Sonic
2001
Annual
Report

THE DAILY CRUISER

Sonic Booms

■ **By Clifford Hudson**
Chairman and Chief Executive Officer

Extra. Extra. Read all about it. Sonic's continued success in 2001 is front-page news! One quick glance at our financial statements and operating statistics for the year tells the story: record earnings and revenues, the fifteenth consecutive year of positive same-store sales, and a strong franchising program that continues to lead our drive-in expansion. We're very proud of these results and we suspect that you, as our stockholder, share our enthusiasm for Sonic's healthy top- and bottom-line growth during a year that saw many other fast-food concepts continue to languish.

CLIFF HUDSON

For the fiscal year ended August 31, 2001, total revenues hit \$331 million, an 18% increase from the \$280 million reported last year. Sonic's net income for fiscal 2001 increased 19% to \$39 million from \$33 million last year, while net income per diluted share increased 20% to \$1.40 versus \$1.17 in fiscal 2000. These earnings represented a return on equity of 21.9% compared with 21.4% last year. Please note, all per share amounts reflect the impact of a three-for-two stock split distributed in November 2000, the third such split the company has declared since going public in 1991 and the second in the last three years!

There are many reasons to account for Sonic's continued strong showing, not the least of

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SONIC STILL ROCKS

one bull market and a tech fizzle later

■ *From Wire Reports*

From time to time, many public companies celebrate record financial and operational results, at least for a quarter or two, perhaps even for a few years. However, increasing uncertainty in today's economy continues to thin the ranks of those who can lay claim to such accomplishments. Even more rare now are companies that can look back over an extended period of time to demonstrate a pattern of progress - one that provides a long-term perspective on the success of its strategies, management and business execution.

Sonic is one of those companies that can point to consistent growth over the past decade with as much enthusiasm as it does in proclaiming record results for the most recent fiscal year ended August 31, 2001. The longer time frame is particularly relevant to Sonic inasmuch as the company completed its initial public offering of common stock during fiscal 1991, marking the beginning of a new era in the company's operations and finances and providing a bright line for gauging Sonic's future success. Sonic's results over this extended period were sure and steady, providing surprise and delight for those investors who were starstruck by the meteoric rise of the dot com stocks and their high-tech brethren in the 1990s, only to witness a subsequent coup de grâce as the new century began.

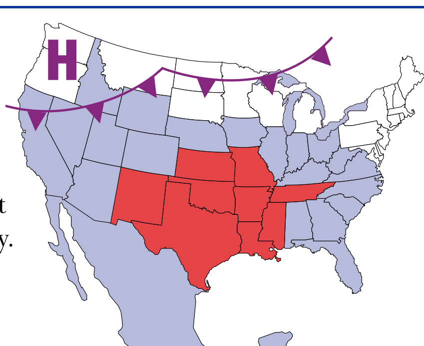
In contrast to these once-hot sectors, and the unrealistic expectations they briefly fostered, Sonic's consistent performance over the past decade can be

See **Rocks** *on Page 3*

FORECAST

Heating Up
A change in store for most of the country.

page 3



SPORTS

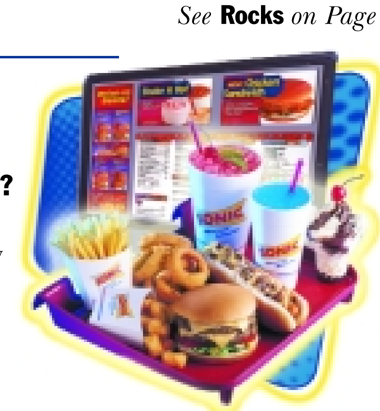
On a Roll
When it comes to service, carhops score!

page 4

FOOD

Power hungry?
New menu satisfies every urge.

page 8



Booms *Continued from Page 1*

which are the cornerstones of the Sonic brand - unique, made-to-order menu items and great carhop service, combined in a drive-in setting that is as much fun as it is efficient. It's our unwavering commitment to these brand treasures, and the high level of quality and service that underscore them, that makes Sonic a favorite and frequent stop for so many people.

We can trace Sonic's prosperity to other catalysts as well, most notably our multi-layered growth strategies that build on and extend our brand in a number of ways to sustain industry-leading results. These strategies are grounded in Sonic's initial orientation as a franchising organization. Considering that more than 80% of our drive-ins are operated by franchisees under ascending royalty rate agreements, which is uncommon in the restaurant industry, our strong drive-in expansion program provides a significant, reliable and increasing base of franchising income to complement our now-substantial company operations. Add to this our increasing commitment to marketing support for our brand and a steady stream of new product news to surprise and delight our customers, and you can begin to appreciate how Sonic also continues to drive higher average unit volume and system-wide same-store sales.

> We can trace Sonic's prosperity to other catalysts as well, most notably our multi-layered growth strategies that build on and extend our brand in a number of ways to sustain industry-leading results.

In terms of drive-in development, fiscal 2001 was another record year for us as we added a total of 191 new restaurants to the chain, topping the previous record of 174 last year. With these openings, we ended the year with 2,359 drive-in restaurants in operation across 29 states and one new drive-in opened in Mexico by one of our long-standing franchisees. Importantly, our drive-in development is led by franchisees, who added 157 new restaurants in 2001, up from 150 in 2000. We think this record pace will likely continue as we target a total of 190 to 200 new franchisee and company drive-in openings next year. This momentum enhances the outlook in fiscal 2002 for sustained growth in revenues from an expanding base of company-owned and franchised drive-ins.

As with any consumer product, and perhaps especially important in the restaurant industry, strong advertising and marketing support is essential to achieve the top-of-mind brand awareness that is crucial to sales growth. At Sonic, we have increased our marketing expenditures an average of 23% over the past five years, topping $80 million in 2001. More important, we continue to explore new and effective ways to deploy those resources. For instance, during the past year we established an exclusive sponsorship with NASCAR Winston Cup Driver and Busch Series Driver Kevin Harvick and the Richard Childress Racing Team and, more recently, signed on as a sponsor of NCAA college football on CBS. Both of these initiatives have produced strong early results for us, taking our brand message to viewers who typically have a high frequency of fast-food dining. The outlook for next year is just as strong considering our plans to boost marketing expenditures to more than $90 million.

When customers arrive at our drive-ins, they find plenty to like about Sonic - from old favorites to fresh taste sensations that are destined to become new favorites. During fiscal 2001, we implemented a new menu to make our signature Toaster® Sandwiches and Cream Pie Shakes a permanent part of our offerings to go with our classics like Coneys and Tater Tots. We also continued to enhance our menu with a constant flow of new drink and sandwich ideas, coupled with our promotions for Premi-Yum!™ Shakes and our invitation for customers to develop an ADD-itude™ by experimenting with special drink flavors and sandwich condiments.

With an increasing marketing budget, strong new product news, and an emphasis on food quality, we witnessed the continuation of some very positive trends last year. After some very difficult winter months with the coldest weather on record in many of our markets, Sonic's same-store sales during the last half of the year increased 4.9% - our best results since the fall of 1999. For all of 2001, same-store sales rose 1.8%, the fifteenth consecutive year of such gains and a truly phenomenal accomplishment in our industry. Likewise, system-wide average unit volumes increased 2.5% during the year.

Sonic today is a highly differentiated, $2 billion brand, one that took some 44 years to reach the $1 billion mark and only four more years to double. When you consider the power of our brand, the proven success of our multi-layered growth strategies, and the increasing operating leverage that comes with an expanding chain, it's easy to get excited about Sonic's future. The opportunities for continued expansion across our markets remain abundant, even in our core states. Moreover, new product news and expanded day part initiatives, such as the ongoing rollout of our breakfast menu and other initiatives, should continue to WOW our customers. With these things in mind, we remain enthusiastic about the prospects of another record year in the making for fiscal 2002. While it is difficult to assess the lasting impact of the tragic events in September on consumer confidence and behavior, we believe our proven growth strategies will continue to drive the company's sales and earnings to new levels in the coming year. ■

Clifford Hudson

Publisher Profile

Sonic Corp., founded in Shawnee, Oklahoma in 1953, franchises and operates the largest chain of drive-in restaurants in the United States. Sonic ended the most recent fiscal year on August 31, 2001, with more than 2,350 drive-ins across 29 states.

Sonic Drive-Ins offer made-to-order sandwiches and feature signature items such as Toaster® Sandwiches, Extra-Long Cheese Coneys, hand-battered Onion Rings, Tater Tots, and a variety of Frozen Favorites® desserts and Fountain Favorites® drinks, including Cherry Limeades, Slushes, Cream Pie Shakes, and a complete soft-serve dessert menu. At a typical Sonic Drive-In, customers drive into one of 24 to 36 covered parking spaces and place orders through an intercom speaker system. A carhop delivers the customer's order curbside, usually within four minutes.

Sonic Snapshot

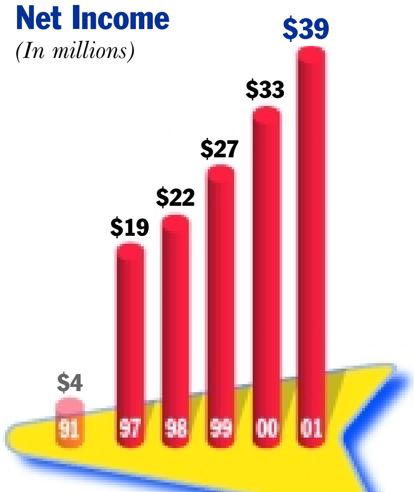
($ in thousands, except per share data)

	2001	2000	Percent Change
Operations (for the year)			
Total revenues	**$ 330,638**	$ 280,056	18%
Income from operations	**$ 67,607**	$ 57,181	18%
Net income	**$ 38,956**	$ 32,627	19%
Net income per diluted share	**$ 1.40**	$ 1.17	20%
Return on average stockholders' equity	**21.9%**	21.4%	
Financial Position (at year's end)			
Total assets	**$ 358,000**	$ 278,371	29%
Stockholders' equity	**$ 200,719**	$ 155,263	29%
System-wide Information			
Total sales (for the year)	**$1,971,477**	$1,778,828	11%
Average unit sales (for the year)	**$ 874**	$ 853	2%
Company-owned restaurants (at year's end)	**393**	312	26%
Franchised restaurants (at year's end)	**1,966**	1,863	6%
Total restaurants (at year's end)	**2,359**	2,175	8%

CHARTING SUCCESS

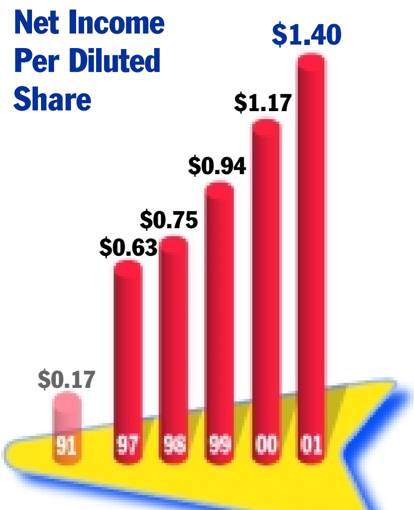
Total Revenues
(In millions)

Net Income
(In millions)



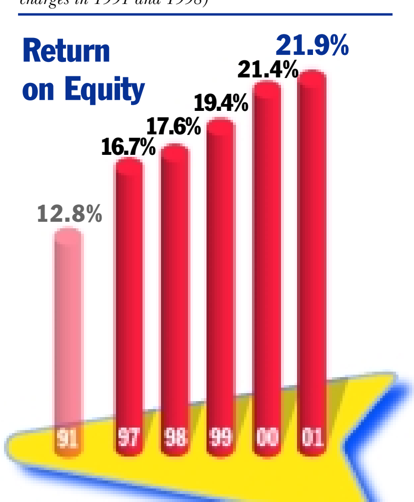
(excludes non-recurring charges in 1991 and 1998)

Net Income Per Diluted Share



(excludes non-recurring charges in 1991 and 1998)

Return on Equity



(excludes non-recurring charges in 1991 and 1998 and negative beginning equity in 1991)

Rocks *Continued from Page 1*

readily seen in almost every financial measure: higher same-store sales every year (15 consecutive years as a matter of fact); fourfold growth in system-wide sales during the 10-year period; and a doubling in the size of the chain by 2001. For stockholders, these gains translated into superior financial returns, including 23% average annual growth in earnings per share over 10 years and rising returns on equity, which reached 22% in fiscal 2001.

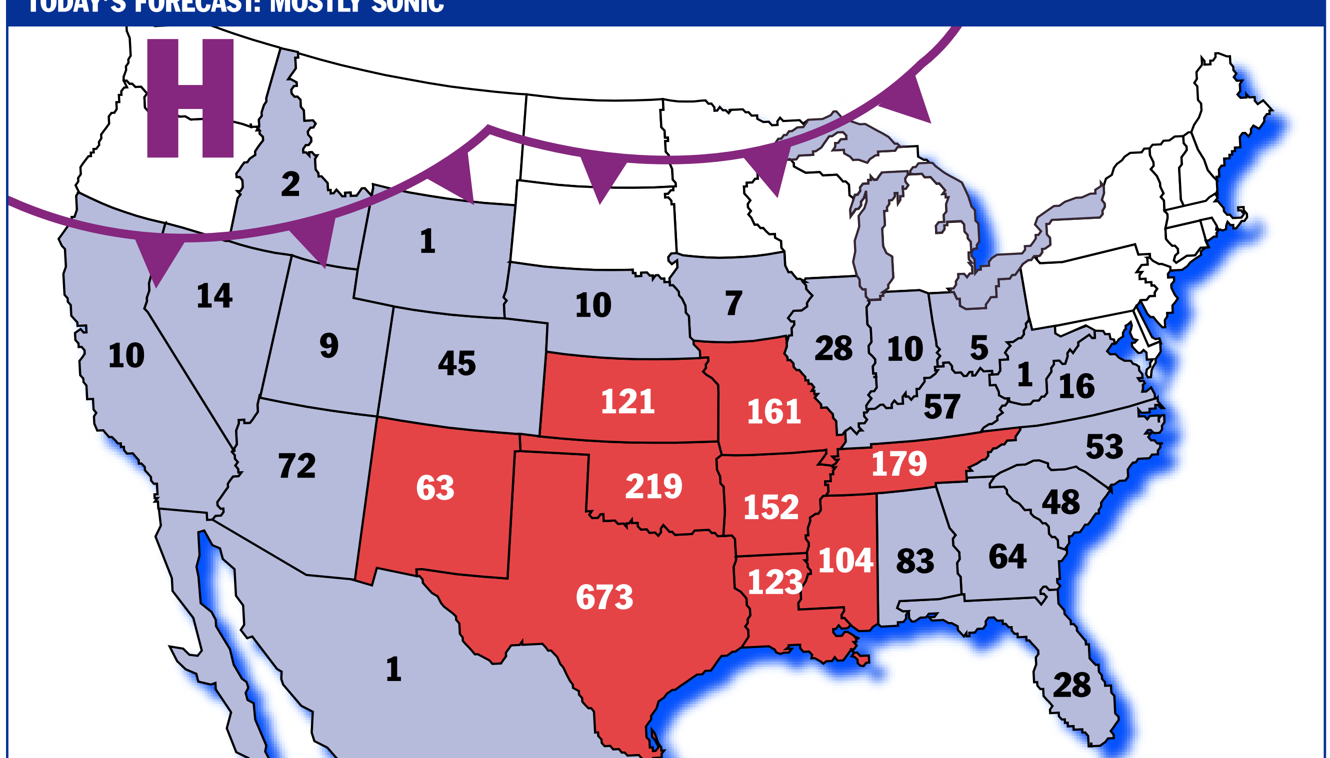
But what's most telling about this performance is how Sonic's stock has performed for investors on a long-term basis. Consider this. When Sonic went public in 1991, the Dow Jones Industrial Average stood at about 2,900, the Standard & Poor's 500 was about 370, and the Nasdaq had not yet broken through the 500 mark. While it's true that these indices reached dizzying heights by early 2000, each had given up significant ground by late summer 2001. By then, the Dow was 15% off its high, the S&P had retreated 26%, and the Nasdaq had dropped 64%. Looking at the full 10-year period that Sonic has been publicly held, these broad market indices rose at a compound rate of about 13% (DJIA), 12% (S&P), and 15% (Nasdaq). During that same time, Sonic's stock returned more than 23% to investors, with 1,000 shares purchased for $12,500 on the IPO growing to 3,375 split-adjusted shares worth almost $103,000 by August 31, 2001!

So just what is it about Sonic that drives such performance? It starts with the basics - a concept that is unique and fresh in the quick-service segment. It's a concept built around an innovative delivery system (you know, the carhops!) that helps differentiate Sonic from the moment customers arrive, one that provides a level of service throughout the dining experience that is unrivaled in most other fast-food establishments. And those carhops are not just delivering the ordinary bill of fare that might be expected at other fast-food places. Sonic's unique menu offers savory choices in sandwiches, sides, drinks and desserts that can truly overwhelm a first-time customer, but which transforms every return visit into a treasure hunt for new taste sensations.

Beyond these fundamental distinctions that can be found only at Sonic, the company is built on a solid franchising foundation, which limits the capital commitment and risks often associated with growth of a brand. Interestingly, the mutually interdependent relationship that has developed between Sonic and its franchisees has provided the company with important leadership in new product innovation and store-level operations. This franchising structure also serves as one aspect of the company's multi-layered growth strategy, providing a significant and growing amount of franchising income to complement Sonic's strong base of company-owned drive-ins. And the brand continues to benefit from Sonic's increasing commitment to advertising and media support.

History is important, but what does this mean for the future? Well, of course, no one can predict that, and there are numerous factors - current and emerging - that will shape the future prospects of the restaurant industry in general and Sonic specifically. Nevertheless, Sonic's performance over the past 10 years clearly has demonstrated some important lessons. There are now more than 1,250 additional locations where one can enjoy an Extra-Long Cheese Coney, washed down by an icy Cherry Limeade or topped off by one of several Cream Pie Shakes. Franchisees have seen the average Sonic Drive-In nearly double in sales and profits. The Sonic brand message has grown and evolved from a regional concept, developing a powerful voice that clicks with customers in the quick-service restaurant segment. Benefits extend to investors, too, who have realized a tidy return on their investment since Sonic went public 10 years ago. So, while Sonic leaves fortune telling to the psychics, the company knows that it has established an enviable base of operations, with substantial and ongoing momentum, supported by the most loyal customer base of all the major fast-food competitors. Sure, there are no guarantees in life, but Sonic certainly seems to have found the right roadmap for growing its business, exceeding customer expectations and pleasing its investors. ■

TODAY'S FORECAST: MOSTLY SONIC



SYSTEM-WIDE LOCATIONS ■ Core Markets ■ Developing Markets

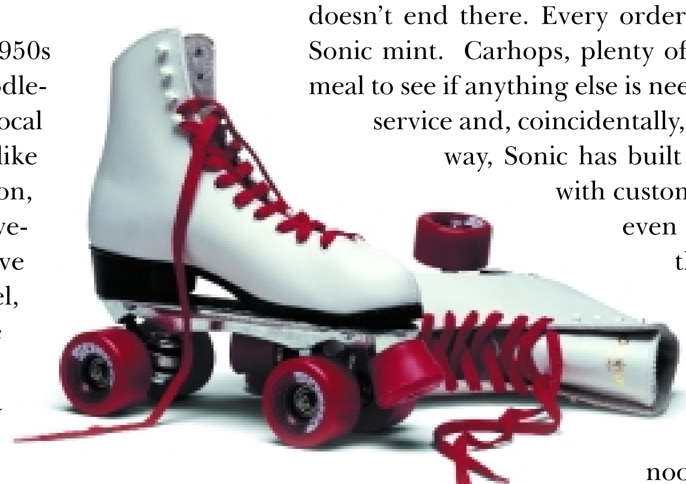
Reinventing the Wheel?

Sonic Puts a New Spin on Tradition and Customer Service

By Roland A. Long
Staff Writer

Sure, there are a couple of inventions such as pottery and plywood that are older than the wheel, but it was the wheel that really transformed the way we live. During the past 5,000 years, this one wheel led to the development of such critical inventions as the modern automobile, shopping carts and roller skates.

Roller skates? Why, without roller skates the 1950s would have been dramatically different for poodle-skirted youngsters who couldn't wait to pack the local skating rink every weekend. But as newer crazes like pet rocks, mood rings and disco faded into oblivion, skating found a permanent home. At Sonic Drive-Ins, carhops have been skating for almost five decades. And while Sonic didn't invent the wheel, roller skates or carhops for that matter, it did write the book on combining the drive-in setting with extraordinary customer service. The result is a unique dining experience that fast-paced, always-on-the-go patrons simply can't find anywhere else.

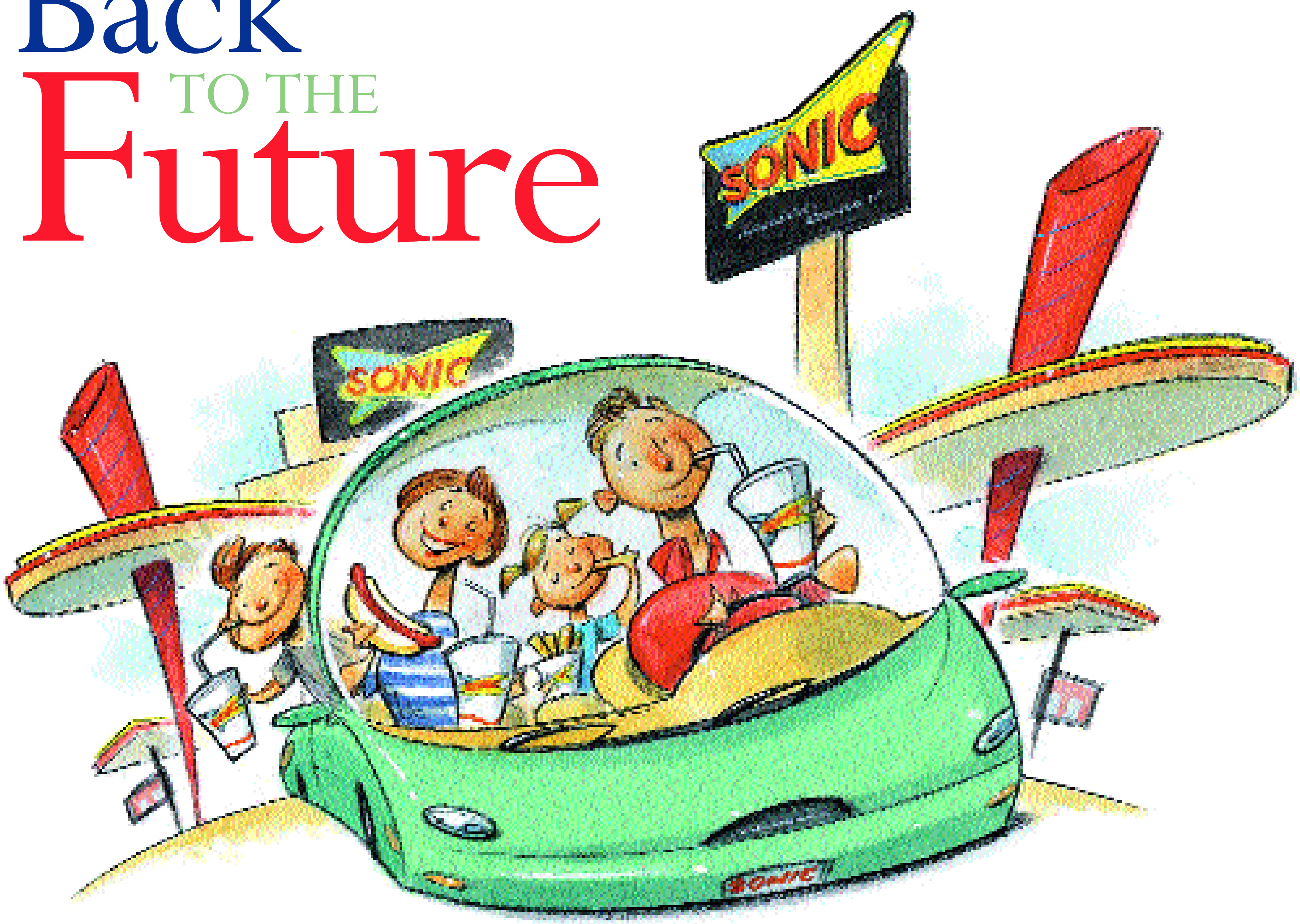


This kind of service that only carhops can provide adds to the not-so-subtle distinction between Sonic and its competition, for at Sonic, customers drive the dining experience from the moment they arrive until the time they leave. Unlike other fast-food places, every customer is first in line at Sonic, so customers here set their own pace for ordering and eating at the touch of a button.

What follows is fast, curbside delivery, but the dining experience doesn't end there. Every order comes with a smile - and a trademark Sonic mint. Carhops, plenty of them on skates, check back during the meal to see if anything else is needed, setting a high standard for personal service and, coincidentally, preserving the skating legacy. Along the way, Sonic has built a class of carhops who love connecting with customers, as well as a loyal fan base that rivals even NASCAR, another national institution that's all about wheels.

As the United States' largest employer of carhops, Sonic is almost single-handedly preserving the nostalgia associated with smiling, friendly carhops - seven days a week, morning, noon and night. And without question, Sonic is the recognized inventor of another product that is also transforming the way we live - a truly distinctive dining experience that combines great food with carhop service for a totally differentiated product. ■

Back TO THE Future



Born from the Sonic 2000 program, the company's current logo and store design took shape in 1995 and took flight in 1996. Today, they are a ubiquitous sign to fast-food aficionados that great food and fast service are near at hand.

By Doc Browne
Guest Columnist

Of course, re-imaging the entire Sonic chain was no small matter. True, new drive-ins could easily incorporate the new signage and design elements, but in the interest of improved consistency across the chain, this needed to be an all-or-none decision - a choice that had to be made largely by the independent franchisees who operated nearly 1,500 drive-ins at the time. For these small businessmen and women, the financial commitment associated with retrofitting existing units, while not oppressive, was significant, and the payback from such an investment was unclear. While the new brand elements, developed for the company by Lippencott & Marguiles, had met with great success with consumers in focus groups and other studies, what was needed to generate real momentum in the re-imaging program was evidence of its sales impact.

As the original proponent for this change, Sonic embraced the opportunity to lead the way in this test with its company-owned drive-ins. In the company's view, it could not ask franchisees to invest in this idea before it could be proven, so Sonic began to build its new drive-ins using the Sonic 2000 elements in 1996 and concurrently undertook a retrofit program to conform existing drive-ins to the new look. The results were impressive: new drive-ins opened with larger initial volumes, the so-called "honeymoon" period lasted longer, and existing drive-ins saw an immediate and substantial increase in same-store sales - often in double digits.

These early results, relative to the investment needed to complete the retrofit, made the decision a clear one for Sonic's franchisees. Proven successful by the franchisor, the Sonic 2000 retrofit program, in tandem with the other aspects of the program, was a winner with customers and led to big gains in system-wide same-store sales and higher unit volumes and profits in the years following its extended implementation by franchisees. More important, it provided an immeasurable catalyst to the company's efforts to build the value of its brand in the eyes of its customers. ■

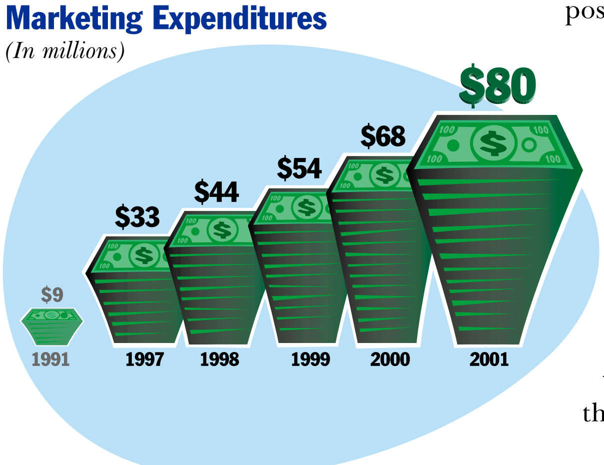
PRIME TIME

By Holly Wood
Entertainment

You've seen them. Those clever commercials promoting the newest drink concoction at Sonic, the latest innovation in Toaster® Sandwiches, or the truly distinctive service aspects of the Sonic concept. (Where else do they skate like that?) Increasingly you've seen them on cable, during a football game, and elsewhere on prime-time television. But did you ever wonder where the ads come from - not the agency or the creative folks, but just what makes that national exposure possible for Sonic?

It was not so long ago that Sonic was unable to promote its brand over the networks. Even late-night advertising on some of the more obscure cable channels was possible only in the most densely penetrated markets. The company's franchising relationship simply was not structured to provide the resources needed to mount a large-scale advertising campaign, and without that exposure to potential customers - to build top-of-mind awareness of the Sonic brand - expansion would be difficult. It truly was a dilemma, the successful solution to which, if possible, would unleash the growth potential of the chain.

System-Wide Marketing Expenditures
(In millions)



That solution came in 1994 with the implementation of a new license agreement that would generate greater funds for Sonic, the franchisor, to use in supporting the brand, and the impact of this change would be dramatic. Marketing expenditures began to ramp up almost immediately with the new royalty rates and by 1999 the annual increase in Sonic's media expenditures was $10 million. To put this into a longer-term perspective, consider that Sonic spent $80 million in 2001 for media and advertising support, almost triple the amount spent just five years earlier.

In retrospect, it's easy to see the relationship between Sonic's growing media budget and its increasing franchising income, for they go hand-in-hand. And of course, that higher franchising income reflects the considerable increases that have occurred in average unit volumes in the meantime, benefiting Sonic and its franchisees alike. This prosperity continues to serve as a strong draw for new franchisees and ongoing expansion among current franchisees, adding additional momentum to the growth of the Sonic chain. Need proof? Just look at the number of Sonic's franchisee-operated locations, which jumped almost 50% between 1996 and 2001. ■

SONIC ADD$ UP

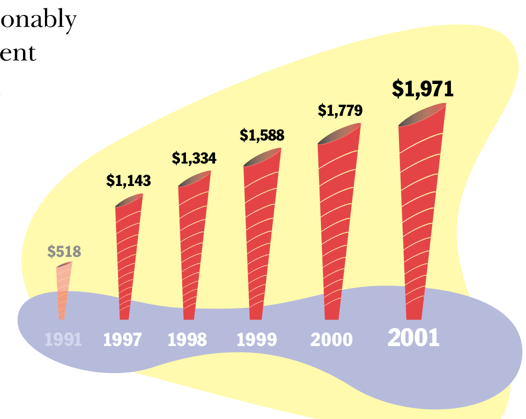
By Macon Green
Business

For those familiar with the restaurant industry, especially the quick-service segment, Sonic is unquestionably a growth story. Few companies can match its 15-year record of same-store sales expansion, its consistent earnings growth, or its high return on equity. For growth-stock investors, these are the things of which dreams are made, and the price appreciation in the company's common stock over the past decade proves that investors have taken note.

While many factors clearly have played a role in this long-term record of success, one of the more important drivers has been the sheer physical growth of the Sonic chain. While more than doubling its locations over the past decade, the real acceleration in drive-in development has occurred over the past four years as the chain grew by more than 160 drive-ins in each year since 1998 - including record growth of 191 drive-ins in the most recent fiscal year. By way of comparison, the Sonic chain grew by 113 drive-ins in fiscal 1997 - the previous record to that point.

Importantly, this accelerating growth strategy is led by the company's franchisees, who operate about 80% of the chain, spearhead the development of new markets for the company, and account for

See **Adds Up** *on Page 7*

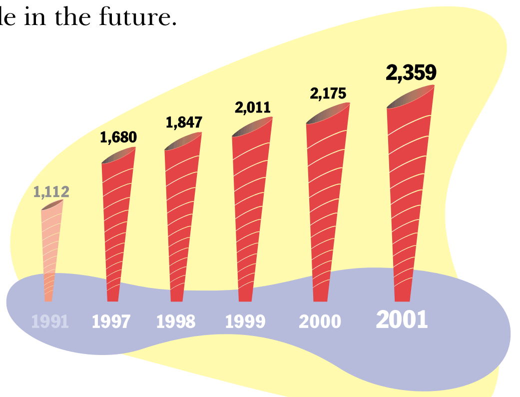


System-Wide Sales
(In millions)

Adds Up *Continued from Page 6*

most of the new drive-ins opened each year. This development approach limits the company's risk, reduces the capital needed by the company to support the brand's fast-paced expansion, and seeds future franchising income growth as that side of the business continues to expand.

New franchisees, drawn by the increasing financial returns offered by Sonic, increasingly have played a part in the company's success and will assume an even larger role in the future.



Stores in Operation

Of the 150 drive-ins opened in fiscal year 2000, about 20 were associated with new franchisees. In fiscal 2001, that number grew to approximately 40 out of a total 157 new drive-ins opened by franchisees. Next year, new franchisees are expected to account for at least 60 of the 155 to 160 drive-ins that will be opened by franchisees.

Another important aspect of Sonic's unit expansion is that it historically has focused on existing markets, which enables the company to increase its media efficiency through increased use of television advertising and other means. Across the 29 states where Sonic operates, only nine states are considered core markets, and even these hold promise for significant ongoing expansion in future years. Therefore, the company - and its franchisees - see substantial development opportunities in existing markets that continue to provide the means for ongoing growth in the chain. In fact, the company believes that new drive-in openings in the coming fiscal year will set yet another record.

This focused development strategy may leave some wondering why the company does not take the Sonic brand to more states. Well, it did add two in fiscal 2001, but it should be apparent that Sonic intends to concentrate on building out existing markets where it can gain a strong voice to customers and enhance its operating efficiencies. That's meant good news to investors over the past 10 years since Sonic went public, but it's been a little disheartening to those passionate Sonic customers who have had the misfortune of moving to a new place where Sonic has not yet arrived. Unfortunately, you can't buy Coneys and Tots over the Internet (at least, not yet), but you can check the company's website for the nearest Sonic location. Did someone say Road Trip? ■

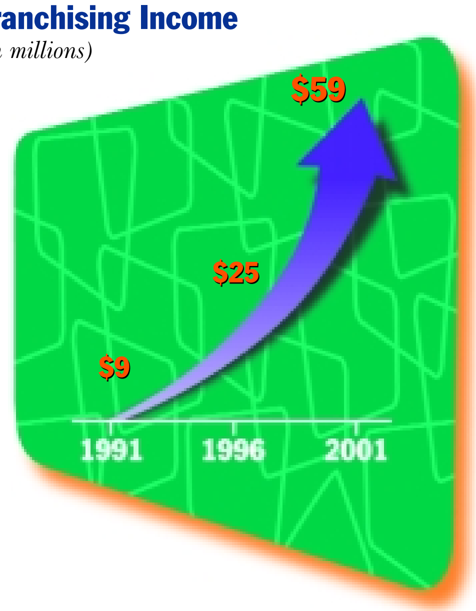
OPPORTUNITY KNOCKS

■ **By B.G. Burger**
Franchising

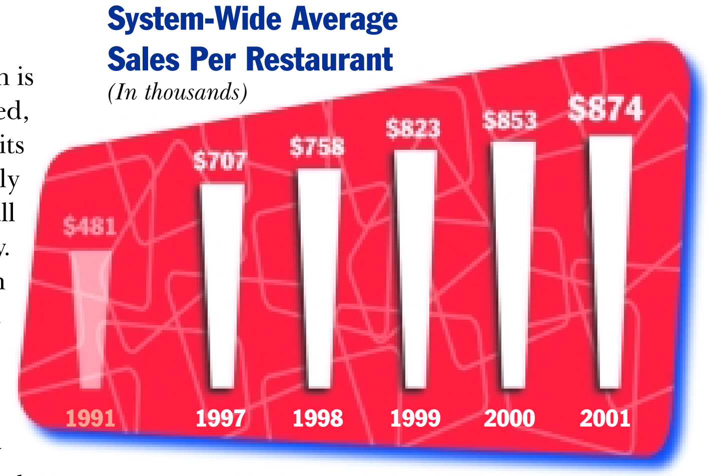
Even though about 20% of the chain is now company-owned and operated, providing balance and diversity to its operations, Sonic's roots are clearly based in franchising. That's where it all began. It's the backbone of the company.

In a sense, Sonic's current success in all phases of its business can be traced to its relationship with franchisees. Of course, the expanding ranks of franchisees allow the company to develop great leadership in the field, many times providing the spark for exciting changes in Sonic's menu or new methodologies to enhance drive-in operations. And while this relationship historically has been positive and mutually rewarding, a pivotal change occurred in 1994 when Sonic and its franchisees agreed to modify the prevailing license agreements. While the ascending royalty rates under the new agreement remained attractive compared with other quick-service restaurants, they provided Sonic - for the first time - with a level of resources that would be needed to support an expanding and more involved role as the franchisor, enabling it to assume greater responsibility for leading the chain with ambitious strategies to build the brand, grow the system, and improve financial returns both to franchisees and stockholders.

Growth in Franchising Income
(In millions)



System-Wide Average Sales Per Restaurant
(In thousands)



The impact of this change has been nothing short of remarkable, and far reaching. First and foremost, it laid the groundwork for increased menu consistency and other operational changes that would evolve as central elements of the company's Sonic 2000 program - a framework for accelerated growth in the Sonic brand that would transform a loose confederation of franchisees into a cohesive, unified chain.

Of course, the financial impact also was important. The company's franchising income has accelerated in recent years, more than doubling over the past five years. True, these gains are the result of higher royalty rates, but they also reflect the increased sales and profits flowing from Sonic's successful Frozen Favorites® desserts and Fountain Favorites® drinks program implemented in 1996, the sales-driving retrofit funded with these profits, and new franchisees attracted to the Sonic system with each of these successes - all reflecting greater returns on a franchisee's invested capital. It's a cycle of prosperity, both for the company and its franchisees. For as franchising income grows, so too does the company's power to lead the chain forward in more competitive times, to maintain Sonic's strong market position as the most differentiated brand in the quick-service restaurant segment. Coincidentally, this prosperity also makes Sonic one of the most attractive franchises available in the market, which helps explain the increasing interest in new locations among existing and potential franchisees and the continued strength of the company's pipeline of expansion opportunities. ■

A *Recipe* FOR Success

Chicken Club Toaster®

By Chet R. Pepper
Staff

In today's hurry-up, now-or-never, fast-paced world, some people assume that quality and taste are missing ingredients in the fast-food industry. Sonic Drive-Ins are proving that nothing could be further from the truth.

Sonic is known for making food that is mouth-watering, hot and made-to-order. It's that approach coupled with an emphasis on food quality - both fundamental to the company's culture - that sets Sonic apart from the competition. Unlike many fast-food places that aspire to offer made-to-order menus, or even promise something of that sort, such goals are seldom truly accomplished and often become a matter of semantics. Customers know the difference, however, and they continue to reward Sonic for operational practices that revolve around the real definition of "fresh" by coming back again and again to enjoy quality, great-tasting food prepared after it is ordered and served in just minutes. It's no wonder that Sonic leads the pack in customer frequency.

Customers also return because they crave the unique and varied menu choices that only Sonic offers. Unlike others, Sonic's menu includes interesting options that add to the dining experience - items such as Ched 'R' Peppers®, Tater Tots, freshly made Onion Rings, Extra-Long Cheese Coneys, Toaster® Sandwiches and Mozzarella Sticks. But there's more. Want chili on that Coney? No problem. Extra jalapeños? You bet. Hungry for a Chicken Strip Dinner or a BLT? Thought you'd never ask. Menu variations are limited only by customers' imaginations - one more example of how customers drive the dining experience at Sonic.

Of course, Sonic offers classic drive-in favorites too. The juicy, 100% pure beef Sonic Burger is individually prepared the way each customer likes it. Then there's the SuperSonic™ Cheeseburger, with bacon, chili or fresh tomatoes. Fries: plain or with chili and cheese. For kids, Sonic's special treatment includes the always popular Burgers and Hot Dogs, but Corn Dogs, Grilled Cheese Sandwiches and Chicken Strips are helping create future generations of loyal customers.

Get an ADD-itude!™ Add-ins

The other side of Sonic's menu includes an equally unlimited number of satisfying, thirst-quenching options. The company's Frozen Favorites® desserts and Fountain Favorites® drinks, including refreshingly different choices like Cherry Limeades, Slushes and Ocean Water®, always hit the spot, especially now that Sonic has encouraged customers to "Get an ADD-itude!™" by conjuring up their own drink inventions using a selection of special flavors. The same holds for desserts, where the recent introduction of Premi-YUM!™ Shakes, featuring Sonic's signature Cream Pie Shakes, expands a selection of favorites such as Hot Fudge Sundaes, Banana Splits and other ice cream delights. In fact, soft drinks and ice cream now account for over one-third of Sonic's sales.

Premi-YUM!™

For Sonic customers, all of this adds up to a one-of-a-kind dining experience. It starts with perhaps the most unique menu in the quick-service segment of the restaurant industry, augmented by a steady flow of new product specials each month, to give customers literally hundreds of menu options (and the unabashed freedom to play with their food). Combine Sonic's commitment to made-to-order freshness, and it's easy to see why customers are driving to Sonic in huge numbers, rewarding Sonic with the highest level of customer loyalty in the quick-service segment. Of course, any good cook knows that it's impossible to keep a prize recipe secret for long, and the word is definitely spreading about the most highly differentiated concept in fast food. ■

Fruit Taquitos

SONIC SUNRISE™

GIVING NEW MEANING TO YOUR MORNING.

By Avery Gooday
Trends

The secret is out and the word is spreading. For busy moms and dads, Sonic is a lifesaver after a hard day's work or when the family just needs a break from kitchen duty. For those on the go during the day, there's no faster place to stop for lunch, and on weekends following the kids' practice or game, the Drive-In rules when it comes to treats, and for teens, the local Sonic has always been a favorite hangout in the afternoon or after a movie.

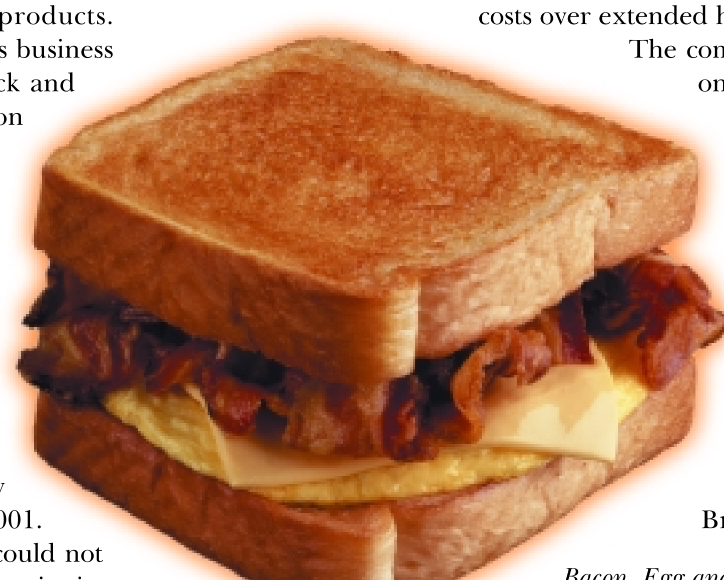
It seems that everyone finds something to like about Sonic. What is not readily apparent, however, is the way the company has developed its sales throughout the day, expanding its menu with appealing selections that draw customers at times between the noontime and evening meals. This movement gained momentum in 1996 with the company's introduction of its Frozen Favorites® desserts and Fountain Favorites® drinks program, a collection of neat drinks and treats to satisfy the urge for a quick snack or break in the mid-afternoon, or to cap a great evening out with a tempting dessert. This program has produced phenomenal results for Sonic, building its business across the afternoon and evening day parts and diversifying its sales among a wider range of products. Roughly 40% of Sonic's business occurs between 2 o'clock and 5 o'clock in the afternoon and after 8 o'clock in the evening.

Not coincidentally, Sonic's same-store sales also experienced a healthy surge after that introduction, and now the company has begun to build on that successful record of product innovation with other new programs. One of these involved the birth of the Sonic Nights program, geared toward driving evening sales in the warmer summer months. Perhaps even more potential lies with the announcement last year that Sonic was testing breakfast on a limited basis. The company carefully monitored and slowly expanded breakfast to about 400 drive-ins by the end of fiscal 2001. Of course, like everything else on its menu, breakfast at Sonic could not be just the ordinary selection that is found elsewhere. Rather, continuing its legacy of differentiation with the usual flair for product development, Sonic offers unique items like bacon or sausage burritos, fruit taquitos, Breakfast Toaster™ Sandwiches, and more.

And if this kind of menu doesn't set Sonic apart, two more things will. This hearty breakfast fare, where currently available, is made-to-order just like everything else at Sonic, so load up the bacon, cheese or sausage when you order that Breakfast Toaster™ Sandwich. Also, try to find another full-menu fast-food place that serves breakfast from open to close. Hamburger enthusiasts can order the Number One or Number Two (with an ADD-itude!™) in the morning, while breakfast devotees can satisfy their cravings no matter what time their day starts.

So why the excitement about breakfast at Sonic, aside from its obvious potential for driving the company's record for same-store sales growth? First, it allows the company to continue to expand into attractive day parts, diversifying its sales throughout the day. With the past success of its other day part initiatives, like the Frozen Favorites® desserts and Fountain Favorites® drinks program, Sonic already has developed an enviable balance in its day parts compared with the rest of the fast-food segment. Second, the breakfast menu integrates easily into the daily routine of a Sonic Drive-In, enhances store-level management infrastructure, and makes the drive-in more efficient by leveraging its fixed costs over extended hours.

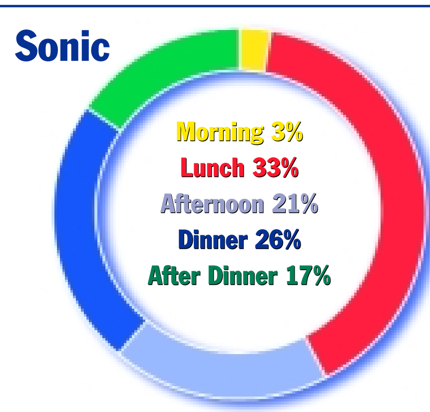
The company plans to capitalize on all of these advantages in the coming year, expanding breakfast to at least 10 new markets and doubling the number of participating drive-ins to 800, or about one-third of the chain, beginning spring 2002. So, for you lucky Sonic fans in these markets, wake up! Breakfast is ready. ■

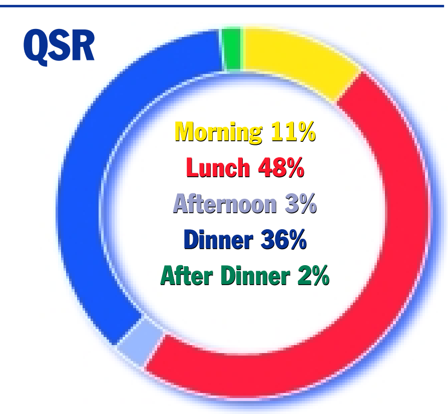


Bacon, Egg and Cheese Toaster® Sandwich

Day Part Mix Comparison

Sonic vs. Other Quick-Service Restaurants





Selected Financial Data

	Year ended August 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
Income Statement Data:					
Company-owned restaurant sales	**$ 267,463**	$ 224,880	$ 210,419	$ 182,011	$ 152,739
Franchised restaurants:					
Franchise royalties	**54,220**	47,595	40,859	32,391	26,764
Franchise fees	**4,408**	3,717	3,468	2,564	1,702
Other	**4,547**	3,864	2,861	2,141	2,813
Total revenues	**330,638**	280,056	257,607	219,107	184,018
Cost of restaurant sales	**195,338**	163,570	155,521	135,806	112,588
Selling, general and administrative	**30,602**	27,894	25,543	22,250	19,318
Depreciation and amortization	**23,855**	20,287	18,464	14,790	12,320
Minority interest in earnings of restaurants	**12,444**	10,173	8,623	7,904	7,558
Provision for impairment of long-lived assets	**792**	951	1,519	285	266
Special provision for litigation settlement	**-**	-	-	2,700	-
Total expenses	**263,031**	222,875	209,670	183,735	152,050
Income from operations	**67,607**	57,181	47,937	35,372	31,968
Net interest expense	**5,525**	5,186	4,278	2,750	1,558
Income before income taxes and cumulative effect of change in accounting	**$ 62,082**	$ 51,995	$ 43,659	$ 32,622	$ 30,410
Income before cumulative effect of change in accounting	**$ 38,956**	$ 32,627	$ 27,396	$ 20,470	$ 19,082
Cumulative effect of change in accounting, net of taxes and minority interest	**-**	-	-	681	-
Net income	**$ 38,956**	$ 32,627	$ 27,396	$ 19,789	$ 19,082
Income per share before cumulative effect of change in accounting [1]:					
Basic	**$ 1.47**	$ 1.21	$ 0.97	$ 0.71	$ 0.64
Diluted	**$ 1.40**	$ 1.17	$ 0.94	$ 0.69	$ 0.63
Balance Sheet Data:					
Working capital (deficit)	**$ (3,335)**	$ (6,371)	$ (7,743)	$ (7,292)	$ 3,509
Property, equipment and capital leases, net	**273,198**	222,318	207,890	188,065	136,522
Total assets	**358,000**	278,371	256,677	233,180	184,841
Obligations under capital leases (including current portion)	**13,688**	7,299	8,048	8,379	9,183
Long-term debt (including current portion)	**109,168**	83,881	72,400	61,518	37,633
Stockholders' equity	**200,719**	155,263	149,755	132,011	118,174

[1] *Adjusted for a 3-for-2 stock split in 2000 and 1998.*

Management's Discussion and Analysis

This annual report contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the company's expectations or belief concerning future events, including the following: any statements regarding future sales or expenses, any statements regarding the continuation of historical trends, and any statements regarding the sufficiency of the company's working capital and cash generated from operating and financing activities for the company's future liquidity and capital resources needs. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. The company cautions that those statements are further qualified by important economic and competitive factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitation, risks of the restaurant industry, including a highly competitive industry and the impact of changes in consumer spending patterns, consumer tastes, local, regional and national economic conditions, weather, demographic trends, traffic patterns, employee availability and cost increases. In addition, the opening and success of new restaurants will depend on various factors, including the availability of suitable sites for new restaurants, the negotiation of acceptable lease or purchase terms for new locations, permitting and regulatory compliance, the ability of the company to manage the anticipated expansion and hire and train personnel, the financial viability of the company's franchisees, particularly multi-unit operators, and general economic and business conditions. Accordingly, such forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized.

Results of Operations

The company derives its revenues primarily from company-owned restaurant sales and royalty fees from franchisees. The company also receives revenues from initial franchise fees, area development fees, and the selling and leasing of signs and real estate. Costs of company-owned restaurant sales and minority interest in earnings of restaurants relate directly to company-owned restaurant sales. Other expenses, such as depreciation, amortization, and general and administrative expenses, relate to both company-owned restaurant operations, as well as the company's franchising operations. The company's revenues and expenses are directly affected by the number and sales volumes of company-owned restaurants. The company's revenues and, to a lesser extent, expenses are also affected by the number and sales volumes of franchised restaurants. Initial franchise fees and franchise royalties are directly affected by the number of franchised restaurant openings.

The following table sets forth the percentage relationship to total revenues, unless otherwise indicated, of certain items included in the company's statements of income. The table also sets forth certain restaurant data for the periods indicated.

Percentage Results of Operations and Restaurant Data

	Year ended August 31,		
	2001	2000	1999
	($ in thousands)		
Income Statement Data:			
Revenues:			
Company-owned restaurant sales	**80.9%**	80.3%	81.7%
Franchised restaurants:			
Franchise royalties	**16.4**	17.0	15.9
Franchise fees	**1.3**	1.3	1.3
Other	**1.4**	1.4	1.1
	100.0%	100.0%	100.0%
Costs and expenses:			
Company-owned restaurants [1]	**73.0%**	72.7%	73.9%
Selling, general and administrative	**9.3**	10.0	9.9
Depreciation and amortization	**7.2**	7.2	7.2
Minority interest in earnings of restaurants [1]	**4.7**	4.5	4.1
Provision for impairment of long-lived assets	**0.2**	0.3	0.6
Income from operations	**20.4**	20.4	18.6
Net interest expense	**1.7**	1.9	1.7
Net income	**11.8**	11.7	10.6
Restaurant Operating Data:			
Company-owned restaurants:			
Core markets	**300**	234	223
Developing markets	**93**	78	73
All markets	**393**	312	296
Franchised restaurants	**1,966**	1,863	1,715
Total	**2,359**	2,175	2,011
System-wide sales	**$ 1,971,477**	$ 1,778,828	$ 1,588,498
Percentage increase [2]	**10.8%**	12.0%	19.1%
Average sales per restaurant:			
Company-owned	**$ 772**	$ 747	$ 702
Franchise	**899**	872	842
System-wide	**874**	853	823
Change in comparable restaurant sales [3]:			
Company-owned restaurants:			
Core markets	**2.4%**	2.9%	6.3%
Developing markets	**(0.5)**	0.6	9.4
All markets	**1.8**	2.4	6.9
Franchise	**1.8**	3.2	8.3
System-wide	**1.8**	3.0	7.9

[1] As a percentage of company-owned restaurant sales.
[2] Represents percentage increase from the comparable period in the prior year.
[3] Represents percentage increase for restaurants open in both the reported and prior years.

Comparison of Fiscal Year 2001 to Fiscal Year 2000. Total revenues increased 18.1% to $330.6 million during fiscal year 2001 from $280.1 million in fiscal year 2000. Company-owned restaurant sales increased 18.9% to $267.5 million in fiscal year 2001 from $224.9 million in fiscal year 2000. Of the $42.6 million increase in company-owned restaurant sales, $39.3 million was due to the net addition of 97 company-owned restaurants since the beginning of fiscal 2000 ($42.1 million from the addition of 24 newly constructed restaurants during fiscal 2000 and 34 newly constructed restaurants during fiscal 2001 as well as 52 restaurants acquired from franchisees since the beginning of fiscal year 2000 less $2.8 million from 13 stores sold or closed since the beginning of fiscal year 2000). Average sales increases of approximately 1.8% by stores open throughout the full reporting periods of fiscal year 2001 and 2000 accounted for $3.3 million of the increase.

One hundred fifty-seven franchise drive-ins opened in fiscal year 2001 compared to 150 in fiscal year 2000, resulting in an 18.6% increase in franchise fee revenues. Franchise royalties increased 13.9% to $54.2 million in fiscal year 2001, compared to $47.6 million in fiscal year 2000. Of the $6.6 million increase, approximately $3.4 million was attributable to additional franchise restaurants in operation and an increase in royalty rates caused by the conversion of some of the company's older license agreements to newer agreements, and the automatic royalty rate step-up feature contained in many of the company's older license agreements. The balance of the increase resulted from franchise same-store sales growth of 1.8% in fiscal year 2001. Each of the company's license agreements contains an ascending royalty rate feature whereby the royalty rate increases as sales volumes increase. As a result of this feature and the majority of new stores opening under the most current form of license agreement, which contains higher rates, as well as the conversion and automatic step-up features described above, the company's average royalty rate grew to 3.18% during fiscal 2001 from 3.06% during fiscal 2000.

The company expects total revenue growth during fiscal 2002 of approximately 20%. This estimate is based on targeted same store sales growth of between 2% and 4% as well as the addition of approximately 190 to 200 new drive-ins (35 to 40 company-owned and 155 to 160 franchise). In addition, the company expects the continued benefit of the ascending royalty rate and new franchise store openings to result in $7.0 million to $8.0 million in incremental franchise royalties and an increase of approximately 10 basis points in the average royalty rate.

Restaurant cost of operations, as a percentage of company-owned restaurant sales, was 73.0% in fiscal year 2001, compared to 72.7% in fiscal year 2000. Food and packaging costs decreased 10 basis points, as a percentage of company-owned restaurant sales, primarily as a result of a lower rate of discounting from standard menu pricing, which combined with lower unit costs for potatoes and pork to more than offset higher beef, dairy and packaging costs. Payroll and employee benefits, as a percentage of company-owned restaurant sales, increased 50 basis points from fiscal year 2000 as a result of several factors including an increase in the average wage rate, additional labor related to the company's effort to expand its business in under-penetrated day parts, including an expanded breakfast program, as well as incremental training hours associated with an ongoing Quality Assurance initiative. Other operating expenses decreased 10 basis points due to the leveraging of fixed costs over higher volumes and a lower rate of discounting. Minority interest in earnings of restaurants increased 22.3% to $12.4 million in fiscal year 2001, compared to $10.2 million in fiscal year 2000. Many of the managers and supervisors of company-owned restaurants own a minority interest in the restaurants, and their compensation flows through the minority interest in earnings of restaurants.

The company expects restaurant cost of operations to increase, as a percentage of sales, by as much as 50 basis points during fiscal 2002 as a result of continued investment in store-level labor, particularly at the assistant manager position, as well as higher anticipated beef costs during the latter part of the year. The company continues to look for ways to strengthen its partnership program so that a larger percentage of managers' and supervisors' compensation is derived from the partnership program. However, because of the increase in restaurant cost of operations minority interest in earnings of restaurants is expected to remain flat or slightly decrease as a percentage of company-owned restaurant sales.

Selling, general and administrative expenses, as a percentage of total revenues, decreased to 9.3% in fiscal year 2001, compared with 10.0% in fiscal year 2000. While these expenses are expected to grow by 10% to 12% in the nominal terms during fiscal 2002, Management expects selling, general and administrative expenses, as a percentage of revenues, to decrease in future periods because of a declining rate of increase in the number of corporate employees and because the company expects a significant portion of future revenue growth to be attributable to company-owned restaurants. Company-owned restaurants require a lower level of selling, general and administrative expenses, as a percentage of revenues, than the company's franchising operations since most of these expenses are reflected in restaurant cost of operations and minority interest in restaurant operations.

Depreciation and amortization expense increased 17.6% to $23.9 million in fiscal year 2001 resulting primarily from store acquisitions and new drive-in development as well as store equipment and technology upgrades. The company plans to early adopt accounting Statement No. 142, "Goodwill and Other Intangible Assets" which was recently approved by the Financial Accounting Standards Board. See Note 1 of the Notes to Consolidated Financial Statements for a discussion of the new accounting Statement. While the full impact of the adoption of the new Statement has not yet been determined, amortization of approximately $2.2 million in fiscal year 2001 will not recur in fiscal year 2002. Management expects depreciation and amortization in total to grow by approximately 8% during fiscal year 2002, including the effect of adopting the new accounting Statement.

During fiscal year 2001, two drive-ins became impaired under the guidelines of FAS 121, "Accounting for the Impairment of Long-Lived Assets." As a result, a provision for impairment of $0.8 million was recorded for the drive-ins' carrying cost in excess of the present value of estimated future cash flows. Two drive-ins also became impaired under the guidelines of FAS 121 in fiscal year 2000, resulting in an impairment of $1.0 million. The company continues to perform quarterly analyses of certain underperforming restaurants. It is reasonably possible that the estimate of future cash flows associated with these restaurants may change in the near future resulting in the need to write-down assets associated with one or more of these restaurants to fair value.

Income from operations increased 18.2% to $67.6 million in fiscal year 2001 from $57.2 million in fiscal year 2000.

Net interest expense in fiscal year 2001 increased 6.5% to $5.5 million from $5.2 million in fiscal year 2000. This increase was the result of additional borrowings to fund share repurchases of $2.1 million and capital expenditures of $90.1 million including $29.1 million for acquisitions. The company expects interest expense to increase by approximately 10% during fiscal year 2002 excluding potential acquisitions and share repurchases.

Provision for income taxes reflects an effective federal and state tax rate of 37.25% for fiscal year 2001 and 2000. Net income increased 19.4% to $39.0 million in fiscal year 2001 compared to $32.6 million in fiscal year 2000. Diluted earnings per share increased to $1.40 per share in fiscal year 2001, compared to $1.17 per share in fiscal year 2000, for an increase of 19.7%. Management expects diluted earnings per share to grow by 18% to 20% during fiscal 2002, including the impact of the early adoption of FAS 142.

Comparison of Fiscal Year 2000 to Fiscal Year 1999. Total revenues increased 8.7% to $280.1 million during fiscal year 2000 from $257.6 million in fiscal year 1999. Company-owned restaurant sales increased 6.9% to $224.9 million in fiscal year 2000 from $210.4 million in fiscal year 1999. Of the $14.5 million increase in company-owned restaurant sales, $9.5 million was due to the net addition of 20 company-owned restaurants since the beginning of fiscal 1999 ($23.2 million from the addition of 67 company-owned restaurants since the beginning of fiscal year 1999 less $13.7 million from 47 stores sold or closed since the beginning of fiscal year 1999). Average sales increases of approximately 2.4% by stores open throughout the full reporting periods of fiscal year 2000 and 1999 accounted for $5.0 million of the increase.

One hundred fifty franchise drive-ins opened in fiscal year 2000 compared to 139 in fiscal year 1999, resulting in a 7.2% increase in franchise fee revenues. Franchise royalties increased 16.5% to $47.6 million in fiscal year 2000, compared to $40.9 million in fiscal year 1999. Of the $6.7 million increase, approximately $2.7 million resulted from the franchise same-store sales growth of 3.2% in fiscal year 2000. The balance of the increase was attributable to additional franchise restaurants in operation and an increase in royalty rates caused by the conversion of some of the company's older license agreements to newer agreements, and the automatic royalty rate step-up feature contained in many of the company's older license agreements.

Restaurant cost of operations, as a percentage of company-owned restaurant sales, was 72.7% in fiscal year 2000, compared to 73.9% in fiscal year 1999. Food and packaging costs decreased 50 basis points, as a percentage of company-owned restaurant sales, primarily as a result of lower unit costs for dairy goods and other items, which more than offset higher beef costs and an increase in discounting from standard menu pricing. Payroll and employee benefits, as a percentage of company-owned restaurant sales, decreased 50 basis points from fiscal year 1999 as a result of the leverage of operating at higher volumes as well as the impact of the disposal of under-performing restaurants during fiscal year 1999. These improvements helped offset an increase in the average wage rate caused by unfavorable conditions in the labor market, as well as the cost of additional crew level incentives including an assistant manager bonus program and greater access to medical benefits for store-level employees.

Other operating expenses decreased 20 basis points due to the leveraging of fixed costs over higher volumes and the disposition of under-performing stores. As a result of the increase in restaurant operating margins, minority interest in earnings of restaurants increased 18.0% to $10.2 million in fiscal year 2000, compared to $8.6 million in fiscal year 1999. Many of the managers and supervisors of company-owned restaurants own a minority interest in the restaurants, and their compensation flows through the minority interest in earnings of restaurants.

Selling, general and administrative expenses, as a percentage of total revenues, increased to 10.0% in fiscal year 2000, compared with 9.9% in fiscal year 1999. Depreciation and amortization expense increased 9.9% to $20.3 million in fiscal year 2000 resulting primarily from new drive-in development as well as store equipment and technology upgrades.

During fiscal year 2000, two drive-ins became impaired under the guidelines of FAS 121, "Accounting for the Impairment of Long-Lived Assets," as compared to four drive-ins in fiscal year 1999. In addition, two drive-ins were written down in fiscal year 1999 due to accessibility and expiring lease issues. As a result, the provision for impairment of long-lived assets which reflects the drive-in's carrying cost in excess of the present value of estimated future cash flows decreased 37.4% to $1.0 million in fiscal year 2000, compared to $1.5 million in fiscal year 1999.

Income from operations increased 19.3% to $57.2 million in fiscal year 2000 from $47.9 million in fiscal year 1999.

Net interest expense in fiscal year 2000 increased to $5.2 million from $4.3 million in fiscal year 1999. This increase was the result of additional borrowings to fund share repurchases of $29.8 million and capital expenditures of $35.2 million.

Provision for income taxes reflects an effective federal and state tax rate of 37.25% for fiscal year 2000 and 1999. Net income increased 19.1% to $32.6 million in fiscal year 2000 compared to $27.4 million in fiscal year 1999. Diluted earnings per share increased to $1.17 per share in fiscal year 2000, compared to $.94 per share in fiscal year 1999, for an increase of 24.5%.

Liquidity and Sources of Capital

Net cash provided by operating activities increased $9.1 million or 16.1% in fiscal year 2001 as compared to the same period in fiscal year 2000, primarily as the result of the increase in operating profit before depreciation and amortization.

The company opened 34 newly-constructed restaurants and acquired a net of 48 existing restaurants from franchisees in fiscal year 2001. The company funded the total capital additions for fiscal year 2001 of $90.1 million, which included the cost of newly-opened restaurants, new equipment for existing restaurants, retrofits of existing restaurants, restaurants under construction, acquired restaurants, and other capital expenditures, from cash generated by operating activities and through borrowings under the company's line of credit. During fiscal year 2001, the company purchased the real estate for 30 of the 34 newly-constructed restaurants. The company expects to own the land and building for most of its future newly-constructed restaurants. The company entered into lease arrangements on substantially all of the restaurants acquired from franchisees.

The company's board of directors expanded the stock repurchase program during fiscal year 2001, increasing the funds authorized for the repurchase of the company's common stock from $72.8 million to $74.6 million and extending the term of the program to December 31, 2002. The company repurchased approximately 0.1 million shares of common stock at an aggregate cost of $2.1 million during the year, leaving approximately $20 million available under the share repurchase program as of the end of the fiscal year. As of August 31, 2001, the company's total cash balance of $7.0 million reflected the impact of the cash generated from operating activities, borrowing activity, and capital expenditures mentioned above.

In February 2001, the company entered into an agreement with a group of banks to increase its existing $60 million line of credit to $80 million and extend the expiration to July of 2004. The company will use the line of credit to finance the opening of newly-constructed restaurants, acquisitions of existing restaurants, purchases of the company's common stock and for other general corporate purposes. As of August 31, 2001, the company's outstanding borrowings under the line of credit were $28.6 million, as well as $0.2 million in outstanding letters of credit. The available line of credit as of August 31, 2001, was $51.2 million. Additionally, the company completed a private placement of $30 million in Senior Unsecured Notes on August 10, 2001. These notes consist of $5 million of Series A notes which mature in 2008, and $25 million of Series B notes which mature in 2011. Interest on the notes will be payable semi-annually in arrears at an average annual rate of approximately 6.8%. The company used the proceeds from the notes to pay down the outstanding borrowings under the line of credit (discussed above), to repurchase common stock of the company and for general corporate purposes. See Note 9 of the Notes to Consolidated Financial Statements for additional information regarding the company's long-term debt.

The company plans capital expenditures of $45 to $50 million in fiscal year 2002, excluding potential acquisitions and share repurchases. These capital expenditures primarily relate to the development of additional company-owned restaurants, stall additions, relocations of older restaurants, store equipment upgrades, and enhancements to existing financial and operating information systems, including refinement of a point-of-sale system. The company expects to fund these capital expenditures through borrowings under its existing unsecured revolving credit facility and cash flow from operations. The company expects to generate free cash flow, after capital expenditures of $20 million to $25 million during fiscal 2002. The company has long-term debt maturing in fiscal 2003 and 2004 of $20.1 million and $29.7 million respectively. The company expects to refinance amounts maturing under the senior unsecured notes and extend the line of credit under existing renewal options. The company believes that existing cash and funds generated from internal operations, as well as borrowings under the line of credit, will meet the company's needs for the foreseeable future.

Impact of Inflation

Though increases in labor, food or other operating costs could adversely affect the company's operations, management does not believe that inflation has had a material effect on income during the past several years.

Seasonality

The company does not expect seasonality to affect its operations in a materially adverse manner. The company's results during its second fiscal quarter (the months of December, January and February) generally are lower than other quarters because of the climate of the locations of a number of company-owned and franchised restaurants.

Quantitative and Qualitative Disclosures About Market Risk

The company is exposed to market risk from changes in interest rates on debt and notes receivable, as well as changes in commodity prices.

The company's exposure to interest rate risk currently consists of its Senior Notes, outstanding line of credit, and notes receivable. The Senior Notes bear interest at fixed rates which average 6.8%. The aggregate balance outstanding under the Senior Notes as of August 31, 2001 was $80 million. Should interest rates increase or decrease, the estimated fair value of these notes would decrease or increase, respectively. As of August 31, 2001, the estimated fair value of the Senior Notes exceeded the carrying amount by approximately $1.0 million. The line of credit bears interest at a rate benchmarked to U.S. and European short-term interest rates. The balance outstanding under the line of credit was $28.6 million as of August 31, 2001. The company has made certain loans to its store operating partners and franchisees totaling $9.6 million as of August 31, 2001. The interest rates on these notes are generally between ten and eleven percent. The company believes the fair market value of these notes approximates their carrying amount. The impact on the company's results of operations of a one-point interest rate change on the outstanding balances under the Senior Notes, line of credit and notes receivable as of the end of fiscal year 2001 would be immaterial.

The company and its franchisees purchase certain commodities such as beef, potatoes, chicken and dairy products. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that limit the price paid by establishing price floors or caps; however, the company has not committed to purchase any minimum quantities under these arrangements, nor is the company subject to any liquidating damages under the agreements. The company does not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost and any commodity price aberrations are generally short term in nature.

This market risk discussion contains forward-looking statements. Actual results may differ materially from this discussion based upon general market conditions and changes in financial markets.

Consolidated Balance Sheets

	August 31, 2001	August 31, 2000
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,971**	$ 3,477
Accounts and notes receivable, net	**12,142**	9,685
Net investment in direct financing leases	**683**	625
Inventories	**2,030**	1,677
Deferred income taxes	**388**	292
Prepaid expenses	**1,315**	1,121
Total current assets	**23,529**	16,877
Notes receivable, net	**7,375**	7,679
Net investment in direct financing leases	**7,148**	7,220
Property, equipment and capital leases, net	**273,198**	222,318
Goodwill, intangibles and other assets, net	**46,750**	24,277
Total assets	**$ 358,000**	$ 278,371
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 8,052**	$ 7,455
Deposits from franchisees	**1,020**	778
Accrued liabilities	**16,709**	14,363
Long-term debt and obligations under capital leases due within one year	**1,083**	652
Total current liabilities	**26,864**	23,248
Obligations under capital leases due after one year	**12,801**	6,668
Long-term debt due after one year	**108,972**	83,860
Other noncurrent liabilities	**6,909**	6,222
Deferred income taxes	**1,735**	3,110
Commitments and contingencies *(Notes 6, 7, 14, and 15)*		
Stockholders' equity:		
Preferred stock, par value $.01; 1,000,000 shares authorized; none outstanding	**–**	–
Common stock, par value $.01; 40,000,000 shares authorized; shares issued 31,913,898 in 2001 and 31,324,832 in 2000	**319**	313
Paid-in capital	**78,427**	69,786
Retained earnings	**188,434**	149,478
	267,180	219,577
Treasury stock, at cost; 5,029,345 shares in 2001 and 4,953,309 shares in 2000	**(66,461)**	(64,314)
Total stockholders' equity	**200,719**	155,263
Total liabilities and stockholders' equity	**$ 358,000**	$ 278,371

See accompanying notes.

Consolidated Statements of Income

	Year ended August 31,		
	2001	2000	1999
	(In thousands, except per share data)		
Revenues:			
Company-owned restaurant sales	**$ 267,463**	$ 224,880	$ 210,419
Franchised restaurants:			
Franchise royalties	**54,220**	47,595	40,859
Franchise fees	**4,408**	3,717	3,468
Other	**4,547**	3,864	2,861
	330,638	280,056	257,607
Costs and expenses:			
Company-owned restaurants:			
Food and packaging	**69,609**	58,778	56,048
Payroll and other employee benefits	**75,822**	62,576	59,490
Other operating expenses	**49,907**	42,216	39,983
	195,338	163,570	155,521
Selling, general and administrative	**30,602**	27,894	25,543
Depreciation and amortization	**23,855**	20,287	18,464
Minority interest in earnings of restaurants	**12,444**	10,173	8,623
Provision for impairment of long-lived assets and other	**792**	951	1,519
	263,031	222,875	209,670
Income from operations	**67,607**	57,181	47,937
Interest expense	**6,628**	6,234	5,047
Interest income	**(1,103)**	(1,048)	(769)
Net interest expense	**5,525**	5,186	4,278
Income before income taxes	**62,082**	51,995	43,659
Provision for income taxes	**23,126**	19,368	16,263
Net income	**$ 38,956**	$ 32,627	$ 27,396
Basic income per share	**$ 1.47**	$ 1.21	$ .97
Diluted income per share	**$ 1.40**	$ 1.17	$ .94

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Common Stock		Paid-in	Retained	Treasury Stock	
	Shares	Amount	Capital	Earnings	Shares	Amount
			(In thousands)			
Balance at August 31, 1998	20,554	$ 206	$ 63,866	$ 89,455	1,692	$ (21,516)
Exercise of common stock options	192	1	2,367	–	–	–
Tax benefit related to exercise of employee stock options	–	–	979	–	–	–
Purchase of treasury stock	–	–	–	–	472	(12,999)
Net income	–	–	–	27,396	–	–
Balance at August 31, 1999	20,746	207	67,212	116,851	2,164	(34,515)
Exercise of common stock options	137	2	1,911	–	–	–
Tax benefit related to exercise of employee stock options	–	–	767	–	–	–
Purchase of treasury stock	–	–	–	–	1,138	(29,799)
Three-for-two stock split	10,442	104	(104)	–	1,651	–
Net income	–	–	–	32,627	–	–
Balance at August 31, 2000	31,325	313	69,786	149,478	4,953	(64,314)
Exercise of common stock options	**589**	**6**	**5,827**	**–**	**–**	**–**
Tax benefit related to exercise of employee stock options	**–**	**–**	**2,814**	**–**	**–**	**–**
Purchase of treasury stock	**–**	**–**	**–**	**–**	**76**	**(2,147)**
Net income	**–**	**–**	**–**	**38,956**	**–**	**–**
Balance at August 31, 2001	**31,914**	**$ 319**	**$ 78,427**	**$ 188,434**	**5,029**	**$ (66,461)**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended August 31, 2001	2000	1999
		(In thousands)	
Cash flows from operating activities			
Net income	**$ 38,956**	$ 32,627	$ 27,396
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**21,186**	18,369	16,673
Amortization	**2,669**	1,918	1,791
(Gains) losses on dispositions of assets	**(936)**	63	885
Amortization of franchise and development fees	**(4,408)**	(3,705)	(3,468)
Franchise and development fees collected	**4,702**	3,930	3,548
Provision (benefit) for deferred income taxes	**(1,471)**	881	(1,362)
Provision for impairment of long-lived assets	**792**	951	1,519
Tax benefit related to exercise of employee stock options	**2,814**	767	979
Other	**212**	(19)	63
(Increase) decrease in operating assets:			
Accounts and notes receivable	**(1,228)**	(2,245)	726
Refundable income taxes	**–**	–	2,413
Inventories and prepaid expenses	**(308)**	(690)	(457)
Increase (decrease) in operating liabilities:			
Accounts payable	**590**	2,342	(5,636)
Accrued and other liabilities	**2,129**	1,420	2,287
Total adjustments	**26,743**	23,982	19,961
Net cash provided by operating activities	**65,699**	56,609	47,357
Cash flows from investing activities			
Purchases of property and equipment	**(61,499)**	(35,151)	(45,711)
Acquisition of businesses, net of cash received	**(29,120)**	–	–
Investments in direct financing leases	**(862)**	(2,713)	(3,937)
Collections on direct financing leases	**850**	1,353	2,423
Proceeds from dispositions of assets	**2,911**	933	5,630
Increase in intangibles and other assets	**(2,183)**	(2,036)	(6,014)
Net cash used in investing activities	**(89,903)**	(37,614)	(47,609)
Cash flows from financing activities			
Proceeds from long-term borrowings	**238,685**	124,155	105,750
Payments on long-term debt	**(213,929)**	(112,674)	(94,868)
Purchases of treasury stock	**(2,147)**	(29,799)	(12,999)
Payments on capital lease obligations	**(744)**	(725)	(989)
Exercises of stock options	**5,833**	1,913	2,368
Net cash provided by (used in) financing activities	**27,698**	(17,130)	(738)
Net increase (decrease) in cash and cash equivalents	**3,494**	1,865	(990)
Cash and cash equivalents at beginning of the year	**3,477**	1,612	2,602
Cash and cash equivalents at end of the year	**$ 6,971**	$ 3,477	$ 1,612
Supplemental cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 6,339**	$ 6,147	$ 4,814
Income taxes (net of refunds)	**22,203**	18,649	12,876
Additions to capital lease obligations	**7,346**	294	879
Accounts and notes receivable and decrease in capital lease obligations from property and equipment sales	**945**	1,742	3,685

See accompanying notes.

Notes to Consolidated Financial Statements

August 31, 2001, 2000 and 1999
(In thousands, except share data)

1. Summary of Significant Accounting Policies

Operations

Sonic Corp. (the "company") operates and franchises a chain of quick-service drive-in restaurants in the United States. It derives its revenues primarily from company-owned restaurant sales and royalty fees from franchisees. The company also leases signs and real estate. The company grants credit to its operating partners and its franchisees, all of whom are in the restaurant business. Substantially all of the notes receivable and direct financing leases are collateralized by real estate or equipment.

Principles of Consolidation

The accompanying financial statements include the accounts of the company, its wholly-owned subsidiaries and its majority-owned, company-operated restaurants, organized principally as general partnerships. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported and contingent assets and liabilities disclosed in the financial statements and accompanying notes. Actual results may differ from those estimates, and such differences may be material to the financial statements.

Inventories

Inventories consist principally of food and supplies which are carried at the lower of cost (first-in, first-out basis) or market.

Property, Equipment and Capital Leases

Property and equipment are recorded at cost, and leased assets under capital leases are recorded at the present value of future minimum lease payments. Depreciation of property and equipment and capital leases are computed by the straight-line method over the estimated useful lives or initial terms of the leases, respectively.

Accounting for Long-Lived Assets

The company reviews long-lived assets, identifiable intangibles, and goodwill related to those assets whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, which generally represents the individual restaurant. The company's primary test for an indicator of potential impairment is operating losses. If an indication of impairment is determined to be present, the company estimates the future cash flows expected to be generated from the use of the asset and its eventual disposal. If the sum of undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. The fair value of the asset is measured by either calculating the present value of estimated future cash flows using a discount rate equivalent to the rate of return the company expects to achieve from its investment in newly-constructed restaurants or appraisals.

Assets held for disposal are carried at the lower of depreciated cost or fair value less cost to sell. Fair values are estimated based upon appraisals or independent assessments of the assets' estimated sales values. During the period in which assets are being held for disposal, depreciation and amortization of such assets are not recognized.

Goodwill and Other Intangible Assets

Trademarks, trade names and goodwill are amortized on the straight-line method over periods not exceeding forty years. Franchise agreements, other intangibles and deferred costs included in other assets are amortized on the straight-line method over the expected period of benefit, not exceeding fifteen years. The company assesses the recoverability of intangible assets, including goodwill, by determining whether the asset balance can be recovered over its remaining life through undiscounted future operating cash flows of the related acquired asset or corporate entity, as applicable. Enterprise-wide goodwill and other intangible assets are assessed at least annually and whenever indicators of impairment, such as a net use of cash flow from operating activities exist. The amount of impairment, if any, would be measured based on projected discounted future operating cash flows, using a discount factor commensurate with the company's expected rate of return on similar investments.

The Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets," in July 2001. Statement No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded on past business combinations, will cease upon adoption of that Statement. Statement No. 142 will also require existing intangible assets to be reassessed for separate classification from goodwill and separable intangible assets in business combinations to be identified. The company will early adopt the statement effective September 1, 2001. The company will perform its review of impairment on intangibles in the first quarter of fiscal year 2002 and on goodwill no later than the second quarter of fiscal year 2002. The company does not presently expect to recognize an impairment loss related to this change in accounting principle. As of August 31, 2001, the company has a net book value associated with goodwill and other intangibles with infinite lives of $44.9 million, which resulted in amortization expense of $2.2 million, $1.4 million, and $1.2 million for fiscal years 2001, 2000, and 1999 respectively.

Franchise Fees and Royalties

Initial franchise fees are nonrefundable and are recognized in income when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by the company. Area development fees are nonrefundable and are recognized in income on a pro rata basis when the conditions for revenue recognition under the individual development agreements are met. Royalties from franchise operations are recognized in income as earned.

Advertising Costs

Costs incurred in connection with advertising and promotion of the company's products are expensed as incurred. Such costs amounted to $13,283, $11,531, and $11,146 for fiscal years 2001, 2000 and 1999, respectively.

Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity of three months or less from date of purchase.

2. Net Income Per Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended August 31:

	2001	2000	1999
Numerator:			
Net income	**$ 38,956**	$ 32,627	$ 27,396
Denominator:			
Weighted average shares outstanding - basic	**26,565,679**	26,930,968	28,272,567
Effect of dilutive employee stock options	**1,255,513**	1,032,135	927,647
Weighted average shares - diluted	**27,821,192**	27,963,103	29,200,214
Net income per share - basic	**$ 1.47**	$ 1.21	$ 0.97
Net income per share - diluted	**$ 1.40**	$ 1.17	$ 0.94
Anti-dilutive employee stock options excluded	**9,753**	301,638	187,364

See Note 12 for information regarding shares available for grant under the 2001 Sonic Corp. Stock Option Plan and the 2001 Sonic Corp. Directors' Stock Option Plan.

3. Impairment of Long-Lived Assets

As of August 31, 2001 and 2000, the company had identified certain underperforming restaurants whose operating results indicated that certain assets of these restaurants might be impaired. The buildings and improvements of these restaurants had combined carrying amounts of $3,956 and $4,229 respectively. During fiscal years 2001 and 2000, the company performed quarterly analyses of these and other restaurants which had incurred operating losses. As a result of these analyses, the company determined that certain restaurants with then-existing carrying amounts of $971 and $1,047, respectively, were impaired and wrote them down by $792 and $951, respectively, to their fair values. Management's estimate of undiscounted future cash flows indicates that the remaining carrying amounts as of August 31, 2001 are expected to be recovered. However, it is reasonably possible that the estimate of cash flows may change in the near future resulting in the need to write-down one or more of the identified assets to fair value.

4. Accounts and Notes Receivable

Accounts and notes receivable consist of the following at August 31, 2001 and 2000:

	2001	2000
Royalties and other trade receivables	$ 7,187	$ 5,168
Notes receivable—current	1,797	1,223
Other	4,039	3,787
	13,023	10,178
Less allowance for doubtful accounts and notes receivable	881	493
	$ 12,142	$ 9,685
Notes receivable—noncurrent	$ 7,761	$ 7,898
Less allowance for doubtful notes receivable	386	219
	$ 7,375	$ 7,679

As of August 31, 2001 and 2000, notes receivable from one franchisee totaled $3,725 and $4,007 respectively.

5. Goodwill, Intangibles and Other Assets

Goodwill, intangibles and other assets consist of the following at August 31, 2001 and 2000:

	2001	2000
Goodwill	$ 45,615	$ 20,966
Trademarks and trade names	8,872	8,872
Franchise agreements	1,870	1,870
Other intangibles	2,054	1,302
Other assets	976	1,233
	59,387	34,243
Less accumulated amortization	12,637	9,966
	$ 46,750	$ 24,277

On April 1, 2001, the company acquired 35 existing franchise restaurants located in the Tulsa, Oklahoma market from a franchisee and other minority investors. The acquisitions have been accounted for under the purchase method of accounting, with the results of operations of these restaurants included with that of the company's commencing April 1, 2001. The company's cash acquisition cost, prior to post-closing adjustments, of approximately $21.9 million consisted of the drive-ins' operating assets ($0.2 million), equipment ($4.4 million) and goodwill ($17.3 million). The company also entered into long-term real estate leases on each of these drive-in restaurants, which have future minimum rental payments aggregating $1.8 million annually over the next 15 years ($5.1 million of which was recorded as capital leases related to the buildings). The company funded this acquisition through the availability under its existing $80 million bank line of credit.

6. Leases

Description of Leasing Arrangements

The company's leasing operations consist principally of leasing certain land, buildings and equipment (including signs) and subleasing certain buildings to franchise operators. The land and building portions of these leases are classified as operating leases and expire over the next fifteen years. The equipment portions of these leases are classified principally as direct financing leases and expire principally over the next ten years. These leases include provisions for contingent rentals which may be received on the basis of a percentage of sales in excess of stipulated amounts. Income is not recognized on contingent rentals until sales exceed the stipulated amounts. Some leases contain escalation clauses over the lives of the leases. Most of the leases contain one to four renewal options at the end of the initial term for periods of five years. These options enable the company to retain use of properties in desirable operating areas.

Certain company-owned restaurants lease land and buildings from third parties. These leases, which expire over the next nineteen years, include provisions for contingent rentals which may be paid on the basis of a percentage of sales in excess of stipulated amounts. The land portions of these leases are classified as operating leases and the buildings portions are classified as capital leases.

Direct Financing Leases

Components of net investment in direct financing leases are as follows at August 31, 2001 and 2000:

	2001	2000
Minimum lease payments receivable	$ 12,656	$ 13,189
Less unearned income	4,825	5,344
Net investment in direct financing leases	7,831	7,845
Less amount due within one year	683	625
Amount due after one year	$ 7,148	$ 7,220

Initial direct costs incurred in the negotiation and consummation of direct financing lease transactions have not been material. Accordingly, no portion of unearned income has been recognized to offset those costs.

Future minimum rental payments receivable as of August 31, 2001 are as follows:

	Operating	Direct Financing
Year ending August 31:		
2002	$ 1,030	$ 1,721
2003	594	1,704
2004	601	1,671
2005	602	1,635
2006	615	1,619
Thereafter	3,854	4,306
	7,296	12,656
Less unearned income	–	4,825
	$ 7,296	$ 7,831

Capital Leases

Components of obligations under capital leases are as follows at August 31, 2001 and 2000:

	2001	2000
Total minimum lease payments	$ 23,321	$ 11,754
Less amount representing interest averaging 10% in 2001 and 12% in 2000	9,633	4,455
Present value of net minimum lease payments	13,688	7,299
Less amount due within one year	887	631
Amount due after one year	$ 12,801	$ 6,668

Maturities of these obligations under capital leases and future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of August 31, 2001 are as follows:

	Operating	Capital
Year ending August 31:		
2002	$ 5,261	$ 2,142
2003	5,278	2,098
2004	4,623	2,097
2005	4,313	1,941
2006	4,287	1,875
Thereafter	32,014	13,168
	55,776	23,321
Less amount representing interest	-	9,633
	$ 55,776	$ 13,688

Total minimum lease payments do not include contingent rentals on capital leases which have not been material.

Total rent expense for all operating leases consists of the following for the years ended August 31:

	2001	2000	1999
Minimum rentals	$ 5,012	$ 3,810	$ 3,573
Contingent rentals	108	126	134
Sublease rentals	(135)	(129)	(176)
	$ 4,985	$ 3,807	$ 3,531

7. Property, Equipment and Capital Leases

Property, equipment and capital leases consist of the following at August 31, 2001 and 2000:

	2001	2000
Home office:		
Land and leasehold improvements	**$ 1,545**	$ 1,530
Computer and other equipment	**24,727**	22,501
Restaurants, including those leased to others:		
Land	**81,522**	65,224
Buildings	**142,395**	114,709
Equipment	**88,145**	73,017
Property and equipment, at cost	**338,334**	276,981
Less accumulated depreciation	**77,124**	60,296
Property and equipment, net	**261,210**	216,685
Leased restaurant buildings and equipment under capital leases, including those held for sublease	**16,540**	9,763
Less accumulated amortization	**4,552**	4,130
Capital leases, net	**11,988**	5,633
Property, equipment and capital leases, net	**$ 273,198**	$ 222,318

Land, buildings and equipment with a carrying amount of $28,560 at August 31, 2001 were leased under operating leases to franchisees or other parties. The accumulated depreciation related to these buildings and equipment was $4,006 at August 31, 2001. As of August 31, 2001, the company had restaurants under construction with costs to complete which aggregated $7,913.

8. Accrued Liabilities

Accrued liabilities consist of the following at August 31, 2001 and 2000:

	2001	2000
Wages and other employee benefits	**$ 4,022**	$ 3,734
Taxes, other than income taxes	**6,030**	4,941
Income taxes payable	**1,210**	1,629
Accrued interest	**1,852**	1,563
Other	**3,595**	2,496
	$ 16,709	$ 14,363

9. Long-Term Debt

Long-term debt consists of the following at August 31, 2001 and 2000:

	2001	2000
Senior unsecured notes (A)	**$ 50,000**	$ 50,000
Borrowings under line of credit (B)	**28,600**	33,550
Senior unsecured notes (C)	**30,000**	–
Other	**568**	331
	109,168	83,881
Less long-term debt due within one year	**196**	21
Long-term debt due after one year	**$ 108,972**	$ 83,860

(A) The company has $50,000 of senior unsecured notes with $20,000 of Series A notes maturing in 2003 and $30,000 of Series B notes maturing in 2005. Interest is payable semi-annually and accrues at 6.65% for the Series A notes and 6.76% for the Series B notes. The related agreement requires, among other things, the company to maintain equity of a specified amount, maintain ratios of debt to total capital and fixed charge coverage and limits additional borrowings.

(B) The company has an agreement (as amended) with a group of banks which provides for a $80,000 line of credit, including a $2,000 sub-limit for letters of credit, expiring in July 2004. The agreement allows for annual renewal options, subject to approval by the banks. The company uses the line of credit to finance the opening of newly-constructed restaurants, acquisition of existing restaurants and for general corporate purposes. Borrowings under the line of credit are unsecured and bear interest at a specified bank's prime rate or, at the company's option, LIBOR plus 0.50% to 1.25%. In addition, the company pays an annual commitment fee ranging from .125% to .25% on the unused portion of the line of credit. As of August 31, 2001, the company's effective borrowing rate was 7.2%. As of August 31, 2001 there were $150 in letters of credit outstanding under the line of credit. The agreement requires, among other things, the company to maintain equity of a specified amount, maintain ratios of debt to EBITDA and fixed charge coverage and limits additional borrowings and acquisitions of businesses.

(C) The company has $30,000 of senior unsecured notes with $5,000 of Series A notes maturing in 2008 and $25,000 of Series B notes maturing in 2011. Interest is payable semi-annually and accrues at 6.58% for the Series A notes and 6.87% for the Series B notes. Required annual prepayments amount to $1,000 from August 2004 to August 2007 on the Series A notes and $3,571 from August 2005 to August 2010 on the Series B notes. The related agreement requires, among other things, the company to maintain equity of a specified amount, and maintain ratios of debt to equity and fixed charge coverage.

Maturities of long-term debt for each of the five years after August 31, 2001 are $196 in 2002, $20,125 in 2003, $29,684 in 2004, $34,624 in 2005, $4,590 in 2006, and $19,949 thereafter.

10. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following at August 31, 2001 and 2000:

	2001	2000
Minority interest in consolidated restaurants	**$ 4,671**	$ 4,047
Deferred area development fees	**1,061**	1,009
Other	**1,177**	1,166
	$ 6,909	$ 6,222

11. Income Taxes

The components of the provision for income taxes consists of the following for the years ended August 31:

	2001	2000	1999
Current:			
Federal	**$ 22,696**	$ 17,182	$ 16,448
State	**1,901**	1,305	1,177
	24,597	18,487	17,625
Deferred:			
Federal	**(1,279)**	766	(1,184)
State	**(192)**	115	(178)
	(1,471)	881	(1,362)
Provision for income taxes	**$ 23,126**	$ 19,368	$ 16,263

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate due to the following for the years ended August 31:

	2001	2000	1999
Amount computed by applying a tax rate of 35%	**$ 21,729**	$ 18,198	$ 15,281
State income taxes (net of federal income tax benefit)	**1,110**	923	650
Other	**287**	247	332
Provision for income taxes	**$ 23,126**	$ 19,368	$ 16,263

Deferred tax assets and liabilities consist of the following at August 31, 2001 and 2000:

	2001	2000
Deferred tax assets:		
Allowance for doubtful accounts and notes receivable	**$ 281**	$ 131
Property, equipment and capital leases	**(273)**	174
Accrued litigation costs	**139**	296
State net operating losses	**1,967**	1,400
Other	**155**	224
	2,269	2,225
Valuation allowance	**(1,967)**	(1,400)
Deferred tax assets	**302**	825
Less deferred tax liabilities:		
Net investment in direct financing leases including differences related to capitalization and amortization	**2,047**	1,567
Investment in partnerships, including differences in capitalization and depreciation related to direct financing leases and different year ends for financial and tax reporting purposes	**(497)**	1,564
Intangibles and other assets	**25**	334
Other	**74**	178
Deferred tax liabilities	**1,649**	3,643
Net deferred tax liabilities	**$ (1,347)**	$ (2,818)

State net operating loss carryforwards expire generally beginning in 2010.

12. Stockholders' Equity

On November 14, 2000, the company's board of directors authorized a three-for-two stock split in the form of a stock dividend. A total of 10,441,611 shares of common stock were issued on November 30, 2000 in connection with the split. The stated par value of each share was not changed from $.01. An aggregate amount equal to the par value of the common stock issued of $104 was reclassified from paid-in capital to common stock.

All references in the accompanying consolidated financial statements to weighted average numbers of shares outstanding, per share amounts and Stock Purchase Plan and Stock Options share data have been adjusted to reflect the stock split on a retroactive basis.

Stock Purchase Plan

The company has an employee stock purchase plan for all full-time regular employees. Employees are eligible to purchase shares of common stock each year through a payroll deduction not in excess of the lesser of 10% of compensation or $25. The aggregate amount of stock that employees may purchase under this plan is limited to 337,500 shares. The purchase price will be between 85% and 100% of the stock's fair market value. Such price will be determined by the company's board of directors.

Stock Options

In January 2001, the stockholders of the company adopted the 2001 Sonic Corp. Stock Option Plan (the "2001 Employee Plan") and the 2001 Sonic Corp. Directors' Stock Option Plan (the "2001 Directors' Plan"). (The 2001 Employee Plan and the 2001 Directors' Plan are referred to collectively as the "2001 Plans.") The 2001 Plans were adopted to replace the 1991 Sonic Corp. Stock Option Plan and the 1991 Sonic Corp. Directors' Stock Option Plan (collectively, the "1991 Plans"), because the 1991 Plans were expiring after ten years as required by the Internal Revenue Code. Options previously granted under the 1991 Plans continue to be outstanding after the adoption of the 2001 Plans and are exercisable in accordance with the original terms of the applicable 1991 plan.

Under the 2001 Employee Plan, the company is authorized to grant options to purchase up to 1,800,000 shares of the company's common stock to employees of the company and its subsidiaries. Under the 2001 Directors' Plan, the company is authorized to grant options to purchase up to 300,000 shares of the company's common stock to the company's outside directors. At August 31, 2001, 1,376,652 shares were available for grant under the 2001 Employee Plan and 240,000 shares were available for grant under the 2001 Directors' Plan. The exercise price of the options to be granted is equal to the fair market value of the company's common stock on the date of grant. Unless otherwise provided by the company's Stock Plan Committee, options under both plans become exercisable ratably over a three-year period or immediately upon change in control of the company, as defined by the plans. All options expire at the earlier of termination of employment or ten years after the date of grant.

The company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing such stock options. Under APB 25, because the exercise price of the company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and net income per share is required by Statement 123, which also requires that the information be determined as if the company has accounted for its stock options granted subsequent to August 31, 1995 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal years 2001, 2000, and 1999 respectively: risk-free interest rates of 5.0%, 6.6%, and 5.2%; a dividend yield of 0%; volatility factors of the expected market price of the company's common stock of 48.5%, 45.7%, and 42.1%; and a weighted average expected life of the options of 5.2, 4.5, and 5.0 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The company's pro forma information for the years ended August 31 follows:

	2001	2000	1999
Pro forma net income	**$ 37,197**	$ 29,912	$ 25,370
Pro forma net income per share-diluted	**$ 1.34**	$ 1.07	$ .87

A summary of the company's stock option activity (adjusted for the stock split), and related information for the years ended August 31 follows:

	2001		2000		1999	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding—beginning of year	**3,110,826**	**$ 12.36**	2,781,716	$ 10.70	2,647,155	$ 8.91
Granted	**550,480**	**25.69**	566,814	19.77	542,739	18.21
Exercised	**(589,179)**	**9.90**	(205,152)	9.33	(288,384)	8.21
Forfeited	**(126,187)**	**20.43**	(32,552)	18.34	(119,794)	11.13
Outstanding—end of year	**2,945,940**	**$ 15.00**	3,110,826	$ 12.36	2,781,716	$ 10.70
Exercisable at end of year	**1,945,107**	**$ 11.11**	2,043,673	$ 9.27	1,719,669	$ 8.09
Weighted average fair value of options granted during the year	**$ 12.67**		$ 9.16		$ 8.08	

A summary of the company's options as of August 31, 2001 follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$5.04 to $8.00	**744,466**	**4.0**	**$ 7.08**	**744,466**	**$ 7.08**
$8.30 to $14.33	**817,237**	**5.3**	**10.94**	**803,084**	**10.91**
$16.46 to $20.38	**741,580**	**8.1**	**18.89**	**354,844**	**18.77**
$21.17 to $31.49	**642,657**	**9.4**	**24.85**	**42,713**	**21.23**
$5.04 to $31.49	**2,945,940**	**6.6**	**$ 15.00**	**1,945,107**	**$ 11.11**

Stockholder Rights Plan

The company has a stockholder rights plan which is designed to deter coercive takeover tactics and to prevent a potential acquirer from gaining control of the company without offering a fair price to all of the company's stockholders. The rights expire on June 16, 2007.

The plan provided for the issuance of one common stock purchase right for each outstanding share of the company's common stock. Each right initially entitles stockholders to buy one unit of a share of preferred stock for $85. The rights will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the company's common stock or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 15% or more of the company's common stock. At August 31, 2001, 50,000 shares of preferred stock have been reserved for issuance upon exercise of these rights.

If any person becomes the beneficial owner of 15% or more of the company's common stock, other than pursuant to a tender or exchange offer for all outstanding shares of the company approved by a majority of the independent directors not affiliated with a 15%-or-more stockholder, then each right not owned by a 15%-or-more stockholder or related parties will then entitle its holder to purchase, at the right's then current exercise price, shares of the company's common stock having a value of twice the right's then current exercise price. In addition, if, after any person has become a 15%-or-more stockholder, the company is involved in a merger or other business combination transaction with another person in which the company does not survive or in which its common stock is changed or exchanged, or sells 50% or more of its assets or earning power to another person, each right will entitle its holder to purchase, at the right's then current exercise price, shares of common stock of such other person having a value of twice the right's then current exercise price. Unless a triggering event occurs, the rights will not trade separately from the common stock.

The company will generally be entitled to redeem the rights at $0.01 per right at any time until 10 days (subject to extension) following a public announcement that a 15% position has been acquired.

13. Net Revenue Incentive Plan

The company has a Net Revenue Incentive Plan (the "Incentive Plan"), as amended, which applies to certain members of management and is at all times discretionary with the company's board of directors. If certain predetermined earnings goals are met, the Incentive Plan provides that a predetermined percentage of the employee's salary may be paid in the form of a bonus. The company recognized as expense incentive bonuses of $1,876, $1,606, and $1,398 during fiscal years 2001, 2000 and 1999, respectively.

14. Employment Agreements

The company has employment contracts with its Chairman and Chief Executive Officer and several members of its senior management. These contracts provide for use of company automobiles or related allowances, medical, life and disability insurance, annual base salaries, as well as an incentive bonus. These contracts also contain provisions for payments in the event of the termination of employment and provide for payments aggregating $5,248 at August 31, 2001 due to loss of employment in the event of a change in control (as defined in the contracts).

15. Contingencies

The company has contingent liabilities for taxes, lawsuits and various other matters occurring in the ordinary course of business. The company is party to a lawsuit where the damages alleged are in excess of ten percent of the company's current assets. The company believes that this case is without merit and that the resolution of this and other contingencies will not have a material adverse effect on the company's financial position or results of operations.

The company has entered into agreements with several lenders pursuant to which such lenders may make loans to qualified franchisees. Under the terms of these agreements, the company provides certain guarantees of a portion of the outstanding balances of the loans to franchisees. In addition, the company has other repurchase obligations related to a franchisee's restaurant development loans. At August 31, 2001, these guarantees totaled $7,579, none of which were in default.

16. Selected Quarterly Financial Data (Unaudited)

	First Quarter 2001	First Quarter 2000	Second Quarter 2001	Second Quarter 2000	Third Quarter 2001	Third Quarter 2000	Fourth Quarter 2001	Fourth Quarter 2000	Full Year 2001	Full Year 2000
Income statement data:										
Company-owned restaurant sales	**$ 55,562**	$ 52,898	**$ 50,618**	$ 46,907	**$ 75,270**	$ 60,390	**$ 86,013**	$ 64,685	**$ 267,463**	$ 224,880
Other	**15,462**	12,996	**12,571**	11,473	**16,369**	13,905	**18,773**	16,802	**63,175**	55,176
Total revenues	**71,024**	65,894	**63,189**	58,380	**91,639**	74,295	**104,786**	81,487	**330,638**	280,056
Company-owned restaurants operating expenses	**42,178**	38,659	**38,580**	35,712	**52,938**	42,880	**61,642**	46,319	**195,338**	163,570
Selling, general and administrative	**6,813**	6,442	**7,092**	6,776	**8,109**	7,090	**8,588**	7,586	**30,602**	27,894
Other	**7,264**	7,705	**7,398**	6,388	**10,756**	8,344	**11,673**	8,974	**37,091**	31,411
Total expenses	**56,255**	52,806	**53,070**	48,876	**71,803**	58,314	**81,903**	62,879	**263,031**	222,875
Income from operations	**14,769**	13,088	**10,119**	9,504	**19,836**	15,981	**22,883**	18,608	**67,607**	57,181
Interest expense, net	**1,219**	1,134	**1,321**	1,249	**1,540**	1,454	**1,445**	1,349	**5,525**	5,186
Income before income taxes	**13,550**	11,954	**8,798**	8,255	**18,296**	14,527	**21,438**	17,259	**62,082**	51,995
Provision for income taxes	**5,047**	4,453	**3,278**	3,075	**6,815**	5,411	**7,986**	6,429	**23,126**	19,368
Net income	**$ 8,503**	$ 7,501	**$ 5,520**	$ 5,180	**$ 11,481**	$ 9,116	**$ 13,452**	$ 10,830	**$ 38,956**	$ 32,627
Net income per share:										
Basic	**$ .32**	$ .27	**$ .21**	$ .19	**$ .43**	$ .34	**$ .51**	$ .41	**$ 1.47**	$ 1.21
Diluted	**$ .31**	$ .26	**$ .20**	$ .18	**$ .41**	$ .33	**$ .48**	$ .40	**$ 1.40**	$ 1.17
Weighted average shares outstanding (000s):										
Basic	**26,384**	27,743	**26,470**	27,154	**26,617**	26,500	**26,791**	26,327	**26,566**	26,931
Diluted	**27,605**	28,828	**27,708**	28,155	**27,856**	27,477	**28,119**	27,392	**27,821**	27,963

17. Fair Values of Financial Instruments

The following discussion of fair values is not indicative of the overall fair value of the company's consolidated balance sheet since the provisions of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," do not apply to all assets, including intangibles.

The following methods and assumptions were used by the company in estimating its fair values of financial instruments:

Cash and cash equivalents—Carrying value approximates fair value due to the short duration to maturity.

Notes receivable—For variable rate loans with no significant change in credit risk since the loan origination, fair values approximate carrying amounts. Fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates which would currently be offered for loans with similar terms to borrowers of similar credit quality and/or the same remaining maturities.

As of August 31, 2001 and 2000, carrying values approximate their estimated fair values.

Borrowed funds—Fair values for fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding. Carrying values for variable rate borrowings approximate their fair values.

The carrying amounts and estimated fair values of the company's fixed rate borrowings at August 31, 2001 were $80,000 and $81,049, respectively, and at August 31, 2000 were $50,000 and $48,741, respectively.

Report of Independent Auditors

The Board of Directors and Stockholders
Sonic Corp.

We have audited the accompanying consolidated balance sheets of Sonic Corp. as of August 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended August 31, 2001. These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sonic Corp. at August 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended August 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Oklahoma City, Oklahoma
October 17, 2001

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Ernst & Young LLP
Oklahoma City, Oklahoma

CORPORATE COUNSEL

Phillips, McFall, McCaffrey,
McVay, & Murrah, P.C.
Oklahoma City, Oklahoma

Annual Meeting

The 2002 Annual Meeting of Stockholders will be held at 1:30 p.m. Central Time on January 17, 2002, in Meeting Room 2 of the Myriad Convention Center, One Myriad Gardens, Oklahoma City, Oklahoma.

Annual Report on Form 10-K

A copy of the company's Annual Report on Form 10-K for the year ended August 31, 2001, as filed with the Securities and Exchange Commission, may be obtained without charge upon written request to W. Scott McLain, Senior Vice President and Chief Financial Officer, at the company's corporate offices.

Forward-Looking Statements

Statements contained in this report that are not based on historical facts are forward-looking statements and are subject to uncertainties and risks. See Management's Discussion and Analysis for a more complete discussion of forward-looking statements, how they may be identified, and the risks and uncertainties that may cause the company's future results to differ materially from those anticipated and discussed in the forward-looking statements.

$$$ Market Information $$$

The company's common stock trades on the Nasdaq National Market System under the symbol SONC. At November 30, 2001, the company had approximately 8,000 stockholders, including beneficial owners holding shares in nominee or "street" name.

The table below sets forth the high and low stock prices, adjusted for stock splits, during the past two fiscal years.

The company currently anticipates that it will retain all of its earnings to support its operations and develop its business. Therefore, the company does not pay any cash dividends on its outstanding common stock. Future cash dividends, if any, will be at the discretion of the company's Board of Directors and will depend upon, among other things, future operations and earnings, capital requirements, general financial conditions, contractual restrictions, and other factors that the Board may consider relevant.

Quarter Ended	High	Low
November 30, 1999	$ 21.833	$ 15.917
February 29, 2000	$ 21.250	$ 16.209
May 31, 2000	$ 21.417	$ 16.083
August 31, 2000	$ 22.792	$ 17.917
November 30, 2000	$ 26.625	$ 20.750
February 28, 2001	$ 26.688	$ 21.313
May 31, 2001	$ 28.850	$ 22.938
August 31, 2001	$ 31.900	$ 25.600

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Chairman and
Chief Executive Officer
Sonic Corp.

MARGARET M. BLAIR [1, 2]
Visiting Professor
Georgetown University
Law Center
Research Director
Sloan-GULC Project
on Business Institutions

KENNETH L. KEYMER [1]
President and
Chief Operating Officer
Sonic Corp.

LEONARD LIEBERMAN [1, 3, 4]
Private Investor

PATTYE L. MOORE [1]
Executive Vice President
Sonic Corp.

FEDERICO F. PEÑA [1, 3, 4]
Managing Director
Vestar Capital Partners

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F. E. Richardson & Co., Inc.

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Retired President and
Chief Executive Officer
Allied-Domecq Retailing U.S.A.

E. DEAN WERRIES [1, 2]
Retired Chairman of the Board
and Chief Executive Officer
Fleming Companies, Inc.

1 Member of the Nominating Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee
4 Member of the Stock Plan Committee

Chairman Emeritus

TROY N. SMITH, SR.
Founder of Sonic Drive-Ins

Officers

J. CLIFFORD HUDSON
Chairman and
Chief Executive Officer

KENNETH L. KEYMER
President and
Chief Operating Officer

PATTYE L. MOORE
Executive Vice President

RONALD L. MATLOCK
Senior Vice President,
General Counsel and Secretary

W. SCOTT MCLAIN
Senior Vice President
and Chief Financial Officer

WILLIAM T. PIERQUET
Senior Vice President of
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Vice President of
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Operation Services

MICHAEL A. PERRY
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and Quality Assurance

NANCY L. ROBERTSON
Vice President of
People and Communications

STEPHEN C. VAUGHAN
Vice President of Planning
and Analysis and Treasurer

DAVID A. VERNON
Vice President of
Franchise Sales

TERRY D. HARRYMAN
Controller

M. ANNE BURKETT
Internal Auditor

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