

SONIC AUTOMOTIVE INC

Form 10-Q

October 31, 2011

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, 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)

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

<b>DELAWARE</b> (State or other jurisdiction of incorporation or organization)	<b>56-2010790</b> (I.R.S. Employer Identification No.)
<b>4401 Colwick Road Charlotte, North Carolina</b> (Address of principal executive offices)	<b>28211</b> (Zip Code)
<b>(704) 566-2400</b> (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

As of October 20, 2011, there were 40,660,039 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

**Table of Contents**

**INDEX TO FORM 10-Q**

	Page
<b><u>PART I FINANCIAL INFORMATION</u></b>	3
<b><u>ITEM 1. Unaudited Condensed Consolidated Financial Statements</u></b>	3
<b><u>Condensed Consolidated Statements of Income</u></b>	
<b><u>Third Quarter and Nine-month Periods Ended September 30, 2011 and September 30, 2010</u></b>	3
<b><u>Condensed Consolidated Statements of Comprehensive Income</u></b>	
<b><u>Third Quarter and Nine-month Periods Ended September 30, 2011 and September 30, 2010</u></b>	4
<b><u>Condensed Consolidated Balance Sheets</u></b>	
<b><u>September 30, 2011 and December 31, 2010</u></b>	5
<b><u>Condensed Consolidated Statement of Stockholders' Equity</u></b>	
<b><u>Nine-month Period Ended September 30, 2011</u></b>	6
<b><u>Condensed Consolidated Statements of Cash Flows</u></b>	
<b><u>Nine-month Periods Ended September 30, 2011 and September 30, 2010</u></b>	7
<b><u>Notes to Unaudited Condensed Consolidated Financial Statements</u></b>	8
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	21
<b><u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	34
<b><u>ITEM 4. Controls and Procedures</u></b>	35
<b><u>PART II OTHER INFORMATION</u></b>	36
<b><u>ITEM 1. Legal Proceedings</u></b>	36
<b><u>ITEM 1A. Risk Factors</u></b>	37
<b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	40
<b><u>ITEM 6. Exhibits</u></b>	41
<b><u>SIGNATURES</u></b>	45
<b><u>EXHIBIT INDEX</u></b>	46
<b><u>EX-31.1</u></b>	
<b><u>EX-31.2</u></b>	
<b><u>EX-32.1</u></b>	
<b><u>EX-32.2</u></b>	
<b>EX-101 INSTANCE DOCUMENT</b>	
<b>EX-101 SCHEMA DOCUMENT</b>	
<b>EX-101 CALCULATION LINKBASE DOCUMENT</b>	
<b>EX-101 LABELS LINKBASE DOCUMENT</b>	
<b>EX-101 PRESENTATION LINKBASE DOCUMENT</b>	
<b>EX-101 DEFINITION LINKBASE DOCUMENT</b>	

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1: Unaudited Condensed Consolidated Financial Statements.****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Dollars and shares in thousands, except per share amounts)****(Unaudited)**

	<b>Third Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>				
New vehicles	\$ 1,058,580	\$ 937,709	\$ 3,074,598	\$ 2,611,988
Used vehicles	530,969	453,815	1,549,197	1,339,323
Wholesale vehicles	48,588	47,597	125,428	108,336
<b>Total vehicles</b>	<b>1,638,137</b>	<b>1,439,121</b>	<b>4,749,223</b>	<b>4,059,647</b>
Parts, service and collision repair	297,951	283,741	889,243	842,697
Finance, insurance and other	56,761	47,398	162,010	133,607
<b>Total revenues</b>	<b>1,992,849</b>	<b>1,770,260</b>	<b>5,800,476</b>	<b>5,035,951</b>
<b>Cost of sales:</b>				
New vehicles	(990,114)	(877,691)	(2,877,561)	(2,440,097)
Used vehicles	(495,915)	(418,576)	(1,436,339)	(1,231,720)
Wholesale vehicles	(50,931)	(49,053)	(130,134)	(112,270)
<b>Total vehicles</b>	<b>(1,536,960)</b>	<b>(1,345,320)</b>	<b>(4,444,034)</b>	<b>(3,784,087)</b>
Parts, service and collision repair	(152,965)	(143,141)	(452,618)	(421,711)
<b>Total cost of sales</b>	<b>(1,689,925)</b>	<b>(1,488,461)</b>	<b>(4,896,652)</b>	<b>(4,205,798)</b>
Gross profit	302,924	281,799	903,824	830,153
Selling, general and administrative expenses	(238,704)	(226,331)	(711,657)	(672,542)
Impairment charges	(102)	(87)	(160)	(132)
Depreciation and amortization	(10,340)	(8,731)	(30,099)	(25,729)
<b>Operating income</b>	<b>53,778</b>	<b>46,650</b>	<b>161,908</b>	<b>131,750</b>
<b>Other expense:</b>				
Interest expense, floor plan	(4,348)	(5,430)	(14,766)	(15,615)
Interest expense, other, net	(15,116)	(15,226)	(45,986)	(48,024)
Interest expense, non-cash, convertible debt	(1,742)	(1,768)	(5,151)	(5,175)
Interest expense / amortization, non-cash, cash flow swaps	(313)	(1,484)	(599)	(5,402)
Other expense, net	(826)	(351)	(736)	(7,522)
<b>Total other expense</b>	<b>(22,345)</b>	<b>(24,259)</b>	<b>(67,238)</b>	<b>(81,738)</b>
<b>Income from continuing operations before taxes</b>	<b>31,433</b>	<b>22,391</b>	<b>94,670</b>	<b>50,012</b>
Provision for income taxes	(12,100)	(8,442)	(37,395)	(19,905)
<b>Income from continuing operations</b>	<b>19,333</b>	<b>13,949</b>	<b>57,275</b>	<b>30,107</b>

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Discontinued operations:				
Income (loss) from operations and the sale of discontinued franchises	104	(633)	(2,399)	(6,149)
Income tax (expense) benefit	(36)	(331)	840	1,617
Income (loss) from discontinued operations	68	(964)	(1,559)	(4,532)
Net income	\$ 19,401	\$ 12,985	\$ 55,716	\$ 25,575
Basic earnings (loss) per common share:				
Earnings per share from continuing operations	\$ 0.36	\$ 0.26	\$ 1.08	\$ 0.57
Earnings (loss) per share from discontinued operations	0.01	(0.01)	(0.03)	(0.09)
Earnings per common share	\$ 0.37	\$ 0.25	\$ 1.05	\$ 0.48
Weighted average common shares outstanding	52,366	52,311	52,414	52,151
Diluted earnings (loss) per common share:				
Earnings per share from continuing operations	\$ 0.33	\$ 0.25	\$ 0.97	\$ 0.56
Loss per share from discontinued operations		(0.02)	(0.03)	(0.07)
Earnings per common share	\$ 0.33	\$ 0.23	\$ 0.94	\$ 0.49
Weighted average common shares outstanding	65,517	65,851	65,800	65,711
Dividends declared per common share	\$ 0.025	\$	\$ 0.075	\$

See notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in thousands)

(Unaudited)

	<b>Third Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income	\$ 19,401	\$ 12,985	\$ 55,716	\$ 25,575
Other comprehensive loss before taxes:				
Change in fair value of interest rate swap agreements	(4,239)	(2,202)	(5,902)	(2,183)
Total other comprehensive loss before taxes	(4,239)	(2,202)	(5,902)	(2,183)
Provision for income tax benefit related to components of other comprehensive loss	1,611	837	2,242	830
Other comprehensive loss	(2,628)	(1,365)	(3,660)	(1,353)
Comprehensive income	\$ 16,773	\$ 11,620	\$ 52,056	\$ 24,222

See notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

(Unaudited)

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 28,007	\$ 21,842
Receivables, net	200,011	239,634
Inventories	815,567	903,221
Other current assets	23,725	25,653
<b>Total current assets</b>	<b>1,067,310</b>	<b>1,190,350</b>
Property and Equipment, net	542,360	436,260
Goodwill	468,465	468,516
Other Intangible Assets, net	77,907	79,149
Other Assets	82,156	76,489
<b>Total Assets</b>	<b>\$ 2,238,198</b>	<b>\$ 2,250,764</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Notes payable floor plan trade	\$ 425,194	\$ 478,834
Notes payable floor plan non-trade	332,623	383,151
Trade accounts payable	87,360	59,719
Accrued interest	9,283	14,070
Other accrued liabilities	178,606	160,763
Current maturities of long-term debt	11,231	9,050
<b>Total current liabilities</b>	<b>1,044,297</b>	<b>1,105,587</b>
Long-Term Debt	559,709	546,401
Other Long-Term Liabilities	128,846	134,081
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; 56,307,273 shares issued and 40,660,039 shares outstanding at September 30, 2011; 55,738,639 shares issued and 40,757,999 shares outstanding at December 31, 2010	563	557
Class B common stock; \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares outstanding at September 30, 2011 and December 31, 2010	121	121
Paid-in capital	668,638	666,961
Retained earnings	105,167	53,427
Accumulated other comprehensive loss	(22,343)	(18,683)
Treasury stock, at cost (15,647,234 Class A shares held at September 30, 2011 and 14,980,640 Class A shares held at December 31, 2010)	(246,800)	(237,688)
<b>Total stockholders equity</b>	<b>505,346</b>	<b>464,695</b>

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Total Liabilities and Stockholders	Equity	\$ 2,238,198	\$ 2,250,764
------------------------------------	--------	--------------	--------------

See notes to Unaudited Condensed Consolidated Financial Statements.



**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(Dollars and shares in thousands)

(Unaudited)

	Class A		Class B		Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Common Stock Shares	Amount	Common Stock Shares	Amount					
BALANCE AT DECEMBER 31, 2010	55,739	\$ 557	12,029	\$ 121	\$ 666,961	\$ 53,427	\$ (237,688)	\$ (18,683)	\$ 464,695
Shares awarded under stock compensation plans	280	3	-	-	521	-	-	-	524
Purchases of treasury stock	-	-	-	-	-	-	(9,112)	-	(9,112)
Income tax benefit associated with stock compensation plans	-	-	-	-	1,143	-	-	-	1,143
Fair value of interest rate swap agreements, net of tax benefit of \$2,242	-	-	-	-	-	-	-	(3,660)	(3,660)
Derecognition of equity component of 5.0% Convertible Notes, net of tax benefit of \$71	-	-	-	-	(2,659)	-	-	-	(2,659)
Stock-based compensation expense	-	-	-	-	327	-	-	-	327
Restricted stock amortization, net of forfeitures	-	-	-	-	2,348	-	-	-	2,348
Net income	-	-	-	-	-	55,716	-	-	55,716
Dividends (\$0.075 per share, cumulative)	-	-	-	-	-	(3,976)	-	-	(3,976)
Other	288	3	-	-	(3)	-	-	-	-
BALANCE AT SEPTEMBER 30, 2011	56,307	\$ 563	12,029	\$ 121	\$ 668,638	\$ 105,167	\$ (246,800)	\$ (22,343)	\$ 505,346

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)

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 55,716	\$ 25,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	30,041	25,938
Provision for bad debt expense	483	756
Other amortization	1,246	1,242
Debt issuance cost amortization	2,992	2,702
Debt discount amortization, net of premium amortization	3,911	3,872
Stock based compensation expense	327	419
Amortization of restricted stock	2,348	1,773
Deferred income taxes	(1,280)	(656)
Equity interest in earnings of investees	(462)	(585)
Asset impairment charges	160	132
Loss (gain) on disposal of franchises and property and equipment	243	(978)
Loss on exit of leased dealerships	4,195	2,321
Loss on retirement of debt	831	7,665
Non cash adjustments cash flow swaps	599	5,402
Changes in assets and liabilities that relate to operations:		
Receivables	38,789	65,667
Inventories	87,744	(82,768)
Other assets	(6,188)	(14,706)
Notes payable floor plan trade	(53,640)	221,573
Trade accounts payable and other liabilities	25,621	(27,288)
Total adjustments	137,960	212,481
Net cash provided by operating activities	193,676	238,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of land, property and equipment	(135,897)	(44,039)
Proceeds from sales of property and equipment	653	979
Proceeds from sale of franchises	129	24,644
Distributions from equity investees	600	600
Net cash used in investing activities	(134,515)	(17,816)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net repayments on notes payable floor plan non-trade	(50,528)	(212,722)
Borrowings on revolving credit facilities	228,002	40,000
Repayments on revolving credit facilities	(210,002)	(40,000)
Proceeds from issuance of mortgage notes	61,470	1,449
Proceeds from issuance of long-term debt	-	208,528
Principal payments on long-term debt	(17,939)	(4,673)

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Repurchase of debt securities	(52,585)	(233,190)
Purchases of treasury stock	(9,112)	(1,073)
Income tax benefit associated with stock compensation plans	1,143	636
Income tax benefit associated with convertible hedge	-	205
Issuance of shares under stock compensation plans	524	1,188
Dividends paid	(3,969)	-
<b>Net cash used in financing activities</b>	<b>(52,996)</b>	<b>(239,652)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,165</b>	<b>(19,412)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>21,842</b>	<b>30,035</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 28,007</b>	<b>\$ 10,623</b>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</b>		
Change in fair value of cash flow hedging instruments (net of tax benefit of \$2,242 and \$830 in 2011 and 2010, respectively)	\$ (3,660)	\$ (1,353)
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid (received) during the period for:		
Interest, including amount capitalized	\$ 69,973	\$ 74,778
Income taxes	\$ 18,982	\$ (15,289)

See notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Summary of Significant Accounting Policies**

**Basis of Presentation** The accompanying Unaudited Condensed Consolidated Financial Statements for the third quarter and nine-month periods ended September 30, 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.

**Recent Accounting Pronouncements** In June 2011, the Financial Accounting Standards Board (FASB) issued an update to Comprehensive Income in the Accounting Standards Codification (ASC). This update requires an entity to present total net income, the components of other comprehensive income and total comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update is effective for issuers with fiscal years and interim periods within those years beginning after December 15, 2011. Sonic chose to early adopt the provisions of this update (as permitted by the terms of the update) and has included separate Unaudited Condensed Consolidated Statements of Comprehensive Income immediately following its Unaudited Condensed Consolidated Statements of Income.

**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 or actual 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:

	<b>(In thousands)</b>
Balance, December 31, 2010	\$ 43,534
Lease exit expense (1)	4,195
Payments	(6,586)
Balance, September 30, 2011	\$ 41,143

(1) Approximately \$0.4 million is recorded in interest expense, other, net, approximately \$3.6 million is recorded in selling, general and administrative expenses and approximately \$0.2 million is recorded to income (loss) from operations and the sale of discontinued franchises in the accompanying Unaudited Condensed Consolidated Statements of Income.

**Income Tax Expense** The overall effective tax rates for the third quarter and nine-month periods ended September 30, 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 38.5% and 39.5% for the third quarter and nine-month periods ended September 30, 2011, respectively. The overall effective tax rate from continuing operations was 37.7% and 39.8% for the third quarter and nine-month periods ended September 30, 2010, respectively. The effective rate for the nine-month period ended September 30, 2011 was different 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 are included in the loss from discontinued operations in Sonic's Unaudited Condensed Consolidated Statements of Income. At September 30, 2011, there were no dealership franchises held for sale.



**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

	<b>Third Quarter Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Loss from operations	\$ (413)	\$ (1,773)	\$ (1,893)	\$ (5,920)
Gain (loss) on disposal of businesses	(136)	829	(286)	2,182
Lease exit income (charges)	653	311	(220)	(2,411)
Pre-tax income (loss)	\$ 104	\$ (633)	\$ (2,399)	\$ (6,149)
<b>Total revenues</b>	<b>\$</b>	<b>\$ 9,473</b>	<b>\$</b>	<b>\$ 55,127</b>

Lease exit charges recorded for the third quarter and nine-month periods ended September 30, 2011 and 2010 relate to interest charges, the revision of estimates on previously established lease exit accruals and adjustments for new sublease agreements. The lease exit accruals represent the present value of the lease payments, net of estimated or actual sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord.

**3. Inventories**

Inventories consist of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	<b>(In thousands)</b>	
New vehicles	\$ 526,117	\$ 628,939
Used vehicles	180,356	165,039
Parts and accessories	52,350	50,854
Other	56,744	58,389
<b>Inventories</b>	<b>\$ 815,567</b>	<b>\$ 903,221</b>

**4. Property and Equipment**

Property and equipment consists of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	<b>(In thousands)</b>	
Land	\$ 123,451	\$ 76,357
Building and improvements	439,706	353,088

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Office equipment and fixtures	88,650	77,654
Parts and service equipment	60,201	56,651
Company vehicles	8,470	8,137
Construction in progress	28,789	48,230
<b>Total, at cost</b>	<b>749,267</b>	<b>620,117</b>
Less: accumulated depreciation	(206,907)	(181,837)
<b>Subtotal</b>	<b>542,360</b>	<b>438,280</b>
Less: real estate held for sale (1)		(2,020)
<b>Property and equipment, net</b>	<b>\$ 542,360</b>	<b>\$ 436,260</b>

(1) Included in other current assets in the accompanying Unaudited Condensed Consolidated Balance Sheets.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

In the nine-month period ended September 30, 2011, capital expenditures were approximately \$135.9 million (\$81.5 million, net of mortgage funding of \$54.4 million). In January 2011, Sonic purchased five dealership properties for \$75.2 million which it previously leased through long-term operating leases, utilizing cash on hand and borrowings under the 2010 Credit Facilities (see Note 6 for discussion on the 2010 Credit Facilities). Subsequent to the purchase date, Sonic obtained mortgage funding of \$54.4 million related to these properties.

**5. Goodwill and Intangible Assets**

	Franchise Agreements	Gross Goodwill	Accumulated Impairment	Net Goodwill
	(In thousands)			
Balance, December 31, 2010	\$ 64,835	\$ 1,265,241	\$ (796,725)	\$ 468,516
Reductions from sales of businesses	-	(51)	-	(51)
Balance, September 30, 2011	\$ 64,835	\$ 1,265,190	\$ (796,725)	\$ 468,465

At December 31, 2010, Sonic had \$14.3 million of definite life intangibles recorded related to favorable lease agreements. After the effect of amortization of the definite life intangibles, the balance recorded at September 30, 2011 was \$13.1 million and was included in Other Intangible Assets, net, in the accompanying Unaudited Condensed Consolidated Balance Sheets.

**6. Long-Term Debt**

Long-term debt consists of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
2011 Revolving Credit Facility (1)	\$ 18,000	\$
2010 Revolving Credit Facility (1)		
Senior Subordinated Notes bearing interest at 9.0% ( 9.0% Notes )	210,000	210,000
Senior Subordinated Notes bearing interest at 8.625% ( 8.625% Notes )		42,855
Convertible Senior Notes bearing interest at 5.0% ( 5.0% Convertible Notes )	165,055	172,500
Notes payable to a finance company bearing interest from 9.52% to 10.52% (with a weighted average of 10.19%)	13,846	15,618
Mortgage notes to finance companies-fixed rate, bearing interest from 4.50% to 7.03%	117,568	88,262
Mortgage notes to finance companies-variable rate, bearing interest at 1.25 to 3.50 percentage points above one-month LIBOR	61,781	45,639
Net debt discount and premium (2)	(21,139)	(25,482)
Other	5,829	6,059
	\$ 570,940	\$ 555,451
Less current maturities	(11,231)	(9,050)
Long-term debt	\$ 559,709	\$ 546,401



Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

- (1) Interest rate on the revolving credit facility was 2.50% and 3.50% above one-month LIBOR at September 30, 2011 and December 31, 2010, respectively.
  
- (2) September 30, 2011 includes \$1.3 million discount associated with the 9.0% Notes, \$20.3 million discount associated with the 5.0% Convertible Notes, \$1.4 million premium associated with notes payable to a finance company and \$0.9 million discount associated with mortgage notes payable. December 31, 2010 includes \$1.4 million discount associated with the 9.0% Notes, \$0.2 million discount associated with the 8.625% Notes, \$24.7 million discount associated with the 5.0% Convertible Notes, \$1.8 million premium associated with notes payable to a finance company and \$1.0 million discount associated with mortgage notes payable.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

***2011 Credit Facilities***

On July 8, 2011, Sonic entered into an amended and restated syndicated revolving credit agreement (the 2011 Revolving Credit Facility ) and a syndicated floor plan credit facility (the 2011 Floor Plan Facility ). The 2011 Revolving Credit Facility and 2011 Floor Plan Facility (collectively the 2011 Credit Facilities ) are scheduled to mature on August 15, 2016. This amendment and restatement extended the term of the previous existing syndicated credit facilities that were scheduled to mature on August 15, 2012, increased the borrowing capacity under the previous existing syndicated credit facilities by \$234.0 million and modified certain covenant and compliance calculations on a prospective basis.

Availability under the 2011 Revolving Credit Facility is calculated as the lesser of \$175.0 million or a borrowing base calculated based on certain eligible assets plus 50% of the fair market value of 5,000,000 shares of common stock of Speedway Motorsports, Inc. ( SMI ) that are pledged as collateral, less the aggregate face amount of any outstanding letters of credit under the 2011 Revolving Credit Facility (the 2011 Revolving Borrowing Base ). The 2011 Revolving Credit Facility may be increased at our option to \$225.0 million upon satisfaction of certain conditions. A withdrawal of the pledge of SMI common stock by Sonic Financial Corporation ( SFC ), which holds the 5,000,000 shares of common stock of SMI, or a decline in the value of SMI common stock, could reduce the amount Sonic can borrow under the 2011 Revolving Credit Facility.

At September 30, 2011, the 2011 Revolving Borrowing Base was approximately \$146.5 million. At September 30, 2011, Sonic had \$40.3 million in outstanding letters of credit and \$18.0 million in outstanding borrowings under the 2011 Revolving Credit Facility, resulting in total borrowing availability of \$88.2 million under the 2011 Revolving Credit Facility.

Outstanding obligations under the 2011 Revolving Credit Facility are secured by a pledge of substantially all of the assets of Sonic and its subsidiaries and by the pledge of 5,000,000 shares of common stock of SMI by SFC. The collateral also includes a pledge of the franchise agreements and stock or equity interests of Sonic s dealership franchise subsidiaries, except for those dealership franchise subsidiaries where the applicable manufacturer prohibits such a pledge, in which cases the stock or equity interests of the dealership franchise subsidiary is subject to an escrow arrangement with the administrative agent. Substantially all of Sonic s subsidiaries also guarantee its obligations under the 2011 Revolving Credit Facility.

The maturity date of the 2011 Revolving Credit Facility may in certain circumstances be accelerated (the Springing Maturity Date ) if the share price of Sonic s common stock falls below a certain level or if Sonic does not maintain certain liquidity levels during enumerated periods of time prior to the maturity date (including dates upon which Sonic may be compelled to repurchase such indebtedness) of certain indenture indebtedness or other indebtedness with an outstanding balance in excess of \$35.0 million. In addition, availability of the 2011 Revolving Credit Facility may be curtailed during enumerated periods related to any Springing Maturity Date.

The 2011 Floor Plan Facility is comprised of a new vehicle revolving floor plan facility in an amount up to \$500.0 million (the 2011 New Vehicle Floor Plan Facility ) and a used vehicle revolving floor plan facility in an amount up to \$80.0 million, subject to a borrowing base (the 2011 Used Vehicle Floor Plan Facility ). Sonic may, under certain conditions, request an increase in the 2011 Floor Plan Facility of up to \$175.0 million, which shall be allocated between the 2011 New Vehicle Floor Plan Facility and the 2011 Used Vehicle Floor Plan Facility as Sonic requests, with no more than 15% of the aggregate commitments allocated to the commitments under the 2011 Used Vehicle Floor Plan Facility. Outstanding obligations under the 2011 Floor Plan Facility are guaranteed by Sonic and certain of its subsidiaries and are secured by a pledge of substantially all of the assets of Sonic and its subsidiaries.

The amounts outstanding under the 2011 Credit Facilities bear interest at variable rates based on specified percentages above LIBOR according to a performance-based pricing grid determined by Sonic s Consolidated Total Debt to EBITDA Ratio (as defined in the 2011 Credit Facilities) as of the last day of the immediately preceding fiscal quarter.

Sonic agreed under the 2011 Credit Facilities not to pledge any assets to any third party, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2011 Credit Facilities contain certain negative covenants, including covenants which could restrict or prohibit indebtedness, liens, the payment of dividends, capital expenditures and material dispositions and acquisitions of assets as well as other customary covenants and default provisions. Specifically, the 2011 Credit Facilities permit cash dividends on Sonic s Class A and Class B common stock so long as no event of default (as defined in the 2011 Credit Facilities) has occurred and is continuing and provided that Sonic

remains in compliance with all financial covenants under the 2011 Credit Facilities.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****2010 Credit Facilities**

On January 15, 2010, Sonic entered into an amended and restated syndicated revolving credit agreement (the 2010 Revolving Credit Facility ) and a syndicated floor plan credit facility (the 2010 Floor Plan Facility ). The 2010 Revolving Credit Facility and 2010 Floor Plan Facility (collectively the 2010 Credit Facilities ) were scheduled to mature on August 15, 2012. On July 8, 2011, these were replaced by the 2011 Credit Facilities discussed above.

**Covenants**

The 2011 Credit Facilities contain certain covenants, including covenants which could restrict or prohibit indebtedness, liens, payment of dividends, capital expenditures and material dispositions and acquisitions of assets, as well as other customary covenants and default provisions. Sonic was in compliance with the covenants under the 2011 Credit Facilities as of September 30, 2011 and expects to be in compliance with all such covenants for the foreseeable future. Financial covenants include required specified ratios (as each is defined in the 2011 Credit Facilities) of:

	<b>Consolidated Liquidity Ratio</b>	<b>Covenant Consolidated Fixed Charge Coverage Ratio</b>	<b>Consolidated Total Lease Adjusted Leverage Ratio</b>
March 31, 2011 through and including March 30, 2012	<sup>3</sup> 1.05	<sup>3</sup> 1.15	£ 5.50
March 31, 2012 and thereafter	<sup>3</sup> 1.10	<sup>3</sup> 1.20	£ 5.50
September 30, 2011 actual	1.11	1.63	4.21

The 2011 Credit Facilities contain events of default, including cross-defaults to other material indebtedness, change of control events and events of default customary for syndicated commercial credit facilities. Upon the future occurrence of an event of default, Sonic could be required to immediately repay all outstanding amounts under the 2011 Credit Facilities.

In addition, many of Sonic's facility leases are governed by a guarantee agreement between the landlord and Sonic that contains financial and operating covenants. The financial covenants are identical to those under the 2011 Credit Facilities with the exception of one financial covenant related to the ratio of EBTDAR to Rent (as defined in the lease agreements) with a required ratio of no less than 1.5 to 1.0. At September 30, 2011, the ratio was 2.68 to 1.0.

**9.0% Senior Subordinated Notes**

The 9.0% Notes are unsecured senior subordinated obligations of Sonic and are guaranteed by Sonic's domestic operating subsidiaries. Interest is payable semi-annually on March 15 and September 15 each year. Sonic may redeem the 9.0% Notes in whole or in part at any time after March 15, 2014 at the following redemption prices, which are expressed as percentages of the principal amount:

	<b>Redemption</b>
Beginning on March 15, 2014	104.50%
Beginning on March 15, 2015	102.25%
Beginning on March 15, 2016 and thereafter	100.00%

In addition, on or before March 15, 2013, Sonic may redeem up to 35% of the aggregate principal amount of the 9.0% Notes at par value plus accrued interest with proceeds from certain equity offerings. The Indenture also provides that holders of 9.0% Notes may require Sonic to

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

repurchase the 9.0% Notes at 101% of the par value of the 9.0% Notes, plus accrued interest if Sonic undergoes a change of control as defined in the Indenture.

The Indenture governing the 9.0% Notes contains certain specified restrictive covenants. Sonic has agreed not to pledge any assets to any third party lender of senior subordinated debt except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guarantees, asset sales, investments, cash dividends to stockholders, distributions and redemptions. Specifically, the indenture governing Sonic's 9.0% Notes limits Sonic's ability to pay quarterly cash dividends on Sonic's Class A and B common stock

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

in excess of \$0.10 per share. Sonic may only pay quarterly cash dividends on Sonic's Class A and B common stock if Sonic complies with the terms of the indenture governing the 9.0% Notes. Sonic was in compliance with all restrictive covenants as of September 30, 2011.

Balances outstanding under Sonic's 9.0% Notes are guaranteed by all of Sonic's operating domestic subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The non-domestic and non-operating subsidiaries that are not guarantors are considered to be minor.

Sonic's obligations under the 9.0% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 9.0% Notes then outstanding if certain events of default occur, including: (1) defaults in the payment of principal or interest when due; (2) defaults in the performance, or breach, of Sonic's covenants under the 9.0% Notes; and (3) certain defaults under other agreements under which Sonic or its subsidiaries have outstanding indebtedness in excess of \$35.0 million.

***8.625% Senior Subordinated Notes***

On July 15, 2011, Sonic issued a redemption notice to holders of the 8.625% Notes to redeem the remaining \$42.9 million in aggregate principal amount of its outstanding 8.625% Notes. Sonic used cash on hand and available borrowings under the 2011 Credit Facilities to redeem the remaining \$42.9 million in aggregate principal amount at the applicable redemption price (100% of principal redeemed) plus accrued but unpaid interest on August 16, 2011. Sonic recognized a loss of \$0.2 million on extinguishment of the remaining 8.625% Notes related to the write-off of remaining debt discount and capitalized deferred finance costs, recorded in other expense, net, in the accompanying Unaudited Condensed Consolidated Statements of Income.

***5.0% Convertible Senior Notes***

During the third quarter ended September 30, 2011, Sonic repurchased approximately \$7.4 million of the aggregate outstanding principal amount of the 5.0% Convertible Notes and recorded a loss on repurchase of approximately \$0.7 million recorded in other expense, net, in the accompanying Unaudited Condensed Consolidated Statements of Income.

Interest payments on the 5.0% Convertible Notes are payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2010. The 5.0% Convertible Notes mature on October 1, 2029. Sonic may redeem some or all of the 5.0% Convertible Notes for cash at any time subsequent to October 1, 2014 at a repurchase price equal to 100% of the outstanding principal amount of the notes. Holders have the right to require Sonic to purchase the 5.0% Convertible Notes on each of October 1, 2014, October 1, 2019 and October 1, 2024 or in the event of a change in control for cash at a purchase price equal to 100% of the outstanding principal amount of the notes.

Holders of the 5.0% Convertible Notes may convert their notes at their option prior to the close of business on the business day immediately preceding July 1, 2029 only under the following circumstances: (1) during any fiscal quarter commencing after December 31, 2009, if the last reported sale price of the Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the measurement period) in which the trading price (as defined below) per \$1,000 principal amount of notes for each day of that measurement period was less than 98% of the product of the last reported sale price of Sonic's Class A common stock and the applicable conversion rate on each such day; (3) if Sonic calls any or all of the notes for redemption, at any time prior to the close of business on the third scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On and after July 1, 2029, to (and including) the close of business on the third scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. The conversion rate is 74.7245 shares of Class A common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$13.38 per share of Class A common stock. None of the conversion features of the 5.0% Convertible Notes were triggered in the nine-month period ended September 30, 2011.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

To recognize the equity component of a convertible borrowing instrument, upon issuance of the 5.0% Convertible Notes in September 2009, Sonic recorded a debt discount of \$31.0 million and a corresponding amount (net of taxes of \$12.8 million) to equity, based on an estimated non-convertible borrowing rate of 10.5%. The debt discount is being amortized to interest expense through October 2014, the earliest redemption date. The unamortized debt discount was \$20.3 million and \$24.7 million at September 30, 2011 and December 31, 2010, respectively.

Sonic incurred interest expense related to the 5.0% Convertible Notes of approximately \$2.1 million and \$6.4 million for the third quarter and nine-month periods ended September 30, 2011, respectively, and \$2.2 million and \$6.5 million for the third quarter and nine-month periods ended September 30, 2010, respectively, recorded to interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income. In addition, Sonic recorded interest expense associated with the amortization of debt discount and deferred loan costs on the 5.0% Convertible Notes of \$1.7 million and \$5.2 million for the third quarter and nine-month periods ended September 30, 2011, respectively, and \$1.6 million and \$4.7 million for the third quarter and nine-month periods ended September 30, 2010, respectively, recorded to interest expense, non-cash, convertible debt in the accompanying Unaudited Condensed Consolidated Statements of Income.

***Mortgage Notes***

Mortgage notes require monthly payments of principal and interest through maturity and are secured by the underlying properties. Maturity dates range between June 2013 and December 2031. The weighted average interest rate was 4.78% at September 30, 2011. Sonic purchased five dealership properties in January 2011 for \$75.2 million which it previously occupied under operating lease agreements. The properties were purchased utilizing cash on hand and borrowings under the 2010 Credit Facilities. Subsequent to the purchase date, Sonic secured mortgages on these properties totaling \$54.4 million and used the proceeds from these mortgages to pay down borrowings under the 2010 Credit Facilities.

***Derivative Instruments and Hedging Activities***

At September 30, 2011 Sonic had interest rate cash flow swap agreements to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. The fair value of these swap positions at September 30, 2011 was a liability of \$39.3 million, with \$14.8 million included in other accrued liabilities and \$24.5 million included in Other Long-Term Liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. Under the terms of these cash flow swaps, Sonic will receive and pay interest based on the following:

	<b>Notional (In millions)</b>	<b>Pay Rate</b>	<b>Receive Rate (1)</b>	<b>Maturing Date</b>
\$	200.0	4.935%	one-month LIBOR	May 1, 2012
\$	100.0	5.265%	one-month LIBOR	June 1, 2012
\$	3.4	7.100%	one-month LIBOR + 1.50%	July 10, 2017
\$	25.0 (2)	5.160%	one-month LIBOR	September 1, 2012
\$	15.0 (2)	4.965%	one-month LIBOR	September 1, 2012
\$	25.0 (2)	4.885%	one-month LIBOR	October 1, 2012
\$	10.8	4.655%	one-month LIBOR	December 10, 2017
\$	8.5 (2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
\$	6.6	4.330%	one-month LIBOR	July 1, 2013
\$	100.0 (3)	3.280%	one-month LIBOR	July 1, 2015
\$	100.0 (3)	3.300%	one-month LIBOR	July 1, 2015
\$	7.2 (2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
\$	50.0 (3)	2.767%	one-month LIBOR	July 1, 2014
\$	50.0 (3)	3.240%	one-month LIBOR	July 1, 2015
\$	50.0 (3)	2.610%	one-month LIBOR	July 1, 2014
\$	50.0 (3)	3.070%	one-month LIBOR	July 1, 2015

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

- (1) The one-month LIBOR rate was 0.239% at September 30, 2011.
- (2) Changes in fair value are recorded through earnings.
- (3) The effective date of these forward-starting swaps is July 2, 2012.



**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

During the nine-month period ended September 30, 2011, Sonic entered into four \$50.0 million notional forward-starting interest rate cash flow swap agreements that become effective in July 2012. Two of the agreements terminate in July 2014 and the other two agreements terminate in July 2015. These interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of these swaps are recorded in accumulated other comprehensive loss, net of related income taxes, in the Unaudited Condensed Consolidated Statements of Stockholders' Equity.

For the cash flow swaps not designated as hedges and amortization of amounts in accumulated other comprehensive loss related to terminated cash flow swaps, certain benefits and charges were included in interest expense/amortization, non-cash, cash flow swaps in the accompanying Unaudited Condensed Consolidated Statements of Income. For the third quarter and nine-month periods ended September 30, 2011, these amounts included non-cash charges of \$0.3 million and \$0.6 million, respectively. For the third quarter and nine-month periods ended September 30, 2010, these amounts included non-cash charges of \$1.5 million and \$5.4 million, respectively.

For the cash flow swaps that qualify as cash flow hedges, the changes in the fair value of these swaps have been recorded in accumulated other comprehensive loss, net of related income taxes, in the Unaudited Condensed Consolidated Statements of Stockholders' Equity. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was \$4.5 million and \$13.3 million for the third quarter and nine-month periods ended September 30, 2011, respectively, and \$4.4 million and \$13.1 million for the third quarter and nine-month periods ended September 30, 2010, respectively. This expense is included in interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income. The estimated net expense expected to be reclassified out of accumulated other comprehensive loss into results of operations during the next twelve months is approximately \$9.2 million.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****7. Per Share Data and Stockholders Equity**

The calculation of diluted earnings per share considers the potential dilutive effect of Sonic's contingently convertible debt issuances and stock options to purchase shares of Class A common stock under several equity compensation plans. The following table illustrates the dilutive effect of such items on earnings per share for the third quarter and nine-month periods ended September 30, 2011 and 2010:

	For the Third Quarter Ended September 30, 2011						
	Weighted Average Shares	Income From Continuing Operations		Income From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Earnings and shares	52,366	\$ 19,333		\$ 68		\$ 19,401	
Effect of participating securities:							
Non-vested restricted stock and stock units		(253)				(253)	
Basic earnings and shares	52,366	\$ 19,080	\$ 0.36	\$ 68	\$ 0.01	\$ 19,148	\$ 0.37
Effect of dilutive securities:							
Contingently convertible debt ( 5.0% Convertible Notes)	12,590	2,366				2,366	
Stock compensation plans	561						
Diluted earnings and shares	65,517	\$ 21,446	\$ 0.33	\$ 68		\$ 21,514	\$ 0.33
	For the Third Quarter Ended September 30, 2010						
	Weighted Average Shares	Income From Continuing Operations		Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Earnings (loss) and shares	52,311	\$ 13,949		\$ (964)		\$ 12,985	
Effect of participating securities:							
Non-vested restricted stock and stock units		(137)				(137)	
Basic earnings (loss) and shares	52,311	\$ 13,812	\$ 0.26	\$ (964)	\$ (0.01)	\$ 12,848	\$ 0.25
Effect of dilutive securities:							
Contingently convertible debt ( 5.0% Convertible Notes)	12,890	2,498		16		2,514	
Stock compensation plans	650						
Diluted earnings (loss) and shares	65,851	\$ 16,310	\$ 0.25	\$ (948)	\$ (0.02)	\$ 15,362	\$ 0.23



**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	For the Nine Months Ended September 30, 2011						
	Weighted Average Shares	Income From Continuing Operations		Loss From Discontinued Operations		Net Income	
		Amount	Per	Amount	Per	Amount	Per
			Share Amount		Share Amount		Share Amount
Earnings (loss) and shares	52,414	\$ 57,275		\$ (1,559)		\$ 55,716	
Effect of participating securities:							
Non-vested restricted stock and stock units		(744)				(744)	
Basic earnings (loss) and shares	52,414	\$ 56,531	\$ 1.08	\$ (1,559)	\$ (0.03)	\$ 54,972	\$ 1.05
Effect of dilutive securities:							
Contingently convertible debt ( 5.0% Convertible Notes)	12,789	6,970				6,970	
Stock compensation plans	597						
Diluted earnings (loss) and shares	65,800	\$ 63,501	\$ 0.97	\$ (1,559)	\$ (0.03)	\$ 61,942	\$ 0.94

	For the Nine Months Ended September 30, 2010						
	Weighted Average Shares	Income From Continuing Operations		Loss From Discontinued Operations		Net Income	
		Amount	Per	Amount	Per	Amount	Per
			Share Amount		Share Amount		Share Amount
Earnings (loss) and shares	52,151	\$ 30,107		\$ (4,532)		\$ 25,575	
Effect of participating securities:							
Non-vested restricted stock and stock units		(295)				(295)	
Basic earnings (loss) and shares	52,151	\$ 29,812	\$ 0.57	\$ (4,532)	\$ (0.09)	\$ 25,280	\$ 0.48
Effect of dilutive securities:							
Contingently convertible debt ( 5.0% Convertible Notes)	12,890	6,709		28		6,737	
Stock compensation plans	670						
Diluted earnings (loss) and shares	65,711	\$ 36,521	\$ 0.56	\$ (4,504)	\$ (0.07)	\$ 32,017	\$ 0.49

In addition to the stock options included in the table above, options to purchase approximately 2.1 million shares and 2.3 million shares of Class A common stock were outstanding at September 30, 2011 and September 30, 2010, respectively, but were not included in the computation of diluted earnings per share because the options were not dilutive. In addition, in the event the effect of potentially dilutive shares associated with any of Sonic's convertible notes were anti-dilutive, the effect of those shares have also been excluded from the computation of diluted earnings per share.

**8. Contingencies****Legal and Other Proceedings:**

Several private civil actions have been filed against Sonic Automotive, Inc. and several of its dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and made allegations that certain products sold in the finance and insurance departments were done so

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

in a deceptive or otherwise illegal manner. One of these private civil actions was filed on November 15, 2004 in South Carolina state court, York County Court of Common Pleas, against Sonic Automotive, Inc. and 10 of Sonic's South Carolina subsidiaries. The plaintiffs in that lawsuit were Misty J. Owens, James B. Wright, Vincent J. Astey and Joseph Lee Williams, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The group of plaintiffs' attorneys representing the plaintiffs in the South Carolina lawsuit also filed another private civil class action lawsuit against Sonic Automotive, Inc. and 3 of its subsidiaries on February 14, 2005 in state court in North Carolina, Lincoln County Superior Court, which similarly sought certification of a multi-state class of plaintiffs and alleged that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. The plaintiffs in this North Carolina lawsuit were Robert Price, Carolyn Price, Marcus Cappeletti and Kathy Cappeletti, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported

---

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

class. The South Carolina state court action and the North Carolina state court action have since been consolidated into a single proceeding in private arbitration before the American Arbitration Association. On November 12, 2008, claimants in the consolidated arbitration filed a Motion for Class Certification as a national class action including all of the states in which Sonic operates dealerships. Claimants are seeking monetary damages and injunctive relief on behalf of this class of customers. The parties have briefed and argued the issue of class certification.

On July 19, 2010, the Arbitrator issued a Partial Final Award on Class Certification, certifying a class which includes all customers who, on or after November 15, 2000, purchased or leased from a Sonic dealership a vehicle with the Etch product as part of the transaction, but not including customers who purchased or leased such vehicles from a Sonic dealership in Florida. The Partial Final Award on Class Certification is not a final decision on the merits of the action. The merits of Claimants' assertions and potential damages will still have to be proven through the remainder of the arbitration. The Arbitrator stayed the Arbitration for thirty days to allow either party to petition a court of competent jurisdiction to confirm or vacate the award. Sonic will seek review of the class certification ruling by a court of competent jurisdiction and will continue to press its argument that this action is not suitable for a class-based arbitration. On July 22, 2010, the plaintiffs in this consolidated arbitration filed a Motion to Confirm the Arbitrator's Partial Final Award on Class Certification in state court in North Carolina, Lincoln County Superior Court. On August 17, 2010, Sonic filed to remove this North Carolina state court action to federal court, and simultaneously filed a Petition to Vacate the Arbitrator's Partial Final Award on Class Certification, with both filings made in the United States District Court for the Western District of North Carolina.

On August 12, 2011, the United States District Court for the Western District of North Carolina issued an Order granting Sonic's Petition to Vacate Arbitration Award on Class Certification and denied Claimant's Motion to Dismiss the same. Claimants filed a Notice of Appeal to the United States Fourth Circuit Court of Appeals on September 12, 2011. The federal court's stay of the arbitration proceeding remains in force pending a ruling on Claimants' motion to lift the stay, which motion Sonic has opposed. Sonic intends to continue its vigorous defense of this arbitration and to assert all available defenses. However, an adverse resolution of this arbitration could result in the payment of significant costs and damages, which could have a material adverse effect on Sonic's future results of operations, financial condition and cash flows. Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of amount accrued, for this litigation matter.

Sonic is involved, and expects to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of its business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic's business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects. Included in other accrued liabilities at September 30, 2011 and December 31, 2010 was \$1.8 million and \$9.1 million, respectively, in reserves that Sonic has provided for pending proceedings. Except as reflected in such reserves, Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

**Guarantees and Indemnification Obligations:**

In connection with franchise dispositions, certain of Sonic's dealership subsidiaries have assigned or sublet to the buyer its interests in real property leases associated with such dealerships. In general, Sonic's dealership subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sub-lessee does not perform. In the event the sub-lessees do not perform under their obligations Sonic remains liable for the lease payments. The total amount relating to this risk was approximately \$106.2 million as of December 31, 2010. See Sonic's Annual Report on Form 10-K for the year ended December 31, 2010 for further discussion.

In accordance with the terms of agreements entered into for the sale of Sonic's franchises, Sonic generally agrees to indemnify the buyer from certain exposure and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic estimates that the maximum exposure associated with these general indemnifications if the counterparties failed to perform under their contractual obligations was approximately \$3.1 million and \$12.8 million at September 30, 2011 and December 31,

2010, respectively. These indemnifications expire within a period of one to two years following the date of sale. The estimated fair

---

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

value of these indemnifications was not material. Sonic also guarantees the floor plan commitments of its 50% owned joint venture, the amount of which was \$4.5 million at both September 30, 2011 and December 31, 2010.

**9. Fair Value Measurements**

In determining fair value, Sonic uses various valuation approaches including market, income and/or cost approaches. Fair Value Measurements and Disclosures in the ASC establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of Sonic. Unobservable inputs are inputs that reflect Sonic's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that Sonic has the ability to access. Assets utilizing Level 1 inputs include marketable securities that are actively traded.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include cash flow swap instruments.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating fair value of non-financial assets and non-financial liabilities in purchase acquisitions, those used in assessing impairment of property, plant and equipment and other intangibles and those used in the reporting unit valuation in the first step of the annual goodwill impairment evaluation. For instance, certain assets held for sale in the accompanying Unaudited Condensed Consolidated Balance Sheets are valued based on estimated proceeds to be received in connection with the disposal of those assets.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required by Sonic in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input (Level 3 being the lowest level) that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, Sonic's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. Sonic uses inputs that are current as of the measurement date, including during periods when the market may be abnormally high or abnormally low. Accordingly, fair value measurements can be volatile based on various factors that may or may not be within Sonic's control.



**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Assets or liabilities recorded at fair value in the accompanying balance sheet as of September 30, 2011 are as follows:

	Total	Fair Value at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash flow swaps designated as hedges (1)	\$ (33.6)	\$	\$ (33.6)	\$
Cash flow swaps not designated as hedges (2)	(5.7)		(5.7)	
<b>Total</b>	<b>\$ (39.3)</b>	<b>\$</b>	<b>\$ (39.3)</b>	<b>\$</b>

(1) \$11.3 million and \$22.3 million are included in other accrued liabilities and Other Long-Term Liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets.

(2) \$3.5 million and \$2.2 million are included in other accrued liabilities and Other Long-Term Liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets.

As of September 30, 2011 and December 31, 2010, the fair values of Sonic's financial instruments including receivables, notes receivable from finance contracts, notes payable floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

The fair value and carrying value of Sonic's fixed rate long-term debt was as follows:

	September 30, 2011		December 31, 2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
9.0% Notes (1)	\$ 222,600	\$ 208,733	\$ 220,836	\$ 208,630
8.625% Notes (1)	\$	\$	\$ 43,498	\$ 42,673
5.0% Convertible Notes (1)	\$ 218,285	\$ 144,766	\$ 215,453	\$ 147,824
Mortgage notes (2)	\$ 114,961	\$ 117,568	\$ 88,119	\$ 88,262
Notes payable to a finance company (2)	\$ 13,888	\$ 15,201	\$ 15,676	\$ 17,427
Other (2)	\$ 5,191	\$ 5,605	\$ 5,311	\$ 5,751

(1) As determined by market quotations as of September 30, 2011 and December 31, 2010 (Level 1).

(2) As determined by discounted cash flows (Level 3).



**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS**

**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 Sonic Automotive, Inc. and Subsidiaries Unaudited Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Overview**

We are one of the largest automotive retailers in the United States, operating in 15 states. As of September 30, 2011, we operated 136 dealership franchises at 119 locations (representing 30 different brands of cars and light trucks) and 24 collision repair centers. Our dealerships provide comprehensive services including sales of both new and used cars and light trucks, sales of replacement parts, performance of vehicle maintenance, manufacturer warranty repairs, paint and collision repair services, and arrangement of extended service contracts, financing, insurance and other aftermarket products for our customers.

In March 2011, a powerful earthquake off the coast of Japan produced a massive tsunami, affecting certain east coast regions of Japan. The effects of the earthquake and tsunami caused widespread damage and destruction of property and localized disruption of the power supply. These events have disrupted our Japanese manufacturer partners' supply-chain and vehicle production capacity. As Japan continues to focus on recovering from this natural disaster, it is uncertain as to the continuing effects this event may have on these manufacturer partners' supply-chain and production. During the third quarter and nine-month periods ended September 30, 2011, these events resulted in lower allocations of new vehicle inventory from the Japanese import brands, which affected new vehicle revenues, new vehicle gross margins, consumer brand preferences and our ability to source used inventory through trades. We are beginning to see improvement in new vehicle inventory allocations from the Japanese import brands; however, it is still uncertain when inventory levels will return to normal and how these events will impact our business in the fourth quarter of 2011 and beyond.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a detail of our new vehicle revenues by brand for the third quarter and nine-month periods ended September 30, 2011 and 2010:

<b>Brand</b>	<b>Percentage of New Vehicle Revenue</b>			
	<b>Third Quarter Ended September 30, 2011</b>	<b>2010</b>	<b>2011</b>	<b>Nine Months Ended September 30, 2010</b>
<b>Luxury</b>				
BMW	19.2%	17.2%	18.2%	16.6%
Mercedes	8.2%	9.4%	8.4%	9.9%
Cadillac	5.3%	5.6%	5.1%	5.3%
Lexus	4.4%	5.5%	4.3%	5.9%
Audi	4.1%	3.1%	3.5%	3.1%
Other Luxury (3)	3.3%	3.8%	3.9%	3.5%
Land Rover	2.0%	1.7%	2.0%	1.9%
Porsche	1.6 %	1.8%	1.7%	1.7%
Volvo	1.3%	1.1%	1.4%	1.2%
Infiniti	1.1%	1.6%	1.1%	1.5%
Acura	0.8%	1.0%	0.9%	1.0%
<b>Total Luxury</b>	<b>51.3%</b>	<b>51.8%</b>	<b>50.5%</b>	<b>51.6%</b>
<b>Mid-line Import</b>				
Honda	11.6%	13.7%	13.4%	14.4%
Toyota	9.9%	11.6%	9.9%	11.2%
Volkswagen	3.1%	2.4%	2.9%	2.3%
Hyundai	2.5%	2.0%	2.4%	2.1%
Other (2)	2.0%	1.3%	1.9%	1.1%
Nissan	1.3%	1.3%	1.2%	1.4%
<b>Total Mid-line Import</b>	<b>30.4%</b>	<b>32.3%</b>	<b>31.7%</b>	<b>32.5%</b>
<b>Domestic</b>				
Ford	9.2%	8.9%	8.9%	8.9%
General Motors (1)	8.7%	6.7%	8.6%	6.7%
Chrysler (4)	0.4%	0.3%	0.3%	0.3%
<b>Total Domestic</b>	<b>18.3%</b>	<b>15.9%</b>	<b>17.8%</b>	<b>15.9%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Includes Buick, Chevrolet and GMC.

(2) Includes Kia, Scion and Subaru.

(3) Includes Hummer, Jaguar, Mini, Smart and Saab.

(4) Includes Chrysler, Dodge and Jeep.

**Results of Operations**

The following discussions are based on reported figures. Same store amounts do not vary significantly from reported totals since there were no significant dealership franchise acquisitions subsequent to December 31, 2009.

***New Vehicles***

The automobile retail industry uses the Seasonally Adjusted Annual Rate ( SAAR ) to measure the amount of new vehicle unit sales activity within the United States market. The SAAR averages below reflect a blended average of all brands marketed or sold in the United States market. The SAAR includes brands we do not sell and locations in which we do not operate.

Table of Contents

## SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

	Third Quarter Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
SAAR (in millions of vehicles)	12.4	11.6	6.9%	12.5	11.3	10.6%

Source: Bloomberg Financial Markets, via Stephens Inc.

Our reported new vehicle (including fleet) results are as follows:

	For the Third Quarter Ended September 30,		Better / (Worse) Change % Change	
	2011	2010	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	\$ 1,058,580	\$ 937,709	\$ 120,871	12.9%
Gross profit	\$ 68,466	\$ 60,018	\$ 8,448	14.1%
Unit sales	29,988	27,800	2,188	7.9%
Revenue per unit	\$ 35,300	\$ 33,731	\$ 1,569	4.7%
Gross profit per unit	\$ 2,283	\$ 2,159	\$ 124	5.7%
Gross profit as a % of revenue	6.5%	6.4%	10	bps

	For the Nine Months Ended September 30,		Better / (Worse) Change % Change	
	2011	2010	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	\$ 3,074,598	\$ 2,611,988	\$ 462,610	17.7%
Gross profit	\$ 197,037	\$ 171,891	\$ 25,146	14.6%
Unit sales	89,890	77,851	12,039	15.5%
Revenue per unit	\$ 34,204	\$ 33,551	\$ 653	1.9%
Gross profit per unit	\$ 2,192	\$ 2,208	\$ (16)	(0.7%)
Gross profit as a % of revenue	6.4%	6.6%	(20)	bps

The increase in new vehicle revenues for the third quarter and nine-month periods ended September 30, 2011 was primarily driven by increases in our new unit sales volume, which outpaced industry new unit sales volume increases of 6.9% and 10.6%, respectively. Our new unit volume increases for the third quarter and nine-month periods ended September 30, 2011 were led by our BMW/Mini and General Motors (excluding Cadillac) dealerships, which combined accounted for 74.3% and 49.8% of the year-over-year increases, respectively. For the third quarter and nine-month periods ended September 30, 2011, the majority of our brands outperformed their local market peer group for their respective brand.

New vehicle sales volume for our major Japanese brands (Honda, Toyota/Scion and Lexus) continued to suffer in the third quarter ended September 30, 2011 as a result of inventory supply reductions caused by the impact of the earthquake and tsunami that struck Japan in March 2011. Gross profit per new unit increased for each of these brands as a result of demand and the reduced supply of new vehicle inventory. Due to the lack of supply of new vehicles in Japanese brands, we believe many consumers chose to purchase other branded vehicles. As a result, we believe several of our other mid-line import brands experienced a benefit to their new vehicle sales, including Hyundai, Kia and Volkswagen.

Our luxury stores experienced new vehicle revenue increases of 11.9% and 15.1% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods, primarily due to increases in our new unit volume of 9.5% and 14.1%, respectively. Luxury new vehicle gross profit per unit improved slightly compared to the prior year periods and total luxury gross profit dollars were up 10.8% and 14.6% for the third quarter and nine-month periods ended September 30, 2011, respectively, as a result of the higher sales volume. Gross profit as a percentage of revenue at our luxury dealerships was relatively flat.

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Our mid-line import new vehicle revenue improved 5.7% and 14.5% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods, primarily due to new unit sales volume increases at our Hyundai, Kia and Volkswagen dealerships. This increase for the third quarter ended September 30, 2011 was offset by new unit volume decreases at our Honda and Toyota dealerships due to inventory constraints caused by the

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

manufacturers supply disruptions. Overall mid-line import new vehicle gross profit was up 19.5% and 12.2% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods.

Our domestic stores experienced new vehicle revenue increases of 30.7% and 32.6% for the third quarter and nine-month periods ended September 30, 2011, respectively, primarily due to increases in new unit volume at our General Motors (excluding Cadillac) dealerships of 43.2% and 51.0%, respectively, compared to the same prior year periods. For the third quarter and nine-month periods ended September 30, 2011, our Ford dealerships new unit volume increased 16.4% and 16.3%, respectively, compared to the same prior year periods.

**Used Vehicles**

Our reported used vehicle results are as follows:

	<b>For the Third Quarter Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands, except units and per unit data)</b>			
Revenue	\$ 530,969	\$ 453,815	\$ 77,154	17.0%
Gross profit	\$ 35,054	\$ 35,239	\$ (185)	(0.5%)
Unit sales	26,608	22,987	3,621	15.8%
Revenue per unit	\$ 19,955	\$ 19,742	\$ 213	1.1%
Gross profit per unit	\$ 1,317	\$ 1,533	\$ (216)	(14.1%)
Gross profit as a % of revenue	6.6%	7.8%	(120)	bps

	<b>For the Nine Months Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands, except units and per unit data)</b>			
Revenue	\$ 1,549,197	\$ 1,339,323	\$ 209,874	15.7%
Gross profit	\$ 112,858	\$ 107,603	\$ 5,255	4.9%
Unit sales	78,994	68,861	10,133	14.7%
Revenue per unit	\$ 19,612	\$ 19,450	\$ 162	0.8%
Gross profit per unit	\$ 1,429	\$ 1,563	\$ (134)	(8.6%)
Gross profit as a % of revenue	7.3%	8.0%	(70)	bps

The increase in used vehicle revenues for the third quarter and nine-month periods ended September 30, 2011, was primarily due to the increase in volume resulting from continued implementation of our standardized used vehicle merchandising process. This process allows us to purchase and price our used vehicles more competitively and market them more effectively. During the second and third quarters of 2011, new vehicle inventory shortages from Japanese manufacturers resulted in increased demand for particular models of used vehicles, resulting in higher costs to acquire certain used inventory as well as an increase in the sales price of specific used vehicles. However, improvement in Japanese new vehicle inventory levels at our stores during the third quarter of 2011 has put pressure on certain used vehicle margins.

The decrease in gross profit per unit for the third quarter and nine-month periods ended September 30, 2011 was due in part to the higher cost of units sold compared to the same prior year periods. Costs were higher as a result of acquiring more used vehicle inventory through auctions than through trades. Despite the higher cost to acquire through auctions than through trades, obtaining a greater number of used vehicles from auctions enabled us to better implement our standardized used vehicle merchandising process, allowing us to optimize the mix of used vehicles at each dealership, increasing unit sales and overall total gross profit (including contributions from increases in fixed operations and F&I



revenue).

Table of Contents

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Wholesale Vehicles*

Our reported wholesale results are as follows:

	<b>For the Third Quarter Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands, except units and per unit data)</b>			
Revenue	\$ 48,588	\$ 47,597	\$ 991	2.1%
Gross loss	\$ (2,343)	\$ (1,456)	\$ (887)	(60.9%)
Unit sales	7,326	7,272	54	0.7%
Revenue per unit	\$ 6,632	\$ 6,545	\$ 87	1.3%
Gross loss per unit	\$ (320)	\$ (200)	\$ (120)	(60.0%)
Gross loss as a % of revenue	(4.8%)	(3.1%)	(170) bps	

	<b>For the Nine Months Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands, except units and per unit data)</b>			
Revenue	\$ 125,428	\$ 108,336	\$ 17,092	15.8%
Gross loss	\$ (4,706)	\$ (3,934)	\$ (772)	(19.6%)
Unit sales	19,326	17,627	1,699	9.6%
Revenue per unit	\$ 6,490	\$ 6,146	\$ 344	5.6%
Gross loss per unit	\$ (244)	\$ (223)	\$ (21)	(9.4%)
Gross loss as a % of revenue	(3.8%)	(3.6%)	(20) bps	

During the third quarter and nine-month periods ended September 30, 2011, there was an increase in both wholesale revenue and wholesale unit sales, as well as an increase in wholesale gross loss per unit, compared to the same prior year periods. These increases were due primarily to a focus on reducing our used vehicle inventory balance as Japanese new vehicle inventory levels began to improve toward the end of the third quarter of 2011. See previous heading, *Used Vehicles*.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Parts, Service and Collision Repair ( Fixed Operations )**

Our reported fixed operations results are as follows:

	<b>For the Third Quarter Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands)</b>			
Revenue				
Parts	\$ 158,991	\$ 150,871	\$ 8,120	5.4%
Service	125,975	120,620	5,355	4.4%
Collision repair	12,985	12,250	735	6.0%
<b>Total</b>	<b>\$ 297,951</b>	<b>\$ 283,741</b>	<b>\$ 14,210</b>	<b>5.0%</b>
Gross profit				
Parts	\$ 51,644	\$ 50,348	\$ 1,296	2.6%
Service	86,420	83,533	2,887	3.5%
Collision repair	6,922	6,719	203	3.0%
<b>Total</b>	<b>\$ 144,986</b>	<b>\$ 140,600</b>	<b>\$ 4,386</b>	<b>3.1%</b>
Gross profit as a % of revenue				
Parts	32.5%	33.4%	(90)	bps
Service	68.6%	69.3%	(70)	bps
Collision repair	53.3%	54.8%	(150)	bps
<b>Total</b>	<b>48.7%</b>	<b>49.6%</b>	<b>(90)</b>	<b>bps</b>
	<b>For the Nine Months Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands)</b>			
Revenue				
Parts	\$ 471,100	\$ 446,060	\$ 25,040	5.6%
Service	380,345	359,683	20,662	5.7%
Collision repair	37,798	36,954	844	2.3%
<b>Total</b>	<b>\$ 889,243</b>	<b>\$ 842,697</b>	<b>\$ 46,546</b>	<b>5.5%</b>
Gross profit				
Parts	\$ 154,478	\$ 148,857	\$ 5,621	3.8%
Service	261,855	251,941	9,914	3.9%

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Collision repair	20,292	20,188	104	0.5%
Total	\$ 436,625	\$ 420,986	\$ 15,639	3.7%
<b>Gross profit as a % of revenue</b>				
Parts	32.8%	33.4%	(60)	bps
Service	68.8%	70.0%	(120)	bps
Collision repair	53.7%	54.6%	(90)	bps
Total	49.1%	50.0%	(90)	bps

Our fixed operations revenue increased 5.0% and 5.5% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods. Overall fixed operations customer pay revenue increased 4.1% and 2.6% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods.

Our domestic, mid-line import and luxury branded stores customer pay revenue increased 7.4%, 2.5%, and 4.6%, respectively, for the third quarter ended September 30, 2011, and 2.7%, 1.8%, and 3.3%, respectively, for nine-month period ended September 30, 2011, compared to the same prior year periods. The decrease in our overall fixed operations gross margin rate for the third quarter and nine-month periods ended September 30, 2011 was primarily due to incremental sales growth in lower margin activities such as wholesale parts.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Finance, Insurance and Other ( F&I )**

Our reported F&I results are as follows:

	<b>For the Third Quarter Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands, except per unit data)</b>			
Revenue	\$ 56,761	\$ 47,398	\$ 9,363	19.8%
Gross profit per retail unit (excludes fleet)	\$ 1,041	\$ 972	\$ 69	7.1%

	<b>For the Nine Months Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(In thousands, except per unit data)</b>			
Revenue	\$ 162,010	\$ 133,607	\$ 28,403	21.3%
Gross profit per retail unit (excludes fleet)	\$ 999	\$ 950	\$ 49	5.2%

F&I revenue increased for the third quarter and nine-month periods ended September 30, 2011 primarily due to increases of 11.9% and 15.3% in combined new and used retail unit volume, respectively, compared to the same prior year periods. F&I gross profit per unit improved due to increased penetration and pricing for both the third quarter and nine-month periods ended September 30, 2011. Finance contract gross revenue improved 23.3% and 24.3% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods, due to the increase in unit volume and increases in finance contract penetration rates of 130 basis points and 200 basis points, respectively.

**Selling, General and Administrative ( SG&A ) Expenses**

SG&A expenses are comprised of four major groups: compensation expense, advertising expense, rent and rent related expense and other expense. Compensation expense primarily relates to dealership personnel who are paid a commission or a modest salary plus commission (which typically vary depending on gross profits realized) and support personnel who are paid a fixed salary. Due to the salary component for certain dealership and corporate personnel, gross profits and compensation expense do not change in direct proportion to one another. Advertising expense and other expenses vary based on the level of actual or anticipated business activity and number of dealerships owned. Rent and rent related expense typically varies with the number of dealerships owned, investments made for facility improvements and interest rates. Although SG&A expenses do not move exactly in proportion with changes in gross profit, we believe the best way to measure SG&A expenses is as a percentage of gross profit.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Following is information related to our SG&A expenses:

	<b>For the Third Quarter Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
<b>(In thousands)</b>				
Compensation	\$ 139,100	\$ 131,805	\$ (7,295)	(5.5%)
Advertising	13,884	12,642	(1,242)	(9.8%)
Rent and rent related	30,591	32,365	1,774	5.5%
Other	55,129	49,519	(5,610)	(11.3%)
<b>Total</b>	<b>\$ 238,704</b>	<b>\$ 226,331</b>	<b>\$ (12,373)</b>	<b>(5.5%)</b>

## SG&amp;A as a % of gross profit

Compensation	45.9%	46.8%	90	bps
Advertising	4.6%	4.5%	(10)	bps
Rent and rent related	10.1%	11.5%	140	bps
Other	18.2%	17.5%	(70)	bps
<b>Total</b>	<b>78.8%</b>	<b>80.3%</b>	<b>150</b>	<b>bps</b>

	<b>For the Nine Months Ended September 30,</b>		<b>Better / (Worse)</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
<b>(In thousands)</b>				
Compensation	\$ 415,161	\$ 394,505	\$ (20,656)	(5.2%)
Advertising	41,197	36,445	(4,752)	(13.0%)
Rent and rent related	94,269	97,151	2,882	3.0%
Other	161,030	144,441	(16,589)	(11.5%)
<b>Total</b>	<b>\$ 711,657</b>	<b>\$ 672,542</b>	<b>\$ (39,115)</b>	<b>(5.8%)</b>

## SG&amp;A as a % of gross profit

Compensation	45.9%	47.5%	160	bps
Advertising	4.6%	4.4%	(20)	bps
Rent and rent related	10.4%	11.7%	130	bps
Other	17.8%	17.4%	(40)	bps
<b>Total</b>	<b>78.7%</b>	<b>81.0%</b>	<b>230</b>	<b>bps</b>

The increases in overall SG&A expense dollars for the third quarter and nine-month periods ended September 30, 2011 can largely be attributed to increases in revenues and gross profit. Overall SG&A expense as a percentage of gross profit improved 150 basis points and 230 basis points for the third quarter and nine-month periods ended September 30, 2011, respectively. The improvements were driven primarily by decreases in

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

compensation costs and rent as a percentage of gross profit.

Compensation costs as a percentage of gross profit decreased 90 basis points and 160 basis points for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods, primarily due to higher gross profit levels in 2011 combined with continued efforts to align compensation with target levels of profit performance.

As compared to the same prior year periods, total advertising costs as a percentage of gross profit increased slightly for the third quarter and nine-month periods ended September 30, 2011 as a result of our retail advertising strategy.

Rent and rent related expenses decreased as a percentage of gross profit for the third quarter and nine-month periods ended September 30, 2011 compared to the same prior year periods, primarily due to the higher gross profit levels and the purchase of certain properties that were previously leased.

For the third quarter and nine-month periods ended September 30, 2011, other SG&A expenses increased from the comparable prior year periods due to IT spending, hail damage expenses, increased real estate taxes, sales tax refunds received in the prior year periods and the timing of certain insurance expenses.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Depreciation and Amortization***

Depreciation and amortization expense increased \$1.6 million, or 18.4%, and \$4.4 million, or 17.0%, for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods. These increases are primarily related to the five dealership properties that we purchased in January 2011, which we previously leased through long-term operating leases. In addition, we completed and placed into service approximately \$46.3 million and \$66.6 million of construction projects during the third quarter and nine-month periods ended September 30, 2011, respectively.

***Interest Expense, Floor Plan***

Total new and used floor plan interest expense decreased approximately \$1.1 million, or 19.9%, and \$0.8 million, or 5.4%, for the third quarter and nine-month periods ended September 30, 2011, compared to the same prior year periods.

Floor plan interest expense for new vehicles decreased approximately \$1.3 million, or 26.2%, and \$0.9 million, or 6.9%, for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods. The weighted average new vehicle floor plan interest rate incurred by continuing dealerships decreased to 2.22% and 2.44% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the third quarter and nine-month periods ended September 30, 2010, which had weighted average rates of 2.72% and 2.67%, respectively. The weighted average floor plan balance for new vehicles decreased by approximately \$70.5 million and increased \$15.3 million for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods.

Floor plan interest expense for used vehicles increased approximately \$0.2 million, or 37.1%, and \$0.1 million, or 6.0%, for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods. The weighted average used vehicle floor plan interest rate incurred by continuing dealerships decreased to 3.00% and 2.69% for the third quarter and nine-month periods ended September 30, 2011, respectively, down from 3.15% and 2.80% for the third quarter and nine-month periods ended September 30, 2010, respectively. The weighted average floor plan balance for used vehicles increased by approximately \$29.9 million and \$8.6 million for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods.

***Interest Expense, Other, Net***

The change in interest expense, other, net, between the third quarter and nine-month periods ended September 30, 2011 and 2010 is summarized in the table below:

	<b>Third Quarter Ended September 30 Increase (Decrease) in Interest Expense</b>	<b>Nine Months Ended September 30 Increase (Decrease) in Interest Expense</b>
	<b>(In millions)</b>	
Debt balances		
Decrease in debt balances	\$ (0.5)	\$ (1.4)
Other factors		
(Increase) decrease in capitalized interest	0.2	(0.5)



## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Incremental interest expense related to variable to fixed rate swaps		
(1)	0.1	0.2
Decrease in interest expense allocation to discontinued operations		0.2
Decrease in deferred loan cost amortization	(0.1)	
Increase (decrease) in other expense, net	0.2	(0.5)
<b>Total</b>	<b>\$ (0.1)</b>	<b>\$ (2.0)</b>

(1) Represent difference in cash payments to and from the counterparty.

During the nine-month period ended September 30, 2010, we incurred interest expense for both the 9.0% Notes issued March 12, 2010 and the \$200.0 million in aggregate principal of our 8.625% Notes that we redeemed on April 12, 2010 using the net proceeds from the 9.0% Notes issuance and cash on hand. This double carry effect increased our interest expense by

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**  
**OPERATIONS**

approximately \$1.5 million, which is included in the net \$1.4 million decrease for the nine-month period shown in the table above.

We have entered into various cash flow swaps to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate, in order to reduce our exposure to market risks from fluctuations in interest rates. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was \$4.5 million and \$13.3 million for the third quarter and nine-month periods ended September 30, 2011, respectively, and \$4.4 million and \$13.1 million for the third quarter and nine-month periods ended September 30, 2010, respectively, and is included in interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income and in the line labeled "incremental interest expense related to variable to fixed rate swaps" in the table above.

***Interest Expense/Amortization, Non-Cash, Cash Flow Swaps***

For our cash flow swaps that qualify as cash flow hedges, the changes in the fair value of these swaps have been recorded in accumulated other comprehensive loss, net of related income taxes in the Unaudited Condensed Consolidated Statements of Stockholders' Equity. For the cash flow swaps not designated as hedges (changes in the fair value of notional amounts of certain cash flow swaps are recognized through earnings) and amortization of amounts in accumulated other comprehensive loss related to terminated cash flow swaps, certain benefits and charges were included in interest expense/amortization, non-cash, cash flow swaps in the accompanying Unaudited Condensed Consolidated Statements of Income. For the third quarter and nine-month periods ended September 30, 2011, these amounts included non-cash charges of \$0.3 million and \$0.6 million, respectively. For the third quarter and nine-month periods ended September 30, 2010, these amounts included non-cash charges of \$1.5 million and \$5.4 million, respectively. The non-cash charges for the third quarter and nine-month periods ended September 30, 2011 were lower than the same prior year periods primarily due to the amortization of an additional terminated cash flow swap in the prior year periods combined with reductions in the fair value of our cash flow swap liabilities in the current year. See the heading "Derivative Instruments and Hedging Activities" in Note 6 "Long-Term Debt," in the accompanying notes to the Unaudited Condensed Consolidated Financial Statements for further discussion.

***Other Expense, Net***

Other expense, net, increased by approximately \$0.5 million and decreased by approximately \$6.8 million for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the same prior year periods, as a result of losses on repurchases of our 5.0% Convertible Notes and 8.625% Notes in the current and prior year periods.

***Income Taxes***

The overall effective tax rate from continuing operations was 38.5% and 39.5% for the third quarter and nine-month periods ended September 30, 2011, respectively. The overall effective tax rate from continuing operations was 37.7% and 39.8% for the third quarter and nine-month periods ended September 30, 2010, respectively. The effective rate for the nine-month period ended September 30, 2011 was different than the same prior year period due to the level of overall taxable income and the shift in the distribution of taxable income between states in which we operate. We expect the effective tax rate for continuing operations in future periods to fall within a range of 38.0% to 41.0%.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Discontinued Operations***

Significant components of results from discontinued operations were as follows:

	<b>Third Quarter Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Loss from operations	\$ (413)	\$ (1,773)	\$ (1,893)	\$ (5,920)
Gain (loss) on disposal of businesses	(136)	829	(286)	2,182
Lease exit income (charges)	653	311	(220)	(2,411)
Pre-tax income (loss)	\$ 104	\$ (633)	\$ (2,399)	\$ (6,149)
Total revenues	\$	\$ 9,473	\$	\$ 55,127

Income (loss) from discontinued operations improved for the third quarter and nine-month periods ended September 30, 2011 compared to the same prior year periods as a result of the disposition of several franchises during 2010. Lease exit charges recorded for the third quarter and nine-month periods ended September 30, 2011 and 2010 relate to interest charges, the revision of estimates on previously established lease exit accruals and adjustments for new sublease agreements. The lease exit accruals represent the present value of the lease payments, net of estimated or actual sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord.

**Liquidity and Capital Resources**

We require cash to fund debt service, operating lease obligations, working capital requirements, dividends on our Common Stock and to finance acquisitions and invest in our business. We rely on cash flows from operations, borrowings under our revolving credit and floor plan borrowing arrangements, real estate mortgage financing, asset sales and offerings of debt and equity securities to meet these requirements. Our liquidity could be negatively affected if we fail to comply with the financial covenants in our existing debt or lease arrangements. Cash flows provided by our dealerships are derived from various sources. The primary sources include individual consumers, automobile manufacturers, automobile manufacturers' captive finance subsidiaries and finance companies. Disruptions in these cash flows can have a material and adverse impact on our operations and overall liquidity.

Because the majority of our consolidated assets are held by our dealership subsidiaries, the majority of our cash flows from operations are generated by these subsidiaries. As a result, our cash flows and ability to service our obligations depends to a substantial degree on the cash generated from the operations of these dealership subsidiaries.

***Floor Plan Facilities***

The weighted average interest rate for all of our new vehicle floor plan facilities (both continuing and discontinued operations) decreased to 2.22% and 2.44% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to the third quarter and nine-month periods ended September 30, 2010, which had weighted average rates of 2.74% and 2.70%, respectively. The weighted average interest rate for our used vehicle floor plan facility (both continuing and discontinued operations) was 3.00% and 2.69% for the third quarter and nine-month periods ended September 30, 2011, respectively, compared to 3.20% and 2.88% for the third quarter and nine-month periods ended September 30, 2010, respectively.

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

Interest payments under each of our floor plan facilities are due monthly and we are not required to make principal repayments prior to the sale of the floor plan financed vehicles. We were in compliance with all restrictive covenants under our floor plan facilities as of September 30, 2011 and expect to be in compliance with the covenants for the foreseeable future.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**  
**OPERATIONS**

***Long-Term Debt and Credit Facilities***

See Note 6, Long-Term Debt, in the notes to the accompanying Unaudited Condensed Consolidated Financial Statements for a discussion of our long-term debt and credit facilities and compliance with debt covenants.

***Capital Expenditures***

Our capital expenditures generally include the purchase of land and buildings, construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. In January 2011, we purchased five dealership properties for \$75.2 million, which we were previously leasing through long-term operating leases, utilizing cash on hand and borrowings under the 2010 Credit Facilities. Subsequent to the purchase date, we obtained mortgage funding of \$54.4 million related to these properties.

Capital expenditures for the nine-month period ended September 30, 2011, including this purchase of previously leased properties, were approximately \$135.9 million (\$81.5 million, net of mortgage funding of \$54.4 million). As of September 30, 2011, contractual commitments to contractors for facility construction projects totaled approximately \$5.4 million.

***Stock Repurchase Program***

Our Board of Directors has authorized us to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. Historically, we have used this share repurchase authorization to offset dilution caused by the exercise of stock options or the vesting of restricted stock awards and to maintain our desired capital structure. During the nine-month period ended September 30, 2011, we repurchased approximately 667,000 shares of our Class A common stock for approximately \$9.1 million. At September 30, 2011, our remaining repurchase authorization was approximately \$34.4 million. Under our 2011 Credit Facilities, share repurchases are permitted to the extent that no event of default exists and we have the pro forma liquidity amount required by the repurchase test (as discussed under the 2011 Revolving Credit Facility heading in Note 6, Long-Term Debt, in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements) and the result of such test has been accepted by the administrative agent.

***Dividends***

During the third quarter ended September 30, 2011, our Board of Directors approved a cash dividend of \$0.025 per share on all outstanding shares of Class A and Class B common stock as of September 15, 2011 to be paid on October 15, 2011. Subsequent to September 30, 2011, our Board of Directors approved a cash dividend on all outstanding shares of common stock of \$0.025 per share for stockholders of record on December 15, 2011 to be paid on January 15, 2012. Under our 2011 Credit Facilities, dividends are permitted to the extent that no event of default exists and we are in compliance with the financial covenants contained therein. The indentures governing our outstanding 9.0% Notes contain restrictions on our ability to pay dividends. The payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historic and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, Long-Term Debt, in the accompanying Unaudited Condensed Consolidated Financial Statements for a description of restrictions on the payment of dividends.

***Cash Flows***

For the nine-month period ended September 30, 2011, net cash provided by operating activities was approximately \$193.7 million. This provision of cash was comprised primarily of cash inflows related to operating profits, reductions in receivables and inventories and an increase in trade accounts payable, partially offset by a decrease in notes payable floor plan trade. Net cash used in investing activities during the nine-month period ended September 30, 2011 was approximately \$134.5 million. This use of cash was primarily comprised of purchases of land,

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

property and equipment. Net cash used in financing activities for the nine-month period ended September 30, 2011 was approximately \$53.0 million. This use of cash was primarily related to a decrease in notes payable floor plan non-trade and repurchases of debt securities partially offset by mortgage loan proceeds.

---

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**

**OPERATIONS**

We arrange our inventory floor plan financing through both manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. Our floor plan financed with manufacturer captives is recorded as trade floor plan liabilities (with the resulting change being reflected as an operating cash flow). Our dealerships that obtain floor plan financing from a syndicate of manufacturer-affiliated finance companies and commercial banks record their obligation as non-trade floor plan liabilities (with the resulting change being reflected as a financing cash flow).

Due to the presentation differences for changes in trade floor plan and non-trade floor plan in the Unaudited Condensed Consolidated Statements of Cash Flows, decisions made by us to move dealership floor plan financing arrangements from one finance source to another may cause significant variations in operating and financing cash flows without affecting our overall liquidity, working capital or cash flow. Accordingly, if all changes in floor plan notes payable were classified as an operating activity, the result would have been net cash provided by operating activities of \$143.1 million and \$25.3 million for the nine-month periods ended September 30, 2011 and 2010, respectively. The shift between trade floor plan and non-trade floor plan during the nine-month periods ended September 30, 2011 and 2010 was primarily due to the realignment in floor plan providers under the 2011 Credit Facilities and 2010 Credit Facilities, respectively.

***Guarantees and Indemnification Obligations***

In connection with the operation and disposition of dealership franchises, we have entered into various guarantees and indemnification obligations. See Note 8, *Contingencies*, in the notes to the accompanying Unaudited Condensed Consolidated Financial Statements. See also *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 12, *Commitments and Contingencies*, in the notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

***Future Liquidity Outlook***

We believe our best source of liquidity for operations and debt service remains cash flows generated from operations combined with our availability of borrowings under our floor plan facilities (or any replacements thereof), our 2011 Credit Facilities, real estate mortgage financing, selected dealership and other asset sales and our ability to raise funds in the capital markets through offerings of debt or equity securities. Because the majority of our consolidated assets are held by our dealership subsidiaries, the majority of our cash flows from operations are generated by these subsidiaries. As a result, our cash flows and ability to service debt depend to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash.

***Off-Balance Sheet Arrangements***

See *Management's Discussion and Analysis of Financial Condition and Results of Operations - Off-Balance Sheet Arrangements* in our Annual Report on Form 10-K for the year ended December 31, 2010 for a description of our off-balance sheet arrangements.

***Seasonality***

Our operations are subject to seasonal variations. The first quarter normally contributes less operating profit than the second, third and fourth quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality and may adversely affect vehicle demand, and consequently, our profitability. Comparatively, parts and service demand remains more stable throughout the year.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****Item 3: Quantitative and Qualitative Disclosures About Market Risk.****Interest Rate Risk**

Our variable rate floor plan facilities, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the applicable interest rates. The total outstanding balance of such instruments after considering the effect of our interest rate swaps (see below) was approximately \$436.2 million at September 30, 2011. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$3.5 million for the nine-month period ended September 30, 2011, approximately \$3.3 million of which would have resulted from our floor plan facilities.

In addition to our variable rate debt, as of September 30, 2011, approximately 20% of our dealership lease facilities have monthly lease payments that fluctuate based on LIBOR interest rates. An increase in LIBOR interest rates of 100 basis points would not have had a significant impact on rent expense for the third quarter and nine-month periods ended September 30, 2011 due to the leases containing LIBOR floors that were above the LIBOR rate during the quarter.

We also have various cash flow swaps to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. Under the terms of these cash flow swaps interest rates reset monthly. The fair value of these swap positions at September 30, 2011 was a liability of \$39.3 million, with \$14.8 million included in other accrued liabilities and \$24.5 million recorded to Other Long-Term Liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. See the previous discussion of Interest Expense/Amortization, Non-Cash, Cash Flow Swaps in Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations. We will receive and pay interest based on the following:

Notional (In millions)	Pay Rate	Receive Rate (1)	Maturing Date
\$ 200.0	4.935%	one-month LIBOR	May 1, 2012
\$ 100.0	5.265%	one-month LIBOR	June 1, 2012
\$ 3.4	7.100%	one-month LIBOR + 1.50%	July 10, 2017
\$ 25.0 (2)	5.160%	one-month LIBOR	September 1, 2012
\$ 15.0 (2)	4.965%	one-month LIBOR	September 1, 2012
\$ 25.0 (2)	4.885%	one-month LIBOR	October 1, 2012
\$ 10.8	4.655%	one-month LIBOR	December 10, 2017
\$ 8.5 (2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
\$ 6.6	4.330%	one-month LIBOR	July 1, 2013
\$ 100.0 (3)	3.280%	one-month LIBOR	July 1, 2015
\$ 100.0 (3)	3.300%	one-month LIBOR	July 1, 2015
\$ 7.2 (2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
\$ 50.0 (3)	2.767%	one-month LIBOR	July 1, 2014
\$ 50.0 (3)	3.240%	one-month LIBOR	July 1, 2015
\$ 50.0 (3)	2.610%	one-month LIBOR	July 1, 2014
\$ 50.0 (3)	3.070%	one-month LIBOR	July 1, 2015

(1) The one-month LIBOR rate was 0.239% at September 30, 2011.

(2) Changes in fair value are recorded through earnings.

(3) The effective date of these forward-starting swaps is July 2, 2012.

**Foreign Currency Risk**



## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

We purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase our inventories in U.S. dollars, our business is subject to foreign exchange rate risk, which may influence automobile manufacturers' ability to provide their products at competitive prices in the United States. To the extent that we cannot recapture this volatility in prices charged to customers or if this volatility negatively impacts consumer demand for our products, this volatility could adversely affect our future operating results.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**Item 4: Controls and Procedures.**

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**PART II OTHER INFORMATION**

**Item 1: Legal Proceedings.**

Several private civil actions have been filed against us and several of our dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and made allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions was filed on November 15, 2004 in South Carolina state court, York County Court of Common Pleas, against us and 10 of our South Carolina subsidiaries. The plaintiffs in that lawsuit were Misty J. Owens, James B. Wright, Vincent J. Astey and Joseph Lee Williams, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The group of plaintiffs' attorneys representing the plaintiffs in the South Carolina lawsuit also filed another private civil class action lawsuit against us and 3 of our subsidiaries on February 14, 2005 in state court in North Carolina, Lincoln County Superior Court, which similarly sought certification of a multi-state class of plaintiffs and alleged that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. The plaintiffs in this North Carolina lawsuit were Robert Price, Carolyn Price, Marcus Cappeletti and Kathy Cappeletti, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The South Carolina state court action and the North Carolina state court action have since been consolidated into a single proceeding in private arbitration before the American Arbitration Association (the Arbitrator). On November 12, 2008, claimants in the consolidated arbitration filed a Motion for Class Certification as a national class action including all of the states in which we operate dealerships. Claimants are seeking monetary damages and injunctive relief on behalf of this class of customers. The parties have briefed and argued the issue of class certification.

On July 19, 2010, the Arbitrator issued a Partial Final Award on Class Certification, certifying a class which includes all customers who, on or after November 15, 2000, purchased or leased from one of our dealerships a vehicle with the Etch product as part of the transaction, but not including customers who purchased or leased such vehicles from one of our dealerships in Florida. The Partial Final Award on Class Certification is not a final decision on the merits of the action. The merits of Claimants' assertions and potential damages will still have to be proven through the remainder of the arbitration. The Arbitrator stayed the Arbitration for thirty days to allow either party to petition a court of competent jurisdiction to confirm or vacate the award. We will seek review of the class certification ruling by a court of competent jurisdiction and will continue to press our argument that this action is not suitable for a class-based arbitration. On July 22, 2010, the plaintiffs in this consolidated arbitration filed a Motion to Confirm the Arbitrator's Partial Final Award on Class Certification in state court in North Carolina, Lincoln County Superior Court. On August 17, 2010, we filed to remove this North Carolina state court action to federal court, and simultaneously filed a Petition to Vacate the Arbitrator's Partial Final Award on Class Certification, with both filings made in the United States District Court for the Western District of North Carolina.

On August 12, 2011, the United States District Court for the Western District of North Carolina issued an Order granting our Petition to Vacate Arbitration Award on Class Certification and denied Claimant's Motion to Dismiss the same. Claimants filed a Notice of Appeal to the United States Fourth Circuit Court of Appeals on September 12, 2011. The federal court's stay of the arbitration proceeding remains in force pending a ruling on Claimants' motion to lift the stay, which motion we have opposed. We intend to continue our vigorous defense of this arbitration and to assert all available defenses. However, an adverse resolution of this arbitration could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows. We are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of amount accrued, for this litigation matter.

We are involved, and expect to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although we vigorously defend ourselves in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. Similarly, except as reflected in reserves we have provided for in other accrued liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**RISK FACTORS**

**Item 1A: Risk Factors**

In addition to the information below and other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results.

*Disruptions in the supply-chain of automotive manufacturers and related parts suppliers may negatively impact our profitability.*

As a retail company, we are dependent upon others to supply us with new vehicles for retail sale and vehicle components for our parts and service operations. Significant disruptions in these supply-chains may affect the availability of new vehicles and vehicle components that are necessary to our operations.

As a result of the March 2011 earthquake and associated tsunami affecting Japan, automotive manufacturing and automotive manufacturing support activities have been negatively affected. These automotive manufacturing and automotive manufacturing support activities served a wide range of companies globally. This includes the Japanese automotive manufacturers such as Toyota and Honda, and automotive manufactures and parts suppliers globally that source component parts from the affected regions in Japan. Although it is difficult to quantify the effect of these events or the duration of the supply-chain disruption, we believe the following may occur:

Lower supply of new vehicle inventory continuing into the fourth quarter;

Higher cost of certain automotive parts while the supply-chain is disrupted;

Higher cost of certain new vehicle inventory (sourced either directly from manufacturers or from other franchised dealers) while supply is lower;

Changes in demand for certain used or certified vehicles, which may affect the acquisition cost and selling price of those vehicles; and

Supply and manufacturing disruptions affecting other major automotive manufacturers in some manner due to the reliance on certain components that are sourced in Japan.

*Our significant indebtedness could materially adversely affect our financial health, limit our ability to finance future acquisitions and capital expenditures and prevent us from fulfilling our financial obligations.*

As of September 30, 2011, our total outstanding indebtedness was approximately \$1.3 billion, including the following:

\$757.8 million under the secured new and used inventory floor plan facilities;

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

\$208.7 million in 9.0% Senior Subordinated Notes due 2018 (the 9.0% Notes ), representing \$210.0 million in aggregate principal amount outstanding less unamortized discount of approximately \$1.3 million;

\$144.8 million in 5.0% Convertible Senior Notes due 2029 which are redeemable by us and which may be put to us by the holders after October 1, 2014 under certain circumstances (the 5.0% Convertible Notes ), representing \$165.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$20.3 million;

\$178.4 million of mortgage notes, representing \$179.3 million in aggregate principal amount less unamortized net discount of approximately \$0.9 million, due from June 2013 to December 2031, with a weighted average interest rate of 4.78%; and

\$39.1 million of other secured debt, representing \$37.7 million in aggregate principal amount plus unamortized premium of approximately \$1.4 million.

On July 8, 2011, we replaced our 2010 Credit Facilities with the facilities discussed below. We have \$175.0 million of maximum borrowing availability under a syndicated revolving credit facility (the 2011 Revolving Credit Facility ), up to \$500.0 million in maximum borrowing availability for new vehicle inventory floor plan financing and up to \$80.0 million in

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**RISK FACTORS**

maximum borrowing availability for used vehicle inventory floor plan financing (the 2011 Floor Plan Facilities ). We refer to the 2011 Revolving Credit Facility and 2011 Floor Plan Facilities collectively as our 2011 Credit Facilities . As of September 30, 2011, we had \$88.2 million available for additional borrowings under the 2011 Revolving Credit Facility based on the borrowing base calculation, which is affected by numerous factors including eligible asset balances and the market value of certain additional collateral. We are able to borrow under our 2011 Revolving Credit Facility only if, at the time of the borrowing, we can make all representations and warranties and are in compliance with all financial and other covenants contained therein. We also have capacity to finance new and used vehicle inventory purchases under bilateral floor plan agreements with various manufacturer-affiliated finance companies and other lending institutions (the Silo Floor Plan Facilities ) as well as our 2011 Floor Plan Facilities. In addition, the indentures relating to our 9.0% Notes, 5.0% Convertible Notes and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness, as long as we comply with the terms thereunder.

In addition, the majority of our dealership properties are leased under long-term operating lease arrangements that commonly have initial terms of fifteen to twenty years with renewal options ranging from five to ten years. These operating leases require compliance with financial and operating covenants similar to those under our 2011 Credit Facilities, and monthly payments of rent that may fluctuate based on interest rates and local consumer price indices. The total future minimum lease payments related to these operating leases and certain equipment leases are significant and are disclosed in Note 12, Commitments and Contingencies, in the notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

***The outcome of legal and administrative proceedings we are or may become involved in could have a material adverse effect on our future business, results of operations, financial condition and cash flows.***

We are involved, and expect to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified.

Several private civil actions have been filed against us and several of our dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and made allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions was filed on November 15, 2004 in South Carolina state court, York County Court of Common Pleas, against us and 10 of our South Carolina subsidiaries. The plaintiffs in that lawsuit were Misty J. Owens, James B. Wright, Vincent J. Astey and Joseph Lee Williams, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The group of plaintiffs attorneys representing the plaintiffs in the South Carolina lawsuit also filed another private civil class action lawsuit against us and 3 of our subsidiaries on February 14, 2005 in state court in North Carolina, Lincoln County Superior Court, which similarly sought certification of a multi-state class of plaintiffs and alleged that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. The plaintiffs in this North Carolina lawsuit were Robert Price, Carolyn Price, Marcus Cappeletti and Kathy Cappeletti, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The South Carolina state court action and the North Carolina state court action have since been consolidated into a single proceeding in private arbitration before the American Arbitration Association (the Arbitrator ). On November 12, 2008, claimants in the consolidated arbitration filed a Motion for Class Certification as a national class action including all of the states in which we operate dealerships. Claimants are seeking monetary damages and injunctive relief on behalf of this class of customers. The parties have briefed and argued the issue of class certification.

On July 19, 2010, the Arbitrator issued a Partial Final Award on Class Certification, certifying a class which includes all customers who, on or after November 15, 2000, purchased or leased from one of our dealerships a vehicle with the Etch product as part of the transaction, but not including customers who purchased or leased such vehicles from one of our dealerships in Florida. The Partial Final Award on Class Certification is not a final decision on the merits of the action. The merits of Claimants assertions and potential damages will still have to be proven through the remainder of the arbitration. The Arbitrator stayed the Arbitration for thirty days to allow either party to petition a court of competent jurisdiction to confirm or vacate the award. We will seek review of the class certification ruling by a court of competent jurisdiction and will continue to press our argument that this action is not suitable for a class-based arbitration. On July 22, 2010, the plaintiffs in this consolidated arbitration filed a Motion to Confirm the Arbitrator s Partial Final Award on Class Certification in state court in North Carolina, Lincoln County Superior Court. On August 17, 2010, we filed to remove this North Carolina state court action to federal court, and simultaneously filed a Petition to Vacate the Arbitrator s Partial Final Award on Class Certification, with both filings made in the United States District Court for the Western District of North Carolina.



**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**RISK FACTORS**

On August 12, 2011, the United States District Court for the Western District of North Carolina issued an Order granting our Petition to Vacate Arbitration Award on Class Certification and denied Claimant's Motion to Dismiss the same. Claimants filed a Notice of Appeal to the United States Fourth Circuit Court of Appeals on September 12, 2011. The federal court's stay of the arbitration proceeding remains in force pending a ruling on Claimant's motion to lift the stay, which motion we have opposed. We intend to continue our vigorous defense of this arbitration and to assert all available defenses. However, an adverse resolution of this arbitration could result in the payment of significant costs and damages, which could have a material adverse effect on our future results of operations, financial condition and cash flows.

Although we vigorously defend ourselves in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.



**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

(In thousands, except per share data)

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 2011		\$		\$ 39,608
August 2011	375	13.90	375	34,399
September 2011				34,399
<b>Total</b>	375	\$ 13.90	375	\$ 34,399

(1) All shares repurchased were part of publicly announced share repurchase programs

(2) Our publicly announced Class A Common Stock repurchase authorizations occurred as follows:

	(amounts in thousands)
November 1999	\$ 25,000
February 2000	25,000
December 2000	25,000
May 2001	25,000
August 2002	25,000
February 2003	20,000
December 2003	20,000
July 2004	20,000
July 2007	30,000
October 2007	40,000
April 2008	40,000
<b>Total</b>	\$ 295,000

Under our 2011 Credit Facilities and the 9.0% Notes, share repurchases and dividends are permitted to the extent that no event of default exists and we are in compliance with certain covenants contained therein. See Note 6, Long-term Debt, in the notes to the accompanying Unaudited Condensed Consolidated Financial Statements and Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations for additional discussion of share repurchases and dividends.

**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES****Item 6: Exhibits.****(a) Exhibits:**

<b>Exhibit No.</b>	<b>Description</b>
<b>10.1*</b>	Second Amended and Restated Credit Agreement, dated as of July 8, 2011, among Sonic Automotive, Inc.; each lender; Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer; and Wells Fargo Bank, National Association, as an L/C Issuer (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.2*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.3*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.4*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of BMW Financial Services NA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.5*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Toyota Motor Credit Corporation, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.6*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.7*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.8*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.9*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of World Omni Financial Corp., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.10*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.10 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.11*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of VW Credit, Inc., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.11 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.12*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.12 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.13*</b>	Second Amended and Restated Subsidiary Guaranty Agreement, Dated as of July 8, 2011, by the Revolving Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.13 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.14*</b>	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.14 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.15*</b>	Second Amended and Restated Escrow and Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders

Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

(incorporated by reference to Exhibit 10.15 to our Quarterly Report on Form 10-Q filed on August 1, 2011).

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

<b>10.16*</b>	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Financial Corporation and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.16 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.17*</b>	Second Amended and Restated Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.17 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.18*</b>	Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement, dated July 8, 2011, among Sonic Automotive, Inc.; certain subsidiaries of the Company; each lender; Bank of America, N.A., as Administrative Agent, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender; and Bank of America, N.A., as Revolving Administrative Agent (incorporated by reference to Exhibit 10.18 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.19*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.19 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.20*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.20 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.21*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.21 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.22*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.22 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.23*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.23 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.24*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.25*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.25 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.26*</b>	Amended and Restated Company Guaranty Agreement, dated July 8, 2011, by Sonic Automotive, Inc. and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.26 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.27*</b>	Amended and Restated Subsidiary Guaranty Agreement, dated as of July 8, 2011, by the Floor Plan Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.27 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>31.1</b>	Certification of Mr. David P. Cospers pursuant to rule 13a-14(a)
<b>31.2</b>	Certification of Mr. O. Bruton Smith pursuant to rule 13a-14(a)
<b>32.1</b>	Certification of Mr. David P. Cospers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<b>32.2</b>	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<b>101.INS**</b>	XBRL Instance Document
<b>101.SCH**</b>	XBRL Taxonomy Extension Schema Document

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

<b>101.CAL**</b>	XBRL Taxonomy Extension Calculation Linkbase Document
<b>101.DEF**</b>	XBRL Taxonomy Definition Linkbase Document
<b>101.LAB**</b>	XBRL Taxonomy Extension Label Linkbase Document
<b>101.PRE**</b>	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed Previously

\*\* Pursuant to Rule406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**Forward Looking Statements**

This Quarterly Report on Form 10-Q contains numerous forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address our future objectives, plans and goals, as well as our intent, beliefs and current expectations regarding future operating performance, and can generally be identified by words such as may, will, should, believe, expect, anticipate, intend, plan, foresee and other similar words or phrases. Specific events addressed by these forward-looking statements include, but are not limited to:

the effect of the earthquake and tsunami in Japan on our operations;

vehicle sales rates and same store sales growth;

future liquidity trends or needs;

our business and growth strategies;

future covenant compliance;

our financing plans and our ability to repay or refinance existing debt when due;

future acquisitions or dispositions;

level of fuel prices;

industry trends; and

general economic trends, including employment rates and consumer confidence levels.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance and that actual results could differ materially from those projected in these forward-looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in Item 1 and Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and Item 1A of this Form 10-Q and elsewhere in this report, as well as:

the number of new and used cars sold in the United States generally and as compared to our expectations and the expectations of the market;

## Edgar Filing: SONIC AUTOMOTIVE INC - Form 10-Q

our ability to generate sufficient cash flows or obtain additional financing to fund acquisitions, capital expenditures, our share repurchase program, dividends on our Common Stock and general operating activities;

the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives vehicle manufacturers offer and their ability to design, manufacture, deliver and market their vehicles successfully;

our relationships with manufacturers, which may affect our ability to complete additional acquisitions;

adverse resolutions of one or more significant legal proceedings against us or our dealerships;

changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements and environmental laws;

general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, the level of consumer spending and consumer credit availability;

the terms of any refinancing of our existing indebtedness;

high competition in the automotive retailing industry, which not only creates pricing pressures on the products and services we offer, but on businesses we seek to acquire;

our ability to successfully integrate potential future acquisitions; and

the rate and timing of overall economic recovery or decline.

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

**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: October 31, 2011

By: /s/ O. BRUTON SMITH

O. Bruton Smith  
*Chairman and Chief Executive Officer*

Date: October 31, 2011

By: /s/ DAVID P. COSPER

David P. Cospér  
*Vice Chairman and Chief Financial Officer*

*(Principal Financial Officer)*



**Table of Contents****SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

## EXHIBIT INDEX

**Exhibit**

<b>No.</b>	<b>Description</b>
<b>10.1*</b>	Second Amended and Restated Credit Agreement, dated as of July 8, 2011, among Sonic Automotive, Inc.; each lender; Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer; and Wells Fargo Bank, National Association, as an L/C Issuer (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.2*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.3*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.4*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of BMW Financial Services NA, LLC, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.5*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Toyota Motor Credit Corporation, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.6*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.7*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.8*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.9*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of World Omni Financial Corp., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.10*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.10 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.11*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of VW Credit, Inc., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.11 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.12*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.12 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.13*</b>	Second Amended and Restated Subsidiary Guaranty Agreement, Dated as of July 8, 2011, by the Revolving Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.13 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.14*</b>	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.14 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.15*</b>	Second Amended and Restated Escrow and Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.15 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.16*</b>	Second Amended and Restated Securities Pledge Agreement, dated as of July 8, 2011, by



**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

	Sonic Financial Corporation and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.16 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.17*</b>	Second Amended and Restated Security Agreement, dated as of July 8, 2011, by Sonic Automotive, Inc., the subsidiaries of Sonic named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.17 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.18*</b>	Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement, dated July 8, 2011, among Sonic Automotive, Inc.; certain subsidiaries of the Company; each lender; Bank of America, N.A., as Administrative Agent, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender; and Bank of America, N.A., as Revolving Administrative Agent (incorporated by reference to Exhibit 10.18 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.19*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Bank of America, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.19 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.20*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of JPMorgan Chase Bank, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.20 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.21*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Wells Fargo Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.21 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.22*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Comerica Bank, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.22 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.23*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of U.S. Bank, National Association, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.23 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.24*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Capital One, N.A., pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.25*</b>	Promissory Note, dated July 8, 2011, executed by Sonic in favor of Mercedes-Benz Financial Services USA, LLC, pursuant to the Amended and Restated Syndicated New and Used Vehicle Floor Plan Credit Agreement (incorporated by reference to Exhibit 10.25 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.26*</b>	Amended and Restated Company Guaranty Agreement, dated July 8, 2011, by Sonic Automotive, Inc. and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.26 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>10.27*</b>	Amended and Restated Subsidiary Guaranty Agreement, dated as of July 8, 2011, by the Floor Plan Subsidiary Guarantor, as Guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.27 to our Quarterly Report on Form 10-Q filed on August 1, 2011).
<b>31.1</b>	Certification of Mr. David P. Cosper pursuant to rule 13a-14(a)
<b>31.2</b>	Certification of Mr. O. Bruton Smith pursuant to rule 13a-14(a)
<b>32.1</b>	Certification of Mr. David P. Cosper pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<b>32.2</b>	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<b>101.INS**</b>	XBRL Instance Document
<b>101.SCH**</b>	XBRL Taxonomy Extension Schema Document
<b>101.CAL**</b>	XBRL Taxonomy Extension Calculation Linkbase Document

**Table of Contents**

**SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES**

<b>101.DEF**</b>	XBRL Taxonomy Definition Linkbase Document
<b>101.LAB**</b>	XBRL Taxonomy Extension Label Linkbase Document
<b>101.PRE**</b>	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed Previously

\*\* Pursuant to Rule406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.