HOT DOG!

Building Momentum Again.

2011 Annual Report to Stockholders

Sonic began in 1953 in Shawnee, Oklahoma. Today, we franchise and operate the largest chain of drive-in restaurants in the country, with more than 3,500 Sonic Drive-Ins from coast to coast.

Our drive-in experience, together with a unique menu and personalized Carhop service, positions us as one of the most highly differentiated concepts in the quick-service restaurant (QSR) industry. At a typical Sonic Drive-In, customers park in one of 20 to 36 canopy-covered spaces and place orders through a speaker system. A smiling Carhop delivers the customer's order car-side. Customers also may enjoy patio dining or drive-thru service at many Sonic locations.

Sonic Drive-Ins feature signature menu items, offering made-when-you-order footlong quarter pound coneys, six-inch premium beef hot dogs, loaded hamburgers, wraps and other sandwiches, fresh-made onion rings, tater tots and a full breakfast menu. We are known for our variety of Frozen Favorites® treats and Fountain Favorites® drinks, too, like Cherry Limeades, real fruit slushes, shakes and blasts, making Sonic Your Ultimate Drink Stop®. Sonic also offers a variety of choices for health-conscious customers, such as apple slices and several low-calorie drinks, like a diet version of our classic Cherry Limeade.

Financial Highlights

	2011	2010	Change
	($ in thousands, except per share data and drive-in count)		
Operations (for the fiscal year)			
Total revenues	$ 545,951	$ 550,926	-1%
Income from operations	$ 84,253	$ 70,881	19%
Net income per diluted share	$ 0.31	$ 0.34	-9%
Net income per diluted share, adjusted [1]	$ 0.53	$ 0.48	10%
Weighted average diluted shares outstanding	61,943	61,576	1%
System Information (for the fiscal year or at fiscal year's end)			
Company drive-ins	446	455	-2%
Franchise drive-ins	3,115	3,117	—
System-wide drive-ins [2]	3,561	3,572	—
System-wide average drive-in sales [2]	$ 1,037	$ 1,023	1%
Change in system-wide sales [2]	1.9 %	-5.7 %	
Change in system-wide same-store sales [2,3]	0.5 %	-7.8 %	

[1] Net income per diluted share, adjusted (a non-GAAP measure) excludes items of $0.22, net, in 2011 associated with early extinguishments of debt and a favorable tax settlement, and $0.14, net, in 2010 associated with impairment provisions, stock option exchange program, refranchising program and early extinguishments of debt. We believe showing net income per diluted share, adjusted to exclude these items, provides additional insight into the strength of our operations and aids in the comparability of current- and prior-year results.

[2] System-wide information, which combines company and franchise drive-in information, is a non-GAAP measure. We believe system-wide information is useful in analyzing the growth of the Sonic brand as well as our revenues, since franchisees pay royalties based on a percentage of sales.

[3] Change in same-store sales based on drive-ins open for a minimum of 15 months.

Letter to Stockholders

During the past year, Sonic continued to gain traction with many of the strategic sales and operational initiatives that I outlined in last year's report. Perhaps the most telling sign of this progress was evidenced by the reversal of our prior year's trends, with system same-store sales turning positive for the first time since 2008. This turn of the business, including an increase in average store profitability, has been the most significant shift in dynamics at Sonic. As you know, this was achieved by strengthening our base business.

Although we have improved many aspects of our business, we know that sustaining our momentum is a key ingredient. Let me outline our progress in 2011 that reversed the more difficult trends of the prior two years.

First and foremost, in 2011 we continued to bring more "real" to Sonic with high quality new product news. As you may recall, in 2010 we upgraded our menu with the introduction of real ice cream, bigger, better burgers and true footlong quarter pound chili cheese coneys. We extended these efforts during the past year with the introduction of our new line of six-inch premium beef hot dogs. Including tried-and-true favorites along with bold, innovative taste sensations, this new hot dog line-up – along with compelling limited time offers and other new product news – not only expands Sonic's distinctive products, but also delivers great value to our customers. We also introduced three new premium burritos with flavors to tempt meat and cheese lovers alike. As always, we offered value in the Sonic tradition, which appeals both to customers who want expanded choices as well as those who are price conscious. Regardless of their persuasion, our customers are discovering a higher quality menu at Sonic now more than ever before.

Coupled with this drive for higher quality products, we took steps to engage consumers in new and creative ways. With the addition of new marketing agencies geared toward media buying, on-lot design and promotion, and electronic media creative, we believe we have positioned our business and our brand for a strong step forward in 2012.

Another key focus area for us this past year was drive-in operations, as we continued to strive to improve service and customer satisfaction, create greater consistency in our execution from drive-in to drive-in and from visit to visit, and strengthen our brand promise to customers. The return from these efforts was evident across our system in 2011 as same-store sales rebounded nicely from 2010, increasing 0.5% versus a decline of 7.8% the prior year. This successful turnaround in sales has been particularly apparent in the operations of our company drive-ins, where same-store sales rose 1.8% in 2011 compared with a drop of 8.8% in 2010. Sales at company drive-ins now have outpaced system sales for five consecutive quarters, and the ongoing resurgence of this aspect of our business continues to hold the most significant potential impact on earnings and stockholder value over the near term.

Mirroring the positive direction seen in sales for the year, the company's net income for 2011, excluding certain items unrelated to operations, also improved. Adjusted earnings per diluted share for the year, as defined on page one of this report, increased 10% to $0.53 for 2011 from $0.48 for 2010.

In line with expectations and in light of the difficult credit environment and sluggish consumer spending trends, Sonic's system expansion slowed in 2011 as the company and its franchisees remained conservative in development activities. As we have explained, system expansion correlates closely to sales performance and drive-in profitability. So while we saw some improvement in sales and profit trends during fiscal 2011, we will need to achieve a sustained improvement in these critical metrics to experience a rebound in our growth rate. Consequently,

> First and foremost, in 2011 we continued to bring more "real" to Sonic with high quality new product news.

new drive-in openings totaled 43 for the year, 40 of which were built by franchisees, versus 85 for 2010, which included 80 openings by franchisees.

And in 2011, we continued to enhance the strength of our balance sheet with the net pay-down of $95 million of outstanding debt and the successful refinancing of our remaining long-term debt at attractive rates, despite a challenging lending environment. The first step continued our pattern of opportunistically deploying our free cash flow to purchase and repay outstanding debt, which resulted in a gain on such purchases for 2011. The latter move allowed us to leverage the strength of our business and free cash flow to lock-in an attractive longer-term interest rate, providing greater certainty for our debt-service outlook and optimum financial flexibility as we continue to grow our brand and execute our business strategies. This increased financial flexibility recently came into play as the company announced a $30 million common stock repurchase program, effective through August 31, 2012.

So what does all this mean for Sonic going forward? Above all, the improvements made, the results achieved and the foundation set for further advancement mean that Sonic is aimed in the right direction and positioned for challenging consumer conditions that are likely to shape the near term. Despite the obstacles we face, we have continued to move forward in several key areas in ways that will become increasingly apparent – and more significant – as time passes. We are confident that the seeds of progress and potential, planted over the past few years, will yield positive results for our franchisees, operators and stockholders, and yield stronger, more compelling ties to consumers who seek something more than ordinary fast food.

Sincerely,

Clifford Hudson
Chairman and Chief Executive Officer

IMAGINE THAT.

There are enough rules in life as it is – too many either/ors – so why be limited when you order at fast-food places? Never at Sonic!

Wouldn't it be great to own your own restaurant? You could eat just about whatever you wanted, just about whenever you wanted. You'd have the freedom to experiment with wild taste combinations, add to and delete from the standard menu at will, and push the boundaries of your culinary creativity. While most of us do not have the luxury of personally owning a restaurant, folks across much of the United States do have the next best thing – a nearby Sonic, where you can personalize your order without limits. Imagine, adding jalapeño peppers to your SuperSonic® Bacon Double Cheeseburger for a lunchtime flavor jolt, or going for one of Sonic's great new hot dogs, like the Bacon & Blue Dog™, but of course with cheddar cheese – since everything tastes better with cheddar to you. This freedom of choice even extends to when you eat, since at Sonic we don't let the clock dictate the availability of certain menu items. If you're up for a Fiesta Steak Breakfast Burrito for a late-night snack together with a Premium Roast Coffee (one of 398,929 drink combinations you'll find at Sonic), we say go for it! After all, it's not up to us, it's up to you – act like you own the place. This is how you Sonic!

It's All About the Food.

For many, the Sonic experience might begin as a pleasantly unexpected roadside encounter, recalling fond memories of simpler times or merely sparking the beginning of a new family tradition. It could even result from an all-out search for something a little off the beaten path from what other fast-food establishments so routinely offer. Or, perhaps it's a mom's quest for peace in the mini-van as rival tastes and preferences find common ground from a single menu. Whatever the reason that draws you to your first Sonic, we know the reason you keep coming back is all about the food. That's why we've focused so intently on upgrading the quality of our ingredients and delivering even more distinctive choices for our customers. In fact, over the past two years, we have improved menu items representing more than half of our sales with the introduction of real ice cream for our Frozen Favorites® treats, a true footlong quarter pound coney, a line-up of 100% pure beef loaded burgers and, most recently, a selection of new six-inch premium beef hot dogs.

PASSIONATE? ABSOLUTELY!

We often talk about driving our sales and business, implementing strategies to meet current economic challenges and moving our brand forward in meaningful and rewarding ways over the years ahead.

Big-picture thinking and long-term views are essential planning for any corporation. On a granular level, however, Sonic is fundamentally a franchise organization – it has been since the 1950's – with approximately 87% of our drive-ins operated by franchisees. So, our franchisees and their associates – the thousands of women and men who remain passionate about our brand – in turn drive the Sonic culture, help shape its strategies and are essential to leading the growth and expansion of the Sonic footprint across the country.

Penny Guthrie, CEO of D&B Properties, Inc. in Dyersburg, Tennessee, along with her daughter, Sara Jo Ferguson, who directs the company's marketing and payroll (right and left, respectively, on opposite page), epitomize the drive, determination and passion of our franchisees. Winner of the Chain Leader Award for 2011, Penny has been with Sonic since joining her stepfather in the business in 1984 to run 24 drive-ins. Today, her company operates 41 drive-ins in five states and sets the bar for the top 20% of our chain, providing a blueprint for how we can continually improve our performance. Ask Penny about her operational success, and she will tell you the obvious: The customer is number one! That's a catchphrase used by so many, however with Penny, you can sense true commitment in her voice: Her customers are going to leave happy and satisfied that their Sonic experience was the highlight of their day.

BUILDING THE BRAND.

Historically, our franchisees have taken the lead in our drive-in development, opening almost 700 drive-ins since 2005 and taking us to 14 new states during that time.

This expansion has encompassed several populous markets in the Northeast, Northwest and along the northern tier of states. It also has expanded our brand's footprint to 43 states and continued our drive to become a brand with true national stature. As same-store sales improve and drive-in level profits increase, both of which were the case in 2011, they in turn should drive other elements of our multi-layered growth strategy. These elements include our ascending royalty rate and renewed vigor in drive-in development, both of which should contribute significantly to our long-term growth.


New York

Operators.

OPPORTUNITY AHEAD!

Emigrating from Bangladesh in 1990, Zahid Haque came to this country seeking the American dream of opportunity.

In 2000, Zahid joined Sonic as a partner in the company's drive-in operations, which helped to secure his grasp on the coveted brass ring. In 2011, Zahid received Sonic's Operational Excellence Award, proving himself to be one of the best operators in our chain.

For Zahid, his success comes down to a few simple truths: Hire the right people, train them properly, and train them continuously. This focus on putting the right people in the right places leads to reduced turnover, builds a deep bench, and creates a drive for operational excellence. Sprinkle in a keen attention to quality, a passion for customer service and a fanatical focus on food cost, and you can understand why Zahid has achieved one of the most prized distinctions in our chain. Below, Zahid's long-time mentor, Maggie Ricks, a regional vice president for Sonic, offers both advice and seasoned experience to support his objectives.

Zahid is just one of the reasons our company drive-ins have seen the resurgence they experienced last year. Same-store sales growth at company drive-ins has exceeded system same-store sales for five consecutive quarters. This ongoing strengthening in this aspect of our business continues to hold the most significant potential impact on growth, earnings and stockholder value over the near term.


SONIC

Service.

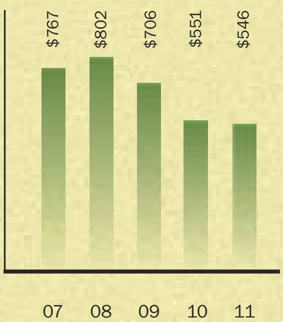
MAN'S BEST FRIEND.

Rover may be man's best friend, but many Sonic customers would argue that in their own breakfast, lunch and dinner time world – and at snack times between and after – Sonic Carhops rock the universe.

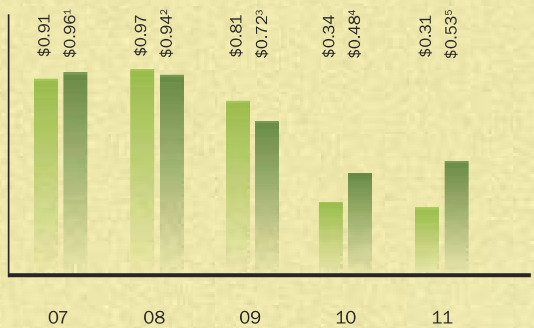
In our view, Carhops personify our distinctive position in the quick-service restaurant industry, giving our customers a level of service and attention that can't be matched by the stand-in-line, wait-for-your-order-to-be-called kind of fast-food place. Our Carhops, many skating, speed orders car-side and table-side on the patio, adding a personal touch to each Sonic visit and a level of interaction that can only happen at the drive-in. And, armed with our renowned Smile Tray, our Carhops make frequent rounds to ensure that customers have exactly what they need, right down to desired condiments, extra napkins and our famous peppermints for afterwards. That's one of the reasons customer satisfaction scores continue to rise at Sonic. From our customers' point of view, however, this whole service-delivery concept is simple and straightforward: This is how you Sonic!

The Numbers.

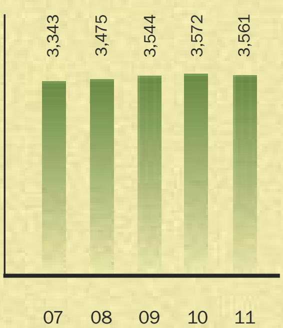
Total Revenues
(in millions)



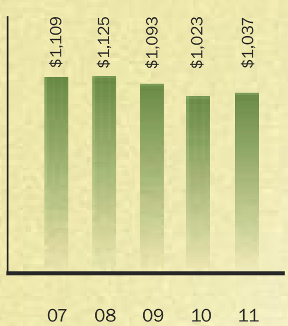
Net Income Per Diluted Share
As Reported Adjusted



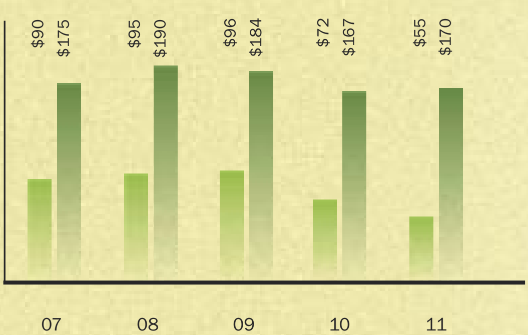
System-wide Drive-Ins



System-wide Average Sales Per Drive-In
(in thousands)



System-wide Marketing Expenditures
(in millions) National Cable Total

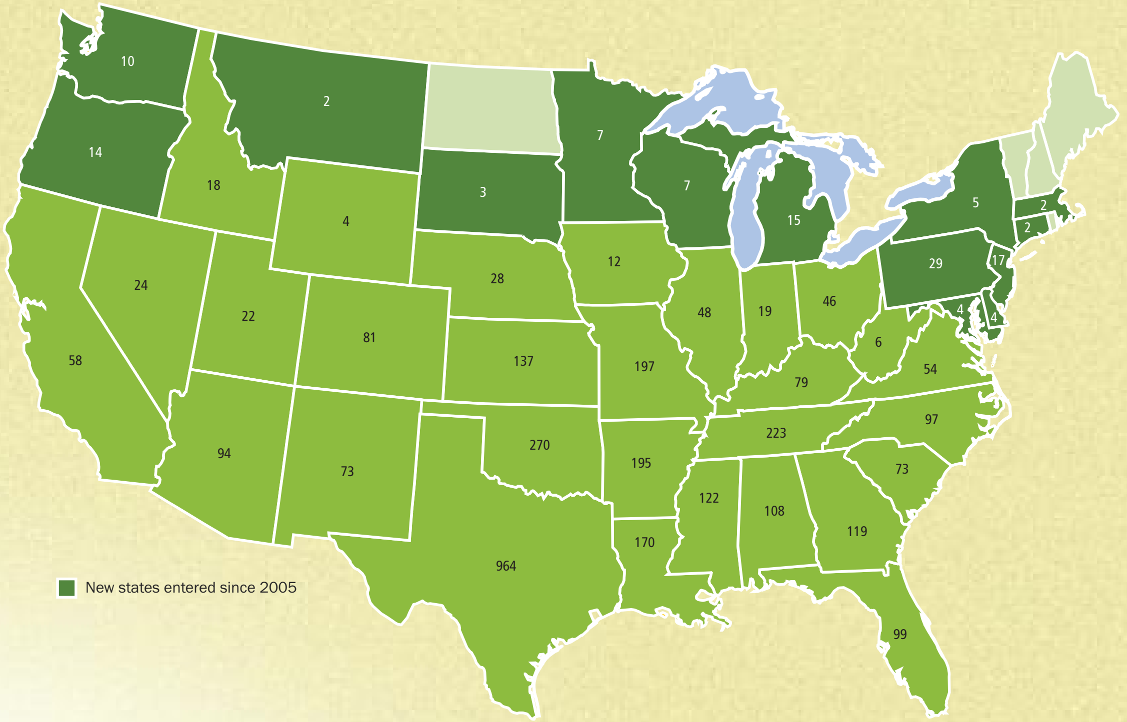


Non-GAAP Adjustments (after-tax)

1 Excludes $0.05 associated with debt extinguishment charges related to Sonic's tender offer and associated financing activities.
2 Excludes $0.03 associated with refranchising program.
3 Excludes $0.09, net, associated with refranchising program, impairment provisions and early extinguishments of debt.
4 Excludes $0.14, net, associated with impairment provisions, stock option exchange program, refranchising program and early extinguishments of debt.
5 Excludes $0.22, net, associated with early extinguishments of debt and a favorable tax settlement.

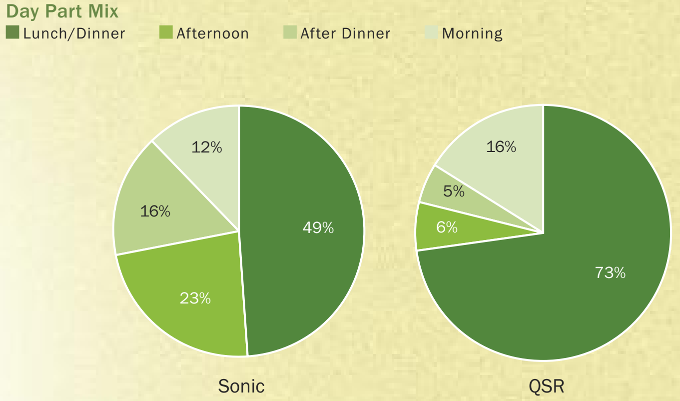
Locations.

System-wide Drive-In Locations



Mix.

Day Part Mix



Selected Financial Data

The following table sets forth selected financial data regarding the company's financial condition and operating results. One should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," below, and the company's Consolidated Financial Statements included elsewhere in this report.

	Year ended August 31,				
(In thousands, except per share data)	2011	2010	2009[1]	2008[1]	2007[1]
Income Statement Data:					
Company Drive-In sales	$410,820	$414,369	$567,436	$671,151	$646,915
Franchise Drive-Ins:					
Franchise royalties	124,127	122,385	126,706	121,944	111,052
Franchise fees	1,744	2,752	5,006	5,167	4,574
Lease revenue	6,023	6,879	3,985	1,519	1,851
Other	3,237	4,541	3,148	1,978	2,810
Total revenues	545,951	550,926	706,281	801,759	767,202
Cost of Company Drive-In sales	355,291	354,659	464,876	526,180	493,520
Selling, general and administrative	64,943	66,847	63,358	61,179	58,736
Depreciation and amortization	41,225	42,615	48,064	50,653	45,103
Provision for impairment of long-lived assets	824	15,161	11,163	571	1,165
Total expenses	462,283	479,282	587,461	638,583	598,524
Other operating income (expense), net	585	(763)	12,508	2,954	3,267
Income from operations	84,253	70,881	131,328	166,130	171,945
Interest expense, net[2]	54,929	36,073	35,657	47,927	44,406
Income before income taxes	$ 29,324	$ 34,808	$ 95,671	$118,203	$127,539
Net income-including noncontrolling interests	20,170	25,839	64,793	82,241	90,848
Net income-noncontrolling interests	945	4,630	15,351	21,922	26,656
Net income-attributable to Sonic Corp.	$ 19,225	$ 21,209	$ 49,442	$ 60,319	$ 64,192
Income per share:					
Basic	$ 0.31	$ 0.35	$ 0.81	$ 1.00	$ 0.94
Diluted	$ 0.31	$ 0.34	$ 0.81	$ 0.97	$ 0.91
Weighted average shares used in calculation:					
Basic	61,781	61,319	60,761	60,403	68,019
Diluted	61,943	61,576	61,238	62,270	70,592
Balance Sheet Data:					
Working capital (deficit)	$ 22,178	$ 15,320	$ 84,813	$ (13,115)	$ (40,784)
Property, equipment and capital leases, net	464,875	489,264	523,938	586,245	529,993
Total assets	679,742	737,320	849,041	836,312	758,520
Obligations under capital leases (including current portion)	34,063	36,256	39,461	37,385	39,318
Long-term debt (including current portion)	497,013	591,621	699,550	759,422	710,743
Stockholders' equity (deficit)	51,833	22,566	(2,352)	(61,020)	(103,013)
Cash dividends declared per common share	–	–	–	–	–

(1) Previously reported prior-year results have been adjusted to reflect changes in the presentation of noncontrolling interests, as well as the reclassification of gains (losses) from other revenues to other operating income (expense), net.

(2) Includes net loss (gain) from early extinguishment of debt of $23.0 million, $0.3 million, $(6.4) million and $6.1 million for fiscal years 2011, 2010, 2009 and 2007, respectively.

Overview

Description of the Business. Sonic operates and franchises the largest chain of drive-in restaurants in the United States. As of August 31, 2011, the Sonic system was comprised of 3,561 drive-ins, of which 13% were Company Drive-Ins and 87% were Franchise Drive-Ins. Sonic Drive-Ins feature signature menu items such as specialty drinks including cherry limeades and slushes, ice cream desserts, made-to-order sandwiches and hamburgers, six-inch premium beef hot dogs, footlong quarter pound chili cheese coneys, hand-battered onion rings, tater tots, and a unique breakfast menu. We derive our revenues primarily from Company Drive-In sales and royalties from franchisees. We also receive revenues from leasing real estate to franchisees, initial franchise fees, earnings from minority investments in franchise operations and other miscellaneous revenues.

Costs of Company Drive-In sales relate directly to Company Drive-In sales. Other expenses, such as depreciation, amortization, and general and administrative expenses, relate to our franchising operations, as well as Company Drive-In operations. Our revenues and expenses are directly affected by the number and sales volumes of Company Drive-Ins. Our revenues and, to a lesser extent, expenses also are affected by the number and sales volumes of Franchise Drive-Ins. Initial franchise fees and franchise royalties are directly affected by the number of Franchise Drive-In openings. Lease revenues are generated by leasing of land and buildings for Company Drive-Ins that have been sold to franchisees.

Overview of Business Performance. Sales momentum for fiscal year 2011 showed improvement, highlighted by positive same-store sales, particularly during the third fiscal quarter. System-wide same-store sales increased 0.5% during fiscal year 2011 as compared to a decline of 7.8% for fiscal year 2010. Same-store sales at Company Drive-Ins increased by 1.8% during fiscal year 2011 as compared to a decline of 8.8% for fiscal year 2010. We believe these results reflect the positive impact of the initiatives implemented in fiscal year 2010, including product quality improvements made over the past two years and a greater emphasis on personalized service with skating carhops. We also believe these results reflect a slightly improving economy. Positive system-wide same-store sales drive other aspects of our multi-layered growth strategy, such as our ascending royalty rate and increased operating cash flows. Net income and diluted earnings per share for fiscal year 2011 were $19.2 million and $0.31, respectively, as compared to net income of $21.2 million or $0.34 per diluted share for fiscal year 2010. Excluding an after-tax net loss of $14.4 million from the early extinguishment of debt during fiscal year 2011 and a $1.1 million tax benefit recognized during the first quarter of fiscal year 2011, net income and diluted earnings per share for fiscal year 2011 were $32.6 million and $0.53, respectively.

Franchisees opened 40 new drive-ins and relocated or rebuilt 11 existing drive-ins during the fiscal year. While the number of new drive-in openings in fiscal year 2011 was down compared to the prior year, investments by franchisees in new and existing locations continued throughout the year. We also continued our expansion in several new markets.

The growth and success of our business is built around implementation of our brand strategy, which features the following components:

- Improved performance of Company Drive-Ins, including consistent and improved operations execution, improved speed of service, cleanliness of drive-ins, and focus on the customer experience; and
- Same-store sales growth fueled by re-emphasizing our core brand strengths, including high-quality products, new products and service differentiation with skating carhops.

The following non-GAAP adjustments are intended to supplement the presentation of the company's financial results in accordance with GAAP. We believe the exclusion of these items in evaluating the change in net income and diluted earnings per share for the periods below provides useful information to investors and management regarding the underlying business trends and the performance of our ongoing operations and is helpful for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the financial results for the company and predicting future performance.

	Fiscal Year Ended August 31, 2011		Fiscal Year Ended August 31, 2010	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported – GAAP	$ 19,225	$ 0.31	$ 21,209	$ 0.34
After-tax net loss from early extinguishment of debt	14,439	0.24	202	—
Tax benefit from favorable tax settlement	(1,073)	(0.02)	—	—
Refranchising loss	–	–	492	0.01
Impairment provision	–	–	9,776	0.16
Tax benefit of stock option exchange program	–	–	(1,751)	(0.03)
Adjusted - Non-GAAP	$ 32,591	$ 0.53	$ 29,928	$ 0.48

The following table provides information regarding the number of Company Drive-Ins and Franchise Drive-Ins operating as of the end of the years indicated as well as the system-wide change in sales and average unit volume. System-wide information includes both Company Drive-In and Franchise Drive-In information, which we believe is useful in analyzing the growth of the brand as well as the company's revenues, since franchisees pay royalties based on a percentage of sales.

	System-wide Performance		
	Year Ended August 31,		
($ in thousands)	2011	2010	2009
Percentage increase (decrease) in sales	1.9%	(5.7)%	0.7%
System-wide drive-ins in operation [1]:			
Total at beginning of period	3,572	3,544	3,475
Opened	43	85	141
Closed (net of re-openings)	(54)	(57)	(72)
Total at end of period	3,561	3,572	3,544
Average sales per drive-in:	$ 1,037	$ 1,023	$ 1,093
Change in same-store sales [2]:	0.5%	(7.8)%	(4.3)%

(1) Drive-ins that are temporarily closed for various reasons (repairs, remodeling, relocations, etc.) are not considered closed unless the company determines that they are unlikely to reopen within a reasonable time.

(2) Represents percentage change for drive-ins open for a minimum of 15 months.

System-wide same-store sales continued to improve during fiscal year 2011 which we believe is largely attributable to the ongoing positive impact of our strategic initiatives as well as a slightly improving economy. We implemented a number of initiatives throughout fiscal year 2010 designed to provide a unique and high quality customer service experience with the goal of improving same-store sales by driving both traffic and average check. These initiatives include focusing on customer service and improving the quality of our differentiated food and drink products. System-wide same-store sales increased 0.5% during fiscal year 2011, an improving trend as compared to a decrease of 7.8% for fiscal year 2010.

During fiscal year 2011, our system-wide media expenditures were approximately $170 million as compared to $167 million in fiscal year 2010. We use varying forms of local advertising mediums, such as television, outdoor billboards, radio, online and print to optimize media impressions in drive-in trade areas. We also continue to invest in system-wide marketing fund efforts, which are largely used for national cable television advertising. Expenditures for national media advertising represented 32% of system-wide media expenditures during fiscal year 2011, down from 43% in 2010. For fiscal year 2012, we expect system-wide media expenditures to be approximately $170 million to $175 million with expenditures for national media advertising representing approximately 45% of that amount.

The following table provides information regarding drive-in development across the system.

	Year Ended August 31,		
	2011	2010	2009
New drive-ins:			
Company	3	5	11
Franchise	40	80	130
System-wide	43	85	141
Rebuilds/relocations:			
Company	3	–	4
Franchise	11	23	46
System-wide	14	23	50

Results of Operations

Revenues. The following table sets forth the components of revenue for the reported periods and the relative change between the comparable periods.

($ in thousands)	Revenues Year Ended August 31, 2011	2010	Increase/ (Decrease)	Percent Increase/ (Decrease)
Revenues:				
Company Drive-In sales	$ 410,820	$ 414,369	$ (3,549)	(0.9)%
Franchise Drive-Ins:				
Franchise royalties	124,127	122,385	1,742	1.4
Franchise fees	1,744	2,752	(1,008)	(36.6)
Lease revenue	6,023	6,879	(856)	(12.4)
Other	3,237	4,541	(1,304)	(28.7)
Total revenues	$ 545,951	$ 550,926	$ (4,975)	(0.9)%

($ in thousands)	Revenues Year Ended August 31, 2010	2009	Increase/ (Decrease)	Percent Increase/ (Decrease)
Revenues:				
Company Drive-In sales	$ 414,369	$ 567,436	$ (153,067)	(27.0)%
Franchise Drive-Ins:				
Franchise royalties	122,385	126,706	(4,321)	(3.4)
Franchise fees	2,752	5,006	(2,254)	(45.0)
Lease revenue	6,879	3,985	2,894	72.6
Other	4,541	3,148	1,393	44.3
Total revenues	$ 550,926	$ 706,281	$ (155,355)	(22.0)%

The following table reflects the changes in sales and same-store sales at Company Drive-Ins. It also presents information about average unit volumes and the number of Company Drive-Ins, which is useful in analyzing the growth of Company Drive-In sales.

($ in thousands)	Company Drive-In Sales Year ended August 31, 2011	2010	2009
Company Drive-In sales	$ 410,820	$ 414,369	$ 567,436
Percentage (decrease)	(0.9)%	(27.0)%	(15.5)%
Company Drive-Ins in operation[1]:			
Total at beginning of period	455	475	684
Opened	3	5	11
Acquired from (sold to) franchisees, net	(5)	(16)	(205)
Closed (net of re-openings)	(7)	(9)	(15)
Total at end of period	446	455	475
Average sales per Company Drive-In	$ 920	$ 893	$ 954
Percentage increase (decrease)	3.0%	(6.4)%	(5.3)%
Change in same-store sales[2]	1.8%	(8.8)%	(6.4)%

(1) Drive-ins that are temporarily closed for various reasons (repairs, remodeling, relocations, etc.) are not considered closed unless the company determines that they are unlikely to reopen within a reasonable time.

(2) Represents percentage change for drive-ins open for a minimum of 15 months.

Same-store sales for Company Drive-Ins increased 1.8% for fiscal year 2011, as compared to a decline of 8.8% for fiscal year 2010, which represents an improving trend that we attribute to the initiatives we have implemented and a slightly improving economy. In addition to the implementation of system-wide initiatives in fiscal year 2010, we have implemented a number of initiatives at Company Drive-Ins which have contributed to their improved performance. These initiatives included restructuring management of our Company Drive-In operations to reduce excess management layers, revising the compensation program at the drive-in level, and implementing a customer service initiative to improve sales and profits. These efforts were focused on narrowing the average unit volume gap with Franchise Drive-Ins and improving restaurant-level margins. Company Drive-In sales decreased $3.5 million, or 0.9%, during fiscal year 2011 as compared 2010. An improvement in same-store sales and, to a lesser extent, new drive-in openings during fiscal year 2011 resulted in an $8.1 million increase in sales which was more than offset by a $7.2 million decrease in sales caused by the refranchising of 16 Company Drive-Ins in the second quarter of fiscal year 2010 and six drive-ins in fiscal year 2011 as well as a $4.4 million decrease related to drive-ins that were closed during or subsequent to fiscal year 2010.

For fiscal year 2010, Company Drive-In sales decreased $153.1 million, which was largely driven by 245 drive-ins that were refranchised or closed since the beginning of fiscal year 2009 and the decline in same-store sales for existing drive-ins. Of the $153.1 million decrease, $121.3 million related to drive-ins that were refranchised or closed and $36.7 million related to same-store sales decreases for existing drive-ins driven by the impact of severe winter weather as well as a reduction of consumer spending at restaurants. These decreases were partially offset by a $4.9 million increase in sales from drive-ins opened during the period.

The following table reflects the change in franchising revenues (franchise royalties, franchise fees and lease revenues) as well as franchise sales, average unit volumes and the number of Franchise Drive-Ins. While we do not record Franchise Drive-In sales as revenues, we believe this information is important in understanding our financial performance since these sales are the basis on which we calculate and record franchise royalties. This information is also indicative of the financial health of our franchisees.

	Franchise Information		
	Year ended August 31,		
($ in thousands)	2011	2010	2009
Franchising revenues[1]	$ 131,894	$ 132,016	$ 135,697
Percentage increase (decrease)	(0.1)%	(2.7)%	5.5%
Franchise Drive-Ins in operation[2]:			
Total at beginning of period	3,117	3,069	2,791
Opened	40	80	130
Acquired from (sold to) Company, net	5	16	205
Closed (net of re-openings)	(47)	(48)	(57)
Total at end of period	3,115	3,117	3,069
Franchise Drive-In sales	$3,278,208	$3,205,507	$3,269,930
Percentage change	2.3%	(2.0)%	4.1%
Effective royalty rate	3.79%	3.82%	3.87%
Average sales per Franchise Drive-In	$ 1,054	$ 1,043	$ 1,122
Change in same-store sales[3]	0.4%	(7.6)%	(3.9)%

(1) Consists of revenues derived from franchising activities, including royalties, franchise fees and lease revenues. See *Revenue Recognition Related to Franchise Fees and Royalties in the Critical Accounting Policies and Estimates* section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

(3) Drive-ins that are temporarily closed for various reasons (repairs, remodeling, relocations, etc.) are not considered closed unless the company determines that they are unlikely to reopen within a reasonable time.

(3) Represents percentage change for drive-ins open for a minimum of 15 months.

Same-store sales for Franchise Drive-Ins increased 0.4% for fiscal year 2011 as compared to a decline of 7.6% for the same period last year, which represents an improving trend that we attribute to the initiatives we have implemented and a slightly improving economy.

Franchise royalties increased $1.7 million for fiscal year 2011, which was primarily driven by an increase in same-store sales combined with incremental royalties from newly constructed and refranchised drive-ins. The lower effective royalty rate for fiscal year 2011 was attributable to various royalty incentive programs. Franchise royalties declined $4.3 million or 3.4% in fiscal year 2010 as compared to fiscal year 2009. Same-store sales decreases combined with a lower effective royalty rate in 2010 resulted in a decrease in royalties of $11.5 million, which was partially offset by $7.2 million in incremental royalties from newly constructed and refranchised drive-ins.

Franchise fees declined $1.0 million to $1.7 million in fiscal year 2011, which was primarily related to franchisees opening fewer drive-ins during the year as a result of the prior softer sales environment. Franchisees opened 40 new drive-ins during fiscal year 2011, down from 80 in the prior year. Franchisee investment in existing drive-ins continued during fiscal year 2011, and included the relocation or rebuild of 11 drive-ins (versus 23 in the prior year). Franchise fees declined $2.3 million to $2.8 million in fiscal year 2010 as franchisees opened 80 new drive-ins, down from 130 new drive-ins in fiscal year 2009. The decrease is primarily comprised of $1.8 million attributable to fewer new drive-in openings in fiscal 2010, as well as $0.7 million in reduced fees associated with incentives for the development of new Sonic Drive-Ins.

Other income decreased $1.3 million, or 28.7%, to $3.2 million in fiscal year 2011 from $4.5 million in fiscal year 2010 primarily due to a decrease in minority income from investments in franchise operations.

Operating Expenses. The following table presents the overall costs of drive-in operations as a percentage of Company Drive-In sales. Other operating expenses include direct operating costs such as marketing, telephone and utilities, repair and maintenance, rent, property tax and other controllable expenses. Noncontrolling interests of Company Drive-Ins are no longer included as part of cost of sales in the Consolidated Statements of Income. We have included noncontrolling interests for comparative purposes in the table below because we believe it is helpful in understanding the impact our new compensation program, which was implemented in the third quarter of fiscal year 2010, had on Company Drive-In margins.

	Company Drive-In Margins Year ended August 31,		Percentage points Increase/ (Decrease)
	2011	2010	
Costs and expenses[1]:			
Company Drive-Ins:			
Food and packaging	28.1%	27.6%	0.5
Payroll and other employee benefits	36.1	35.2	0.9
Other operating expenses	22.3	22.8	(0.5)
Cost of sales, as reported	86.5%	85.6%	0.9
Noncontrolling interests	0.2%	1.1%	(0.9)
Pro forma cost of sales, including noncontrolling interests	86.7%	86.7%	–

	Company Drive-In Margins Year ended August 31,		Percentage points Increase/ (Decrease)
	2010	2009	
Costs and expenses[1]:			
Company Drive-Ins:			
Food and packaging	27.6%	27.6%	0.0
Payroll and other employee benefits	35.2	32.9	2.3
Other operating expenses	22.8	21.4	1.4
Cost of sales, as reported	85.6%	81.9%	3.7
Noncontrolling interests	1.1	2.7	(1.6)
Pro forma cost of sales, including noncontrolling interests	86.7%	84.6%	2.1

(1) Calculated as a percentage of Company Drive-In Sales.

Operating costs for Company Drive-Ins remained flat in fiscal year 2011 as compared to the same period last year. Food and packaging cost increases during fiscal year 2011 were driven by investments in product quality improvements and higher commodity costs. Payroll and other employee benefit costs increased as a result of increased compensation costs associated with our new compensation program at the Company Drive-In level which was effective April 1, 2010. As a result of our new compensation program introduced as an alternative to our traditional ownership program, compensation costs that were formerly reflected as noncontrolling interests are now included in payroll and other employee benefits. The new compensation program provides managers and supervisors a larger portion of guaranteed base compensation but retains a significant incentive component based on drive-in level performance. Other operating expenses decreased, as a percentage of sales, attributable to leverage from positive same-store sales. The increase in operating costs in fiscal year 2010 as compared to fiscal year 2009 was a result of high labor costs driven by minimum wage increases and the de-leveraging impact of lower same-store sales.

Selling, General and Administrative ("SG&A"). SG&A expenses decreased 2.8% to $64.9 million during fiscal year 2011 and increased 5.5% to $66.8 million during fiscal year 2010. The decrease in SG&A expense for fiscal year 2011 was largely attributable to a decline in stock compensation expense resulting from a revision in our long-term compensation strategy as well as to declines in bad debt expense, which was primarily related to our provision for bad debt in the prior year and which has moderated in fiscal year 2011 due to an improvement in sales trends. The increase in SG&A expense for fiscal year 2010 was primarily attributable to $2.9 million in provision for bad debt expenses, as well as professional fees associated with financial restructuring services for franchisees.

Depreciation and Amortization. Depreciation and amortization expense decreased 3.3% to $41.2 million in fiscal year 2011 and decreased 11.3% to $42.6 million in fiscal year 2010. The decrease in depreciation and amortization expense for fiscal year 2011 was primarily attributable to the provision for impairment of long-lived assets recorded in the fourth quarter of fiscal 2010 and, to a lesser extent, a result of refranchising 16 Company Drive-Ins in fiscal year 2010. The decrease in depreciation and amortization expense for fiscal year 2010 was largely attributable to the refranchising of 205 Company Drive-Ins in fiscal year 2009. Capital expenditures during fiscal year 2011 were $21.2 million. For fiscal year 2012, capital expenditures are expected to be approximately $25 to $30 million.

Provision for Impairment of Long-Lived Assets. Provision for impairment of long-lived assets decreased $14.3 million for fiscal year 2011. This decrease was primarily the result of the $15.2 million non-cash impairment of long-lived assets we recorded in fiscal year 2010, to reduce the carrying cost of the related operating assets to an estimated fair value. The provision for impairment increase from $11.2 million in fiscal year 2009 to $15.2 million in fiscal year 2010 primarily related to lower sales and profits for Company Drive-Ins resulting from the sustained economic downturn and weak results during the summer months for operating stores. Assets impaired included operating drive-ins, property leased to franchisees, surplus property and other assets.

The decision whether to close or continue to operate a drive-in is made independently of the impairment process. We continue to perform quarterly analyses of certain underperforming drive-ins. It is reasonably possible that the estimate of future cash flows associated with these drive-ins could change in the future resulting in the need to write down to fair value assets associated with one or more of these drive-ins.

Net Interest Expense. The increase in net interest expense for fiscal year 2011 is primarily the result of a $28.2 million loss from the early extinguishment of debt related to the refinancing of our previously outstanding debt in May 2011. In addition, net interest expense for fiscal year 2011 includes a $5.2 million gain from the early extinguishment of debt that resulted from purchasing a portion of our Series 2006-1 Senior Secured Variable Funding Notes, Class A-1 (the "2006 Variable Funding Notes") at a discount in the second quarter of fiscal year 2011. Excluding the early extinguishments of debt, net interest expense decreased $3.9 million for fiscal year 2011 from 2010, primarily attributable to lower levels of borrowings stemming from $120.4 million in debt buy-backs of our 2006 Variable Funding Notes and Series 2006-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2006 Fixed Rate Notes" and, together with the 2006 Variable Funding Notes, the "2006 Notes") and scheduled principal payments of $45.4 million since fiscal year 2010. See "Liquidity and Sources of Capital" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" below for additional information on our May 2011 refinancing and factors that could impact interest expense.

Income Taxes. The provision for income taxes, excluding income attributable to noncontrolling interests, reflects an effective tax rate of 32.3% for fiscal year 2011 compared with 29.7% for fiscal year 2010. The increase for fiscal year 2011 was primarily attributable to a $1.8 million tax benefit associated with the stock option exchange program that was implemented during the third quarter of fiscal year 2010, partially offset by a $1.1 million decrease in our liability for unrecognized tax benefits resulting from the settlement of state tax audits during the first quarter of fiscal year 2011. The provision for income taxes, excluding income attributable to noncontrolling interests, reflects an effective tax rate of 38.4% for fiscal year 2009. The decline in the tax rate for fiscal year 2010 as compared to 2009 was primarily related to the $1.8 million tax benefit recognized in 2010 discussed earlier. Our tax rate may continue to vary significantly from quarter to quarter depending on the timing of option exercises and dispositions by option-holders, changes to uncertain tax positions and as circumstances on individual tax matters change.

Net Income - Noncontrolling Interests. As a result of the change to a new compensation program for Company Drive-Ins, compensation costs that were formerly reflected as noncontrolling interests relating to store-level managers are now included in payroll and other employee benefits. Primarily due to this change, net income - noncontrolling interests decreased 79.6% to $0.9 million in fiscal year 2011 and decreased 69.8% to $4.6 million for fiscal year 2010.

Financial Position

Total assets decreased $57.6 million, or 7.8%, to $679.7 million during fiscal year 2011 from $737.3 million at the end of fiscal year 2010. This decrease was primarily attributable to a $56.2 million decrease in current restricted and unrestricted cash resulting from scheduled principal payments on our debt in addition to the repurchase of a portion of our 2006 Variable Funding Notes in December 2010. Additionally, net property, equipment and capital leases decreased by $24.4 million resulting primarily from depreciation during the year. These decreases were offset by a $12.8 million increase in our income tax receivable and a $9.6 million net increase in debt origination costs related to our May 2011 refinancing. The income tax receivable at August 31, 2011 consists of $10.1 million for prior-year deductions to be claimed on amended returns and $2.7 million of current-year overpayments.

Total liabilities decreased $86.8 million, or 12.2%, to $627.9 million during fiscal year 2011 from $714.8 million at the end of fiscal year 2010. This decrease was primarily the result of the repurchase of our 2006 Variable Funding Notes discussed above and scheduled principal repayments of $45.4 million during fiscal year 2011.

Total stockholders' equity increased $29.3 million, or 129.7%, to $51.8 million during fiscal year 2011 from $22.6 million at the end of fiscal year 2010. The increase was largely attributable to current year earnings of $19.2 million and a $5.6 million increase in paid-in capital relating to stock-based compensation.

Liquidity and Sources of Capital

Operating Cash Flows. Net cash provided by operating activities increased $6.5 million to $84.1 million for fiscal year 2011 as compared to $77.6 million in fiscal year 2010. This increase primarily relates to an improvement in same-store sales and a reduction in income tax payments during fiscal year 2011 as compared to the same period in the prior year. These increases were partially offset by changes in restricted cash.

Investing Cash Flows. Cash used in investing activities increased $6.7 million to $16.1 million for fiscal year 2011 as compared to $9.4 million in fiscal year 2010. The increase in cash used in investing activities during fiscal year 2011 primarily relates to a $8.9 million decrease of proceeds from the disposition of assets that were sold in fiscal year 2009 and became unrestricted in the first quarter of fiscal year 2010, partially offset by a $3.3 million decrease in purchases of property and equipment. The following table sets forth the components of our investments in capital additions for fiscal year 2011 (in millions):

Replacement equipment and technology for existing drive-ins and other	$ 7.9
Corporate technology investments	6.0
Rebuilds, relocations and remodels of existing drive-ins	3.5
New Company Drive-Ins, including drive-ins under construction	3.1
Retrofits, drive-thru additions and LED signs in existing drive-ins	0.7
Total investing cash flows for capital additions	$ 21.2

Financing Cash Flows. Net cash used in financing activities increased $4.8 million to $124.6 million for fiscal year 2011 as compared to $119.8 million in fiscal year 2010. During the third quarter of fiscal year 2011 we refinanced our previously outstanding debt as described below, which was the primary reason for the increase. The overall increase in cash used in financing activities was partially offset by a decrease in restricted cash related to our new debt obligations and purchases of noncontrolling interests as our new compensation program was completed April 1, 2010.

On May 20, 2011, various subsidiaries of ours (the "Co-Issuers") issued $500 million of Series 2011-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2011 Fixed Rate Notes") in a private transaction which bears interest at 5.4% per annum. The 2011 Fixed Rate Notes have an expected life of seven years with an anticipated repayment date in May 2018 based on the terms of the debt agreement. At August 31, 2011, the balance outstanding under the 2011 Fixed Rate Notes including accrued interest totaled $497.0 million and carried a weighted-average interest cost of 5.8%, including the effect of the loan origination costs described below.

In connection with the issuance of the 2011 Fixed Rate Notes, the Co-Issuers also entered into a securitized financing facility of Series 2011-1 Senior Secured Variable Funding Notes, Class A-1 (the "2011 Variable Funding Notes"). This revolving credit facility allows for the issuance of up to $100 million of 2011 Variable Funding Notes and certain other credit instruments, including letters of credit. The 2011 Variable Funding Notes have an expected life of five years with an anticipated repayment date in May 2016 based on the terms of the debt agreement. Interest on the 2011 Variable Funding Notes is payable monthly at rates equal to the one-month London Interbank Offered Rate or Commercial Paper, depending on the funding source, plus 3.75% per annum. There is a 0.5% annual commitment fee payable monthly on the unused portion of the 2011 Variable Funding Notes facility. We borrowed $35 million under the 2011 Variable Funding Notes facility at closing and have the ability to draw additional amounts under the facility from time to time as needed. In June 2011, we repaid the outstanding balance under our 2011 Variable Funding Notes.

We used the $535 million of net proceeds from the issuance of the 2011 Fixed Rate Notes and 2011 Variable Funding Notes (collectively, the “2011 Notes”) to repay our existing 2006 Notes in full and to pay the costs associated with the securitized financing transaction, including the existing noteholder and insurer make-whole premiums.

Loan origination costs associated with our 2011 refinancing totaled $16.4 million and were allocated between the 2011 Notes. Loan costs are being amortized over each note’s expected life. The amount of loan costs expected to be amortized over the next twelve months is reflected in “other current assets” on the Consolidated Balance Sheets.

While the 2011 Fixed Rate Notes and the 2011 Variable Funding Notes are structured to provide for seven-year and five-year lives, respectively, they have a legal final maturity date of May 2041. We intend to repay or refinance the 2011 Notes on or before the end of their respective expected lives. In the event the 2011 Notes are not paid in full by the end of their expected lives, the Notes are subject to an upward adjustment in the interest rate of at least 5% per annum. In addition, principal payments will accelerate by applying all of the royalties, lease revenues and other fees securing the debt, after deducting certain expenses, until the debt is paid in full. Also, any unfunded amount under the 2011 Variable Funding Notes will become unavailable.

We anticipate fiscal year 2012 interest expense on our 2011 Fixed Rate Notes, including the amortization of loan origination costs, to be approximately $32 million annually, as a result of our refinancing and are scheduled to make principal payments on our 2011 Fixed Rate Notes of approximately $15 million during fiscal year 2012. Mandatory principal payments of $15 million annually under the new financing versus mandatory principal payments paid in fiscal year 2011 of $45.4 million will significantly increase the amount of our available free cash flow. For additional information on our May 2011 refinancing, see note 10 – Debt, included in Part II, Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Prior to the refinancing, during the second quarter of fiscal year 2011, we repurchased $62.5 million of our 2006 Variable Funding Notes in a privately negotiated transaction. We recognized a gain of $5.2 million on the extinguishment of these notes during the second fiscal quarter of 2011.

The 2011 Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) required actions to better secure collateral upon the occurrence of certain performance-related events, (ii) application of certain disposition proceeds as note prepayments after a set time is allowed for reinvestment, (iii) maintenance of specified reserve accounts, (iv) maintenance of certain debt service coverage ratios, (v) optional and mandatory prepayments upon change in control, (vi) indemnification payments for defective or ineffective collateral, and (vii) covenants relating to recordkeeping, access to information and similar matters. If certain covenants or restrictions are not met, the 2011 Notes are subject to customary accelerated repayment events and events of default. Although management does not anticipate an event of default or any other event of noncompliance with the provisions of the debt, if such event occurred, the unpaid amounts outstanding could become immediately due and payable.

We plan capital expenditures of approximately $25 to $30 million in fiscal year 2012. These capital expenditures primarily relate to drive-in level expenditures, technology infrastructure expenditures and the development of additional Company Drive-Ins. We expect to fund these capital expenditures through cash flow from operations as well as cash on hand.

As of August 31, 2011, our total cash balance of $50.5 million ($29.5 million of unrestricted and $21.0 million of restricted cash balances) reflected the impact of the cash generated from operating activities, borrowing activity, refranchising and capital expenditures mentioned above. In addition, we expect refunds from amended tax returns and current-year overpayments totaling approximately $12.8 million to be received or applied to other tax obligations during fiscal year 2012. We believe that existing cash, funds generated from operations and the undrawn availability of $100 million under our 2011 Variable Funding Notes will meet our needs for the foreseeable future.

On October 13, 2011, subsequent to the end of our 2011 fiscal year, our Board of Directors approved a stock repurchase program. Under the stock repurchase program, we are authorized to purchase up to $30 million of our outstanding shares of common stock through August 31, 2012. The purchases may be made from time to time on the open market or in negotiated transactions, depending on share price, market conditions and other factors. The stock repurchase program may be extended, modified, suspended or discontinued at any time. We plan to fund the stock repurchase program from existing cash on hand at August 31, 2011 and cash flows from operations.

Off-Balance Sheet Arrangements

The company has obligations for guarantees on certain franchisee loans, which in the aggregate are immaterial, and obligations for guarantees on certain franchisee lease agreements. Other than such guarantees and various operating leases and purchase obligations, which are disclosed below in "Contractual Obligations and Commitments" and in note 7 - Leases and note 17 – Commitments and Contingencies to our Consolidated Financial Statements, the company has no other material off-balance sheet arrangements.

Contractual Obligations and Commitments

In the normal course of business, Sonic enters into purchase contracts, lease agreements and borrowing arrangements. The following table presents our commitments and obligations as of August 31, 2011 (in thousands):

		Payments Due by Fiscal Year			
	Total	Less than 1 Year (2012)	1 – 3 Years (2013 to 2014)	3 – 5 Years (2015 to 2016)	More than 5 Years (2017 and thereafter)
Contractual Obligations					
Long-term debt[1]	$ 660,167	$ 41,813	$ 81,290	$ 77,553	$ 459,511
Capital leases	45,138	5,992	11,466	10,354	17,326
Operating leases	173,231	12,325	23,892	22,773	114,241
Purchase obligations[2]	104,951	26,984	52,380	25,587	–
Other[3]	16,022	–	–	–	–
Total	$ 999,509	$ 87,114	$ 169,028	$ 136,267	$ 591,078

(1) Includes scheduled principal and interest payments on our 2011 Fixed Rate Notes and assumes these notes will be outstanding for the expected seven-year life with an anticipated repayment date in May 2018.

(2) Includes the company's estimated share of system-wide commitments to purchase food products. We have excluded agreements that are cancelable without penalty. These amounts require estimates and could vary due to the timing of volumes and changes in market pricing.

(3) Includes $4.8 million of unrecognized tax benefits related to uncertain tax positions and $11.2 million related to guarantees of franchisee leases and loan agreements. As we are not able to reasonably estimate the timing or amount of these payments, if any, the related balances have not been reflected in the "Payments Due by Fiscal Year" section of the table.

Impact of Inflation

We are impacted by inflation which has caused increases in our food, labor and benefits costs and has increased our operating expenses. To the extent permitted by competition, increased costs are recovered through a combination of menu price increases and reviewing, then implementing, alternative products or processes, or by implementing other cost reduction procedures.

Critical Accounting Policies and Estimates

The Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this document contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with generally accepted accounting principles requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. These assumptions and estimates could have a material effect on our financial statements. We evaluate our assumptions and estimates on an ongoing basis using historical experience and various other factors that are believed to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We perform an annual review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate and transparent information relative to the current economic and business environment. We believe the following significant accounting policies and estimates involve a high degree of risk, judgment and/or complexity.

Impairment of Long-Lived Assets. We review Company Drive-In assets for impairment when events or circumstances indicate they might be impaired. We test for impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. These impairment tests require us to estimate fair values of our drive-ins by making assumptions regarding future cash flows and other factors. During fiscal year 2011, we reviewed Company Drive-Ins and other long-lived assets with combined carrying amounts of $27.9 million in property, equipment and capital leases for possible impairment, and our cash flow assumptions resulted in impairment charges totaling $0.8 million to write down certain assets to their estimated fair value.

We assess the recoverability of goodwill and other intangible assets related to our brand and drive-ins at least annually and more frequently if events or changes in circumstances occur indicating that the carrying amount of the asset may not be recoverable. Goodwill impairment testing first requires a comparison of the fair value of each reporting unit to the carrying value. We estimate fair value based on a comparison of two approaches: discounted cash flow analyses and a market multiple approach. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. In addition, the market multiple approach includes significant assumptions such as the use of recent historical market multiples to estimate future market pricing. These assumptions are significant factors in calculating the value of the reporting units and can be affected by changes in consumer demand, commodity pricing, labor and other operating costs, our cost of capital and our ability to identify buyers in the market. If the carrying value of the reporting unit exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of the goodwill and the “implied” fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

During the fourth quarter of fiscal year 2011, we performed our annual assessment of recoverability of goodwill and other intangible assets and determined that no impairment was indicated. As of the impairment testing date, the fair value of the Company Drive-In reporting unit exceeded the carrying value by approximately 9.3%. As of August 31, 2011, the company had $81.6 million of goodwill, of which $75.6 million was attributable to the Company Drive-Ins segment and $6.0 million was attributable to the Franchise Operations segment. If cash flows generated by our Company Drive-Ins were to decline significantly in the future or there were negative revisions to key assumptions, we may be required to record impairment charges to reduce the carrying amount of goodwill.

Revenue Recognition Related to Franchise Fees and Royalties. Initial franchise fees are recognized in income when we have substantially performed or satisfied all material services or conditions relating to the sale of the franchise and the fees are nonrefundable. Area development fees are nonrefundable and are recognized in income on a pro-rata basis when the conditions for revenue recognition under the individual area development agreements are met. Both initial franchise fees and area development fees are generally recognized upon the opening of a Franchise Drive-In or upon termination of the agreement between Sonic and the franchisee.

Our franchisees are required under the provisions of the license agreements to pay royalties to Sonic each month based on a percentage of actual sales. However, the royalty payments and supporting financial statements are not due until the following month under the terms of our franchise agreements. As a result, we accrue royalty revenue in the month earned.

Accounting for Stock-Based Compensation. We account for stock-based compensation in accordance with Accounting Standards Codification ("ASC") Topic 718, Stock Compensation. We estimate the fair value of options granted using the Black-Scholes option pricing model along with the assumptions shown in note 13 – Stockholders' Equity in the Notes to the Consolidated Financial Statements in this Form 10-K. The assumptions used in computing the fair value of stock-based payments reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. We estimate expected volatility based on historical daily price changes of the company's stock for a period equal to the current expected term of the options. The expected option term is the number of years the company estimates that options will be outstanding prior to exercise considering vesting schedules and our historical exercise patterns. If other assumptions or estimates had been used, the stock-based compensation expense that was recorded during fiscal year 2011 could have been materially different. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted.

Income Taxes. We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as wages paid to certain employees, effective rates for state and local income taxes and the tax deductibility of certain other items.

We account for uncertain tax positions under ASC Topic 740, Income Taxes, which sets out criteria for the use of judgment in assessing the timing and amounts of deductible and taxable items. Although we believe we have adequately accounted for our uncertain tax positions, from time to time, audits result in proposed assessments where the ultimate resolution may give rise to us owing additional taxes. We adjust our uncertain tax positions in light of changing facts and circumstances, such as the completion of a tax audit, expiration of a statute of limitations, the refinement of an estimate, and penalty and interest accruals associated with uncertain tax positions until they are resolved. We believe that our tax positions comply with applicable tax law and that we have adequately provided for these matters. However, to the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

Our estimates are based on the best available information at the time that we prepare the provision, including legislative and judicial developments. We generally file our annual income tax returns several months after our fiscal year end. Income tax returns are subject to audit by federal, state and local governments, typically several years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. Adjustments to these estimates or returns can result in significant variability in the tax rate from period to period.

Leases. We lease the land and buildings for certain Company Drive-Ins from third parties. Rent expense for operating leases is recognized on a straight-line basis over the expected lease term, including cancelable option periods when it is deemed to be reasonably assured that we would incur an economic penalty for not exercising the options. Judgment is required to determine options expected to be exercised. Within the terms of some of our leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of the rent holidays and escalations are reflected in rent expense on a straight-line basis over the expected lease term, including cancelable option periods when appropriate. The lease term commences on the date when we have the right to control the use of lease property, which can occur before rent payments are due under the terms of the lease. Contingent rent is generally based on sales levels and is accrued at the point in time we determine that it is probable that such sales levels will be achieved.

Accounts and Notes Receivable. We charge interest on past due accounts receivable and recognize income as it is collected. Interest accrues on notes receivable based on the contractual terms of the respective note. We monitor all accounts and notes receivable for delinquency and provide for estimated losses for specific receivables that are not likely to be collected. We assess credit risk for accounts and notes receivable of specific franchisees based on payment history, current payment patterns, the health of the franchisee's business, and an assessment of the franchisee's ability to pay outstanding balances. In addition to allowances for bad debt for specific franchisee receivables, a general provision for bad debt is estimated for accounts receivable based on historical trends. Account balances generally are charged against the allowance when we believe it is probable that the receivable will not be recovered and legal remedies have been exhausted. We continually review our allowance for doubtful accounts.

Quantitative and Qualitative Disclosures About Market Risk

Sonic's use of debt directly exposes the company to interest rate risk. Floating rate debt, where the interest rate fluctuates periodically, exposes the company to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes the company to changes in market interest rates reflected in the fair value of the debt and to the risk that the company may need to refinance maturing debt with new debt at a higher rate. Sonic is also exposed to market risk from changes in commodity prices. Sonic does not utilize financial instruments for trading purposes. Sonic manages its debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps as a tool to achieve that goal in the future.

Interest Rate Risk. Our exposure to interest rate risk at August 31, 2011 is primarily based on the 2011 Fixed Rate Notes with an effective rate of 5.4%, before amortization of debt-related costs. At August 31, 2011, the fair value of the 2011 Fixed Rate Notes approximated the carrying value of $497.0 million (including accrued interest). Management used market information available for public debt transactions for companies with ratings that are at or below our ratings. Management believes this fair value is a reasonable estimate with the information that is available. Should interest rates and/or credit spreads increase or decrease by one percentage point, the estimated fair value of the 2011 Fixed Rate Notes would decrease or increase by approximately $26 million, respectively. The fair value estimate requires significant assumptions by management as there are few, if any, securitized loan transactions occurring in the current market.

We have made certain loans to our franchisees totaling $9.5 million as of August 31, 2011. The interest rates on these notes are generally between 5.25% and 10.5%. We believe the carrying amount of these notes approximates their fair value.

Commodity Price Risk. 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, we generally do not make any long-term commitments to purchase any minimum quantities under these arrangements other than as disclosed above in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Contractual Obligations and Commitments." We also do not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost.

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

(In thousands)	August 31, 2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 29,509	$ 86,036
Restricted cash	12,850	12,546
Income taxes receivable	12,776	–
Accounts and notes receivable, net	24,558	25,463
Inventories	3,503	3,674
Prepaid expenses	4,523	3,917
Other current assets	5,738	2,292
Total current assets	93,457	133,928
Noncurrent restricted cash	8,108	9,685
Notes receivable, net	11,086	8,824
Property, equipment and capital leases, net	464,875	489,264
Goodwill	81,625	82,089
Debt origination costs, net	13,124	6,176
Other assets, net	7,467	7,354
Total assets	$ 679,742	$ 737,320
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 11,135	$ 11,772
Deposits from franchisees	2,897	3,299
Accrued liabilities	33,532	33,332
Income taxes payable	4,775	5,072
Current maturities of long-term debt and capital leases	18,940	65,133
Total current liabilities	71,279	118,608
Obligations under capital leases due after one year	30,302	32,872
Long-term debt due after one year	481,835	529,872
Other noncurrent liabilities	17,265	18,421
Deferred income taxes	27,228	14,981
Commitments and contingencies (Notes 7, 8, 15, 16 and 17)		
Stockholders' equity:		
Preferred stock, par value $.01; 1,000,000 shares authorized; none outstanding	–	–
Common stock, par value $.01; 245,000,000 shares authorized; shares issued 118,309,094 in 2011 and 118,313,450 in 2010	1,183	1,183
Paid-in capital	229,399	224,453
Retained earnings	687,431	670,488
Accumulated other comprehensive loss	–	(843)
	918,013	895,281
Treasury stock, at cost; 56,315,651 shares in 2011 and 56,676,425 shares in 2010	(866,317)	(872,937)
Total Sonic Corp. stockholders' equity	51,696	22,344
Noncontrolling interests	137	222
Total stockholders' equity	51,833	22,566
Total liabilities and stockholders' equity	$ 679,742	$ 737,320

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	Year ended August 31, 2011	2010	2009
Revenues:			
Company Drive-In sales	$ 410,820	$ 414,369	$ 567,436
Franchise Drive-Ins:			
Franchise royalties	124,127	122,385	126,706
Franchise fees	1,744	2,752	5,006
Lease revenue	6,023	6,879	3,985
Other	3,237	4,541	3,148
	545,951	550,926	706,281
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	115,516	114,281	156,521
Payroll and other employee benefits	148,472	145,688	186,545
Other operating expenses, exclusive of depreciation and amortization included below	91,303	94,690	121,810
	355,291	354,659	464,876
Selling, general and administrative	64,943	66,847	63,358
Depreciation and amortization	41,225	42,615	48,064
Provision for impairment of long-lived assets	824	15,161	11,163
	462,283	479,282	587,461
Other operating income (expense), net	585	(763)	12,508
Income from operations	84,253	70,881	131,328
Interest expense	32,600	36,707	43,457
Interest income	(706)	(948)	(1,418)
Net loss (gain) from early extinguishment of debt	23,035	314	(6,382)
Net interest expense	54,929	36,073	35,657
Income before income taxes	29,324	34,808	95,671
Provision for income taxes	9,154	8,969	30,878
Net income - including noncontrolling interests	20,170	25,839	64,793
Net income - noncontrolling interests	945	4,630	15,351
Net income - attributable to Sonic Corp.	$ 19,225	$ 21,209	$ 49,442
Basic income per share	$ 0.31	$ 0.35	$ 0.81
Diluted income per share	$ 0.31	$ 0.34	$ 0.81

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Stockholders' Equity (Deficit)

(In thousands)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total Stockholders' Equity
Balance at August 31, 2008	117,045	$ 1,170	$ 209,316	$ 599,956	$ (2,191)	$ (872,367)	$ 3,097	$ (61,019)
Comprehensive Income:								
Net income	–	–	–	49,442	–	–	15,351	64,793
Net change in deferred hedging losses, net of tax of $428	–	–	–	–	691	–	–	691
Total comprehensive income, net of income taxes								65,484
Purchases of noncontrolling interests in Company Drive-Ins	–	–	–	–	–	–	(11,753)	(11,753)
Proceeds from sale of noncontrolling interests in Company Drive-Ins	–	–	–	–	–	–	5,190	5,190
Changes to noncontrolling interests	–	–	–	–	–	–	(9,969)	(9,969)
Stock-based compensation expense	–	–	6,910	–	–	–	–	6,910
Exercise of stock options	736	8	4,503	–	–	–	–	4,511
Purchase of treasury stock	–	–	–	–	–	(713)	–	(713)
Deferred tax shortfall from stock-based compensation	–	–	(993)	–	–	–	–	(993)
Balance at August 31, 2009	117,781	$ 1,178	$ 219,736	$ 649,398	$ (1,500)	$ (873,080)	$ 1,916	$ (2,352)
Comprehensive Income:								
Net income	–	–	–	21,209	–	–	4,630	25,839
Net change in deferred hedging losses, net of tax of $462	–	–	–	–	657	–	–	657
Total comprehensive income, net of income taxes								26,496
Purchases of noncontrolling interests in Company Drive-Ins	–	–	(6,725)	–	–	–	(9,277)	(16,002)
Proceeds from sale of noncontrolling interests in Company Drive-Ins	–	–	502	–	–	–	613	1,115
Changes to noncontrolling interests	–	–	–	–	–	–	2,340	2,340
Stock-based compensation expense	–	–	7,666	–	–	–	–	7,666
Exercise of stock options and issuance of restricted stock	532	5	3,374	(119)	–	221	–	3,481
Purchase of treasury stock	–	–	–	–	–	(78)	–	(78)
Deferred tax shortfall from stock-based compensation	–	–	(100)	–	–	–	–	(100)
Balance at August 31, 2010	118,313	$ 1,183	$ 224,453	$ 670,488	$ (843)	$ (872,937)	$ 222	$ 22,566
Comprehensive Income:								
Net income	–	–	–	19,225	–	–	945	20,170
Net change in deferred hedging losses, net of tax of $522	–	–	–	–	843	–	–	843
Total comprehensive income, net of income taxes								21,013
Changes to noncontrolling interests	–	–	1,866	–	–	–	(1,030)	836
Stock-based compensation expense	–	–	5,644	–	–	–	–	5,644
Exercise of stock options and issuance of restricted stock	(4)	–	(2,267)	(2,197)	–	6,594	–	2,130
Other	–	–	(297)	(85)	–	26	–	(356)
Balance at August 31, 2011	118,309	$ 1,183	$ 229,399	$ 687,431	$ –	$ (866,317)	$ 137	$ 51,833

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Year ended August 31, 2011	2010	2009
Cash flows from operating activities			
Net income - including noncontrolling interests	$ 20,170	$ 25,839	$ 64,793
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	41,225	42,615	48,064
Loss (gain) on dispositions of assets, net	(585)	763	(12,506)
Stock-based compensation expense	5,644	7,666	6,910
Noncontrolling interests	(945)	(4,630)	(15,351)
Provision for impairment of long-lived assets	824	15,161	11,163
Net loss (gain) from early extinguishment of debt	23,035	314	(6,382)
Other	2,165	328	4,730
Decrease (increase) in operating assets:			
Restricted cash	(5,136)	4,465	126
Accounts receivable and other assets	(2,124)	292	(2,149)
Increase (decrease) in operating liabilities:			
Accounts payable	(552)	(522)	(5,001)
Accrued and other liabilities	(281)	(1,440)	(4,003)
Income taxes	662	(13,247)	7,141
Total adjustments	63,932	51,765	32,742
Net cash provided by operating activities	84,102	77,604	97,535
Cash flows from investing activities			
Purchases of property and equipment	(21,200)	(24,468)	(36,145)
Acquisition of businesses, net of cash received	(438)	–	–
Decrease (increase) in notes receivable	(240)	1,534	572
Proceeds from sale of assets	6,448	14,271	84,986
Other	(643)	(720)	(187)
Net cash provided by (used in) investing activities	(16,073)	(9,383)	49,226
Cash flows from financing activities			
Payments on and purchases of debt	(624,171)	(106,296)	(64,838)
Proceeds from borrowings	535,000	–	12,495
Restricted cash for securitization obligations	6,409	(209)	(487)
Proceeds from exercise of stock options	2,130	3,404	3,794
Proceeds from sale of noncontrolling interests	40	613	5,190
Purchases of noncontrolling interests	(182)	(9,277)	(11,753)
Debt issuance and extinguishment costs	(40,248)	–	–
Other	(3,534)	(8,017)	2,169
Net cash used in financing activities	(124,556)	(119,782)	(53,430)
Net (decrease) increase in cash and cash equivalents	(56,527)	(51,561)	93,331
Cash and cash equivalents at beginning of the year	86,036	137,597	44,266
Cash and cash equivalents at end of the year	$ 29,509	$ 86,036	$ 137,597
Supplemental cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized of $23, $25 and $212, respectively)	$ 29,033	$ 32,184	$ 38,446
Income taxes (net of refunds)	10,523	25,534	12,961
Additions to capital lease obligations	1,340	446	5,299
Accounts and notes receivable and decrease in capital lease obligations from property and equipment sales	–	391	4,412
Stock options exercised by stock swap	1,572	78	713
Change in obligation for purchase of property and equipment	(524)	3,208	(1,162)

The accompanying notes are an integral part of the consolidated financial statements.

1. Summary of Significant Accounting Policies

Operations

Sonic Corp. (the "company") operates and franchises a chain of quick-service drive-ins in the United States. It derives its revenues primarily from Company Drive-In sales and royalty fees from franchisees. The company also leases signs and real estate, and receives equity earnings in noncontrolling ownership in a number of Franchise Drive-Ins.

Principles of Consolidation

The accompanying financial statements include the accounts of the company, its wholly owned subsidiaries and its Company Drive-Ins. 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.

Cash Equivalents

Cash equivalents consist of highly liquid investments, primarily money market accounts that mature in three months or less from date of purchase, and depository accounts.

Restricted Cash

As of August 31, 2011, the company had restricted cash balances totaling $21.0 million for funds required to be held in trust for the benefit of senior noteholders under the company's debt arrangements. The current portion of restricted cash of $12.9 million represents amounts to be returned to Sonic or paid to service current debt obligations. The noncurrent portion of $8.1 million represents interest reserves required to be set aside for the duration of the debt.

Accounts and Notes Receivable

The company charges interest on past due accounts receivable and recognizes income as it is collected. Interest accrues on notes receivable based on the contractual terms of the respective note. The company monitors all accounts and notes receivable for delinquency and provides for estimated losses for specific receivables that are not likely to be collected. The company assesses credit risk for accounts and notes receivable of specific franchisees based on payment history, current payment patterns, the health of the franchisee's business, and an assessment of the franchisee's ability to pay outstanding balances. In addition to allowances for bad debt for specific franchisee receivables, a general provision for bad debt is estimated for the company's accounts receivable based on historical trends. Account balances generally are charged against the allowance when the company believes it is probable that the receivable will not be recovered and legal remedies have been exhausted. The company continually reviews its allowance for doubtful accounts.

Inventories

Inventories consist principally of food and supplies that 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 amortization of capital leases are computed by the straight-line method over the estimated useful lives or the lease term, including cancelable option periods when appropriate, and are combined for presentation in the financial statements.

Accounting for Long-Lived Assets

The company reviews long-lived 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 drive-in. 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. Fair value is typically determined to be the value of the land, since drive-in buildings and improvements are single-purpose assets and have little value to market participants. The equipment associated with a store can be easily relocated to another store, and therefore is not adjusted.

Surplus property assets are carried at the lower of depreciated cost or fair value less cost to sell. The majority of the value in surplus property is land. Fair values are estimated based upon appraisals or independent assessments of the assets' estimated sales values.

Goodwill and Other Intangible Assets

Goodwill is determined based on acquisition purchase price in excess of the fair value of identified assets. Intangible assets with lives restricted by contractual, legal, or other means are amortized over their useful lives. The company tests all goodwill and other intangible assets not subject to amortization at least annually for impairment using the fair value approach on a reporting unit basis. The company's reporting units are defined as company Drive-Ins and Franchise Operations (see additional information regarding the company's reporting units in note 14 - Segment Information). The accounting guidance requires a two-step process for testing impairment. We test for impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. These impairment tests require us to estimate fair values of our drive-ins by making assumptions regarding future cash flows and other factors.

We assess the recoverability of goodwill and other intangible assets related to our brand and drive-ins at least annually and more frequently if events or changes in circumstances occur indicating that the carrying amount of the asset may not be recoverable. Goodwill impairment testing first requires a comparison of the fair value of each reporting unit to the carrying value. We estimate fair value based on a comparison of two approaches: discounted cash flow analyses and a market multiple approach. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. In addition, the market multiple approach includes significant assumptions such as the use of recent historical market multiples to estimate future market pricing. These assumptions are significant factors in calculating the value of the reporting units and can be affected by changes in consumer demand, commodity pricing, labor and other operating costs, our cost of capital and our ability to identify buyers in the market. If the carrying value of the reporting unit exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of the goodwill and the "implied" fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

The company's intangible assets subject to amortization consist primarily of acquired franchise agreements, franchise fees, and other intangibles. Amortization expense is calculated using the straight-line method over the expected period of benefit, not exceeding 20 years. See note 5 - Goodwill and Other Intangibles for additional disclosures related to goodwill and other intangibles.

Ownership Structure

Company Drive-Ins are drive-in operations in which the company's operating subsidiary, Sonic Restaurants, Inc. ("SRI"), owns a controlling ownership interest. Historically, Company Drive-Ins have operated as individual limited liability companies or general partnerships in which the manager and the supervisor for the respective drive-in own a noncontrolling interest (generally, the "ownership program"). Under the ownership program, managers and supervisors shared in the cash flow for their Company Drive-In but were also responsible for their share of any losses incurred by the drive-in. Effective April 1, 2010, the company introduced a new compensation program as an alternative to the ownership program to improve retention. While partners and supervisors do not have an ownership interest in their drive-in(s) under the new compensation program, the program provides managers and supervisors a larger portion of guaranteed base compensation but retains a significant incentive component based on drive-in level performance.

For those Company Drive-Ins still in the company's ownership program, noncontrolling interests are recorded as a component of equity on the Consolidated Balance Sheets, and our partners' share of the drive-in earnings are reflected as net income - noncontrolling interests on the Consolidated Statements of Income.

Under the ownership program, the company acquires noncontrolling interests in company Drive-Ins as managers and supervisors sell their ownership interests. If the purchase price of a noncontrolling interest that we acquire exceeds the net book value of the assets underlying the partnership interest, the excess is recorded as paid-in capital. The acquisition of a noncontrolling interest for less than book value is recorded as a reduction in paid-in capital.

Revenue Recognition, Franchise Fees and Royalties

Revenue from Company Drive-In sales is recognized when food and beverage products are sold. Company Drive-In sales are presented net of sales tax and other sales-related taxes.

Initial franchise fees are recognized in income when the company has substantially performed or satisfied all material services or conditions relating to the sale of the franchise and the fees are nonrefundable. Area development fees are nonrefundable and are recognized in income on a pro-rata basis when the conditions for revenue recognition under the individual area development agreements are met. Both initial franchise fees and area development fees are generally recognized upon the opening of a Franchise Drive-In or upon termination of the agreement between the company and the franchisee.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

The company's franchisees are required under the provisions of the license agreements to pay the company royalties each month based on a percentage of actual sales. However, the royalty payments and supporting financial statements are not due until the following month under the terms of the franchise agreements. As a result, the company accrues royalty revenue in the month earned.

Operating Leases

Rent expense is recognized on a straight-line basis over the expected lease term, including cancelable option periods when it is deemed to be reasonably assured that the company would incur an economic penalty for not exercising the options. Within the terms of some of our leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes cancelable option periods when appropriate. The lease term commences on the date when the company has the right to control the use of the leased property, which can occur before rent payments are due under the terms of the lease. Contingent rent is generally based on sales levels and is accrued at the point in time it is probable that such sales levels will be achieved.

Advertising Costs

Costs incurred in connection with the advertising and promoting of the company's products are included in other operating expenses and are expensed as incurred. Such costs amounted to $22.5 million in fiscal years 2011 and 2010. In fiscal year 2009 these costs totaled $33.0 million.

Under the company's franchise agreements, both Company Drive-Ins and Franchise Drive-Ins must contribute a minimum percentage of revenues to a national media production fund (Sonic Brand Fund) and spend an additional minimum percentage of gross revenues on local advertising, either directly or through company-required participation in advertising cooperatives. A portion of the local advertising contributions is redistributed to a System Marketing Fund, which purchases advertising on national cable and broadcast networks and funds other national media and sponsorship opportunities. As stated in the terms of existing franchise agreements, these funds do not constitute assets of the company, and the company acts with limited agency in the administration of these funds. Accordingly, neither the revenues and expenses nor the assets and liabilities of the advertising cooperatives, the Sonic Brand Fund, or the System Marketing Fund are included in the company's consolidated financial statements. However, all advertising contributions by Company Drive-Ins are recorded as expense on the company's financial statements.

Stock-Based Compensation

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant).

The following table shows total stock-based compensation expense and the tax benefit included in the Consolidated Statements of Income and the effect on basic and diluted earnings per share for the years ended August 31:

	2011	2010	2009
Stock-based compensation	$ 5,644	$ 7,666	$ 6,910
Income tax benefit	(1,315)	(4,260)	(2,452)
Net stock-based compensation expense	$ 4,329	$ 3,406	$ 4,458
Impact on net income per share:			
Basic	$ 0.07	$ 0.05	$ 0.07
Diluted	$ 0.07	$ 0.05	$ 0.07

The company grants both incentive and non-qualified stock options. For grants of non-qualified stock options, the company expects to recognize a tax benefit upon exercise of the option, so the full tax benefit is recognized on the related stock-based compensation expense. For grants of incentive stock options, a tax benefit only results if the option holder has a disqualifying disposition. As a result of the limitation on the tax benefit for incentive stock options, the tax benefit for stock-based compensation will generally be less than the company's overall tax rate, and will vary depending on the timing of employees' exercises and sales of stock. However, in fiscal year 2010, the company executed a stock option exchange which resulted in an additional tax benefit of $1.8 million for the conversion of eligible incentive stock options to nonqualified stock options. Additional information regarding the stock option exchange program is provided in note 13 - Stockholders' Equity.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

Income tax benefits credited to equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not affect earnings. These benefits are principally generated from employee exercises of non-qualified stock options and disqualifying dispositions of incentive stock options.

The threshold for recognizing the financial statement effects of a tax position is when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority. Recognized tax positions are initially and subsequently measured as the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority. Liabilities for unrecognized tax benefits related to such tax positions are included in other long-term liabilities unless the tax position is expected to be settled within the upcoming year, in which case the liabilities are included in accrued expenses and other current liabilities. Interest and penalties related to unrecognized tax benefits are included in income tax expense.

Additional information regarding the company's unrecognized tax benefits is provided in note 12 - Income Taxes.

Fair Value of Financial Instruments

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The company has no financial liabilities that are required to be measured at fair value on a recurring basis.

The company categorizes its assets and liabilities recorded at fair value based upon the following fair value hierarchy established by the Financial Accounting Standards Board ("FASB"):

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 valuations use inputs other than actively quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves observable at commonly quoted intervals and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The table below sets forth our fair value hierarchy for financial assets measured at fair value on a recurring basis as of August 31, 2011 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents	$ 11,338	$ –	$ –	$ 11,338
Restricted cash (current)	12,850	–	–	12,850
Restricted cash (noncurrent)	8,108	–	–	8,108
Total	$ 32,296	$ –	$ –	$ 32,296

At August 31, 2011 the fair value of the company's 2011 Fixed Rate Notes (as defined in note 10 – Debt below) approximated the carrying value of $497.0 million (including accrued interest).

The table below sets forth our fair value hierarchy for financial assets measured at fair value on a recurring basis as of August 31, 2010 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents	$ 74,132	$ –	$ –	$ 74,132
Restricted cash (current)	12,546	–	–	12,546
Restricted cash (noncurrent)	9,685	–	–	9,685
Total	$ 96,363	$ –	$ –	$ 96,363

At August 31, 2010 the fair value of the company's 2006 Fixed Rate Notes (as defined in note 10 – Debt below) was estimated at $388.1 million versus a carrying value of $404.0 million (including accrued interest). The fair value of the company's 2006 Variable Funding Notes (as defined in note 10 – Debt below) at August 31, 2010 was estimated at $163.6 million versus a carrying value of $187.3 million (including accrued interest).

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis, which means these assets and liabilities are not measured at fair value on an ongoing basis but are subject to periodic impairment tests. For the company, these items primarily include long-lived assets, goodwill and other intangible assets. Refer to sections "Accounting for Long-Lived Assets" and "Goodwill and Other Intangible Assets," discussed above, for inputs and valuation techniques used to measure the fair value of these nonfinancial assets. The fair value was based upon management's assessment as well as appraisals or independent assessments which involved Level 3 inputs. There were impairment charges related to long-lived assets of $0.8 million, $15.2 million and $11.2 million in fiscal years 2011, 2010 and 2009 respectively. See note 3 - Impairment of Long-Lived Assets for a description of the impairment.

Noncontrolling Interests

Effective September 1, 2009, the company implemented Accounting Standards Codification, ("ASC") Topic 810, "Consolidation," which requires noncontrolling interests, previously called minority interests, to be presented as a separate item in the equity section of the consolidated balance sheets. It also requires the amount of consolidated net income related to noncontrolling interests to be clearly presented on the face of the consolidated statements of income.

Additionally, Topic 810 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions, and that deconsolidation of a subsidiary requires gain or loss recognition in net income based on the fair value on the deconsolidation date. Topic 810 was applied prospectively with the exception of presentation and disclosure requirements, which were applied retrospectively for all periods presented, and did not significantly change the presentation of our Consolidated Financial Statements.

New Accounting Pronouncements

In May 2011, FASB issued Accounting Standards Update ("ASU") No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This pronouncement is effective for interim and annual reporting periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance will require prospective application. The adoption of this pronouncement is not expected to have a material impact on the company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," which was issued to enhance comparability between entities that report under U.S. GAAP and IFRS, and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption of the new guidance is permitted, and full retrospective application is required. The adoption of this pronouncement is not expected to have a material impact on the company's consolidated financial statements.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment." This pronouncement was issued to simplify how entities test goodwill for impairment. Under this pronouncement, entities may first assess qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. If the qualitative assessment results in a more than 50% likely result that the fair value of a reporting unit is less than the carrying amount, then the entity must continue to apply the two-step impairment test. If the entity concludes the fair value exceeds the carrying amount, then neither of the two steps in the goodwill impairment test is required. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. The company is currently evaluating the effect that this pronouncement will have on its financial statements.

2. Earnings Per Share

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

	2011	2010	2009
Numerator:			
Net income – attributable to Sonic Corp.	$ 19,225	$ 21,209	$ 49,442
Denominator:			
Weighted average common shares outstanding – basic	61,781	61,319	60,761
Effect of dilutive employee stock options and unvested restricted stock units	162	257	477
Weighted average common shares – diluted	61,943	61,576	61,238
Net income per common share – basic	$ 0.31	$ 0.35	$ 0.81
Net income per common share – diluted	$ 0.31	$ 0.34	$ 0.81
Anti-dilutive securities excluded[1]	6,367	6,834	6,493

(1) Anti-dilutive securities consist of stock options and unvested restricted stock units that were not included in the computation of diluted earnings per share because either the exercise price of the options was greater than the average market price of the common stock or the total assumed proceeds under the treasury stock method resulted in negative incremental shares and thus the inclusion would have been anti-dilutive.

3. Impairment of Long-Lived Assets

During the fiscal years ended August 31, 2011, 2010 and 2009, the company identified impairments for certain drive-in assets and surplus property through regular quarterly reviews of long-lived assets. The recoverability of Company Drive-Ins is assessed by estimating the undiscounted net cash flows expected to be generated over the remaining life of the Company Drive-Ins. This involves estimating same-store sales and margins for the cash flows period. When impairment exists, the carrying value of the asset is written down to fair value.

During fiscal year 2011, the company's assessment of long-lived assets resulted in provisions for impairment totaling $0.8 million. These write-downs were completed to reduce to fair value the carrying amount of surplus properties and properties leased to franchisees.

During fiscal year 2010, the company experienced lower sales and profits in Company Drive-Ins due to the sustained economic downturn and weaker results than anticipated during the summer months for operating stores. Accordingly, the company revised its future sales growth assumptions and estimated cash flows in assessing the recoverability of its investments in Company Drive-Ins. These analyses resulted in provisions for impairment totaling $15.2 million, which primarily consisted of $11.3 million to write down the carrying amount of building and leasehold improvements on underperforming drive-ins, $2.3 million to write down the carrying amount of property leased to franchisees and $0.6 million to reduce to fair value the carrying amount of twelve surplus properties.

During fiscal year 2009, the company's assessment of long-lived assets resulted in provisions for impairment totaling $11.2 million, including $7.5 million to write down the carrying amount of building and leasehold improvements on underperforming drive-ins, $3.3 million to write down the carrying amount of equipment on underperforming drive-ins and $0.4 million to reduce to fair value the carrying amount of six surplus properties.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

4. Accounts and Notes Receivable

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

	2011	2010
Current Accounts and Notes Receivable:		
Royalties and other trade receivables	$ 17,729	$ 18,021
Notes receivable from franchisees	3,173	4,432
Notes receivable from advertising funds	1,500	2,440
Other	4,853	3,769
	27,255	28,662
Less allowance for doubtful accounts and notes receivable	2,697	3,199
	$ 24,558	$ 25,463
Noncurrent Notes Receivable:		
Notes receivable from franchisees	$ 6,286	$ 4,244
Notes receivable from advertising funds	5,469	4,591
Less allowance for doubtful notes receivable	669	11
	$ 11,086	$ 8,824

The company's receivables are primarily due from franchisees, all of whom are in the restaurant business. Substantially all of the notes receivable from franchisees are collateralized by real estate or equipment. The notes receivable from advertising funds represent transactions in the normal course of business. See note 1 – Summary of Significant Accounting Policies for further discussion of the company's accounts and notes receivable.

The following table summarizes the activity in the allowance for doubtful accounts related to the company's notes receivable:

Balance at August 31, 2010	$ 54
Additions to provision	694
Balance at August 31, 2011	$ 748

5. Goodwill and Other Intangibles

As of August 31, 2011, the company had $81.6 million of goodwill, of which $75.6 million was attributable to the Company Drive-Ins segment and $6.0 million was attributable to the Franchise Operations segment. There have been no changes in the goodwill balance attributable to the Franchise Operations segment since August 31, 2010. The changes in the carrying amount of goodwill for fiscal years ending August 31 were as follows:

	2011	2010
Balance as of September 1	$ 82,089	$ 82,343
Goodwill acquired during the year	427	21
Goodwill disposed of for noncontrolling interests in Company Drive-Ins	(891)	(5)
Goodwill disposed of related to the sale of Company Drive-Ins	–	(270)
Balance as of August 31	$ 81,625	$ 82,089

The gross carrying amount of franchise agreements, franchise fees and other intangibles subject to amortization was $6.8 million and $7.0 million at August 31, 2011 and 2010, respectively. Accumulated amortization related to these intangible assets was $2.6 million and $2.2 million at August 31, 2011 and 2010, respectively. Intangible assets amortization expense for the fiscal years ended August 31, 2011, 2010 and 2009 was $0.4 million, $0.5 million and $0.5 million, respectively. Estimated intangible assets amortization expense is $0.4 million for fiscal year 2012 and $0.3 million annually for fiscal years 2013, 2014, 2015 and 2016.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

6. Refranchising of Company Drive-Ins

During fiscal year 2009, the company refranchised the operations of 205 Company Drive-Ins and recorded a $13.2 million gain. The company retained a noncontrolling operating interest in 88 of these refranchised drive-ins. In fiscal years 2011 and 2010, the company refranchised the operations of six and 16 Company Drive-Ins, respectively. Gains and losses are recorded as other operating income (expenses), net on the Consolidated Statements of Income. The company may periodically refranchise other operations when conditions warrant.

7. 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 with lease terms expiring through September 2030. The equipment portions of these leases are classified principally as direct financing leases and expire principally over the next 10 years. These leases include provisions for contingent rentals that 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.

In fiscal year 2009, as a component of the refranchising of Company Drive-Ins, the company executed two significant master lease agreements with franchisees. These leases consist of leasing land, building and signs for a period of 15 years and are classified as operating leases. There are four renewal options at the end of the primary term for periods of five years for property that is owned by the company. For property owned by third parties, the lease term runs concurrent with the term of the third party lease arrangements. These leases include provisions for contingent rentals that may be received on the basis of a percentage of sales in excess of stipulated amounts. Both leases contain escalation clauses based on sales over the life of the lease.

Certain Company Drive-Ins lease land and buildings from third parties. These leases, with lease terms expiring through August 2030, include provisions for contingent rents that may be paid on the basis of a percentage of sales in excess of stipulated amounts. For the majority of leases, the land portions are classified as operating leases, and the building portions are classified as capital leases.

Direct Financing Leases

Components of net investment in direct financing leases are as follows at August 31:

	2011	2010
Minimum lease payments receivable	$ 1,530	$ 1,982
Less unearned income	374	496
Net investment in direct financing leases	1,156	1,486
Less amount due within one year	294	375
Amount due after one year	$ 862	$ 1,111

Initial direct costs incurred in the negotiations and consummations 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, 2011 are as follows:

	Operating	Direct Financing
Years ending August 31:		
2012	$ 7,326	$ 368
2013	8,638	277
2014	9,207	194
2015	9,277	141
2016	9,129	90
Thereafter	90,119	460
	133,696	1,530
Less unearned income	–	374
	$133,696	$ 1,156

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

Capital Leases

Components of obligations under capital leases are as follows at August 31:

	2011	2010
Total minimum lease payments	$ 45,138	$ 49,510
Less amount representing interest averaging 6.3% in 2011 and 6.4% in 2010	11,075	13,254
Present value of net minimum lease payments	34,063	36,256
Less amount due within one year	3,761	3,384
Amount due after one year	$ 30,302	$ 32,872

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, 2011 are as follows:

	Operating	Capital
Years ending August 31:		
2012	$ 12,325	$ 5,992
2013	12,056	5,932
2014	11,836	5,534
2015	11,647	5,240
2016	11,126	5,114
Thereafter	114,241	17,326
	173,231	45,138
Less amount representing interest	–	11,075
	$173,231	$ 34,063

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

	2011	2010	2009
Operating leases:			
Minimum rentals	$ 14,185	$ 14,330	$ 14,690
Contingent rentals	138	176	199
Sublease rentals	(2,847)	(2,993)	(1,330)
Capital leases:			
Contingent rentals	745	740	945
	$ 12,221	$ 12,253	$ 14,504

The aggregate future minimum rentals receivable under noncancelable subleases as of August 31, 2011 was $34.6 million which primarily relates to operating leases.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

8. Property, Equipment and Capital Leases

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

	Estimated Useful Life	2011	2010
Property and equipment:			
Home office:			
Leasehold improvements	Life of lease	$ 4,541	$ 4,541
Computer and other equipment	2 – 5 yrs	52,736	45,459
Drive-ins, including those leased to others:			
Land		171,813	172,506
Buildings	8 – 25 yrs	356,536	357,173
Equipment	5 – 7 yrs	126,487	126,014
Property and equipment, at cost		712,113	705,693
Less accumulated depreciation		273,209	244,727
Property and equipment, net		438,904	460,966
Capital Leases:			
Leased home office building	Life of lease	9,990	9,990
Leased drive-in buildings, equipment and other assets under capital leases, including those held for sublease	Life of lease	38,675	40,795
Less accumulated amortization		22,694	22,487
Capital leases, net		25,971	28,298
Property, equipment and capital leases, net		$464,875	$489,264

Depreciation expense for property and equipment was $40.8 million, $42.1 million and $47.6 million for fiscal years 2011, 2010 and 2009, respectively. Land, buildings and equipment with a carrying amount of $188.7 million at August 31, 2011 were leased under operating leases to franchisees or other parties. The accumulated depreciation related to these buildings and equipment was $51.6 million at August 31, 2011. Amortization expense related to capital leases is included within "depreciation and amortization" on the Consolidated Statements of Income. As of August 31, 2011, the company had no drive-ins under construction with costs to complete.

9. Accrued Liabilities

Accrued liabilities consist of the following at August 31:

	2011	2010
Wages and employee benefit costs	$ 9,757	$ 5,120
Property taxes, sales and use taxes and employment taxes	9,441	9,631
Accrued interest	755	712
Unredeemed gift cards and gift certificates	8,864	8,586
Other	4,715	9,283
	$ 33,532	$ 33,332

The company sells gift cards that do not have expiration dates. Gift card balances are recorded as a liability on the company's Consolidated Balance Sheets. Breakage is the amount on a gift card that is not expected to be redeemed and that the company is not required to remit to a state under unclaimed property laws. The company estimates breakage based upon the trend in redemption patterns from previously sold gift cards utilizing its history with the program. The company's policy is to recognize the breakage using the delayed recognition method when it is apparent that there is a remote likelihood the gift card balance will be redeemed based on historical trends. The company reduces the gift card liability for the estimated breakage and uses that amount to help defray the costs of operating the gift card program.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

10. Debt

Long-term debt consists of the following at August 31:

	2011	2010
Class A-2 senior secured fixed rate notes	$ 496,250	$ 403,400
Class A-1 senior secured variable funding notes	–	187,250
Other	763	971
	497,013	591,621
Less long-term debt due within one year	15,178	61,749
Long-term debt due after one year	$ 481,835	$ 529,872

At August 31, 2011, future maturities of long-term debt were $15.2 million for fiscal years 2012, 2013 and 2014, and $15.0 million for fiscal years 2015 and 2016.

On May 20, 2011, various subsidiaries of the company (the "Co-Issuers") issued $500 million of Series 2011-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2011 Fixed Rate Notes") in a private transaction which bears interest at 5.4% per annum. The 2011 Fixed Rate Notes have an expected life of seven years with an anticipated repayment date in May 2018 based on the terms of the debt agreement. At August 31, 2011, the balance outstanding under the 2011 Fixed Rate Notes including accrued interest totaled $497.0 million and carried a weighted-average interest cost of 5.8%, including the effect of the loan origination costs described below.

In connection with the issuance of the 2011 Fixed Rate Notes, the Co-Issuers also entered into a securitized financing facility of Series 2011-1 Senior Secured Variable Funding Notes, Class A-1 (the "2011 Variable Funding Notes"). This revolving credit facility allows for the issuance of up to $100 million of 2011 Variable Funding Notes and certain other credit instruments, including letters of credit. The 2011 Variable Funding Notes have an expected life of five years with an anticipated repayment date in May 2016 based on the terms of the debt agreement. Interest on the 2011 Variable Funding Notes is payable monthly at rates equal to the one-month London Interbank Offered Rate or Commercial Paper, depending on the funding source, plus 3.75% per annum. There is a 0.5% annual commitment fee payable monthly on the unused portion of the 2011 Variable Funding Notes facility. The company borrowed $35 million under the 2011 Variable Funding Notes facility at closing, and has the ability to draw additional amounts under the facility from time to time as needed. In June 2011, the company repaid the outstanding balance under its 2011 Variable Funding Notes.

Sonic used the $535 million of net proceeds from the issuance of the 2011 Fixed Rate Notes and 2011 Variable Funding Notes (collectively, the "2011 Notes") to repay its existing Series 2006-1 Senior Secured Variable Funding Notes, Class A-1 (the "2006 Variable Funding Notes") and Series 2006-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2006 Fixed Rate Notes" and, together with the 2006 Variable Funding Notes, the"2006 Notes") in full and to pay the costs associated with the securitized financing transaction, including the existing noteholder and insurer make-whole premiums.

Loan origination costs associated with the company's 2011 refinancing totaled $16.4 million and were allocated between the 2011 Notes. Loan costs are being amortized over each note's expected life. The amount of loan costs expected to be amortized over the next twelve months is reflected in "other current assets" on the Consolidated Balance Sheets.

While the 2011 Fixed Rate Notes and the 2011 Variable Funding Notes are structured to provide for seven-year and five-year lives, respectively, they have a legal final maturity date of May 2041. The company intends to repay or refinance the 2011 Notes on or before the end of their respective expected lives. In the event the 2011 Notes are not paid in full by the end of their expected lives, the Notes are subject to an upward adjustment in the interest rate of at least 5% per annum. In addition, principal payments will accelerate by applying all of the royalties, lease revenues and other fees securing the debt, after deducting certain expenses, until the debt is paid in full. Also, any unfunded amount under the 2011 Variable Funding Notes will become unavailable.

The Co-Issuers and Sonic Franchising LLC (the "Guarantor") are existing special purpose, bankruptcy remote, indirect subsidiaries of Sonic Corp. that hold substantially all of Sonic's franchising assets and real estate. As of August 31, 2011, assets for these combined indirect subsidiaries totaled $381.1 million, including receivables for royalties, certain Company and Franchise Drive-In real estate, intangible assets and restricted cash balances of $21.0 million. The 2011 Notes are secured by franchise fees, royalty payments and lease payments, and the repayment of the 2011 Notes is expected to be made solely from the income derived from the Co-Issuer's assets. In addition, the Guarantor, a Sonic Corp. subsidiary that acts as a franchisor, has guaranteed the obligations of the Co-Issuers under the 2011 Notes and pledged substantially all of its assets to secure those obligations.

Neither Sonic Corp., the ultimate parent of the Co-Issuers and the Guarantor, nor any other subsidiary of Sonic, guarantee or in any way are liable for the obligations of the Co-Issuers under the 2011 Notes. The company has, however, agreed to cause the performance of certain obligations of its subsidiaries, principally related to managing the assets included as collateral for the 2011 Notes and certain indemnity obligations relating to the transfer of the collateral assets to the Co-Issuers.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

The 2011 Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) required actions to better secure collateral upon the occurrence of certain performance-related events, (ii) application of certain disposition proceeds as note prepayments after a set time is allowed for reinvestment, (iii) maintenance of specified reserve accounts, (iv) maintenance of certain debt service coverage ratios, (v) optional and mandatory prepayments upon change in control, (vi) indemnification payments for defective or ineffective collateral, and (vii) covenants relating to recordkeeping, access to information and similar matters. If certain covenants or restrictions are not met, the 2011 Notes are subject to customary accelerated repayment events and events of default. Although management does not anticipate an event of default or any other event of noncompliance with the provisions of the debt, if such event occurred, the unpaid amounts outstanding could become immediately due and payable.

In connection with the transaction described above, the company recognized a $28.2 million loss from the early extinguishment of debt during the third quarter of fiscal year 2011, which primarily consisted of a $25.3 million prepayment premium and the write-off of unamortized deferred loan fees remaining from the refinanced debt. In addition, the company's deferred hedging loss was reclassified from accumulated other comprehensive income into earnings during the third quarter of fiscal year 2011. Prior to the refinancing, during the second quarter of fiscal year 2011, the company repurchased $62.5 million of its 2006 Variable Funding Notes in a privately negotiated transaction. The company recognized a gain of $5.2 million on the extinguishment of the notes during the second fiscal quarter of 2011. These transactions are reflected within "net loss (gain) from early extinguishment of debt" in the accompanying Consolidated Statements of Income.

As a result of the May 2011 refinancing discussed above, the company's arrangement with the third-party insurance company that guaranteed its debt payments under the company's 2006 Notes was terminated.

11. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following at August 31:

	2011	2010
Deferred area development fees	$ 3,872	$ 4,709
Escalating land leases payable	8,405	7,565
Deferred income - sale/leaseback	3,799	4,057
Other	1,189	2,090
	$ 17,265	$ 18,421

12. Income Taxes

The company's income before the provision for income taxes is classified by source as domestic income.

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

	2011	2010	2009
Current:			
Federal	$ 5,060	$ 12,165	$ 17,512
State	2,223	2,904	2,487
	7,283	15,069	19,999
Deferred:			
Federal	1,876	(5,303)	9,456
State	(5)	(797)	1,423
	1,871	(6,100)	10,879
Provision for income taxes	$ 9,154	$ 8,969	$ 30,878

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:

	2011	2010	2009
Amount computed by applying a tax rate of 35%	$ 9,933	$ 10,562	$ 28,112
State income taxes (net of federal income tax benefit)	1,441	1,370	2,542
Employment related and other tax credits, net	(1,730)	(1,504)	(1,401)
Benefit from stock option exchange program	–	(1,471)	–
Other	(490)	12	1,625
Provision for income taxes	$ 9,154	$ 8,969	$ 30,878

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

Prior to the adoption of Topic 810, noncontrolling interests were reported as a component of operating income. Due to the adoption, noncontrolling interests are now presented pre-tax as net income-noncontrolling interests and no longer as a component of operating income. This presentation gives an appearance of a lower effective tax rate than the company's actual effective tax rate. The following table reconciles the difference in the effective tax rate as a result of adoption of this topic:

	2011	2010	2009
Effective income tax rate reconciliation (post-adoption of Topic 810):			
Effective tax rate per consolidated income statement	31.2%	25.8%	32.3%
Book income attributable to noncontrolling interests	1.1	3.9	6.1
Effective tax rate for the fiscal year	32.3%	29.7%	38.4%

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

	2011	2010
Current deferred tax assets (liabilities):		
Allowance for doubtful accounts and notes receivable	$ 1,032	$ 1,228
Capital lease liabilities and other	1,551	37
Accrued litigation costs	112	408
Prepaid expenses	(1,190)	(585)
Deferred income from franchisees	848	972
Deferred income from affiliated technology fund	353	(143)
Deferred income	10	–
Net investment in direct financing leases	(112)	–
Accrued liabilities	166	–
Current deferred tax assets, net	$ 2,770	$ 1,917
Noncurrent deferred tax assets (liabilities):		
Net investment in direct financing leases, including differences related to capitalization and amortization	$ 648	$ (2,729)
Investment in partnerships, including differences in capitalization, depreciation and direct financing leases	(2,554)	(2,631)
State net operating losses	6,389	5,550
Property, equipment and capital leases	(24,834)	(20,737)
Deferred income from affiliated franchise fees	1,160	1,271
Accrued liabilities	33	445
Intangibles and other assets	(13,321)	(2,589)
Deferred income from franchisees	1,481	1,801
Stock compensation	12,556	11,989
Loss on cash flow hedge	–	522
Debt extinguishment	(4,146)	(2,323)
Capital loss carryover	40	–
Allowance for doubtful accounts and notes receivable	256	–
Deferred income	1,453	–
	(20,839)	(9,431)
Valuation allowance	(6,389)	(5,550)
Noncurrent deferred tax liabilities, net	$ (27,228)	$ (14,981)
Deferred tax assets and (liabilities):		
Deferred tax assets (net of valuation allowance)	$ 21,699	$ 18,673
Deferred tax liabilities	(46,157)	(31,737)
Net deferred tax liabilities	$ (24,458)	$ (13,064)

State net operating loss carryforwards expire generally beginning in 2011. Management does not believe the company will be able to realize the state net operating loss carryforwards and therefore has provided a valuation allowance of $6.4 million and $5.5 million as of August 31, 2011 and August 31, 2010, respectively.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

The income tax receivable at August 31, 2011 consists of $10.1 million for prior-year deductions to be claimed on amended returns and $2.7 million of current-year overpayments.

As of August 31, 2011, the company had approximately $4,775 of unrecognized tax benefits, including approximately $872 of interest and penalty. The liability for unrecognized tax benefits decreased by $853 in fiscal year 2011. The majority of the change was due to the settlement of a state tax audit in the first quarter of fiscal year 2011, which resulted in a decrease to state unrecognized tax positions from prior years. The company recognizes estimated interest and penalties as a component of its income tax expense, net of federal benefit. If recognized, $3,074 of unrecognized tax benefits would favorably impact the effective tax rate. A reconciliation of the beginning and ending amount of the unrecognized tax benefits follows:

	2011	2010
Opening balance at September 1	$ 5,628	$ 3,419
Additions for tax positions of prior years	672	2,724
Reductions for tax positions of prior years	–	(5)
Reductions for settlements	(1,104)	(163)
Reductions due to statute expiration	(421)	(347)
Ending balance at August 31	$ 4,775	$ 5,628

The company or one of its subsidiaries is subject to U.S. federal income tax and income tax in multiple U.S. state jurisdictions. The company is currently undergoing examinations or appeals by various state and federal authorities. The company anticipates that the finalization of these examinations or appeals, combined with the expiration of applicable statutes of limitations and the additional accrual of interest related to unrecognized benefits on various return positions taken in years still open for examination could result in a change to the liability for unrecognized tax benefits during the next 12 months ranging from a decrease of $446 to a decrease of $3,578, depending on the timing and terms of the examination resolutions.

13. Stockholders' Equity

Employee Stock Purchase Plan

The company has an employee stock purchase plan ("ESPP") 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 in the stock's fair market value. The aggregate amount of stock that employees may purchase under this plan is limited to 1,139 shares. The purchase price will be between 85% and 100% of the stock's fair market value and will be determined by the company's Board of Directors.

Stock-Based Compensation

The Sonic Corp. 2006 Long-Term Incentive Plan (the "2006 Plan") provides flexibility to award various forms of equity compensation, such as stock options, stock appreciation rights, performance shares, restricted stock and other share-based awards. At August 31, 2011, 1,939 shares were available for grant under the 2006 Plan. The company has historically granted only stock options with an exercise price equal to the market price of the company's stock at the date of grant, a contractual term of seven to ten years, and a vesting period of three years. The company's policy is to recognize compensation cost for these options on a straight-line basis over the requisite service period for the entire award. Historically, the company's policy was to issue new shares of common stock to satisfy stock option exercises, the vesting of restricted stock units and shares issued under the ESPP. Beginning in July 2010, the company began issuing shares from treasury stock to satisfy these items.

In November 2009, the company's Board of Directors authorized a stock option exchange program that allowed eligible employees the opportunity to exchange certain options granted under the 2006 Plan, the 2001 Stock Option Plan, and the 1991 Stock Option Plan for a lesser number of replacement options with a lower exercise price. The company's stockholders approved the stock option exchange program on January 14, 2010, and the company executed the program in the third quarter of fiscal year 2010. The exchange, which was accounted for as a modification of existing stock options, was on an estimated fair value neutral basis and resulted in no incremental compensation expense. The exchange resulted in a tax benefit of $1.8 million for the conversion of eligible incentive stock options to nonqualified stock options. This tax benefit was recognized during the third quarter of fiscal 2010.

In January 2009, the company began awarding restricted stock units ("RSUs") to its directors under the 2006 Plan. In addition, in fiscal 2010, the company awarded RSUs to certain officers under the 2006 Plan. The RSUs have a vesting period of three years, and their fair value is based on the company's closing stock price on the date of grant.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

In 2009, the company awarded 426 performance share units ("PSUs") to certain executives under the 2006 Plan. These PSUs, which would have vested at the end of a three-year period if certain company performance criteria were met, were payable in the company's common stock. All outstanding PSUs were canceled in August 2010 due to the performance criteria for the first two years not being met and having no probability of performance in the future. As a result, no expense has been recorded for these PSUs.

The company measures the compensation cost associated with stock-based payments by estimating the fair value of stock options as of the grant date using the Black-Scholes option pricing model. The company believes the valuation technique and approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the company's stock options granted during 2011, 2010 and 2009. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards.

The per share weighted average fair value of stock options granted during 2011, 2010 and 2009 was $4.63, $3.50 and $3.50, respectively. In addition to the exercise and grant date prices of the awards, certain weighted average assumptions that were used to estimate the fair value of stock option grants in the respective periods are listed in the table below:

	2011	2010	2009
Expected term (years)	4.7	4.5	4.6
Expected volatility	46%	45%	38%
Risk-free interest rate	2.0%	2.2%	1.4%
Expected dividend yield	0%	0%	0%

The company estimates expected volatility based on historical daily price changes of the company's common stock for a period equal to the current expected term of the options. The risk-free interest rate is based on the United States treasury yields in effect at the time of grant corresponding with the expected term of the options. The expected option term is the number of years the company estimates that options will be outstanding prior to exercise considering vesting schedules and our historical exercise patterns.

Cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) are classified as financing cash flows. These excess tax benefits were $37, $146 and $776 for the years ended August 31, 2011, 2010 and 2009, respectively, and are classified as a financing cash inflow in the company's Consolidated Statements of Cash Flows. The proceeds from exercises of stock options are also classified as cash flows from financing activities and totaled $2.1 million, $3.4 million and $3.8 million for each of the years ended August 31, 2011, 2010 and 2009, respectively.

Stock Options

A summary of stock option activity under the company's stock-based compensation plans for the year ended August 31, 2011 is presented in the following table:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value
Outstanding at September 1, 2010	7,474	$ 12.86		
Granted	549	11.13		
Exercised	(442)	7.88		
Forfeited or expired	(250)	12.00		
Outstanding at August 31, 2011	7,331	$ 13.06	3.86	$ 827
Exercisable at August 31, 2011	5,117	$ 14.39	3.20	$ 271

The total intrinsic value of options exercised during the years ended August 31, 2011, 2010 and 2009 was $0.8 million, $2.6 million and $2.6 million, respectively.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

Restricted Stock Units

The fair value of each RSU granted is equal to the market price of the company's stock at the date of the grant. A summary of the company's RSU activity during the year ended August 31, 2011 is presented in the following table:

	Restricted Share Units	Weighted-Average Grant Date Fair Value
Outstanding at September 1, 2010	197	$ 8.89
Granted	23	11.19
Vested	(70)	10.40
Forfeited	–	–
Outstanding at August 31, 2011	150	$ 9.20

The aggregate fair value of restricted stock that vested during the years ended August 31, 2011 and 2010 was $0.7 million and $0.1 million, respectively.

At August 31, 2011, total remaining unrecognized compensation cost related to unvested stock-based arrangements was $6.7 million and is expected to be recognized over a weighted average period of 1.6 years.

Comprehensive Income

In August 2006, the company entered into a forward starting swap agreement with a financial institution to hedge part of the exposure to changing interest rates until new financing was closed. The forward starting swap was designated as a cash flow hedge, and was subsequently settled in conjunction with the closing of the 2006 Fixed Rate Notes, as planned. The loss resulting from settlement was recorded net of tax in accumulated other comprehensive income and amortized to interest expense over the expected term of the debt. In conjunction with the company's May 2011 refinancing discussed in note 10 – Debt, the company's deferred hedging loss was reclassified from accumulated other comprehensive income into earnings during third quarter fiscal year 2011.

Comprehensive income is computed as net income plus the net change in deferred hedging losses. Comprehensive income attributable to Sonic Corp. was $20.1 million, $21.9 million and $50.1 million for the fiscal years 2011, 2010 and 2009, respectively. Comprehensive income attributable to noncontrolling interests was $0.9 million, $4.6 million and $15.4 million for the fiscal years 2011, 2010 and 2009, respectively.

14. Segment Information

ASC Topic 280 – "Segment Reporting" establishes annual and interim reporting standards for an enterprise's operating segments. Operating segments are generally defined as components of an enterprise about which separate discrete financial information is available as the basis for management to allocate resources and assess performance.

Based on internal reporting and management structure, the company has two reportable segments: Company Drive-Ins and Franchise Operations. The Company Drive-Ins segment consists of the drive-in operations in which the company owns a controlling ownership interest and derives its revenues from operating drive-in restaurants. The Franchise Operations segment consists of franchising activities and derives its revenues from royalties, initial franchise fees and lease revenues received from franchisees. The accounting policies of the segments are described in note 1 - Summary of Significant Accounting Policies. Segment information for total assets and capital expenditures is not presented as such information is not used in measuring segment performance or allocating resources between segments.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

The following table presents the revenues and income from operations for each reportable segment, along with reconciliation to reported revenue and income from operations:

	2011	2010	2009
Revenues:			
Company Drive-Ins	$ 410,820	$ 414,369	$ 567,436
Franchise Operations	131,894	132,016	135,697
Unallocated revenues	3,237	4,541	3,148
	$ 545,951	$ 550,926	$ 706,281
Income from Operations:			
Company Drive-Ins	$ 55,529	$ 59,710	$ 102,560
Franchise Operations	131,894	132,016	135,697
Unallocated income	3,822	3,778	15,656
Unallocated expenses:			
Selling, general and administrative	(64,943)	(66,847)	(63,358)
Depreciation and amortization	(41,225)	(42,615)	(48,064)
Provision for impairment of long-lived assets	(824)	(15,161)	(11,163)
Income from Operations	$ 84,253	$ 70,881	$ 131,328

15. Employee Benefit and Cash Incentive Plans

The company sponsors a qualified defined contribution 401(k) plan for employees meeting certain eligibility requirements. Under the plan, employees are entitled to make pre-tax contributions. The company matches an amount equal to the employees' contributions up to 6% of the employees' salaries. The company's matching contributions for the fiscal years ended August 31, 2011, 2010 and 2009 were $1.5 million, $1.0 million and $1.0 million, respectively.

The company has Cash Incentive Plans (the "Incentive Plans") that apply to certain members of management and grants of awards under the incentive plans are at all times subject to the approval of the company's Board of Directors. Under certain awards pursuant to the incentive plans, if predetermined earnings goals for a fiscal year are met, the Incentive Plans provide 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 $5.4 million, $0.8 million and $1.2 million during fiscal years 2011, 2010 and 2009, respectively.

16. Employment Agreements

The company has employment contracts with its Chairman and Chief Executive Officer and certain of its officers. These contracts provide for use of company automobiles or related allowances, medical, life and disability insurance, annual base salaries, as well as incentive bonuses. These contracts also contain provisions for payments in the event of the termination of employment and provide for payments aggregating $10.1 million at August 31, 2011 due to loss of employment in the event of a change in control (as defined in the contracts).

17. Commitments and Contingencies

The company is involved in various legal proceedings and has certain unresolved claims pending. Based on the information currently available, management believes that all claims currently pending are either covered by insurance or would not have a material adverse effect on the company's business or financial condition.

The company has obligations under various lease agreements with third-party lessors related to the real estate for Company Drive-In operations that were sold to franchisees. Under these agreements, the company remains secondarily liable for the lease payments for which it was responsible as the original lessee. As of August 31, 2011, the amount remaining under guaranteed lease obligations for which no liability has been provided totaled $9.4 million. At this time, the company does not anticipate any material defaults under the foregoing leases; therefore, no liability has been provided as of August 31, 2011. In addition, capital lease obligations totaling $1.2 million are still reflected as liabilities as of August 31, 2011 for properties sold to franchisees and for which the company remains secondarily liable. At this time, the company also does not anticipate any material defaults under these leases.

At August 31, 2011, the company's estimated share of system-wide purchase obligations for food products was approximately $105 million.

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

18. Selected Quarterly Financial Data (Unaudited)

	First Quarter		Second Quarter	
	2011	2010	2011	2010
Income statement data:				
Company Drive-In sales	$ 97,274	$ 103,584	$ 86,435	$ 86,627
Franchise operations	30,748	31,717	26,482	26,000
Other	1,124	1,180	606	702
Total revenues	129,146	136,481	113,523	113,329
Company Drive-In operating expenses	84,725	87,962	77,953	75,834
Selling, general and administrative	16,281	16,132	15,285	17,324
Depreciation and amortization	10,300	10,666	10,367	10,647
Provision for impairment of long-lived assets	88	–	176	–
Total expenses	111,394	114,760	103,781	103,805
Other operating income (expense), net	277	18	(2)	(540)
Income from operations	18,029	21,739	9,740	8,984
Net (gain) loss from early extinguishment of debt	–	–	(5,205)	–
Interest expense, net	8,079	9,520	7,992	9,377
Income (loss) before income taxes	9,950	12,219	6,953	(393)
Provision (benefit) for income taxes	2,471	3,877	2,466	(789)
Net income (loss)-including noncontrolling interests	7,479	8,342	4,487	396
Net income- noncontrolling interests	237	2,112	139	1,038
Net income (loss)-attributable to Sonic Corp.	$ 7,242	$ 6,230	$ 4,348	$ (642)
Net income (loss) per share:				
Basic	$ 0.12	$ 0.10	$ 0.07	$ (0.01)
Diluted	$ 0.12	$ 0.10	$ 0.07	$ (0.01)
Weighted average shares outstanding:				
Basic	61,639	61,086	61,687	61,146
Diluted	61,753	61,415	61,865	61,385

19. 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 ASC Topic 825, "Financial Instruments," does 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 that 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, 2011 and 2010, carrying values approximate their estimated fair values.

Borrowed funds - The company prepares a discounted cash flow analysis for its fixed and variable rate borrowings to estimate fair value each quarter. This analysis uses interest rates being offered in the current market for borrowings with similar terms to the company's borrowings. There are few leveraged loan transactions occurring in the current market. Management used market information available for public debt transactions for companies with ratings that are at or below the company's ratings. Management believes this fair value is a reasonable estimate with the information that is available.

At August 31, 2011, the fair value of the 2011 Fixed Rate Notes approximated the carrying value of $497.0 million (including accrued interest). During the fourth quarter of fiscal year 2011, the company repaid the outstanding balance under its 2011 Variable Funding Notes. At August 31, 2010, the fair value of the 2006 Fixed Rate Notes was estimated at $388.1 million versus a carrying value of $404.0 million (including accrued interest). At August 31, 2010, the fair value of the 2006 Variable Funding Notes was estimated at $163.6 million versus a carrying value of $187.3 million (including accrued interest).

August 31, 2011, 2010 and 2009 (In thousands, except per share data)

	Third Quarter		Fourth Quarter		Full Year	
	2011	2010	2011	2010	2011	2010
	$ 113,745	$ 108,752	$ 113,366	$ 115,406	$ 410,820	$ 414,369
	37,038	35,925	37,626	38,375	131,894	132,016
	1,315	1,368	192	1,291	3,237	4,541
	152,098	146,045	151,184	155,072	545,951	550,926
	95,714	93,278	96,899	97,585	355,291	354,659
	17,212	17,096	16,165	16,295	64,943	66,847
	10,139	10,645	10,419	10,657	41,225	42,615
	49	188	511	14,973	824	15,161
	123,114	121,207	123,994	139,510	462,283	479,282
	(20)	(184)	330	(58)	585	(763)
	28,964	24,654	27,520	15,504	84,253	70,881
	28,230	314	10	–	23,035	314
	7,830	8,785	7,993	8,077	31,894	35,759
	(7,096)	15,555	19,517	7,427	29,324	34,808
	(2,742)	3,450	6,959	2,431	9,154	8,969
	(4,354)	12,105	12,558	4,996	20,170	25,839
	297	1,139	272	341	945	4,630
	$ (4,651)	$ 10,966	$ 12,286	$ 4,655	$ 19,225	$ 21,209
	$ (0.08)	$ 0.18	$ 0.20	$ 0.08	$ 0.31	$ 0.35
	$ (0.08)	$ 0.18	$ 0.20	$ 0.08	$ 0.31	$ 0.34
	61,842	61,434	61,954	61,627	61,781	61,319
	62,000	61,697	62,155	61,706	61,943	61,576

20. Subsequent Event

On October 13, 2011, the company's Board of Directors approved a stock repurchase program. Under the stock repurchase program, the company is authorized to purchase up to $30 million of its outstanding shares of common stock through August 31, 2012. The purchases may be made from time to time on the open market or in negotiated transactions, depending on share price, market conditions and other factors. The stock repurchase program may be extended, modified, suspended or discontinued at any time.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sonic Corp.

We have audited the accompanying consolidated balance sheets of Sonic Corp. as of August 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended August 31, 2011. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended August 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sonic Corp.'s internal control over financial reporting as of August 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 28, 2011, expressed an unqualified opinion thereon.

Ernst & Young LLP

Oklahoma City, Oklahoma
October 28, 2011

Management's Report on Internal Control Over Financial Reporting

The management of the company is responsible for establishing and maintaining adequate internal control over financial reporting. The company's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The company's management assessed the effectiveness of the company's internal control over financial reporting as of August 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. Based on our assessment, we believe that, as of August 31, 2011, the company's internal control over financial reporting is effective based on those criteria.

The company's independent registered public accounting firm that audited the financial statements included in this annual report has issued an attestation report on the company's internal control over financial reporting. This report appears on the following page.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Stockholders of Sonic Corp.

We have audited Sonic Corp.'s internal control over financial reporting as of August 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sonic Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sonic Corp. maintained, in all material respects, effective internal control over financial reporting as of August 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sonic Corp. as of August 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended August 31, 2011 of Sonic Corp. and our report dated October 28, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP

Oklahoma City, Oklahoma
October 28, 2011

Directors and Officers

Board of Directors

J. Clifford Hudson
Chairman and Chief Executive Officer
Sonic Corp.

Douglas N. Benham [1, 2]
President and Chief Executive Officer
DNB Advisors, LLC

Michael J. Maples [1, 3]
Former Executive Vice President and Member of the Office of the President
Microsoft Corporation

J. Larry Nichols [1, 2]
Executive Chairman of the Board
Devon Energy Corporation

Federico F. Peña [1, 3]
Managing Director
Vestar Capital Partners

H. E. Rainbolt [1, 2]
Chairman
BancFirst

Frank E. Richardson [1, 2, 4]
Chairman
F. E. Richardson & Co., Inc.

Robert M. Rosenberg [1, 3]
Retired President and
Chief Executive Officer
Allied-Domecq Retailing U.S.A.

Jeffrey H. Schutz [1, 3]
Managing Director
Centennial Ventures

Kathryn L. Taylor [1, 2]
Attorney, McAfee & Taft
Former Mayor, City of Tulsa, and
Former Chief of Education Strategy and Innovation
State of Oklahoma

1 Member of the Nominating and Corporate Governance Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee
4 Lead Independent Director

Officers

J. Clifford Hudson
Chairman and Chief Executive Officer

W. Scott McLain
President of Sonic Corp. and President of Sonic Industries Services Inc. (SISI) (the company's franchising subsidiary)

Omar R. Janjua
President of Sonic Restaurants, Inc. (the company's restaurant-operating subsidiary) and Executive Vice President of Operations of SISI

Stephen C. Vaughan
Executive Vice President and
Chief Financial Officer

Paige S. Bass
Vice President and General Counsel

Craig J. Miller
Senior Vice President and
Chief Information Officer of SISI

Danielle M. Vona
Vice President and
Chief Marketing Officer

Robert P. Franke
Senior Vice President
Field Services – East Region

Andrew G. Ritger, Jr.
Senior Vice President of
Business Planning and Purchasing

E. Edward Saroch
Senior Vice President
Field Services – West Region

Larry G. Archibald
Vice President of Brand Technology

M. Anne Burkett
Vice President of Internal Auditing

Alan Cantrell
Vice President of Business Planning

Jeffry D. Carper
Vice President of Operations Services

Carolyn C. Cummins
Vice President of Compliance and
Corporate Secretary

Mark W. Davis
Vice President of IT Production Management and Engineering

Terry D. Harryman
Vice President and Controller

Keith O. Jossell
Vice President of Market Strategies

William I. Klearman
Vice President of Retail Systems

Dino Medina
Vice President of Design and Construction

Diane L. Prem
Vice President of Key Initiatives

Stephen P. Reed
Vice President of Logistics

Nancy L. Robertson
Vice President of Communications

Jean-Pierre Salama
Vice President of Training

Claudia S. San Pedro
Vice President of Investor Relations and Treasurer

Renee G. Shaffer
Vice President of Supply Chain Management

C. Nelson Taylor
Vice President of Technical Services

Anita K. Vanderveer
Vice President of People

Barbara A. Williams
Vice President of Performance Analysis

Charles B. Woods
Vice President of Tax

Hans Wybenga
Vice President of Consumer Insights

Corporate Offices
300 Johnny Bench Drive
Oklahoma City, Oklahoma 73104
405/225-5000

Web Address
www.sonicdrivein.com

Stock Transfer Agent
Computershare Trust Company, N.A.
PO Box 43078
Providence, Rhode Island 02940-3078
or
250 Royall Street
Canton, Massachusetts 02021
800/884-4225
web.queries@computershare.com
www.computershare.com

Independent Registered Public Accounting Firm
Ernst & Young LLP
Oklahoma City, Oklahoma

Annual Meeting
Our 2012 Annual Meeting of Stockholders will be held at 1:30 p.m. Central Standard Time on January 19, 2012, at our Corporate Offices, 4th Floor, 300 Johnny Bench Drive, Oklahoma City, Oklahoma.

Annual Report on Form 10-K
A copy of our annual report on Form 10-K for the year ended August 31, 2011, as filed with the Securities and Exchange Commission, may be obtained without charge upon written request to Stephen C. Vaughan, Executive Vice President and Chief Financial Officer, at our Corporate Offices. In addition, we make available free of charge through our website at www.sonicdrivein.com annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed with or furnished to the SEC. The reports are available as soon as reasonably practical after we electronically file such material with the SEC, and may be found on our website under "Strictly Business/Investor Info/Financial Information/SEC-All."

Forward-Looking Statements
This annual report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from those expressed in, or underlying, these forward-looking statements are detailed in the company's annual and quarterly report filings with the Securities and Exchange Commission. The company undertakes no obligation to publicly release revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unforeseen events, except as required to be reported under the rules and regulations of the Securities and Exchange Commission.

Stock Market Information
Our common stock trades on the NASDAQ Global Select Market under the symbol SONC. At November 21, 2011, we had approximately 15,500 stockholders, including beneficial owners holding shares in nominee or "street" name.

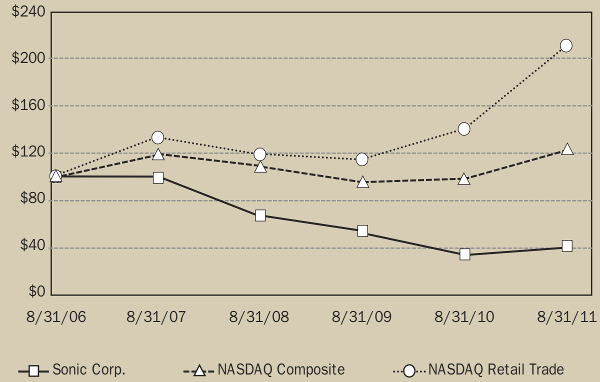
The table below sets forth our high and low sales prices for the company's common stock during each fiscal quarter within the two most recent fiscal years.

Fiscal Year Ended August 31, 2011	High	Low
First Quarter	$ 9.82	$ 7.30
Second Quarter	$11.53	$ 8.71
Third Quarter	$11.86	$ 8.50
Fourth Quarter	$11.45	$ 8.19

Fiscal Year Ended August 31, 2010	High	Low
First Quarter	$12.63	$ 9.05
Second Quarter	$10.68	$ 8.07
Third Quarter	$13.11	$ 8.29
Fourth Quarter	$10.52	$ 7.28

We currently anticipate that we will retain all of our earnings to support our operations and develop our business. Therefore, we do not pay any cash dividends on our outstanding common stock. Future cash dividends, if any, will be at the discretion of our 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 our Board may consider relevant.

Comparison of Five-Year Cumulative Total Return
The following graph compares the cumulative five-year return of holders of Sonic Corp.'s common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Retail Trade index. The graph tracks the performance of a $100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from 8/31/2006 to 8/31/2011.



Sonic Corp.
300 Johnny Bench Drive
Oklahoma City, Oklahoma 73104
405 / 225-5000
www.sonicdrivein.com