SONIC AUTOMOTIVE INC
Form 10-Q
July 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

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

4401 Colwick Road	28211

Charlotte, North Carolina
(Address of principal executive offices) (Zip Code)

(704) 566-2400

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 17, 2015, there were 38,696,067 shares of Class A common stock and 12,029,375 shares of Class B common stock outstanding.

SONIC AUTOMOTIVE, INC.

FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

INDEX

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars and shares in thousands, except per share amounts)			
Revenues:				
New vehicles	$1,295,288	$1,298,777	$2,497,610	$2,445,397
Used vehicles	658,794	603,868	1,252,536	1,163,684
Wholesale vehicles	41,131	44,765	82,789	86,363
Total vehicles	1,995,213	1,947,410	3,832,935	3,695,444
Parts, service and collision repair	346,164	329,134	669,358	647,905
Finance, insurance and other, net	82,363	76,736	156,963	146,317
Total revenues	2,423,740	2,353,280	4,659,256	4,489,666
Cost of Sales:				
New vehicles	(1,230,352)	(1,224,584)	(2,369,325)	(2,304,531)
Used vehicles	(618,098)	(566,395)	(1,170,996)	(1,085,517)
Wholesale vehicles	(43,807)	(46,079)	(85,673)	(87,772)
Total vehicles	(1,892,257)	(1,837,058)	(3,625,994)	(3,477,820)
Parts, service and collision repair	(175,929)	(169,275)	(342,749)	(335,899)
Total cost of sales	(2,068,186)	(2,006,333)	(3,968,743)	(3,813,719)
Gross profit	355,554	346,947	690,513	675,947
Selling, general and administrative expenses	(284,661)	(268,914)	(555,523)	(532,887)
Impairment charges	(10,469)	(4)	(16,661)	(7)
Depreciation and amortization	(17,294)	(14,431)	(33,703)	(28,812)
Operating income (loss)	43,130	63,598	84,626	114,241
Other income (expense):				
Interest expense, floor plan	(5,345)	(4,846)	(10,123)	(9,535)
Interest expense, other, net	(13,054)	(13,865)	(26,274)	(27,683)
Other income (expense), net	10	3	100	100
Total other income (expense)	(18,389)	(18,708)	(36,297)	(37,118)
Income (loss) from continuing operations before taxes	24,741	44,890	48,329	77,123
Provision for income taxes for continuing operations - benefit (expense)	(9,649)	(17,829)	(18,848)	(30,078)
Income (loss) from continuing operations	15,092	27,061	29,481	47,045
Discontinued operations:				
Income (loss) from discontinued operations before taxes	(509)	(127)	(1,200)	(1,092)
	198	59	468	426

Provision for income taxes for discontinued operations - benefit (expense)				
Income (loss) from discontinued operations	(311)	(68)	(732)	(666)
Net income (loss)	$14,781	$26,993	$28,749	$46,379
Basic earnings (loss) per common share:				
Earnings (loss) per share from continuing operations	$0.30	$0.51	$0.58	$0.89
Earnings (loss) per share from discontinued operations	(0.01)	-	(0.01)	(0.01)
Earnings (loss) per common share	$0.29	$0.51	$0.57	$0.88
Weighted average common shares outstanding	50,784	52,514	50,819	52,466
Diluted earnings (loss) per common share:				
Earnings (loss) per share from continuing operations	$0.30	$0.51	$0.57	$0.89
Earnings (loss) per share from discontinued operations	(0.01)	-	(0.01)	(0.02)
Earnings (loss) per common share	$0.29	$0.51	$0.56	$0.87
Weighted average common shares outstanding	51,093	52,930	51,247	52,938
Dividends declared per common share	$0.025	$0.025	$0.05	$0.05

See notes to condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income (loss)	$14,781	$26,993	$28,749	$46,379
Other comprehensive income (loss) before taxes:				
Change in fair value of interest rate swap agreements	1,439	(487)	(50)	1,186
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	(547)	185	19	(451)
Other comprehensive income (loss)	892	(302)	(31)	735
Comprehensive income (loss)	$15,673	$26,691	$28,718	$47,114

See notes to condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$3,552	$ 4,182
Receivables, net	308,853	371,994
Inventories	1,441,148	1,311,702
Other current assets	81,755	81,081
Total current assets	1,835,308	1,768,959
Property and Equipment, net	829,698	799,319
Goodwill	473,713	475,929
Other Intangible Assets, net	80,998	83,720
Other Assets	55,778	55,208
Total Assets	$3,275,495	$ 3,183,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	$763,523	$ 711,618
Notes payable - floor plan - non-trade	545,901	551,118
Trade accounts payable	113,621	132,405
Accrued interest	12,524	12,409
Other accrued liabilities	198,896	208,654
Current maturities of long-term debt	38,536	30,802
Total current liabilities	1,673,001	1,647,006
Long-Term Debt	780,883	742,610
Other Long-Term Liabilities	70,198	69,200
Deferred Income Taxes	65,979	57,601
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; 62,451,254 shares issued and 38,696,067 shares outstanding at June 30, 2015; 62,046,966 shares issued and 38,890,533 shares outstanding at December 31, 2014	625	620
Class B common stock; $0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at June 30, 2015	121	121

and December 31, 2014		
Paid-in capital	705,046	697,760
Retained earnings	402,575	376,353
Accumulated other comprehensive income (loss)	(6,455)	(6,424)
Treasury stock, at cost; 23,755,187 Class A shares held at June 30, 2015 and 23,156,433 Class A shares held at December 31, 2014.	(416,478)	(401,712)
Total Stockholders' Equity	685,434	666,718
Total Liabilities and Stockholders' Equity	$ 3,275,495	$ 3,183,135

See notes to condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

	Class A Common Stock		Class A Treasury Stock		Class B Common Stock		Paid-In	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings		
	(Dollars and shares in thousands)									
Balance at December 31, 2014	62,047	$620	(23,156)	$(401,712)	12,029	$121	$697,760	$376,353	$(6,424)	$666,718
Shares awarded under stock compensation plans	383	5	-	-	-	-	2,127	-	-	2,132
Purchases of treasury stock	-	-	(599)	(14,766)	-	-	-	-	-	(14,766)
Income tax benefit associated with stock compensation plans	-	-	-	-	-	-	416	-	-	416
Fair value of interest rate swap agreements, net of tax benefit of $19	-	-	-	-	-	-	-	-	(31)	(31)
Restricted stock amortization	-	-	-	-	-	-	4,743	-	-	4,743
Other	21	-	-	-	-	-	-	-	-	-
Net income (loss)	-	-	-	-	-	-	-	28,749	-	28,749
Dividends ($0.05 per	-	-	-	-	-	-	-	(2,527)	-	(2,527)

share)										
Balance at June 30, 2015	62,451	$625	(23,755)	$(416,478)	12,029	$121	$705,046	$402,575	$(6,455)	$685,434

See notes to condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$28,749	$46,379
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	33,701	28,809
Provision for bad debt expense	1,425	191
Other amortization	325	780
Debt issuance cost amortization	966	1,144
Debt discount amortization, net of premium amortization	83	29
Stock - based compensation expense	4,743	4,181
Deferred income taxes	8,396	14,198
Equity interest in earnings of investee	(143)	(141)
Asset impairment charges	16,661	7
Loss (gain) on disposal of dealerships and property and equipment	(1,202)	(8,193)
Loss (gain) on exit of leased dealerships	707	624
Changes in assets and liabilities that relate to operations:		
Receivables	65,824	63,214
Inventories	(129,446)	(44,708)
Other assets	(4,163)	(41,474)
Notes payable - floor plan - trade	51,905	23,096
Trade accounts payable and other liabilities	(24,422)	(34,496)
Total adjustments	25,360	7,261
Net cash provided by (used in) operating activities	54,109	53,640
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	-	(2,573)
Purchases of land, property and equipment	(82,922)	(48,586)
Proceeds from sales of property and equipment	775	3,954
Proceeds from sales of dealerships	1,250	27,235
Distributions from equity investee	225	400
Net cash provided by (used in) investing activities	(80,672)	(19,570)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on notes payable - floor plan - non-trade	(5,217)	(55,628)
Borrowings on revolving credit facilities	238,672	59,429
Repayments on revolving credit facilities	(229,674)	(59,429)
Proceeds from issuance of long-term debt	46,075	40,421
Principal payments on long-term debt	(9,149)	(7,937)
Purchases of treasury stock	(14,766)	(11,155)

Income tax benefit (expense) associated with stock compensation plans	416	332
Issuance of shares under stock compensation plans	2,132	2,527
Dividends paid	(2,556)	(2,647)
Net cash provided by (used in) financing activities	25,933	(34,087)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(630)	(17)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,182	3,016
CASH AND CASH EQUIVALENTS, END OF PERIOD	$3,552	$2,999
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Change in fair value of cash flow hedging instruments (net of tax benefit and expense of $19 and $451 in the six months ended June 30, 2015 and 2014, respectively)	$(31)	$735
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest, including amount capitalized	$35,825	$36,804
Income taxes	$7,768	$23,708

See notes to condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying condensed consolidated financial statements of Sonic Automotive, Inc. and its wholly-owned subsidiaries ("Sonic," the "Company," "we," "us" and "our") for the three and six months ended June 30, 20 and 2014, are unaudited and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material normal recurring adjustments necessary to fairly state the financial position, results of operations and cash flows for the periods presented. The operating results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year or future interim periods, because the first quarter normally contributes less operating profit than the second, third and fourth quarters. These interim financial statements should be read in conjunction with the audited consolidated financial statements included in Sonic's Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements – In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03 to simplify the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. The ASU also requires that the amortization of debt issuance costs be reported as interest expense. For public companies, this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 (early adoption is permitted). The adoption of this ASU will impact the presentation of certain items in Sonic's consolidated financial position and other disclosures.

Also in April 2015, the FASB issued ASU 2015-05 related to customer's accounting for fees paid in a cloud computing arrangement. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after

December 15, 2015 (early adoption is permitted). Sonic does not expect this ASU to have a significant impact on its consolidated financial position, results of operations or cash flows.

Principles of Consolidation – All of Sonic's dealership and non-dealership subsidiaries are wholly-owned and consolidated in the accompanying condensed consolidated financial statements, except for one 50% - owned dealership that is accounted for under the equity method. All material intercompany balances and transactions have been eliminated in the accompanying condensed consolidated financial statements.

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. These situations could include the relocation of an existing facility or the sale of a dealership whereby the buyer will not be subleasing the property for either the remaining term of the lease or for an amount of rent equal to Sonic's obligation under the lease. See Note 12, “Commitments and Contingencies,” of the notes to the consolidated financial statements in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion.

A summary of the activity of these operating lease exit accruals consists of the following:

	(In thousands)
Balance at December 31, 2014	$ 18,962
Lease exit expense (1)	707
Payments (2)	(3,066)
Balance at June 30, 2015	$ 16,603

(1) Expense of approximately $0.1 million is recorded in interest expense, other, net, and expense of approximately $0.6 million is recorded in income (loss) from discontinued operations before taxes, in the accompanying condensed consolidated statements of income.

(2) Amount is recorded as an offset to rent expense, with approximately $0.4 million in selling, general and administrative expenses, and $2.7 million in income (loss) from discontinued operations before taxes, in the accompanying condensed consolidated statements of income.

Income Tax Expense – The overall effective tax rate from continuing operations was 39.0% for both the three and six months ended June 30, 2015, and was 39.7% and 39.0% for the three and six months ended June 30, 2014, respectively. Sonic’s effective tax

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

rate varies from year to year based on the distribution of taxable income between states in which Sonic operates and other tax adjustments. Sonic expects the effective tax rate in future periods to fall within a range of 38.0% to 40.0% before the impact, if any, of changes in valuation allowances related to deferred income tax assets or unusual discrete tax adjustments.

2. Business Acquisitions and Dispositions

Acquisitions – Sonic acquired one luxury franchise during the six months ended June 30, 2014 for an aggregate purchase price of approximately $2.6 million. Sonic did not acquire any franchises during the six months ended June 30, 2015.

Dispositions – As discussed in Note 1, “Description of Business and Summary of Significant Accounting Policies,” of the notes to the consolidated financial statements in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2014, the FASB issued ASU 2014-08 which amended the definition of and reporting requirements for discontinued operations. Sonic elected to adopt and apply this guidance beginning with its Quarterly Report on Form 10-Q for the period ended June 30, 2014. The results of operations for those dealerships that were classified as discontinued operations as of March 31, 2014 are included in income (loss) from discontinued operations in the accompanying condensed consolidated statements of income and will continue to be reported within discontinued operations in the future. Revenues and other activities associated with dealerships classified as discontinued operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Income (loss) from operations	$(393)	$(181)	$(645)	$(770)
Gain (loss) on disposal	-	97	-	53
Lease exit accrual adjustments and charges	(116)	(43)	(555)	(375)
Pre-tax income (loss)	$(509)	$(127)	$(1,200)	$(1,092)
Total revenues	$-	$-	$-	$-

Beginning with disposals occurring during the three months ended June 30, 2014, only the operating results of disposals that represent a strategic shift that has (or will have) a major impact on Sonic’s results of operations and financial position will be included in the income (loss) from discontinued operations in the accompanying condensed consolidated statements of income. Sonic disposed of one franchise during the three and six months ended June 30, 2015 that generated net cash of approximately $1.3 million. Sonic disposed of two franchises during the three months ended June 30, 2014 and disposed of three franchises during the six months ended June 30, 2014. These disposals generated net cash from disposition in those periods of approximately $13.3 million and $15.2 million, respectively.

Revenues and other activities associated with disposed dealerships that remain in continuing operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Income (loss) from operations	$(998)	$719	$(1,280)	$205
Gain (loss) on disposal	1,057	7,260	955	7,624
Property impairment charges	(10,096)	-	(10,096)	-
Pre-tax income (loss)	$(10,037)	$7,979	$(10,421)	$7,829
Total revenues	$4,504	$82,783	$10,603	$155,232

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Inventories

Inventories consists of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
New vehicles	$1,028,430	$924,818
Used vehicles	232,773	214,015
Service loaners	117,639	112,520
Parts, accessories and other	62,306	60,349
Net inventories	$1,441,148	$1,311,702

4. Property and Equipment

Property and equipment, net consists of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Land	$244,004	$224,124
Building and improvements	632,443	582,261
Office equipment and fixtures	174,083	151,165
Parts and service equipment	73,806	68,248
Company vehicles	8,997	8,958
Construction in progress	45,503	81,180
Total, at cost	1,178,836	1,115,936
Less accumulated depreciation	(349,138)	(316,617)
Property and equipment, net	$829,698	$799,319

In the three and six months ended June 30, 2015, capital expenditures were approximately $36.2 million and $82.9 million, respectively, and in the three and six months ended June 30, 2014, capital expenditures were approximately $27.0 million and $48.6 million, respectively. Capital expenditures in both periods were primarily related to real estate acquisitions, construction of new dealerships and EchoPark® stores, building improvements and equipment purchased for use in Sonic’s dealerships and EchoPark® stores.

Impairment charges for the three and six months ended June 30, 2015 were approximately $10.5 million and $16.7 million, respectively. Impairment charges for the three and six months ended June 30, 2015 include the write-off of goodwill, intangible assets, property and equipment as part of the disposal of a franchise, the write-off of certain costs associated with website and software development projects as well as abandonment of certain construction projects.

5. Goodwill and Intangible Assets

The change in the carrying amount of franchise assets and goodwill for the six months ended June 30, 2015 is as follows:

	Franchise Assets	Net Goodwill	
	(In thousands)		
Balance at December 31, 2014	$77,100	$475,929	(1)
Prior year acquisition allocations	-	230	
Reductions from dispositions	(2,400)	(2,446)	
Balance at June 30, 2015	$74,700	$473,713	(1)

(1) Net of accumulated impairment losses of $796,725.

At December 31, 2014, Sonic had approximately $6.6 million of definite life intangibles related to favorable lease agreements. After the effect of amortization of the definite life intangibles, the balance recorded at June 30, 2015 was approximately $6.3 million and is included in other intangible assets, net, in the accompanying condensed consolidated balance sheets.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
2014 Revolving Credit Facility (1)	$ 8,998	$ -
7.0% Senior Subordinated Notes due 2022 (the "7.0% Notes")	200,000	200,000
5.0% Senior Subordinated Notes due 2023 (the "5.0% Notes")	300,000	300,000
Notes payable to a finance company bearing interest from 9.52% to 10.52% (with a weighted average of 10.19%)	2,604	4,367
Mortgage notes to finance companies-fixed rate, bearing interest from 3.51% to 7.03%	164,281	147,554
Mortgage notes to finance companies-variable rate, bearing interest at 1.25 to 3.50 percentage points above one-month LIBOR	140,439	118,368
Net debt discount and premium (2)	(1,678)	(1,761)
Other	4,775	4,884
Total debt	$ 819,419	$ 773,412
Less current maturities	(38,536)	(30,802)
Long-term debt	$ 780,883	$ 742,610

(1) The interest on the 2014 Revolving Credit Facility was 2.25% above LIBOR at June 30, 2015 and December 31, 2014.

(2) June 30, 2015 includes a $1.4 million discount associated with the 7.0% Notes and a $0.3 million discount associated with mortgage notes payable. December 31, 2014 includes a $1.5 million discount associated with the 7.0% Notes, a $0.1 million premium associated with notes payable to a finance company and a $0.4 million discount associated with mortgage notes payable.

2014 Credit Facilities

On July 23, 2014, Sonic entered into agreements to amend and restate its syndicated revolving credit agreement and syndicated new and used vehicle floor plan credit facilities. The amended and restated syndicated revolving credit agreement (the “2014 Revolving Credit Facility”) and the amended and restated syndicated new and used vehicle floor plan credit facilities (the “2014 Floor Plan Facilities” and, together with the 2014 Revolving Credit Facility, the “2014 Credit Facilities”) are scheduled to mature on August 15, 2019.

Availability under the 2014 Revolving Credit Facility is calculated as the lesser of $225.0 million or a borrowing base calculated based on certain eligible assets, less the aggregate face amount of any outstanding letters of credit under the 2014 Revolving Credit Facility (the “Revolving Borrowing Base”). The 2014 Revolving Credit Facility may be increased at Sonic's option up to $275.0 million upon satisfaction of certain conditions. Based on balances as of June 30, 2015, the Revolving Borrowing Base was approximately $178.4 million. As of June 30, 2015, Sonic had approximately $9.0 million of outstanding borrowings and $25.2 million in outstanding letters of credit under the 2014 Revolving Credit Facility, resulting in total borrowing availability of $144.2 million under the 2014 Revolving Credit Facility. See Note 6, "Long-Term Debt," of the notes to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion.

7.0% Senior Subordinated Notes

On July 2, 2012, Sonic issued $200.0 million in aggregate principal amount of unsecured senior subordinated 7.0% Notes which mature on July 15, 2022. The 7.0% Notes were issued at a price of 99.11% of the principal amount thereof, resulting in a yield to maturity of 7.125%. Interest on the 7.0% Notes is payable semi-annually in arrears on January 15 and July 15 of each year. See Note 6, "Long-Term Debt," of the notes to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion.

5.0% Senior Subordinated Notes

On May 9, 2013, Sonic issued $300.0 million in aggregate principal amount of unsecured senior subordinated 5.0% Notes which mature on May 15, 2023. The 5.0% Notes were issued at a price of 100.0% of the principal amount thereof. Interest on the 5.0% Notes is payable semi-annually in arrears on May 15 and November 15 of each year. See Note 6, "Long-Term Debt," of the notes to the

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion.

Notes Payable to a Finance Company

Three notes payable (due October 2015 and August 2016) were assumed in connection with an acquisition in 2004 (the "Assumed Notes"). Sonic recorded the Assumed Notes at fair value using an interest rate of 5.35%. The interest rate used to calculate the fair value was based on a quoted market price for notes with similar terms as of the date of assumption. As a result of calculating the fair value, a premium of $7.3 million was recorded that is being amortized over the lives of the Assumed Notes. At June 30, 2015, the outstanding principal balance on the Assumed Notes was approximately $2.6 million.

Mortgage Notes

At June 30, 2015, Sonic had mortgage financing totaling approximately $304.7 million related to approximately 30% of its operating properties. These mortgage notes require monthly payments of principal and interest through their respective maturities and are secured by the underlying properties. Maturity dates range between 2015 and 2033. The weighted average interest rate was 3.65% at June 30, 2015.

Covenants

Sonic was in compliance with the covenants under the 2014 Credit Facilities as of June 30, 2015. Financial covenants include required specified ratios (as each is defined in the 2014 Credit Facilities) of:

	Covenant		
	Minimum Consolidated Liquidity Ratio	Minimum Consolidated Fixed Charge Coverage Ratio	Maximum Consolidated Total Lease Adjusted Leverage Ratio
Required ratio	1.05	1.20	5.50
June 30, 2015 actual	1.19	1.75	4.24

The 2014 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 2014 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 2014 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 1.50 to 1.00. As of June 30, 2015, the ratio was 3.60 to 1.00.

Derivative Instruments and Hedging Activities

Sonic has 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 June 30, 2015 was a liability of approximately $10.9 million, with $5.7 million included in other accrued liabilities and $5.2 million included in other long-term liabilities in the accompanying condensed consolidated balance sheets. The fair value of these swap positions at December 31, 2014 was a net liability of approximately $11.1 million, with $8.2 million included in other accrued liabilities and $3.5 million included in other long-term liabilities, offset partially by an asset of approximately $0.6 million included in other assets in the accompanying condensed consolidated balance sheets.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under the terms of these cash flow swaps, Sonic will receive and pay interest based on the following:

Notional Amount (In millions)		Pay Rate	Receive Rate (1)	Maturing Date
$ 2.7		7.100%	one-month LIBOR + 1.50%	July 10, 2017
$ 8.5		4.655%	one-month LIBOR	December 10, 2017
$ 7.3	(2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
$ 100.0		3.280%	one-month LIBOR	July 1, 2015
$ 100.0		3.300%	one-month LIBOR	July 1, 2015
$ 6.3	(2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
$ 50.0		3.240%	one-month LIBOR	July 1, 2015
$ 50.0		3.070%	one-month LIBOR	July 1, 2015
$ 100.0	(3)	2.065%	one-month LIBOR	June 30, 2017
$ 100.0	(3)	2.015%	one-month LIBOR	June 30, 2017
$ 200.0	(3)	0.788%	one-month LIBOR	July 1, 2016
$ 50.0	(4)	1.320%	one-month LIBOR	July 1, 2017
$ 250.0	(5)	1.887%	one-month LIBOR	June 30, 2018
$ 25.0	(4)	2.080%	one-month LIBOR	July 1, 2017
$ 100.0	(3)	1.560%	one-month LIBOR	July 1, 2017
$ 125.0	(4)	1.303%	one-month LIBOR	July 1, 2017
$ 125.0	(6)	1.900%	one-month LIBOR	July 1, 2018
$ 50.0	(7)	2.320%	one-month LIBOR	July 1, 2019
$ 200.0	(7)	2.313%	one-month LIBOR	July 1, 2019

(1) The one-month LIBOR rate was approximately 0.187% at June 30, 2015.
(2) Changes in fair value are recorded through earnings.
(3) The effective date of these forward-starting swaps is July 1, 2015.
(4) The effective date of these forward-starting swaps is July 1, 2016.
(5) The effective date of this forward-starting swap is July 3, 2017.
(6) The effective date of this forward-starting swap is July 1, 2017.
(7) The effective date of these forward-starting swaps is July 2, 2018.

During the three months ended June 30, 2015, Sonic entered into four forward-starting interest rate cash flow swap agreements with notional amounts of $125.0 million, $125.0 million, $50.0 million and $200.0 million. 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 other comprehensive income (loss), net of related income taxes, in the accompanying condensed consolidated statements of comprehensive income.

For the interest rate swaps not designated as cash flow hedges, the changes in the fair value of these swaps are recognized through earnings and are included in interest expense, other, net, in the accompanying condensed consolidated statements of income. For the three and six months ended June 30, 2015, these items were a benefit of approximately $0.2 million and $0.3 million, respectively, and for the three and six months ended June 30, 2014, these items were a benefit of approximately $0.1 million and $0.2 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 other comprehensive income (loss), net of related income taxes, in the accompanying condensed consolidated statements of comprehensive income and are disclosed in the supplemental schedule of non-cash financing activities in the accompanying condensed consolidated statements of cash flows. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was approximately $2.3 million and $4.6 million for the three and six months ended June 30, 2015, respectively, and $3.0 million and $5.9 million for the three and six months ended June 30, 2014, respectively, and is included in interest expense, other, net, in the accompanying condensed consolidated statements of income and the interest paid amount disclosed in the supplemental disclosures of cash flow information in the accompanying condensed consolidated statements of cash flows. The estimated net expense expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next twelve months is approximately $3.5 million.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Per Share Data and Stockholders' Equity

The calculation of diluted earnings per share considers the potential dilutive effect of options and shares under Sonic's stock compensation plans. Certain of Sonic's non-vested restricted stock and restricted stock units contain rights to receive non-forfeitable dividends and thus, are considered participating securities and are included in the two-class method of computing earnings per share. The following table illustrates the dilutive effect of such items on earnings per share for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015						
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In thousands, except per share amounts)						
Earnings (loss) and shares	50,784	$ 15,092		$ (311)		$ 14,781	
Effect of participating securities:							
Non-vested restricted stock and restricted stock units		(7)		-		(7)	
Basic earnings (loss) and shares	50,784	$ 15,085	$ 0.30	$ (311)	$ (0.01)	$ 14,774	$ 0.29
Effect of dilutive securities:							
Stock compensation plans	309						
Diluted earnings (loss) and shares	51,093	$ 15,085	$ 0.30	$ (311)	$ (0.01)	$ 14,774	$ 0.29

	Three Months Ended June 30, 2014						
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In thousands, except per share amounts)						
Earnings (loss) and shares	52,514	$ 27,061		$ (68)		$ 26,993	
Effect of participating securities:							

Non-vested restricted stock and restricted stock units		(87)			-		(87)	
Basic earnings (loss) and shares	52,514	$ 26,974	$ 0.51		$ (68)	$ -	$ 26,906	$ 0.51
Effect of dilutive securities:								
Stock compensation plans	416							
Diluted earnings (loss) and shares	52,930	$ 26,974	$ 0.51		$ (68)	$ -	$ 26,906	$ 0.51

	Six Months Ended June 30, 2015						
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In thousands, except per share amounts)						
Earnings (loss) and shares	50,819	$ 29,481		$ (732)		$ 28,749	
Effect of participating securities:							
Non-vested restricted stock and restricted stock units		(14)		-		(14)	
Basic earnings (loss) and shares	50,819	$ 29,467	$ 0.58	$ (732)	$ (0.01)	$ 28,735	$ 0.57
Effect of dilutive securities:							
Stock compensation plans	428						
Diluted earnings (loss) and shares	51,247	$ 29,467	$ 0.57	$ (732)	$ (0.01)	$ 28,735	$ 0.56

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Six Months Ended June 30, 2014						
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In thousands, except per share amounts)						
Earnings (loss) and shares	52,466	$47,045		$(666)		$46,379	
Effect of participating securities:							
Non-vested restricted stock and restricted stock units		(151)		-		(151)	
Basic earnings (loss) and shares	52,466	$46,894	$ 0.89	$(666)	$ (0.01)	$46,228	$ 0.88
Effect of dilutive securities:							
Stock compensation plans	472						
Diluted earnings (loss) and shares	52,938	$46,894	$ 0.89	$(666)	$ (0.02)	$46,228	$ 0.87

In addition to the stock options included in the table above, options to purchase approximately 0.4 million shares of Class A common stock were outstanding at June 30, 2015 and 2014, but were not included in the computation of diluted earnings per share because the options were not dilutive.

8. Contingencies

Legal and Other Proceedings

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 results of operations, financial position or cash flows.

Included in other accrued liabilities and other long-term liabilities in the accompanying condensed consolidated balance sheets was approximately $0.9 million and $0.2 million, respectively, at June 30, 2015, and approximately $2.0 million and $0.3 million, respectively, at December 31, 2014, in reserves that Sonic was holding 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 accordance with the terms of Sonic's operating lease agreements, Sonic's dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain exposure arising as a result of the use of the leased premises, including environmental exposure and repairs to leased property upon termination of the lease. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the lessee.

In connection with dealership dispositions, certain of Sonic's dealership subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the 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 their obligations under such leases, Sonic remains liable for the lease payments. See Note 12, "Commitments and Contingencies," of the notes to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2014 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, but that existed prior 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's maximum exposure associated with these general indemnifications was approximately $6.8 million and $16.8 million at June 30, 2015 and December 31, 2014, respectively. These indemnifications expire within a period of one to two years following the date of sale. The estimated fair value of these indemnifications was not material and the amount recorded for this contingency was not significant at June 30, 2015. Sonic also guarantees the floor plan commitments of its 50% -owned joint venture, the amount of which was approximately $2.8 million at both June 30, 2015 and December 31, 2014.

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 Accounting Standards Codification (“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 and deferred compensation plan balances.

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 annual goodwill impairment evaluation.

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 assets and liabilities 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.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Assets and liabilities recorded at fair value in the accompanying condensed consolidated balance sheets as of June 30, 2015 and December 31, 2014 are as follows:

	Fair Value Based on Significant Other Observable Inputs (Level 2)	
	June 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Cash surrender value of life insurance policies (1)	$29,674	$ 27,552
Cash flow swaps designated as hedges (1)	-	618
Total assets	$29,674	$ 28,170
Liabilities:		
Cash flow swaps designated as hedges (2)	$9,683	$ 10,251
Cash flow swaps not designated as hedges (3)	1,233	1,469
Deferred compensation plan (4)	16,361	15,863
Total liabilities	$27,277	$ 27,583

(1) Included in other assets in the accompanying condensed consolidated balance sheets.
(2) As of June 30, 2015, approximately $5.1 million and $4.6 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets. As of December 31, 2014, approximately $7.5 million and $2.8 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets.
(3) As of June 30, 2015, approximately $0.6 million was included in both other accrued liabilities and other long-term liabilities in the accompanying condensed consolidated balance sheets. As of December 31, 2014, approximately $0.7 million and $0.8 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets.
(4) Included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

There were no instances in the three and six months ended June 30, 2015 which required a fair value measurement of assets ordinarily measured at fair value on a non-recurring basis. Therefore, the carrying value of assets measured at fair value on a non-recurring basis in the accompanying condensed consolidated balance sheets as of June 30, 2015 have not changed since December 31, 2014.

As of June 30, 2015 and December 31, 2014, 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 2014 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.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At June 30, 2015 and December 31, 2014, the fair value and carrying value of Sonic's fixed rate long-term debt were as follows:

	June 30, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
7.0% Notes (1)	$217,000	$198,630	$216,000	$198,556
5.0% Notes (1)	$294,000	$300,000	$294,000	$300,000
Mortgage Notes (2)	$168,499	$164,281	$152,240	$147,554
Assumed Notes (2)	$2,602	$2,641	$4,365	$4,474
Other (2)	$4,487	$4,775	$4,588	$4,884

(1) As determined by market quotations as of June 30, 2015 and December 31, 2014, respectively (Level 1).
(2) As determined by discounted cash flows (Level 3)

10. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2015 are as follows:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component for the Six Months Ended June 30, 2015		
	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Income (Loss)
	(In thousands)		

Balance at December 31, 2014	$(5,973)	$ (451)	$ (6,424)
Other comprehensive income (loss) before reclassifications (1)	(2,922)	-	(2,922)
Amounts reclassified out of accumulated other comprehensive income (loss) (2)	2,891	-	2,891
Net current-period other comprehensive income (loss)	(31)	-	(31)
Balance at June 30, 2015	$(6,004)	$ (451)	$ (6,455)

(1) Net of tax benefit of $1,791.
(2) Net of tax expense of $1,772.
See the heading "Derivative Instruments and Hedging Activities" in Note 6, "Long-Term Debt," for further discussion of Sonic's cash flow hedges. For further discussion of Sonic's defined benefit pension plan, see Note 10, "Employee Benefit Plans," of the notes to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2014.

11. Segment Information

As of June 30, 2015, Sonic had two operating segments: Franchised Dealerships and EchoPark®. The Franchised Dealerships segment is comprised of retail automotive franchises that sell new and used vehicles, replacement parts and vehicle repair and maintenance services, and finance and insurance products. The EchoPark® segment is comprised of stand-alone pre-owned specialty retail locations that provide customers an opportunity to search, buy, service and sell pre-owned vehicles.

The operating segments identified above are the business activities of Sonic for which discrete financial information is available and for which operating results are regularly reviewed by Sonic's chief operating decision maker to assess operating performance and allocate resources. Sonic's chief operating decision maker is a group consisting of the Company's Executive Chairman, Chief Executive Officer and President and Chief Financial Officer. The Company has determined that its operating segments also represent its reportable segments.

SONIC AUTOMOTIVE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Reportable segment revenue and segment income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues:				
Franchised Dealerships	$2,402,764	$2,353,280	$4,622,594	$4,489,666
EchoPark®	20,976	-	36,662	-
Total consolidated revenues	$2,423,740	$2,353,280	$4,659,256	$4,489,666

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Segment income (loss) (1):				
Franchised Dealerships	$41,714	$61,996	$84,785	$109,691
EchoPark®	(3,929)	(3,244)	(10,282)	(4,985)
Total segment income	37,785	58,752	74,503	104,706
Interest expense, other, net	(13,054)	(13,865)	(26,274)	(27,683)
Other income (expense), net	10	3	100	100
Income (loss) from continuing operations before taxes	$24,741	$44,890	$48,329	$77,123

(1) Segment income (loss) for each segment is defined as operating income less floor plan interest expense.

12. Subsequent Events

On July 22, 2015, Sonic's Board of Directors appointed B. Scott Smith as Chief Executive Officer of the Company, effective immediately. He will also continue to serve as the Company's President and as a director of the Company. In connection with B. Scott Smith's appointment as Chief Executive Officer, a position previously held by O. Bruton Smith, Sonic's Board of Directors appointed O. Bruton Smith as Executive Chairman of the Company, effective immediately. As Executive Chairman, O. Bruton Smith will report directly to Sonic's Board of Directors and will work closely with the Board of Directors, the Chief Executive Officer and the Vice Chairman with regard to overall leadership and strategic direction of the Company, guidance of the Company's senior management, coordination of the Board of Directors' activities and communication with the Company's key stakeholders.

The Company has deemed that B. Scott Smith shall be the principal executive officer of the Company for purposes of all documents and certifications to be filed with or submitted to the SEC or the New York Stock Exchange and for all other similar or related purposes.

SONIC AUTOMOTIVE, INC.

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 our financial condition and results of operations should be read in conjunction with the Sonic Automotive, Inc. condensed consolidated financial statements and related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes thereto, "Item 1A: Risk Factors" and "Item 7: 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, 2014.

Except to the extent that differences among operating segments are material to an understanding of our business taken as a whole, we present the discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations on a consolidated basis.

As a result of the way we manage our business, as of June 30, 2015, we had two operating segments: Franchised Dealerships and EchoPark®. The Franchised Dealerships segment is comprised of retail automotive franchises that sell new and used vehicles, replacement parts and vehicle repair and maintenance services, and finance and insurance products. The EchoPark® segment is comprised of stand-alone pre-owned specialty retail locations that provide customers an opportunity to search, buy, service and sell pre-owned vehicles.

Overview

We are one of the largest automotive retailers in the United States. As of June 30, 2015, we operated 117 franchises in 13 states (representing 25 different brands of cars and light trucks) and 19 collision repair centers. For management and operational reporting purposes, we group certain franchises together that share management and inventory (principally used vehicles) into "stores." As of June 30, 2015, we operated 99 franchised dealership stores and three EchoPark® stores.

Our dealerships provide comprehensive services including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts, performance of vehicle maintenance, manufacturer warranty repairs, paint and collision repair services (collectively, "Fixed Operations"); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, "F&I") for our customers.

SONIC AUTOMOTIVE, INC.

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 three and six months ended June 30, 2015 and 2014:

Brand	Percentage of New Vehicle Revenue Three Months Ended June 30, 2015		Percentage of New Vehicle Revenue Three Months Ended June 30, 2014		Percentage of New Vehicle Revenue Six Months Ended June 30, 2015		Percentage of New Vehicle Revenue Six Months Ended June 30, 2014	
Luxury:								
BMW	20.9	%	21.1	%	21.5	%	20.8	%
Mercedes	9.4	%	8.7	%	9.5	%	9.1	%
Audi	5.3	%	5.0	%	5.0	%	4.9	%
Lexus	5.1	%	4.8	%	5.4	%	4.9	%
Land Rover	3.9	%	3.0	%	4.2	%	2.9	%
Cadillac	3.0	%	4.6	%	3.1	%	4.5	%
Porsche	2.6	%	2.5	%	2.4	%	2.3	%
Mini	2.3	%	2.3	%	2.1	%	2.2	%
Acura	0.8	%	0.9	%	0.9	%	0.9	%
Jaguar	0.7	%	0.6	%	0.7	%	0.7	%
Infiniti	0.7	%	0.8	%	0.7	%	0.8	%
Volvo	0.7	%	0.9	%	0.7	%	0.8	%
Total Luxury	55.4	%	55.2	%	56.2	%	54.8	%
Mid-line Import:								
Honda	16.0	%	15.6	%	15.6	%	15.1	%
Toyota	11.5	%	10.4	%	11.1	%	10.2	%
Volkswagen	1.9	%	1.9	%	1.8	%	1.9	%
Hyundai	1.4	%	1.8	%	1.4	%	1.8	%
Other (1)	1.1	%	1.4	%	1.3	%	1.6	%
Nissan	0.5	%	1.2	%	0.5	%	1.1	%
Total Mid-line Import	32.4	%	32.3	%	31.7	%	31.7	%
Domestic:								
Ford	6.9	%	7.1	%	6.8	%	7.9	%
General Motors (2)	5.3	%	5.4	%	5.3	%	5.6	%
Total Domestic	12.2	%	12.5	%	12.1	%	13.5	%
Total	100.0	%	100.0	%	100.0	%	100.0	%

(1) Includes Kia, Scion and Subaru.

(2) Includes Buick, Chevrolet and GMC.

Results of Operations

Unless otherwise noted, all discussion of increases or decreases for the three and six months ended June 30, 2015 are compared to the three and six months ended June 30, 2014, as applicable. The following discussion of new vehicles, used vehicles, wholesale vehicles, Fixed Operations and F&I are on a same store basis, except where otherwise noted. All currently operating continuing operations stores are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

New Vehicles

The automobile retail industry uses the Seasonally Adjusted Annual Rate ("SAAR") to measure the annual amount of expected new vehicle unit sales activity (both retail and fleet sales) within the United States. The SAAR below reflects all brands marketed or sold in the United States. The SAAR includes brands we do not sell and markets in which we do not operate, therefore, our new vehicle sales may not trend directly with the SAAR.

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions of vehicles)	2015	2014	% Change	2015	2014	% Change
SAAR	17.1	16.5	3.6 %	16.9	16.1	4.8 %

SONIC AUTOMOTIVE, INC.

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

New vehicle revenues include the sale of new vehicles to retail customers, as well as the sale of fleet vehicles. New vehicle revenues can be influenced by manufacturer incentives for consumers, which vary from cash-back incentives to low interest rate financing. New vehicle revenues are also dependent on manufacturers providing adequate vehicle allocations to our dealerships to meet customer demands and the availability of consumer credit.

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

	Three Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$1,295,288	$1,298,777	$(3,489)	(0.3%)
Gross profit	$64,936	$74,193	$(9,257)	(12.5%)
Unit sales	34,963	35,405	(442)	(1.2%)
Revenue per unit	$37,047	$36,683	$364	1.0%
Gross profit per unit	$1,857	$2,096	$(239)	(11.4%)
Gross profit as a % of revenue	5.0%	5.7%	(70) bps	

	Six Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$2,497,610	$2,445,397	$52,213	2.1%
Gross profit	$128,285	$140,866	$(12,581)	(8.9%)
Unit sales	66,652	66,536	116	0.2%
Revenue per unit	$37,472	$36,753	$719	2.0%
Gross profit per unit	$1,925	$2,117	$(192)	(9.1%)
Gross profit as a % of revenue	5.1%	5.8%	(70) bps	

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

	Three Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$1,282,668	$1,252,870	$29,798	2.4%

Gross profit	$64,789	$71,765	$(6,976)	(9.7 %)
Unit sales	34,575	34,125	450	1.3 %
Revenue per unit	$37,098	$36,714	$384	1.0 %
Gross profit per unit	$1,874	$2,103	$(229)	(10.9 %)
Gross profit as a % of revenue	5.1 %	5.7 %	(60)	bps

	Six Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$2,472,920	$2,362,936	$109,984	4.7 %
Gross profit	$127,227	$136,397	$(9,170)	(6.7 %)
Unit sales	65,911	64,207	1,704	2.7 %
Revenue per unit	$37,519	$36,802	$717	1.9 %
Gross profit per unit	$1,930	$2,124	$(194)	(9.1 %)
Gross profit as a % of revenue	5.1 %	5.8 %	(70)	bps

SONIC AUTOMOTIVE, INC.

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

During the three and six months ended June 30, 2015, we continued to test our new car pricing model. As we move toward our national One Sonic-One Experience launch (our new customer experience initiative), we believe we will become more aggressive in pricing as well as gain market share as customers benefit from the entire complement of our new shopping experience.

The increase in new vehicle revenue during the three and six months ended June 30, 2015, was primarily driven by an increase in new vehicle unit sales volume of 1.3% and 2.7%, respectively. Also contributing to the increase in new vehicle revenue during the three and six months ended June 30, 2015 was an increase in new vehicle revenue per unit of 1.0% and 1.9%, respectively. During the three and six months ended June 30, 2015, excluding fleet sales (which we began to scale back in 2014), our retail new vehicle revenue increased 2.9% and 6.0%, respectively, and our retail new unit sales volume increased 2.1% and 4.4%, respectively. Our Toyota/Scion, Mercedes and Honda dealerships led our retail new vehicle unit sales volume growth with increases of 9.8%, 16.3% and 2.2%, respectively, in the three months ended June 30, 2015. Our Toyota/Scion, Mercedes and Honda dealerships led our retail new vehicle unit sales volume growth with increases of 10.8%, 14.7% and 6.0%, respectively, in the six months ended June 30, 2015.

Total new vehicle gross profit dollars decreased $7.0 million, or 9.7%, during the three months ended June 30, 2015 and decreased $9.2 million, or 6.7%, during the six months ended June 30, 2015. Our gross profit per new unit decreased in the three and six months ended June 30, 2015 by $229 and $194 per unit, respectively, primarily driven by our BMW, Honda and Toyota/Scion dealerships. New fleet vehicle gross profit dollars decreased $0.4 million and $1.3 million, during the three and six months ended June 30, 2015, respectively.

Our luxury dealerships (which include Cadillac) experienced an increase in retail new vehicle revenue of 3.1% and 7.8%, during the three and six months ended June 30, 2015, respectively, primarily due to a retail new unit sales volume increase of 1.8% and 5.3%, respectively. Luxury dealership retail new vehicle gross profit decreased 4.3% during the three months ended June 30, 2015, primarily driven by gross profit per unit decreases at our BMW, Audi and Porsche dealerships. Luxury dealership retail new vehicle gross profit was flat during the six months ended June 30, 2015, as a result of gross profit per unit decreases at our BMW and Audi dealerships, being offset by gross profit increases at our Land Rover dealerships. Luxury dealership retail new vehicle gross profit per unit decreased 6.0% and 4.5% during the three and six months ended June, 2015, respectively, primarily driven by our BMW and Audi dealerships.

Our mid-line import dealerships experienced an increase in retail new vehicle revenue of 3.6% and 5.1%, during the three and six months ended June 30, 2015, respectively, primarily due to a retail new unit sales volume increase of 3.5% and 5.5%, respectively. Mid-line import dealership retail new vehicle gross profit decreased 25.0% and 23.0% during the three and six months ended June 30, 2015, respectively, primarily driven by our Honda, Toyota/Scion and Hyundai dealerships. Mid-line import dealership retail new vehicle gross profit per unit decreased 27.5% and 27.0% during the three and six months ended June 30, 2015, respectively, primarily driven by our Honda, Toyota/Scion and Hyundai dealerships. These declines are the result of our strategy to maintain and gain market share in a highly competitive environment.

Our domestic dealerships retail new vehicle revenue was flat during the three and six months ended June 30, 2015, primarily due to a retail new unit sales volume decrease of 1.7% and 2.5%, respectively, offset by an increase in revenue per unit of 1.7% and 2.4%, respectively. Domestic dealership retail new vehicle gross profit decreased 6.7% and 8.7% during the three and six months ended June 30, 2015, respectively, driven by our General Motors dealerships. Domestic dealership retail new vehicle gross profit per unit decreased 5.1% and 6.4% during the three and six months ended June 30, 2015, respectively, driven by our General Motors dealerships, partially offset by our Ford dealerships.

Used Vehicles

Used vehicle revenues are directly affected by a number of factors, including the level of manufacturer incentives on new vehicles, the number and quality of trade-ins and lease turn-ins, the availability and pricing of used vehicles acquired at auction and the availability of consumer credit.

SONIC AUTOMOTIVE, INC.

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

Our reported used vehicle results are as follows:

	Three Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$658,794	$603,868	$54,926	9.1 %
Gross profit	$40,696	$37,473	$3,223	8.6 %
Unit sales	30,301	28,514	1,787	6.3 %
Revenue per unit	$21,742	$21,178	$564	2.7 %
Gross profit per unit	$1,343	$1,314	$29	2.2 %
Gross profit as a % of revenue	6.2 %	6.2 %	0	bps

	Six Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Reported:				
Revenue	$1,252,536	$1,163,684	$88,852	7.6 %
Gross profit	$81,540	$78,167	$3,373	4.3 %
Unit sales	58,436	56,171	2,265	4.0 %
Revenue per unit	$21,434	$20,717	$717	3.5 %
Gross profit per unit	$1,395	$1,392	$3	0.2 %
Gross profit as a % of revenue	6.5 %	6.7 %	(20)	bps

Our same store used vehicle results are as follows:

	Three Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$632,838	$581,024	$51,814	8.9 %
Gross profit	$38,884	$36,647	$2,237	6.1 %
Unit sales	28,973	27,397	1,576	5.8 %
Revenue per unit	$21,842	$21,208	$634	3.0 %
Gross profit per unit	$1,342	$1,338	$4	0.3 %
Gross profit as a % of revenue	6.1 %	6.3 %	(20)	bps

	Six Months Ended June 30,		Better / (Worse)	
	2015	2014	Change	% Change
	(In thousands, except units and per unit data)			
Same Store:				
Revenue	$1,205,597	$1,118,663	$86,934	7.8 %
Gross profit	$78,897	$75,933	$2,964	3.9 %
Unit sales	56,052	53,998	2,054	3.8 %
Revenue per unit	$21,509	$20,717	$792	3.8 %
Gross profit per unit	$1,408	$1,406	$2	0.1 %
Gross profit as a % of revenue	6.5 %	6.8 %	(30	