SONIC CORP

FORM 10-Q
(Quarterly Report)

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Address	300 JOHNNY BENCH DRIVE
	OKLAHOMA CITY, OK 73104
Telephone	4052255000
CIK	0000868611
Symbol	SONC
SIC Code	5812 - Eating Places
Industry	Restaurants
Sector	Services
Fiscal Year	08/16

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2016

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _______________

Commission File Number 0-18859

SONIC CORP.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	73-1371046 (I . R . S . Employer Identification No.)
300 Johnny Bench Drive Oklahoma City, Oklahoma (Address of p rincipal e xecutive o ffices)	73104 (Zip Code)

(405) 225-5000
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do no check if a smaller reporting company)	Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of June 27 , 201 6 , approximately 4 7 , 544 , 487 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SONIC CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(Unaudited)

	May 31, 2016	August 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ **99,362**	$ 27,191
Restricted cash	**10,875**	13,246
Accounts and notes receivable, net	**38,162**	31,577
Income taxes receivable	**818**	1,741
Assets held for sale	**13,426**	-
Prepaid expenses and other current assets	**8,922**	11,683
Total current assets	**171,565**	85,438
Noncurrent restricted cash	**151**	6,524
Notes receivable, net	**9,888**	7,216
Property, equipment and capital leases	**759,366**	781,857
Less accumulated depreciation and amortization	**(367,737)**	(360,451)
Property, equipment and capital leases, net	**391,629**	421,406
Goodwill	**76,436**	77,076
Debt origination costs, net	**14,996**	7,056
Other assets, net	**15,001**	15,308
Total assets	$ **679,666**	$ 620,024
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ **17,873**	$ 13,860
Franchisee deposits	**833**	870
Accrued liabilities	**47,296**	50,714
Income taxes payable	**772**	8,910
Current maturities of long-term debt and capital leases	**6,126**	13,467
Total current liabilities	**72,900**	87,821
Obligations under capital leases due after one year	**18,545**	20,763
Long-term debt due after one year	**577,521**	428,238
Deferred income taxes	**43,816**	43,549
Other non-current liabilities	**25,344**	22,220
Total non-current liabilities	**665,226**	514,770
Stockholders' equity (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 (118,309 shares issued at August 31, 2015)	**1,183**	1,183
Paid-in capital	**234,863**	232,550
Retained earnings	**874,169**	851,715
Treasury stock, at cost; 70,441 shares (67,249 shares at August 31, 2015)	**(1,168,675)**	(1,068,015)
Total stockholders' equity (deficit)	**(58,460)**	17,433
Total liabilities and stockholders' equity (deficit)	$ **679,666**	$ 620,024

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

SONIC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three months ended May 31,		Nine months ended May 31,	
	2016	**2015**	**2016**	**2015**
Revenues:				
Company Drive-In sales	$ **115,143**	$ 118,369	$ **314,339**	$ 310,816
Franchise Drive-Ins:				
Franchise royalties and fees	**46,687**	43,704	**122,656**	114,375
Lease revenue	**2,141**	1,569	**5,132**	3,613
Other	**1,268**	1,106	**2,075**	2,019
Total revenues	**165,239**	164,748	**444,202**	430,823
Costs and expenses:				
Company Drive-Ins:				
Food and packaging	**32,089**	32,727	**87,248**	87,128
Payroll and other employee benefits	**39,912**	40,898	**111,635**	110,049
Other operating expenses, exclusive of depreciation and amortization included below	**22,442**	22,955	**65,450**	65,484
Total cost of Company Drive-In sales	**94,443**	96,580	**264,333**	262,661
Selling, general and administrative	**20,617**	20,699	**62,342**	57,625
Depreciation and amortization	**11,405**	11,435	**33,461**	34,634
Other operating (income) expense, net	**(106)**	(336)	**(3,071)**	4
Total costs and expenses	**126,359**	128,378	**357,065**	354,924
Income from operations	**38,880**	36,370	**87,137**	75,899
Interest expense	**6,776**	6,382	**19,465**	18,981
Interest income	**(121)**	(91)	**(326)**	(290)
Debt extinguishment costs	**8,750**	-	**8,750**	-
Net interest expense	**15,405**	6,291	**27,889**	18,691
Income before income taxes	**23,475**	30,079	**59,248**	57,208
Provision for income taxes	**8,122**	9,637	**20,618**	19,019
Net income	$ **15,353**	$ 20,442	$ **38,630**	$ 38,189
Basic income per share	$ **0.32**	$ 0.39	$ **0.79**	$ 0.72
Diluted income per share	$ **0.31**	$ 0.38	$ **0.77**	$ 0.70
Cash dividends declared per common share	$ **0.11**	$ 0.09	$ **0.33**	$ 0.27

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

SONIC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended May 31, 2016	Nine months ended May 31, 2015
Cash flows from operating activities:		
Net income	$ **38,630**	$ 38,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**33,461**	34,634
Stock-based compensation expense	**2,688**	2,572
Loss from early extinguishment of debt	**8,750**	-
Provision for deferred income taxes	**964**	10,088
Other	**(6,908)**	(3,644)
(Increase) decrease in operating assets:		
Restricted cash	**2,351**	3,312
Accounts receivable and other assets	**(4,545)**	(931)
Increase (decrease) in operating liabilities:		
Accounts payable	**4,632**	2,105
Accrued and other liabilities	**(3,261)**	8,098
Income taxes	**1,470**	6,079
Total adjustments	**39,602**	62,313
Net cash provided by operating activities	**78,232**	100,502
Cash flows from investing activities:		
Purchases of property and equipment	**(26,467)**	(30,867)
Proceeds from sale of assets	**12,701**	4,089
Other	**(1,678)**	4,148
Net cash used in investing activities	**(15,444)**	(22,630)
Cash flows from financing activities:		
Payments on debt	**(421,020)**	(63,842)
Proceeds from borrowings	**563,000**	67,500
Restricted cash for securitization obligations	**6,393**	21
Purchases of treasury stock	**(111,406)**	(95,597)
Proceeds from exercise of stock options	**5,878**	15,763
Payment of dividends	**(16,154)**	(14,153)
Debt issuance and extinguishment costs	**(18,339)**	(12)
Other	**1,031**	(324)
Net cash provided by (used in) financing activities	**9,383**	(90,644)
Net increase (decrease) in cash and cash equivalents	**72,171**	(12,772)
Cash and cash equivalents at beginning of period	**27,191**	35,694
Cash and cash equivalents at end of period	$ **99,362**	$ 22,922
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes (net of refunds)	$ **18,258**	$ 2,927
Non-cash investing and financing activities:		
Change in obligation to acquire treasury stock	**(578)**	(259)

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

SONIC CORP.
NOTES TO CONDENSED CONSOLIDATED FINANICAL STATEMENTS
(In thousands, expect per share data)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States ("U.S . ") generally accepted accounting principles ("GAAP") and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements of Sonic Corp. (the "Company"). In the opinion of management, these financial statements reflect all adjustments of a normal recurring nature, including recurring accruals, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. In certain situations, recurring accruals, including franchise royalties, are based on more limited information at interim reporting dates than at the Company's fiscal year end due to the abbreviated reporting period. Actual results may differ from these estimates. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the f iscal year ended August 31, 2015 , included in the Company's Annual Report on Form 10-K. Interim results are not necessarily indicative of the results that may be expected for a full year or any other interim period.

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.

Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers , " which requires an entit y 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 i n U.S. GAAP when it becomes effective . Further, in March 2016, the FASB issued ASU No. 2016-08, " Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) , " which clarifies the guidance in ASU No. 2014-09 for evaluating when another party, along with the entity, is involved in providing a good or service to a customer. In April 2016, the FASB issued ASU No. 2016-10, " Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing , " which clarifies the guidance in ASU No. 2014-09 regarding 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. All standards are effective for fiscal years beginning after December 15, 201 7 , including interim periods within that reporting period , which requires the Company to adopt the standard in fiscal year 2019. The standards are to be applied retrospect ive ly or using a cumulative effect transition method , with early application not permitted. The Company does not believe the new revenue recognition standard will impact our recognition of sales from Company Driv e -Ins and our recognition of royalty fees from franchisees. We are currently evaluating the effect that this pronouncement will have on the recognition of other transactions on the financial statements and related disclosures and have not yet selected a transition method .

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. 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 2015-15, which addresses the SEC's comments related to the absence of authoritative guidance within ASU 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

SONIC CORP.
NOTES TO CONDENSED CONSOLIDATED FINANICAL STATEMENTS
(In thousands, expect per share data)
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outstanding borrowings on the line of credit arrangement. The adoption of these updates is not expected to have a material impact on the Company 's financial statements.

In April 2015, the FASB issued ASU No . 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. " The u p date 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 adoption of the update is not expected to have a material impact on the Company's financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" as part of its simplification initiatives. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The update is effective for fiscal years beginning after December 15, 2017 ; however , early application is permitted. The Company adopted this standard in the first quarter of fiscal year 2016. T he Company's current deferred tax asset balance of $2.2 million was classified as noncurrent and netted with noncurrent deferred tax liabilities as of November 30, 201 5 , and all future deferred tax asset balances will be recorded as such. No prior periods were retrospectively adjusted .

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The new standard requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. Accounting guidance for lessors is largely unchanged. The standard is effective for fiscal years beginning after December 15, 2018 with early application permitted. The Company is currently evaluating the effect that this standard will have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-04, " Liabilities—Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products , " which is intended to eliminate current and future diversity in practice related to de recognition of prepaid stored-value product liability in a way that aligns with the new revenue recognition guidance. The update is effective for fiscal years beginning after December 15, 2017; however, early application is permitted. The adoption of the update is not expected to have a material impact on the Company's financial statements.

In March 2016, the FASB issued 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. Upon adoption, any future excess tax benefits or deficiencies will be recorded to the provision for income taxes in the consolidated statements of operations, instead of additional paid-in capital in the consolidated balance sheets. The update is effective for fiscal years beginning after December 15, 2016, however early application is permitted. The transition method to be applied varies depending on the area of update being adopted. The Company is currently evaluating the effect that this update will have on its financial statements and related disclosures.

SONIC CORP.
NOTES TO CONDENSED CONSOLIDATED FINANICAL STATEMENTS
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2. Earnings Per Share

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

	Three months ended May 31, 2016	Three months ended May 31, 2015	Nine months ended May 31, 2016	Nine months ended May 31, 2015
Numerator:				
Net income	$ **15,353**	$ 20,442	$ **38,630**	$ 38,189
Denominator:				
Weighted average common shares outstanding– basic	**48,377**	52,022	**49,192**	52,851
Effect of dilutive employee stock options and unvested restricted stock units	**949**	1,369	**1,021**	1,442
Weighted average common shares outstanding – diluted	**49,326**	53,391	**50,213**	54,293
Net income per common share – basic	$ **0.32**	$ 0.39	$ **0.79**	$ 0.72
Net income per common share – diluted	$ **0.31**	$ 0.38	$ **0.77**	$ 0.70
Anti-dilutive securities excluded [1]	**686**	379	**550**	335

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

3. Share Repurchase Program

In August 201 5 , the Company's Board of Directors extended the Company's share repurchase program, authorizing the Company to purchase up to $1 4 5 million of its outstanding shares of common stock to be repurchased through August 31, 201 6 . The Board of Directors further extended the share repurchase program effective May 2016, authorizing the purchase of up to an additional $155 million of our outstanding shares of common stock through August 31, 2017. Share repurchases may be made from time to time in the open market or otherwise, including through an accelerated share repurchase program, under 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.

D uring the first nine months of fiscal year 201 6 , approximately 3 . 9 million shares were repurchased for a total cost of $ 110 . 8 million , resulting in an average price per share of $ 28 . 56 .

The total remaining amount authorized under the share repurchase program as of May 31, 2016 was $ 170 . 4 million.

SONIC CORP.

NOTES TO CONDENSED CONSOLIDATED FINANICAL STATEMENTS
(In thousands, expect per share data)
(Unaudited)

4. Income Taxes

The following table presents the Company's provision for income taxes and effective income tax rate for the periods below:

	Three months ended May 31, 2016	Three months ended May 31, 2015	Nine months ended May 31, 2016	Nine months ended May 31, 2015
Provision for income taxes	$ **8,122**	$ 9,637	$ **20,618**	$ 19,019
Effective income tax rate	**34.6** %	32.0 %	**34.8** %	33.2 %

The higher effective tax ra te in both the third quarter and the first nine months of fiscal year 2016 was primarily attributable to the fiscal year 2015 effective rate being favorably impacted by the recognition of prior years' federal tax deductions .

5 . Accounts and Notes Receivable

Accounts and notes receivable consist of the following:

	May 31, 2016	August 31, 2015
Current Accounts and Notes Receivable:		
Royalties and other trade receivables	$ **20,401**	$ 19,713
Notes receivable from franchisees	**1,304**	996
Receivables from system funds	**6,066**	4,965
Other	**11,398**	6,977
Accounts and notes receivable, gross	**39,169**	32,651
Allowance for doubtful accounts and notes receivable	**(1,007)**	(1,074)
Accounts and notes receivable, net	$ **38,162**	$ 31,577
Noncurrent Notes Receivable:		
Receivables from franchisees	$ **6,069**	$ 5,676
Receivables from system funds	**3,852**	1,571
Allowance for doubtful notes receivable	**(33)**	(31)
Notes receivable, net	$ **9,888**	$ 7,216

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 receivables from system funds represent transactions in the normal course of business. The increase in other current accounts and notes receivable is due to the timing of various receipts and disbursements.

6 . Contingencies

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

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. 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 May 31, 2016 , the balance of the franchisee's loan was $ 5 . 8 million.

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 May 31, 2016 , the amount remaining under these guaranteed lease obligations totaled $ 7 . 9 million. At this time, the Company does not anticipate any material defaults under the foregoing leases; therefore, no liability has been provided.

7 . Debt

On May 17, 2016, various subsidiaries of the Company (the "Co-Issuers") issued $425.0 million of Series 2016-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2016 Fixed Rate Notes") in a private transaction which bears 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 . At May 31, 2016, the balance outstanding under the 2016 Fixed Rate Notes including accrued interest totaled $425.7 million and carried a weighted-average interest cost of 4.79%, including the effect of the loan origination costs described below.

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"). This revolving credit facility allows for the issuance of up to $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 options available upon certain conditions including meeting a minimum debt service coverage ratio threshold. At May 31, 2016, there was no balance outstanding under the 2016 Variable Funding Notes.

Sonic used a portion of the net proceeds from the issuance of the 2016 Fixed Rate Notes to repay its existing Series 2011-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2011 Fixed Rate Notes") and Series 2011 - 1 Senior Secured Variable Funding Notes, Class A-1 (the "2011 Variable Funding Notes" and, together with the 2011 Fixed Rate Notes, the "2011 Notes") 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 $12.6 million and were allocated among the 2016 Notes. Loan costs are being amortized over each note's expected life, and the unamortized balance is categorized as "debt origination costs, net" on the Condensed Consolidated Balance Sheets.

While the 2016 Fixed Rate Notes and the 2016 Variable Rate Notes are structured to provide for seven-year and five-year lives, respectively, they have a legal final maturity date of May 2046. The Company intends to repay or refinance the 2016 Notes on or before the end of their respective expected lives. In the event the 2016 Notes are not paid in full by the end of their expected lives, the Notes 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 May 31, 2016, assets for these combined indirect subsidiaries totaled $315.4 million, including receivables for royalties, certain Company and Franchise Drive-In real estate, intangible assets and restricted cash balances of

$11.0 million. The 2016 Notes are secured by franchise fees, royalty payments and lease payments, and the repayment of 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 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, guarantees or in any way is liable for the obligations of the Co-Issuers under 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 2016 Notes and certain indemnity obligations relating to the transfer of the collateral assets to the Co-Issuers.

The 2016 Notes are subject to a series of covenants and restrictions similar to the Company's 2011 Notes and customary for transactions of this type. If certain covenants or restrictions are not met, 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.

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.

8 . 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 on 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 , some of which are included in restricted cash, are carried at cost which approximates fair value and totaled $ 85 . 1 million at May 31, 2016 and $ 41 . 1 million at August 31, 2015 . This fair value is estimated using Level 1 inputs.

SONIC CORP.

NOTES TO CONDENSED CONSOLIDATED FINANICAL STATEMENTS
(In thousands, expect per share data)
(Unaudited)

At May 31, 2016 , the fair value of the Company's 2016 Fixed Rate Notes and Series 2013-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2013 Fixed Rate Notes" and, together with the 2016 Fixed Rate Notes, the "Fixed Rate Notes") approximated the carrying value of $ 580 . 8 million, including accrued interest. The fair value of the Fixed Rate Notes is estimated using Level 2 inputs from market information available for public debt transactions for companies with ratings that are similar to the Company's ratings and from information gathered from brokers who trade in the Company's notes.

9 . Assets Held for Sale

Assets held for sale consist of Company Drive-Ins that are expected to sell within one year as part of the Company's plan to move toward an approximately 95%-franchised system . Such assets are classified as assets held for sale upon meeting the requirements of ASC 360 , "Accounting for the Impairment or Disposal of Long-Lived Assets." These assets are recorded at the lower of the carrying amount s or fair values less costs to sell. Assets are no longer depreciated once classified as held for sale. The following table sets for th the components of assets held for sale:

	May 31, 2016	August 31, 2015
Assets		
Property, equipment and capital leases	**$ 12,925**	$ -
Goodwill, net	**501**	-
Total assets held for sale	$ **13,426**	$ -

Item 2. Management's Discuss ion and Analysis of Financial Condition and Results of Operations

In the Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms "Sonic Corp.," "the Company," "we," "us" and "our" refer to Sonic Corp. and its subsidiaries.

Overview

Sales momentum continued in the third quarter and first nine months of fiscal year 2016 despite declining consumer spending in the restaurant industry and modestly unfavorable weather during the period. System-wide same-store sales increased 2.0 % during the third quarter and increased 4.4 % for the first nine months of fiscal year 201 6 as compared to an increase of 6.1 % and 8.3 %, respectively, for the same period s last year. Same-store sales at Company Drive-Ins increased 0.9 % during the third quarter and 3.6 % for the first nine months of fiscal year 201 6 as compared to a n increase of 5.5 % and 8.0 %, respectively, for the same period s last year . Our continued positive same-store sales are a result of the successful implementation of initiatives, including product quality improvements and innovation , a greater emphasis on personalized service , new technology , a tiered pricing strategy and a media strategy that have set a solid foundation for growth . All of these initiatives drive Sonic's multi-layered growth strategy , which incorporates same-store sales growth, operating leverage, deployment of cash, an ascending royalty rate and new drive-in development. Same-store sales growth is the most important layer and drives operating leverage and increased operating cash flows .

Revenues increa sed to $ 165.2 million for the third quarter and $ 444.2 million for the first nine months of fiscal year 201 6 from $ 164 . 7 million and $ 430.8 million, respectively, for the same period s last year. The increase in revenues was primarily attributable to same-store sales growth at Company and Franchise Drive-In s. Restaurant margins at Company Drive-Ins were unfavorable by 40 basis points during the third quarter and favorable by 40 basis points for the first nine months of fiscal year 201 6 , reflecting positive same-store sales , partially offset by the impact of the newly established Brand Technology Fund ("BTF") that became effective March 1, 2016 .

Third quarter results for fiscal year 201 6 reflected net income of $ 15.4 million or $0. 31 per diluted share as compared to net income of $ 20.4 million or $0. 38 per diluted share for the same period last year. Excluding the non-GAAP adjustments further described below, net income and diluted earnings per share for the third quarter of fiscal year 2016 increased 9 % and 19 %, respectively. Net income and diluted earnings per share for the first nine months of fiscal year 2016 were $ 38.6 million and $0. 77 , respectively , as compared to net income of $ 38.2 million and $0. 70 per diluted share for the same period last year. Excluding the non-GAAP adjustments further described belo w, net income and diluted earnings per share for the first nine months of fiscal year 2016 would have increased 17 % and 27 %, respectively.

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.

	Three months ended May 31, 2016		Three months ended May 31, 2015	
	Net Income	**Diluted EPS**	**Net Income**	**Diluted EPS**
Reported – GAAP	**$ 15,353**	**$ 0.31**	$ 20,442	$ 0.38
Loss from early extinguishment of debt	**8,750**	**0.18**	-	-
Tax impact on debt extinguishment (1)	**(3,027)**	**(0.06)**	-	-
Federal tax benefit of prior-year statutory tax deduction	**-**	**-**	(1,722)	(0.03)
Retroactive effect of federal tax law change	**-**	**-**	612	0.01
Adjusted - Non-GAAP	**$ 21,076**	**$ 0.43**	$ 19,332	$ 0.36

	Nine months ended May 31, 2016		Nine months ended May 31, 2015	
	Net Income	**Diluted EPS**	**Net Income**	**Diluted EPS**
Reported – GAAP	**$ 38,630**	**$ 0.77**	$ 38,189	$ 0.70
Loss from early extinguishment of debt	**8,750**	**0.18**	-	-
Tax impact on debt extinguishment (1)	**(3,027)**	**(0.06)**	-	-
Gain on sale of real estate	**(1,875)**	**(0.04)**	-	-
Tax impact on real estate sale (2)	**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	**-**	**-**	(1,722)	(0.03)
Retroactive effect of federal tax law change	**-**	**-**	612	0.01
Adjusted - Non-GAAP	**$ 42,557**	**$ 0.85**	$ 36,413	$ 0.67

(1) Tax impact during the period at an effective tax rate of 34.6%
(2) Tax impact during the period at an adjusted effective tax rate of 35.43 %

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

System-wide Performance
($ in thousands)

	Three months ended May 31,		Nine months ended May 31,	
	2016	**2015**	**2016**	**2015**
Increase in total sales	**3.3** %	7.0 %	**5.3** %	9.4 %
System-wide drive-ins in operation [(1)]:				
Total at beginning of period	**3,528**	3,508	**3,526**	3,518
Opened	**16**	6	**34**	23
Closed (net of re-openings)	**(1)**	(2)	**(17)**	(29)
Total at end of period	**3,543**	3,512	**3,543**	3,512
Average sales per drive-in	$ **347**	$ 341	$ **933**	$ 894
Change in same-store sales [(2)]	**2.0** %	6.1 %	**4.4** %	8.3 %

(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
($ in thousands)

	Three months ended May 31, 2016	Three months ended May 31, 2015	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
Company Drive-In sales	$ **115,143**	$ 118,369	$ (3,226)	(2.7)%
Franchise Drive-Ins:				
Franchise royalties	**46,296**	43,541	2,755	6.3
Franchise fees	**391**	163	228	139.9
Lease revenue	**2,141**	1,569	572	36.5
Other	**1,268**	1,106	162	14.6
Total revenues	$ **165,239**	$ 164,748	$ 491	0.3 %

	Nine months ended May 31, 2016	Nine months ended May 31, 2015	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
Company Drive-In sales	$ **314,339**	$ 310,816	$ 3,523	1.1 %
Franchise Drive-Ins:				
Franchise royalties	**121,565**	112,553	9,012	8.0
Franchise fees	**1,091**	1,822	(731)	(40.1)
Lease revenue	**5,132**	3,613	1,519	42.0
Other	**2,075**	2,019	56	2.8
Total revenues	$ **444,202**	$ 430,823	$ 13,379	3.1 %

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
($ in thousands)

	Three months ended May 31,		Nine months ended May 31,	
	2016	**2015**	**2016**	**2015**
Company Drive-In sales	$ **115,143**	$ 118,369	$ **314,339**	$ 310,816
Percentage increase (decrease)	**(2.7)**%	6.6 %	**1.1** %	8.5 %
Company Drive-Ins in operation [(1)]:				
Total at beginning of period	**375**	392	**387**	391
Opened	**-**	2	**-**	3
Sold to franchisees	**-**	-	**(9)**	1
Closed (net of re-openings)	**-**	-	**(3)**	(1)
Total at end of period	**375**	394	**375**	394
Average sales per Company Drive-In	$ **307**	$ 301	$ **829**	$ 797
Change in same-store sales [(2)]	**0.9** %	5.5 %	**3.6** %	8.0 %

(1) Drive-ins that are temporarily closed for various reasons (repairs, remodeling, relocations, etc.) are not considered closed unless the Company determines that they are unlikely to reopen within a reasonable time.
(2) Represents percentage change for drive-ins open for a minimum of 15 months.

Same-store sales for Company Drive-Ins increased 0.9 % for the third quarter and 3.6 % for the first nine months of fiscal year 201 6 , as compared to an increase of 5.5 % and 8.0 %, respectively, for the same period s last year, reflecting the impact of declining consumer spending in the restaurant industry and modestly unfavorable weather during the quarter . W e continue to focus on our innovative product pipeline , multi-day-part promotions and increased media effectiveness while benefitting from the implementation of new technology initiatives. Company Drive-In sales decreased $ 3.2 million during the third quarter of fiscal year 2016 as compared to the same period last year , mainly due to a decrease of $3.8 million related to stores sold to franchisees in the pr ior year, partially offset by a n increase of $0.9 million in same - store sales. For the first nine months of fiscal year 2016 , Company Drive-In sales increased $ 3.5 million as compared to the same period last year . The increase in the first nine months of fiscal year 2016 is primarily due to an increase of $ 10.9 million in same-store sales , partially offset by a decrease related to stores sold to franchisees of $ 8.0 million.

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
($ in thousands)

	Three months ended May 31,		Nine months ended May 31,	
	2016	**2015**	**2016**	**2015**
Franchise Drive-In sales	$ **1,107,725**	$ 1,065,109	$ **2,963,155**	$ 2,803,391
Percentage increase	**4.0** %	7.0 %	**5.7** %	9.5 %
Franchise Drive-Ins in operation [1]:				
Total at beginning of period	**3,153**	3,116	**3,139**	3,127
Opened	**16**	4	**34**	20
Acquired from the company	**-**	-	**9**	(1)
Closed (net of re-openings)	**(1)**	(2)	**(14)**	(28)
Total at end of period	**3,168**	3,118	**3,168**	3,118
Average sales per Franchise Drive-In	$ **352**	$ 346	$ **945**	$ 906
Change in same-store sales [2]	**2.1** %	6.1 %	**4.5** %	8.3 %
Franchising revenues [3]	$ **48,828**	$ 45,273	$ **127,788**	$ 117,988
Percentage increase (decrease)	**7.9** %	13.5 %	**8.3** %	18.8 %
Effective royalty rate [4]	**4.18** %	**4.09** %	**4.10** %	4.01 %

(1) Drive-ins that are temporarily closed for various reasons (repairs, remodeling, relocations, etc.) are not considered closed unless the Company determines that they are unlikely to reopen within a reasonable time.
(2) Represents percentage change for drive-ins open for a minimum of 15 months.
(3) Consists of revenues derived from franchising activities, including royalties, franchise fees and lease revenues. See *Revenue Recognition Related to Franchise Fees and Royalties* in the *Critical Accounting Policies and Estimates* section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended August 31, 201 5 .
(4) Represents franchise royalties as a percentage of Franchise Drive-In sales.

Same-store sales for Franchise Drive-Ins increased 2.1 % for the third quarter and 4.5 % for the first nine months of fiscal year 201 6 , as compared to an increase of 6.1 % and 8.3 %, respectively, for the same period s last year. Franchising revenues increased $ 3.6 million, or 7.9 %, for the third quarter and increased $ 9.8 million, or 8.3 %, for the first nine months of fiscal year 201 6 , compared to the same period s last year. The increase in franchise revenues was primarily attributable to increases in royalties related to the growth of same-store sales and new unit growth .

Operating Expenses . T he 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

	Three months ended May 31,		**Percentage Points**
	2016	**2015**	**Increase (Decrease)**
Costs and expenses			
Company Drive-Ins:			
Food and packaging	**27.9** %	27.6 %	0.3
Payroll and other employee benefits	**34.7**	34.6	0.1
Other operating expenses	**19.4**	19.4	-
Cost of Company Drive-In sales	**82.0** %	81.6 %	0.4

	Nine months ended May 31,		**Percentage Points**
	2016	**2015**	**Increase (Decrease)**
Costs and expenses			
Company Drive-Ins:			
Food and packaging	**27.8** %	28.0 %	(0.2)
Payroll and other employee benefits	**35.5**	35.4	0.1
Other operating expenses	**20.8**	21.1	(0.3)
Cost of Company Drive-In sales	**84.1** %	84.5 %	(0.4)

Dr ive-in level margins at Company Drive-Ins were unfavorable by 40 basis points during the third quarter and favorable by 40 basis points in the first nine months of fiscal year 201 6 . The margin results for the quarter primarily reflect the impact of the new BTF , which was established March 1, 2016. Food and packaging costs were un favorable by 30 basis points during the third quarter as a result of vendor contributions that were previously credited against food and paper costs for Company Drive-Ins that are now being remitted to the BTF . Other operating expenses were flat during the third quarter , as a result of the new technology fee paid to the BTF , offset by favorable repair and maintenance costs related to technology as well as favorable utility costs. Food and packaging and other operating expenses for the first nine months of fiscal year 2016 improved by 20 basis points and 30 basis points, respectively , reflecting positive same-store sales, partially offset by the impact of the BTF .

Selling , General and Administrative ("SG& A ") . SG& A expenses decreased $ 0.1 million, or 0.4 %, to $ 20.6 million for the third quarter and increased $ 4.7 million, or 8.2 %, to $ 62.3 million for the first nine months of fiscal year 201 6 , as compared to the same period s last year. Th e increase for the first nine months is primarily related to the costs of additional headcount in support of the Company's technology initiatives and higher variable compensation due to strong operating performance.

Depreciation and Amortization . Depreciation and amortization was flat in the third quarter and decreased $ 1. 2 million, or 3.4 %, to $ 33.5 million for the first nine months of fiscal year 201 6 , as compared to the same period s last year. This decrease is primarily attributable to asset s that fully depreciated in the prior fiscal year .

Net Interest Expense . Net interest expense increased $9.1 million, or 144.9%, to $ 15.4 million for the third quarter and $9.2 million, or 49.2%, to $27.9 million for the first nine months of fiscal year 2016, as compared to last year. The increase reflects the $8.8 million loss from the early extinguishment of debt related to the 2016 debt financing transaction that occurred in May of fiscal year 2016 . Excluding the early extinguishment of debt, net interest expense increased $0.4 million , or 5.8%, to $6.7 million for the third quarter and $0.4 million, or 2.4%, to $ 1 9. 1 million for the first nine months of fiscal year 2016, as compared to the same period s last year. See "Liquidity and Sources of Capital" and "Item 3 . Quantitative and Qualitative Disclosures About Market Risk" below for additional information on our 2016 debt financing transaction and factors that could impact interest expense.

Income Taxes. The provision for income taxes reflects an effective tax rate of 34.6% for the third quarter of fiscal 2016 compared to 32.0% for the same period in fiscal year 2015. The provision for income taxes reflects an effective tax rate of 34.8% for the first nine months of fiscal year 2016 compared to 33.2% for the same period in fiscal year 2015. The change was primarily due to the recognition of prior years' federal tax deductions in fiscal 2015. Our tax rate may continue to vary from quarter to quarter depending on the timing of stock option dispositions by option-holders and as circumstances on other tax matters change.

Financial Position

Total assets increased $59.6 million, or 9.6%, to $679.7 million during the first nine months of fiscal year 2016 from $620 .0 million at the end of fiscal year 2015 . The increase in total assets was primarily attributable to a n increase in cash and cash equivalents resulti ng from the net proceeds of $74.5 million from the 2016 debt financing transaction as well as a $7.9 million increase in debt origination costs, net, also related to the transaction , detailed below in " Liquidity and Sources of Capital . " Additionally, assets held for sale increased $13.4 million consisting of Company Drive-Ins expected to be sold within one year as part of the Company's plan to move toward an approximately 95%-franchised system . These increases were impacted by a decrease in net property, equipment and capital leases of $ 29.8 million, driven by depreciation , asset retirements and sales , and assets reclassified as held for sale , partially offset by purchases of property , equipment and technology .

Total liabilities increased $135.5 million, or 22.5%, to $738.1 million during the first nine months of fiscal year 2016 from $602.6 million at the end of fiscal year 2015. The increase was primarily attributable to an increase in long term debt of $ 149.3 million , offset by a $ 7.3 million decrease in current maturities of long-term debt and capital leases, all related to the 2016 debt financing transaction , detailed below in "Liquidity and Sources of Capital . "

Total stockholders' equity (deficit) decreased $75.9 million, or 435.3%, to a deficit of $58.5 million during fiscal year 2016 from $17.4 million at the end of fiscal year 2015 . This decrease was primarily attributable to $ 1 1 0.8 million in purchases of common stock during the first six months of the fiscal year and the payment of $ 16.2 million in dividends, partially offset by current-year earnings of $ 38.6 million and $ 9.8 million from the issuance of stock related to stock option exercises and the related tax benefits .

Liquidity and Sources of Capital

Operating Cash Flows. Net cash provided by operating activities decreased $ 22. 3 million to $ 78. 2 million for the first nine months of fiscal year 201 6 as compared to $ 100.5 million for the same period in fiscal year 201 5 . The decrease was driven by changes in working capital during the first nine months of fiscal year 2016 related to the timing of payments and receipts for both operational and tax transactions .

Investing Cash Flows. Net cash used in investing activities during the first nine months of fiscal year 201 6 de creased $ 7.2 million to $ 15.4 million compared to $ 22.6 million for the same period in fiscal year 201 5 . Proceeds from the sale of assets increased $8.6 million, primarily related to stores sold to franchisees during the first nine months of fiscal year 2016. Additionally, investments in property and equipment decreased compared to the same period last year mainly due to acquisitions of drive-in real estate of $3.8 million that occurred in the second quarter of fiscal year 2015. The change was also affected by the timing of payments and borrowings on receivable s from system funds .

The table below outlines our use of cash in millions for investments in property and equipment for the first nine months of fiscal year 201 6 :

Purchase and replacement of equipment and technology	$	9.3
Brand technology investments		8.0
Rebuilds, relocations and remodels of existing drive-ins		5.5
Newly constructed drive-ins leased or sold to franchisees		2.8
Newly constructed Company Drive-Ins		0.9
Total investments in property and equipment	$	26.5

Financing Cash Flows . Net cash provided by financing activities increased $ 100.0 million to $ 9.4 million for the first nine months of fiscal year 201 6 , as compared to cash used in financing activities of $ 90.6 million for the same period in fiscal year 201 5 . In May of fiscal year 2016 we completed a debt financing transaction as described below, which is the primary driver of the increase. Additionally, t he overall increase in cash provided in financing activities was impacted by a decrease in restricted cash related to our new debt obligations. Th e increase was partially offset by a decrease in stock option exercise proceeds of $ 9.9 million and an increase in purchases of treasury stock of $ 15.8 million.

On May 17, 2016, various subsidiaries of ours (the "Co-Issuers") issued $425 .0 million of Series 2016-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2016 Fixed Rate Notes") in a private transaction which bears 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. At May 31, 2016, the balance outstanding under the 2016 Fixed Rate Notes including accrued interest totaled $425.7 million and carried a weighted-average interest cost of 4. 79 % , including the effect of the loan origination costs described below.

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"). This revolving credit facility allows for the issuance of up to $150.0 million of 2016 Variable Funding Notes and certain other credit instruments, including letters of credit. Interest on the 201 6 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 has 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. At May 31, 2016, there was no balance outstanding under the 2016 Variable Funding Notes.

We used $350.5 million of the net p roceeds from the issuance of the 2016 Fixed Rate Notes to repay our existing Series 2011-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2011 Fixed Rate Notes") and Series 2011-1 Senior Secured Variable Funding Notes, Class A-1 (the "2011 Variable Funding Notes" and, together with the 2011 Fixed Rate Notes, the "2011 Notes") in full and to pay the costs associated with the securitized financing transaction, including prepayment premiums.

Loan origination costs associated with our 2016 transaction totaled $ 12.6 million and were allocated among the 2016 Notes. Loan costs are being amortized over each note's expected life, and the unamortized balance is categorized as "debt origination costs, net" on the Condensed Consolidated Balance Sheets.

While the 2016 Fixed Rate Notes and the 2016 Variable Rate Notes are structured to provide for seven-year and five-year lives, respectively, they have a legal final maturity date of May 2046. We intend to repay or refinance the 2016 Notes on or before the end of their respective expected lives. In the event the 2016 Notes are not paid in full by the end of their expected lives, the Notes are subject to an upward adjustment in the interest rate of at least 5% per annum. In addition, principal payments will accelerate by applying all of the royalties, lease revenues and other fees securing the debt, after deducting certain expenses, until the debt is paid in full. Also, any unfunded amount under the 2016 Variable Funding Notes will become unavailable.

We anticipate fiscal year 2016 interest expense from the 2016 Fixed Rate Notes and the Series 2013-1 Senior Secured Fixed Rate Notes, Class A-2 (the "2013 Fixed Rate Notes" and, together with the 2016 Fixed Rate Notes, the "Fixed Rate Notes") , including the amortization of loan origination costs, to be approximately $ 26 .0 million annually . We are scheduled to make principal payments on our 2016 Fixed Rate Notes of approximately $ 1.1 million over the remainder of fiscal year 2016. Under the new financing, m andatory principal payments of $ 2.5 million in total are due through December 2017 with no principal payments required after . There are no required principal payments for the 2013 Fixed Rate Notes. The elimination of mandatory principal payments of $ 10 million annually under our retired debt will increase the amount of our available free cash flow. For additional information on our May 2016 transaction see note 7 – Debt, included in Part I, Item 1, "Financial Statements" in this Quarterly Report on Form 10-Q.

See note 10 – Long-Term Debt in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2015 for additional information regarding our long-term debt.

In August 201 5 , our Board of Directors extended the Company's share repurchase program, authorizing the purchase of up to $1 4 5 .0 million of our outstanding shares of common stock through August 31, 201 6 . 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 our outstanding shares of common stock through August 31, 2017. Share repurchases may be made from time to time in the open market or otherwise. The share repurchase program may be extended, modified, suspended or discontinued at any time. D uring the first nine months of fiscal year 201 6 , approximately 3.9 million shares were repurchased for a total cost of $ 110.8 million .

As of May 31, 2016 , our total cash balance of $ 110.4 million ($ 99.4 million of unrestricted and $ 11.0 million of restricted cash balances) reflected the impact of the cash generated from operating activities, stock option exercise proceeds, 201 6 debt transaction proceeds, cash used for share repurchases, dividends, debt payments and capital expenditures mentioned above. We believe that existing cash, funds generated from operations and the amount available under our 201 6 Variable Funding Notes will meet our needs for the foreseeable future.

Critical Accounting Policies and Estimates

Critical accounting policies are those the Company believes are most important to portraying its financial conditions and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments and uncertainties regarding the application of these policies may result in materially different amounts being reported under various conditions or using different assumptions. T here have been no material changes to the critical accounting policies previously disclosed in the Company's Annual Report on Form 1 0-K for the fiscal year ended August 31, 2015 .

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk. Our exposure to interest rate risk at May 31, 201 6 is primarily based on the 201 6 Fixed Rate Notes and the 2013 Fixed Rate Notes with an effective rate of 4.47 % and 3.75% , respectively, before amortization of debt-related costs. At M ay 31, 201 6 , the fair value of the Fixed Rate Notes approximated the carrying value of $ 580.8 million , including accrued interest . Management used market information available for public debt transactions for companies with ratings that are at or below our ratings. Management believes this fair value is a reasonable estimate with the information that is available. Should interest rates and/or credit spreads increase or decrease by one percentage point, the estimated fair value of the Fixed Rate Notes would decrease or increase by approximately $ 15 million, respectively. The fair value estimate required significant assumptions by management as there are few, if any, securitized loan transactions occurring in the current market.

For further discussion of our exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended August 31, 201 5 .

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14 under the Securities Exchange Act of 1934). Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

There were no significant changes in the Company's internal control over financial reporting during the quarter ended May 31, 2016 , that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

T here has been no material change in the risk factors set forth in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended August 31, 2015 .

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

Shares repurchased during third quarter of fiscal year 2016 are as follows (in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Program (1)
March 1, 2016 through March 31, 2016	405	$ 31.53	405	$ 41,774
April 1, 2016 through April 30, 2016	347	35.21	347	29,564
May 1, 2016 through May 31, 2016	455	31.07	455	170,431
Total	1,207		1,207	

(1) In August 2015 , the Company's Board of Directors extended the Company's share repurchase program, authorizing the Company to purchase up to $1 4 5 million of its outstanding shares of common stock through August 31, 201 6 . 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 our outstanding shares of common stock through August 31, 2017. Share repurchases may be made from time to time in the open market or otherwise, including through an accelerated share repurchase program , under 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. Please refer to n ote 3 – Share Repurchase Program of the notes to the Condensed Consolidated Financial Statements for additional information.

Item 6. Exhibits

Exhibits .

31.01	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14
31.02	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14
32.01	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.02	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SONIC CORP.

By: /s/ Claudia S. San Pedro
Claudia S. San Pedro
Executive Vice President and
Chief Financial Officer

Date: July 1 , 201 6

EXHIBIT INDEX

Exhibit Number and Description

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CERTIFICATION PURSUANT TO
SEC RULE 13a-14

I, J. Clifford Hudson, certify that:

1. I have reviewed this quarterly report on Form 10- Q of Sonic Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 1, 2016

By: /s/ J. Clifford Hudson
J. Clifford Hudson
Chief Executive Officer

CERTIFICATION PURSUANT TO
SEC RULE 13a-14

I, Claudia San Pedro , certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 1, 2016

By: /s/ Claudia S. San Pedro
Claudia S. San Pedro
Chief Financial Officer

Exhibit 32.01

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

The undersigned hereby certifies that to his knowledge the quarterly report of Sonic Corp. (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Date: July 1, 2016

By: /s/ J. Clifford Hudson
J. Clifford Hudson
Chief Executive Officer

Exhibit 32.02

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

The undersigned hereby certifies that to his knowledge the quarterly report of Sonic Corp. (the “Company”) filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Date: July 1, 2016

By: /s/ Claudia S. San Pedro
Claudia S. San Pedro
Chief Financial Officer