	(48,024)
Interest expense, non-cash, convertible debt	7,818	(1,768)	1,556	(5,175)
Interest expense, non-cash, cash flow swaps	(2,180)	(1,484)	(5,359)	(5,402)
Other income (expense), net	2,449	(351)	2,519	(7,522)
Total other expense	(14,723)	(24,259)	(74,207)	(81,738)
Income from continuing operations before taxes	36,689	22,391	52,924	50,012
Income tax provision	(16,510)	(8,442)	(23,816)	(19,905)

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Income from continuing operations	20,179	13,949	29,108	30,107
Discontinued operations:				
Loss from operations and the sale of discontinued franchises	(8,551)	(633)	(19,203)	(6,149)
Income tax benefit (expense)	3,966	(331)	7,393	1,617
Loss from discontinued operations	(4,585)	(964)	(11,810)	(4,532)
Net income	\$ 15,594	\$ 12,985	\$ 17,298	\$ 25,575
Basic earnings per share:				
Earnings per share from continuing operations	\$ 0.47	\$ 0.26	\$ 0.70	\$ 0.57
Loss per share from discontinued operations	(0.10)	(0.01)	(0.28)	(0.09)
Earnings per share	\$ 0.37	\$ 0.25	\$ 0.42	\$ 0.48
Weighted average common shares outstanding	42,305	52,311	41,130	52,151
Diluted earnings per share:				
Earnings per share from continuing operations	\$ 0.24	\$ 0.25	\$ 0.48	\$ 0.56
Loss per share from discontinued operations	(0.07)	(0.02)	(0.22)	(0.07)
Earnings per share	\$ 0.17	\$ 0.23	\$ 0.26	\$ 0.49
Weighted average common shares outstanding	63,195	65,851	52,529	65,711

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	December 31, 2009	(Unaudited) September 30, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 30,035	\$ 10,623
Receivables, net	232,969	166,546
Inventories	795,275	863,917
Assets held for sale	12,167	13,548
Other current assets	14,937	15,582
Total Current Assets	1,085,383	1,070,216
Property and Equipment, net	382,085	392,173
Goodwill	469,482	468,516
Other Intangible Assets, net	80,806	79,563
Other Assets	51,099	61,633
Total Assets	\$ 2,068,855	\$ 2,072,101
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	\$ 214,871	\$ 436,444
Notes payable - floor plan - non-trade	548,493	339,117
Trade accounts payable	55,345	47,968
Accrued interest	16,146	10,035
Other accrued liabilities	144,709	145,447
Liabilities associated with assets held for sale - non-trade	3,346	-
Current maturities of long-term debt	23,991	23,704
Total Current Liabilities	1,006,901	1,002,715
Long-Term Debt	552,150	529,632
Other Long-Term Liabilities	141,052	143,631
Stockholders Equity:		
Class A convertible preferred stock, none issued	-	-
Class A common stock, \$.01 par value; 100,000,000 shares authorized; 54,986,875 shares issued and 40,099,559 shares outstanding at December 31, 2009; 55,635,206 shares issued and 40,657,683 shares outstanding at September 30, 2010	550	556
Class B common stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares outstanding at December 31, 2009 and September 30, 2010	121	121
Paid-in capital	662,186	666,401
Accumulated deficit	(35,180)	(9,604)
Accumulated other comprehensive income (loss)	(22,350)	(23,703)

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Treasury stock, at cost (14,887,316 Class A shares held at December 31, 2009 and 14,977,523 Class A shares held at September 30, 2010)	(236,575)	(237,648)
Total Stockholders' Equity	368,752	396,123
Total Liabilities and Stockholders' Equity	\$ 2,068,855	\$ 2,072,101

See notes to unaudited condensed consolidated financial statements.

4

Table of Contents

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

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Compre- hensive Income
	Shares	Amount	Shares	Amount	Capital	Deficit	Stock	(Loss)	Equity	Income
BALANCE AT DECEMBER 31, 2009	54,987	550	12,029	121	662,186	(35,180)	(236,575)	(22,350)	368,752	
Shares awarded under stock compensation plans	292	3	-	-	1,185	-	-	-	1,188	-
Purchases of treasury stock	-	-	-	-	-	-	(1,073)	-	(1,073)	-
Income tax benefit associated with stock compensation plans	-	-	-	-	636	-	-	-	636	-
Income tax benefit associated with convertible note hedge	-	-	-	-	205	-	-	-	205	-
Fair value of interest rate swap agreements, net of tax benefit of \$830	-	-	-	-	-	-	-	(1,353)	(1,353)	(1,353)
Stock-based compensation expense	-	-	-	-	419	-	-	-	419	-

Restricted stock amortization, net of forfeitures	-	-	-	-	1,773	-	-	-	1,773	-
Net income	-	-	-	-	-	25,575	-	-	25,575	25,575
Other	356	3	-	-	(3)	1	-	-	1	-
BALANCE										
AT										
SEPTEMBER										
30, 2010	55,635	556	12,029	\$ 121	\$ 666,401	\$ (9,604)	\$ (237,648)	\$ (23,703)	\$ 396,123	\$ 24,222

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended	
	September 30,	
	2009	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,298	\$ 25,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	24,905	25,938
Provision for bad debt expense	1,255	756
Other amortization	1,242	1,242
Debt issuance cost amortization	9,909	2,702
Debt discount amortization, net of premium amortization	9,957	3,872
Stock - based compensation expense	437	419
Amortization of restricted stock	1,802	1,773
Restricted stock forfeiture	(182)	-
Deferred income taxes	(2,390)	(656)
Equity interest in earnings of investees	(501)	(585)
Asset impairment charges	9,116	132
Loss (gain) on disposal of franchises and property and equipment	(226)	(978)
Loss on exit of leased dealerships	7,511	2,321
Loss (gain) on retirement of debt	(2,095)	7,665
Derivative fair value adjustments	(11,300)	-
Changes in assets and liabilities that relate to operations:		
Receivables	68,535	65,667
Inventories	383,205	(82,768)
Other assets	(24,362)	(14,706)
Notes payable - floor plan - trade	(92,597)	221,573
Trade accounts payable and other liabilities	41,207	(21,886)
Total adjustments	425,428	212,481
Net cash provided by operating activities	442,726	238,056
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(36,048)	(44,039)
Proceeds from sales of property and equipment	1,797	979
Proceeds from sale of franchises	22,839	24,644
Distributions from equity investees	300	600
Net cash used in investing activities	(11,112)	(17,816)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on notes payable floor plan - non-trade	(369,726)	(212,722)
Borrowings on revolving credit facilities	534,585	40,000
Repayments on revolving credit facilities	(584,854)	(40,000)

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Proceeds from long-term debt	167,039	209,977
Principal payments on long-term debt	(162,948)	(4,673)
Increase in restricted cash	(106,913)	-
Settlement of cash flow swaps	(16,454)	-
Repurchase of debt securities	-	(233,190)
Purchase of treasury stock	(61)	(1,073)
Income tax benefit associated with stock compensation plans	-	636
Income tax benefit associated with convertible hedge	4,442	205
Issuance of shares under stock compensation plans	-	1,188
Issuance of common stock related to private placement	101,812	-
Dividends paid	(4,893)	-
Net cash used in financing activities	(437,971)	(239,652)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,357)	(19,412)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,971	30,035
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 614	\$ 10,623

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

Change in fair value of cash flow hedging instruments (net of tax expense of \$5,859 and tax benefit of \$830 for the nine-month period ended September 30, 2009 and 2010, respectively)	\$ 9,728	\$ (1,353)
Issuance of shares related to debt refinance	\$ 3,947	\$ -

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid (received) during the year for:		
Interest, net of amount capitalized	\$ 90,116	\$ 74,778
Income taxes	\$ (21,229)	