

SONIC AUTOMOTIVE INC  
Form 10-Q  
May 08, 2015

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, 2015

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.)

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4401 Colwick Road

Charlotte, North Carolina 28211  
(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 April 28, 2015, there were 38,841,740 shares of Class A common stock and 12,029,375 shares of Class B common stock outstanding.

SONIC AUTOMOTIVE, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2015

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## SONIC AUTOMOTIVE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(Dollars and shares in thousands, except per share amounts)	
Revenues:		
New vehicles	\$ 1,202,323	\$ 1,146,620
Used vehicles	593,742	559,816
Wholesale vehicles	41,656	41,598
Total vehicles	1,837,721	1,748,034
Parts, service and collision repair	323,194	318,771
Finance, insurance and other, net	74,600	69,581
Total revenues	2,235,515	2,136,386
Cost of Sales:		
New vehicles	(1,138,973)	(1,079,947)
Used vehicles	(552,898 )	(519,123 )
Wholesale vehicles	(41,866 )	(41,691 )
Total vehicles	(1,733,737)	(1,640,761)
Parts, service and collision repair	(166,819 )	(166,625 )
Total cost of sales	(1,900,556)	(1,807,386)
Gross profit	334,959	329,000
Selling, general and administrative expenses	(270,862 )	(263,973 )
Impairment charges	(6,192 )	(3 )
Depreciation and amortization	(16,409 )	(14,381 )
Operating income (loss)	41,496	50,643
Other income (expense):		
Interest expense, floor plan	(4,778 )	(4,689 )
Interest expense, other, net	(13,219 )	(13,818 )
Other income (expense), net	90	97
Total other income (expense)	(17,907 )	(18,410 )
Income (loss) from continuing operations before taxes	23,589	32,233
Provision for income taxes - benefit (expense)	(9,200 )	(12,249 )
Income (loss) from continuing operations	14,389	19,984
Discontinued operations:		

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Income (loss) from operations and the sale of dealerships	(691 )	(965 )
Income tax benefit (expense)	269	367
Income (loss) from discontinued operations	(422 )	(598 )
Net income (loss)	\$13,967	\$19,386

Basic earnings (loss) per common share:

Earnings (loss) per share from continuing operations	\$0.28	\$0.38
Earnings (loss) per share from discontinued operations	(0.01 )	(0.01 )
Earnings (loss) per common share	\$0.27	\$0.37
Weighted average common shares outstanding	50,854	52,418

Diluted earnings (loss) per common share:

Earnings (loss) per share from continuing operations	\$0.28	\$0.38
Earnings (loss) per share from discontinued operations	(0.01 )	(0.02 )
Earnings (loss) per common share	\$0.27	\$0.36
Weighted average common shares outstanding	51,403	52,946

Dividends declared per common share	\$0.025	\$0.025
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See notes to condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31, 2015      2014 (Dollars in thousands)	
Net income (loss)	\$ 13,967	\$ 19,386
Other comprehensive income (loss) before taxes:		
Change in fair value of interest rate swap agreements	(1,489 )	1,673
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	566	(636 )
Other comprehensive income (loss)	(923 )	1,037
Comprehensive income (loss)	\$ 13,044	\$ 20,423





See notes to condensed consolidated financial statements.

## SONIC AUTOMOTIVE, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2015	December 31, 2014
(Dollars in thousands)		
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$3,958	\$4,182
Receivables, net	315,106	371,994
Inventories	1,280,027	1,311,702
Other current assets	83,973	81,081
Total current assets	1,683,064	1,768,959
Property and Equipment, net	823,139	799,319
Goodwill	476,159	475,929
Other Intangible Assets, net	83,559	83,720
Other Assets	56,334	55,208
Total Assets	\$3,122,255	\$3,183,135
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Notes payable - floor plan - trade	\$649,577	\$711,618
Notes payable - floor plan - non-trade	541,919	551,118
Trade accounts payable	115,384	132,405
Accrued interest	12,531	12,409
Other accrued liabilities	203,846	208,654
Current maturities of long-term debt	38,237	30,802
Total current liabilities	1,561,494	1,647,006
Long-Term Debt	756,388	742,610
Other Long-Term Liabilities	71,215	69,200
Deferred Income Taxes	61,098	57,601
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Class A convertible preferred stock, none issued	-	-
Class A common stock, \$0.01 par value; 100,000,000 shares authorized; 62,416,612 shares issued and 38,813,219 shares outstanding at March 31, 2015; 62,046,966 shares issued and 38,890,533 shares outstanding at December 31, 2014	624	620
Class B common stock; \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at March 31, 2015 and December 31, 2014	121	121
Paid-in capital	702,423	697,760
Retained earnings	389,074	376,353
Accumulated other comprehensive income (loss)	(7,347 )	(6,424 )

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Treasury stock, at cost; 23,603,393 Class A shares held at March 31, 2015 and 23,156,433 Class A shares held at December 31, 2014	(412,835 )	(401,712 )
Total Stockholders' Equity	672,060	666,718
Total Liabilities and Stockholders' Equity	\$3,122,255	\$3,183,135

See notes to condensed consolidated financial statements.

## SONIC AUTOMOTIVE, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

	Class A Common Stock		Class A Treasury Stock		Class B Common Stock		Paid-In	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings		
	(Dollars and shares in thousands)									
Balance at December 31, 2014	62,047	\$ 620	(23,156)	\$(401,712)	12,029	\$ 121	\$ 697,760	\$ 376,353	\$ (6,424)	\$ 666,718
Shares awarded under stock compensation plans	370	4	-	-	-	-	1,877	-	-	1,881
Purchases of treasury stock	-	-	(447)	(11,123)	-	-	-	-	-	(11,123)
Income tax benefit associated with stock compensation plans	-	-	-	-	-	-	394	-	-	394
Fair value of interest rate swap agreements, net of tax benefit of \$566	-	-	-	-	-	-	-	-	(923)	(923)
Restricted stock amortization	-	-	-	-	-	-	2,392	-	-	2,392
Net income (loss)	-	-	-	-	-	-	-	13,967	-	13,967
Dividends (\$0.025 per share)	-	-	-	-	-	-	-	(1,246)	-	(1,246)
Balance at March 31, 2015	62,417	\$ 624	(23,603)	\$(412,835)	12,029	\$ 121	\$ 702,423	\$ 389,074	\$ (7,347)	\$ 672,060



See notes to condensed consolidated financial statements.

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## SONIC AUTOMOTIVE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months  
 Ended March 31,  
 2015      2014  
 (Dollars in  
 thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 13,967	\$ 19,386
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	16,408	14,379
Provision for bad debt expense	(2 )	80
Other amortization	162	390
Debt issuance cost amortization	483	663
Debt discount amortization, net of premium amortization	36	24
Stock - based compensation expense	2,392	2,187
Deferred income taxes	4,063	5,758
Equity interest in earnings of investee	(32 )	(49 )
Asset impairment charges	6,192	3
Loss (gain) on disposal of dealerships and property and equipment	(95 )	(807 )
Loss (gain) on exit of leased dealerships	503	421
Changes in assets and liabilities that relate to operations:		
Receivables	56,920	50,259
Inventories	31,675	12,095
Other assets	(5,089 )	(16,304)
Notes payable - floor plan - trade	(62,041)	(49,439)
Trade accounts payable and other liabilities	(21,486)	(24,782)
Total adjustments	30,089	(5,122 )
Net cash provided by (used in) operating activities	44,056	14,264
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of businesses, net of cash acquired	-	(2,573 )
Purchases of land, property and equipment	(46,767)	(21,549)
Proceeds from sales of property and equipment	635	2,572
Proceeds from sales of dealerships	-	3,117
Net cash provided by (used in) investing activities		