

SONIC AUTOMOTIVE INC

Form 10-Q

April 28, 2011

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**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, 2011

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

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

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

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As of April 22, 2011, there were 40,920,177 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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

	First Quarter Ended	
	March 31,	
	2011	2010
Revenues:		
New vehicles	\$ 980,745	\$ 778,244
Used vehicles	482,031	418,849
Wholesale vehicles	35,362	30,806
Total vehicles	1,498,138	1,227,899
Parts, service and collision repair	291,770	275,172
Finance, insurance and other	49,468	40,595
Total revenues	1,839,376	1,543,666
Cost of Sales:		
New vehicles	(920,686)	(725,663)
Used vehicles	(443,787)	(384,071)
Wholesale vehicles	(35,818)	(31,464)
Total vehicles	(1,400,291)	(1,141,198)
Parts, service and collision repair	(147,917)	(136,589)
Total cost of sales	(1,548,208)	(1,277,787)
Gross profit	291,168	265,879
Selling, general and administrative expenses	(232,514)	(220,653)
Impairment charges	(17)	(44)
Depreciation and amortization	(9,992)	(8,418)
Operating income	48,645	36,764
Other income (expense):		
Interest expense, floor plan	(5,436)	(4,798)
Interest expense, other, net	(15,447)	(17,151)
Interest expense, non-cash, convertible debt	(1,694)	(1,677)
Interest expense / amortization, non-cash, cash flow swaps	178	(1,683)
Other income, net	73	64
Total other expense	(22,326)	(25,245)
Income from continuing operations before taxes	26,319	11,519
Provision for income taxes	(10,528)	(4,953)
Income from continuing operations	15,791	6,566

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Discontinued operations:		
Loss from operations and the sale of discontinued franchises	(1,273)	(3,980)
Income tax benefit	446	1,568
Loss from discontinued operations	(827)	(2,412)
Net income	\$ 14,964	\$ 4,154
Basic earnings (loss) per common share:		
Earnings per share from continuing operations	\$ 0.30	\$ 0.13
Loss per share from discontinued operations	(0.02)	(0.05)
Earnings per common share	\$ 0.28	\$ 0.08
Weighted average common shares outstanding	52,416	51,889
Diluted earnings (loss) per common share:		
Earnings per share from continuing operations	\$ 0.27	\$ 0.12
Loss per share from discontinued operations	(0.01)	(0.04)
Earnings per common share	\$ 0.26	\$ 0.08
Weighted average common shares outstanding	65,950	52,579
Dividends declared per common share	\$ 0.025	\$ -

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,355	\$ 21,842
Receivables, net	215,546	239,634
Inventories	931,236	903,221
Other current assets	31,742	25,653
Total current assets	1,186,879	1,190,350
Property and Equipment, net	515,657	436,260
Goodwill	468,465	468,516
Other Intangible Assets, net	78,735	79,149
Other Assets	74,813	76,489
Total Assets	\$ 2,324,549	\$ 2,250,764
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	\$ 461,787	\$ 478,834
Notes payable - floor plan - non-trade	386,824	383,151
Trade accounts payable	87,486	59,719
Accrued interest	10,590	14,070
Other accrued liabilities	161,027	160,763
Current maturities of long-term debt	9,863	9,050
Total current liabilities	1,117,577	1,105,587
Long-Term Debt	598,969	546,401
Other Long-Term Liabilities	129,732	134,081
Commitments and Contingencies		
Stockholders Equity:		
Class A convertible preferred stock, none issued	-	-
Class A common stock, \$.01 par value; 100,000,000 shares authorized; 56,160,588 shares issued and 40,888,015 shares outstanding at March 31, 2011; 55,738,639 shares issued and 40,757,999 shares outstanding at December 31, 2010	562	557
Class B common stock; \$.01 par value; 30,000,000 shares authorized; 12,029,375 shares outstanding at March 31, 2011 and December 31, 2010	121	121
Paid-in capital	668,762	666,961
Retained earnings	67,066	53,427
Accumulated other comprehensive loss	(16,649)	(18,683)
	(241,591)	(237,688)

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Treasury stock, at cost (15,272,573 Class A shares held at March 31, 2011 and 14,980,640 Class A shares held at December 31, 2010)

Total stockholders' equity	478,271	464,695
Total Liabilities and Stockholders' Equity	\$ 2,324,549	\$ 2,250,764

See notes to Unaudited Condensed Consolidated Financial Statements.

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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	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Compre- hensive Income
	Shares	Amount	Shares	Amount						
BALANCE AT DECEMBER 31, 2010	55,739	\$ 557	12,029	\$ 121	\$ 666,961	\$ 53,427	\$ (237,688)	\$ (18,683)	\$ 464,695	\$ 93,596
Shares awarded under stock compensation plans	282	3	-	-	645	-	-	-	648	-
Purchases of treasury stock	-	-	-	-	-	-	(3,903)	-	(3,903)	-
Income tax benefit associated with stock compensation plans	-	-	-	-	498	-	-	-	498	-
Fair value of interest rate swap agreements, net of tax expense of \$1,247	-	-	-	-	-	-	-	2,034	2,034	2,034
Stock-based compensation expense	-	-	-	-	108	-	-	-	108	-
Restricted stock amortization, net of	-	-	-	-	552	-	-	-	552	-

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forfeitures

Net income	-	-	-	-	-	14,964	-	-	14,964	14,964
Dividends (\$0.025 per share)	-	-	-	-	-	(1,325)	-	-	(1,325)	-
Other	140	2	-	-	(2)	-	-	-	-	-

BALANCE
AT MARCH

31, 2011	56,161	\$ 562	12,029	\$ 121	\$ 668,762	\$ 67,066	\$ (241,591)	\$ (16,649)	\$ 478,271	\$ 16,998
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See notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 14,964	\$ 4,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	9,966	8,510
Provision for bad debt expense	111	332
Other amortization	414	414
Debt issuance cost amortization	987	1,012
Debt discount amortization, net of premium amortization	1,274	1,266
Stock - based compensation expense	107	164
Amortization of restricted stock	551	641
Deferred income taxes	(251)	(244)
Equity interest in earnings of investees	(143)	(195)
Asset impairment charges	17	44
Loss (gain) on disposal of franchises and property and equipment	11	(21)
Loss on exit of leased dealerships	1,045	1,461
Non-cash adjustments - cash flow swaps	(178)	1,683
Changes in assets and liabilities that relate to operations:		
Receivables	23,977	17,574
Inventories	(28,105)	(35,881)
Other assets	(6,754)	(12,562)
Notes payable - floor plan - trade	(17,047)	195,202
Trade accounts payable and other liabilities	23,434	(9,258)
 Total adjustments	 9,416	 170,142
 Net cash provided by operating activities	 24,380	 174,296
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, property and equipment	(90,587)	(7,766)
Proceeds from sales of property and equipment	284	(41)
Proceeds from sale of franchises	134	504
Distributions from equity investees	600	-
 Net cash used in investing activities	 (89,569)	 (7,303)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on notes payable floor plan - non-trade	3,673	(190,942)
Borrowings on revolving credit facilities	122,735	40,000
Repayments on revolving credit facilities	(122,735)	(40,000)
Proceeds from issuance of long-term debt	53,950	209,839
Principal payments on long-term debt	(1,844)	(1,538)

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Purchases of treasury stock	(3,903)	(783)
Income tax benefit associated with stock compensation plans	498	218
Income tax benefit associated with convertible hedge	-	66
Issuance of shares under stock compensation plans	648	175
Dividends paid	(1,320)	-
Net cash provided by financing activities	51,702	17,035
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,487)	184,028
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,842	30,035
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,355	\$ 214,063

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

Change in fair value of cash flow hedging instruments (net of tax expense of \$1,247 and \$644 in 2011 and 2010, respectively)	\$ 2,034	\$ 868
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid (received) during the period for:		
Interest, including amount capitalized	\$ 25,801	\$ 26,663
Income taxes	\$ 1,097	\$ (123)

See notes to Unaudited Condensed Consolidated Financial Statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation The accompanying Unaudited Condensed Consolidated Financial Statements for the first quarters ended March 31, 2011 and 2010 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). All significant intercompany accounts and transactions have been eliminated. These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material 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 or the Company) for the year ended December 31, 2010, which were included in Sonic's Annual Report on Form 10-K.

Reclassifications The Unaudited Condensed Consolidated Statements of Income for the first quarter ended March 31, 2010 reflect the reclassification of balances from continuing operations to discontinued operations from the prior year presentation for additional franchises sold and terminated or identified for sale subsequent to March 31, 2010. The Unaudited Condensed Consolidated Statements of Income for the first quarter ended March 31, 2010 also reflect the reclassification of balances from discontinued operations to continuing operations for franchises identified for sale as of March 31, 2010, but which Sonic has decided to retain and operate as of March 31, 2011. There were no franchises held for sale at March 31, 2011.

Lease Exit Accruals Lease exit accruals relate to facilities Sonic has ceased using in its operations. The accruals represent the present value of the lease payments, net of estimated sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord. A summary of the activity of these lease exit accruals consists of the following:

	(In thousands)
Balance, December 31, 2010	\$ 43,534
Lease exit expense (1)	1,045
Payments	(2,165)
Balance, March 31, 2011	\$ 42,414

(1) Approximately \$0.9 million is recorded in interest expense, other, net, and the remaining \$0.1 million is recorded in selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Income.

Income Tax Expense The overall effective tax rates for the first quarters ended March 31, 2011 and 2010 are higher than federal statutory rates due to the effect of state income taxes. The overall effective tax rate from continuing operations was 40.0% for the first quarter ended March 31, 2011. The overall effective tax rate from continuing operations was 43.0% for the first quarter ended March 31, 2010. The effective rate for the first quarter ended March 31, 2011 was lower than the prior year period due to the level of overall taxable income and the shift in the distribution of taxable income between states in which Sonic operates.

2. Discontinued Operations

Dispositions The operating results of disposed franchises and franchises held for sale are included in the loss from discontinued operations in Sonic's Unaudited Condensed Consolidated Statements of Income. At March 31, 2011 there were no dealership franchises held for sale.

Revenues and other activities associated with franchises classified as discontinued operations were as follows:

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**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	First Quarter Ended March	
	31,	
	2011	2010
	(In thousands)	
Loss from operations	\$ (373)	\$ (2,605)
Gain on disposal of businesses	25	270
Lease exit charges		