The ROAD AHEAD

Annual Report 2014

SONIC
America's Drive-In

Started in 1953 from a single location in Shawnee, Oklahoma, today Sonic franchises and operates the largest chain of drive-in restaurants in the country, with more than 3,500 Sonic Drive-Ins from coast to coast.

Our high-quality food and drinks, combined with our one-of-a-kind Carhop delivery service style, position us as the most highly differentiated concept in the quick-service restaurant (QSR) category. Unique, signature menu items are made when you order and include premium chicken sandwiches, footlong quarter-pound coneys and six-inch premium beef hot dogs, and breakfast burritos. Likewise, we are famous for our freshly made onion rings, Real Ice Cream, Tots, and more than a million drink choices, including our legendary Cherry Limeade. Customers also enjoy the availability of our full menu all day, as well as drive-thru service and patio dining at many Sonic locations.

Sonic at a glance

+3.5%

The increase in system-wide same-store sales for fiscal 2014, the fourth consecutive year of increasingly positive same-store sales.

9¢

The initial rate of Sonic's quarterly cash dividend that commenced in November 2014. This dividend, combined with a $105 million share repurchase authorization, means more than $124 million is expected to be returned to shareholders during the upcoming fiscal year.

90bps

The improvement in company drive-in margins during fiscal 2014, reflecting leverage from same-store sales growth and strategies to improve store-level profitability.

To Our Shareholders

If you have followed Sonic's story, you know that the momentum in our business is strong. In spite of a challenging environment for consumers and competitive forces new and old, we continue to accelerate the pace of our progress. Our multi-layered growth strategy is driving the results we have achieved so far and gives us confidence that we will continue to optimize shareholder value in the future. Our focus on product innovation, improved service, industry-leading creative and media efficiency have all contributed to our increased sales and profits. This foundation, combined with our franchisees' commitment and investment in our brand, underpins our strategy to strengthen consumer engagement and drive the business forward. More importantly, our progress during fiscal 2014 is a positive indicator of future success as we continue to build our brand.

17%

The increase in earnings per share for fiscal 2014, on an adjusted basis.

40

The number of new Sonic Drive-Ins opened during fiscal 2014, reflecting a nearly 50% increase in drive-in openings versus fiscal 2013 and early progress on plans for 1,000 new locations over the next 10 years.

$80M

The amount of common stock repurchased during fiscal 2014, which represents approximately 7% of the total shares outstanding at the beginning of the year.

Highlights of fiscal 2014 include:

- A system-wide same-store sales increase of 3.5%;
- A 90-basis-point improvement in company drive-in level margins;
- An ongoing increase in our drive-in development pipeline;
- A 17% increase in earnings per share, on an adjusted basis; and
- The initiation of a cash dividend program that augments our other strategies to increase shareholder value.

Most conversations about Sonic begin on the topic of food: not only about the number of unique menu choices, but also our relentless pursuit of high-quality products.

Distinctive, premium products have always been a hallmark of Sonic. From our hand-battered onion rings and always popular Tater Tots, customers know that Sonic is different, and different is better. Over the last year, we introduced unique limited-time offer products such as the Island Fire cheeseburger and chicken sandwich along with our cheesy bread six-inch beef hot dog. Over the summer, we complemented our 25 flavors of Real Ice Cream Shakes with an array of 25 flavors of Slush, some featuring Nerds® candy! Our customers have come to count on and respond to Sonic offering leading-edge menu items that are not only flavorful, but fun. Our menu items, together with our Carhop service model, increasingly put us on par with fast casual competitors in terms of quality and service.

We are prepared to take menu innovation to new heights with the recent opening of Sonic's Culinary Innovation Center. Investments like this in product innovation and new equipment represent a redoubled effort to bring distinctive and uniquely Sonic menu items to our customers. With this new center, our team of culinary professionals will bring even greater discipline to our product development efforts for the future as we work to surprise and delight current and new customers with new flavors and products.

Our "Two Guys" campaign was recently ranked the most effective in our category by a leading advertising testing firm. Most people love them, and everyone remembers them. This differentiated campaign separates us from the competition and provides a powerful platform for delivering our promotional messages.

We've all come to understand that millennials (customarily defined as customers between the ages of 18-34) march to the beat of a decidedly different drummer, in terms of how, when and where they access information. Our Integrated Customer Engagement (ICE) initiative, which will be implemented over the next few years, will engage consumers in new and modern ways, meeting our customers where they are. This includes leveraging different digital and social media platforms, a customer loyalty program and a new mobile app in calendar 2015. Combine these elements with Sonic's drive-in format and the new Point of Personalized Service (POPS) digital menu boards we are implementing, and the customer experience will be unlike any other in our segment. Currently implemented at all company drive-ins, POPS is now deploying to franchise drive-ins. This "on-lot" technology will soon be fully integrated with our mobile and digital efforts. Together these initiatives will revolutionize our drive-in operations and improve our brand experience in new and exciting ways.

By all measures, our efforts are paying dividends, and people are taking notice. Recently, Sonic was named the QSR Digital Brand of the Year at the Food Service Technology Conference & Showcase. More than 10,000 brands were evaluated, and finalists included brands across the restaurant space. Winning the top award for QSR is a validation of the strategy, speed and dedication with which we have embraced social media and online engagement with our customers, as we seek to create and deepen connections with our guests in ways that are convenient and compelling.

Technology not only is expected to drive sales, but profits, too. We have implemented our new Point-of-Sale (POS) system, designed to boost profitability through improved food cost and labor management, at all company drive-ins and are rolling it out to franchise drive-ins concurrently with our POPS implementation.

All of this is good news for our shareholders. In fiscal 2015, we expect to realize the full impact of our multi-layered growth strategy, as we benefit from the remaining elements of our strategy – our ascending royalty rate and increased drive-in development. Effective September 1st, more than 25% of our system converted to a higher royalty rate. Further, new drive-in development is anticipated to continue to increase this fiscal year.

Our franchise business model continues to generate ongoing strong cash flows, and we remain committed to enhancing shareholder value through regular and sizable share repurchases. In fact, over the past three years, we have repurchased approximately 6.7 million shares, or roughly18% of our outstanding shares. Also worth noting, our Board of Directors just authorized a new $105 million share repurchase authorization for fiscal 2015. To further enhance our efforts to increase shareholder value, our Board recently initiated a cash dividend program, slated at $0.09 per share per quarter. We paid our first-ever cash dividend to our shareholders in the first fiscal quarter of 2015.

So what does the future hold for our Company? Sonic is poised for continued success, heightening the customers' experience and further differentiating our brand via initiatives that will drive sales and profits, which in turn fuel new drive-in development. The journey should be exciting and, with you along, we can't wait to explore the road ahead.

Sincerely,

Clifford Hudson
Chairman, Chief Executive Officer and President

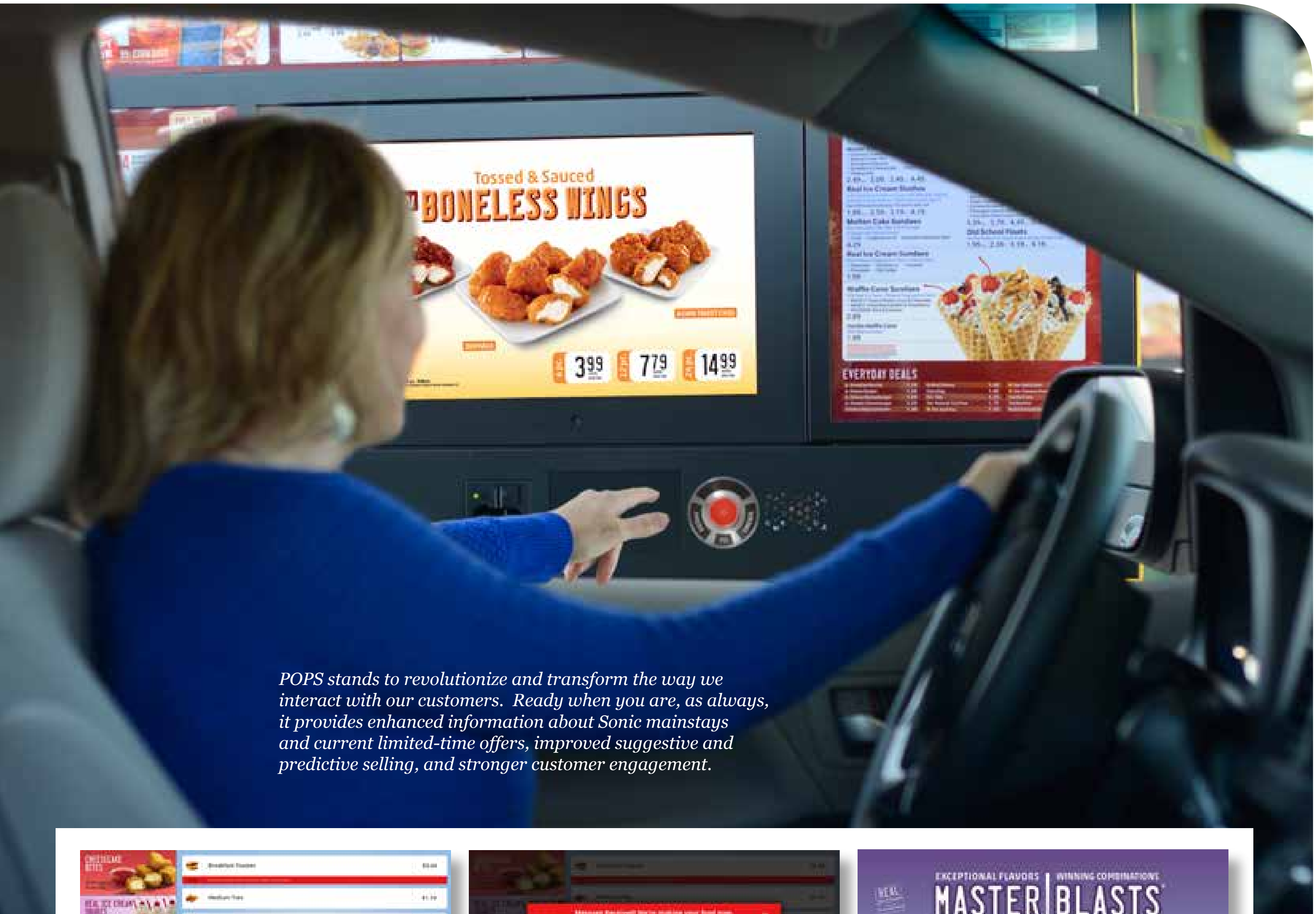
Good things come at the press of a little red button. At least at Sonic they do...

Not long after you pull into your Sonic, or get comfortable at a table on the patio, you notice among all the innovative, varied and mouth-watering selections featured on the menu board, that little, iconic red button – a symbol of freedom and differentiation in the monotonous fast-food world. It's then you realize that you're in complete control of the Sonic experience. Unlike standing in line elsewhere, waiting for your turn and oftentimes hurrying to decide on your order, you instead set the pace at Sonic, ordering when you're ready, confident in knowing that Sonic's classic Carhop service will deliver your food fast and fresh with a level of attention to order accuracy and additional needs that is unmatched in the typical QSR world.

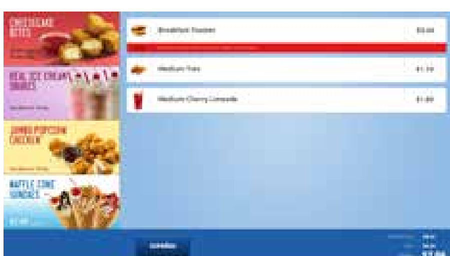
And there's more. At Sonic, customers not only set the tempo for their meal, they have ultimate control over the menu itself and can customize virtually any item on the menu, from snacks to sandwiches and desserts to drinks. And we're talking about more than just leaving something off of your chicken sandwich; we're talking about adding, changing and combining just about anything on our menu. If it tastes good to you, we're good to go! Furthermore, our full menu is available all day long, enabling customers to choose when to have breakfast – or lunch, or dinner – whenever they desire, not just when the clock on the wall says it's time. You see, at Sonic, we're ready when you are.

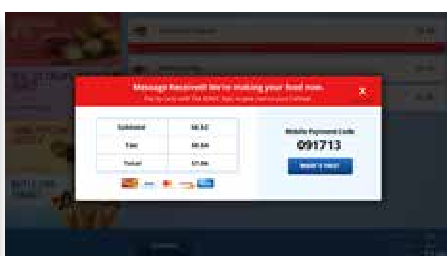
Customer Connection

Customers drive the pace of their visit when they pull into a Sonic Drive-In. If they're in a hurry, we can get them back on the road fast; if they have some time and want to kick back, we engage customers with brand messages in ways no other QSR concept can.



POPS stands to revolutionize and transform the way we interact with our customers. Ready when you are, as always, it provides enhanced information about Sonic mainstays and current limited-time offers, improved suggestive and predictive selling, and stronger customer engagement.





The Red Button of the Future…

If you have followed Sonic over the past few years, you know that a small technological revolution has continued to drive innovation at Sonic, highlighted by the recent implementation of a supply chain management system. Actually, it's more of an evolution, and in no way will it be small. These steps represent real future transformations in the way Sonic will engage with customers, manage our business and improve profitability. The latest wave in this technology push is the implementation of Sonic's new point-of-sale (POS) system and Point of Personalized Service (POPS). POPS is a customer-driven digital menu that features day-part appropriate messaging, automatically suggestively sells based on the customer's order, and allows Sonic to communicate with customers in a totally new way. POS and POPS were deployed to all company drive-ins in fiscal 2014 and began rolling out to franchisees in fiscal 2015. Welcome to the future of fast food!

Going "pro" in the kitchen

Chef Claes Petersson (left), Vice President of Product and Packaging Innovation, oversees Sonic's new Culinary Innovation Center, which opened in the Company's headquarters during October 2014.

Chicken Bliss

At just 450 calories, our 100% all-white-meat grilled chicken breast sandwich satisfies the most discerning – and health-conscious – tastes. Served on a ciabatta bun made with whole grains, our grilled chicken sandwich lets you enjoy both great flavor and a healthy lifestyle.

For years now, Sonic steadily has made many significant quality improvements across our menu, featuring premium chicken sandwiches, six-inch premium beef hot dogs, and, of course, Real Ice Cream. Combined with Sonic's ongoing success in menu development, these product enhancements have resonated with customers and have emerged as key sales drivers. Since introducing our new chicken sandwiches in the fall of 2012, as well as Super Crunch Strips and Jumbo Popcorn Chicken, we have experienced a 66% increase in chicken sales over the past three years. Similarly, with our successful Summer of Shakes and Master Blasts premium categories, Real Ice Cream sales have increased 48% during that same time frame.

This year, we gave our Real Ice Cream newfound portability when we introduced a new line of Waffle Cone Sundaes, available in three flavor combinations: REESE'S Peanut Butter Cups® & Chocolate, SNICKERS® Bar & Caramel and M&M's® Candies & Strawberry. Of course, these are just opening suggestions because, like everything else at Sonic, our Waffle Cone Sundaes can be customized to take your taste buds just about anywhere.

The challenge is to keep that excitement going, continually aligning and realigning with changing consumer preferences in new and different ways, constantly pushing the edge of imagination. To help ensure continued momentum with menu development, Sonic recently opened our state-of-the-art Culinary Innovation Center to test recipes and ingredients, explore new tastes, capture customer feedback, and examine a host of other factors that blend to define the final dining experience at Sonic. That's what our customers expect. That's what we expect!

And the survey says...

You may be surprised to know that in a recent survey of restaurant-goers, Sonic outscored many casual dining restaurants, fast-food restaurants and convenience stores in areas like food taste and overall satisfaction. Sonic's score for food taste even bested the fast casual category.

Sonic, a multi-generational success story

The Kinslows in Oklahoma City.
From left: Matt, Gary, Debra (seated), and Brooke.

The Sonic tradition – entrepreneurial spirit and passion – runs deep through the generations. One person who can attest to that is Sonic franchisee Gary Kinslow. Gary is the son of Matt Kinslow, one of Sonic's earliest franchisees and the first winner of the Troy Smith Award, Sonic's highest franchisee award. Already a restaurateur at the time, Matt recognized the potential of the Sonic brand early on and opened his first Sonic Drive-In with his wife, Joan, in 1962. Gary started working at his father's Sonic in 1969 at the age of 14 and, motivated by the opportunities he saw, bought an interest in his first drive-in in 1975.

Sonic has been a part of Gary's entire life, first with his father and mother, and now joined by his wife, Debra, and their two children, Matt and Brooke. Together, they own and operate 38 drive-ins in three states. All are active in the family business, along with Gary's brother, Larry. As Gary sees it, their business is a generational blend, building on the foundation created by his parents and preserving the Kinslow legacy for the next generation. To do this, he recognizes the need to inspire his team from the top down to the Carhops, forming strong relationships with the people involved – from Sonic partners, managers, and employees to vendors and, most importantly, customers. For Gary, it's simple: Sonic may sell cheeseburgers, but it is a people business.

His advice to his children, and others involved in the Sonic business, is to work hard, seize every opportunity, and chase your dreams with passion. With iconic roots that stretch back to 1953, Sonic provides a unique and attractive vehicle for franchisees to do just that, creating an entrepreneurial climate that fosters growth and success across generations. Still loyal to the brand ideals that have resonated with consumers for more than 60 years, Sonic continues to surprise and delight our customers – and franchisees – at every turn of the road.

1of7

hot dogs served in American restaurants are enjoyed at Sonic.

Settling the West

Almost 43 years ago, Bobby Merritt found his way to the Sonic brand and discovered something great inside himself – an entrepreneurial spirit fueled by a passion for business and a drive for personal success. Sonic's leadership recognized this in Bobby, bestowing its highest honor on him more than 20 years ago, by inducting him into the Troy Smith Hall of Fame.

A few years after Bobby began working for a Sonic franchisee in New Mexico, he bought his first Sonic in 1975, and the rest is history. Over the years since, Bobby has involved his wife, Betty, and eventually his children, Robin, Kristi and Ken, in his thriving family business. His kids literally grew up working in and around all aspects of a Sonic Drive-In, including stints as cooks, groundskeepers, and, of course, as Carhops. Clearly, Sonic's DNA is embedded in the Merritt's generations!

The Merritts at convention, from left: Ken Merritt, Betty Merritt, Kristi Grant, Bobby Merritt and Robin Stamnos.

The Merritt Group, based in Las Cruces, New Mexico, and now operating 145 drive-ins, has pioneered Sonic's entry into new and developing markets throughout the brand's history across New Mexico, Nevada, Arizona, Texas, and Colorado. Developing new markets actually has become a trademark of sorts for the Merritt Group as they repeatedly take on new challenges and develop new areas.

On this exhilarating, nearly half-century ride, Bobby and his family have learned a few things, too many to list actually. Probably the most important is that with the right people, possessing the right attitude and perseverance, any market can be conquered, as they have done so many times. Another is a salute to Sonic's media initiative, which provides increased visibility for the Sonic brand across the nation, creating greater opportunities for unit growth and whetting the appetite for untold numbers of new Sonic fans even before we land on their main street USA.

Splash™ Hand-Crafted Sodas, a new line of refreshing and guilt-free sodas from Sonic, offer a lighter, artisanal beverage option without sacrificing taste. With sparkling crystal clear, filtered water - a bubbly base for infused layers of real fruit or unique fruit flavors – Splash is just one of more than 20,000 refreshing and low-calorie drink choices at Sonic.

Fast*er* casual

In the ever-changing world of food preferences, consumers continue to search for a new balance in food quality, service, selection, convenience, and value. While fast casual often garners many of the headlines in this discussion, it's hard to match the complete package that Sonic offers. Our combination of high-quality ingredients, the breadth of our menu choices, our drive-in service model, and classic Carhop service, all come together to provide the ultimate dining experience that today's consumer is seeking. And in many instances, that customer is a millennial, the generation that increasingly dictates an entirely new set of expectations for the fast-casual and fast-food sectors.

At Sonic, we've always focused on the entire consumer experience by keeping a keen eye on all the elements that contribute to it, and we have steadily set the bar higher for ourselves and the industry in the process. Reflecting these efforts, Sonic recently received top honors in the 2014 Temkin Experience Ratings report by market research organization Temkin Group, a leading customer experience research and consulting firm, with the Company ranking higher than all other burger chains. So it seems that if you truly seek a combination of high-quality food, great food taste and a fun atmosphere for enjoying time spent with friends and family, simply yield at your nearest Carhop crossing.

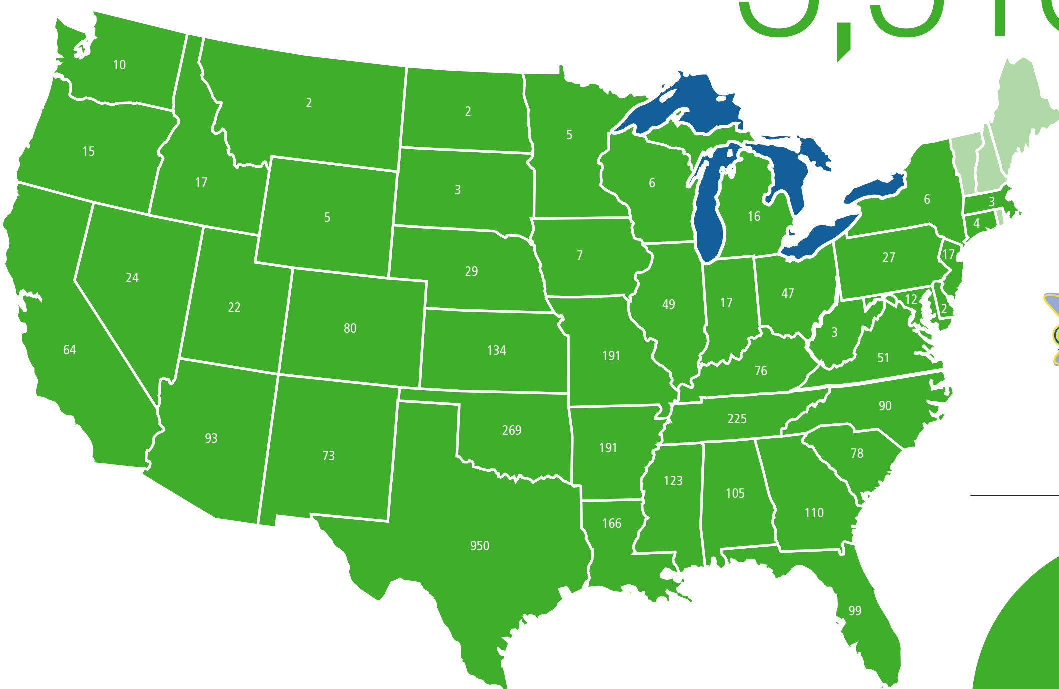
You're first in line every time at Sonic

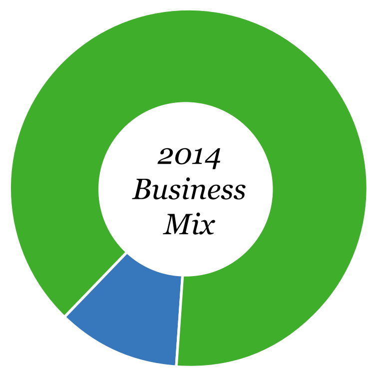
While Sonic Drive-In may seem nostalgic at first glance, a closer look actually reveals the opportunity for a one-of-a-kind customer experience. Sonic's faster style of service, compelling food selections, and new, cutting-edge technology all add to better customer engagement and satisfaction. By typically offering more than 25 points of delivery, Sonic's customers are always first in line, avoiding the inevitable service bottlenecks that characterize other QSR and fast-casual places, where the ordering process begins with one or a few lines – sometimes very long ones – and ends with only three or four points of delivery.


SONIC
SONIC

Sonic by the numbers

3,518 Locations Coast to Coast

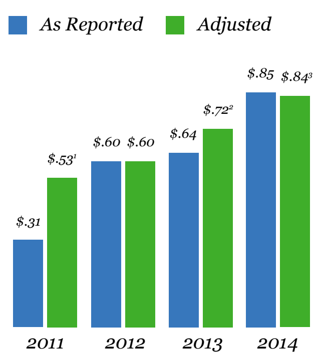




89% *Franchise Drive-Ins*

11% *Company Drive-Ins*

Net Income Per Diluted Share

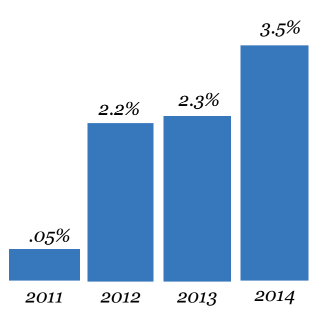


[1] *Excludes $0.22, net, associated with early extinguishments of debt and favorable tax settlement.*

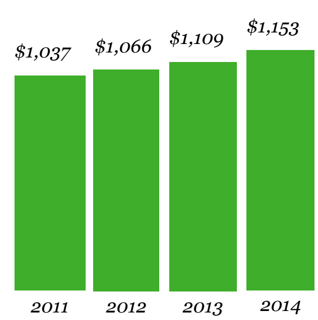
[2] *Excludes $0.08, net, associated with early extinguishment of debt, a loss on closure of company drive-ins, and an impairment charge for point-of-sale assets, all of which were partially offset by the benefit of a favorable resolution of tax matters.*

[3] *Excludes $0.01, reflecting a tax benefit from the acceptance by the IRS of a federal tax method change.*

Same-store Sales



System-wide Average Sales Per Drive-Ins



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)	**2014**	2013	2012	2011	2010
Income Statement Data:					
Company Drive-In sales	**$ 405,363**	$ 402,296	$ 404,443	$ 410,820	$ 414,369
Franchise Drive-Ins:					
Franchise royalties and fees	**138,416**	130,737	128,013	125,871	125,137
Lease revenue	**4,291**	4,785	6,575	6,023	6,879
Other	**4,279**	4,767	4,699	3,237	4,541
Total revenues	**552,349**	542,585	543,730	545,951	550,926
Cost of Company Drive-In sales	**342,109**	343,209	347,470	356,236	354,659
Selling, general and administrative	**69,415**	66,022	65,173	64,943	66,847
Depreciation and amortization	**42,210**	40,387	41,914	41,225	42,615
Provision for impairment of long-lived assets	**114**	1,776	764	824	15,161
Other operating (income) expense, net	**(176)**	1,943	(531)	(585)	763
Total expenses	**453,672**	453,337	454,790	462,643	480,045
Income from operations	**98,677**	89,248	88,940	83,308	70,881
Interest expense, net[1]	**24,913**	32,949	30,978	54,929	36,073
Income before income taxes	**73,764**	56,299	57,962	28,379	34,808
Net income-including noncontrolling interests	**47,916**	36,701	36,085	19,225	25,839
Net income-noncontrolling interests[2]	**–**	–	–	–	4,630
Net income-attributable to Sonic Corp.	**$ 47,916**	$ 36,701	$ 36,085	$ 19,225	$ 21,209
Income per share:					
Basic	**$ 0.87**	$ 0.65	$ 0.60	$ 0.31	$ 0.35
Diluted	**$ 0.85**	$ 0.64	$ 0.60	$ 0.31	$ 0.34
Weighted average shares used in calculation:					
Basic	**55,164**	56,384	60,078	61,781	61,319
Diluted	**56,619**	57,191	60,172	61,943	61,576
Cash dividends declared per common share	**$ 0.09**	$ –	$ –	$ –	$ –
Balance Sheet Data:					
Working capital	**$ 16,201**	$ 67,792	$ 26,635	$ 22,178	$ 15,320
Property, equipment and capital leases, net	**441,969**	399,661	443,008	464,875	489,264
Total assets	**650,972**	660,794	680,760	679,742	737,320
Obligations under capital leases (including current portion)	**26,743**	26,864	31,676	34,063	36,256
Long-term debt (including current portion)	**437,318**	447,294	481,793	497,013	591,621
Stockholders' equity	**62,675**	77,464	59,247	51,833	22,566

(1) Includes net loss from early extinguishment of debt of $4.4 million, $23.0 million and $0.3 million for fiscal years 2013, 2011 and 2010, respectively.

(2) Effective April 1, 2010, we revised our compensation program at the Company Drive-In level. As a result of these changes, noncontrolling interests are immaterial for fiscal years 2014, 2013, 2012 and 2011 and have been included in payroll and other employee benefits.

Overview

Description of the Business. Sonic operates and franchises the largest chain of drive-in restaurants in the United States. As of August 31, 2014, the Sonic system was comprised of 3,518 drive-ins, of which 11% were Company Drive-Ins and 89% were Franchise Drive-Ins. Sonic's signature food items include specialty drinks (such as cherry limeades and slushes), ice cream desserts, made-to-order sandwiches and hamburgers, a variety of hot dogs including six-inch premium beef hot dogs and footlong quarter pound coneys, hand-battered onion rings, tater tots and wraps. Sonic Drive-Ins also offer breakfast items that include a variety of breakfast burritos and serve the full menu all day. We derive our revenues primarily from Company Drive-In sales and royalties from franchisees. We also receive revenues from leasing real estate to franchisees, 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 Company Drive-In expenses are directly affected by the number and sales volumes of Company Drive-Ins. Our revenues and, to a lesser extent, selling, general and administrative expenses also are affected by the number and sales volumes of Franchise Drive-Ins. Franchise royalties and franchise fees are directly affected by the number of operating Franchise Drive-Ins and new drive-in openings. Lease revenues are generated by the leasing of land and buildings for Company Drive-Ins that have been sold to franchisees.

Overview of Business Performance. System-wide same-store sales increased 3.5% during fiscal year 2014 as compared to an increase of 2.3% for fiscal year 2013. Same-store sales at Company Drive-Ins increased by 3.5% during fiscal year 2014 as compared to an increase of 2.5% for fiscal year 2013. Our continued positive same-store sales are a result of the successful implementation of initiatives, including product quality improvements, a greater emphasis on personalized service and a tiered pricing strategy, that have set a solid foundation for growth. Along with new technology initiatives implemented in Company Drive-Ins during fiscal 2014, we continue to focus on key initiatives such as increased media effectiveness and our innovative product pipeline in supporting our layered day-part promotional strategy to drive same-store sales. All of these initiatives drive Sonic's multi-layered growth strategy, which incorporates same-store sales growth, operating leverage, deployment of cash, an ascending royalty rate and new drive-in development. Positive same-store sales is the most important layer and drives operating leverage and increased operating cash flows.

Revenues increased to $552.3 million for fiscal year 2014 from $542.6 million for the same period last year, which was primarily due to an increase in Franchise Drive-In royalties and Company Drive-In sales driven by the growth of same-store sales. Franchising revenues increased $7.2 million during fiscal year 2014, reflecting an increase in royalties primarily related to positive same-store sales of 3.5% at Franchise Drive-Ins. Restaurant margins at Company Drive-Ins improved by 90 basis points during fiscal year 2014, reflecting the leverage of positive same-store sales.

Net income and diluted earnings per share for fiscal year 2014 were $47.9 million and $0.85, respectively, as compared to net income of $36.7 million or $0.64 per diluted share for fiscal year 2013. Excluding the non-GAAP adjustments further described below, net income per diluted share was $0.84 for fiscal year 2014, compared to $0.72 per diluted share in fiscal year 2013.

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, 2014		Fiscal Year Ended August 31, 2013	
	Net Income	**Diluted EPS**	**Net Income**	**Diluted EPS**
Reported – GAAP	**$ 47,916**	$ 0.85	$ 36,701	$ 0.64
Tax benefit from the IRS' acceptance of a federal tax method change[1]	**(484)**	(0.01)	–	–
After-tax loss from early extinguishment of debt[2]	**–**	–	2,798	0.05
Retroactive tax benefit of WOTC and resolution of tax matters[3]	**–**	–	(743)	(0.02)
After-tax loss on closure of Company Drive-Ins[4]	**–**	–	1,510	0.03
After-tax impairment charge for point-of-sale assets[5]	**–**	–	1,013	0.02
Adjusted - Non-GAAP	**$ 47,432**	$ 0.84	$ 41,279	$ 0.72

	Fiscal Year Ended August 31, 2013		Fiscal Year Ended August 31, 2012	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported – GAAP	$ 36,701	$ 0.64	$ 36,085	$ 0.60
After-tax loss from early extinguishment of debt[2]	2,798	0.05	–	–
Retroactive tax benefit of WOTC and resolution of tax matters[3]	(743)	(0.02)	–	–
After-tax loss on closure of Company Drive-Ins[4]	1,510	0.03	–	–
After-tax impairment charge for point-of-sale assets[5]	1,013	0.02	–	–
Adjusted - Non-GAAP	$ 41,279	$ 0.72	$ 36,085	$ 0.60

[1] Tax benefit resulting from the IRS' acceptance of a federal tax method change during the first quarter of fiscal year 2014.

[2] Loss on early extinguishment of debt including $0.5 million and $3.9 million in the second and fourth quarters of fiscal year 2013, respectively.

[3] Tax benefit which includes the retroactive reinstatement of the Work Opportunity Tax Credit ("WOTC") and resolution of certain income tax matters during the second quarter of fiscal year 2013.

[4] Loss of $2.4 million on the closure of 12 lower-performing Company Drive-Ins as a result of an assessment in advance of capital expenditures for planned technology initiatives.

[5] Impairment charge of $1.6 million related to the write-off of assets associated with a change in the vendor for the Sonic system's new point-of-sale technology.

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)	**2014**	2013	2012
Increase in total sales	**3.9%**	2.4%	2.7%
System-wide drive-ins in operation[1]:			
Total at beginning of year	**3,522**	3,556	3,561
Opened	**40**	27	37
Closed (net of re-openings)	**(44)**	(61)	(42)
Total at end of year	**3,518**	3,522	3,556
Average sales per drive-in	**$ 1,153**	$ 1,109	$ 1,066
Change in same-store sales[2]	**3.5%**	2.3%	2.2%

[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.

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, 2014	2013	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Company Drive-In sales	**$ 405,363**	$ 402,296	$ 3,067	0.8 %
Franchise Drive-Ins:				
Franchise royalties	**137,125**	130,009	7,116	5.5
Franchise fees	**1,291**	728	563	77.3
Lease revenue	**4,291**	4,785	(494)	(10.3)
Other	**4,279**	4,767	(488)	(10.2)
Total revenues	**$ 552,349**	$ 542,585	$ 9,764	1.8 %

($ in thousands)	Revenues Year Ended August 31, 2013	2012	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Company Drive-In sales	$ 402,296	$ 404,443	$ (2,147)	(0.5)%
Franchise Drive-Ins:				
Franchise royalties	130,009	125,989	4,020	3.2
Franchise fees	728	2,024	(1,296)	(64.0)
Lease revenue	4,785	6,575	(1,790)	(27.2)
Other	4,767	4,699	68	1.4
Total revenues	$ 542,585	$ 543,730	$ (1,145)	(0.2)%

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, 2014	2013	2012
Company Drive-In sales	**$ 405,363**	$ 402,296	$ 404,443
Percentage increase (decrease)	**0.8%**	(0.5)%	(1.6)%
Company Drive-Ins in operation[1]:			
Total at beginning of year	**396**	409	446
Opened	**3**	2	1
Acquired from (sold to) franchisees, net	**(7)**	1	(35)
Closed (net of re-openings)	**(1)**	(16)	(3)
Total at end of year	**391**	396	409
Average sales per Company Drive-In	**$ 1,043**	$ 990	$ 958
Change in same-store sales[2]	**3.5%**	2.5%	2.8%

[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 3.5% for fiscal year 2014 and 2.5% for fiscal year 2013, showing continued momentum from the Company's successful implementation of initiatives to improve product quality, service and value perception. Furthermore, we continued to focus on our innovative product pipeline and increased media effectiveness while implementing new technology initiatives. Company Drive-In sales increased $3.1 million, or 0.8%, during fiscal year 2014 as compared to fiscal year 2013. This improvement was primarily attributable to an increase of $14.4 million in same-store sales and $2.0 million in incremental sales from new drive-in openings. These increases were partially offset by an $8.9 million sales decrease primarily related to the closure of 12 lower-performing drive-ins on August 31, 2013 and a $4.4 million decrease related to the refranchising of seven drive-ins during the first quarter of fiscal year 2014.

For fiscal year 2013, Company Drive-In sales decreased $2.1 million, or 0.5%, as compared to 2012. This decrease was primarily attributable to an $11.3 million reduction in sales from the refranchising of 34 lower-performing drive-ins during the second quarter of fiscal year 2012 and a $2.5 million decrease related to drive-ins that were closed during or subsequent to fiscal year 2012, partially offset by a $10.0 million improvement in same-store sales and $1.7 million of incremental sales from new drive-in openings.

The following table reflects the change in franchise sales, the number of Franchise Drive-Ins, average unit volumes and franchising revenues. 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)	**2014**	2013	2012
Franchise Drive-In sales	**$ 3,627,395**	$ 3,479,880	$ 3,386,218
Percentage increase	**4.2%**	2.8%	3.3%
Franchise Drive-Ins in operation[1]:			
Total at beginning of year	**3,126**	3,147	3,115
Opened	**37**	25	36
Acquired from (sold to) the Company, net	**7**	(1)	35
Closed (net of re-openings)	**(43)**	(45)	(39)
Total at end of year	**3,127**	3,126	3,147
Average sales per Franchise Drive-In	**$ 1,170**	$ 1,125	$ 1,081
Change in same-store sales[2]	**3.5%**	2.3%	2.2%
Franchising revenues[3]	**$ 142,707**	$ 135,522	$ 134,588
Percentage increase (decrease)	**5.3%**	0.7%	2.0%
Effective royalty rate[4]	**3.78%**	3.74%	3.72%

[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.

[3] 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."

[4] Represents franchise royalties as a percentage of Franchise Drive-In sales.

Same-store sales for Franchise Drive-Ins increased 3.5% for fiscal year 2014 and 2.3% for fiscal year 2013, showing continued momentum from the initiatives we have implemented to improve product quality, service and value perception. Furthermore, we continued to focus on our innovative product pipeline and increased media effectiveness. Franchising revenues increased $7.2 million, or 5.3%, for fiscal year 2014 as compared to fiscal year 2013. The increase in franchising revenues was driven by an increase in franchise royalties primarily attributable to a 3.5% increase in same-store sales and an increase in franchise fees from the increase in Franchise Drive-In openings. Lease revenues decreased compared to the prior year due to a franchisee's purchase during the second quarter of fiscal year 2013 of land and buildings leased or subleased from the Company. The effective royalty rate increased slightly compared to fiscal year 2013 primarily as a result of improved same-store sales.

Franchising revenues increased by $0.9 million, or 0.7%, to $135.5 million for fiscal year 2013 as compared to $134.6 million for fiscal year 2012. The increase in franchise revenues was primarily driven by a $4.0 million increase in royalties resulting from same-store sales increases partially offset by various development incentives and certain franchisee restructuring efforts. These royalty increases were also partially offset by a $1.8 million decline in lease revenue due to the franchisee's purchase during the second quarter of fiscal year 2013 of land and buildings leased or subleased from the Company and a $1.3 million decline in franchise fees.

Other revenues decreased $0.5 million to $4.3 in fiscal year 2014 and were flat in fiscal year 2013 as compared to the prior year. The decrease in fiscal year 2014 was partially due to changes in income from minority 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.

	Company Drive-In Margins Year Ended August 31,		Percentage Points Increase
	2014	**2013**	**(Decrease)**
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	**28.7%**	28.5%	0.2
Payroll and other employee benefits	**34.5**	35.4	(0.9)
Other operating expenses	**21.2**	21.4	(0.2)
Cost of Company Drive-In sales	**84.4%**	85.3%	(0.9)

	Company Drive-In Margins Year Ended August 31,		Percentage Points Increase
	2013	**2012**	**(Decrease)**
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	28.5%	28.1%	0.4
Payroll and other employee benefits	35.4	35.7	(0.3)
Other operating expenses	21.4	22.1	(0.7)
Cost of Company Drive-In sales	85.3%	85.9%	(0.6)

Drive-in level margins improved by 90 basis points during fiscal year 2014 reflecting leverage from improved same-store sales and, to a lesser extent, the closure of 12 lower-performing Company Drive-Ins on August 31, 2013. Food and packaging costs were slightly unfavorable by 20 basis points, which primarily resulted from increased costs in beef and dairy that were partially offset by menu price increases in the second half of the fiscal year. Payroll and other employee benefits, as well as other operating expenses, improved 110 basis points mainly as a result of leveraging improved sales and the closure of lower-performing Company Drive-Ins discussed above.

Drive-in level margins improved by 60 basis points during fiscal year 2013 reflecting leverage from improved same-store sales and, to a lesser extent, the refranchising of 34 lower-performing Company Drive-Ins during the second quarter of fiscal year 2012. Food and packaging costs were unfavorable by 40 basis points, which primarily resulted from a product mix shift due to summer promotion activity. Payroll and other employee benefits, as well as other operating expenses, improved 100 basis points primarily as a result of leveraging labor with improved sales and the refranchising of the 34 drive-ins discussed above.

Selling, General and Administrative ("SG&A"). SG&A expenses increased 5.1% to $69.4 million for fiscal year 2014, and increased 1.3% to $66.0 million during fiscal year 2013 as compared to fiscal year 2012. The increase in SG&A expense for fiscal year 2014 was largely attributable to an increase in salary and benefits as a result of additional headcount in support of the company's technology initiatives and higher variable compensation due to improved operating performance. The increase for fiscal year 2013 was largely attributable to an increase in variable compensation offset by a decline in bad debt expense due to improved sales and profitability at Franchise Drive-Ins.

Depreciation and Amortization. Depreciation and amortization expense increased 4.5% to $42.2 million in fiscal year 2014. The increase during fiscal year 2014 was primarily attributable to our increased investment in technology initiatives at Company Drive-Ins partially offset by a franchisee's purchase, during the second fiscal quarter of 2013, of land and buildings previously leased or subleased from the Company. Depreciation and amortization decreased 3.6% to $40.4 million in fiscal year 2013. The decline in fiscal year 2013 was primarily a result of the franchisee's purchase of land and buildings described above.

Provision for Impairment of Long-Lived Assets. Provision for impairment of long-lived assets decreased $1.7 million to $0.1 million in fiscal year 2014, compared to $1.8 million for fiscal year 2013 and $0.8 million for 2012. The decrease in fiscal year 2014 was primarily the result of the $1.6 million impairment charge in fiscal year 2013 for the write-off of assets associated with a change in the vendor for the Sonic system's new point-of-sale technology.

Other Operating Income and Expense, Net. Fiscal year 2014 reflected $0.2 million in other operating income compared to other operating net expense of $1.9 million for fiscal year 2013 and other operating income of $0.5 million for fiscal year 2012. This $2.1 million change for fiscal year 2014 and $2.4 million change for fiscal year 2013 are both primarily the result of the loss recorded on the closure of 12 lower-performing Company Drive Ins at the end of fiscal year 2013.

Net Interest Expense. Excluding the item outlined below, net interest expense decreased $3.6 million in fiscal year 2014 and $2.5 million in fiscal year 2013. The decrease in fiscal year 2014 was primarily related to a decline in our weighted-average interest rate attributable to our partial debt refinancing completed in the fourth quarter of fiscal year 2013 and a decline in our long-term debt balance. The decrease in fiscal year 2013 was primarily the result of a decline in our long-term debt balance. Fiscal year 2013 reflects a $4.4 million loss on extinguishment of debt related to our $20.0 million debt prepayment during the second quarter and our $155.0 million partial debt refinancing in the fourth quarter. See "Liquidity and Sources of Capital" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" below for additional information on factors that could impact interest expense.

Income Taxes. The provision for income taxes reflects an effective tax rate of 35.0% for fiscal year 2014 compared with 34.8% for fiscal year 2013. The slightly higher effective income tax rate for fiscal year 2014 was primarily attributable to legislation that reinstated and extended the Work Opportunity Tax Credit ("WOTC") in fiscal year 2013 but expired in fiscal year 2014. The tax rate for fiscal year 2013 decreased from the fiscal year 2012 rate of 37.7%. This decrease was primarily attributable to the expiration of a state statute of limitations related to an uncertain tax position and legislation that reinstated and extended the WOTC. Our fiscal year 2015 tax rate may vary depending upon the reinstatement of the WOTC, which expired on December 31, 2013, and pending resolution of certain tax matters. Further, our tax rate may continue to vary significantly from quarter to quarter depending on the timing of stock option exercises and dispositions by option holders and as circumstances on other tax matters change.

Financial Position

Total assets decreased $9.8 million, or 1.5%, to $651.0 million during fiscal year 2014 from $660.8 million at the end of fiscal year 2013. The decrease during the year was primarily attributable to a decline in cash of $42.2 million and current-year depreciation of $42.2 million. These declines were partially offset by $79.0 million in property and equipment additions (largely technology).

Total liabilities increased $5.0 million to $588.3 million during fiscal year 2014 from $583.3 million at the end of fiscal year 2013. The increase was primarily attributable to the $4.9 million dividend declared in August 2014 and payable in November 2014.

Total stockholders' equity decreased $14.8 million, or 19.1%, to $62.7 million during fiscal year 2014 from $77.5 million at the end of fiscal year 2013. This decrease was primarily attributable to $80.0 million in purchases of common stock under our stock repurchase program and was partially offset by current-year earnings of $47.9 million and $17.4 million from the issuance of stock related to stock option exercises during fiscal year 2014.

Liquidity and Sources of Capital

Operating Cash Flows. Net cash provided by operating activities increased $15.7 million to $103.5 million for fiscal year 2014 as compared to $87.8 million in fiscal year 2013. This increase primarily resulted from the receipt of federal income tax refunds of $9.2 million and lower income tax payments for fiscal year 2014 as compared to fiscal year 2013, mainly attributable to the timing of estimated payments along with an $11.2 million increase in net income. These increases were partially offset by a $4.4 million decrease due to the fiscal year 2013 loss from the early extinguishment of debt.

Investing Cash Flows. Cash used in investing activities increased $69.3 million to $70.5 million for fiscal year 2014 compared to $1.2 million for fiscal year 2013. During fiscal year 2014, we used $79.0 million of cash for investments in property and equipment as outlined in the table below.

The following table sets forth the components of our investments in property and equipment for fiscal year 2014 (in millions):

Replacement equipment and technology for existing drive-ins	$ 59.8
Rebuilds, relocations, remodels and retrofits of existing drive-ins	5.1
Brand technology investments	5.1
Newly constructed Company Drive-Ins	4.5
Newly constructed drive-ins leased to franchisees	3.2
Acquisition of underlying real estate for drive-ins	1.3
Total purchases of property and equipment	$ 79.0

These purchases increased $37.7 million compared to the same period last year, mostly related to our increased investments in technology. Additionally, proceeds from the sale of assets declined $31.3 million primarily related to proceeds from a franchisee's purchase, during the second quarter of fiscal year 2013, of land and buildings previously leased or subleased from the Company.

Financing Cash Flows. Net cash used in financing activities increased $13.8 million to $75.2 million for fiscal year 2014 as compared to $61.4 million in fiscal year 2013. This increase primarily relates to a $43.2 million increase in purchases of treasury stock, partially offset by a $24.5 million decrease in debt payments and a $5.0 million decrease in debt issuance and extinguishment costs during fiscal year 2014.

In the second quarter of fiscal year 2013, we made a debt prepayment, at par, of $20.0 million on our Series 2011-1 Senior Secured Fixed Rate Notes, Class A-2 ("2011 Fixed Rate Notes"). In the fourth quarter of fiscal year 2013, in a private transaction we refinanced $155 million of the 2011 Fixed Rate Notes with the issuance of $155 million of Series 2013-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2013 Fixed Rate Notes"), which bear interest at 3.75% per annum. The 2013 Fixed Rate Notes have an expected life of seven years, interest payable monthly, with no scheduled principal amortization. As a result, mandatory debt payments have decreased from $15.0 million to $9.8 million per year. Additionally, in the fourth quarter of fiscal year 2013, we extended the renewal date of our Series 2011-1 Senior Secured Variable Funding Notes, Class A-1 ("2011 Variable Funding Notes") by two years to May 2018 and decreased the base spread from 3.75% to 3.50%.

At August 31, 2014, the balance outstanding under the 2011 Fixed Rate Notes and the 2013 Fixed Rate Notes, including accrued interest, totaled $282.6 million and $155.2 million, respectively, and there was no outstanding balance under our 2011 Variable Funding Notes. The weighted-average interest cost of the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes was 5.7% and was 4.1%, respectively. The weighted-average interest cost includes the effect of the loan origination costs.

In fiscal year 2013, the debt prepayment and the partial debt refinancing resulted in a pro-rata write-off of loan origination costs from the 2011 Fixed Rate Notes, representing a majority of the $4.4 million loss which is reflected in "Net loss from early extinguishment of debt" on the Consolidated Statements of Income. An additional $4.1 million in debt origination costs were capitalized in conjunction with the 2013 Fixed Rate Notes. Loan costs are being amortized over each note's expected life. The amount of loan costs expected to be amortized over the next 12 months is reflected in "Other current assets" on the Consolidated Balance Sheets. For additional information on our 2011 Notes and 2013 Fixed Rate Notes, see note 10 – Debt, included in the Notes to Consolidated Financial Statements in this Annual Report.

In October 2011, our Board of Directors approved a $30 million share repurchase program. Under that program, we were authorized to purchase up to $30 million of our outstanding shares of common stock through August 31, 2012. During fiscal year 2012, the Company completed this share repurchase program.

In August 2012, our Board of Directors approved a $40 million share repurchase program. Under that program, we were authorized to purchase up to $40 million of our outstanding shares of common stock through August 31, 2013. In January 2013, the Board of Directors increased the purchase authorization to $55 million. During fiscal year 2013, we completed this share repurchase program.

In August 2013, the Board of Directors extended the share repurchase program, authorizing us to purchase up to $40 million of our outstanding shares of common stock. In January 2014, our Board of Directors approved an incremental $40 million authorization for this program that allowed for up to $80 million of common stock to be repurchased through August 31, 2014.

As part of this program, in February 2014, we entered into an accelerated share repurchase ("ASR") agreement with a financial institution to purchase $40 million of our common stock. In exchange for a $40 million up-front payment, the financial institution delivered approximately 2.1 million shares. During March 2014, the ASR purchase period concluded with no additional shares delivered, resulting in an average price per share of $19.13. We reflected the ASR transaction as a repurchase of common stock for purposes of calculating earnings per share and as a forward contract indexed to its own common stock. The forward contract met all of the applicable criteria for equity classification.

The Company completed the Board-approved share repurchase program during fiscal year 2014, with approximately 4.1 million shares repurchased, resulting in an average price per share of $19.61.

In August 2014, our Board of Directors further extended our share repurchase program, authorizing us to purchase up to $105 million of our outstanding shares of common stock during fiscal year 2015.

Share repurchases will be made from time to time in the open market or otherwise, including through an accelerated share repurchase program, under the terms of a Rule 10b5-1 plan, in privately negotiated transactions or in round lot or block transactions. The share repurchase program may be extended, modified, suspended or discontinued at any time. We plan to fund the share repurchase program from existing cash on hand at August 31, 2014, cash flows from operations and borrowings under our 2011 Variable Funding Notes.

As of August 31, 2014, our total cash balance of $55.6 million ($35.7 million of unrestricted and $19.9 million of restricted cash balances) reflected the impact of the cash generated from operating activities, cash used for share repurchases, debt prepayment and capital expenditures mentioned above. We believe that existing cash, funds generated from operations and the $100 million available under our 2011 Variable Funding Notes will meet our needs for the foreseeable future.

The Company did not pay any cash dividends on its common stock during its two most recent fiscal years. However, in August 2014, the Board of Directors initiated a cash dividend program under which the Company will pay a regular quarterly cash dividend. The Board declared the first quarterly cash dividend of $0.09 per share of common stock to be paid to stockholders of record as of the close of business on November 12, 2014, with a payment date of November 21, 2014. The total dividend payable at August 31, 2014 was $4.9 million and is included in accrued liabilities in the consolidated balance sheet. Future declaration of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors.

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 15 – 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, 2014 (in thousands):

		Payments Due by Fiscal Year			
	Total	Less than 1 Year (2015)	1 – 3 Years (2016 to 2017)	3 – 5 Years (2018 to 2019)	More than 5 Years (2020 and thereafter)
Contractual Obligations					
Long-term debt[1]	**$ 526,895**	$ 31,198	$ 60,756	$ 274,774	$ 160,167
Capital leases	**35,096**	5,149	9,585	7,563	12,799
Operating leases	**124,971**	11,274	20,446	17,642	75,609
Purchase obligations[2]	**307,997**	29,050	44,435	47,338	187,174
Other[3]	**18,008**	–	–	–	–
Total	**$ 1,012,967**	$ 76,671	$ 135,222	$ 347,317	$ 435,749

[1] Includes scheduled principal and interest payments on our 2011 Fixed Rate Notes and 2013 Fixed Rate Notes and assumes these notes will be outstanding for the expected seven-year life with an anticipated repayment date in May 2018 and July 2020, respectively.

[2] Purchase obligations primarily relate to 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 $2.5 million of unrecognized tax benefits related to uncertain tax positions and $15.5 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 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 a periodic review of 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.

Accounting for 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 us to estimate fair values of our drive-ins by making assumptions regarding future cash flows and other factors. It is reasonably possible that our estimates of future cash flows could change resulting in the need to write down to fair value certain Company Drive-In assets.

We assess the recoverability of goodwill at least annually and more frequently if events or changes in circumstances occur indicating that the carrying amount of goodwill may not be recoverable or as a result of allocating goodwill to Company Drive-Ins that are sold. Since the Company is one reporting unit, we identify potential goodwill impairment by comparing the fair value of the Company to its carrying value. The fair value of the Company is determined using a market approach. If the carrying value of the Company exceeds fair value, a comparison of the fair value of goodwill against the carrying value of goodwill is made to determine whether goodwill has been impaired.

During the fourth quarter of fiscal year 2014, we performed our annual assessment of recoverability of goodwill and determined that no impairment was indicated. As of the impairment testing date, the fair value of the Company significantly exceeded the carrying value. As of August 31, 2014, the Company had $77.1 million of goodwill.

Revenue Recognition Related to Franchise Fees and Royalties. 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. Development fees are nonrefundable and are recognized in income on a pro-rata basis when the conditions for revenue recognition under the individual development agreements are met. Both franchise fees and 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 pay royalties based on a percentage of sales. Royalties are recognized as revenue when they are earned.

Accounting for Stock-Based 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 Annual Report. 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 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.

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 until they are resolved 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. 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 from 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 notes. 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. 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. The Company does not utilize financial instruments for trading purposes. Sonic manages its debt portfolio to achieve an overall desired position of fixed and floating rates.

Interest Rate Risk. Our exposure to interest rate risk at August 31, 2014, was primarily based on the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes with an effective rate of 5.4% and 3.75%, respectively, before amortization of debt-related costs. At August 31, 2014, the fair value of the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes approximated their carrying value of $437.8 million, including accrued interest. To derive the fair value, management used market information available for public debt transactions for companies with ratings that are similar to our ratings and information gathered from brokers who trade in our notes. Management believes this fair value is a reasonable estimate. Should interest rates and/or credit spreads increase or decrease by one percentage point, the estimated fair value of the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes would decrease or increase by approximately $15 million, respectively. The fair value estimate required significant assumptions by management.

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 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.

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)	August 31, 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 35,694**	$ 77,896
Restricted cash	**13,208**	11,823
Accounts and notes receivable, net	**32,833**	29,142
Income taxes receivable	**1,887**	7,728
Inventories	**3,349**	3,678
Prepaid expenses	**5,917**	5,032
Other current assets	**2,824**	5,423
Total current assets	**95,712**	140,722
Noncurrent restricted cash	**6,652**	6,791
Notes receivable, net	**8,155**	10,013
Property, equipment and capital leases, net	**441,969**	399,661
Goodwill	**77,093**	77,093
Other assets, net	**21,391**	26,514
Total assets	**$ 650,972**	$ 660,794
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 17,207**	$ 13,100
Franchisee deposits	**2,678**	4,048
Accrued liabilities	**43,681**	37,221
Income taxes payable	**2,461**	4,241
Current maturities of long-term debt and capital leases	**13,484**	14,320
Total current liabilities	**79,511**	72,930
Obligations under capital leases due after one year	**23,050**	22,458
Long-term debt due after one year	**427,527**	437,380
Deferred income taxes	**37,611**	34,915
Other non-current liabilities	**20,598**	15,647
Commitments and contingencies (Notes 7,8,14,15)		
Stockholders' equity:		
Preferred stock, par value $.01; 1,000 shares authorized; none outstanding	**–**	–
Common stock, par value $.01; 245,000 shares authorized; shares issued 118,309 in 2014 and 118,309 in 2013	**1,183**	1,183
Paid-in capital	**225,004**	224,768
Retained earnings	**801,202**	758,138
Treasury stock, at cost; 64,505 shares in 2014 and 62,025 in 2013	**(964,714)**	(906,625)
Total stockholders' equity	**62,675**	77,464
Total liabilities and stockholders' equity	**$ 650,972**	$ 660,794

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

Condensed Consolidated Statements of Income

(In thousands, except per share amounts)	Year Ended August 31, 2014	2013	2012
Revenues:			
Company Drive-In sales	**$ 405,363**	$ 402,296	$ 404,443
Franchise Drive-Ins:			
Franchise royalties and fees	**138,416**	130,737	128,013
Lease revenue	**4,291**	4,785	6,575
Other	**4,279**	4,767	4,699
Total revenues	**552,349**	542,585	543,730
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	**116,325**	114,545	113,775
Payroll and other employee benefits	**139,939**	142,511	144,531
Other operating expenses, exclusive of depreciation and amortization included below	**85,845**	86,153	89,164
Total cost of Company Drive-In sales	**342,109**	343,209	347,470
Selling, general and administrative	**69,415**	66,022	65,173
Depreciation and amortization	**42,210**	40,387	41,914
Provision for impairment of long-lived assets	**114**	1,776	764
Other operating (income) expense, net	**(176)**	1,943	(531)
Total costs and expenses	**453,672**	453,337	454,790
Income from operations	**98,677**	89,248	88,940
Interest expense	**25,382**	29,098	31,608
Interest income	**(469)**	(592)	(630)
Net loss from early extinguishment of debt	**–**	4,443	–
Net interest expense	**24,913**	32,949	30,978
Income before income taxes	**73,764**	56,299	57,962
Provision for income taxes	**25,848**	19,598	21,877
Net income	**$ 47,916**	$ 36,701	$ 36,085
Basic income per share	**$ 0.87**	$ 0.65	$ 0.60
Diluted income per share	**$ 0.85**	$ 0.64	$ 0.60
Cash dividends declared per common share	**$ 0.09**	$ –	$ –

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

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at August 31, 2011	$ 1,183	$ 229,399	$ 687,431	56,316	$ (866,317)	$ 51,696
Net income	–	–	36,085	–	–	36,085
Stock-based compensation expense	–	4,295	–	–	–	4,295
Purchase of treasury stock	–	–	–	4,157	(31,102)	(31,102)
Exercise of stock options and issuance of restricted stock	–	(820)	(529)	(108)	1,629	280
Other	–	(2,331)	(373)	(40)	697	(2,007)
Balance at August 31, 2012	$ 1,183	$ 230,543	$ 722,614	60,325	$ (895,093)	$ 59,247
Net income	–	–	36,701	–	–	36,701
Stock-based compensation expense	–	3,630	–	–	–	3,630
Purchase of treasury stock	–	-	–	3,332	(35,480)	(35,480)
Exercise of stock options and issuance of restricted stock	–	(6,127)	(1,057)	(1,607)	23,527	16,343
Other	–	(3,278)	(120)	(25)	421	(2,977)
Balance at August 31, 2013	$ 1,183	$ 224,768	$ 758,138	62,025	$ (906,625)	$ 77,464
Net income	**–**	**–**	**47,916**	**–**	**–**	**47,916**
Cash dividends declared per common share	**–**	**–**	**(4,852)**	**–**	**–**	**(4,852)**
Stock-based compensation expense	**–**	**3,742**	**–**	**–**	**–**	**3,742**
Purchase of treasury stock	**–**	**–**	**–**	**4,080**	**(80,045)**	**(80,045)**
Exercise of stock options and issuance of restricted stock	**–**	**(4,186)**	**–**	**(1,575)**	**21,593**	**17,407**
Other	**–**	**680**	**–**	**(25)**	**363**	**1,043**
Balance at August 31, 2014	**$ 1,183**	**$ 225,004**	**$ 801,202**	**64,505**	**$ (964,714)**	**$ 62,675**

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

Condensed Consolidated Statements of Cash Flows

(In thousands)	Year Ended August 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	**$ 47,916**	$ 36,701	$ 36,085
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**42,210**	40,387	41,914
Stock-based compensation expense	**3,742**	3,630	4,295
Net loss from early extinguishment of debt	**–**	4,443	–
Other	**(1,628)**	2,381	788
(Increase) decrease in operating assets:			
Restricted cash	**(1,428)**	(2,431)	2,586
Accounts receivable and other assets	**(5,977)**	1,613	(2,591)
Increase (decrease) in operating liabilities:			
Accounts payable	**640**	2,324	(932)
Accrued and other liabilities	**7,347**	5,129	(828)
Income taxes	**10,726**	(6,338)	13,811
Total adjustments	**55,632**	51,138	59,043
Net cash provided by operating activities	**103,548**	87,839	95,128
Cash flows from investing activities:			
Purchases of property and equipment	**(79,008)**	(41,338)	(24,175)
Proceeds from sale of assets	**2,148**	33,475	9,929
Other	**6,337**	6,679	(9,863)
Net cash used in investing activities	**(70,523)**	(1,184)	(24,109)
Cash flows from financing activities:			
Payments on and purchases of debt	**(9,976)**	(189,499)	(15,220)
Proceeds from borrowings	**–**	155,000	–
Restricted cash for securitization obligations	**181**	1,921	269
Purchases of treasury stock	**(79,786)**	(36,582)	(30,000)
Proceeds from exercise of stock options	**17,407**	16,343	280
Debt issuance and extinguishment costs	**(151)**	(5,137)	(57)
Other	**(2,902)**	(3,452)	(3,153)
Net cash used in financing activities	**(75,227)**	(61,406)	(47,881)
Net increase (decrease) in cash and cash equivalents	**(42,202)**	25,249	23,138
Cash and cash equivalents at beginning of year	**77,896**	52,647	29,509
Cash and cash equivalents at end of year	**$ 35,694**	$ 77,896	$ 52,647
Supplemental cash flow information			
Cash paid during the year for:			
Interest	**$ 23,701**	$ 27,352	$ 29,283
Income taxes (net of refunds)	**$ 14,143**	$ 25,440	$ 11,114
Non-cash investing and financing activities:			
Change in obligation to acquire treasury stock	**259**	(1,102)	1,102
Notes receivable and direct financing leases from property disposition	**–**	8,661	–
Stock options exercised by stock swap	**4,634**	–	–
Change in obligation for purchase of property and equipment	**3,097**	(477)	(1,061)
Dividend payable	**4,852**	–	–

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 restaurants 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 a number of Company Drive-Ins in which a subsidiary has a controlling ownership interest. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States ("U.S.") 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.

Reclassifications

Certain amounts reported in previous years, which are not material, have been combined and reclassified to conform to the current-year presentation.

Segment Reporting

In accordance with Accounting Standards Update ("ASU") 280, "Segment Reporting," the Company uses the management approach for determining its reportable segments. The management approach is based upon the way that management reviews performance and allocates resources. There were changes in the management structure and the manner in which Sonic manages the business that were effective for fiscal year 2014. Additionally, the Company's chief operating decision maker and his management team review operating results on a consolidated basis for purposes of allocating resources and evaluating the financial performance of the Sonic brand. Accordingly, the Company has determined that it has one operating segment, and therefore, one reporting segment.

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, 2014, the Company had restricted cash balances totaling $19.9 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 $13.2 million represents amounts to be returned to Sonic or paid to service current debt obligations. The noncurrent portion of $6.7 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 that the collection is no longer reasonably assured. 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 of the related drive-in. 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 management's assessment as well as independent market value 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 goodwill at least annually for impairment using the fair value approach on a reporting unit basis.

Since the Company is one reporting unit in fiscal year 2014, potential goodwill impairment is evaluated by comparing the fair value of the Company to its carrying value. The fair value of the Company is determined using a market approach. If the carrying value of the Company exceeds fair value, a comparison of the fair value of goodwill against the carrying value of goodwill is made to determine whether goodwill has been impaired. During the fourth quarter of fiscal year 2014, the annual assessment of recoverability of goodwill was performed and no impairment was indicated. Prior to fiscal year 2014, the Company had two reporting units. In comparing the carrying value and the fair value of the reporting units, the company estimated fair value based on a comparison of two approaches: an income approach, using the discounted cash flow method, and a market approach, using the guideline public company method. During the fourth quarter of fiscal 2013, the annual assessment of recoverability of goodwill was performed and no impairment was indicated.

The Company's intangible assets subject to amortization consist primarily of acquired franchise agreements, intellectual property and other intangibles. Amortization expense is calculated using the straight-line method over the asset's expected useful life. See note 5 - Goodwill and Other Intangibles for additional related disclosures.

Refranchising and Closure of Company Drive-Ins

Gains and losses from the sale or closure of Company Drive-Ins are recorded as "Other operating (income) expense, net" on the Consolidated Statements of Income.

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.

The Company records a liability in the period in which a gift card is sold. The gift cards do not have expiration dates. As gift cards are redeemed, the liability is reduced with revenue recognized on redemptions at Company Drive-Ins. 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 historical trend in redemption patterns from previously sold gift cards. 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. The Company reduces the gift card liability for the estimated breakage and uses that amount to defray the costs of operating the gift card program. There is no income recognized on unredeemed gift card balances.

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. Development fees are nonrefundable and are recognized in income on a pro-rata basis when the conditions for revenue recognition under the individual development agreements are met. Both franchise fees and 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.

The Company's franchisees pay royalties based on a percentage of sales. Royalties are recognized as revenue when they are 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 the 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 $22.4 million in fiscal years 2014 and 2013 and $22.6 million in fiscal year 2012.

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 advertising, either directly or through Company-required participation in advertising cooperatives. A significant portion of the advertising cooperative contributions is remitted to the System Marketing Fund, which purchases advertising on national cable and broadcast networks and local broadcast networks and funds other national media expenses 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

The Company grants incentive stock options ("ISOs"), non-qualified stock options ("NQs") and restricted stock units ("RSUs"). For grants of NQs and RSUs, the Company expects to recognize a tax benefit upon exercise of the option or vesting of the RSU. As a result, a tax benefit is recognized on the related stock-based compensation expense for these types of awards. For grants of ISOs, a tax benefit only results if the option holder has a disqualifying disposition. As a result of the limitation on the tax benefit for ISOs, 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.

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight-line basis over the requisite service period of the award, generally the vesting period of the grant. For additional information on stock-based compensation see 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 NQs, the vesting of RSUs, and disqualifying dispositions of ISOs.

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. 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 Measurements

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts and notes receivable, accounts payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable, and accounts payable approximates their carrying amounts due to the short term nature of these assets and liabilities.

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

- *Notes receivable* - As of August 31, 2014 and 2013, the carrying amounts of notes receivable (both current and non-current) approximate fair value due to the effect of the related allowance for doubtful accounts
- *Long-term debt* - The Company prepares a discounted cash flow analysis for its fixed rate borrowings to estimate fair value each quarter. This analysis uses Level 2 inputs from market information available for public debt transactions for companies with ratings that are similar to the Company's ratings and from information gathered from brokers who trade in the Company's notes. The fair value estimate required significant assumptions by management. Management believes this fair value is a reasonable estimate. For more information regarding the Company's long-term debt, see note 10 - Debt and note 11 - Fair Value of Financial Instruments.

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 independent market value assessments which involved Level 2 and Level 3 inputs.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers," which requires entities to recognize revenue in the way it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most of the existing revenue recognition requirements in U.S. GAAP when it becomes effective. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The update permits the use of either the retrospective or cumulative effect transition method, with early application not permitted. The Company is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

2. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended August 31,		
	2014	**2013**	**2012**
Numerator:			
Net income	**$ 47,916**	$ 36,701	$ 36,085
Denominator:			
Weighted average common shares outstanding– basic	**55,164**	56,384	60,078
Effect of dilutive employee stock options and unvested restricted stock units	**1,455**	807	94
Weighted average common shares – diluted	**56,619**	57,191	60,172
Net income per common share – basic	**$ 0.87**	$ 0.65	$ 0.60
Net income per common share – diluted	**$ 0.85**	$ 0.64	$ 0.60
Anti-dilutive securities excluded[1]	**988**	3,278	6,705

[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, 2014, 2013 and 2012, the Company identified impairments for certain brand technology 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 flow periods. When impairment exists, the carrying value of the asset is written down to fair value.

In fiscal years 2014 and 2012, the Company recorded $0.1 and $0.8 million, respectively, in provisions for impairment resulting from the assessment of surplus properties. These write-downs were completed to reduce the carrying amount of these properties to fair value.

The Company's assessment in fiscal year 2013 resulted in provisions for impairment totaling $1.8 million. Of this total, $1.6 million related to the write-off of assets associated with a change in the vendor providing technology for the Sonic system's new point-of-sale technology. The remaining $0.2 million reflects reducing the carrying amount of surplus properties to fair value.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

4. Accounts and Notes Receivable

Accounts and notes receivable consist of the following:

	August 31, 2014	August 31, 2013
Current Accounts and Notes Receivable:		
Royalties and other trade receivables	**$ 18,292**	$ 16,506
Notes receivable from franchisees	**1,468**	4,003
Receivables from advertising funds	**5,597**	5,203
Other	**9,068**	4,977
Accounts and notes receivable, gross	**34,425**	30,689
Allowance for doubtful accounts and notes receivable	**(1,592)**	(1,547)
Accounts and notes receivable, net	**$ 32,833**	$ 29,142
Noncurrent Notes Receivable:		
Receivables from franchisees	$ 4,688	$ 5,003
Receivables from advertising funds	3,646	5,810
Allowance for doubtful notes receivable	(179)	(800)
Notes receivable, net	$ 8,155	$ 10,013

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. During fiscal year 2013, notes receivable from franchisees increased as a result of a franchisee's purchase of real estate discussed in note 6 – Other Operating Income and Expenses. The receivables from advertising funds represent transactions in the normal course of business.

5. Goodwill and Other Intangibles

As of August 31, 2014, the Company had $77.1 million of goodwill.

The changes in the carrying amount of goodwill were as follows:

	Year Ended August 31, 2014	Year Ended August 31, 2013
Balance at beginning of year	**$ 77,093**	$ 76,997
Goodwill acquired during the year	**–**	96
Balance at end of year	**$ 77,093**	$ 77,093

The gross carrying amount of franchise agreements, intellectual property, franchise fees and other intangibles subject to amortization was $10.3 million at August 31, 2014 and 2013 and is included in other assets in the accompanying consolidated balance sheets. Accumulated amortization related to these intangible assets was $5.0 million and $4.1 million at August 31, 2014 and 2013, respectively. Intangible assets amortization expense was $0.9 million for the fiscal years ended August 31, 2014 and 2013 and $0.8 million for fiscal year 2012. At August 31, 2014, the remaining weighted-average life of amortizable intangible assets was approximately 11 years. Estimated intangible assets amortization expense is $0.9 million annually for fiscal years 2015, 2016 and 2017 and $0.3 million for fiscal years 2018 and 2019.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

6. Other Operating Income and Expenses

During fiscal year 2013, the Company completed an assessment in advance of capital expenditures for planned technology initiatives and closed 12 lower-performing Company Drive-Ins as of August 31, 2013, resulting in a loss of $2.4 million. The loss included rent accruals for the remaining lease term, write-down of real estate and other costs associated with store closures. Additionally, in the second quarter of fiscal year 2013, a franchisee purchased land and buildings leased or subleased from the Company relating to previously refranchised drive-ins. At the time of the sale, these assets had a carrying value of $38.4 million. The Company received $29.7 million in cash at closing and received the remaining $8.7 million through the combination of a note receivable and a direct financing lease, all of which were repaid as of August 31, 2014. In conjunction with the sale and the assignment of third-party leases, the Company removed its escalating lease liability related to the sold properties, which resulted in a small gain and partially offset the drive-in closure loss described above.

7. Leases

Leasing Arrangements as a Lessor

The Company's leasing operations consist principally of leasing certain land, buildings and signs as well as subleasing certain buildings to franchise operators. The Company has one significant master lease agreement with a franchisee as a result of previously refranchised drive-ins. The land and building portions of all leases are classified as operating leases with lease terms expiring through September 2030. 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. For property owned by third parties, the lease term runs concurrently with the term of the third-party lease arrangement. Most of the leases contain renewal options at the end of the initial term for periods of five years. The sign portions of these leases are classified principally as direct financing leases and expire through November 2021. Additional direct financing leases, entered into as a result of the franchisee-exercised option discussed in note 6 – Other Operating Income and Expenses, include the assignment of capital leases expiring through March 2018.

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

	2014	2013
Minimum lease payments receivable	**$ 717**	$ 1,701
Less unearned income	**(82)**	(170)
Net investment in direct financing leases	**635**	1,531
Less amount due within one year	**(278)**	(344)
Amount due after one year	**$ 357**	$ 1,187

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, 2014, are as follows:

	Operating	**Direct Financing**
Years ended August 31:		
2015	**$ 6,976**	**$ 319**
2016	**6,891**	**174**
2017	**6,919**	**133**
2018	**6,971**	**65**
2019	**6,930**	**14**
Thereafter	**34,254**	**12**
	$ 68,941	**717**
Less unearned income		**(82)**
		$ 635

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

Leasing Arrangements as a Lessee

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.

Future minimum rental payments required under operating leases and maturities under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of August 31, 2014, are as follows:

	Operating	Capital
Years ended August 31:		
2015	**$ 11,274**	**$ 5,149**
2016	**10,631**	**5,115**
2017	**9,815**	**4,470**
2018	**9,410**	**4,161**
2019	**8,232**	**3,402**
Thereafter	**75,609**	**12,799**
Total minimum lease payments[1]	**$ 124,971**	**35,096**
Less amount representing interest averaging 6.5%		**(8,353)**
Present value of net minimum lease payments		**26,743**
Less amount due within one year		**(3,693)**
Amount due after one year		**$ 23,050**

[1] Minimum payments have not been reduced by future minimum rentals receivable under noncancelable operating and capital subleases of $10.6 million and $1.6 million, respectively. They also do not include contingent rentals which may be due under certain leases. Contingent rentals for capital leases amounted to $0.8 million in fiscal years 2014, 2013 and 2012.

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

	2014	2013	2012
Minimum rentals	**$ 12,449**	$ 13,154	$ 14,555
Contingent rentals	**161**	93	103
Total rent expense	**12,610**	13,247	14,658
Less sublease rentals	**(1,905)**	(1,747)	(2,851)
Net rent expense	**$ 10,705**	$ 11,500	$ 11,807

August 31, 2014, 2013 and 2012 (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	2014	2013
Property, equipment and capital leases:			
Land		**$ 156,336**	$ 153,868
Buildings and improvements	8 – 25 yrs	**345,309**	336,383
Drive-In equipment	5 – 7 yrs	**136,556**	114,990
Brand technology development and other equipment	2 – 5 yrs	**82,575**	76,585
Property and equipment, at cost		**720,776**	681,826
Accumulated depreciation		**(298,580)**	(301,236)
Property and equipment, net		**422,196**	380,590
Capital leases	Life of lease	**50,243**	47,371
Accumulated amortization		**(30,470)**	(28,300)
Capital leases, net		**19,773**	19,071
Property, equipment and capital leases, net		**$ 441,969**	$ 399,661

Depreciation expense for property and equipment was $37.6 million, $35.6 million and $37.2 million for fiscal years 2014, 2013 and 2012, respectively. Land, buildings and equipment with a carrying amount of $163.8 million at August 31, 2014, were leased under operating leases to franchisees and other parties. The accumulated depreciation related to these buildings and equipment was $58.2 million at August 31, 2014. Amortization expense related to capital leases is included within "Depreciation and amortization" on the Consolidated Statements of Income. As of August 31, 2014, the Company had two drive-ins under construction with costs to complete.

Interest incurred in connection with the construction of new drive-ins and technology projects is capitalized. Capitalized interest was $0.5 million, $0.7 million and $0.3 million for fiscal years 2014, 2013 and 2012, respectively.

9. Accrued Liabilities

Accrued liabilities consist of the following at August 31:

	2014	2013
Wages and employee benefit costs	**$ 14,302**	$ 14,611
Property taxes, sales and use taxes and employment taxes	**9,570**	9,219
Unredeemed gift cards	**8,577**	8,272
Dividend payable	**4,852**	–
Other	**6,380**	5,119
	$ 43,681	$ 37,221

10. Debt

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

	2014	2013
Class A-2 2013-1 senior secured fixed rate notes	**$ 155,000**	$ 155,000
Class A-2 2011-1 senior secured fixed rate notes	**282,238**	291,988
Other	**80**	306
	437,318	447,294
Less long-term debt due within one year	**(9,791)**	(9,914)
Long-term debt due after one year	**$ 427,527**	$ 437,380

At August 31, 2014, future maturities of long-term debt were $9.8 million for fiscal years 2015, 2016 and 2017, $253.0 million for fiscal year 2018 and no maturities in fiscal year 2019.

On May 20, 2011, in a private transaction, 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"), which bear 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. 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" and, together with the 2011 Fixed Rate Notes, the "2011 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. Interest on the 2011 Variable Funding Notes is based on the one-month London Interbank Offered Rate ("LIBOR") or Commercial Paper ("CP"), depending on the funding source, plus the base spread mentioned below, per annum. There is a 0.5% annual commitment fee payable monthly on the unused portion of the 2011 Variable Funding Notes facility.

In the second quarter of fiscal year 2013, the Co-Issuers made a debt prepayment, at par, of $20.0 million on the 2011 Fixed Rate Notes. In the fourth quarter of fiscal year 2013, in a private transaction the Co-Issuers refinanced and paid $155 million of the 2011 Fixed Rate Notes with the issuance of $155 million of Series 2013-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2013 Fixed Rate Notes"), which bear interest at 3.75% per annum. The 2013 Fixed Rate Notes have an expected life of seven years, interest payable monthly, no scheduled principal amortization and an anticipated repayment date in July 2020. Additionally, the Co-Issuers extended the 2011 Variable Funding Notes' renewal date by two years to May 2018 and decreased the base spread from 3.75% to 3.50% in the fourth quarter of fiscal year 2013.

At August 31, 2014, the balance outstanding under the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes, including accrued interest, was $282.6 million and $155.2 million, respectively, and there was no outstanding balance under the 2011 Variable Funding Notes. As of August 31, 2013, the balance outstanding under the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes, totaled $292.4 million and $155.2 million, respectively, including accrued interest and there was no outstanding balance under the 2011 Variable Funding Notes. The weighted-average interest cost of the 2011 Fixed Rate Notes and 2013 Fixed Rate Notes was 5.7% and 4.1%, respectively. The weighted-average interest cost includes the effect of the loan origination costs.

In fiscal year 2013, the debt prepayment and the partial debt refinancing resulted in a pro-rata write-off of loan origination costs from the 2011 Fixed Rate Notes, representing a majority of the $4.4 million loss which is reflected in "Net loss from early extinguishment of debt" on the Consolidated Statements of Income. An additional $4.1 million in debt origination costs were capitalized in conjunction with the 2013 Fixed Rate Notes. Loan costs are being amortized over each note's expected life. The amount of loan costs expected to be amortized over the next 12 months is reflected in "Other current assets" on the Consolidated Balance Sheets.

While the 2011 Notes and the 2013 Fixed Rate Notes are structured to provide for seven-year lives from their original issuance dates, they have legal final maturity dates of May 2041 and July 2043, respectively. The Company intends to repay or refinance the 2011 Notes and the 2013 Fixed Rate Notes on or before the end of their expected lives. If the Company prepays the debt prior to the anticipated repayment date the Company may be required to pay a prepayment penalty under certain circumstances. In the event the 2011 Notes and the 2013 Fixed Rate Notes are not paid in full by the end of their expected lives, they 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, 2014, assets for these combined indirect subsidiaries totaled $319.9 million, including receivables for royalties, certain Company and Franchise Drive-In real estate, intangible assets and restricted cash balances of $19.9 million. The 2011 Notes and the 2013 Fixed Rate Notes are secured by franchise fees, royalty payments and lease payments, and the repayment of the 2011 Notes and the 2013 Fixed Rate 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 the 2013 Fixed Rate 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, guarantees or is in any way liable for the obligations of the Co-Issuers under the 2011 Notes and the 2013 Fixed Rate 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 the 2013 Fixed Rate Notes and certain indemnity obligations relating to the transfer of the collateral assets to the Co-Issuers.

The 2011 Notes and the 2013 Fixed Rate 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 and the 2013 Fixed Rate 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.

11. 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 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 Company's cash equivalents are carried at cost which approximates fair value and totaled $34.4 million and $39.1 million at August 31, 2014 and 2013, respectively. This fair value is estimated using Level 1 methods.

At August 31, 2014, the fair value of the Company's 2011 Fixed Rate Notes and 2013 Fixed Rate Notes approximated the carrying value of $437.8 million, including accrued interest. At August 31, 2013, the fair value of the Company's 2011 Fixed Rate Notes and 2013 Fixed Rate Notes approximated the carrying value of $447.6 million, including accrued interest. The fair value of the 2011 Fixed Rate Notes and the 2013 Fixed Rate Notes is estimated using Level 2 inputs from market information available for public debt transactions for companies with ratings that are similar to the Company's ratings and from information gathered from brokers who trade in the Company's notes.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

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:

	2014	2013	2012
Current:			
Federal	**$ 16,580**	$ 16,741	$ 17,851
State	**3,490**	2,688	3,892
	20,070	19,429	21,743
Deferred:			
Federal	**5,328**	439	180
State	**450**	(270)	(46)
	5,778	169	134
Provision for income taxes	**$ 25,848**	$ 19,598	$ 21,877

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

	2014	2013	2012
Amount computed by applying a tax rate of 35%	**$ 25,818**	$ 19,705	$ 20,287
State income taxes (net of federal income tax benefit)	**2,562**	1,572	1,900
Employment related and other tax credits, net	**(1,537)**	(1,572)	(1,291)
Adjustment of prior year deferred tax items	**–**	–	1,559
Other	**(995)**	(107)	(578)
Provision for income taxes	**$ 25,848**	$ 19,598	$ 21,877

During fiscal year 2012, the Company conducted a reconciliation of its tax basis balance sheet and identified certain adjustments which were recorded in fiscal year 2012 to appropriately reflect the Company's current and deferred tax accounts. As a result of this reconciliation process, the Company recorded an additional income tax provision of $1.6 million for fiscal year 2012. Management of the Company evaluated the impact of this adjustment and concluded the effect of this adjustment was immaterial to the current and prior year financial statements.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

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

	2014	2013
Deferred tax assets:		
Allowance for doubtful accounts and notes receivable	**$ 677**	$ 898
Leasing transactions	3,252	3,599
Deferred income	**1,773**	4,124
Accrued liabilities	**3,399**	1,995
Stock compensation	**4,921**	8,024
Other	**688**	676
State net operating losses	**11,305**	8,703
Total deferred tax assets	**26,015**	28,019
Valuation allowance	**(11,305)**	(8,703)
Total deferred tax assets after valuation allowance	**$ 14,710**	$ 19,316
Deferred tax liabilities:		
Prepaid expenses	**$ (1,498)**	$ (1,369)
Investment in partnerships, including differences in capitalization, depreciation and direct financing leases	**(2,954)**	(2,061)
Property, equipment and capital leases	**(24,655)**	(25,433)
Intangibles and other assets	**(19,514)**	(18,337)
Debt extinguishment	**(3,353)**	(4,191)
Total deferred tax liabilities	**(51,974)**	(51,391)
Net deferred tax liabilities	**$ (37,264)**	$ (32,075)
Net deferred tax assets and liabilities are classified as follows:		
Current	**$ 347**	$ 2,840
Noncurrent	**(37,611)**	(34,915)
Total	**$ (37,264)**	$ (32,075)

State net operating loss carryforwards expire beginning in December 2014 through May 2035. 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 $11.3 million and $8.7 million as of August 31, 2014 and 2013, respectively.

As of August 31, 2014 and 2013, the Company had approximately $2.5 million and $2.6 million of unrecognized tax benefits, including approximately $0.4 million and $0.3 million of accrued interest and penalty, respectively. The liability for unrecognized tax benefits decreased $0.1 million in fiscal year 2014. The decrease was primarily related to the IRS' acceptance of a federal tax method change offset by a new uncertain position related to a federal credit. This entire change in balance impacted the Company's tax rate.

The Company recognizes estimated interest and penalties as a component of its income tax expense, net of federal benefit, as a component of "Provision for income taxes" in the Consolidated Statements of Income. During the year ended August 31, 2014, the Company recognized negligible net expenses. The Company recognized a net benefit of $0.4 million and $0.1 million, for fiscal years 2013 and 2012, respectively.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

As of August 31, 2014 and 2013, there are $2.5 million and $2.6 million, respectively, of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate. A reconciliation of unrecognized tax benefits is as follows for fiscal years ended August 31:

	2014	2013
Balance at beginning of year	**$ 2,583**	$ 5,451
Additions based on tax positions related to the current year	**255**	628
Additions for tax positions of prior years	**115**	960
Reductions for tax positions of prior years	**(492)**	(3,816)
Reductions due to statute expiration	**–**	(640)
Balance at end of year	**$ 2,461**	$ 2,583

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 an increase of $0.1 million to a decrease of $1.9 million depending on the timing and terms of the examination resolutions. At August 31, 2014, the Company was subject to income tax examinations for its U.S. federal income taxes and for state and local income taxes generally after fiscal year 2009.

At August 31, 2014 and 2013, the Company had an income tax receivable of $1.9 million and $9.8 million, respectively, primarily relating to expected refunds from amended tax returns. Based on information available at August 31, 2014, the Company anticipates receiving or being able to apply a majority of these refunds to other tax obligations during fiscal year 2015. As a result, the entire amount was classified as current during fiscal year 2014.

13. Stockholders' Equity

Employee Stock Purchase Plan

The Company has an employee stock purchase plan ("ESPP") that permits eligible employees to purchase the Company's common stock at a 15% discount from the stock's fair market value. Participating employees may purchase shares of common stock each year up to the lesser of 10% of their base compensation or $25 thousand in the stock's fair market value. At August 31, 2014, 0.8 million shares were available for grant under the ESPP.

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 Sonic's annual meeting of stockholders on January 16, 2014, the stockholders approved an amendment to the 2006 Plan which added an additional 6.6 million shares of common stock available for issuance. At August 31, 2014, 7.8 million shares were available for grant under the 2006 Plan. The Company grants stock options with contractual terms of seven to ten years and a vesting period of three years and RSUs also with a vesting period of three years. Effective in January 2013, awards granted to the Company's Board of Directors vest over one year. The Company's policy is to issue shares from treasury stock to satisfy stock option exercises, the vesting of RSUs and shares issued under the ESPP.

Total stock-based compensation cost recognized for fiscal years 2014, 2013 and 2012 was $3.7 million, $3.6 million and $4.3 million, respectively, with related income tax benefits of $1.7 million, $1.2 million and $1.2 million, respectively. At August 31, 2014, total remaining unrecognized compensation cost related to unvested stock-based arrangements was $4.9 million and is expected to be recognized over a weighted average period of 1.9 years.

The Company measures the compensation cost associated with stock option-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 2014, 2013 and 2012. 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 fair value of RSUs granted is equal to the Company's closing stock price on the date of the grant.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

The per share weighted average fair value of stock options granted during 2014, 2013 and 2012 was $6.82, $4.69 and $2.88, 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:

	2014	2013	2012
Expected term (years)	**4.7**	4.9	4.9
Expected volatility	**37%**	48%	48%
Risk-free interest rate	**1.5%**	0.8%	0.8%
Expected dividend yield	**–%**	–%	–

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 historical exercise patterns.

Stock Options

A summary of stock option activity under the Company's stock-based compensation plans for the year ended August 31, 2014, is presented in the following table:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value
Outstanding September 1, 2013	**5,562**	**$ 12.25**		
Granted	**532**	**20.48**		
Exercised	**(1,727)**	**12.76**		
Forfeited or expired	**(207)**	**19.37**		
Outstanding at August 31, 2014	**4,160**	**$ 12.73**	**3.30**	**$ 35,255**
Exercisable at August 31, 2014	**2,977**	**$ 12.12**	**2.38**	**$ 27,155**

Proceeds from the exercise of stock options for fiscal years 2014, 2013 and 2012 were $17.4 million, $16.3 million and $0.3 million, respectively. The total intrinsic value of options exercised during the years ended August 31, 2014, 2013 and 2012 was $13.0 million, $3.8 million and $0.1 million, respectively.

Restricted Stock Units

A summary of the Company's RSU activity during the year ended August 31, 2014 is presented in the following table:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding September 1, 2013	**71**	**$ 9.36**
Granted	**33**	**20.59**
Vested	**(56)**	**10.03**
Forfeited	**(2)**	**6.80**
Outstanding at August 31, 2014	**46**	**$ 16.78**

The aggregate fair value of restricted stock that vested during the years ended August 31, 2014, 2013 and 2012 was $1.1 million, $0.9 million and $0.5 million, respectively.

Stock Repurchase Programs

In October 2011, the Company's Board of Directors approved a $30 million share repurchase program. Under that program, the Company was authorized to purchase up to $30 million of its outstanding shares of common stock through August 31, 2012. During fiscal year 2012, the Company completed this share repurchase program.

In August 2012, the Company's Board of Directors approved a share repurchase program authorizing the Company to purchase up to $40 million of its outstanding shares of common stock. In January 2013, the Board of Directors increased the repurchase program to $55 million in authorized purchases through August 31, 2013. During fiscal year 2013, approximately 3.3 million shares were acquired pursuant to this program for a total cost of $35.5 million; this is in addition to the approximately 0.1 million shares that were acquired for a total cost of $1.1 million during the fourth quarter of fiscal year 2012.

In August 2013, the Board of Directors extended the share repurchase program through August 31, 2014, with a total authorization of up to $40 million of its outstanding shares of common stock. In January 2014, the Company's Board of Directors approved an incremental $40 million authorization for the program that allowed for up to $80 million of common stock to be repurchased through August 31, 2014. As part of this program, in February 2014, the Company entered into an accelerated share repurchase ("ASR") agreement with a financial institution to purchase $40 million of the Company's common stock. In exchange for a $40 million up-front payment, the financial institution delivered approximately 2.1 million shares. During March 2014, the ASR purchase period concluded with no additional shares delivered, resulting in an average price per share of $19.13. The Company reflected the ASR transaction as a repurchase of common stock for purposes of calculating earnings per share and as a forward contract indexed to its own common stock. The forward contract met all of the applicable criteria for equity classification.
The Company completed this share repurchase program during fiscal year 2014, with approximately 4.1 million shares repurchased, resulting in an average price per share of $19.61.

In August 2014, the Board of Directors further extended the Company's share repurchase program, authorizing the Company to purchase up to $105 million of its outstanding shares of common stock beginning September 1, 2014 through August 31, 2015.

Share repurchases will be made from time to time in the open market or otherwise, including through an accelerated share repurchase program, under the terms of a Rule 10b5-1 plan, in privately negotiated transactions or in round lot or block transactions. The share repurchase program may be extended, modified, suspended or discontinued at any time. We plan to fund the share repurchase program from existing cash on hand at August 31, 2014, cash flows from operations and borrowings under our 2011 Variable Funding Notes.

Dividends

The Company did not pay any cash dividends on its common stock during its two most recent fiscal years. However, in August 2014, the Board of Directors initiated a cash dividend program under which the Company will pay a regular quarterly cash dividend. The Board declared the first quarterly cash dividend of $0.09 per share of common stock to be paid to stockholders of record as of the close of business on November 12, 2014, with a payment date of November 21, 2014. The total dividend payable at August 31, 2014 was $4.9 million and is included in accrued liabilities in the consolidated balance sheet. Future declaration of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors.

14. 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 employee's contributions up to a maximum of 6% of the employee's salaries depending on years of service. The Company's contributions during fiscal years 2014, 2013 and 2012 were $1.3 million, $1.9 million and $1.7 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, 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 $6.5 million, $6.7 million and $4.9 million during fiscal years 2014, 2013 and 2012, respectively.

August 31, 2014, 2013 and 2012 (In thousands, except per share data)

15. Commitments and Contingencies

Litigation

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, operating results or financial condition.

Note Repurchase Agreement

On December 20, 2013, the Company extended a note purchase agreement to a bank that serves to guarantee the repayment of a franchisee loan, with a term through 2018, and also benefits the franchisee with a lower financing rate. In the event of default by the franchisee, the Company would purchase the franchisee loan from the bank, thereby becoming the note holder and providing an avenue of recourse with the franchisee. The Company recorded a liability for this guarantee which was based on the Company's estimate of fair value. As of August 31, 2014, the balance of the franchisee's loan was $6.2 million.

Lease Commitments

The Company has obligations under various operating lease agreements with third-party lessors related to the real estate for certain Company Drive-In operations that were sold to franchisees. Under these agreements, which expire through 2029, the Company remains secondarily liable for the lease payments for which it was responsible as the original lessee. As of August 31, 2014, the amount remaining under these guaranteed lease obligations totaled $9.3 million. At this time, the Company does not anticipate any material defaults under the foregoing leases; therefore, no liability has been provided.

Purchase Obligations

At August 31, 2014, the Company had purchase obligations of approximately $308 million which primarily related to its estimated share of system-wide commitments for food products. The Company has excluded agreements that are cancelable without penalty.

16. Selected Quarterly Financial Data (Unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Total revenues	**$ 126,652**	$ 126,008	**$ 109,741**	$ 111,141	**$ 152,187**	$ 146,634	**$ 163,769**	$ 158,802
Income from operations	**18,359**	17,203	**12,349**	12,018	**31,681**	29,994	**36,288**	30,033
Net income[1][2]	**$ 8,208**	$ 6,133	**$ 4,107**	$ 3,577	**$ 16,776**	$ 14,793	**$ 18,825**	$ 12,198
Basic income per share[3]	**$ 0.15**	$ 0.11	**$ 0.07**	$ 0.06	**$ 0.31**	$ 0.26	**$ 0.35**	$ 0.22
Diluted income per share[3]	**$ 0.14**	$ 0.11	**$ 0.07**	$ 0.06	**$ 0.30**	$ 0.26	**$ 0.34**	$ 0.21

[1] Includes a $0.5 million tax benefit resulting from the IRS' acceptance of a federal tax method change during the first quarter of fiscal year 2014.

[2] Includes losses on early extinguishment of debt of $0.5 million and $3.9 million in the second and fourth quarter of fiscal year 2013, respectively, a tax benefit of $0.7 million from the retroactive reinstatement of the Work Opportunity Tax Credit ("WOTC") and resolution of income tax matters in the second quarter of fiscal year 2013. Also includes a $2.4 million loss on the closure of 12 lower-performing Company Drive-Ins as a result of an assessment in advance of capital expenditures for pending technology initiatives and an impairment charge of $1.6 million related to the write-off of assets associated with a change in the vendor for the Sonic system's new point-of-sale technology in the fourth quarter of fiscal year 2013.

[3] The sum of per share data may not agree to annual amounts due to rounding.

Reports of Independent Registered Public Accounting Firms

The Board of Directors and Stockholders of Sonic Corp.

We have audited the accompanying consolidated balance sheet of Sonic Corp. and subsidiaries as of August 31, 2014, and the related consolidated statements of income, stockholders' equity, and cash flows for the year ended August 31, 2014. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sonic Corp. and subsidiaries at August 31, 2014, and the results of their operations and their cash flows for the year ended August 31, 2014, 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), Sonic Corp.'s internal control over financial reporting as of August 31, 2014, based on criteria established in Internal Control – Integrated Framework - 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 24, 2014, expressed an unqualified opinion on the effectiveness of Sonic Corp.'s internal control over financial reporting.

/s/ KPMG LLP

Oklahoma City, Oklahoma
October 24, 2014

The Board of Directors and Stockholders of Sonic Corp.

We have audited the accompanying consolidated balance sheet of Sonic Corp. as of August 31, 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended August 31, 2013. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with 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, 2013, and the consolidated results of its operations and its cash flows for each of the two years in the period ended August 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
October 25, 2013

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, 2014. 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 - 1992*. Based on our assessment, we believe that, as of August 31, 2014, 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 2014 financial statements included in this annual report has issued an attestation report on the Company's internal control over financial reporting. The report appears on the following page.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sonic Corp.

We have audited Sonic Corp.'s internal control over financial reporting as of August 31, 2014, based on criteria established in Internal Control – Integrated Framework - 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 Sonic Corp.'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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, 2014, based on the criteria established in Internal Control – Integrated Framework - 1992 issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sonic Corp. as of August 31, 2014, and the related consolidated statements of income, stockholders' equity, and cash flows for the year ended August 31, 2014 of Sonic Corp., and our report dated October 24, 2014, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Oklahoma City, Oklahoma
October 24, 2014

Directors and Officers

Board of Directors

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

Tony D. Bartel [2]
President
Gamestop Corporation

Lauren R. Hobart [3]
Senior Vice President
and Chief Marketing Officer
Dick's Sporting Goods

Kate S. Lavelle [2]
Former Executive Vice President
and Chief Financial Officer
Dunkin' Brands, Inc.

Michael J. Maples [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]
Senior Advisor
Vestar Capital Partners

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 [3]
Managing Director
Centennial Ventures

Kathryn L. Taylor [2]
Chief Executive Officer
Impact Tulsa

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, Chief Executive Officer
and President

Omar R. Janjua
President of Sonic Restaurants, Inc.
(the Company's restaurant-operating
subsidiary) and Chief Restaurant
Operations Officer

Stephen C. Vaughan
Executive Vice President
and Chief Financial Officer

John H. Budd III
Senior Vice President and
Chief Development and Strategy Officer

Craig J. Miller
Senior Vice President
and Chief Information Officer

James P. O'Reilly
Senior Vice President
and Chief Brand Officer

Todd W. Smith
Vice President
and Chief Marketing Officer

Paige S. Bass
Senior Vice President
and General Counsel

Andrew G. Ritger, Jr.
Senior Vice President
of Franchise Services

E. Edward Saroch
Senior Vice President
of Franchise Relations

Anita K. Vanderveer
Senior Vice President of People

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

Larry G. Archibald
Vice President of Brand Technology

Tanishia M. Beacham
Vice President of Field Marketing

Michelle E. Britten
Vice President and Controller

R. Douglas Cook
Vice President of Enterprise Architecture
and Integration

Carolyn C. Cummins
Vice President of Compliance
and Corporate Secretary

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

John Doyle
Vice President of Retail
Systems Management

Robert P. Franke
Senior Vice President of Franchise Sales
and International Development

Michael J. Gallagher
Vice President of Development
and Franchising

Rochelle L. Guinn
Vice President of Human Resources
Compliance and Technology

Ralph Heim
Vice President of Media
and Integrated Marketing

M. Anne Hughes
Vice President of Internal Audit

Bobby Jones
Vice President of POS Implementation

William I. Klearman
Vice President of Retail Technology

Claes P. Petersson
Vice President of Product
and Packaging Innovation

Diane L. Prem
Vice President of Operations Services

Stephen P. Reed
Vice President of Logistics

Jean-Pierre Salama
Vice President of Training

C. Nelson Taylor
Vice President of Technical Services

Michele Varian
Vice President of Purchasing

Christina Vaughan
Vice President of Market Strategies

Barbara A. Williams
Vice President of Performance Analysis

Charles B. Woods
Vice President of Tax

Stephen R. Young
Vice President of POS Implementation

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web.queries@computershare.com
www.computershare.com/investor

Independent Registered Public Accounting Firm
KPMG LLP
Oklahoma City, Oklahoma

Annual Meeting
Our 2015 Annual Meeting of Shareholders will be held at 1:30 p.m. Central Standard Time on January 29, 2015, at our corporate offices, 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, 2014, as filed with the Securities and Exchange Commission ("SEC"), 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 "About/Corporate/Investors/Financial Information/SEC Filings."

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 thereof. 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 December 1, 2014, we had approximately 18,000 shareholders, including beneficial owners holding shares in nominee or "street" name.

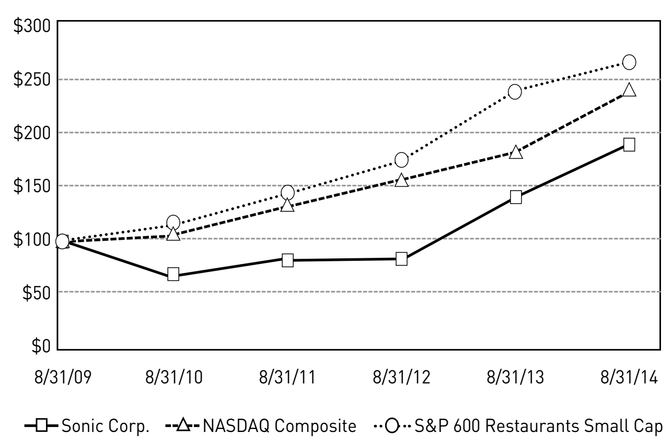
The table below sets forth our high and low sales prices for the Company's common stock during each fiscal quarter within the two most recent fiscal years.

Fiscal Year Ended August 31, 2014	High	Low
First Quarter	$ 20.28	$ 15.64
Second Quarter	$ 21.48	$ 16.92
Third Quarter	$ 23.56	$ 18.61
Fourth Quarter	$ 23.74	$ 20.25

Fiscal Year Ended August 31, 2013	High	Low
First Quarter	$ 10.83	$ 9.06
Second Quarter	$ 11.60	$ 9.62
Third Quarter	$ 13.59	$ 11.08
Fourth Quarter	$ 16.99	$ 13.16

During the fourth quarter of 2014, the Company initiated a cash dividend program. The first quarterly dividend under this program, of $0.09 per common share, was paid during the first quarter of fiscal year 2015 on November 21, 2014, to shareholders of record as of November 12, 2014. Future payments of dividends will be considered by the Company's Board of Directors after reviewing, among other factors, returns to shareholders, profitability expectations and financing needs.

Comparison of Five-Year Cumulative Total Return
The graph below compares the cumulative five-year total return of holders of Sonic Corp.'s common stock with the cumulative total returns of the NASDAQ Composite index and the S&P 600 Restaurants Small Cap index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 8/31/2009 to 8/31/2014.



America's Drive-In
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