2017 Annual Report to Shareholders

An appetite for more

Throughout its nearly 65-year history, Sonic has developed a reputation within the Quick-Service Restaurant (QSR) sector for innovation. Increasingly, this innovation has focused on technology, building on Sonic's art for running a drive-in with the science that makes its service faster, more accurate and more efficient — all geared to steadily enhance customer satisfaction. The next phase of the company's innovation is now on the horizon: leading-edge modifications to our mobile app that will speed order processing as never before, with capabilities that let customers order from anywhere, pay remotely and remain First in Line, Every Time[sm]. The real benefit of this approach to mobile ordering, however, is knowing when a customer is nearing a drive-in, so our food is always freshly prepared and ready for Carhop delivery on arrival. It's one more way Sonic is working to take the queue out of QSR.

About Sonic

Founded in 1953 in Shawnee, Oklahoma, Sonic today franchises and operates the largest chain of drive-in restaurants in the country, with almost 3,600 Sonic Drive-Ins from coast to coast. Customers also enjoy drive-thru service and patio dining at many Sonic locations.

Sonic's signature food items include specialty drinks (such as cherry limeades and slushes), ice cream desserts, made-to-order cheeseburgers, chicken entrees ranging from sandwiches to boneless wings, a variety of hot dogs including six-inch premium beef hot dogs and footlong quarter-pound coneys, hand-made onion rings and tots. Sonic Drive-Ins also offer breakfast items that include a variety of breakfast burritos and serve the full menu all day.

"We're taking the queue out of QSR."

Clifford Hudson
Chairman, Chief Executive Officer and President

To Our Shareholders

66

New drive-ins opened last year – the strongest pace in seven years

$800

Franchisee capital (in millions) invested over the last four years

550

Drive-in commitments in the pipeline

Throughout this past year, Sonic continued to make significant strides in many areas, with far-reaching initiatives that will enhance the way we engage with customers – and improve the way we operate – for years to come.

In looking back on the year, however, we also continued to experience an uncertain consumer environment and a slide in sales that began in calendar 2016, reflecting a number of issues, including heightened competitive and value-pricing options across the QSR landscape, as well as declining traffic that reflected an ongoing favorable tilt in the relative cost of meals prepared and available at grocery and convenience stores versus traditional dining out at restaurants. Also, in late August, Hurricane Harvey swept across Houston and other Texas cities, impacting our sales in these key markets. I am proud of the way our team responded to both the opportunities and adversities we faced last year and am grateful that our operators rebounded strongly from the storms with no lasting effects.

Our new store development pipeline continues to be a strong indicator of brand health, and 2017 provided the second-highest number of new commitments following the Great Recession. New development agreements in Washington, D.C., New York City, the Ohio River Valley, Alabama, Virginia and Washington, as well as additional development by franchisees in Denver, Houston and San Antonio bode well for future growth of the brand nationwide. With commitments for more than 550 drive-ins, it came as no surprise to us to see new drive-in openings ramp up to 66 this past year – the highest level in seven years. Combined with heightened interest in rebuilds and relocations totaling 69 during 2017, this development activity is a positive signal for Sonic's future growth and underscores our franchisees' enthusiasm for the brand.

You may recall that last year we told you of our plan to increase our franchised drive-in base, a move intended to improve our capital efficiency and allow our franchisees to optimize performance of the refranchised drive-ins while simultaneously committing to additional drive-in development in refranchised markets. I am pleased to note that we completed that initiative ahead of schedule in March 2017. As a result, franchised drive-ins represented almost 94% of the chain at year's end. Drive-ins were purchased by both existing and new franchisees in markets across the country and in all cases included development agreements to continue to grow the brand.

The increasing relevance and importance of emerging technology in our business have been our focus for some time. During the past year, our Point of Personalized Service (POPS) digital menu boards – now in the final year of a four-year rollout and currently installed at nearly 90% of our drive-ins – give customers complete control over the pace of the order process and provide menu suggestions based on typical favorites and complementary add-on selections. POPS is the cornerstone of our Integrated Customer Engagement (ICE) strategy, which transforms the ways we communicate with customers and will deliver unparalleled personalization, including complete integration with current and planned features of our newly redesigned mobile app that was launched in 2017. The pursuit of these technology initiatives, together with spending for new drive-ins, relocations and rebuilds, comprises a capital investment by our franchisees of more than $800 million over the past four years.

In January 2017, we welcomed Steven A. Davis, former chairman and chief executive officer of Bob Evans Farms, Inc., to our board of directors. Steve brings 30 years of restaurant and retail experience to the board, having also served in a variety of executive and management positions with YUM! Brands and Kraft General Foods. His knowledge of the restaurant industry and with brand management brings a valuable perspective to our board.

Also in January, Christina Vaughan assumed the position of president of Sonic Restaurants, Inc. (SRI), the company's restaurant-operating subsidiary. With a career at Sonic spanning more than 15 years, Christina has worked in field marketing and operations, and led the implementation of the company's 20/20 Drive-In initiative – our system conversion to our new point-of-sale and proprietary POPS technology. Most recently, she was responsible for overseeing franchisee relationships in our central region. With extensive and critical experience in working with our franchisees for so many years, Christina is immensely suited to take the reins of our company-owned operations.

3,593
Locations Coast-to-Coast

Later in August, we were pleased to announce the appointment of Jose Dueñas as executive vice president and chief brand officer, a position responsible for the end-to-end customer experience including marketing, digital strategy, consumer insights, guest relations, concept development and overall evolution of the Sonic brand for the long-term, as well as our ICE initiative. Jose joins Sonic with more than 20 years of marketing and brand senior leadership in the restaurant and consumer packaged goods industries, most recently leading same-store sales growth and profitability improvement for Olive Garden, where he served as executive vice president and chief marketing officer.

Jose's appointment aligns nicely with the recent promotion of Lori Abou Habib as chief marketing officer. Lori, a 10-year veteran of Sonic, is responsible for leading brand strategy, culinary innovation, brand management, creative, media and marketing technology. I am delighted to welcome Jose to Sonic and congratulate Lori on her rising responsibilities with the company. I know they both will provide the solid leadership needed to support the continued growth of our brand.

94%
Franchised Drive-Ins

Despite recent headwinds, Sonic continues to generate significant free cash flow, which came in at $57 million last year. We have continued to use our free cash to support the growth of our brand as well as to return capital to our shareholders. In fiscal 2017, we paid more than $24 million in cash dividends to shareholders and repurchased more than 6.7 million shares of common stock, or 13% of shares outstanding, valued at $173 million. Together, these dividends and share repurchases were up 16% for the year compared with $170 million last year. As good as that sounds to our shareholders, next year is shaping up even better, with cash dividends per share set to increase 14% and a new authorization for the repurchase of up to $160 million of common stock through the end of fiscal 2018.

Looking ahead, as we always do, we anticipate near-term turbulence from industry trends, but Sonic is not a near-term player. Approaching age 65, the Sonic brand is built for the long term: thriving, evolving and improving, despite momentary pauses like we have seen in fiscal 2017. Considering the pipeline for new drive-in development, our distinctive brand position in the QSR space, and the consumer relevance of our menu choices across all dayparts – with complete order customization always possible and at the heart of our business – Sonic is ideally positioned for continued growth. And with the implementation of our new technology initiatives, including our upcoming and expanded mobile app, which links us to our customers in ways like never before, we continue to take the queue out of QSR.

Sincerely,

Clifford Hudson
Chairman, Chief Executive Officer and President

First in Line, Every Time

Ordering made easy...

We remember your favorites.

With our enhanced app, which captures ordering histories and past customizations, guests will be able to opt for "the usual" with one touch each time they return, or easily delve into new possibilities. Besides making things easier, the app reminds customers about additional items they might like to spice up their order.

Mobile ordering– Sonic good and Sonic fast

...for life on the go.

In 1953, Sonic started at the forefront of "delivery" technology, offering great food and quick service in a way that was tailor-made for America's burgeoning car culture. We've never looked back. Like no one else, we enable our guests to be First in Line, Every Time.

As fiscal 2017 ended, we neared the rollout of new features to the Sonic app that will take convenience and service – and always being first in line – to a whole new level. With this technology, which tightly integrates with our Point of Personal Service (POPS) digital menu boards, customers not only can view our menu remotely and decide what they want, they can place an order from anywhere and pay remotely. And their food will be hot and ready on arrival.

Our updated app will ensure improved accuracy of customers' orders, and makes the entire process faster, distilling the order time down to that required for cooking. Mobile ordering made easy is a recipe for increased customer satisfaction, and that makes for more repeat business and provides a solid foundation for higher sales.

We tested these new features this fall, with plans for a comprehensive, nationwide rollout in 2018. The launch will mark yet another advance that plays to one of the core strengths of the Sonic brand: using technology in ways that make everything more convenient for our guests. That strength has long made Sonic a go-to place for Americans who live on the go.

Full Menu
All Day

First in Line, Every Time

Even on a screen, you can almost taste it.

Sonic's chicken sales remain strong. Led by our Ultimate Chicken Sandwich, Sonic offers 23 grilled and crispy chicken selections.

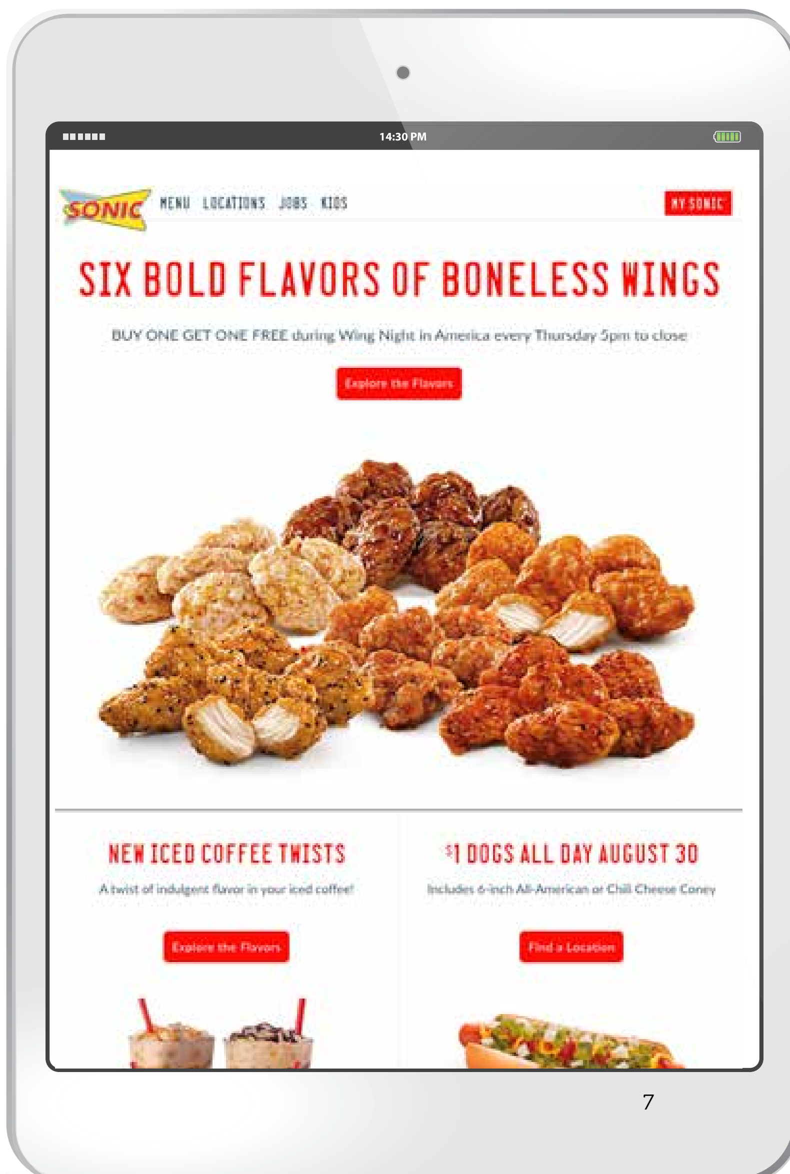
Technology and convenience are key advantages in the quick-service restaurant field. But we've always known that what drives people to Sonic – what turns first-time guests into brand loyalists – is our food.

So, even as we're continually moving forward in every other way, we proudly stand our ground when it comes to the consistent great taste and quality of the items we serve, from premium beef hot dogs to our all-white meat chicken and Real Ice Cream and treats.

Along with exceptional quality, we also stand by the characteristics that have long made Sonic distinct (and distinctively appealing) like giving customers the ability – unmatched by any of our competitors – to order anything they wish from our diverse menu, at any time, all day long. Or the choice to customize their orders completely. A cheeseburger with jalapeños? For breakfast? No worries. It's all good.

It's a winning formula that our customers never seem to tire of – and that keeps them coming back for more. Notably, our chicken sales remained very strong last year, as did the demand for ice cream-related desserts and treats. Additionally, Sonic's vast options for customized drink combinations, which now top 1.3 million possibilities, continue to earn it acclaim as the Ultimate Drink Stop®. The soon-to-be-expanded capabilities of our app, which will enhance our ability to recognize our customers' favorites and engage with them, will provide increased data to better understand their cravings and help drive even stronger results.

Hungry guests know that, when they choose Sonic, there need never be disagreements in the car. There's something on the menu for everybody, prepared any way they like it, enabling them to select their favorites or explore new tastes. However they go, they know it's going to be great.



Select your favorites or explore new tastes. Sonic's origin is steeped in great-tasting classic food. But it doesn't stop there, the state-of-the-art Sonic test kitchen continues to unveil new tasty treats like the Frozen Limeade. Sweet.

First in Line, Every Time

It's like a Carhop in the carpool.

When you pull in, we'll rush your order right out.

More ways to get your food fast

Sonic is busily redefining what it means to be first in line – so much so that our curbside service can start well before customers ever reach our curb.

When mobile ordering goes live, the "line" at Sonic will be dramatically streamlined. Customers can order and pay from anywhere using a smartphone. Then, as they drive toward the restaurant, geo-fence location technology informs us when to begin preparing their order. That way, actual food preparation begins only when the customer is nearby. In the final step, the customer identifies which stall they pull into, so a smiling, skating Carhop can bring their order right to them.

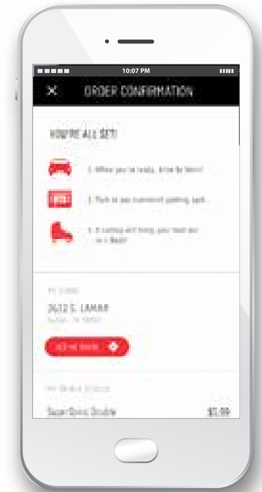
And that creates wins for all involved. Customers enjoy more ways to select and receive their food, and it's ready when they're ready to enjoy it, giving them even more reasons to come to Sonic. Minimizing wait time means our drive-ins enjoy opportunities to serve more customers more quickly and increase sales in existing building footprints.

Geo-fence location technology will recognize when you are nearby and that it's time to prepare your order.

Sonic has always been known for its unique delivery system, from the slanted drive-in stalls to our iconic Carhops. It's part of the classic drive-in experience that continues to set Sonic apart as one of the most distinctive concepts in QSR. True to our history, we continue to advance our service model, making it quicker and more convenient than ever by taking the queue out of QSR.

Sonic's store count reached an all-time high at 3,593 this past year. The pipeline for new locations remains strong and new franchisees are developing Denver, Houston and San Antonio to name a few.

Store locations at an all-time HIGH



First in Line, Every Time

Customers can find great food fast.

And franchisees find opportunities.

Our efforts to build on new infrastructure for the mobile app we launched in 2017 – the next evolutionary step in our Integrated Customer Experience (ICE) – isn't just a big advantage for customers. It also offers appetizing opportunities for Sonic franchisees.

The app enables customers to find drive-ins easily, wherever they are. And thanks to our national (and cost-efficient) approach to advertising via cable TV and social media, even when we open locations in markets that are new to us, audiences already are sold on Sonic and captivated by its brand appeal.

In helping customers find great food fast (and be first in line even before they arrive), our app makes our brand even more attractive to franchisees. It also will enable Sonic to learn more than ever before about customers' preferences and ordering history – information that can help increase sales and loyalty. This insight, in turn, will provide important advantages in the marketplace and help our franchisees, who operate nearly 95% of our drive-ins, strengthen relationships with their Sonic fans and gain new customers. Not surprisingly, these results increase our franchisees' desire for more.

Last year, we reached an all-time high in the number of drive-ins in operation, with 3,593 locations open in 45 states, creating a three-year trend of net unit growth. Our development pipeline, which has been growing since 2012, remains very strong at more than 550 drive-ins. Positioning for future growth, the number of drive-in relocations also increased last year as did rebuilds and conversions. Such numbers suggest that franchisees aren't just investing in a concept; they're reinvesting in a proven winner.

During fiscal 2017, we welcomed new franchisees in several important markets, including Denver, Houston and San Antonio. Importantly, the quality, skill level and experience of the new franchisees we are attracting continue to increase. Just as we offer exceptional flexibility to customers, we have developed versatile drive-in footprint options to meet the varied needs of our franchisees – a major advantage in many areas where real estate is at a premium and smaller markets where more compact drive-ins can enhance profitability.

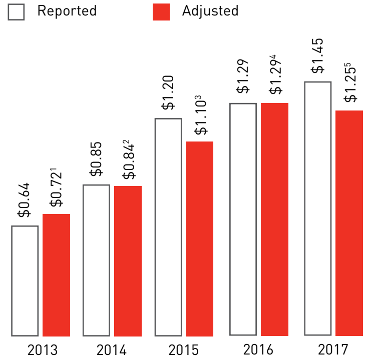
It's not difficult to understand, then, why franchisees are drawn to Sonic. As with our customers, we give them what they're hungry for: a brand that's highly appealing across different geographies and economic cycles, strong unit profitability and a healthy return on investment. They have a continuing appetite for more. So do we.

With 47 drive-ins across major markets in Texas, including six acquired in Sonic's last round of refranchising, Cody is still growing his portfolio and definitely has an appetite for more. In his view, engaging with and remaining relevant to Sonic's tech-savvy and increasingly mobile customers in the 21st century is critical to building his company and further enhancing the complete brand experience.

Cody Barnett
CEO, The Barnett Group
Oklahoma City, Oklahoma
Second Generation Franchisee

A quick view at SONIC in 2017

Net Income Per Diluted Share



[1] 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.

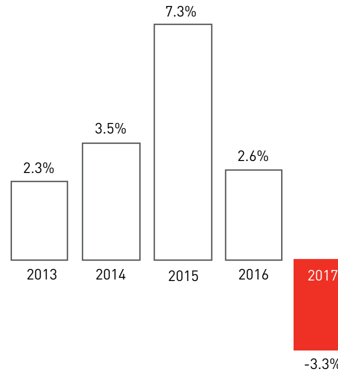
[2] Excludes $0.01, reflecting a tax benefit from the acceptance by the IRS of a federal tax method change.

[3] Excludes $0.10, net, reflecting various changes in tax matters, including a benefit of prior-year statutory tax deduction and a change in the deferred tax valuation allowance.

[4] A number of reductions in Reported GAAP net income per diluted share totaling $0.19 per diluted share, including a release of income tax credits, the tax impact on debt extinguishment and gains on sales of Company drive-ins and real estate, were exactly offset by additions totaling $0.19 per diluted share, including a loss from early extinguishment of debt.

[5] Excludes $0.20, net, reflecting net gain on refranchising transactions and related other items, offset by certain tax impacts associated with those transactions as well as restructuring charges.

System Same-store Sales

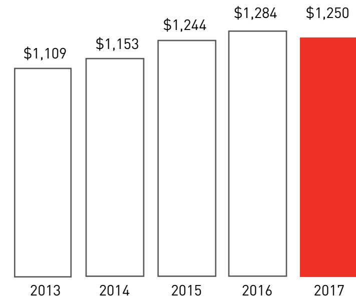


2017 Business Mix

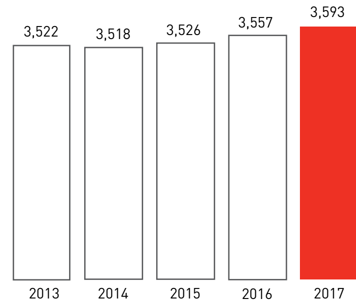
94/6%

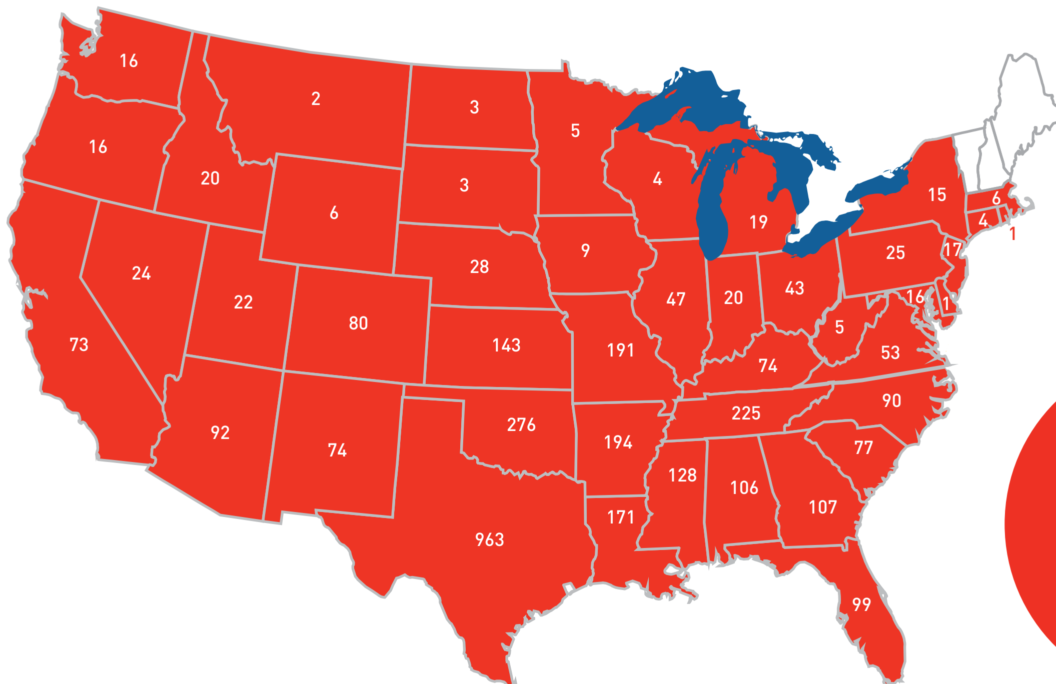
Franchise/Company Drive-Ins

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



System Drive-Ins





3,593

Locations Coast-to-Coast

Selected Financial Data

The following table sets forth selected financial data regarding the financial condition and operating results of Sonic Corp. and subsidiaries (the "Company"). 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.

	Fiscal Year Ended August 31,				
(In thousands, except per share data)	**2017**	**2016**	**2015**	**2014**	**2013**
Income Statement Data:					
Company Drive-In sales	**$ 296,101**	$ 425,795	$ 436,031	$ 405,363	$ 402,296
Franchise Drive-Ins:					
Franchise royalties and fees	**170,527**	170,319	161,342	138,416	130,737
Lease revenue	**7,436**	7,459	5,583	4,291	4,785
Other	**3,203**	2,747	3,133	4,279	4,767
Total revenues	**477,267**	606,320	606,089	552,349	542,585
Cost of Company Drive-In sales	**249,911**	356,820	363,938	342,109	343,209
Selling, general and administrative	**78,687**	82,089	79,336	69,415	66,022
Depreciation and amortization	**39,248**	44,418	45,892	42,210	40,387
Provision for impairment of long-lived assets	**1,140**	232	1,440	114	1,776
Other operating (income) expense, net	**(14,994)**	(4,691)	(945)	(176)	1,943
Total expenses	**353,992**	478,868	489,661	453,672	453,337
Income from operations	**123,275**	127,452	116,428	98,677	89,248
Interest expense, net [1]	**27,808**	34,948	24,706	24,913	32,949
Income before income taxes	**95,467**	92,504	91,722	73,764	56,299
Net income	**$ 63,663**	$ 64,067	$ 64,485	$ 47,916	$ 36,701
Income per share:					
Basic	**$ 1.47**	$ 1.32	$ 1.23	$ 0.87	$ 0.65
Diluted	**$ 1.45**	$ 1.29	$ 1.20	$ 0.85	$ 0.64
Weighted average shares used in calculation:					
Basic	**43,306**	48,703	52,572	55,164	56,384
Diluted	**44,043**	49,669	53,953	56,619	57,191
Cash dividends declared per common share [2]	**$ 0.56**	$ 0.44	$ 0.27	$ 0.09	$ –
Balance Sheet Data:					
Working capital	**$ 30,568**	$ 62,994	$ (2,383)	$ 16,201	$ 67,792
Property, equipment and capital leases, net	**312,380**	392,380	421,406	441,969	399,661
Total assets	**561,744**	648,661	620,024	650,972	660,794
Obligations under capital leases (including current portion)	**19,631**	21,064	24,440	26,743	26,864
Long-term debt (including current portion)	**637,521**	578,938	438,028	437,318	447,294
Stockholders' equity (deficit)	**(201,758)**	(75,643)	17,433	62,675	77,464

[1] Includes net loss from early extinguishment of debt of $8.8 million and $4.4 million for fiscal years 2016 and 2013, respectively.

[2] The first quarter dividend for fiscal year 2015 was declared in the fourth quarter of fiscal year 2014.

Overview

Description of the Business. Sonic operates and franchises the largest chain of drive-in restaurants in the United States. As of August 31, 2017, the Sonic system was comprised of 3,593 drive-ins, of which 6% were Company Drive-Ins and 94% were Franchise Drive-Ins. Sonic's signature food items include specialty drinks (such as cherry limeades and slushes), ice cream desserts, made-to-order cheeseburgers, chicken entrees ranging from sandwiches to boneless wings, a variety of hot dogs including six-inch premium beef hot dogs and footlong quarter pound coneys, hand-made onion rings and tater tots. Sonic Drive-Ins also offer breakfast items that include a variety of breakfast burritos and serve the full menu all day. Our Company Drive-In revenues and cost of sales, as well as franchise royalties and fees, are directly affected by the number and sales volume of drive-ins and new drive-in openings.

Overview of Business Performance. System same-store sales decreased 3.3% during fiscal year 2017 as compared to an increase of 2.6% for fiscal year 2016. Same-store sales at Company Drive-Ins decreased by 4.7% during fiscal year 2017 as compared to an increase of 1.7% for fiscal year 2016. The same-store sales decreases reflect a decline in traffic, driven by sluggish consumer spending in the restaurant industry and aggressive competitive activity. We continue to execute on our long-term strategies, including new technology, people initiatives, product innovation, personalized service, targeted value promotions and our fully integrated media strategy. All of these initiatives fuel Sonic's growth strategy, which incorporates same-store sales growth, new drive-in development and deployment of cash. Same-store sales growth is the most important layer and drives operating leverage and increased operating cash flows.

Revenues decreased to $477.3 million for fiscal year 2017 from $606.3 million for fiscal year 2016, which was primarily due to a decrease in Company Drive-In sales of $129.7 million. The decrease in Company Drive-In sales was primarily a result of refranchising 110 Company Drive-Ins. To a lesser extent, the decline in revenues is also attributed to decreased same-store sales. Restaurant margins at Company Drive-Ins were unfavorable by 60 basis points during fiscal year 2017, reflecting the de-leveraging impact of declining same-store sales and rising labor costs, partially offset by moderate commodity cost improvement and the impact of refranchising underperforming drive-ins.

Net income and diluted earnings per share for fiscal year 2017 were $63.7 million and $1.45, respectively, as compared to net income of $64.1 million or $1.29 per diluted share for fiscal year 2016.

In June 2016, the Company announced plans to refranchise Company Drive-Ins as part of a refranchising initiative to move toward an approximately 95%-franchised system. During fiscal year 2016, the Company refranchised the operations of 38 Company Drive-Ins. Of the Company Drive-Ins refranchised in fiscal year 2016, 29 were completed as part of the refranchising initiative announced in June 2016. The Company retained a non-controlling minority investment in the franchise operations of 25 of these refranchised drive-ins.

During fiscal year 2017, the Company completed transactions to refranchise the operations of 110 Company Drive-Ins and retained a non-controlling minority investment in 106 of these refranchised drive-ins. The Company completed the refranchising initiative in the second quarter of fiscal year 2017. All subsequent sales of Company Drive-Ins are considered normal course of business.

Income from minority investments is included in other revenue on the consolidated statements of income. The gains and losses below associated with refranchised drive-ins are recorded in other operating income, net, on the consolidated statement of income. The following is a summary of the pretax activity recorded as a result of the refranchising initiative (in thousands, except number of refranchised Company Drive-Ins):

($ in thousands)	Fiscal Year Ended August 31, 2017	2016
Number of refranchised Company Drive-Ins	**110**	29
Proceeds from sales of Company Drive-Ins	**$ 20,036**	$ 3,568
Proceeds from sale of real estate [1]	**11,726**	–
Real estate assets sold [1]	**(12,095)**	(2,402)
Assets sold, net of retained minority investment [2]	**(7,891)**	–
Initial and subsequent lease payments for real estate option [1]	**(3,178)**	–
Goodwill related to sales of Company Drive-Ins	**(966)**	(194)
Deferred gain for real estate option [3]	**(809)**	–
Loss on assets held for sale	**(65)**	–
Refranchising initiative gains, net	**$ 6,758**	$ 972

[1] During the first quarter of fiscal year 2017, as part of a 53 drive-in refranchising transaction, the Company entered into a direct financing lease which included an option for the franchisee to purchase the real estate within the next 24 months. In accordance with lease accounting requirements, because the exercise of this option could occur at any time within 24 months, the portion of

the proceeds from the refranchising attributable to the fair value of the option was applied as the initial minimum lease payment for the real estate. The franchisee exercised the option in the last six months of the fiscal year. Until the option was fully exercised, the franchisee made monthly lease payments which are included in other operating income, net of sub-lease expense.

[2] Net assets sold consisted primarily of equipment.

[3] The deferred gain of $0.8 million is recorded in other non-current liabilities as a result of a real estate purchase option extended to the franchisee in the second quarter of fiscal year 2017. The deferred gain will continue to be amortized into income through January 2020 when the option becomes exercisable.

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 change in sales and average unit volume. System 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 Performance Fiscal Year Ended August 31,		
($ in thousands)	**2017**	**2016**	**2015**
Increase (decrease) in total sales	**(2.4)%**	3.5%	8.3%
System drive-ins in operation[1]:			
Total at beginning of year	**3,557**	3,526	3,518
Opened	**66**	53	41
Closed (net of re-openings)	**(30)**	(22)	(33)
Total at end of year	**3,593**	3,557	3,526
Average sales per drive-in	**$ 1,250**	$ 1,284	$ 1,244
Change in same-store sales[2]	**(3.3)%**	2.6%	7.3%

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

[2] Represents percentage change for drive-ins open for a minimum of 15 months.

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.

	Revenues Fiscal Year Ended August 31,			Percent
($ in thousands)	**2017**	**2016**	**Increase (Decrease)**	**Increase (Decrease)**
Company Drive-In sales	**$ 296,101**	$ 425,795	$ (129,694)	(30.5)%
Franchise Drive-Ins:				
Franchise royalties	**169,344**	168,691	653	0.4 %
Franchise fees	**1,183**	1,628	(445)	(27.3)%
Lease revenue	**7,436**	7,459	(23)	(0.3)%
Other	**3,203**	2,747	456	16.6 %
Total revenues	**$ 477,267**	$ 606,320	$ (129,053)	(21.3)%

	Revenues Fiscal Year Ended August 31,			Percent
($ in thousands)	**2016**	**2015**	**Increase (Decrease)**	**Increase (Decrease)**
Company Drive-In sales	$ 425,795	$ 436,031	$ (10,236)	(2.3)%
Franchise Drive-Ins:				
Franchise royalties	168,691	158,813	9,878	6.2 %
Franchise fees	1,628	2,529	(901)	(35.6)%
Lease revenue	7,459	5,583	1,876	33.6 %
Other	2,747	3,133	(386)	(12.3)%
Total revenues	$ 606,320	$ 606,089	$ 231	0.0 %

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

	Company Drive-In Sales Fiscal Year Ended August 31,		
($ in thousands)	**2017**	**2016**	**2015**
Company Drive-In sales	**$ 296,101**	$ 425,795	$ 436,031
Percentage increase (decrease)	**(30.5)%**	(2.3)%	7.6%
Company Drive-Ins in operation[1]:			
Total at beginning of year	**345**	387	391
Opened	**3**	1	3
Sold to franchisees	**(117)**	(38)	(6)
Closed (net of re-openings)	**(3)**	(5)	(1)
Total at end of year	**228**	345	387
Average sales per Company Drive-In	**$ 1,134**	$ 1,142	$ 1,116
Change in same-store sales[2]	**(4.7)%**	1.7%	6.9%

[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 decreased 4.7% for fiscal year 2017 and increased 1.7% for fiscal year 2016. The decrease in fiscal year 2017 reflects a decrease in traffic due to sluggish consumer spending in the restaurant industry and aggressive competitive activity. Company Drive-In sales decreased $129.7 million, or 30.5%, during fiscal year 2017 compared to fiscal year 2016. The change was driven by a $113.8 million decrease related to drive-ins that were refranchised during the fiscal year and a decrease of $14.3 million in same-store sales.

For fiscal year 2016, Company Drive-In sales decreased $10.2 million, or 2.3%, as compared to 2015. The change was driven by a $17.3 million decrease related to drive-ins that were refranchised during the fiscal year, partially offset by an increase of $7.3 million in same-store sales.

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 Fiscal Year Ended August 31,		
($ in thousands)	**2017**	**2016**	**2015**
Franchise Drive-In sales	**$ 4,112,062**	$ 4,092,303	$ 3,931,365
Percentage increase	**0.5%**	4.1%	8.4%
Franchise Drive-Ins in operation[1]:			
Total at beginning of year	**3,212**	3,139	3,127
Opened	**63**	52	38
Acquired from the Company	**117**	38	6
Closed (net of re-openings)	**(27)**	(17)	(32)
Total at end of year	**3,365**	3,212	3,139
Average sales per Franchise Drive-In	**$ 1,260**	$ 1,301	$ 1,261
Change in same-store sales[2]	**(3.2)%**	2.7%	7.3%
Franchising revenues[3]	**$ 177,963**	$ 177,778	$ 166,925
Percentage increase	**0.1%**	6.5%	17.0%
Effective royalty rate[4]	**4.12%**	4.12%	4.04%

[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 in the Critical Accounting Policies and Estimates section.
[4] Represents franchise royalties as a percentage of Franchise Drive-In sales.

Same-store sales for Franchise Drive-Ins decreased 3.2% for fiscal year 2017 and increased 2.7% for fiscal year 2016. The current fiscal year reflects a decrease in traffic due to sluggish consumer spending in the restaurant industry and aggressive competitive activity. Franchising revenues increased $0.2 million, or 0.1%, for fiscal year 2017 compared to fiscal year 2016, reflecting an increase in royalties related to franchisee acquisitions of Company Drive-Ins, as well as net new unit growth, offset by the decline in royalties related to same-store sales. These factors also impacted the effective royalty rate compared to fiscal year 2016. Lease revenues were flat compared to the prior year.

Franchising revenues increased $10.9 million, or 6.5%, for fiscal year 2016 compared to fiscal year 2015, reflecting an increase in royalties related to positive same-store sales at Franchise Drive-Ins as well as net new unit growth and franchisee acquisitions of Company Drive-Ins. These factors also impacted the increase in the effective royalty rate compared to fiscal year 2015. Lease revenues increased compared to the prior year due to an increase in same-store sales and the addition of new leases.

Other revenues increased $0.5 million to $3.2 million in fiscal year 2017 and decreased $0.4 million to $2.7 million in fiscal year 2016 as compared to the prior year. The increase in fiscal year 2017 was primarily due to increased minority income, driven by new investments in franchise operations related to refranchised Company Drive-Ins, partially offset by the sale of certain minority investments that occurred in the first quarter of fiscal year 2017. The decrease in 2016 was primarily due to a decrease in minority income from investments in franchise operations.

Operating Expenses. The following table presents the overall costs of drive-in operations as a percentage of Company Drive-In sales. Other operating expenses include direct operating costs such as marketing, telephone and utilities, repair and maintenance, rent, property tax and other controllable expenses.

	Company Drive-In Margins Fiscal Year Ended August 31,		Percentage Points Increase (Decrease)
	2017	**2016**	
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	**27.3%**	27.7%	(0.4)%
Payroll and other employee benefits	**36.3%**	35.3%	1.0 %
Other operating expenses	**20.8%**	20.8%	0.0 %
Cost of Company Drive-In sales	**84.4%**	83.8%	0.6 %

	Company Drive-In Margins Fiscal Year Ended August 31,		Percentage Points Increase (Decrease)
	2016	**2015**	
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	27.7%	27.9%	(0.2)%
Payroll and other employee benefits	35.3%	34.8%	0.5 %
Other operating expenses	20.8%	20.8%	0.0 %
Cost of Company Drive-In sales	83.8%	83.5%	0.3 %

Drive-in level margins were unfavorable by 60 basis points during fiscal year 2017. Food and packaging costs were favorable by 40 basis points, which reflected a favorable commodity cost environment. Payroll and other employee benefits were unfavorable by 100 basis points reflecting the de-leveraging impact of same-store sales and rising labor costs, partially offset by lower variable compensation. Other operating expenses were flat as a result of the de-leveraging impact of same-store sales, offset by the benefit of refranchising lower-margin Company Drive-Ins.

Drive-in level margins were unfavorable by 30 basis points during fiscal year 2016. Food and packaging costs were favorable by 20 basis points, which reflected favorable commodity costs offset by the impact of vendor contributions that were previously credited against food and paper costs for Company Drive-Ins but that are now being remitted to the Brand Technology Fund ("BTF"), which was established in the third quarter of fiscal year 2016 and administers cybersecurity and other technology programs for the Sonic system. Payroll and other employee benefits were unfavorable by 50 basis points reflecting investments in improved employee compensation and benefits to attract and retain employees at the drive-in level. Other operating expenses were flat as a result of leverage from sales growth offset by the impact of the fees paid to the new BTF.

Selling, General and Administrative ("SG&A"). SG&A expenses decreased 4.1% to $78.7 million for fiscal year 2017 as compared to fiscal year 2016, and increased 3.5% to $82.1 million during fiscal year 2016 as compared to fiscal year 2015. The decrease for fiscal year 2017 is primarily related to lower variable compensation related to operating performance. The increase in SG&A expense for fiscal year 2016 was primarily related to the costs of additional headcount in support of the Company's technology and marketing initiatives.

Depreciation and Amortization. Depreciation and amortization expense decreased 11.6% to $39.2 million in fiscal year 2017 and 3.2% to $44.4 million in fiscal year 2016. The decreases during fiscal years 2017 and 2016 were primarily attributable to assets that fully depreciated in the prior fiscal year and a decrease in Company assets related to the refranchising of 110 Company Drive-Ins.

Provision for Impairment of Long-Lived Assets. Provision for impairment of long-lived assets increased $0.9 million to $1.1 million in fiscal year 2017 compared to $0.2 million for fiscal year 2016 and $1.4 million for 2015. The increases in fiscal year 2017 and in fiscal year 2015 were primarily the result of impairment charges for the write-off of assets associated with some lower performing drive-ins.

Other Operating Income and Expense, Net. Fiscal year 2017 reflected $15.0 million in other operating income compared to $4.7 million for fiscal year 2016 and $0.9 million for fiscal year 2015. The $10.3 million change for fiscal year 2017 was primarily the result of the net refranchising gains of $6.8 million, a gain on sale of real estate of $4.7 million and a gain on the sale of minority investments in franchise operations of $3.8 million, partially offset by $1.8 million in severance costs related to the elimination of certain corporate positions. The gain in fiscal year 2016 was primarily the result of a $1.8 million gain related to the refranchising of Company Drive-Ins during the fiscal year as well as a gain of $1.9 million related to the sale of real estate.

Net Interest Expense. Net interest expense decreased $7.1 million in fiscal year 2017 compared to an increase of $10.2 million in fiscal year 2016 and a decrease of $0.2 million in fiscal year 2015. The decrease in fiscal year 2017 is driven by the $8.8 million loss from the early extinguishment of debt related to our debt transaction completed in the third quarter of fiscal year 2016 and the related increase in our long-term debt balance. See "Liquidity and Sources of Capital" and "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 33.3% for fiscal year 2017 compared with 30.7% for fiscal year 2016 and 29.7% for fiscal year 2015. The effective income tax rate for fiscal year 2017 was favorably impacted by the recognition of excess tax benefits related to stock option exercises due to the early adoption of Accounting Standards Update ("ASU") No. 2016-09 in the first quarter of 2017. Please refer to the "New Accounting Pronouncements" section of note 1 - Summary of Significant Accounting Policies, included in the Notes to Consolidated Financial Statements for details regarding the adoption of ASU No. 2016-09. The lower effective income tax rate for fiscal year 2016 was primarily attributable to the recognition of tax benefits related to a change in uncertain tax positions from prior years and legislation that reinstated and extended the Work Opportunity Tax Credit ("WOTC"). The lower effective income tax rate for fiscal year 2015 was primarily attributable to the recognition of prior years' federal tax deductions, a decrease in the valuation allowance for the deferred tax asset related to state net operating losses and legislation that reinstated and extended the WOTC. Excluding the nonrecurring tax benefits in fiscal years 2016 and 2015, the effective tax rates would have been 34.7% and 35.1% for fiscal years 2016 and 2015, respectively. 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.

Non-GAAP Adjustments. Excluding the non-GAAP adjustments further described below, net income per diluted share was $1.25 for fiscal year 2017, compared to $1.29 per diluted share in fiscal year 2016.

The following analysis of non-GAAP adjustments is 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. Numbers below are stated in thousands, except per share amounts.

	Fiscal Year Ended August 31, 2017		Fiscal Year Ended August 31, 2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported – GAAP	**$ 63,663**	**$ 1.45**	$ 64,067	$ 1.29
Net gain on refranchising transactions [1]	**(6,758)**	**(0.15)**	(972)	(0.02)
Tax impact on refranchising transactions [2]	**2,542**	**0.06**	317	0.00
Gain on sale of investment in refranchised drive-in operations [3]	**(3,795)**	**(0.09)**	–	–
Tax impact on sale of investment in refranchised drive-in operations [4]	**1,350**	**0.03**	–	–
Restructuring charges [5]	**1,819**	**0.04**	–	–
Tax impact of restructuring charges [6]	**(672)**	**(0.02)**	–	–
Gain on sale of real estate	**(4,702)**	**(0.11)**	(1,875)	(0.04)
Tax impact on real estate sale [7]	**1,738**	**0.04**	664	0.01
FIN 48 release of income tax credits and deductions	**–**	**–**	(3,038)	(0.06)
Loss from early extinguishment of debt	**–**	**–**	8,750	0.18
Tax impact on debt extinguishment [8]	**–**	**–**	(3,027)	(0.06)
Retroactive benefit of Work Opportunity Tax Credit and resolution of tax matters	**–**	**–**	(585)	(0.01)
Adjusted - Non-GAAP	**$ 55,185**	**$ 1.25**	$ 64,301	$ 1.29

[1] During the first quarter of fiscal year 2017, we completed two transactions to refranchise the operations of 56 Company Drive-Ins. Of the proceeds, $3.8 million was applied as the initial lease payment for an option to purchase the real estate within 24 months. The franchisee exercised the option in the last six months of the fiscal year. Until the option was fully exercised, the franchisee made monthly lease payments which totaled $0.8 million for the fiscal year-to-date, net of sub-lease expense. During the second quarter of fiscal year 2017, we completed transactions to refranchise the operations of 54 Company Drive-Ins, one of which resulted in a gain of $7.8 million and another in a loss of $1.4 million. The loss transaction reflects a deferred gain of $0.8 million as a result of a real estate purchase option extended to the franchisee. The deferred gain is being amortized into income through January 2020 when the option becomes exercisable.

[2] Combined tax impact at an effective tax rate of 35.6% during the first quarter of fiscal year 2017 and at adjusted effective tax rates of 36.0%, 48.7% and 37.0% during the second, third and fourth quarters of fiscal year 2017, respectively; tax impact during fiscal year 2016 at an adjusted effective tax rate of 32.6%.

[3] Gain on sale of investment in refranchised drive-in operations is related to minority investments in franchise operations retained as part of a refranchising transaction that occurred in fiscal year 2009. Income from minority investments is included in other revenue on the consolidated statements of income.

[4] Tax impact during the period at an effective tax rate of 35.6%.

[5] During the fourth quarter of fiscal year 2017, the Company incurred severance costs related to the elimination of certain corporate positions.

[6] Tax impact during the period at an adjusted effective tax rate of 37.0%.

[7] Tax impact during fiscal year 2017 at an adjusted effective tax rate of 37.0%; tax impact during fiscal year 2016 at an adjusted effective tax rate of 35.4%.

[8] Tax impact during the period at an effective tax rate of 34.6%.

	Fiscal Year Ended August 31, 2016		Fiscal Year Ended August 31, 2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported – GAAP	$ 64,067	$ 1.29	$ 64,485	$ 1.20
Net gain on sale of Company Drive-Ins	(972)	(0.02)	–	–
Tax impact on Company Drive-Ins sale [1]	317	0.00	–	–
FIN 48 release of income tax credits and deductions	(3,038)	(0.06)	–	–
Loss from early extinguishment of debt	8,750	0.18	–	–
Tax impact on debt extinguishment [2]	(3,027)	(0.06)	–	–
Gain on sale of real estate	(1,875)	(0.04)	–	–
Tax impact on real estate sale [3]	664	0.01	–	–
Retroactive benefit of Work Opportunity Tax Credit and resolution of tax matters	(585)	(0.01)	(666)	(0.01)
Federal tax benefit of prior-year statutory tax deduction	–	–	(3,199)	(0.06)
Change in deferred tax valuation allowance	–	–	(1,701)	(0.04)
Retroactive effect of federal tax law change	–	–	612	0.01
Adjusted - Non-GAAP	$ 64,301	$ 1.29	$ 59,531	$ 1.10

[1] Tax impact during the period at an adjusted effective tax rate of 32.6%.

[2] Tax impact during the period at an effective tax rate of 34.6%.

[3] Tax impact during the period at an adjusted effective tax rate of 35.4%.

Financial Position

Total assets decreased $86.9 million, or 13.4%, to $561.7 million during fiscal year 2017 from $648.7 million at the end of fiscal year 2016. The decrease during the year was driven by a decrease in net property, equipment and capital leases of $80.0 million, primarily related to refranchising transactions and the related depreciation, as well as real estate sold during the fiscal year. These were partially offset by purchases of property, equipment and technology.

Total liabilities increased $39.2 million, or 5.4%, to $763.5 million during fiscal year 2017 from $724.3 million at the end of fiscal year 2016. The increase was primarily attributable to the $60.0 million balance from borrowing on the Company's Series 2016-1 Senior Secured Variable Funding Notes, Class A-1 (the "2016 Variable Funding Notes"). This was partially offset by a decrease of $7.1 million in accrued liabilities, which is mainly related to payment of wages and incentive compensation and other tax liabilities that were accrued as of August 31, 2016, as well as lower incentive compensation accruals at August 31, 2017 related to operating performance. Additionally, there was a decrease of $5.2 million in accounts payable, primarily related to the timing of payments and drive-ins that were under construction as of August 31, 2016.

Total stockholders' deficit increased $126.1 million, or 166.7%, to a deficit of $201.8 million during fiscal year 2017 from $75.6 million at the end of fiscal year 2016. This increase was primarily attributable to $172.9 million in purchases of common stock under our stock repurchase program and the payment of $24.1 million in dividends, partially offset by current-year earnings of $63.6 million.

Liquidity and Sources of Capital

Operating Cash Flows. Net cash provided by operating activities decreased $41.3 million to $74.9 million for fiscal year 2017 as compared to $116.2 million in fiscal year 2016. The change was driven by a decrease of $19.5 million in net income excluding the non-cash items for gain on disposition of assets and loss from early extinguishment of debt. Operating cash flow was also impacted by the timing of payments for operational, payroll and tax transactions, as well as higher incentive compensation paid in fiscal year 2017 compared to the prior year.

Investing Cash Flows. Cash provided by investing activities was $60.5 million for fiscal year 2017 compared to cash used in investing activities of $34.1 million for fiscal year 2016. The increase in cash provided by investing activities was driven by an increase of $75.5 million in proceeds from the sale of assets. We received $41.3 million in proceeds from the sale of real estate related to previous refranchising transactions and $31.8 million in proceeds for store operations and real estate sold to franchisees as part of the current refranchising initiative. Additionally, we received $8.4 million in proceeds from the sale of a minority investment related to previous refranchising transactions. The increase in other cash flows from investing reflects $4.9 million from franchisees on short-term financing notes and $2.5 million in repayment of notes extended in fiscal year 2016

related to the establishment of the Brand Technology Fund. Investments in property and equipment compared to the same period last year saw an increase in additions to rebuilds, relocations and remodels of existing drive-ins and newly constructed drive-ins, offset by a decline in cash used for the purchase and replacement of equipment and technology.

Brand technology investments	$ 16.9
Rebuilds, relocations and remodels of existing drive-ins	15.3
Newly constructed drive-ins leased or sold to franchisees	5.9
Purchase and replacement of equipment and technology	4.8
Newly constructed Company Drive-Ins	3.6
Total investments in property and equipment	$ 46.5

Financing Cash Flows. Net cash used in financing activities increased $147.9 million to $185.1 million for fiscal year 2017 as compared to $37.2 million in fiscal year 2016. The prior-year period included net borrowings of $140.9 million, offset by debt extinguishment costs of $18.4 million related to the debt financing transaction that occurred in the third quarter of fiscal year 2016, compared to net borrowings of $58.6 million on the 2016 Variable Funding Notes in the current-year period. Additionally, purchases of treasury stock increased by $21.1 million and restricted cash for securitization obligations increased $53.3 million. The increase in restricted cash includes $47.0 million of proceeds from the sale of securitized assets which are subject to restrictions described below. For additional information on long-term debt, see note 10 - Debt, included in the Notes to Consolidated Financial Statements for the year ended August 31, 2017.

During fiscal year 2013, in a private transaction, various subsidiaries of ours (the "Co-Issuers") refinanced and paid $155.0 million of the Series 2011 Senior Secured Fixed Rate Notes, Class A-2 (the "2011 Fixed Rate Notes") with the issuance of $155.0 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.

On May 17, 2016, in a private transaction, the Co-Issuers issued $425.0 million of Series 2016-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2016 Fixed Rate Notes"), which bear interest at 4.47% per annum. The 2016 Fixed Rate Notes have an expected life of seven years with an anticipated repayment date in May 2023.

The Co-Issuers also entered into a securitized financing facility of 2016 Variable Funding Notes (together with the 2016 Fixed Rate Notes, the "2016 Notes") to replace the Series 2011-1 Senior Secured Variable Funding Notes, Class A-1 (the "2011 Variable Funding Notes"). The 2016 revolving credit facility provides access to a maximum of $150.0 million of 2016 Variable Funding Notes and certain other credit instruments, including letters of credit. Interest on the 2016 Variable Funding Notes is based on the one-month London Interbank Offered Rate or Commercial Paper, depending on the funding source, plus 2.0%, per annum. An annual commitment fee of 0.5% is payable monthly on the unused portion of the 2016 Variable Funding Notes facility. The 2016 Variable Funding Notes have an expected life of five years with an anticipated repayment date in May 2021 with two one-year extension options available upon certain conditions including meeting a minimum debt service coverage ratio threshold.

We used a portion of the net proceeds from the issuance of the 2016 Fixed Rate Notes to repay our existing 2011 Fixed Rate Notes and 2011 Variable Funding Notes in full and to pay the costs associated with the securitized financing transaction, including prepayment premiums.

At August 31, 2017, the balance outstanding under the 2013 Fixed Rate Notes and the 2016 Fixed Rate Notes, including accrued interest, was $155.2 million and $423.0 million, respectively. At August 31, 2017, the balance outstanding under the 2016 Variable Funding Notes, including accrued interest, was $60.1 million. The weighted-average interest cost of the 2013 Fixed Rate Notes and 2016 Fixed Rate Notes was 4.1% and 4.8%, respectively. The weighted-average interest cost of the 2016 Variable Funding Notes was 3.2%. The weighted-average interest cost includes the effect of the loan origination costs.

In connection with the 2016 transaction described above, we recognized an $8.8 million loss from the early extinguishment of debt during the third quarter of fiscal year 2016, which primarily consisted of a $5.9 million prepayment premium and the $2.9 million write-off of unamortized deferred loan fees remaining from the refinanced debt. This is reflected in "loss from early extinguishment of debt" on the Consolidated Statements of Income. Loan origination costs associated with the 2016 transaction totaled $12.5 million and were allocated among the 2016 Notes. Loan costs are being amortized over each note's expected life, and the unamortized balance related to the 2016 Variable Funding Notes and the 2016 Fixed Rate Notes is included in other current assets and long-term debt, net, respectively, on the consolidated balance sheets. For additional information on our 2013 Fixed Rate Notes and 2016 Notes, see note 10 – Debt, included in the Notes to Consolidated Financial Statements.

In August 2014, our Board of Directors extended our share repurchase program, authorizing us to purchase up to $105.0 million of our outstanding shares of common stock during fiscal year 2015. In October 2014, the Company entered into an accelerated share repurchase ("ASR") agreement with a financial institution to purchase $15.0 million of the Company's common stock. In exchange for a $15.0 million up-front payment, the financial institution delivered approximately 0.6 million shares. During January 2015, the ASR purchase period concluded. The Company paid an additional $0.1 million with no additional shares delivered, resulting in an average price per share of $26.32. In February 2015, the Company entered into additional ASR agreements with a financial institution to purchase $75.0 million of the Company's common stock. In exchange for a $75.0 million up-front payment, the financial institution delivered approximately 2.1 million shares. The ASR transactions completed in July 2015 with 0.3 million additional shares delivered, resulting in an average price per share of $31.38. The Company reflected the ASR transactions 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.

In August 2015, our Board of Directors extended our share repurchase program, authorizing us to purchase up to $145.0 million of our outstanding shares of common stock through August 31, 2016. Our Board of Directors further extended the share repurchase program effective May 2016, authorizing the purchase of up to an additional $155.0 million of our outstanding shares of common stock through August 31, 2017. During fiscal year 2016, approximately 5.2 million shares were repurchased for a total cost of $148.3 million, resulting in an average price per share of $28.48.

In October 2016, our Board of Directors increased the authorization under the share repurchase program by $40.0 million. During fiscal year 2017, approximately 6.7 million shares were repurchased for a total cost of $172.9 million, resulting in an average price per share of $25.71. In August 2017, the Board of Directors approved an incremental $160.0 million share repurchase authorization of our outstanding shares of common stock through August 31, 2018. The total remaining amount authorized under the share repurchase program, as of August 31, 2017, was $160.0 million.

Share repurchases will be made from time to time in the open market or otherwise, including through an ASR 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.

As of August 31, 2017, our total cash balance of $84.2 million ($22.3 million of unrestricted and $61.9 million of restricted cash balances) reflected the impact of the cash generated from operating activities, refranchising proceeds, 2016 Variable Funding Notes borrowing proceeds, cash used for share repurchases, dividends, debt payments and capital expenditures mentioned above. The restricted cash balance includes $47.0 million in proceeds from the sale of real estate. Under the securitized finance structure the Company has 12 months to reinvest these proceeds in eligible capital expenses. If the proceeds are not reinvested within a year all amounts above $5 million must be used to pay down the fixed-rate debt and may require a make-whole premium. The Company may also pay down debt prior to that 12-month time period which could require a make-whole premium. The make-whole premium calculation is, in general, based on the discounted present value of the amount of interest that would otherwise have been paid had the prepayment not been made. We believe that existing cash, funds generated from operations and the amount available under our 2016 Variable Funding Notes will meet our needs for the foreseeable future.

In August 2014, the Company initiated a quarterly cash dividend program and paid a quarterly dividend of $0.09 per share of common stock, totaling $18.8 million, for fiscal year 2015 and a quarterly dividend of $0.11 per share of common stock, totaling $21.3 million, for fiscal year 2016. The Company paid a quarterly dividend of $0.14 per share of common stock, totaling $24.1 million, for fiscal year 2017. Subsequent to the end of fiscal year 2017, the Company declared a quarterly dividend of $0.16 per share of common stock to be paid to stockholders of record as of the close of business on November 8, 2017, with a payment date of November 17, 2017. The 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, included in the Notes to 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, 2017 (in thousands):

		Payments Due by Fiscal Year			
	Total	Less than 1 Year (2018)	1 – 3 Years (2019 to 2020)	3 – 5 Years (2021 to 2022)	More than 5 Years (2023 and thereafter)
Long-term debt [1]	**$ 771,970**	$ 27,280	$ 208,914	$ 99,609	$ 436,167
Capital leases	**24,608**	4,706	6,966	5,864	7,072
Operating leases	**93,344**	8,785	17,403	15,300	51,856
Purchase obligations [2]	**151,848**	19,185	29,209	31,439	72,015
Other [3]	**20,435**	–	–	–	–
Total	**$1,062,205**	$ 59,956	$ 262,492	$ 152,212	$ 567,110

(1) Includes scheduled principal and interest payments on our 2016 Notes and 2013 Fixed Rate Notes and assumes these notes will be outstanding for the expected seven-year life with anticipated repayment dates in July 2020 and May 2023, respectively.

(2) Purchase obligations primarily relate to the Company's estimated share of system 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 $0.6 million of unrecognized tax benefits related to uncertain tax positions and $19.8 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 and the consumer environment, increased costs are recovered through a combination of menu price increases and alternative products, efficiencies 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. Company Drive-Ins are analyzed quarterly for impairments in accordance with Accounting Standards Codification ("ASC") No. 360-10. We compare anticipated undiscounted cash flows from the related long-lived assets of each drive-in with their respective carrying values to determine if the long-lived assets are recoverable. If the sum of the anticipated undiscounted cash flows is less than the carrying value, an impairment loss is recognized. The impairment loss is measured by comparing the fair value of the asset to its carrying value. 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 drive-in can typically be relocated to another drive-in and therefore is not adjusted. The basis for our estimates of future cash flow include certain assumptions about expected future operating performance, such as revenue growth rates, operating margins and other relevant facts and circumstances. Our estimates of cash flow may differ from actual

cash flow due to, among other things, economic conditions, changes to our business model or changes in operating performance. Our estimates of cash flow represent the best estimates we have at this time, and we believe the underlying assumptions are reasonable; however, it is possible that our estimates of future cash flows could change resulting in the need to impair certain Company Drive-In assets.

Revenue Recognition. For a description of our revenue recognition policies, see the "Revenue Recognition, Franchise Fees and Royalties" section of note 1 - Summary of Significant Accounting Policies, included in the Notes to Consolidated Financial Statements.

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.

New Accounting Pronouncements

For a description of new accounting pronouncements, see the "New Accounting Pronouncements" section of note 1 – Summary of Significant Accounting Policies, included in the Notes to Consolidated Financial Statements.

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, 2017, was primarily based on the 2013 Fixed Rate Notes and 2016 Fixed Rate Notes with an effective rate of 3.75% and 4.47%, respectively, before amortization of debt-related costs. Additionally, we have interest rate risk exposure on the 2016 Variable Funding Notes, with interest based on the one-month London Interbank Offered Rate or Commercial Paper, depending on the funding source, plus 2.0%, per annum. At August 31, 2017, the fair value of the 2013 Fixed Rate Notes and 2016 Fixed Rate Notes approximated their carrying value of $578.2 million, including accrued interest. At August 31, 2017, the fair value of the 2016 Fixed Variable Funding Notes approximated their carrying value of $60.1 million. 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 2013 Fixed Rate Notes, 2016 Fixed Rate Notes and 2016 Variable Funding Notes would decrease or increase by approximately $29.1 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 above in under "Contractual Obligations and Commitments." We also do not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost.

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

Consolidated Balance Sheets

(In thousands, except per share amounts)	August 31, 2017	August 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 22,340**	$ 72,092
Restricted cash	**19,736**	15,873
Accounts and notes receivable, net	**33,758**	35,437
Inventories	**2,343**	3,321
Prepaid expenses	**5,455**	4,713
Property held for sale	**5,150**	5,299
Other current assets	**402**	922
Total current assets	**89,184**	137,657
Noncurrent restricted cash	**42,120**	140
Investment in direct financing lease	**11,853**	9,859
Notes receivable, net	**9,801**	12,562
Property, equipment and capital leases, net	**312,380**	392,380
Goodwill	**75,756**	76,734
Debt origination costs, net	**2,439**	3,093
Other assets, net	**18,211**	16,236
Total assets	**$ 561,744**	$ 648,661
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	**$ 9,213**	$ 14,372
Franchisee deposits	**1,093**	720
Accrued liabilities	**44,846**	51,913
Income taxes payable	**–**	2,568
Current maturities of long-term debt and capital leases	**3,464**	5,090
Total current liabilities	**58,616**	74,663
Obligations under capital leases due after one year	**16,167**	17,391
Long-term debt due after one year	**628,116**	566,187
Deferred income taxes	**40,101**	42,530
Other non-current liabilities	**20,502**	23,533
Commitments and contingencies (Notes 7, 8, 14, 15)		
Stockholders' deficit:		
Preferred stock, par value $.01; 1,000 shares authorized; none outstanding	**–**	–
Common stock, par value $.01; 245,000 shares authorized; 118,309 shares issued in 2017 and in 2016	**1,183**	1,183
Paid-in capital	**236,895**	234,956
Retained earnings	**934,017**	894,442
Treasury stock, at cost; 78,081 shares in 2017 and 71,670 shares in 2016	**(1,373,853)**	(1,206,224)
Total stockholders' deficit	**(201,758)**	(75,643)
Total liabilities and stockholders' deficit	**$ 561,744**	$ 648,661

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

Consolidated Statements of Income

(In thousands, except per share amounts)	Fiscal Year Ended August 31, 2017	2016	2015
Revenues:			
Company Drive-In sales	**$ 296,101**	$ 425,795	$ 436,031
Franchise Drive-Ins:			
Franchise royalties and fees	**170,527**	170,319	161,342
Lease revenue	**7,436**	7,459	5,583
Other	**3,203**	2,747	3,133
Total revenues	**477,267**	606,320	606,089
Costs and expenses:			
Company Drive-Ins:			
Food and packaging	**80,971**	118,136	121,701
Payroll and other employee benefits	**107,477**	150,260	151,801
Other operating expenses, exclusive of depreciation and amortization included below	**61,463**	88,424	90,436
Total cost of Company Drive-In sales	**249,911**	356,820	363,938
Selling, general and administrative	**78,687**	82,089	79,336
Depreciation and amortization	**39,248**	44,418	45,892
Provision for impairment of long-lived assets	**1,140**	232	1,440
Other operating income, net	**(14,994)**	(4,691)	(945)
Total costs and expenses	**353,992**	478,868	489,661
Income from operations	**123,275**	127,452	116,428
Interest expense	**29,206**	26,714	25,114
Interest income	**(1,398)**	(516)	(408)
Loss from early extinguishment of debt	**–**	8,750	–
Net interest expense	**27,808**	34,948	24,706
Income before income taxes	**95,467**	92,504	91,722
Provision for income taxes	**31,804**	28,437	27,237
Net income	**$ 63,663**	$ 64,067	$ 64,485
Basic income per share	**$ 1.47**	$ 1.32	$ 1.23
Diluted income per share	**$ 1.45**	$ 1.29	$ 1.20
Cash dividends declared per common share	**$ 0.56**	$ 0.44	$ 0.27

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

Consolidated Statements of Stockholders' Equity (Deficit)

(In thousands)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity (Deficit)
Balance at August 31, 2014	$ 1,183	$ 225,004	$ 801,202	64,505	$ (964,714)	$ 62,675
Net income	–	-	64,485	–	–	64,485
Cash dividends	–	-	(13,972)	–	–	(13,972)
Stock-based compensation expense	–	3,520	–	–	–	3,520
Purchase of treasury stock	–	-	–	4,201	(123,786)	(123,786)
Exercise of stock options and issuance of restricted stock	–	(1,458)	–	(1,438)	20,190	18,732
Other	–	5,484	–	(19)	295	5,779
Balance at August 31, 2015	$ 1,183	$ 232,550	$ 851,715	67,249	$ (1,068,015)	$ 17,433
Net income	–	–	64,067	–	–	64,067
Cash dividends	–	–	(21,340)	–	–	(21,340)
Stock-based compensation expense	–	3,766	–	–	–	3,766
Purchase of treasury stock	–	–	–	5,209	(148,345)	(148,345)
Exercise of stock options and issuance of restricted stock	–	(5,941)	–	(767)	9,783	3,842
Other	–	4,581	–	(21)	353	4,934
Balance at August 31, 2016	$ 1,183	$ 234,956	$ 894,442	71,670	$ (1,206,224)	$ (75,643)
Net income	**–**	**–**	**63,663**	**–**	**–**	**63,663**
Cash dividends	**–**	**–**	**(24,088)**	**–**	**–**	**(24,088)**
Stock-based compensation expense	**–**	**3,942**	**–**	**–**	**–**	**3,942**
Purchase of treasury stock	**–**	**–**	**–**	**6,726**	**(172,913)**	**(172,913)**
Exercise of stock options and issuance of restricted stock	**–**	**(2,203)**	**–**	**(293)**	**4,885**	**2,682**
Other	**–**	**200**	**–**	**(22)**	**399**	**599**
Balance at August 31, 2017	**$ 1,183**	**$ 236,895**	**$ 934,017**	**78,081**	**$ (1,373,853)**	**$ (201,758)**

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

Consolidated Statements of Cash Flows

(In thousands)	Fiscal Year Ended August 31, 2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 63,663**	$ 64,067	$ 64,485
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**39,248**	44,418	45,892
Stock-based compensation expense	**3,942**	3,766	3,520
Loss from early extinguishment of debt	**–**	8,750	–
Gain on disposition of assets	**(14,994)**	(4,691)	(945)
Other	**(1,204)**	4,961	10,311
(Increase) decrease in operating assets:			
Restricted cash	**886**	(2,829)	(61)
Accounts receivable and other assets	**1,918**	2,109	2,885
Increase (decrease) in operating liabilities:			
Accounts payable	**(4,404)**	380	(1,288)
Accrued and other liabilities	**(10,884)**	4,520	10,296
Income taxes	**(3,299)**	(9,242)	1,267
Total adjustments	**11,209**	52,142	71,877
Net cash provided by operating activities	**74,872**	116,209	136,362
Cash flows from investing activities:			
Purchases of property and equipment	**(46,528)**	(46,553)	(42,153)
Proceeds from sale of assets	**91,741**	16,206	13,701
Proceeds from the sale of investments in refranchised drive-in operations	**8,357**	–	–
Other	**6,918**	(3,713)	3,132
Net cash provided by (used in) investing activities	**60,488**	(34,060)	(25,320)
Cash flows from financing activities:			
Payments on debt	**(24,416)**	(422,090)	(90,290)
Proceeds from borrowings	**83,000**	563,000	91,000
Restricted cash for securitization obligations	**(46,730)**	6,587	151
Purchases of treasury stock	**(171,562)**	(150,444)	(120,463)
Proceeds from exercise of stock options	**2,682**	3,842	18,732
Payment of dividends	**(24,062)**	(21,309)	(18,808)
Debt issuance and extinguishment costs	**(10)**	(18,420)	(12)
Other	**(4,014)**	1,586	145
Net cash used in financing activities	**(185,112)**	(37,248)	(119,545)
Net increase (decrease) in cash and cash equivalents	**(49,752)**	44,901	(8,503)
Cash and cash equivalents at beginning of year	**72,092**	27,191	35,694
Cash and cash equivalents at end of year	**$ 22,340**	$ 72,092	$ 27,191
Supplemental cash flow information			
Cash paid during the year for:			
Interest	**$ 27,082**	$ 24,883	$ 23,330
Income taxes (net of refunds)	**37,642**	27,821	11,360
Non-cash investing and financing activities:			
Change in obligation to acquire treasury stock	**1,350**	(2,099)	3,323
Stock options exercised by stock swap	**451**	6,396	3,385
Accrued PP&E at period end	**1,577**	3,471	3,346

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

1. Summary of Significant Accounting Policies

Operations

Sonic Corp. (the "Company"), through its subsidiaries, operates and franchises a chain of quick-service restaurants in the United States ("U.S."). It derives its revenues primarily from Company Drive-In sales and royalty fees from franchisees. The Company also leases 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 U.S. generally accepted accounting principles ("GAAP") 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") No. 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. 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 the date of purchase, and depository accounts.

Restricted Cash

As of August 31, 2017, the Company had restricted cash balances totaling $61.9 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 $19.7 million represents amounts to be returned to the Company or paid to service current debt obligations, including $5.0 million in proceeds from the sale of securitized real estate. The noncurrent portion of $42.1 million represents $42.0 million in proceeds from the sale of securitized real estate, as well as interest reserves required to be set aside for the duration of the debt. Under the Company's securitized finance structure, the Company has 12 months to reinvest these proceeds in eligible capital expenses. If the proceeds are not reinvested within a year all amounts above $5 million must be used to pay down the fixed-rate debt and may require a make-whole premium. The Company may also pay down debt prior to that 12-month time period which could require a make-whole premium. The make-whole premium calculation is, in general, based on the discounted present value of the amount of interest that would otherwise have been paid had the prepayment not been made.

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 quarterly or whenever 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. Earnings before interest, taxes and depreciation ("EBITDA") is the cash flow measure monitored at the drive-in level for indicators of impairment. As the cash flow measure reaches levels to indicate potential impairment, 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 drive-in can be easily relocated to another drive-in 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 an 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, 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 quarters of fiscal years 2017 and 2016, the annual assessment of the 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 4 - 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's gift card program serves all Sonic Drive-Ins and is administered by the Company on behalf of a system advertising fund. 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. Costs to administer the gift card program, net of breakage, are included in the receivables from system funds as set forth in note 3 – Accounts and Notes Receivable. Such costs were not material in fiscal years 2017, 2016 or 2015.

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 generally nonrefundable. Development fees are generally 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.

Advertising Costs

Costs incurred in connection with advertising and promoting the Company's products are included in other operating expenses and are expensed as incurred. Such costs amounted to $15.8 million, $23.4 million and $24.5 million in fiscal years 2017, 2016 and 2015, respectively.

Under the Company's franchise agreements, both Company Drive-Ins and Franchise Drive-Ins must contribute a minimum percentage of revenues to the Sonic Brand Fund, a national media production fund, and spend an additional minimum percentage of 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 also 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 an expense on the Company's financial statements.

Under the Company's franchise agreements, the Company is reimbursed by the Sonic Brand Fund for costs incurred to administer the fund at an amount not to exceed 15% of the Sonic Brand Fund's gross receipts. Reimbursements from the Sonic Brand Fund are offset against selling, general and administrative expenses and totaled $5.1 million, $5.2 million and $5.0 million in fiscal years 2017, 2016 and 2015, respectively.

Technology Costs

Under the Company's franchise agreements, both Company Drive-Ins and Franchise Drive-Ins must pay a set technology fee to the Brand Technology Fund ("BTF"), which was established in the third quarter of fiscal year 2016. The BTF administers cybersecurity and other technology programs for the Sonic system. 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 BTF are included in the Company's consolidated financial statements. However, technology fees paid by Company Drive-Ins are recorded as an expense on the Company's financial statements.

Under the Company's franchise agreements, the Company is reimbursed by the BTF for costs incurred to administer the fund at an amount not to exceed 15% of the BTF's gross receipts. Reimbursements from the BTF are offset against selling, general and administrative expenses and totaled $5.4 million and $2.5 million in fiscal years 2017 and 2016, respectively.

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.

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 (Deficit).

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, 2017 and 2016, 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 and variable 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 an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled for the transfer of promised goods or services to customers. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU will replace most of the existing revenue recognition requirements in U.S. GAAP when it becomes effective. Further, the FASB has issued clarifying guidance with ASU No. 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," and ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." ASU No. 2016-08 provides guidance for evaluating when another party, along with the entity, is involved in providing a good or service to a customer. ASU No. 2016-10 clarifies assessing whether promises to transfer goods or services are distinct, and whether an entity's promise to grant a license provides a customer with a right to use or right to access the entity's intellectual property. ASU No. 2016-20 provides corrections or improvements to issues that affect narrow aspects of the guidance.

The Company plans to adopt the standards in the first quarter of fiscal year 2019, which aligns with the required adoption date. The standards are to be applied retrospectively or using a cumulative effect transition method. The Company does not believe the new revenue recognition standard will impact the recognition of sales from Company Drive-Ins or the recognition of royalty fees from franchisees, nor will it have a material impact to the recognition of gift card breakage. The Company expects the pronouncement will impact the recognition of the initial franchise fee, which is currently recognized upon the opening of a Franchise Drive-In. The impact on these fees is not expected to be material to total revenue, and the Company anticipates electing the cumulative effect transition method. The Company continues to evaluate the effect that this pronouncement will have on principal versus agent considerations, other transactions, the financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The new standard, which replaces existing lease guidance, requires lessees to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. Accounting guidance for lessors is largely unchanged. The standard is effective for fiscal year 2020, with early application permitted. This standard requires adoption based upon a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with optional practical expedients. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on the consolidated balance sheet. The Company is continuing its assessment, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses." The update was issued to provide more decision-useful information about the expected credit losses on financial instruments. The update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective for fiscal year 2021, with early adoption permitted for fiscal years beginning after December 15, 2018. The update should be adopted using a modified-retrospective approach. The Company is currently evaluating the effect that this update will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments." The update is intended to reduce diversity in practice in how certain transactions are classified and will make eight targeted changes to how cash receipts and cash payments are presented in the statement of cash flows. The update is effective for fiscal year 2019. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case the amendments will apply prospectively as of the earliest date practicable. The Company is currently evaluating the effect of this update but does not believe it will have a material impact on its financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory," as part of its simplification initiatives. The update requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than deferring the recognition until the asset has been sold to an outside party as is required under current GAAP. The update is effective for fiscal year 2019. The new standard will require adoption on a modified retrospective basis through a cumulative-effect adjustment to retained earnings, and early adoption is permitted. The Company is currently evaluating the effect that this update will have on its financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash." The update requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective for fiscal year 2019. The amendments should be adopted on a retrospective basis to each period presented, and early adoption is permitted. The Company is currently evaluating the effect that this update will have on its financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation: Scope of Modification Accounting," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. The update is effective for fiscal year 2019. The update is to be adopted prospectively to an award modified on or after the adoption date. Early adoption is permitted. The Company is currently evaluating the effect of this update but does not believe it will have a material impact on its financial statements and related disclosures.

The Company has reviewed all other recently issued accounting pronouncements and concluded they are not applicable or not expected to be significant to our operations.

Recently Adopted Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This update requires debt issuance costs to be presented in the balance sheet as a reduction of the related liability rather than as an asset. The recognition and measurement guidance for debt issuance costs are not affected by this update. This update is effective for fiscal years beginning after December 15, 2015, including interim periods within that reporting period, and is to be applied retrospectively; early adoption is permitted. In August 2015, the FASB issued ASU No. 2015-15, which addresses the SEC's comments related to the absence of authoritative guidance within ASU No. 2015-03 related to line-of-credit arrangements. The SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company retrospectively adopted this guidance in the first quarter of fiscal year 2017, which resulted in a reclassification of unamortized debt issuance costs of $11.3 million related to the Company's fixed rate notes from non-current assets to long-term debt, net, within the Company's consolidated balance sheet, resulting in a corresponding reduction in total assets and total long-term liabilities as of August 31, 2016. Other than this reclassification, the adoption of this ASU did not have any other impact on the Company's consolidated financial statements. As of August 31, 2017, there were $9.4 million of unamortized debt issuance costs related to the Company's fixed rate notes included within long-term debt, net, on the Company's consolidated balance sheet.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The update provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting of other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. The update is effective for fiscal years beginning after December 15, 2015. The Company adopted this standard in the first quarter of fiscal year 2017 on a prospective basis. The adoption did not have a material impact on the Company's consolidated financial statements.

During the first quarter of fiscal year 2017, the Company early adopted ASU No. 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of accounting for share-based payment transactions, including excess tax benefits, an accounting policy election for forfeitures, statutory tax withholding requirements and classification in the statements of cash flows. As required by the update, on a prospective basis, the Company recognized excess tax benefits related to share-based payments in the provision for income taxes in the condensed consolidated statements of income. These items were historically recorded in additional paid-in capital. As allowed by the update, on a prospective basis, cash flows related to excess tax benefits recognized on stock-based compensation expense are classified as an operating activity in the Company's condensed consolidated statements of cash flows. The adoption of this standard resulted in a reduction of the Company's income tax rate by 107 basis points for fiscal year 2017. Cash paid on employees' behalf related to shares withheld for tax purposes continues to be classified as a financing activity. The stock compensation expense continues to reflect estimated forfeitures.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment." To simplify the subsequent measurement of goodwill, the update requires only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value. A qualitative assessment may still be completed first for an entity to determine if a quantitative impairment test is necessary. The update is effective for fiscal year 2021 and is to be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted this standard in the fourth quarter of fiscal year 2017. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

2. Earnings Per Share

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

	Fiscal Year Ended August 31,		
	2017	**2016**	**2015**
Numerator:			
Net income	**$ 63,663**	$ 64,067	$ 64,485
Denominator:			
Weighted average common shares outstanding – basic	**43,306**	48,703	52,572
Effect of dilutive employee stock options and unvested RSUs	**737**	966	1,381
Weighted average common shares outstanding – diluted	**44,043**	49,669	53,953
Net income per common share – basic	**$ 1.47**	$ 1.32	$ 1.23
Net income per common share – diluted	**$ 1.45**	$ 1.29	$ 1.20
Anti-dilutive securities excluded[1]	**1,154**	615	342

[1] Anti-dilutive securities consist of stock options and unvested RSUs 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. Accounts and Notes Receivable

Accounts and notes receivable consist of the following:

	August 31,	
	2017	**2016**
Current Accounts and Notes Receivable:		
Royalties and other trade receivables	**$ 19,571**	$ 19,994
Notes receivable from franchisees	**1,441**	5,531
Receivables from system funds	**6,360**	4,372
Other	**7,475**	6,507
Accounts and notes receivable, gross	**34,847**	36,404
Allowance for doubtful accounts and notes receivable	**(1,089)**	(967)
Current accounts and notes receivable, net	**$ 33,758**	$ 35,437
Noncurrent Notes Receivable:		
Receivables from franchisees	**$ 6,810**	$ 7,170
Receivables from system funds	**3,033**	5,466
Allowance for doubtful notes receivable	**(42)**	(74)
Noncurrent notes receivable, net	**$ 9,801**	$ 12,562

The Company's receivables are primarily due from franchisees, all of whom are in the restaurant business. Substantially all of the notes receivable from franchisees are collateralized by real estate or equipment. The decrease in current notes receivable from franchisees is due to short-term financing initiated in fiscal year 2016 for refranchised drive-ins and newly constructed drive-ins sold to franchisees that were repaid in the first and third quarters of fiscal year 2017. The receivables from system funds represent transactions in the normal course of business. The decrease in noncurrent receivables from system funds is due to payment on notes extended in fiscal year 2016 related to the establishment of the BTF.

4. Goodwill and Other Intangibles

As of August 31, 2017, the Company had $75.8 million of goodwill.

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

	August 31,	
	2017	**2016**
Balance at beginning of year	**$ 76,734**	$ 77,076
Goodwill disposed of related to the sale of Company Drive-Ins	**(978)**	(342)
Balance at end of year	**$ 75,756**	$ 76,734

The gross carrying amount of franchise agreements, intellectual property, franchise fees and other intangibles subject to amortization was $9.3 million and $9.2 million at August 31, 2017 and 2016, respectively. Accumulated amortization related to these intangible assets was $6.6 million and $5.7 million at August 31, 2017 and 2016, respectively. Intangible assets amortization expense was $1.0 million fiscal year ended August 31, 2017 and $0.9 million for each of the fiscal years ended August 31, 2016 and 2015. At August 31, 2017, the remaining weighted-average life of amortizable intangible assets was approximately 11.5 years. Estimated intangible assets amortization expense is $0.3 million annually for fiscal years 2018, 2019, 2020, 2021 and 2022.

5. Other Operating Income

During the first quarter of fiscal year 2017, the Company recorded a gain of $3.8 million on the sale of minority investments in franchise operations retained as part of a refranchising transaction that occurred in fiscal year 2009. The Company also recorded $6.8 million in refranchising initiative gains as described below in note 6 - Refranchising of Company Drive-Ins. During the fourth quarter, the Company recorded a gain of $4.7 million on the sale of real estate. In addition, the Company recorded offsetting severance costs of $1.8 million related to the elimination of certain corporate positions.

6. Refranchising of Company Drive-Ins

In June 2016, the Company announced plans to refranchise Company Drive-Ins as part of a refranchising initiative to move toward an approximately 95% franchised system. During fiscal year 2016, the Company refranchised the operations of 38 Company Drive-Ins. Of the Company Drive-Ins refranchised in fiscal year 2016, 29 were completed as part of the refranchising initiative announced in June 2016. The Company retained a non-controlling minority investment in the franchise operations of 25 of these refranchised drive-ins.

During fiscal year 2017, the Company completed transactions to refranchise the operations of 110 Company Drive-Ins and retained a non-controlling minority investment in 106 of these refranchised drive-ins. The Company completed the refranchising initiative in the second quarter of fiscal year 2017. All subsequent sales of Company Drive-Ins are considered sales in the normal course of business.

Income from minority investments is included in other revenue on the consolidated statements of income. The gains and losses below associated with refranchised drive-ins are recorded in other operating income, net, on the consolidated statement of income. The following is a summary of the pretax activity recorded as a result of the refranchising initiative (in thousands, except number of refranchised Company Drive-Ins):

	Fiscal Year Ended August 31,	
	2017	**2016**
Number of refranchised Company Drive-Ins	**110**	29
Proceeds from sales of Company Drive-Ins	**$ 20,036**	$ 3,568
Proceeds from sale of real estate [1]	**11,726**	–
Real estate assets sold [1]	**(12,095)**	(2,402)
Assets sold, net of retained minority investment [2]	**(7,891)**	–
Initial and subsequent lease payments for real estate option [1]	**(3,178)**	–
Goodwill related to sales of Company Drive-Ins	**(966)**	(194)
Deferred gain for real estate option [3]	**(809)**	–
Loss on assets held for sale	**(65)**	–
Refranchising initiative gains, net	**$ 6,758**	$ 972

[1] During the first quarter of fiscal year 2017, as part of a 53 drive-in refranchising transaction, the Company entered into a direct financing lease which included an option for the franchisee to purchase the real estate within the next 24 months. In accordance with lease accounting requirements, because the exercise of this option could occur at any time within 24 months, the portion of the proceeds from the refranchising attributable to the fair value of the option was applied as the initial minimum lease payment for the real estate. The franchisee exercised the option in the last six months of the fiscal year. Until the option was fully exercised, the franchisee made monthly lease payments which are included in other operating income, net of sub-lease expense.

[2] Net assets sold consisted primarily of equipment.

[3] The deferred gain of $0.8 million is recorded in other non-current liabilities as a result of a real estate purchase option extended to the franchisee in the second quarter of fiscal year 2017. The deferred gain will continue to be amortized into income through January 2020 when the option becomes exercisable.

7. Leases

Leasing Arrangements as a Lessor

The Company's leasing activities consist principally of leasing certain land and buildings as well as subleasing certain buildings to franchise operators. The land and building portions for the majority of these leases are classified as operating leases and have lease terms expiring through March 2032. The leases classified as direct financing leases are related to owned and subleased properties that were recently refranchised (see note 6 - Refranchising of Company Drive-Ins). The terms of these leases expire through September 2031. 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 option periods of five years at the end of the initial term.

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

	2017	**2016**
Minimum lease payments receivable	**$ 18,156**	$ 15,108
Less unearned income	**(5,932)**	(5,134)
Net investment in direct financing leases	**12,224**	9,974
Less amount due within one year	**(371)**	(115)
Amount due after one year	**$ 11,853**	$ 9,859

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

Future minimum rental payments receivable as of August 31, 2017, are as follows

	Operating	Direct Financing
Years ended August 31:		
2018	$ 5,510	$ 1,087
2019	5,641	1,156
2020	5,619	1,269
2021	5,615	1,365
2022	5,664	1,362
Thereafter	46,155	11,917
	$ 74,204	18,156
Less unearned income		(5,932)
		$ 12,224

Leasing Arrangements as a Lessee

Certain Company Drive-Ins lease land and buildings from third parties. These leases, with lease terms expiring through May 2037, 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 lease payments on operating and capital leases as of August 31, 2017, are as follows:

	Operating	Capital
Years ended August 31:		
2018	$ 8,785	$ 4,706
2019	8,703	3,699
2020	8,700	3,267
2021	8,056	3,186
2022	7,244	2,678
Thereafter	51,856	7,072
Total minimum lease payments [1]	$ 93,344	24,608
Less amount representing interest averaging 5.5%		(4,977)
Present value of net minimum lease payments		19,631
Less amount due within one year		(3,464)
Amount due after one year		$ 16,167

[1] Minimum payments have not been reduced by future minimum rentals receivable under noncancellable operating subleases of $7.6 million. They also do not include contingent rentals which may be due under certain leases. Contingent rentals for capital leases amounted to $0.3 million, $0.9 million and $1.0 million in fiscal years 2017, 2016 and 2015, respectively.

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

	2017	2016	2015
Minimum rentals	$ 11,224	$ 12,441	$ 12,659
Contingent rentals	283	284	174
Total rent expense	11,507	12,725	12,833
Less sublease rentals	(2,513)	(2,372)	(2,235)
Net rent expense	$ 8,994	$ 10,353	$ 10,598

8. Property, Equipment and Capital Leases

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

	Estimated Useful Life	2017	2016
Property, equipment and capital leases:			
Land		**$ 117,402**	$ 154,420
Buildings and improvements	8 – 25 yrs	**251,695**	325,068
Drive-In equipment	5 – 7 yrs	**75,410**	132,488
Brand technology development and other equipment	2 – 5 yrs	**126,179**	110,554
Property and equipment, at cost		**570,686**	722,530
Accumulated depreciation		**(272,233)**	(345,284)
Property and equipment, net		**298,453**	377,246
Capital leases	Life of lease	**45,315**	43,991
Accumulated amortization		**(31,388)**	(28,857)
Capital leases, net		**13,927**	15,134
Property, equipment and capital leases, net		**$ 312,380**	$ 392,380

Depreciation expense for property and equipment was $35.6 million, $40.4 million and $41.7 million for fiscal years 2017, 2016 and 2015, respectively. Land, buildings and equipment with a carrying amount of $110.8 million at August 31, 2017, were leased under operating leases to franchisees and other parties. The accumulated depreciation related to these buildings and equipment was $45.0 million at August 31, 2017. Amortization expense related to capital leases is included within depreciation and amortization on the consolidated statements of income. As of August 31, 2017, the Company had no 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 $0.6 million, $0.6 million and $0.4 million for fiscal years 2017, 2016 and 2015, respectively.

9. Accrued Liabilities

Accrued liabilities consist of the following at August 31:

	2017	2016
Wages and employee benefit costs	**$ 17,705**	$ 23,416
Property taxes, sales and use taxes and employment taxes	**5,634**	8,936
Unredeemed gift cards	**11,319**	10,571
Other	**10,188**	8,990
	$ 44,846	$ 51,913

10. Debt

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

	2017	2016
Class A-2 2016-1 senior secured fixed rate notes	**$ 422,521**	$ 423,938
Class A-1 2016-1 senior secured variable funding notes	**60,000**	–
Class A-2 2013-1 senior secured fixed rate notes	**155,000**	155,000
	637,521	578,938
Less unamortized debt issuance costs	**(9,405)**	(11,334)
Less long-term debt due within one year	**–**	(1,417)
Long-term debt due after one year	**$ 628,116**	$ 566,187

At August 31, 2017, there were no future maturities of long-term debt for fiscal years 2018 and 2019, $155.0 million for fiscal year 2020, $60.0 million for fiscal year 2021 and no maturities for fiscal year 2022.

During fiscal year 2013, in a private transaction, various subsidiaries of the Company (the "Co-Issuers") refinanced and paid $155.0 million of the Series 2011 Senior Secured Fixed Rate Notes, Class A-2 (the "2011 Fixed Rate Notes") with the issuance of $155.0 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.

On May 17, 2016, in a private transaction, the Co-Issuers issued $425.0 million of Series 2016-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2016 Fixed Rate Notes"), which bear interest at 4.47% per annum. The 2016 Fixed Rate Notes have an expected life of seven years with an anticipated repayment date in May 2023.

The Co-Issuers also entered into a securitized financing facility of Series 2016-1 Senior Secured Variable Funding Notes, Class A-1 (the "2016 Variable Funding Notes" and, together with the 2016 Fixed Rate Notes, the "2016 Notes") to replace the Series 2011-1 Senior Secured Variable Funding Notes, Class A-1 (the "2011 Variable Funding Notes"). The 2016 revolving credit facility provides access to a maximum of $150.0 million of 2016 Variable Funding Notes and certain other credit instruments, including letters of credit. Interest on the 2016 Variable Funding Notes is based on the one-month London Interbank Offered Rate or Commercial Paper, depending on the funding source, plus 2.0%, per annum. An annual commitment fee of 0.5% is payable monthly on the unused portion of the 2016 Variable Funding Notes facility. The 2016 Variable Funding Notes have an expected life of five years with an anticipated repayment date in May 2021 with two one-year extension options available upon certain conditions including meeting a minimum debt service coverage ratio threshold.

Sonic used a portion of the net proceeds from the issuance of the 2016 Fixed Rate Notes to repay its existing 2011 Fixed Rate Notes and 2011 Variable Funding Notes in full and to pay the costs associated with the securitized financing transaction, including prepayment premiums.

Loan origination costs associated with the Company's 2016 transaction totaled $12.5 million and were allocated among the 2016 Notes. Loan costs are being amortized over each note's expected life, and the unamortized balance related to the 2016 Variable Funding Notes and the 2016 Fixed Rate Notes is included in other current assets and long-term debt, net, respectively, on the consolidated balance sheets.

In connection with the 2016 transaction described above, the Company recognized an $8.8 million loss from the early extinguishment of debt during the third quarter of fiscal year 2016, which primarily consisted of a $5.9 million prepayment premium and the $2.9 million write-off of unamortized deferred loan fees remaining from the refinanced debt.

As of August 31, 2017, the weighted-average interest cost of the 2013 Fixed Rate Notes and the 2016 Fixed Rate Notes was 4.1% and 4.8%, respectively. The weighted-average interest cost of the 2016 Variable Funding Notes was 3.2%. The weighted-average interest cost includes the effect of the loan origination costs.

While the 2013 Fixed Rate Notes and the 2016 Fixed Rate Notes are structured to provide for seven-year lives from their original issuance dates, they have legal final maturity dates of July 2043 and May 2046, respectively. The 2016 Variable Funding Notes are structured to provide for a five-year life with two one-year options available under certain conditions and with a legal final maturity date of May 2046. The Company intends to repay or refinance the 2013 Fixed Rate Notes and the 2016 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 2013 Fixed Rate Notes and the 2016 Notes are not paid in full by the end of their expected lives, they are subject to an upward adjustment in the annual interest rate of at least 5%. 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 2016 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, 2017, assets for these combined indirect subsidiaries totaled $287.2 million, including receivables for royalties, certain Company and Franchise Drive-In real estate, intangible assets and restricted cash balances of $61.9 million. The 2013 Fixed Rate Notes and the 2016 Notes are secured by franchise fees, royalty payments and lease payments, and the repayment of the 2013 Fixed Rate Notes and the 2016 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 2013 Fixed Rate Notes and the 2016 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 Corp., guarantees or is in any way liable for the obligations of the Co-Issuers under the 2013 Fixed Rate Notes and the 2016 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 2013 Fixed Rate Notes and the 2016 Notes and certain indemnity obligations relating to the transfer of the collateral assets to the Co-Issuers.

The 2013 Fixed Rate Notes and the 2016 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 2013 Fixed Rate Notes and the 2016 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 the 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 $73.9 million and $59.2 million at August 31, 2017 and 2016, respectively. This fair value is estimated using Level 1 methods.

The fair value of the Company's 2013 Fixed Rate Notes and 2016 Fixed Rate Notes approximated the carrying value, including accrued interest, of $578.2 million and $579.6 million at August 31, 2017 and 2016, respectively. The fair value of the Company's 2016 Variable Funding Notes approximated the carrying value, including accrued interest, of $60.1 million at August 31, 2017. The 2016 Variable Funding Notes had no balance at August 31, 2016. The fair value of the 2013 Fixed Rate Notes and 2016 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.

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:

	2017	2016	2015
Current:			
Federal	**$ 30,352**	$ 20,137	$ 14,597
State	**3,921**	3,791	3,576
	34,273	23,928	18,173
Deferred:			
Federal	**(2,378)**	4,372	10,592
State	**(91)**	137	(1,528)
	(2,469)	4,509	9,064
Provision for income taxes	**$ 31,804**	$ 28,437	$ 27,237

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:

	2017	2016	2015
Amount computed by applying a tax rate of 35%	**$ 33,413**	$ 32,377	$ 32,103
State income taxes (net of federal income tax benefit)	**2,489**	2,553	1,330
Employment related and other tax credits, net	**(1,834)**	(2,324)	(2,096)
Change in uncertain tax positions	**–**	(3,027)	–
Federal tax benefit of statutory tax deduction	**(1,560)**	(1,279)	(4,093)
Other	**(704)**	137	(7)
Provision for income taxes	**$ 31,804**	$ 28,437	$ 27,237

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

	2017	2016
Deferred tax assets:		
Allowance for doubtful accounts and notes receivable	**$ 419**	$ 387
Leasing transactions	**3,083**	3,222
Deferred income	**3,011**	2,991
Accrued liabilities	**4,339**	6,187
Stock compensation	**3,156**	2,446
Other	**929**	757
State net operating losses	**18,031**	16,303
Total deferred tax assets	**32,968**	32,293
Valuation allowance	**(16,254)**	(14,638)
Total deferred tax assets after valuation allowance	**$ 16,714**	$ 17,655
Deferred tax liabilities:		
Prepaid expenses	**$ (956)**	$ (1,119)
Investment in partnerships, including differences in capitalization, depreciation and direct financing leases	**(4,026)**	(4,125)
Property, equipment and capital leases	**(23,756)**	(31,565)
Intangibles and other assets	**(22,983)**	(21,628)
Debt extinguishment	**(838)**	(1,676)
Direct financing lease	**(4,256)**	(72)
Total deferred tax liabilities	**(56,815)**	(60,185)
Net deferred tax liabilities (noncurrent)	**$ (40,101)**	$ (42,530)

State net operating loss carryforwards expire beginning in December 2017 through May 2038. Management does not believe the Company will be able to realize the state net operating loss carryforwards utilizing future income exclusive of the reversal of existing deferred tax liabilities and therefore has provided a valuation allowance of $16.3 million and $14.6 million as of August 31, 2017 and 2016, respectively.

As of August 31, 2017 and 2016, the Company had approximately $0.6 million of unrecognized tax benefits, including approximately $0.4 million and $0.3 million, respectively, of accrued interest and penalty. If recognized, these benefits would favorably impact the effective 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 years ended August 31, 2017, 2016 and 2015, the Company recognized a negligible net expense, a net benefit of $0.1 million and net expense of $0.1 million, respectively.

A reconciliation of unrecognized tax benefits is as follows for fiscal years ended August 31:

	2017	2016
Balance at beginning of year	**$ 625**	$ 3,652
Additions for tax positions of prior years	**18**	725
Reductions for tax positions of prior years	**–**	(2,838)
Reductions due to settlement	–	(212)
Reductions due to statute expiration	**–**	(702)
Balance at end of year	**$ 643**	$ 625

The Company or one of its subsidiaries is subject to U.S. federal income tax and income tax in multiple U.S. state jurisdictions. At August 31, 2017, 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 2013. The Company anticipates that the results of any examinations or appeals, combined with the expiration of applicable statutes of limitations and the additional accrual of interest related to unrecognized benefits on various return positions taken in years still open for examination, could result in a change to the liability for unrecognized tax benefits during the next 12 months ranging from a negligible increase to a decrease of $0.6 million depending on the timing and terms of the examination resolutions.

13. Stockholders' Equity (Deficit)

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, 2017, 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, RSUs and other share-based awards. At August 31, 2017, 6.5 million shares were available for grant under the 2006 Plan. The Company grants stock options to employees with a seven-year term and a three-year vesting period and grants RSUs to employees with a minimum full vesting period of three years. The Company grants stock options to its Board of Directors with a seven-year term and one-year vesting period and also grants RSUs to its Board of Directors that 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 2017, 2016 and 2015 was $3.9 million, $3.8 million and $3.5 million, respectively, net of related income tax benefits of $1.3 million, $1.2 million and $1.0 million, respectively. At August 31, 2017, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was $7.5 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 fiscal years 2017, 2016 and 2015. 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.

The per share weighted average fair value of stock options granted during 2017, 2016 and 2015 was $6.65, $8.23 and $8.83, 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:

	2017	2016	2015
Expected term (years)	**5.3**	5.3	5.0
Expected volatility	**34%**	34%	34%
Risk-free interest rate	**2.0%**	1.4%	1.3%
Expected dividend yield	**2.2%**	1.5%	1.2%

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 U.S. 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, 2017, is presented in the following table:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value
Outstanding September 1, 2016	2,334	$ 18.37		
Granted	670	25.26		
Exercised	(292)	10.74		
Forfeited or expired	(176)	27.74		
Outstanding at August 31, 2017	2,536	$ 20.42	3.92	$ 13,501
Exercisable at August 31, 2017	1,632	$ 16.88	2.77	$ 13,501

Proceeds from the exercise of stock options for fiscal years 2017, 2016 and 2015 were $2.7 million, $3.8 million and $18.7 million, respectively. The total intrinsic value of options exercised during the years ended August 31, 2017, 2016 and 2015 was $4.6 million, $18.9 million and $21.8 million, respectively.

Restricted Stock Units

A summary of the Company's RSU activity during the year ended August 31, 2017 is presented in the following table:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding September 1, 2016	92	$ 28.90
Granted	49	28.88
Vested	(17)	29.36
Forfeited	(29)	29.65
Outstanding at August 31, 2017	95	$ 26.64

The aggregate fair value of RSUs that vested during the fiscal years ended August 31, 2017, 2016 and 2015 was $0.5 million, $0.4 million and $1.1 million, respectively.

Share Repurchase Programs

In August 2014, the Board of Directors extended the Company's share repurchase program, authorizing the Company to purchase up to $105.0 million of its outstanding shares of common stock beginning September 1, 2014 through August 31, 2015. In October 2014, the Company entered into an accelerated share repurchase ("ASR") agreement with a financial institution to purchase $15.0 million of the Company's common stock. In exchange for a $15.0 million up-front payment, the financial institution delivered approximately 0.6 million shares. During January 2015, the ASR purchase period concluded. The Company paid an additional $0.1 million with no additional shares delivered, resulting in an average price per share of $26.32. In February 2015, the Company entered into additional ASR agreements with a financial institution to purchase $75.0 million of the Company's common stock. In exchange for a $75.0 million up-front payment, the financial institution delivered approximately 2.1 million shares. The ASR transactions completed in July 2015 with 0.3 million additional shares delivered, resulting in an average price per share of $31.38. The Company reflected the ASR transactions 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. Including shares repurchased through the ASR transactions described above, during the fiscal year 2015, approximately 4.2 million shares were repurchased for a total cost of $123.8 million, resulting in an average price per share of $29.46.

In August 2015, the Board of Directors extended the Company's share repurchase program, authorizing the Company to purchase up to $145.0 million of its outstanding shares of common stock through August 31, 2016. The Board of Directors further extended the share repurchase program effective May 2016, authorizing the purchase of up to an additional $155.0 million of the Company's outstanding shares of common stock through August 31, 2017. During fiscal year 2016, approximately 5.2 million shares were repurchased for a total cost of $148.3 million, resulting in an average price per share of $28.48.

In October 2016, the Board of Directors increased the authorization under the share repurchase program by $40.0 million. During fiscal year 2017, approximately 6.7 million shares were repurchased for a total cost of $172.9 million, resulting in an average price per share of $25.71. In August 2017, the Board of Directors approved an incremental $160.0 million share repurchase authorization of the Company's outstanding shares of common stock through August 31, 2018. The total remaining amount authorized under the share repurchase program, as of August 31, 2017, was $160.0 million.

Share repurchases will be made from time to time in the open market or otherwise, including through an ASR transaction, 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, 2017, cash flows from operations and borrowings under our 2016 Variable Funding Notes.

Dividends

In August 2014, the Company initiated a quarterly cash dividend program and paid a quarterly dividend of $0.09 per share of common stock, totaling $18.8 million for fiscal year 2015, and paid a quarterly dividend of $0.11 per share of common stock, totaling $21.3 million for fiscal year 2016. For fiscal year 2017, the Company paid a quarterly dividend of $0.14 per share of common stock, totaling $24.1 million. Subsequent to the end of fiscal year 2017, the Company declared a quarterly dividend of $0.16 per share of common stock to be paid to stockholders of record as of the close of business on November 8, 2017, with a payment date of November 17, 2017. The 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 and income. The Company's contributions during fiscal years 2017, 2016 and 2015 were $1.9 million, $1.8 million and $1.6 million, respectively.

The Company has short-term and long-term cash incentive plans (the "Incentive Plans") that apply to certain employees, 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 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 $8.3 million, $13.4 million and $12.4 million during fiscal years 2017, 2016 and 2015, respectively.

15. Commitments and Contingencies

Payment Card Breach

On September 18, 2017, the Company was informed by its payment card processor that there appeared to be suspicious activity involving credit and debit cards used at certain Sonic Drive-In locations. Upon learning of the suspicious activity, the Company immediately contacted and began working with law enforcement to investigate the matter. At the same time, the Company immediately launched its own investigation with the help of experienced third-party forensics firms. On October 4, 2017, the Company issued a public statement notifying guests and the public that it had discovered that credit and debit card numbers may have been acquired without authorization as part of a malware attack experienced at certain Sonic Drive-In locations. The Company's investigation is ongoing, and the Company continues to work closely with experienced third-party forensics firms and law enforcement officials to further investigate this matter.

Subsequent to September 18, 2017, the Company incurred costs associated with this payment card breach, including legal fees, investigative fees and costs of communications with customers. In addition, payment card companies may issue assessments for card replacement and card issuer losses alleged to be associated with the payment card breach, as well as fines and penalties relating to the payment card breach. The Company expects that certain of such costs and assessments will be covered under the Company's cyber liability insurance coverage.

Currently, the Company cannot reasonably estimate a loss or range of losses associated with resolution of the payment card networks' expected claims for non-ordinary course operating expenses or any amounts associated with the networks' expected claims for alleged card issuer losses and/or card replacement costs. A loss associated with resolving such claims is not reasonably estimable, in part because the Company has not yet received third-party card issuer loss reporting from the payment card networks and because the investigation into the matter is ongoing and there are significant factual and legal issues to be resolved. The Company believes that it is possible that the ultimate amount to be paid on payment card network claims, to the extent not covered by, or in excess of the limits of, the Company's cyber liability insurance, could be material to its results of operations in future periods. The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times when it is both probable that a loss has been incurred and the amount of the loss is reasonably estimable.

In addition, the Company expects to incur significant legal and other professional services expenses associated with the payment card breach in future periods. The Company will recognize these expenses as such services are received.

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, 2017, the balance of the franchisee's loan was $5.5 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, 2017, the amount remaining under these guaranteed lease obligations totaled $13.5 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, 2017, the Company had purchase obligations of approximately $151.8 million which primarily related to its estimated share of system 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Total revenues	**$ 129,551**	$145,803	**$ 100,158**	$ 133,160	**$ 123,990**	$ 165,239	**$ 123,568**	$ 162,118
Income from operations	**27,052**	26,045	**22,627**	22,212	**35,441**	38,880	**38,155**	40,315
Net income[1]	**$ 13,118**	$ 12,458	**$ 10,963**	$ 10,819	**$ 18,751**	$ 15,353	**$ 20,831**	$ 25,437
Basic income per share[2]	**$ 0.29**	$ 0.25	**$ 0.25**	$ 0.22	**$ 0.44**	$ 0.32	**$ 0.50**	$ 0.54
Diluted income per share[2]	**$ 0.28**	$ 0.24	**$ 0.25**	$ 0.22	**$ 0.44**	$ 0.31	**$ 0.50**	$ 0.53

[1] For fiscal year 2017, includes the after tax loss of $0.6 million on refranchising transactions and the after tax gain of $2.4 million on the sale of investment in refranchised drive-in operations in the first quarter, the after tax gain of $4.3 million on refranchising transactions in the second quarter, the after tax gain of $0.4 million on refranchising transactions in the third quarter and the after tax gain of $0.1 million on refranchising transactions, after tax restructuring charges of $1.1 million and the after tax gain on the sale of real estate of $3.0 million in the fourth quarter. For fiscal year 2016, includes the after tax gain on the sale of real estate of $1.2 million and a tax benefit of $0.6 million from the retroactive reinstatement of the Work Opportunity Tax Credit and resolution of income tax matters in the second quarter, the $5.7 million after tax loss from early extinguishment of debt in the third quarter and the after tax gain on refranchising transactions of $0.7 million and the FIN 48 release of income tax credits and deductions of $3.0 million in the fourth quarter.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sonic Corp.:

We have audited the accompanying consolidated balance sheets of Sonic Corp. and subsidiaries as of August 31, 2017 and 2016, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended August 31, 2017. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sonic Corp. and subsidiaries as of August 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 27, 2017, expressed an unqualified opinion on the effectiveness of Sonic Corp.'s internal control over financial reporting.

(signed) KPMG LLP

Oklahoma City, Oklahoma
October 27, 2017

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, 2017. 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 - 2013. Based on our assessment, we believe that, as of August 31, 2017, 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 2017 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
Sonic Corp.:

We have audited Sonic Corp.'s internal control over financial reporting as of August 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) 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, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sonic Corp. and subsidiaries as of August 31, 2017 and 2016 and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended August 31, 2017, and our report dated October 27, 2017 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Oklahoma City, Oklahoma
October 27, 2017

Directors and Officers

Board of Directors

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

Tony D. Bartel [2]
Chief Operating Officer
GameStop Corp.

R. Neal Black [3]
Former Chief Executive Officer
and President
Jos. A. Bank Clothiers, Inc.

Steven A. Davis [2]
Former Chairman
and Chief Executive Officer
Bob Evans Farms, Inc.

Lauren R. Hobart [3]
President
Dick's Sporting Goods, Inc.

Kate S. Lavelle [1, 2]
Former Executive Vice President
and Chief Financial Officer
Dunkin' Brands, Inc.

J. Larry Nichols [1, 2, 4]
Chairman Emeritus
Devon Energy Corporation

Federico F. Peña [1, 2]
Senior Advisor
Colorado Impact Fund

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

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

Kathryn L. Taylor [2]
Chief of Economic Development,
City of Tulsa, Oklahoma

Susan E. Thronson [3]
Former Senior Vice President,
Global Marketing
Marriott International, Inc.

[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

Clifford Hudson
Chairman, Chief Executive Officer
and President

Claudia S. San Pedro
Executive Vice President
and Chief Financial Officer

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

Jose A. Dueñas
Executive Vice President and Chief Brand Officer

Paige S. Bass
Senior Vice President and General Counsel

Christina D. Vaughan
President of Sonic Restaurants, Inc.
(the Company's restaurant-operating subsidiary)

E. Edward Saroch
Senior Vice President of Franchise Relations

Anita K. Vanderveer
Senior Vice President of People

Tanishia M. Beacham
Senior Vice President of Franchise Operations
and Marketing Implementation

David W. Abney
Vice President of Quality Assurance

Lori I. Abou Habib
Vice President and Chief Marketing Officer

K. Wayne Brayton
Vice President of Facilities and Equipment

Michelle E. Britten
Vice President and Chief Accounting Officer

R. Douglas Cook
Vice President and Chief Enterprise Architect

Carolyn C. Cummins
Vice President of Compliance
and Corporate Secretary

Mark W. Davis
Vice President of Cybersecurity
and Enterprise Systems

Jon C. Dorch
Vice President of Integrated
Customer Engagement

John J. Doyle
Vice President of Retail Systems Management

Darin P. Dugan
Vice President of National Marketing

Christopher R. Graves
Vice President and Real Estate Counsel

Jacques A. Grondin
Vice President of Franchise Operations –
West Region

Lisa Hammond
Vice President of Program Management Office

Cathy N. Harrell
Vice President of Field Marketing

Ralph F. Heim
Vice President of Media and Integrated Marketing

Corey R. Horsch
Vice President of Investor Relations
and Treasurer

M. Anne Hughes
Vice President of Internal Audit

Andrew Irick
Vice President of New Franchisees
and Operations – Northeast Region

Bobby L. Jones
Vice President of Franchise Operations –
North Central Region

Johnny D. Jones
Vice President of Development

L. Kim Lewis
Vice President of Digital Strategies

Roy M. Maines, Jr.
Vice President of Operations Readiness
and Compliance

Diane L. Prem
Vice President of Operations Services

Matthew J. Schein
Vice President of Operations Technology

Jeffrey D. Semler
Vice President of Customer Experience

Dail A. Smith
Vice President of Operations
Sonic Restaurants, Inc.

C. Nelson Taylor
Vice President of Food Safety

Scott B. Uehlein
Vice President of Product Innovation
and Development

Michele A. Varian
Vice President of Supply Chain
and Purchasing

J. Todd Wekenborg
Vice President of Franchise Operations –
Southeast Region

Barbara A. Williams
Vice President of Brand Insights

Linda A. Wiseley
Vice President of Franchise Operations –
South Central Region

Charles B. Woods
Vice President of Tax

Christine O. Woodworth
Vice President of Public Relations

Corporate Information

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

Web Address
www.sonicdrivein.com

Stock Transfer Agent
Computershare
462 South 4th Street, Suite 1600
Louisville, Kentucky 40202
800-884-4225
web.queries@computershare.com
www.computershare.com/investor

Independent Registered Public Accounting Firm
KPMG LLP
Oklahoma City, Oklahoma

Annual Meeting
Our 2018 Annual Meeting of Shareholders will be held at 1:30 p.m. Central Standard Time on January 31, 2018, at our corporate offices, 4th Floor, 300 Johnny Bench Drive, Oklahoma City, Oklahoma.

Annual Report on Form 10-K
A copy of our annual report on Form 10-K for the year ended August 31, 2017, as filed with the Securities and Exchange Commission ("SEC"), may be obtained without charge upon written request to Claudia S. San Pedro, Executive Vice President and Chief Financial Officer, at our corporate offices. In addition, we make available free of charge through our website at 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 "Investors."

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 SEC. 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 SEC.

Stock Market Information
Our common stock trades on the NASDAQ Global Select Market under the symbol SONC. At December 4, 2017, 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 and cash dividends paid during each fiscal quarter within the two most recent fiscal years.

Fiscal Year Ended August 31, 2017

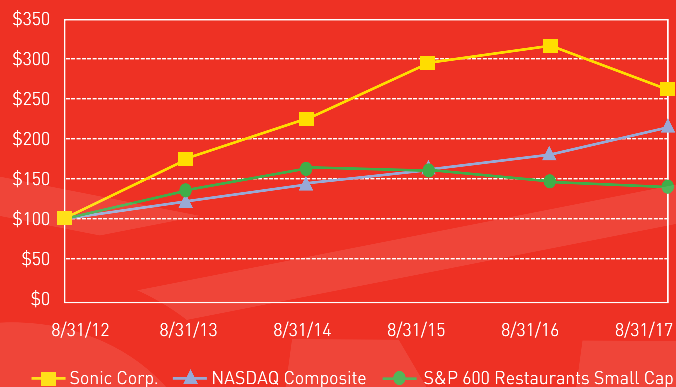
	High	Low	Dividends Per Common Share
First Quarter	$ 28.87	$ 21.12	$ 0.14
Second Quarter	$ 28.60	$ 24.57	$ 0.14
Third Quarter	$ 29.44	$ 22.50	$ 0.14
Fourth Quarter	$ 30.05	$ 22.66	$ 0.14

Fiscal Year Ended August 31, 2016

	High	Low	Dividends Per Common Share
First Quarter	$ 29.99	$ 22.72	$ 0.11
Second Quarter	$ 33.18	$ 24.91	$ 0.11
Third Quarter	$ 36.34	$ 28.80	$ 0.11
Fourth Quarter	$ 30.91	$ 26.17	$ 0.11

During the fourth quarter of 2014, the Company initiated a cash dividend program and the first dividend under this program at $0.09 per common share was paid during the first quarter of fiscal year 2015. The Company has increased its dividend payment each year since then. The current quarterly rate effective with the payment made in the first quarter of fiscal year 2018 was increased 14% to $0.16 per common share. The 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.

Comparison of Five-Year Cumulative Total Return
The graph below matches Sonic Corp.'s cumulative five-year total return on 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 8/31/2012 to 8/31/2017.



300 Johnny Bench Drive
Oklahoma City, OK 73104

sonicdrivein.com