

SONIC AUTOMOTIVE INC  
Form 10-Q  
October 23, 2014

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, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware 56-2010790  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

4401 Colwick Road

28211

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Charlotte, North Carolina  
(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 Web site, 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 files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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

As of October 17, 2014, there were 39,145,916 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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## PART I—FINANCIAL INFORMATION

## Item 1: Financial Statements.

## SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

|   | Third Quarter Ended   |             | Nine Months Ended |             |
|---|---|-------------|-------------------|-------------|
|   | September 30,   |             | September 30,     |             |
|   | 2014  | 2013        | 2014              | 2013        |
|   | (Dollars and shares in thousands, except per share amounts) |             |                   |             |
| Revenues:   |   |             |                   |             |
| New vehicles  | \$1,327,837   | \$1,261,270 | \$3,773,234       | \$3,651,486 |
| Used vehicles   | 583,570   | 559,848     | 1,747,254         | 1,625,006   |
| Wholesale vehicles  | 41,433  | 42,731      | 127,797           | 134,556     |
| Total vehicles  | 1,952,840   | 1,863,849   | 5,648,285         | 5,411,048   |
| Parts, service and collision repair                       | 325,740   | 309,600     | 973,646           | 913,290     |
| Finance, insurance and other, net                         | 77,024  | 68,747      | 223,340           | 203,461     |
| Total revenues  | 2,355,604   | 2,242,196   | 6,845,271         | 6,527,799   |
| Cost of Sales:  |   |             |                   |             |
| New vehicles  | (1,258,811)   | (1,188,862) | (3,563,342)       | (3,444,818) |
| Used vehicles   | (542,325 )  | (520,872 )  | (1,627,842)       | (1,510,391) |
| Wholesale vehicles  | (42,519 )   | (45,928 )   | (130,290 )        | (140,899 )  |
| Total vehicles  | (1,843,655)   | (1,755,662) | (5,321,474)       | (5,096,108) |
| Parts, service and collision repair                       | (170,460 )  | (160,453 )  | (506,361 )        | (468,784 )  |
| Total cost of sales                                       | (2,014,115)   | (1,916,115) | (5,827,835)       | (5,564,892) |
| Gross profit  | 341,489   | 326,081     | 1,017,436         | 962,907     |
| Selling, general and administrative expenses              | (270,144 )  | (254,564 )  | (803,031 )        | (748,479 )  |
| Impairment charges  | (208 )  | (18 )       | (215 )            | (69 )       |
| Depreciation and amortization                             | (14,235 )   | (13,744 )   | (43,047 )         | (39,020 )   |
| Operating income (loss)                                   | 56,902  | 57,755      | 171,143           | 175,339     |
| Other income (expense):                                   |   |             |                   |             |
| Interest expense, floor plan                              | (4,406 )  | (5,463 )    | (13,941 )         | (16,267 )   |
| Interest expense, other, net                              | (12,893 )   | (13,553 )   | (40,576 )         | (42,302 )   |
| Other income (expense), net                               | (1 )  | 29          | 98                | (28,143 )   |
| Total other income (expense)                              | (17,300 )   | (18,987 )   | (54,419 )         | (86,712 )   |
| Income (loss) from continuing operations before taxes     | 39,602  | 38,768      | 116,724           | 88,627      |
| Provision for income taxes - benefit (expense)            | (15,045 )   | (14,066 )   | (45,122 )         | (33,510 )   |
| Income (loss) from continuing operations                  | 24,557  | 24,702      | 71,602            | 55,117      |
| Discontinued operations:                                  |   |             |                   |             |
| Income (loss) from operations and the sale of dealerships | 254   | (2,057 )    | (838 )            | (2,434 )    |
| Income tax benefit (expense)                              | (99 )   | 682         | 327               | 852         |
| Income (loss) from discontinued operations                | 155   | (1,375 )    | (511 )            | (1,582 )    |
| Net income (loss)   | \$24,712  | \$23,327    | \$71,091          | \$53,535    |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic earnings (loss) per common share:                |         |         |         |         |
| Earnings (loss) per share from continuing operations   | \$0.47  | \$0.47  | \$1.36  | \$1.04  |
| Earnings (loss) per share from discontinued operations | -       | (0.03 ) | (0.01 ) | (0.03 ) |
| Earnings (loss) per common share                       | \$0.47  | \$0.44  | \$1.35  | \$1.01  |
| Weighted average common shares outstanding             | 52,070  | 52,553  | 52,333  | 52,578  |
| Diluted earnings (loss) per common share:              |         |         |         |         |
| Earnings (loss) per share from continuing operations   | \$0.47  | \$0.46  | \$1.35  | \$1.03  |
| Earnings (loss) per share from discontinued operations | -       | (0.02 ) | (0.01 ) | (0.03 ) |
| Earnings (loss) per common share                       | \$0.47  | \$0.44  | \$1.34  | \$1.00  |
| Weighted average common shares outstanding             | 52,553  | 52,918  | 52,808  | 52,930  |
| Dividends declared per common share                    | \$0.025 | \$0.025 | \$0.075 | \$0.075 |

See notes to Unaudited Condensed Consolidated Financial Statements.

## SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|   | Third Quarter<br>Ended September<br>30,<br>2014 |          | Nine Months<br>Ended September<br>30,<br>2014 |          |
|---|---|----------|---|----------|
|   | 2013  | 2013     | 2014  | 2013     |
|   | (Dollars in<br>thousands)                       |          |   |          |
| Net income (loss)   | \$24,712  | \$23,327 | \$71,091                                      | \$53,535 |
| Other comprehensive income (loss) before taxes:   |   |          |   |          |
| Change in fair value of interest rate swap agreements   | 4,037   | 350      | 5,223   | 13,377   |
| Provision for income tax benefit (expense) related to components of other comprehensive income (loss) | (1,534 )  | (133 )   | (1,985 )                                      | (5,083 ) |
| Other comprehensive income (loss)   | 2,503   | 217      | 3,238   | 8,294    |
| Comprehensive income (loss)   | \$27,215  | \$23,544 | \$74,329                                      | \$61,829 |



See notes to Unaudited Condensed Consolidated Financial Statements.

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## SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|   | September<br>30,<br>2014 | December<br>31,<br>2013 |
|---|--------------------------|-------------------------|
|   | (Dollars in thousands)   |                         |
| <b>ASSETS</b>   |                          |                         |
| Current Assets:   |                          |                         |
| Cash and cash equivalents   | \$1,664                  | \$3,016                 |
| Receivables, net  | 270,386                  | 354,138                 |
| Inventories   | 1,203,394                | 1,282,138               |
| Assets held for sale  | 14,811                   | 4,101                   |
| Other current assets  | 137,271                  | 88,792                  |
| Total current assets  | 1,627,526                | 1,732,185               |
| Property and Equipment, net   | 742,081                  | 702,011                 |
| Goodwill  | 474,088                  | 476,315                 |
| Other Intangible Assets, net  | 82,449                   | 87,866                  |
| Other Assets  | 57,769                   | 52,793                  |
| Total Assets  | \$2,983,913              | \$3,051,170             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                          |                         |
| Current Liabilities:  |                          |                         |
| Notes payable - floor plan - trade  | \$630,667                | \$681,030               |
| Notes payable - floor plan - non-trade  | 462,703                  | 570,661                 |
| Trade accounts payable  | 102,806                  | 126,025                 |
| Accrued interest  | 12,163                   | 12,653                  |
| Other accrued liabilities   | 200,839                  | 185,951                 |
| Liabilities associated with assets held for sale - non-trade  | 6,587                    | -                       |
| Current maturities of long-term debt  | 24,018                   | 18,216                  |
| Total current liabilities   | 1,439,783                | 1,594,536               |
| Long-Term Debt  | 759,463                  | 730,157                 |
| Other Long-Term Liabilities   | 71,476                   | 81,286                  |
| Deferred Income Taxes   | 59,620                   | 31,552                  |
| Commitments and Contingencies   |                          |                         |
| Stockholders' Equity:   |                          |                         |
| Class A convertible preferred stock, none issued  | -                        | -                       |
| Class A common stock, \$0.01 par value; 100,000,000 shares authorized;<br>62,006,636 shares issued and 39,438,090 shares outstanding at<br>September 30, 2014; 61,584,248 shares issued and 40,683,984 shares<br>outstanding at December 31, 2013 | 620                      | 616                     |
| Class B common stock; \$0.01 par value; 30,000,000 shares authorized;<br>12,029,375 shares issued and outstanding at September 30, 2014<br>and December 31, 2013  | 121                      | 121                     |
| Paid-in capital   | 694,869                  | 685,782                 |
| Retained earnings   | 351,507                  | 284,368                 |
| Accumulated other comprehensive income (loss)   | (5,344 )                 | (8,582 )                |
| Treasury stock, at cost; 22,568,546 Class A shares held<br>at September 30, 2014 and 20,900,264 Class A shares  |                          |                         |

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|  |             |             |
|--|-------------|-------------|
| held at December 31, 2013                  | (388,202 )  | (348,666 )  |
| Total Stockholders' Equity                 | 653,571     | 613,639     |
| Total Liabilities and Stockholders' Equity | \$2,983,913 | \$3,051,170 |

See notes to Unaudited Condensed Consolidated Financial Statements.

## SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

|   | Class A<br>Common<br>Stock |        | Class A<br>Treasury Stock |             | Class B<br>Common<br>Stock |        | Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other              | Total                   |
|---|----------------------------|--------|---------------------------|-------------|----------------------------|--------|--------------------|----------------------|-----------------------------------|-------------------------|
|   | Shares                     | Amount | Shares                    | Amount      | Shares                     | Amount |                    |                      | Comprehensive<br>Income<br>(Loss) | Stockholders'<br>Equity |
| Balance at<br>December 31,<br>2013  | 61,584                     | \$ 616 | (20,900)                  | \$(348,666) | 12,029                     | \$ 121 | \$ 685,782         | \$ 284,368           | \$(8,582 )                        | \$ 613,639              |
| Shares<br>awarded under<br>stock<br>compensation<br>plans                     | 403                        | 4      | -                         | -           | -                          | -      | 2,548              | -                    | -                                 | 2,552                   |
| Purchases of<br>treasury stock  | -                          | -      | (1,669 )                  | (39,536 )   | -                          | -      | -                  | -                    | -                                 | (39,536 )               |
| Income tax<br>benefit<br>associated<br>with<br>stock<br>compensation<br>plans | -                          | -      | -                         | -           | -                          | -      | 336                | -                    | -                                 | 336                     |
| Fair value of<br>interest rate<br>swap<br>agreements,<br>net of tax           |                            |        |                           |             |                            |        |                    |                      |                                   |                         |