

# SONIC CORP

## FORM 10-K (Annual Report)

Filed 10/31/16 for the Period Ending 08/31/16

Address	300 JOHNNY BENCH DRIVE OKLAHOMA CITY, OK 73104
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Industry	Restaurants & Bars
Sector	Consumer Cyclical
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K



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

For the fiscal year ended: August 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 principal executive offices)

73104

(Zip Code)

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

Securities registered pursuant to section 12(b) of the Act:

None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, Par Value \$.01 (Title of class)

(Facing Sheet Continued)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act . Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act . Yes  No

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 the reports), and (2) has been subject to the filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not 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 Act). Yes  No

As of February 29, 2016, the aggregate market value of the 46,712,695 shares of common stock of the Company held by non-affiliates of the Company equaled \$1,371,951,852 based on the closing sales price for the common stock as reported for that date.

As of October 14, 2016, the Registrant had 45,758,995 shares of common stock issued and outstanding.

Documents Incorporated by Reference

Part III of this report incorporates by reference certain portions of the definitive proxy statement which the Registrant will file with the Securities and Exchange Commission no later than 120 days after August 31, 2016.

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**FORM 10-K**

**SONIC CORP.**

**PART I**

**Item 1. Business**

**Overview**

Sonic Corp. operates and franchises the largest chain of drive-in restaurants (“Sonic Drive-Ins”) in the United States. References to “Sonic Corp.,” “Sonic,” “the Company,” “we,” “us” and “our” in this Form 10-K are references to Sonic Corp. and its subsidiaries.

The first Sonic Drive-In restaurant opened in 1953. As of the end of our fiscal year on August 31, 2016, the Sonic system included 3,557 Sonic Drive-Ins in 45 states of which 345 were owned and operated by Sonic Restaurants, Inc., the Company’s operating subsidiary (“Company Drive-Ins”), and 3,212 were owned and operated by franchisees (“Franchise Drive-Ins”).

Sonic Corp. was incorporated in the State of Delaware in 1990 in connection with its 1991 initial public offering of common stock. Sonic is publicly traded on the NASDAQ National Market Stock Exchange (“NASDAQ”) (Ticker: SONC).

**Restaurant Design and Construction**

The typical Sonic Drive-In consists of a kitchen housed in a one-story building, which is approximately 1,500 square feet, flanked by canopy-covered rows of 16 to 24 parking spaces, with each space having its own payment terminal, intercom speaker system and menu board. At a typical Sonic Drive-In, a customer drives into one of the parking spaces, orders through the intercom speaker system and has the food delivered by a carhop. Many Sonic Drive -Ins also include a drive-thru lane and patio seating to provide customers with alternative dining options.

**Menu**

Sonic maintains a highly diverse menu. The menu strategy is to provide a broad range of items that appeal to target customer segments across different day-parts. The menu includes a variety of traditional and healthier choices as well as creative and fun items. Sonic’s signature food items include specialty drinks (such as cherry limeades and slushes), ice cream desserts, made-to-order chicken sandwiches and hamburgers, a variety of hot dogs including six-inch premium beef hot dogs and footlong quarter-pound cones, 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.

**Strategy**

Sonic’s strategy is to grow the Sonic brand with increased same-store sales and new unit growth by delivering a differentiated and high quality customer service experience. The key elements of our strategy are:

- A distinctive drive-in concept focusing on a unique menu of quality, made-to-order food products including several signature items;
- A commitment to customer service featuring the quick delivery of food by friendly carhops; and
- A commitment to strong franchisee relationships.

Sonic’s growth strategies include the following:

- Same-store sales growth fueled by Sonic’s core brand strengths, including consistent drive-in execution, high-quality products, new product news and service differentiation with friendly carhops, complemented by increased media effectiveness and the use of innovative technology to enhance the customer experience;

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- Improved performance of Company Drive-Ins, including consistent operations execution, speed of service, cleanliness of drive-ins and drive-in margins with the use of the Sonic system's point-of-sale technology ; and
- Expansion of Sonic Drive-Ins.

**Restaurant Locations**

As of August 31, 2016 , 3,557 Sonic Drive-Ins were in operation from coast to coast in 45 states , consisting of 345 Company Drive-Ins and 3,212 Franchise Drive-Ins .

**Expansion**

During fiscal year 2016 , we opened 53 Sonic Drive-Ins, which consisted of one Company Drive-In and 52 Franchise Drive-Ins. Expansion plans for fiscal year 2017 involve the opening of multiple Sonic Drive-Ins under development agreements, as well as single-store development by new and existing franchisees. We believe that our existing , as well as newly opened markets , offer significant growth opportunities for both Company Drive-In and Franchise Drive-In expansion over the long term.

**Marketing**

We have a fully integrated marketing strategy that includes a national advertising campaign. We have designed this marketing program to differentiate Sonic Drive-Ins from our competitors by emphasizing high-quality, distinctive, made-to-order menu items and personalized service featuring friendly carhops. We support promotions with television, radio, digital media, point-of-sale materials and other communications as appropriate. Those promotions generally highlight limited-time products and signature menu items.

Each year, Sonic develops a marketing plan with the involvement of the Sonic Franchise Advisory Council. (Information concerning the Sonic Franchise Advisory Council is set forth on page 4 under Franchise Program - *Franchise Advisory Council* .) Funding for our marketing plan is provided by the System Marketing Fund, the Sonic Brand Fund and local advertising expenditures. The System Marketing Fund primarily focuses on purchasing advertising on national cable and broadcast networks and other national media, sponsorship and brand enhancement opportunities. The Sonic Brand Fund supports national media production as well as other programs designed to promote or enhance the Sonic brand. Franchisees also may be required to spend additional amounts on local advertising, typically through participation in the local advertising cooperative. Our franchise agreements require advertising contributions by franchisees of up to 5.9% of gross sales to these marketing funds and local advertising cooperatives .

**Purchasing**

We negotiate with suppliers for the Sonic Drive-Ins' primary food products and packaging supplies to obtain competitive prices and ensure adequate quantities of food and supplies. We seek competitive bids from suppliers on many of our food and packaging items. We approve suppliers of those products and require them to adhere to our established product and food safety specifications. Suppliers manufacture several key products for Sonic under private label and sell them to authorized distributors for resale to Sonic Drive-Ins. We require all Sonic Drive-Ins to purchase from approved distributors.

**Food Safety and Quality Assurance**

To ensure the consistent delivery of safe, high-quality food, we created a food safety and quality assurance program. Sonic's food safety program promotes the quality and safety of all products and procedures utilized by all Sonic Drive-Ins and provides certain requirements that must be adhered to by all suppliers, distributors and Sonic Drive-Ins. Our comprehensive, restaurant-based food safety program is called Sonic Safe. Sonic Safe is a risk-based system that utilizes Hazard Analysis & Critical Control Points ("HACCP") principles for managing food safety and quality. Our food safety program includes components to monitor and ensure the safety and quality of Sonic's products and procedures at every stage of the food preparation and production cycle including, but not limited to, employee training, supplier product inspections and testing and unannounced drive-in food safety

auditing by independent third parties. All Sonic Drive-In employees are required to be trained in food safety in their first stage of training, utilizing an internal training program. This program includes specific training on food safety information and requirements for every station in the drive-in. We also require our drive-in managers and assistant managers to pass and maintain the ServSafe® certification. ServSafe® is the most recognized food safety training certification in the restaurant industry.

## Information Systems

Sonic Drive-Ins are equipped with information technology systems that are designed to provide operational tools for sales, labor and inventory. This technology includes industry-specific, off-the-shelf systems as well as proprietary software that assist in managing food and beverage costs. These solutions are integrated with our point-of-sale systems to provide information that is important for managers to run efficient and effective operations. We have centralized financial and accounting systems for Company Drive-Ins. We also have systems that receive transaction-level data from Franchise Drive-Ins. We believe these systems are important in analyzing and improving sales and profit margins and accumulating marketing information. We are also making strategic investments in customer facing digital technologies, including interactive menu boards, a multi-functional mobile application and electronic payment at the stall to enhance the customer's experience and drive sales. We are further investing in new point-of-sale systems to improve drive-in level operations and profits.

## Company Operations

*Management Structure.* A typical Company Drive-In is operated by a manager, two to four assistant managers and approximately 25 hourly employees, many of whom work part-time. The manager has responsibility for the day-to-day operations of the Company Drive-In. Supervisors oversee several Company Drive-Ins and supervise the managers of those drive-ins. The employee compensation program at Company Drive-Ins for managers and supervisors is comprised of a guaranteed base compensation with additional incentive compensation based on drive-in level performance.

*Company Drive-In Data.* The following table provides certain financial information relating to Company Drive-Ins and the number of Company Drive-Ins opened, purchased from or sold to franchisees and closed during the past five fiscal years and should be read in conjunction with the information in our Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7.

	2016	2015	2014	2013	2012
Average sales per Company Drive-In	\$ 1,142	\$ 1,116	\$ 1,043	\$ 990	\$ 958
<i>( In thousands )</i>					
Number of Company Drive-Ins:					
Total open at beginning of year	387	391	396	409	446
New Company Drive-Ins	1	3	3	2	1
Purchased from franchisees	-	3	-	1	-
Sold to franchisees	(38)	(9)	(7)	-	(35)
Closed (net of re-openings)	(5)	(1)	(1)	(16)	(3)
Total open at end of year	345	387	391	396	409

## Franchise Program

*General.* As of August 31, 2016, we had 3,212 Franchise Drive-Ins in operation. A large number of successful multi-unit franchise groups have developed during the Sonic system's more than 60 years of operation. Those franchisees continue to develop new Franchise Drive-Ins either through development agreements or single-site development. Our franchisees opened 52 drive-ins during fiscal year 2016. We consider our franchisees a vital part of our continued growth and believe our relationship with our franchisees is good.

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*Franchise Agreements* . For traditional drive-ins, the current franchise agreement provides for a franchise fee of \$45,000 per drive-in, a royalty fee of up to 5% of gross sales on a graduated percentage basis and a 20-year term. For fiscal year 2016 , Sonic's average royalty rate was 4.12%. The franchisee also pays advertising fees of up to 5.9% of gross sales and a technology fee of approximately 0.25% of gross sales .

*Development Agreements* . We use development agreements to facilitate the planned expansion of the Sonic Drive-In restaurant chain through single and multiple unit development. During fiscal year 2016 , almost all of our new Franchise Drive-In openings occurred as a result of existing development agreements . Each development agreement gives a developer the exclusive right to construct, own and operate Sonic Drive-Ins within a defined area. In exchange, each developer agrees to open a minimum number of Sonic Drive-Ins in the area within a prescribed time period. Franchisees who enter into development agreements are required to pay a fee, which is credited against franchise fees due when Sonic Drive-Ins are opened in the future. Franchisees may forfeit such fees and lose their rights to future development if they do not maintain the required schedule of openings.

*Franchise Drive-In Development* . We assist each franchisee in selecting sites and developing Sonic Drive - Ins. Each franchisee has responsibility for selecting the franchisee's drive-in location but must obtain our approval of each Sonic Drive-In design and each location based on accessibility and visibility of the site and targeted demographic factors, including population density, income, age and traffic. We provide our franchisees with the physical specifications for the typical Sonic Drive-In.

*Franchise Advisory Council* . Our Franchise Advisory Council provides advice, counsel and input to Sonic on important issues impacting the business, such as marketing and promotions, operations, purchasing, building design, technology and new products. The Franchise Advisory Council currently consists of 26 members selected by Sonic . We have seven executive committee members who are selected at large and 19 regional members representing all regions of the country. We also have four Franchise Advisory Council task groups comprised of 59 members who generally serve three-year terms and provide support on individual key priorities.

*Franchise Drive-In Data* . The following table provides certain financial information relating to Franchise Drive-Ins and the number of Franchise Drive-Ins opened, purchased from or sold to Sonic and closed during Sonic's last five fiscal years. The table should be read in conjunction with the information in our Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7.

	2016	2015	2014	2013	2012
Average sales per Franchise Drive-In ( In thousands )	\$ 1,301	\$ 1,261	\$ 1,170	\$ 1,125	\$ 1,081
Number of Franchise Drive-Ins:					
Total open at beginning of year	3,139	3,127	3,126	3,147	3,115
New Franchise Drive-Ins	52	38	37	25	36
Sold to the Company	-	(3)	-	(1)	-
Purchased from the Company	38	9	7	-	35
Closed (net of re-openings)	(17)	(32)	(43)	(45)	(39)
Total open at end of year	3,212	3,139	3,127	3,126	3,147

## Competition

We compete in the restaurant industry, specifically in the segment known as the quick-service restaurant ("QSR") segment, a highly competitive industry in terms of price, service, location and food quality. The restaurant industry is often affected by changes in consumer trends, economic conditions, demographics, traffic patterns and concerns about the nutritional content of quick-service foods. We compete on the basis of distinctive food and service with signature food items, friendly carhops and the method of food preparation (made-to-order and personalized). The quality of service, featuring Sonic carhops, constitutes one of our primary marketable points of difference from the competition. There are many well-established competitors with substantially greater financial and other resources. These competitors include a large number of national, regional and local food service establishments, including QSRs, casual - dining restaurants and convenience stores. A significant change in market conditions or in pricing or other marketing strategies by one or more of Sonic's competitors could have an adverse impact on Sonic's sales, earnings

and growth. Furthermore, the restaurant industry has few barriers to entry, and new competitors may emerge at any time. In selling franchises, we compete with many franchisors of QSR and other restaurants, in addition to franchisors of other business opportunities.

### **Seasonality**

Our sales and earnings results during Sonic's second fiscal quarter (the months of December, January and February) generally are lower than other quarters because of colder and more volatile weather in the locations of a number of Sonic Drive-Ins.

### **Employees**

As of August 31, 2016, we had 420 full-time corporate employees and approximately 9,200 full-time and part-time employees at Company Drive-Ins. None of our employees are subject to a collective bargaining agreement. We believe that we have good labor relations with our employees.

### **Intellectual Property**

Sonic owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information, including the "Sonic" logo and trademark, which are of material importance to our business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. Patents, copyrights and licenses are of varying durations.

### **Customers**

Our business is not dependent upon either a single customer or a small group of customers.

### **Government Contracts**

No portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

### **Government Regulation**

Our restaurants are subject to licensing and regulation by state and local health, safety, fire and other authorities, including licensing requirements and regulations for the sale of food. The development and construction of new restaurants is subject also to compliance with applicable zoning, land use and environmental regulations. We are also subject to federal regulation and state laws that regulate the offer and sale of franchises and substantive aspects of the franchisor-franchisee relationship. Various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws govern minimum wage requirements, overtime pay, meal and rest breaks, unemployment tax rates, health care and benefits, workers' compensation rates, citizenship or residency requirements, child labor regulations and discriminatory conduct. Federal, state and local government agencies have established regulations requiring that we disclose to our customers nutritional information regarding our menu items. We have processes in place to monitor compliance with applicable laws and regulations governing our operations.

### **Environmental Matters**

We are not aware of any federal, state or local environmental laws or regulations that will materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict the effect on operations of possible future environmental legislation or regulations. During fiscal year 2016, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

## Available Information

We maintain a website with the address of [www.sonicdrivein.com](http://www.sonicdrivein.com). Copies of the Company's reports filed with, or furnished to, the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K and any amendments to such reports are available for viewing and copying at such website, free of charge, as soon as reasonably practicable after filing such material with, or furnishing it to, the Securities and Exchange Commission. In addition, copies of Sonic's corporate governance materials, including the Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Code of Ethics for Financial Officers and Code of Business Conduct and Ethics are available for viewing and copying at the website, free of charge.

## Forward-Looking Information

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, principally in the sections captioned "Business," "Legal Proceedings" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. In some cases, forward-looking statements can be identified by words such as "anticipate," "estimate," "expect," "goals," "guidance," "plan," "may," "will," "would" and similar expressions. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. These forward-looking statements are all based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors including, but not limited to, the risks and uncertainties discussed below. We undertake no obligation to publicly update or revise them, except as may be required by law.

### **Item 1A. Risk Factors**

We caution you that our business and operations are subject to a number of risks and uncertainties. The factors listed below are important factors that could cause our actual results to differ materially from our historical results and from projections in forward-looking statements contained in this report, in our other filings with the Securities and Exchange Commission, in our news releases and in oral statements by our representatives. However, other factors that we do not anticipate or that we do not consider significant based on currently available information may also have an adverse effect on our results.

#### **Events reported in the media, including social media, such as incidents involving food-borne illnesses , food contamination or food tampering, whether or not accurate, can cause damage to our reputation and rapidly affect sales and profitability.**

Reports, whether true or not, of food-borne illnesses , food contamination or food tampering have in the past severely injured the reputations of participants in the restaurant industry and could affect us in the future. The potential for terrorism affecting our nation's food supply also exists and, if such an event occurs, it could have a negative impact on our brand's reputation and could severely hurt sales, revenues and profits. Our ability to remain a trusted brand and increase sales and profits depends on our ability to manage the potential impact on Sonic of actual or reports of food safety issues. Our food safety and quality assurance program minimize s food safety risk s . Nevertheless, these risks cannot be completely eliminated. Any food safety incident attributed to our restaurants or within the food service industry, or any widespread negative publicity regarding our brand or the restaurant industry in general, could materially harm our brand, including sales and profitability.

#### **The restaurant industry is highly competitive, and that competition could lower our revenues, margins and market share.**

The restaurant industry is intensely competitive with respect to price, service, location, personnel, dietary trends, including nutritional content of quick-service foods, and quality of food and is often affected by changes in consumer tastes and preferences, economic conditions, population and traffic patterns. We compete with international, regional and local restaurants, some of which operate more restaurants and have greater financial resources. We compete primarily through the quality, price, variety and value of food products offered and our

distinctive service experience. Other key competitive factors include the number and location of restaurants, speed of service, attractiveness of facilities, effectiveness of advertising and marketing programs and new product development by us and our competitors. We cannot ensure that we will compete successfully in the restaurant industry on these factors. In addition, some of our competitors have substantially larger marketing budgets, which may provide them with a competitive advantage. Our system also competes within the QSR industry not only for customers but also for management and hourly employees, suitable real estate sites, and qualified franchisees.

**Changing dietary preferences may cause consumers to avoid our products in favor of alternative foods.**

The restaurant industry is affected by consumer preferences and perceptions. Although we monitor these changing preferences and strive to adapt to meet changing consumer needs, the growth of our brand and, ultimately, system-wide sales depend on the sustained demand for our products. If dietary preferences and perceptions cause consumers to avoid certain products offered by Sonic Drive-Ins in favor of different foods, demand for our products may be reduced and our business could be harmed.

**Our earnings and business growth strategy depends in large part on the success of our franchisees, who exercise independent control of their businesses.**

A significant percentage of restaurants are owned and operated by our franchisees. A portion of our earnings comes from royalties, rents and other amounts paid by our franchisees. Franchisees are independent businesses, and their employees are not our employees. To help ensure compliance with brand standards we provide appropriate training and support to, and monitor the operations of, our franchisees, but the quality of their drive-in operations may be diminished by any number of factors beyond our control. Franchisees may not successfully operate drive-ins in a manner consistent with our high standards and requirements, and they may not invest in facilities and initiatives as necessary to compete successfully in the restaurant industry. Franchisees also may fail to properly implement the requirements of the Patient Protection and Affordable Care Act (the "ACA") enacted in 2010 or may respond to the ACA in a manner that is viewed negatively by employees or consumers. In addition, franchisees may not hire and train qualified managers and other restaurant personnel and may not adequately plan for and train their own successors. Consumers could perceive an operational shortcoming of a Franchise Drive-In as a reflection of the entire Sonic brand, thus damaging our reputation and potentially affecting revenues and profitability.

**Changes in economic, market and other conditions could adversely affect Sonic and its franchisees, and thereby Sonic's operating results.**

The QSR industry is affected by changes in economic conditions, consumer tastes and preferences, spending patterns, demographic trends, consumer perceptions of food safety, weather, traffic patterns, the type, number and location of competing restaurants and the effects of war or terrorist activities and any governmental responses thereto. We are also affected by these factors, and the concentration of approximately 35% of our drive-ins in Texas and Oklahoma further subjects us to risk particularly if these factors impact those states. Factors such as interest rates, inflation, gasoline prices, energy costs, food and packaging costs, labor and benefit costs, legal claims and the availability of management and hourly employees also affect restaurant operations and administrative expenses for all drive-ins. Economic conditions, including disruptions in the financial markets, interest rates and other government policies impacting land and construction costs and the cost and availability of borrowed funds, affect our ability and our franchisees' ability to finance new restaurant development, improvements and additions to existing restaurants, and the acquisition of restaurants from, and sale of restaurants to, franchisees. Inflation can cause increased food, labor and benefits costs and can increase our operating expenses. As operating expenses increase, we recover increased costs by increasing menu prices, to the extent permitted by competition and the consumer environment, or by implementing alternative products or processes, or by implementing other cost reduction procedures. We cannot ensure, however, that we will be able to recover increases in operating expenses in this manner.

**Our financial results may fluctuate depending on various factors, many of which are beyond our control.**

Our sales and operating results can vary from quarter to quarter and year to year depending on various factors, many of which are beyond our control. Certain events and factors may directly and immediately decrease

demand for our products , and we cannot ensure that we will be able to respond to or address the events and factors sufficiently . If customer demand decreases rapidly, our results of operations , including store-level sales and profits, would also decline precipitously. These events and factors include:

- sales promotions and product offerings by Sonic and its competitors;
- changes in average same-store sales and customer visits;
- the inability to purchase sufficient levels of media;
- variations in the price, availability and shipping costs of supplies such as food products;
- seasonal effects on demand for Sonic's products;
- unexpected slowdowns in new drive-in development or franchise agreement renewals ;
- changes in competitive conditions;
- changes in economic conditions generally, including consumer spending ;
- consumer sensitivity to price and value ;
- changes in consumer tastes and preferences ;
- changes in the cost of labor; and
- weather and other acts of God .

**Shortages or interruptions in the supply or delivery of perishable food products or rapid price increases could adversely affect our operating results.**

We are dependent on frequent deliveries of perishable food products that meet certain specifications. Shortages or interruptions in the supply of perishable food products may be caused by unanticipated demand, problems in production or distribution, acts of terrorism, financial or other difficulties of suppliers, disease or food-borne illnesses, droughts, inclement weather or other conditions. We source large quantities of food and supplies, which can be subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, energy costs, changes in international commodity markets and other factors. These shortages or rapid price increases could adversely affect the availability, quality and cost of ingredients, which would likely lower revenues and reduce our profitability.

**Failure to successfully implement our growth strategy could reduce, or reduce the growth of, our revenue and net income.**

We plan to continue to increase the number of Sonic Drive-Ins, but may not be able to achieve our growth objectives, and new drive-ins may not be profitable or provide a sufficient return on investment . The opening and success of drive-ins depend s on various factors, including:

- competition from other restaurants in current and future markets;
- the degree of saturation in existing markets;
- consumer interest in and acceptance of the Sonic brand in existing and new markets ;
- the identification and availability of suitable and economically viable locations;
- sales and profit levels at existing drive-ins;
- the negotiation of acceptable lease or purchase terms for new locations;
- permitting and regulatory requirements ;
- the cost and availability of construction resources and financing ;
- the ability to meet construction schedules;
- the availability of qualified franchisees and their financial and other development capabilities , including their desire and ability to access and commit capital ;
- the ability to hire and train qualified management personnel;
- sufficient marketing efforts;
- weather; and
- general economic and business conditions.

If we are unable to open as many new drive-ins as planned, if the drive-ins are less profitable than anticipated or if we are otherwise unable to successfully implement our growth strategy, revenue and profitability may grow more slowly or even decrease.

**Our outstanding and future leverage could have an effect on our operations.**

The Company employs securitized financing in the form of fixed rate notes and variable rate notes. As of August 31, 2016, we had outstanding two series of fixed rate notes : 1) \$ 155.2 million in debt including accrued interest at an interest rate of 3.75%, with an anticipated repayment date of July 2020, and 2) \$ 424.5 million in debt including accrued interest at an interest rate of 4.47%, with an anticipated repayment date of May 2023. In addition, as of August 31, 2016, we had no outstanding balance under the variable rate notes. Interest on the variable notes is based on the funding cost or index plus a base spread of 2.0%, per annum. The variable rate notes have an anticipated repayment date of May 2021, with two one-year options available under certain conditions. We believe our current leverage ratio is moderate. We have historically generated net operating cash flows significantly in excess of our debt service requirements. In the event that we default on our debt obligations, the following consequences could apply:

- Our flexibility may be reduced in responding to changes in business , industry , regulatory or economic conditions.
- Our ability to obtain additional financing in the future for acquisitions, working capital, capital expenditures and general corporate or other purposes could be impaired or any such financing may not be available on terms favorable to us.
- Any substantial decrease in net operating cash flows or any substantial increase in expenses could make it difficult for us to meet our debt service requirements or force us to modify our operations or sell assets; as a result a substantial portion of our cash flows could be required for debt service and might not be available for our operations or other purposes.
- Unpaid amounts outstanding could become immediately due and payable.

**Sonic Drive-Ins are subject to health, employment, environmental and other government regulations, and failure to comply with existing or future government regulations could expose us to litigation, damage to our reputation and lower profits.**

Sonic and its franchisees are subject to various federal, state and local laws affecting their businesses. The successful development and operation of restaurants depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use (including the placement of drive-thru windows), environmental (including litter), traffic and other regulations. More stringent requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay, prevent or make cost prohibitive the continuing operations of an existing restaurant or the development of new restaurants in particular locations. Restaurant operations are also subject to licensing and regulation by state and local departments relating to health, food preparation, sanitation and safety standards, federal and state labor and immigration laws (including applicable minimum wage requirements, overtime, working and safety conditions and work authorization requirements), federal and state laws prohibiting discrimination and other laws regulating the design and operation of facilities, such as the Americans with Disabilities Act. If we fail to comply with any of these laws, we may be subject to governmental action or litigation, and our reputation could be accordingly harmed. Injury to our reputation would, in turn, likely reduce revenues and profits.

In recent years, there has been an increased legislative, regulatory and consumer focus on nutrition and advertising practices in the food industry, particularly among restaurants. As a result, we have and will become subject to regulatory initiatives in the area of nutritional content, disclosure and advertising, such as requirements to provide information about the nutritional content of our food products, which could increase expenses. The operation of our franchise system is also subject to franchise laws and regulations enacted by a number of states and rules promulgated by the U.S. Federal Trade Commission. Any future legislation or legal changes regarding franchise relationships may negatively affect our operations, particularly our relationship with our franchisees and may increase our potential liability for franchisee practices and our costs. Failure to comply with new or existing franchise laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales. Changes in applicable accounting rules imposed by governmental regulators or private governing bodies could also affect our reported results of operations.

We are subject to the Fair Labor Standards Act, which governs such matters as minimum wage, overtime and other working conditions, along with the Americans with Disabilities Act, various family leave mandates and a

variety of other laws enacted, or rules and regulations promulgated, by federal, state and local governmental authorities that govern these and other employment matters. We have experienced and expect further increases in payroll expenses as a result of government-mandated increases in the minimum wage and future increases may be material. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. In addition, our vendors may be affected by higher minimum wage standards or availability of labor, which may increase the price of goods and services they supply to us.

We have implemented various aspects of the ACA in our business. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

**Litigation from customers, franchisees, employees and others could harm our reputation and impact operating results.**

Our legal and regulatory environment exposes us to complex compliance and litigation risk. Claims of illness or injury relating to food content, food quality or food handling are common in the QSR industry, as are intellectual property claims (including often aggressive or opportunistic attempts to enforce patents used in information technology systems). In addition, class action lawsuits have been filed, and may continue to be filed, against various QSRs alleging, among other things, that QSRs have failed to disclose the health risks associated with foods we serve and that QSR marketing practices have encouraged obesity and other health issues. There are also litigation and compliance risks and costs associated with privacy, consumer data protection and similar laws, particularly as they apply to children, as well as laws related to the collection and use of consumer, employee and franchisee data. We additionally may be subject to employee, franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, including those relating to overtime compensation. Litigation, as well as regulatory and legal changes, involving our relationship with our franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions. In addition to decreasing our sales and profitability and diverting management resources, adverse publicity or a substantial judgment against us could negatively impact our reputation, hindering the ability to attract and retain qualified franchisees and grow the business.

**We may not be able to adequately protect our intellectual property, which could decrease the value of our brand and products.**

The success of our business depends on the continued ability to use existing trademarks, service marks and other components of our brand in order to increase brand awareness and further develop branded products. All of the steps we have taken to protect our intellectual property may not be adequate.

**Our reputation and business could be materially harmed as a result of security breaches.**

Security breaches involving our systems or those of our franchisees or third party providers may occur, such as unauthorized access, denial of service, computer viruses and other disruptive problems caused by hackers and other bad actors. Our technology systems contain personal, financial and other information that is entrusted to us by our customers and employees as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in system disruptions, shutdowns, theft or unauthorized disclosure of confidential information. The occurrence of any of these incidents could result in adverse publicity, loss of consumer confidence, increased costs, reduced sales and profits and criminal penalties or civil liabilities.

**Unreliable or inefficient drive-in technology, lack of support for drive-in technology and failure to successfully implement technology initiatives could adversely impact operating results.**

We rely on proprietary and commercially available technologies at our drive-ins, including point-of-sale, digital point-of-purchase and payment card systems. We rely on this technology not only to efficiently operate our drive-ins but also to drive sales growth and margin improvement. Our strategic technology initiatives may not be timely or effectively implemented or adequately resourced. Certain technology networks and systems may also be unreliable or inefficient, and our technology vendors may limit or terminate product support and maintenance or be

unwilling or unable to provide products and services needed to execute our technology initiatives . Additionally, replacement parts and support and maintenance skills may become scarce, cost prohibitive or non-existent. Any such risks could disrupt drive-in operations, render us unable to achieve desired strategic results and impact sales and profitability.

**Ownership and leasing of significant amounts of real estate exposes us to possible liabilities and losses.**

We own or lease the land and building for all Company Drive-Ins. Accordingly, we are subject to all of the risks associated with owning and leasing real estate. In particular, the value of our assets could decrease and our costs could increase because of changes in the investment climate for real estate, demographic trends and supply or demand for the use of our drive-ins, which may result from competition from similar restaurants in the area, as well as liability for environmental conditions. We generally cannot cancel the leases, so if an existing or future Sonic Drive-In is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying rent for the balance of the lease term. In addition, as each of the leases expires, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close drive-ins in desirable locations.

**Catastrophic events may disrupt our business.**

Unforeseen events, or the prospect of such events, including war, terrorism and other domestic or international conflicts, public health issues , including health epidemics or pandemics, and natural disasters such as hurricanes, earthquakes or other adverse weather and climate conditions, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of franchisees, suppliers or customers, or result in political or economic instability. These events could reduce demand for our products or make it difficult or impossible to receive products from suppliers.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Of the 345 Company Drive-Ins operating as of August 31, 2016 , we operated 161 of them on property leased from third parties and 184 of them on property we own. The leases expire on dates ranging from 2 016 to 203 1 , with the majority of the third-party leases providing for renewal options. All third-party leases provide for specified monthly rental payments and/or rentals based on sales volume. Most leases require Sonic to maintain the property and pay the cost of insurance and taxes. We also own and lease 174 properties and sublease 43 properties to franchisees and other parties. These leases with franchisees and other parties expire on dates ranging from 201 6 to 203 1 , with the majority of the leases providing for renewal options. The majority of the leases for Franchise Drive-Ins provide for percentage rent based on sales volume, with a minimum base rent. These leases generally require the franchisee to maintain the property and pay the costs of insurance and taxes. Virtually all of our owned properties are pledged as collateral under the terms of our securitized financing facility, as described under “Liquidity and Sources of Capital” in Part II, Item 7.

Our corporate headquarters is located in Oklahoma City. We have an existing lease to occupy approximately 96 , 300 square feet. This lease expires in November 2023 and has two five-year renewal options. Sonic believes its properties are suitable for the purposes for which they are being used.

**Item 3. 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 or financial condition.

#### **Item 4. Mine Safety Disclosures**

Not applicable .

#### **Item 4A. Executive Officers of the Company**

##### **Identification of Executive Officers**

The following table identifies the executive officers of the Company:

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Position</u></b>	<b><u>Executive Officer Since</u></b>
Clifford Hudson	61	Chairman of the Board of Directors and Chief Executive Officer	1985
Todd W. Smith	39	President and Chief Marketing Officer	2014
Claudia S. San Pedro	47	Executive Vice President and Chief Financial Officer	2007
John H. Budd III	49	Executive Vice President and Chief Development and Strategy Officer	2013
Harold A. Ceron	41	President of Sonic Restaurants, Inc.	2015
Paige S. Bass	47	Senior Vice President, General Counsel and Assistant Corporate Secretary	2007
Michelle E. Britten	49	Vice President and Chief Accounting Officer	2012
Carolyn C. Cummins	58	Vice President of Compliance and Corporate Secretary	2004
Corey R. Horsch	38	Vice President of Investor Relations and Treasurer	2015

##### **Business Experience**

The following sets forth the business experience of the executive officers of the Company for at least the past five years:

Clifford Hudson has served as the Company's Chairman of the Board since January 2000 and Chief Executive Officer since April 1995. Mr. Hudson served as President of the Company from April 1995 to January 2000 and reassumed that position from November 2004 until May 2008 and again in April 2013 to January 2016. He has served in various other offices with the Company since 1984. Mr. Hudson has served as a Director of the Company since 1993. Mr. Hudson has served on the Board of Trustees of the Ford Foundation since January 2006.

Todd W. Smith has served as President and Chief Marketing Officer since January 2016. He served as Senior Vice President and Chief Marketing Officer from April 2015 to January 2016. Mr. Smith served as Vice President and Chief Marketing Officer of the Company from April 2014 to April 2015 and was Vice President of Marketing from April 2012 until April 2014. Mr. Smith was director of marketing and menu innovation for Wendy's International from December 2009 to April 2012. He was employed by Yum! Brands (KFC) in various brand marketing roles from January 2006 to November 2009.

Claudia S. San Pedro has served as the Company's Executive Vice President and Chief Financial Officer since August 2015. She served as Senior Vice President and Chief Financial Officer from April 2015 until August 2015. Ms. San Pedro served as Vice President of Investor Relations and Communications of the Company from January 2013 until April 2015 and was its Vice President of Investor Relations from July 2010 until January 2013. She served as Vice President of Investor Relations and Brand Strategies from October 2009 until July 2010.

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Ms. San Pedro has also served as Treasurer of the Company from January 2007 until October 2015 . She served as the Director of the Oklahoma Office of State Finance from June 2005 through November 2006. From July 2003 to May 2005, Ms. San Pedro served as the Budget Division Director for the Oklahoma Office of State Finance.

John H. Budd III has served as Executive Vice President and Chief Development and Strategy Officer from January 2016 to present. He served as Senior Vice President and Chief Development and Strategy Officer from August 2013 until January 2016 . Mr. Budd served in several progressive positions for Boston Consulting Group from 1997 until joining Sonic in August 2013 . His most recent position with Boston Consulting Group was Partner and Managing Director.

Harold A. Ceron has served as President of Sonic Restaurants, Inc. since September 2015. Mr. Ceron served as Senior Vice President of Operations of Sonic Restaurants, Inc. from July 2014 until September 2015. Prior to joining the Company, Mr. Ceron served as the Managing Director, Europe and Latin America, of 7-Eleven from April 2013 until June 2014 and as the Director of Global Business Development for 7-Eleven from August 2012 until June 2014. He served as the Director of Global Operations, KFC for Yum! Brands from August 2010 until June 2012. Prior to August 2010, Mr. Ceron worked for an additional 17 years with Yum! Brands in its Pizza Hut operations in various positions of increasing responsibility, lastly as Franchise Business Leader, Caribbean and Latin America.

Paige S. Bass has served as Senior Vice President and General Counsel of the Company since October 2014 and served as Vice President and General Counsel of the Company from January 2007 until October 2014. She has also served as Assistant Corporate Secretary since October 2008. Ms. Bass joined the Company as Associate General Counsel in 2004. Prior to joining the Company, Ms. Bass was employed as an associate with the law firm of Crowe & Dunlevy in Oklahoma City, Oklahoma.

Michelle E. Britten has served as Vice President and Chief Accounting Officer since January 2016 and as Vice President and Controller of the Company from November 2012 until January 2016 . She served as Senior Director of Corporate Accounting from April 2009 until November 2012 and as Senior Director of SEC Reporting from January 2007 until April 2009. Ms. Britten joined the Company in 2005 as its Director of SEC Reporting.

Carolyn C. Cummins has served as the Company's Corporate Secretary since January 2007 and as the Company's Vice President of Compliance since April 2004. Ms. Cummins joined the Company as Assistant General Counsel in 1999.

Corey R. Horsch has served as Vice President of Investor Relations and Treasurer of the Company since October 2015. Mr. Horsch served as a Portfolio Manager with Surveyor Capital from May 2011 until September 2015. He served as a Senior Research Analyst with Luther King Capital Management from June 2006 until April 2011. Prior to June 2006, Mr. Horsch worked for almost six years with Credit Suisse in various positions of increasing responsibility, the most recent of which was Vice President, Senior U.S. Equity Research Analyst.

**PART II****Item 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

The Company's common stock trades on NASDAQ under the symbol "SONC." The following table sets forth the high and low sales price for the Company's common stock during each fiscal quarter within the two most recent fiscal years as reported on NASDAQ.

<b>Fiscal Year Ended</b> <b>August 31, 2016</b>	<b>High</b>	<b>Low</b>	<b>Fiscal Year Ended</b> <b>August 31, 2015</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 29.99	\$ 22.72	First Quarter	\$ 27.88	\$ 21.10
Second Quarter	\$ 33.18	\$ 24.91	Second Quarter	\$ 33.15	\$ 25.91
Third Quarter	\$ 36.34	\$ 28.80	Third Quarter	\$ 36.73	\$ 28.53
Fourth Quarter	\$ 30.91	\$ 26.17	Fourth Quarter	\$ 34.23	\$ 24.86

**Stockholders**

As of October 14, 2016, the Company had 625 record holders of its common stock.

**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, totaling \$21.3 million, for fiscal year 2016. Subsequent to the end of fiscal year 2016, the Company declared a quarterly dividend of \$0.14 per share of common stock to be paid to stockholders of record as of the close of business on November 9, 2016, with a payment date of November 18, 2016. 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.

**Issuer Purchases of Equity Securities**

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

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Dollar Value that May Yet Be Purchased Under the Program <sup>(1)</sup></b>
June 1, 2016 through June 30, 2016	372	\$ 29.21	372	\$ 159,564
July 1, 2016 through July 31, 2016	507	27.45	507	145,655
August 1, 2016 through August 31, 2016	449	28.34	449	132,913
Total	<u>1,328</u>		<u>1,328</u>	

(1) In August 2015, the Company's Board of Directors extended the Company's share repurchase program, authorizing the Company to purchase up to \$145 million of its outstanding shares of common stock through fiscal year 2016. The Board of Directors further extended the share repurchase program effective May 2016, authorizing the purchase of up to an additional \$155 million of the Company's outstanding shares of common stock through August 2017. Share repurchases will be made from time to time in the open market or otherwise, including through an accelerated share repurchase program ("ASR"), 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.

**Item 6. Selected Financial Data**

The following table sets forth selected financial data regarding the Company's financial condition and operating results. One should read the following information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below in Part II, Item 7, and the Company's Consolidated Financial Statements included elsewhere in this report.

**Selected Financial Data**  
(In thousands, except per share data)

	Fiscal year ended August 31,				
	2016	2015	2014	2013	2012
<b>Income Statement Data:</b>					
Company Drive-In sales	\$ 425,795	\$ 436,031	\$ 405,363	\$ 402,296	\$ 404,443
Franchise Drive-Ins:					
Franchise royalties and fees	170,319	161,342	138,416	130,737	128,013
Lease revenue	7,459	5,583	4,291	4,785	6,575
Other	2,747	3,133	4,279	4,767	4,699
Total revenues	<b>606,320</b>	606,089	552,349	542,585	543,730
Cost of Company Drive-In sales	356,820	363,938	342,109	343,209	347,470
Selling, general and administrative	82,089	79,336	69,415	66,022	65,173
Depreciation and amortization	44,418	45,892	42,210	40,387	41,914
Provision for impairment of long-lived assets	232	1,440	114	1,776	764
Other operating (income) expense, net	(4,691)	(945)	(176)	1,943	(531)
Total expenses	<b>478,868</b>	489,661	453,672	453,337	454,790
Income from operations	127,452	116,428	98,677	89,248	88,940
Interest expense, net <sup>(1)</sup>	34,948	24,706	24,913	32,949	30,978
Income before income taxes	92,504	91,722	73,764	56,299	57,962
Net income-attributable to Sonic Corp.	<b>\$ 64,067</b>	\$ 64,485	\$ 47,916	\$ 36,701	\$ 36,085
<b>Income per share:</b>					
Basic	\$ 1.32	\$ 1.23	\$ 0.87	\$ 0.65	\$ 0.60
Diluted	\$ 1.29	\$ 1.20	\$ 0.85	\$ 0.64	\$ 0.60
Weighted average shares used in calculation:					
Basic	48,703	52,572	55,164	56,384	60,078
Diluted	49,669	53,953	56,619	57,191	60,172
Cash dividends declared per common share <sup>(2)</sup>					
	\$ 0.44	\$ 0.27	\$ 0.09	\$ -	\$ -
<b>Balance Sheet Data:</b>					
Working capital	\$ 62,994	\$ (2,383)	\$ 16,201	\$ 67,792	\$ 26,635
Property, equipment and capital leases, net	402,162	421,406	441,969	399,661	443,008
Total assets	659,995	620,024	650,972	660,794	680,760
Obligations under capital leases (including current portion)	21,064	24,440	26,743	26,864	31,676
Long-term debt (including current portion)	578,938	438,028	437,318	447,294	481,793
Stockholders' equity (deficit)	(75,643)	17,433	62,675	77,464	59,247

(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.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

*Description of the Business.* Sonic operates and franchises the largest chain of drive-in restaurants in the United States. As of August 31, 2016, the Sonic system was comprised of 3,557 drive-ins, of which 10% were Company Drive-Ins and 90% were Franchise Drive-Ins. As announced in the third quarter of fiscal year 2016, we plan to move toward an approximately 95% -franchised system as part of a refranchising initiative. Sonic's signature food items include specialty drinks (such as cherry limeades and slushes), ice cream desserts, made-to-order chicken sandwiches and hamburgers, 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. We derive our revenues primarily from Company Drive-In sales and royalties from franchisees. We also receive revenues from leasing real estate to franchisees, franchise fees, earnings from minority investments in franchise operations and other miscellaneous revenues.

Our Company Drive-In revenues and expenses are directly affected by the number and sales volumes of Company Drive-Ins. Our franchising revenues and other expenses such as depreciation, amortization and selling, general and administrative expenses are affected by the number and sales volumes of Franchise Drive-Ins. Lease revenues are generated primarily by the leasing of land and buildings for Company Drive-In operations that have been sold to franchisees.

*Overview of Business Performance.* System-wide same-store sales increased 2.6% during fiscal year 2016 as compared to an increase of 7.3% for fiscal year 2015. Same-store sales at Company Drive-Ins increased by 1.7% during fiscal year 2016 as compared to an increase of 6.9% for fiscal year 2015. 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 increased to \$606.3 million for fiscal year 2016 from \$606.1 million for fiscal year 2015, which was primarily due to an increase in Franchise Drive-In royalties of \$9.9 million, partially offset by a decrease in Company Drive-In sales of \$10.2 million. The decrease in Company Drive-In sales was a result of refranchising certain Company Drive-Ins, offset by an increase in sales from increased same-store sales. Restaurant margins at Company Drive-Ins were unfavorable by 30 basis points during fiscal year 2016, reflecting increased investments in employees' compensation and benefits to attract and retain employees at the drive-in level and the impact of the newly established Brand Technology Fund ("BTF"), partially offset by leverage from sales growth.

Net income and diluted earnings per share for fiscal year 2016 were \$64.1 million and \$1.29, respectively, as compared to net income of \$64.5 million or \$1.20 per diluted share for fiscal year 2015. Excluding the non-GAAP adjustments further described below, net income per diluted share was \$1.29 for fiscal year 2016, compared to \$1.10 per diluted share in fiscal year 2015.

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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, 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
Gain on sale of Company Drive-Ins	(972)	(0.02)	-	-
Tax impact on Company Drive-Ins sale <sup>(1)</sup>	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 <sup>(2)</sup>	(3,027)	(0.06)	-	-
Gain on sale of real estate	(1,875)	(0.04)	-	-
Tax impact on real estate sale <sup>(3)</sup>	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

	Fiscal year ended August 31, 2015		Fiscal year ended August 31, 2014	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported – GAAP	\$ 64,485	\$ 1.20	\$ 47,916	\$ 0.85
Retroactive benefit of Work Opportunity Tax Credit and resolution of tax matters	(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	-	-
Benefit from the IRS's acceptance of a federal tax method change	-	-	(484)	(0.01)
Adjusted - Non-GAAP	\$ 59,531	\$ 1.10	\$ 47,432	\$ 0.84

(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%.

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

**System-wide Performance**  
**(\$ in thousands)**

	Fiscal Year Ended August 31,		
	2016	2015	2014
Increase in total sales	3.5 %	8.3 %	3.9 %
System-wide drive-ins in operation <sup>(1)</sup> :			
Total at beginning of year	3,526	3,518	3,522
Opened	53	41	40
Closed (net of re-openings)	(22)	(33)	(44)
Total at end of year	3,557	3,526	3,518
Average sales per drive-in	\$ 1,284	\$ 1,244	\$ 1,153
Change in same-store sales <sup>(2)</sup>	2.6 %	7.3 %	3.5 %

(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.

	<b>Revenues</b>			
	<b>(\$ in thousands)</b>			
	<b>Fiscal Year Ended</b>		<b>Increase</b>	<b>Percent</b>
<b>August 31,</b>		<b>(Decrease)</b>		
	<b>2016</b>		<b>2015</b>	<b>(Decrease)</b>
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	<u>\$ 606,320</u>	<u>\$ 606,089</u>	<u>\$ 231</u>	0.0%

	<b>Revenues</b>			
	<b>(\$ in thousands)</b>			
	<b>Fiscal Year Ended</b>		<b>Increase</b>	<b>Percent</b>
<b>August 31,</b>		<b>(Decrease)</b>		
	<b>2015</b>		<b>2014</b>	<b>(Decrease)</b>
Company Drive-In sales	\$ 436,031	\$ 405,363	\$ 30,668	7.6%
Franchise Drive-Ins:				
Franchise royalties	158,813	137,125	21,688	15.8
Franchise fees	2,529	1,291	1,238	95.9
Lease revenue	5,583	4,291	1,292	30.1
Other	3,133	4,279	(1,146)	(26.8)
Total revenues	<u>\$ 606,089</u>	<u>\$ 552,349</u>	<u>\$ 53,740</u>	9.7%

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)

	Fiscal Year Ended August 31,		
	2016	2015	2014
Company Drive-In sales	\$ 425,795	\$ 436,031	\$ 405,363
Percentage increase (decrease)	(2.3)%	7.6 %	0.8 %
Company Drive-Ins in operation <sup>(1)</sup> :			
Total at beginning of year	387	391	396
Opened	1	3	3
Sold to franchisees	(38)	(6)	(7)
Closed (net of re-openings)	(5)	(1)	(1)
Total at end of year	345	387	391
Average sales per Company Drive-In	\$ 1,142	\$ 1,116	\$ 1,043
Change in same-store sales <sup>(2)</sup>	1.7 %	6.9 %	3.5 %

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

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

Same-store sales for Company Drive-Ins increased 1.7 % for fiscal year 2016 and 6.9 % for fiscal year 2015 , showing continued momentum from the Company's successful implementation of initiatives to improve product quality, service and value perception . During the fiscal fourth quarter, we experienced lower-than-expected traffic, reflecting lower consumer spending in the restaurant industry and aggressive competitive activity . Company Drive-In sales decreased \$ 10.2 million, or 2.3 %, during fiscal year 2016 compared to fiscal year 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 .

For fiscal year 2015 , Company Drive-In sales increased \$ 30.7 million, or 7.6 % , as compared to 2014 . This improvement was primarily attributable to an increase of \$27.4 million in same-store sales and \$3.3 million in incremental sales from new drive- in openings.

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

**Franchise Information**  
(**\$ in thousands**)

	Fiscal Year Ended August 31,		
	2016	2015	2014
Franchise Drive-In sales	\$ 4,092,303	\$ 3,931,365	\$ 3,627,395
Percentage increase	4.1 %	8.4 %	4.2 %
Franchise Drive-Ins in operation <sup>(1)</sup> :			
Total at beginning of year	3,139	3,127	3,126
Opened	52	38	37
Acquired from the Company	38	6	7
Closed (net of re-openings)	(17)	(32)	(43)
Total at end of year	3,212	3,139	3,127
Average sales per Franchise Drive-In	\$ 1,301	\$ 1,261	\$ 1,170
Change in same-store sales <sup>(2)</sup>	2.7 %	7.3 %	3.5 %
Franchising revenues <sup>(3)</sup>	\$ 177,778	\$ 166,925	\$ 142,707
Percentage increase (decrease)	6.5 %	17.0 %	5.3 %
Effective royalty rate <sup>(4)</sup>	4.12 %	4.04 %	3.78 %

(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” included in this Form 10-K.

(4) Represents franchise royalties as a percentage of Franchise Drive-In sales.

Same-store sales for Franchise Drive-Ins increased 2.7 % for fiscal year 2016 and 7.3 % for fiscal year 2015, showing continued momentum from the initiatives we have implemented to improve product quality, service and value perception. During the fiscal fourth quarter, we experienced lower-than-expected traffic, reflecting lower consumer spending in the restaurant industry and aggressive competitive activity. 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.

Franchising revenues increased \$24.2 million, or 17.0%, for fiscal year 2015 compared to fiscal year 2014. The increase in franchising revenues was driven by a license conversion increasing royalty rates for approximately 900 Franchise Drive-Ins, as well as a 7.3% increase in same-store sales. Lease revenues increased compared to the prior year due to an increase in same-store sales and the addition of 14 new leases. The effective royalty rate increased compared to fiscal year 2014 as a result of the license conversion discussed above, as well as improved same-store sales.

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Other revenues decreased \$ 0.4 million to \$ 2.7 million in fiscal year 2016 and decreased \$ 1.2 million to \$ 3.1 million in fiscal year 2015 as compared to the prior year. The decrease in fiscal years 2016 and 2015 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**

	<b>Fiscal Year Ended August 31,</b>		<b>Percentage Points</b>
	<b>2016</b>	<b>2015</b>	<b>Increase (Decrease)</b>
<b>Costs and expenses:</b>			
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	-
Cost of Company Drive-In sales	<u>83.8 %</u>	<u>83.5 %</u>	<u>0.3</u>
	<b>Fiscal Year Ended August 31,</b>		<b>Percentage Points</b>
	<b>2015</b>	<b>2014</b>	<b>Increase (Decrease)</b>
<b>Costs and expenses:</b>			
Company Drive-Ins:			
Food and packaging	27.9 %	28.7 %	(0.8)
Payroll and other employee benefits	34.8	34.5	0.3
Other operating expenses	20.8	21.2	(0.4)
Cost of Company Drive-In sales	<u>83.5 %</u>	<u>84.4 %</u>	<u>(0.9)</u>

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 that are now being remitted to the BTF. 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.

Drive-in level margins improved by 90 basis points during fiscal year 2015 reflecting leverage from improved same-store sales. Food and packaging costs were favorable by 80 basis points, which reflected lower commodity costs primarily related to dairy, as well as implementation of an inventory management tool. Payroll and other employee benefits were unfavorable by 30 basis points reflecting increased health care expenses and increased incentive compensation related to growth in same-store sales. Other operating expenses improved 40 basis points, primarily as a result of leverage from sales growth.

**Selling, General and Administrative ("SG&A").** SG &A expenses increased 3.5 % to \$ 82.1 million for fiscal year 2016 as compared to fiscal year 2015, and increased 14.3 % to \$ 79.3 million during fiscal year 2015 as compared to fiscal year 2014. These increases in SG&A expense for fiscal years 2016 and 2015 were 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 3.2 % to \$ 44.4 million in fiscal year 2016. The decrease during fiscal year 2016 was primarily attributable to assets that fully depreciated in the prior fiscal year and a decrease in company assets related to Company Drive-Ins that were franchised during the fiscal year. Depreciation and amortization expense increased 8.7% to \$45.9 million in fiscal year 2015. The

increase during fiscal year 2015 was primarily attributable to our increased investment in technology initiatives at Company Drive-Ins.

*Provision for Impairment of Long-Lived Assets.* Provision for impairment of long-lived assets decreased \$1.2 million to \$0.2 million in fiscal year 2016 compared to \$1.4 million for fiscal year 2015 and \$0.1 million for 2014. The increase in fiscal year 2015 was the result of a \$1.3 million impairment charge in fiscal year 2015 for the write-off of assets associated with some lower performing drive-ins.

*Other Operating Income and Expense, Net.* Fiscal year 2016 reflected \$4.7 million in other operating income compared to \$0.9 million for fiscal year 2015 and \$0.2 million for fiscal year 2014. The \$3.8 million change for 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 increased \$1.02 million in fiscal year 2016 compared to a decrease of \$0.2 million in fiscal year 2015 and \$3.6 million in fiscal year 2014. The increase in fiscal year 2016 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 “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” below for additional information on factors that could impact interest expense.

*Income Taxes.* The provision for income taxes reflects an effective tax rate of 30.7% for fiscal year 2016 compared with 29.7% for fiscal year 2015 and 35.0% for fiscal year 2014. The effective income tax rate for fiscal year 2016 was impacted by 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 mentioned above, the effective tax rate would have been 34.7%, 35.1% and 35.0% for fiscal years 2016, 2015 and 2014, 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.

## **Financial Position**

Total assets increased \$40.0 million, or 6.5%, to \$660.0 million during fiscal year 2016 from \$620.0 million at the end of fiscal year 2015. The increase during the year was driven by a \$44.9 million increase in cash, which reflected cash generated from operating activities and net proceeds from the 2016 debt financing transaction, detailed below in “Liquidity and Sources of Capital,” offset by purchases of treasury stock and capital expenditures. Further, there was a \$7.4 million increase in debt origination costs, also related to the debt transaction and an increase of \$9.2 million in current and non-current accounts and notes receivable, net, primarily due to short-term financing for refranchised drive-ins and newly constructed drive-ins sold to franchisees and an increase in receivables from system funds related to the establishment of the BTF in the third quarter of the fiscal year. Additionally, there was a decrease in net property, equipment and capital leases of \$19.2 million, driven by depreciation and asset retirements, partially offset by purchases of property and equipment.

Total liabilities increased \$133.0 million, or 22%, to \$735.6 million during 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 net \$8.4 million decrease in current maturities of long-term debt, all related to the 2016 debt financing transaction, detailed below in “Liquidity and Sources of Capital.”

Total stockholders’ equity (deficit) decreased \$93.1 million, or 53.9%, to a deficit of \$75.6 million during fiscal year 2016 from \$17.4 million at the end of fiscal year 2015. This decrease was primarily attributable to \$148.3 million in purchases of common stock under our stock repurchase program and the payment of \$21.3 million in dividends, partially offset by current-year earnings of \$64.1 million and \$9.2 million from the issuance of stock related to stock option exercises and restricted stock units (“RSUs”) that vested during fiscal year 2016.

## Liquidity and Sources of Capital

**Operating Cash Flows.** Net cash provided by operating activities decreased \$ 20.2 million to \$116.2 million for fiscal year 2016 as compared to \$ 136.4 million in fiscal year 2015. This decrease resulted from changes in working capital related to the timing of payments and receipts for both operational and tax transactions.

**Investing Cash Flows.** Cash used in investing activities increased \$ 8.8 million to \$ 34.1 million for fiscal year 2016 compared to \$ 25.3 million for fiscal year 2015. During fiscal year 2016, we used \$46.6 million of cash for investments in property and equipment as outlined in the table below (in millions).

Brand technology investments	\$	15.5
Purchase and replacement of equipment and technology		12.4
Rebuilds, relocations and remodels of existing drive-ins		12.0
Newly constructed drive-ins leased or sold to franchisees		3.7
Newly constructed Company Drive-Ins		1.7
Acquisition of underlying real estate for drive-ins		1.3
Total investments in property and equipment	\$	46.6

These purchases increased \$ 4.4 million in fiscal year 2016 compared to the same period last year, primarily due to additions to rebuilds, relocations and remodels of existing drive-ins and brand technology investments, offset by a decline in cash used for the acquisition of underlying real estate for drive-ins. Additionally, other cash flows used for investing increased as a result of increased notes receivable, discussed above in “Financial Position.”

**Financing Cash Flows.** Net cash used in financing activities decreased \$ 82.3 million to \$ 37.2 million for fiscal year 2016 as compared to \$ 119.5 million in fiscal year 2015. This decrease primarily relates to \$140.9 million of net borrowings from the debt financing transaction and scheduled principal payments, offset by \$18.4 million in debt issuance and extinguishment costs, a \$ 30.0 million increase in purchases of treasury stock and a \$14.9 million decrease in proceeds from the exercise of stock options.

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 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.

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.

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.

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At August 31, 2016, the balance outstanding under the 2013 Fixed Rate Notes and the 2016 Fixed Rate Notes, including accrued interest, was \$155.2 million and \$424.5 million, respectively. 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 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 is categorized as “debt origination costs, net” on the Consolidated Balance Sheets. For additional information on our 2013 Fixed Rate Notes and 2016 Notes, see note 9 – Debt, included in Part II, Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

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.

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, 2016, our total cash balance of \$88.1 million (\$72.1 million of unrestricted and \$16.0 million of restricted cash balances) reflected the impact of the cash generated from operating activities, stock option exercise proceeds, 2016 debt transaction proceeds and 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 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 paid a quarterly dividend of \$0.11 per share of common stock, totaling \$21.3 million, for fiscal year 2016. Subsequent to the end of the fiscal year, the Company declared a quarterly dividend of \$0.14 per share of common stock to be paid to stockholders of record as of the close of business on November 9, 2016, with a payment date of November 18, 2016. 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 6 - Leases and note 14 – Commitments and Contingencies, included in Part II, Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K, 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, 2016 (in thousands):

	Total	Payments Due by Fiscal Year			
		Less than 1 Year (2017)	1 - 3 Years (2018-2019)	3 - 5 Years (2020-2021)	More than 5 Years (2022 and thereafter)
Long-term debt <sup>(1)</sup>	\$ 728,570	\$ 26,136	\$ 49,415	\$ 197,957	\$ 455,062
Capital leases	26,503	5,051	8,044	6,390	7,018
Operating leases	117,135	10,914	21,704	20,784	63,733
Purchase obligations <sup>(2)</sup>	235,841	26,066	42,392	45,738	121,645
Other <sup>(3)</sup>	14,088	-	-	-	-
Total	\$ 1,122,137	\$ 68,167	\$ 121,555	\$ 270,869	\$ 647,458

(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-wide commitments to purchase food products. We have excluded agreements that are cancelable without penalty. These amounts require estimates and could vary due to the timing of volumes and changes in market pricing.

(3) Includes \$0.6 million of unrecognized tax benefits related to uncertain tax positions and \$13.5 million related to guarantees of franchisee leases and loan agreements. As we are not able to reasonably estimate the timing or amount of these payments, if any, the related balances have not been reflected in the “Payments Due by Fiscal Year” section of the table.

## Impact of Inflation

We are impacted by inflation which has caused increases in our food, labor and benefits costs and has increased our operating expenses. To the extent permitted by competition 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. We review Company Drive-In assets for impairment when events or circumstances indicate they might be impaired. We test for impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. This process requires us to estimate fair values of our drive-ins by making assumptions regarding future cash flows and other factors. It is reasonably possible that our estimates of future cash flows could change resulting in the need to write down to fair value certain Company Drive-In assets.

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

During the fourth quarter of fiscal year 2016, we performed our annual assessment of the recoverability of goodwill and determined that no impairment was indicated. As of the impairment testing date, the fair value of the Company significantly exceeded the carrying value. As of August 31, 2016, the Company had \$76.7 million of goodwill.

Revenue Recognition Related to Franchise Fees and Royalties. 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. Our franchisees pay royalties based on a percentage of sales. Royalties are recognized as revenue when they are earned.

Accounting for Stock-Based Compensation. We estimate the fair value of stock options granted using the Black-Scholes option pricing model along with the assumptions shown in note 12 – Stockholders' Equity (Deficit), included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. The assumptions used in computing the fair value of stock-based payments reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. We estimate expected volatility based on historical daily price changes of the Company's stock for a period equal to the current expected term of the options. The expected option term is the number of years the Company estimates that options will be outstanding prior to exercise considering vesting schedules and our historical exercise patterns. If other assumptions or estimates had been used, the stock-based compensation expense that was recorded could have been materially different. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted.

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

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

Our estimates are based on the best available information at the time that we prepare the provision, including legislative and judicial developments. We generally file our annual income tax returns several months after our fiscal year end. Income tax returns are subject to audit by federal, state and local governments, typically several years after

the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. Adjustments to these estimates or returns can result in significant variability in the tax rate from period to period.

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

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

### **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 Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

### **Item 7A. 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, 2016, 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. At August 31, 2016, the fair value of the 2013 Fixed Rate Notes and 2016 Fixed Rate Notes approximated the carrying value of \$ 579.6 million, including accrued interest. To derive the fair value, management used market information available for public debt transactions for companies with ratings that are similar to our ratings and information gathered from brokers who trade in our notes. Management believes this fair value is a reasonable estimate. Should interest rates and/or credit spreads increase or decrease by one percentage point, the estimated fair value of the 2013 Fixed Rate Notes and 2016 Fixed Rate Notes would decrease or increase by approximately \$ 15.0 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 Part II, Item 7, "Management's

Discussion and Analysis of Financial Condition and Results of Operations” under “Contractual Obligations and Commitments .” We also do not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost.

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

**Item 8. Financial Statements and Supplementary Data**

The Company has included the financial statements and supplementary financial information required by this item immediately following Part IV of this report and hereby incorporates by reference the relevant portions of those statements and information into this Item 8.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. 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 controls over financial reporting during the quarter ended August 31, 2016 that have materially affected or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

## **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, 2016. 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, 2016, 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 2016 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, 2016, 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, 2016, 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, 2016 and 2015 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, 2016, and our report dated October 31, 2016 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Oklahoma City, OK  
October 31, 2016

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Sonic has adopted a Code of Ethics for Financial Officers and a Code of Business Conduct and Ethics that applies to all directors, officers and employees. Sonic has posted copies of these codes on the investor section of its website , [www.soniedrivein.com](http://www.soniedrivein.com).

Information regarding Sonic’s executive officers is set forth under Item 4A of Part I of this report. The other information required by this item is incorporated by reference from the definitive proxy statement which Sonic will file with the Securities and Exchange Commission no later than 120 days after August 31, 2016 (the “Proxy Statement”), under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

**Item 11. Executive Compensation**

The information required by this item is incorporated by reference from the Proxy Statement under the caption “Executive Compensation – Compensation Discussion and Analysis.”

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference from the Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference from the Proxy Statement under the captions “Certain Relationships and Related Transactions,” “Director Independence,” “Committees of the Board of Directors” and “Compensation Committee Interlocks and Insider Participation.”

**Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated by reference from the Proxy Statement under the caption “Independent Registered Public Accounting Firm.”

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**Financial Statements**

The following consolidated financial statements of the Company appear immediately following this Item 15:

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F- 1
<a href="#">Consolidated Balance Sheets at August 31, 2016 and 2015</a>	F- 2
<a href="#">Consolidated Statements of Income for each of the three years in the period ended August 31, 2016</a>	F- 3
<a href="#">Consolidated Statements of Stockholders' Equity (Deficit) for each of the three years in the period ended August 31, 2016</a>	F- 4
<a href="#">Consolidated Statements of Cash Flows for each of the three years in the period ended August 31, 2016</a>	F- 5
<a href="#">Notes to Consolidated Financial Statements</a>	F- 6

**Financial Statement Schedule**

The Company has included the following schedule immediately following this Item 15:

	<u>Page</u>
<a href="#">Schedule II - Valuation and Qualifying Accounts</a>	F- 28

The Company has omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in Sonic's Consolidated Financial Statements, including the notes to those statements.

**Exhibits**

The Company has filed the exhibits listed below with this report. The Company has marked all management contracts and compensatory plans or arrangements with an asterisk (\*).

3.01. Certificate of Incorporation of the Company, which the Company incorporates by reference from Exhibit 3.1 to the Company's Form S-1 Registration Statement No. 33-37158 filed on October 3, 1990.

3.02. Certificate of Amendment of Certificate of Incorporation of the Company, March 4, 1996, which the Company incorporates by reference from Exhibit 3.05 to the Company's Form 10-K for the fiscal year ended August 31, 2000.

3.03. Certificate of Amendment of Certificate of Incorporation of the Company, January 22, 2002, which the Company incorporates by reference from Exhibit 3.06 to the Company's Form 10-K for the fiscal year ended August 31, 2002.

3.04. Certificate of Amendment of Certificate of Incorporation of the Company, January 31, 2006, which the Company incorporates by reference from Exhibit 3.04 to the Company's Form 10-K for the fiscal year ended August 31, 2006.

4.01. Bylaws of the Company, as amended and restated January 27, 2016, which the Company incorporates by reference from Exhibit 3.1 to the Company's Form 8-K filed on February 1, 2016.

4.02. Certificate of Designations of Series A Junior Preferred Stock, which the Company incorporates by reference from Exhibit 99.1 to the Company's Form 8-K filed on June 17, 1997.

4.03. Specimen Certificate for Common Stock, which the Company incorporates by reference from Exhibit 4.01 to the Company's Form 10-K for the fiscal year ended August 31, 1999.

- 10.01. Form of Sonic License Agreement.
- 10.02. Form of Sonic Development Agreement, which the Company incorporates by reference from Exhibit No. 10.13 to the Company's Form 10-K for the fiscal year ended August 31, 2007.
- 10.03. Sonic Corp. Stock Purchase Plan, as amended and restated effective April 20, 2011, which the Company incorporates by reference from Exhibit 10.07 to the Company's Form 10-K for the fiscal year ended August 31, 2012. \*
- 10.04. Sonic Corp. Savings and Profit-Sharing Plan, as amended and restated effective January 1, 2013, which the Company incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q filed on July 3, 2013. \*
- 10.05. Sonic Corp. Nonqualified Deferred Compensation Plan as amended and restated April 10, 2013, which the Company incorporates by reference from Exhibit 10.06 to the Company's Form 10-K for the fiscal year ended August 31, 2013. \*
- 10.06. Form of Indemnification Agreement for Directors, which the Company incorporates by reference from Exhibit 10.7 to the Company's Form S-1 Registration Statement No. 33-37158. \*
- 10.07. Form of Indemnification Agreement for Officers, which the Company incorporates by reference from Exhibit 10.14 to the Company's Form 10-K for the fiscal year ended August 31, 1995. \*
- 10.08. Form of Chief Executive Officer Amended and Restated Employment Agreement dated November 1, 2012, which the Company incorporates by reference from Exhibit 10.12 to the Company's Form 10-K for the fiscal year ended August 31, 2012. \*
- 10.09. Form of Executive Officer Amended and Restated Employment Agreement dated November 1, 2012, which the Company incorporates by reference from Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended August 31, 2012. \*
- 10.10. Amended and Restated Sonic Corp. Executive Severance Plan dated September 1, 2014, which the Company incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended August 31, 2014. \*
- 10.11. Sonic Corp. 2006 Long-Term Incentive Plan, as amended and restated effective January 16, 2014, which the Company incorporates by reference from Exhibit 4.1 to the Company's Form S-8 filed on April 4, 2014. \*
- 10.12. Form of Stock Option Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan. \*
- 10.13. Form of Restricted Stock Unit Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan. \*
- 10.14. Form of Director Stock Option Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan. \*
- 10.15. Form of Director Restricted Stock Unit Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan. \*
- 10.16. Sonic Corp. Senior Executive Cash Incentive Plan dated January 6, 2011, which the Company incorporates by reference from Exhibit 10.01 to the Company's Form 10-Q filed on April 8, 2011. \*
- 10.17. Sonic Corp. Employee Cash Incentive Plan dated January 6, 2011, which the Company incorporates by reference from Exhibit 10.02 to the Company's Form 10-Q filed on April 8, 2011. \*
- 10.18. Form of Long-Term Award Agreement under Sonic Corp. Senior Executive Cash Incentive Plan. \*

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10. 19 . Form of Short-Term Award Agreement under Sonic Corp. Senior Executive Cash Incentive Plan.\*
10. 20 . Compensation Recoupment Policy dated October 1 9, 2016.\*
10. 21 . Base Indenture dated May 20, 2011 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Fixed Rate Notes and Citibank, N.A., as Trustee and Securities Intermediary, which the Company incorporates by reference from Exhibit 99.1 to the Company's Form 8-K filed on May 26, 2011 .
10. 2 2 . Supplemental Indenture dated May 20, 2011 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Fixed Rate Notes, and Citibank, N.A. as Trustee and the Series 2011-1 Securities Intermediary, which the Company incorporates by reference from Exhibit 99.2 to the Company's Form 8-K filed on May 26, 2011.
10. 2 3 . Guarantee and Collateral Support Agreement dated May 20, 2011 made by Sonic Franchising LLC, as Guarantor in favor of Citibank N.A. as Trustee, which the Company incorporates by reference from Exhibit 99.4 to the Company's Form 8-K filed on May 26, 2011.
10. 2 4 . Parent Company Support Agreement dated May 20, 2011 made by Sonic Corp. in favor of Citibank N.A., as Trustee, which the Company incorporates by reference from Exhibit 99.5 to the Company's Form 8-K filed on May 26, 2011.
10. 2 5 . Supplemental Indenture dated July 18, 2013 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Series 2013-1 Notes, and Citibank, N.A., as Trustee and Series 2013-1 Securities Intermediary, which the Company incorporates by reference to the Company's Form 8 - K filed on July 24, 2013.
10. 2 6 . First Supplement to the Base Indenture dated as of July 21, 2012 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Fixed Rate Notes and Citibank, N.A., as Trustee and Securities Intermediary, which the Company incorporates by reference to the Company's Form 8 -K filed on May 19, 2016.
10. 27 . Second Supplement to the Base Indenture dated as of April 12, 2016 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Fixed Rate Notes and Citibank, N.A., as Trustee and Securities Intermediary, which the Company incorporates by reference to the Company's Form 8 -K filed on May 19, 2016.
10. 28 . Third Supplement to the Base Indenture dated as of May 17, 2016 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Fixed Rate Notes and Citibank, N.A., as Trustee and Securities Intermediary, which the Company incorporates by reference to the Company's Form 8 -K filed on May 19, 2016.
10. 29 . Supplemental Indenture dated May 17, 2016 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer of the Fixed Rate Notes and Citibank, N.A., as Trustee and Series 2016-1 Securities Intermediary, which the Company incorporates by reference to the Company's Form 8 -K filed on May 19, 2016.
10. 3 0 . Purchase Agreement dated April 12, 2016 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and

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SRI Real Estate Properties LLC, each as Co-Issuer, Sonic Franchising LLC, as Guarantor, Sonic Industries Services Inc., as Manager, Sonic Corp., Sonic Restaurants, Inc., and Guggenheim Securities, LLC, as Initial Purchaser and as representative to the Initial Purchasers named therein, which the Company incorporates by reference to the Company's Form 8 -K filed on May 19, 2016.

10.31. Class A-1 Note Purchase Agreement dated April 12, 2016 among Sonic Capital LLC, Sonic Industries LLC, America's Drive-In Brand Properties LLC, America's Drive-In Restaurants LLC, SRI Real Estate Holding LLC and SRI Real Estate Properties LLC, each as Co-Issuer and Sonic Industries Services Inc., as Manager, certain private conduit investors, committed note purchasers and funding agents, and Coöperatieve Rabobank, U.A., New York Branch, as provider of letters of credit, swingline lender and Administrative Agent, which the Company incorporates by reference to the Company's Form 8 -K filed on May 19, 2016.

- 21.01. Subsidiaries of the Company.
- 23.01. Consent of Independent Registered Public Accounting Firm.
- 31.01. Certification of Chief Executive Officer pursuant to S . E . C . Rule 13a-14.
- 31.02. Certification of Chief Financial Officer pursuant to S . E . C . 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

**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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2016, 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, 2016, 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 31, 2016, expressed an unqualified opinion on the effectiveness of Sonic Corp.'s internal control over financial reporting.

(signed) KPMG LLP

Oklahoma City, OK  
October 31, 2016

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

	August 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 72,092	\$ 27,191
Restricted cash	15,873	13,246
Accounts and notes receivable, net	35,437	31,577
Inventories	3,321	3,824
Prepaid expenses	4,713	5,544
Other current assets	6,221	4,056
Total current assets	<u>137,657</u>	<u>85,438</u>
Noncurrent restricted cash	140	6,524
Notes receivable, net	12,562	7,216
Property, equipment and capital leases, net	402,162	421,406
Goodwill	76,734	77,076
Debt origination costs, net	14,427	7,056
Other assets, net	16,313	15,308
Total assets	<u>\$ 659,995</u>	<u>\$ 620,024</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 14,372	\$ 13,860
Franchisee deposits	720	870
Accrued liabilities	51,913	50,714
Income taxes payable	2,568	8,910
Current maturities of long-term debt and capital leases	5,090	13,467
Total current liabilities	<u>74,663</u>	<u>87,821</u>
Obligations under capital leases due after one year	17,391	20,763
Long-term debt due after one year	577,521	428,238
Deferred income taxes	42,530	43,549
Other non-current liabilities	23,533	22,220
Commitments and contingencies (Notes 6, 7, 13, 14)		
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 in 2016 and in 2015	1,183	1,183
Paid-in capital	234,956	232,550
Retained earnings	894,442	851,715
Treasury stock, at cost; 71,670 shares in 2016 and 67,249 shares in 2015	(1,206,224)	(1,068,015)
Total stockholders' equity (deficit)	<u>(75,643)</u>	<u>17,433</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 659,995</u>	<u>\$ 620,024</u>

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

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

	Fiscal Year Ended August 31,		
	2016	2015	2014
<b>Revenues:</b>			
Company Drive-In sales	\$ 425,795	\$ 436,031	\$ 405,363
<b>Franchise Drive-Ins:</b>			
Franchise royalties and fees	170,319	161,342	138,416
Lease revenue	7,459	5,583	4,291
Other	2,747	3,133	4,279
Total revenues	<u>606,320</u>	<u>606,089</u>	<u>552,349</u>
<b>Costs and expenses:</b>			
<b>Company Drive-Ins:</b>			
Food and packaging	118,136	121,701	116,325
Payroll and other employee benefits	150,260	151,801	139,939
Other operating expenses, exclusive of depreciation and amortization included below	88,424	90,436	85,845
Total cost of Company Drive-In sales	<u>356,820</u>	<u>363,938</u>	<u>342,109</u>
Selling, general and administrative	82,089	79,336	69,415
Depreciation and amortization	44,418	45,892	42,210
Provision for impairment of long-lived assets	232	1,440	114
Other operating income, net	(4,691)	(945)	(176)
Total costs and expenses	<u>478,868</u>	<u>489,661</u>	<u>453,672</u>
Income from operations	<u>127,452</u>	<u>116,428</u>	<u>98,677</u>
Interest expense	26,714	25,114	25,382
Interest income	(516)	(408)	(469)
Loss from early extinguishment of debt	8,750	-	-
Net interest expense	<u>34,948</u>	<u>24,706</u>	<u>24,913</u>
Income before income taxes	<u>92,504</u>	<u>91,722</u>	<u>73,764</u>
Provision for income taxes	<u>28,437</u>	<u>27,237</u>	<u>25,848</u>
Net income	<u>\$ 64,067</u>	<u>\$ 64,485</u>	<u>\$ 47,916</u>
Basic income per share	<u>\$ 1.32</u>	<u>\$ 1.23</u>	<u>\$ 0.87</u>
Diluted income per share	<u>\$ 1.29</u>	<u>\$ 1.20</u>	<u>\$ 0.85</u>
Cash dividends declared per common share	<u>\$ 0.44</u>	<u>\$ 0.27</u>	<u>\$ 0.09</u>

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

**SONIC CORP.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
(In thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity (Deficit)
				Shares	Amount	
Balance at August 31, 2013	\$ 1,183	\$ 224,768	\$ 758,138	62,025	\$ (906,625)	\$ 77,464
Net income	-	-	47,916	-	-	47,916
Cash dividends	-	-	(4,852)	-	-	(4,852)
Stock-based compensation expense	-	3,742	-	-	-	3,742
Purchase of treasury stock	-	-	-	4,080	(80,045)	(80,045)
Exercise of stock options and issuance of restricted stock	-	(4,186)	-	(1,575)	21,593	17,407
Other	-	680	-	(25)	363	1,043
Balance at August 31, 2014	\$ 1,183	\$ 225,004	\$ 801,202	64,505	\$ (964,714)	\$ 62,675
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)

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

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

	<b>Fiscal Year Ended August 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 64,067	\$ 64,485	\$ 47,916
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,418	45,892	42,210
Stock-based compensation expense	3,766	3,520	3,742
Loss from early extinguishment of debt	8,750	-	-
Other	270	9,366	735
(Increase) decrease in operating assets:			
Restricted cash	(2,829)	(61)	(1,428)
Accounts receivable and other assets	2,109	2,885	(5,977)
Increase (decrease) in operating liabilities:			
Accounts payable	380	(1,288)	640
Accrued and other liabilities	4,520	10,296	7,347
Income taxes	(9,242)	1,267	8,363
Total adjustments	52,142	71,877	55,632
Net cash provided by operating activities	116,209	136,362	103,548
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(46,553)	(42,153)	(79,008)
Proceeds from sale of assets	16,206	13,701	2,148
Other	(3,713)	3,132	6,337
Net cash used in investing activities	(34,060)	(25,320)	(70,523)
<b>Cash flows from financing activities:</b>			
Payments on debt	(422,090)	(90,290)	(9,976)
Proceeds from borrowings	563,000	91,000	-
Restricted cash for securitization obligations	6,587	151	181
Purchases of treasury stock	(150,444)	(120,463)	(79,786)
Proceeds from exercise of stock options	3,842	18,732	17,407
Payment of dividends	(21,309)	(18,808)	-
Debt issuance and extinguishment costs	(18,420)	(12)	(151)
Other	1,586	145	(2,902)
Net cash used in financing activities	(37,248)	(119,545)	(75,227)
Net increase (decrease) in cash and cash equivalents	44,901	(8,503)	(42,202)
Cash and cash equivalents at beginning of year	27,191	35,694	77,896
Cash and cash equivalents at end of year	\$ 72,092	\$ 27,191	\$ 35,694
<b>Supplemental cash flow information</b>			
Cash paid during the year for:			
Interest	\$ 24,883	\$ 23,330	\$ 23,701
Income taxes (net of refunds)	27,821	11,360	14,143
Non-cash investing and financing activities:			
Change in obligation to acquire treasury stock	(2,099)	3,323	259
Stock options exercised by stock swap	6,396	3,385	4,634
Accrued PP&E at period end	3,471	3,346	3,297
Dividend Payable	44	13	4,852

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



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**1. Summary of Significant Accounting Policies**

**Operations**

Sonic Corp. (the “Company”) 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”) 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 date of purchase, and depository accounts.

**Restricted Cash**

As of August 31, 2016, the Company had restricted cash balances totaling \$ 1 6.0 million for funds required to be held in trust for the benefit of senior noteholders under the Company’s debt arrangements. The current portion of restricted cash of \$ 1 5.9 million represents amounts to be returned to Sonic or paid to service current debt obligations. The noncurrent portion of \$ 0 . 1 million represents interest reserves required to be set aside for the duration of the debt.

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**Accounts and Notes Receivable**

The Company charges interest on past due accounts receivable and recognizes income as it is collected. Interest accrues on notes receivable based on the contractual terms of the respective note. The Company monitors all accounts and notes receivable for delinquency and provides for estimated losses for specific receivables that are not likely to be collected. The Company assesses credit risk for accounts and notes receivable of specific franchisees based on payment history, current payment patterns, the health of the franchisee's business and an assessment of the franchisee's ability to pay outstanding balances. In addition to allowances for bad debt for specific franchisee receivables, a general provision for bad debt is estimated for the Company's accounts receivable based on historical trends. Account balances generally are charged against the allowance when the Company believes that the collection is no longer reasonably assured. The Company continually reviews its allowance for doubtful accounts.

**Inventories**

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

**Property, Equipment and Capital Leases**

Property and equipment are recorded at cost, and leased assets under capital leases are recorded at the present value of future minimum lease payments. Depreciation of property and equipment and amortization of capital leases are computed by the straight-line method over the estimated useful lives or the lease term, including cancelable option periods when appropriate, and are combined for presentation in the financial statements.

**Accounting for Long-Lived Assets**

The Company reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, which generally represents the individual drive-in. The Company's primary test for an indicator of potential impairment is operating losses of the related drive-in. If an indication of impairment is determined to be present, the Company estimates the future cash flows expected to be generated from the use of the asset and its eventual disposal. If the sum of undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. Fair value is typically determined to be the value of the land since drive-in buildings and improvements are single-purpose assets and have little value to market participants. The equipment associated with a 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

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value of goodwill is made to determine whether goodwill has been impaired. During the fourth quarters of fiscal years 2016 and 2015, 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 advertising funds as set forth in note 3 - Accounts and Notes Receivable. Such costs were not material in fiscal years 2016, 2015 and 2014.

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 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 \$ 23.4 million, \$ 24.5 million and \$ 22.4 million in fiscal years 2016, 2015 and 2014, respectively.

Under the Company's franchise agreements, both Company Drive-Ins and Franchise Drive-Ins must contribute a minimum percentage of revenues to a national media production fund ("Sonic Brand Fund") and spend an additional minimum percentage of gross revenues on advertising, either directly or through Company-required participation in advertising cooperatives. A significant portion of the advertising cooperative contributions is remitted to the System

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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 \$5.2 million, \$5.0 million and \$4.4 million in fiscal years 2016, 2015 and 2014, 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 \$2.5 million in fiscal year 2016.

**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.

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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 1 2 - 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 1 1 - 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, 2016 and 2015, 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 9 - Debt and note 1 0 - 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

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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, 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, 2017, 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 retrospectively 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 Drive-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, including the initial franchise fee currently recognized upon the opening of a Franchise Drive-In, 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. 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. The update will be adopted in the first quarter of fiscal year 2017 and will require reclassification of debt issuance costs from other non-current assets to long-term debt within the Company's consolidated balance sheets. As of August 31, 2016, the carrying amount of unamortized debt issuance costs totaled \$14.4 million. Other than this reclassification, the adoption of this ASU will not have any impact on the Company's consolidated financial statements.

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 update will be adopted in the first quarter of fiscal year 2017 and will not 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. The 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, 2015, and all future deferred tax asset balances will be recorded as such. No prior periods were retrospectively adjusted, as such the balance of

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\$2.2 million remained in current assets at August 31, 2015. The reclassification did not have a material effect on our consolidated financial statements.

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 years beginning after December 15, 2018, which will require the Company to adopt the provisions in the first quarter of fiscal 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 our 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 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 derecognition 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.

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 years beginning after December 15, 2019, 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 years beginning after December 15, 2017. 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 that this update will have on its financial statements and related disclosures.

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**2. Earnings Per Share**

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

	Fiscal Year Ended August 31,		
	2016	2015	2014
<b>Numerator:</b>			
Net income	\$ 64,067	\$ 64,485	\$ 47,916
<b>Denominator:</b>			
Weighted average common shares outstanding— basic	48,703	52,572	55,164
Effect of dilutive employee stock options and unvested RSUs	966	1,381	1,455
Weighted average common shares outstanding – diluted	49,669	53,953	56,619
Net income per common share – basic	\$ 1.32	\$ 1.23	\$ 0.87
Net income per common share – diluted	\$ 1.29	\$ 1.20	\$ 0.85
Anti-dilutive securities excluded <sup>(1)</sup>	615	342	988

(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,	
	2016	2015
<b>Current Accounts and Notes Receivable:</b>		
Royalties and other trade receivables	\$ 19,994	\$ 19,713
Notes receivable from franchisees	5,531	996
Receivables from system funds	4,372	4,965
Other	6,507	6,977
Accounts and notes receivable, gross	36,404	32,651
Allowance for doubtful accounts and notes receivable	(967)	(1,074)
Current accounts and notes receivable, net	\$ 35,437	\$ 31,577
<b>Noncurrent Notes Receivable:</b>		
Receivables from franchisees	\$ 7,170	\$ 5,676
Receivables from system funds	5,466	1,571
Allowance for doubtful notes receivable	(74)	(31)
Noncurrent notes receivable, net	\$ 12,562	\$ 7,216

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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 increase in current notes receivable from franchisees is due to short-term financing for refranchised drive-ins and newly constructed drive-ins sold to franchisees. The receivables from system funds represent transactions in the normal course of business. The increase in noncurrent receivables from system funds relates to the BTF established in the third quarter of fiscal year 2016, as discussed in note 1 – Summary of Significant Accounting Policies.

#### 4. Goodwill and Other Intangibles

As of August 31, 2016, the Company had \$76.7 million of goodwill.

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

	August 31,	
	2016	2015
Balance at beginning of year	\$ 77,076	\$ 77,093
Goodwill acquired during the year	-	65
Goodwill disposed of related to the sale of Company Drive-Ins	(342)	(82)
Balance at end of year	<u>\$ 76,734</u>	<u>\$ 77,076</u>

The gross carrying amount of franchise agreements, intellectual property, franchise fees and other intangibles subject to amortization was \$9.2 million and \$10.4 million at August 31, 2016 and 2015, respectively. Accumulated amortization related to these intangible assets was \$5.7 million and \$5.9 million at August 31, 2016 and 2015, respectively. Intangible assets amortization expense was \$0.9 million for each of the fiscal years ended August 31, 2016, 2015 and 2014. At August 31, 2016, the remaining weighted-average life of amortizable intangible assets was approximately 11 years. Estimated intangible assets amortization expense is \$0.9 million annually for fiscal year 2017 and \$0.3 million for fiscal years 2018, 2019 and 2020 and \$0.2 million for fiscal year 2021.

#### 5. Refranchising of Company Drive-Ins

During fiscal year 2016, the Company refranchised the operations of 38 Company Drive-Ins and recorded a gain of \$1.8 million. The Company retained a non-controlling operating interest in 25 of these refranchised drive-ins. Gains and losses are recorded as other operating income (expenses), net on the Consolidated Statements of Income. The Company plans to refranchise other operations as part of its refranchising initiative to move toward an approximately 95%-franchised system.

#### 6. 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 of all leases are classified as operating leases with lease terms expiring through August 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 options at the end of the initial term for periods of five years.

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Future minimum rental payments receivable as of August 31, 2016 , are as follows:

	<b>Operating</b>
Years ended August 31:	
2017	\$ 7,738
2018	8,339
2019	8,890
2020	9,382
2021	8,990
Thereafter	50,709
	<u>\$ 94,048</u>

**Leasing Arrangements as a Lessee**

Certain Company Drive-Ins lease land and buildings from third parties. These leases, with lease terms expiring through August 2031 , include provisions for contingent rents that may be paid on the basis of a percentage of sales in excess of stipulated amounts . For the majority of leases, the land portions are classified as operating leases, and the building portions are classified as capital leases.

Future minimum rental payments required under operating leases and maturities under capital leases that have initial or remaining noncancel l able lease terms in excess of one year as of August 31, 2016 , are as follows:

	<b>Operating</b>	<b>Capital</b>
Years ended August 31:		
2017	\$ 10,914	\$ 5,051
2018	10,864	4,448
2019	10,840	3,596
2020	10,754	3,256
2021	10,030	3,134
Thereafter	63,733	7,018
Total minimum lease payments <sup>(1)</sup>	<u>\$ 117,135</u>	<u>26,503</u>
Less amount representing interest averaging 6.2%		<u>(5,439)</u>
Present value of net minimum lease payments		21,064
Less amount due within one year		<u>(3,673)</u>
Amount due after one year		<u>\$ 17,391</u>

(1) Minimum payments have not been reduced by future minimum rentals receivable under noncancel l able operating and capital subleases of \$ 16 . 8 million and \$ 0 . 6 million , respectively. They also do not include contingent rentals which may be due under certain leases. Contingent rentals for capital leases amounted to \$ 0 . 9 million , \$ 1.0 million and \$ 0.8 million in fiscal year s 2016, 2015 and 2014 , respectively .

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

	2016	2015	2014
Minimum rentals	\$ 12,441	\$ 12,659	\$ 12,449
Contingent rentals	284	174	161
Total rent expense	12,725	12,833	12,610
Less sublease rentals	(2,372)	(2,235)	(1,905)
Net rent expense	\$ 10,353	\$ 10,598	\$ 10,705

#### 7. Property, Equipment and Capital Leases

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

	Estimated Useful Life	2016	2015
Property, equipment and capital leases:			
Land		\$ 154,420	\$ 157,861
Buildings and improvements	8 – 25 yrs	341,956	343,598
Drive-In equipment	5 – 7 yrs	132,678	139,494
Brand technology development and other equipment	2 – 5 yrs	110,364	92,825
Property and equipment, at cost		739,418	733,778
Accumulated depreciation		(352,390)	(330,219)
Property and equipment, net		387,028	403,559
Capital leases	Life of lease	43,991	48,079
Accumulated amortization		(28,857)	(30,232)
Capital leases, net		15,134	17,847
Property, equipment and capital leases, net		\$ 402,162	\$ 421,406

Depreciation expense for property and equipment was \$ 4 0.4 million, \$ 41.7 million and \$ 3 7.6 million for fiscal years 2016, 2015 and 2014, respectively. Land, buildings and equipment with a carrying amount of \$ 1 56.6 million at August 31, 2016, were leased under operating leases to franchisees and other parties. The accumulated depreciation related to these buildings and equipment was \$ 6 2.5 million at August 31, 2016. Amortization expense related to capital leases is included within “ d epreciation and amortization” on the Consolidated Statements of Income. As of August 31, 2016, the Company had 11 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. 4 million and \$ 0. 5 million for fiscal year s 2016, 2015 and 2014, respectively.

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**8. Accrued Liabilities**

Accrued liabilities consist of the following at August 31:

	2016	2015
Wages and employee benefit costs	\$ 23,416	\$ 20,501
Property taxes, sales and use taxes and employment taxes	8,936	9,282
Unredeemed gift cards	10,571	9,285
Other	8,990	11,646
	<u>\$ 51,913</u>	<u>\$ 50,714</u>

**9. Debt**

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

	2016	2015
Class A-2 2016-1 senior secured fixed rate notes	\$ 423,938	\$ -
Class A-1 2016-1 senior secured variable funding notes	-	-
Class A-2 2013-1 senior secured fixed rate notes	155,000	155,000
Class A-2 2011-1 senior secured fixed rate notes	-	272,488
Class A-1 2011-1 senior secured variable funding notes	-	10,500
Other	-	40
	<u>578,938</u>	<u>438,028</u>
Less long-term debt due within one year	<u>(1,417)</u>	<u>(9,790)</u>
Long-term debt due after one year	<u>\$ 577,521</u>	<u>\$ 428,238</u>

At August 31, 2016, future maturities of long-term debt were \$ 1.4 million for fiscal year 2017, no maturities for fiscal years 2018 and 2019, \$155.0 million for fiscal year 2020 and no maturities for fiscal year 2021.

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

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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 is categorized as "debt origination costs, net" 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, 2016, 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 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, 2016, assets for these combined indirect subsidiaries totaled \$308.5 million, including receivables for royalties, certain Company and Franchise Drive-In real estate, intangible assets and restricted cash balances of \$16.0 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, guarantees or is in any way liable for the obligations of the Co-Issuers under the 2013 Fixed Rate 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 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

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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 201 3 Fixed Rate Notes and the 201 6 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.

**10 . Fair Value of Financial Instruments**

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

The Company categorizes its assets and liabilities recorded at fair value based upon the following fair value hierarchy established by FASB:

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

The Company's cash equivalents are carried at cost which approximates fair value and totaled \$ 59 . 2 million and \$ 41 . 1 million at August 31, 2016 and 2015 , respectively. This fair value is estimated using Level 1 methods.

At August 31, 2016 , the fair value of the Company's 201 3 Fixed Rate Notes and 201 6 Fixed Rate Notes approximated the carrying value of \$ 579 . 6 million , including accrued interest. The fair value of the 201 3 Fixed Rate Notes and 201 6 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.

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**11. 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:

	2016	2015	2014
Current:			
Federal	\$ 20,137	\$ 14,597	\$ 16,580
State	3,791	3,576	3,490
	<u>23,928</u>	<u>18,173</u>	<u>20,070</u>
Deferred:			
Federal	4,372	10,592	5,328
State	137	(1,528)	450
	<u>4,509</u>	<u>9,064</u>	<u>5,778</u>
Provision for income taxes	<u>\$ 28,437</u>	<u>\$ 27,237</u>	<u>\$ 25,848</u>

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:

	2016	2015	2014
Amount computed by applying a tax rate of 35%	\$ 32,377	\$ 32,103	\$ 25,818
State income taxes (net of federal income tax benefit)	2,553	1,330	2,562
Employment related and other tax credits, net	(2,324)	(2,096)	(1,537)
Change in uncertain tax position s	(3,027)	-	-
Federal tax benefit of statutory tax deduction	-	(4,093)	-
Other	(1,142)	(7)	(995)
Provision for income taxes	<u>\$ 28,437</u>	<u>\$ 27,237</u>	<u>\$ 25,848</u>

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

	2016	2015
Deferred tax assets:		
Allowance for doubtful accounts and notes receivable	\$ 387	\$ 411
Leasing transactions	3,222	3,260
Deferred income	2,991	2,810
Accrued liabilities	6,187	5,630
Stock compensation	2,446	2,831
Other	685	541
State net operating losses	16,303	14,222
Total deferred tax assets	<u>32,221</u>	<u>29,705</u>
Valuation allowance	<u>(14,638)</u>	<u>(12,041)</u>
Total deferred tax assets after valuation allowance	<u>\$ 17,583</u>	<u>\$ 17,664</u>

Deferred tax liabilities:		
Prepaid expenses	\$ (1,119)	\$ (1,315)
Investment in partnerships, including differences in capitalization, depreciation and direct financing leases	(4,125)	(3,711)
Property, equipment and capital leases	(31,565)	(31,167)
Intangibles and other assets	(21,628)	(20,341)
Debt extinguishment	(1,676)	(2,515)
Total deferred tax liabilities	<u>(60,113)</u>	<u>(59,049)</u>
Net deferred tax liabilities	<u>\$ (42,530)</u>	<u>\$ (41,385)</u>

Net deferred tax assets and liabilities are classified as follows:

Current	\$ -	\$ 2,164
Noncurrent	<u>(42,530)</u>	<u>(43,549)</u>
Total	<u>\$ (42,530)</u>	<u>\$ (41,385)</u>

State net operating loss carryforwards expire beginning in December 2016 through May 2037. 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 \$14.6 million and \$12.0 million as of August 31, 2016 and 2015, respectively.

As of August 31, 2016 and 2015, respectively, the Company had approximately \$0.6 million and \$3.7 million of unrecognized tax benefits, including approximately \$0.3 million and \$0.4 million of accrued interest and penalty. If recognized, these benefits would favorably impact the effective tax rate. The liability for unrecognized tax benefits decreased \$3.0 million in fiscal year 2016. The decrease was primarily related to the favorable resolution of a federal tax audit and a statute of limitations expiration of a federal tax position. This entire change in balance impacted the Company's tax rate.

The Company recognizes estimated interest and penalties as a component of its income tax expense, net of federal benefit, as a component of "provision for income taxes" in the Consolidated Statements of Income. During the years ended August 31, 2016 and 2015, the Company recognized a net benefit of \$0.1 million and net expense of \$0.1 million, respectively, and negligible net expenses in fiscal year 2014.

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

	<b>2016</b>	<b>2015</b>
Balance at beginning of year	\$ 3,652	\$ 2,461
Additions based on tax positions related to the current year	-	254
Additions for tax positions of prior years	725	937
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	\$ 625	\$ 3,652

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, 2016, 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 2012. 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.

## **12. 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, 2016, 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, 2016, 7.0 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 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 2016, 2015 and 2014 was \$3.8 million, \$3.5 million and \$3.7 million, respectively, net of related income tax benefits of \$1.2 million, \$1.0 million and \$1.7 million, respectively. At August 31, 2016, the total remaining unrecognized compensation cost related to unvested stock-based arrangements was \$7.1 million and is expected to be recognized over a weighted average period of 2.0 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 2016, 2015 and 2014. Estimates of fair value

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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 2016, 2015 and 2014 was \$8.23 , \$8.83 and \$6.82 , 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:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Expected term (years)	<b>5.3</b>	5.0	4.7
Expected volatility	<b>34 %</b>	34 %	37 %
Risk-free interest rate	<b>1.4 %</b>	1.3 %	1.5 %
Expected dividend yield	<b>1.5 %</b>	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, 2016, is presented in the following table:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Yrs.)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding September 1, 2015	<b>2,873</b>	<b>\$ 14.00</b>		
Granted	<b>494</b>	<b>29.28</b>		
Exercised	<b>(976)</b>	<b>10.49</b>		
Forfeited or expired	<b>(57)</b>	<b>27.51</b>		
Outstanding at August 31, 2016	<b>2,334</b>	<b>\$ 18.37</b>	<b>3.90</b>	<b>\$ 25,279</b>
Exercisable at August 31, 2016	<b>1,548</b>	<b>\$ 13.23</b>	<b>2.89</b>	<b>\$ 24,304</b>

Proceeds from the exercise of stock options for fiscal years 2016, 2015 and 2014 were \$3.8 million, \$18.7 million and \$17.4 million, respectively. The total intrinsic value of options exercised during the years ended August 31, 2016, 2015 and 2014 was \$18.9 million, 21.8 million and \$13.0 million, respectively.

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**Restricted Stock Units**

A summary of the Company's RSU activity during the year ended August 31, 2016 is presented in the following table:

	<b>Restricted Stock Units</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding September 1, 2015	66	\$ 28.49
Granted	51	28.07
Vested	(13)	31.32
Forfeited	(12)	31.69
Outstanding at August 31, 2016	<u>92</u>	<u>\$ 28.90</u>

The aggregate fair value of RSUs that vested was \$0.4 million during the fiscal year ended August 31, 2016 and \$1.1 million during the fiscal years ended August 31, 2015 and 2014.

**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 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. The total remaining amount authorized under the share repurchase program, as of August 31, 2016, was \$132.9 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

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plan to fund the share repurchase program from existing cash on hand at August 31, 2016, 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. Subsequent to the end of fiscal year 2016, the Company declared a quarterly dividend of \$0.14 per share of common stock to be paid to stockholders of record as of the close of business on November 9, 2016, with a payment date of November 18, 2016. 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.

**13. Employee Benefit and Cash Incentive Plans**

The Company sponsors a qualified defined contribution 401(k) plan for employees meeting certain eligibility requirements. Under the plan, employees are entitled to make pre-tax contributions. The Company matches an amount equal to the employee's contributions up to a maximum of 6% of the employee's salaries depending on years of service. The Company's contributions during fiscal years 2016, 2015 and 2014 were \$1.8 million, \$1.6 million and \$1.3 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 \$13.4 million, \$12.4 million and \$9.5 million during fiscal years 2016, 2015 and 2014, respectively.

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**14 . Commitments and Contingencies**

**Litigation**

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

**Note Repurchase Agreement**

On December 20, 2013, the Company extended a note purchase agreement to a bank that serves to guarantee the repayment of a franchisee loan, with a term through 2018 , and also benefits the franchisee with a lower financing rate. In the event of default by the franchisee, the Company would purchase the franchisee loan from the bank, thereby becoming the note holder and providing an avenue of recourse with the franchisee. The Company recorded a liability for this guarantee which was based on the Company's estimate of fair value. As of August 31, 2016 , the balance of the franchisee's loan was \$ 5 . 8 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 20 29 , the Company remains secondarily liable for the lease payments for which it was responsible as the original lessee. As of August 31, 2016 , the amount remaining under these guaranteed lease obligations totaled \$ 7 . 4 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, 2016 , the Company had purchase obligations of approximately \$ 23 5 . 8 million which primarily related to its estimated share of system-wide commitments for food products. The Company has excluded agreements that are cancelable without penalty.

**SONIC CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2016, 2015 and 2014**  
**(In thousands, except per share data)**

**15 . Selected Quarterly Financial Data (Unaudited)**

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2016	2015	2016	2015	2016	2015	2016	2015
Total revenues	\$ 145,803	\$ 139,856	\$ 133,160	\$ 126,219	\$ 165,239	\$ 164,748	\$ 162,118	\$ 175,266
Income from operations	26,045	22,538	22,212	16,991	38,880	36,370	40,315	40,529
Net income <sup>(1)</sup>	\$ 12,458	\$ 10,085	\$ 10,819	\$ 7,662	\$ 15,353	\$ 20,442	\$ 25,437	\$ 26,296
Basic income per share <sup>(2)</sup>	\$ 0.25	\$ 0.19	\$ 0.22	\$ 0.14	\$ 0.32	\$ 0.39	\$ 0.54	\$ 0.51
Diluted income per share <sup>(2)</sup>	\$ 0.24	\$ 0.18	\$ 0.22	\$ 0.14	\$ 0.31	\$ 0.38	\$ 0.53	\$ 0.50

- (1) 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 the sale of Company Drive-Ins of \$0.7 million and the FIN 48 release of income tax credits and deductions of \$3.0 million in the fourth quarter. For fiscal year 2015, includes a tax benefit of \$0.7 million from the retroactive reinstatement of the Work Opportunity Tax Credit and resolution of income tax matters in the second quarter, a federal tax benefit of \$1.7 million from the recognition of a prior-year statutory tax deduction and a tax expense of \$0.6 million from the retroactive effect of federal tax law change during the third quarter and a federal tax benefit of \$1.5 million from the recognition of a prior-year statutory tax deduction and \$1.7 million from a change in deferred tax valuation allowance during the fourth quarter.
- (2) The sum of per share data may not agree to annual amounts due to rounding.

**Sonic Corp .**  
**Schedule II – Valuation and Qualifying Accounts**

<b>Description</b>	<b>Balance at Beginning of Year</b>	<b>Additions Charged to Costs and Expenses</b>	<b>Amounts Written Off Against the Allowance</b>	<b>(Transfers) Recoveries</b>	<b>Balance at End of Year</b>
<i>(In thousands)</i>					
<b>Allowance for doubtful accounts and notes receivable</b>					
Fiscal years ended:					
<b>August 31, 2016</b>	\$ <b>1,105</b>	<b>(53)</b>	<b>(13)</b>	<b>2</b>	\$ <b>1,041</b>
August 31, 2015	1,771	(81)	(601)	16	\$ 1,105
August 31, 2014	\$ 2,347	(434)	(142)	-	\$ 1,771
<b>Accrued liability for drive-in closings and disposals</b>					
Fiscal years ended:					
<b>August 31, 2016</b>	\$ <b>807</b>	<b>208</b>	<b>(376)</b>	<b>(28)</b>	\$ <b>611</b>
August 31, 2015	871	367	(422)	(9)	\$ 807
August 31, 2014	\$ 1,099	339	(546)	(21)	871

*See accompanying Report of Independent Registered Public Accounting Firm.*

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on this 31st day of October, 2016.

Sonic Corp.

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

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ J. Clifford Hudson</u> J. Clifford Hudson, Principal Executive Officer	Chairman of the Board of Directors and Chief Executive Officer	October 31 , 201 6
<u>/s/ Claudia S. San Pedro</u> Claudia S. San Pedro , Principal Financial Officer	Executive Vice President and Chief Financial Officer	October 31 , 201 6
<u>/s/ Michelle E. Britten</u> Michelle E. Britten , Principal Accounting Officer	Vice President and Chief Accounting Officer	October 31 , 201 6
<u>/s/ Tony D. Bartel</u> Tony D. Bartel	Director	October 31 , 201 6
<u>/s/ R. Neal Black</u> R. Neal B l ack	Director	October 31 , 2016
<u>/s/ Lauren R. Hobart</u> Lauren R. Hobart	Director	October 31 , 201 6
<u>/s/ Kate S. Lavelle</u> Kate S . Lavelle	Director	October 31 , 201 6
<u>/s/ J. Larry Nichols</u> J. Larry Nichols	Director	October 31 , 201 6
<u>/s/ Federico F. Peña</u> Federico F. Peña	Director	October 31 , 201 6
<u>/s/ Frank E. Richardson</u> Frank E. Richardson	Director	October 31 , 201 6
<u>/s/ Jeffrey H. Schutz</u> Jeffrey H. Schutz	Director	October 31 , 201 6
<u>/s/ Kathryn L. Taylor</u> Kathryn L. Taylor	Director	October 31 , 201 6
<u>/s/ Susan E. Thronson</u> Susan E. Thronson	Director	October 31 , 201 6

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**EXHIBIT INDEX**

**Exhibit Number and Description**

10.01	Form of Sonic License Agreement
10.12	Form of Stock Option Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan
10.13	Form of Restricted Stock Unit Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan
10.14	Form of Director Stock Option Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan
10.15	Form of Director Restricted Stock Unit Award Agreement under Sonic Corp. 2006 Long-Term Incentive Plan
10.18	Form of Long-Term Award Agreement under Sonic Corp. Senior Executive Cash Incentive Plan
10.19	Form of Short-Term Award Agreement under Sonic Corp. Senior Executive Cash Incentive Plan
10.20	Compensation Recoupment Policy dated October 19, 2016
21.01	Subsidiaries of the Company
23.01	Consent of Independent Registered Public Accounting Firm
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

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**SONIC FRANCHISING LLC**

**NUMBER 7.1 LICENSE**

**AGREEMENT BY AND BETWEEN SONIC FRANCHISING LLC, Licensor, and**

**, Licensee**

**Sonic Drive-In of ,**

**located at**

**, .**

**Dated: , 20 .**

Store No.

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SCHEDULE I – GUARANTY AND RESTRICTION AGREEMENT

**LICENSE AGREEMENT**

THIS LICENSE AGREEMENT (this “Agreement”) made this     day of     , 20     , by and between Licensor, SONIC FRANCHISING LLC, a Delaware limited liability company (“Sonic”), and

(“Principal”)

(all of whom shall be jointly referred to herein as the “Licensee”).

RECITALS

Sonic is the developer and owner of the right to license the distinctive and proprietary drive in, food service system under which food and beverages are sold to the public from drive in restaurants and Non-traditional Locations (as defined in Section 1.07) operated under the trade name and federally registered trademark and service mark “Sonic”. The Sonic System so developed now includes, among other things, the following elements, all or some of which may be deleted, changed, improved, or further developed by Sonic from time to time:

- A. Methods and procedures for the preparation and serving of food and beverage products.
- B. Confidential recipes for food products and distinctive service accessories (including, but not limited to, uniforms, menus, packages, containers, and additional paper or plastic items).
- C. Plans and specifications for distinctive standardized premises featuring characteristic exterior style, colors, and design, interior furnishings, equipment layout, exterior signage, and marketing techniques and materials.
- D. A uniform method of operating which is described in the Sonic Operations Manual.
- E. The Proprietary Marks as defined in Section 1.09.
- F. Such trade secrets as have been and may from time to time be developed, which are owned by Sonic, and which are disclosed to its licensees in confidence in connection with the construction and operation of a Sonic drive in restaurant.
- G. Such proprietary payment and other business methods, including (without limitation) the pay-at-your-stall payment system (“PAYS”), which have been and may from time to time be developed for use in the Sonic System.

Licensee wishes to obtain a license from Sonic to operate a Sonic drive in restaurant pursuant to the Sonic System and to be afforded the assistance provided by Sonic in connection therewith, and understands and accepts the terms, conditions, and covenants set forth herein as those which are reasonably necessary to maintain Sonic’s high and uniform standards of quality and service designed to protect the goodwill and enhance the public image of the Proprietary Marks and the Sonic System, and recognizes the necessity of operating the licensed Sonic drive in restaurant in faithful compliance therewith, and with Sonic’s standards and specifications.

1. DEFINITIONS. Unless the context of their use in this Agreement requires otherwise, the following words and phrases shall have the following meanings when used in initially-capitalized form in this Agreement.

1.01. Affiliate. The word “Affiliate” shall mean (a) any stockholder, director, or officer of a specified Person (if the specified Person is a corporation), (b) any partner of a specified Person (if the specified Person is a partnership), (c) any member of a specified Person (if the specified Person is a limited liability company), (d) any employee of a specified Person, and (e) any Person which directly or indirectly through one or more intermediaries Controls the specified Person, the specified Person Controls, or shares a common Control with the specified Person.

1.02. Control. The word “Control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person or entity, whether through the ownership of voting securities, by contract, or otherwise.

1.03. DMA. The term “DMA” shall mean a Designated Market Area as defined by A.C. Nielsen Company from time to time.

1.04. Gross Sales. The phrase “Gross Sales” shall mean all revenues from all business conducted upon or from the Sonic Restaurant, whether evidenced by check, cash, credit, charge account, debit card, stored-value card, exchange, or otherwise, and shall include (without limitation) the amounts received from the sale of goods, wares, and merchandise, including sales of food, beverages, and tangible property of every kind and nature, promotional or otherwise (excluding restaurant equipment), and for services performed from or at the Sonic Restaurant, whether the Licensee fills the orders from the Sonic Restaurant or elsewhere. Each charge or sale via credit, debit card, stored-value card, or other payment means shall constitute a sale for the full price in the month during which the charge or sale occurs, regardless of the time when the Licensee receives payment (in whole or in part) for the charge or sale. The phrase “Gross Sales” shall not include (a) sales of merchandise for which the Licensee makes a cash refund, if previously included in Gross Sales; (b) the price of merchandise returned by customers for exchange, if the Licensee previously included the sales price of the merchandise returned by the customer in Gross Sales and includes the sales price of merchandise delivered to the customer in exchange in Gross Sales; (c) the amount of any sales tax imposed by any governmental authority directly on sales and collected from customers, if the Licensee adds the amount of the tax to the sales price or absorbs the amount of the sales tax in the sales price and the Licensee actually pays the tax to the governmental authority; (d) amounts not received for menu items because of discounts or coupons, if properly documented; and (e) amounts received from the sale of Sonic-approved stored-value cards. The phrase “Gross Sales” also shall not include any proceeds received by the Licensee pursuant to an assignment made in accordance with the provisions of Section 13.

1.05. License. The word “License” shall mean the rights granted the Licensee pursuant to Section 2 of this Agreement.

1.06. MSA. The term “MSA” shall mean a Metropolitan Statistical Area or a Micropolitan Statistical Area, as applicable, as defined by the United States Census Bureau from time to time.

1.07. Non-traditional Locations. The phrase “Non-traditional Locations” shall mean permanent or temporary food service facilities operating under one or more of the Proprietary Marks at locations featuring facilities other than free-standing buildings with canopies devoted solely to the operation of a Sonic drive-in restaurant and accessible to the general public by automobile from public thoroughfares. Non-traditional Locations shall include (without limitation) (a) military bases and other governmental facilities; (b) universities and schools; (c) airports and other transportation facilities; (d) stadiums, arenas, and other sports and entertainment venues; (e) amusement and theme parks; (f) cafeterias and food courts in shopping centers, shopping malls, office buildings, and industrial buildings; (g) hotels and convention centers; (h) hospitals and nursing facilities; (i) museums, zoos, and other public facilities; and (j) highway travel plazas, convenience stores, and gasoline filling stations.

1.08. Person. The word “Person” shall mean any individual or business entity, including (without limitation) a corporation, joint venture, general partnership, limited partnership, limited liability company, or trust.

1.09. Proprietary Marks. The phrase “Proprietary Marks” shall mean the distinctive and characteristic trade names, trademarks, service marks, and trade dress which Sonic designates in the Sonic Operations Manual or otherwise in writing or through usage from time to time as prescribed for use with the Sonic System and as may from time to time be developed, including (without limitation) the terms “Sonic,” “America’s Drive-In,” “Route 44,” “Wacky Pack,” “Fountain Favorites,” “Frozen Favorites,” “It’s Sonic Good,” “SuperSonic,” “Your Morning Drink Stop!,” “Ultimate Drink Stop,” and “My Sonic;” signs; emblems; menu housings; designs; color schemes; standardized premises featuring characteristic exterior style, canopies, colors, and design (including angled parking stalls equipped with menu housings, speakers, and tray supports); interior furnishings; and equipment layout.

1.10. Protected Area. The phrase “Protected Area” shall mean the area defined by Section 2.02 of this Agreement.

1.11. Sonic Restaurant. The phrase “Sonic Restaurant” shall mean the Sonic drive-in restaurant licensed by this Agreement and may alternatively be referred to herein as the “Restaurant.”

1.12. Sonic System. The phrase “Sonic System” shall mean the Proprietary Marks, proprietary and confidential information, methods, specifications, and trade secrets of Sonic, including (without limitation) the Sonic Operations Manual and consisting of (a) methods and procedures for the preparation of food and beverage products; (b) confidential recipes for food products; (c) distinctive service and accessories; (d) plans and specifications for interior and exterior signs, designs, layouts, and color schemes (whether copyrighted or not); (e) methods, techniques, formats, systems, specifications, procedures, information, trade secrets, and sales and marketing programs; (f) methods of business operations and management; (g) knowledge and experience regarding the operation and franchising of Sonic drive-in restaurants; (h) payment methods, including (without limitation) PAYS; and (i) such further elements as set forth in the Recitals.

2. LICENSE GRANT. Sonic grants to Licensee for the following stated term the right, license, and privilege:

2.01. Location. (a) To adopt and use the Sonic System at the Sonic Restaurant located at \_\_\_\_\_.

(b) To have the exclusive rights to adopt and use the Sonic System for a Sonic drive-in restaurant to be constructed within the current boundaries of the town or city \_\_\_\_\_, for a period of six months from the date hereof, with the obligation of selecting and having such site approved within such six-month period and completing Section 2.01(a), above, within such six-month period.

2.02. Trade Radius. Subject to the provisions of Sections 2.02(c) and 2.02(d), below, Sonic shall not own or operate a Sonic drive-in restaurant and shall not license any other Person to own or operate a Sonic drive-in restaurant (other than a Sonic drive-in restaurant licensed prior to the date of this Agreement) within the Protected Area, which is the area determined as of the date of this Agreement by the following provisions:

(a) (i) An area defined by a radius extending one and one-half miles from the front door of the Sonic Restaurant if located within a city, town, or MSA having a population of 75,000 or more.

(ii) An area defined by a radius extending two miles from the front door of the Sonic Restaurant if located within a city, town, or MSA having a population of less than 75,000 but more than 25,000.

(iii) An area defined by a radius extending three miles from the front door of the Sonic Restaurant if located within a city, town, or MSA having a population of 25,000 or less.

(iv) An area defined by a radius extending three miles from the front door of the Sonic Restaurant if located outside a city, town, or MSA.

(b) The Protected Area shall not extend into: (i) the contractually-granted protected radius of any Sonic drive-in restaurant in existence as of the date of this Agreement (“Previously Protected Radius”) and (ii) the protected area of any developer under an area development agreement with Sonic in existence as of the date of this Agreement (“Previously Protected Development Area”). Consequently, any Previously Protected Radius and any Previously Protected Development Area shall be excepted from the Protected Area. Sonic shall determine the population of an MSA from time to time after the date of this Agreement according to the latest published federal census (or other data selected by Sonic) and may reduce the Protected Area accordingly upon notice to the Licensee. If more than one subpart of Section 2.02(a) applies, then only the subpart with the smallest area shall apply.

(c) Sonic shall not own, operate, or license any other Person to own or operate a Non-traditional Location (other than a Non-traditional Location owned, operated, or licensed prior to the date of this Agreement) within the Protected Area without the Licensee’s prior written consent. Simultaneously with the request for that written consent, Sonic shall offer the Licensee a right of first refusal to develop the Non-traditional Location. The Licensee must notify Sonic in writing of its decision regarding the right of first refusal to license and operate the Non-traditional Location within 30 days after Sonic notifies the Licensee of Sonic’s request for the Licensee’s written consent to own, operate, and/or license the Non-traditional Location. If the Licensee chooses to exercise its right of first refusal, the Licensee must sign Sonic’s then-current form of license agreement for a Non-traditional Location for the applicable jurisdiction within 30 days after the Licensee notifies Sonic of its decision. The

Licensee then must open the Non-traditional Location within the time period specified in the license agreement (if specified) or within 12 months after the date of the license agreement (if not specified). If the Licensee does not execute that agreement within the foregoing 30-day period or does not exercise its right of first refusal within the foregoing 30-day period, Sonic shall have the right to proceed with the ownership, operation, and/or licensing of the Non-traditional Location as disclosed to the Licensee only if the Licensee has given its written consent to Sonic. If the Licensee elects, in its sole and absolute discretion, not to give its written consent, Sonic shall not own, operate, or license any other Person to own or operate the Non-traditional Location, except that Sonic may own, operate, or license any other Person to own or operate the Non-traditional Location without Licensee's consent, subject to Licensee's right of first refusal described herein, if the Non-Traditional Location is in (i) an airport or other transportation facility; (ii) a stadium, arena, or other sports and entertainment venue; or (iii) a military base or other governmental facility.

(d) Sonic has and hereby further reserves the right, in its sole discretion, to acquire the assets or controlling ownership of an existing restaurant within the Protected Area. However, prior to converting an acquired restaurant to a Sonic drive-in restaurant or a Non-traditional Location within the Protected Area, Sonic shall offer the Licensee a right of first refusal to acquire the restaurant at a price equal to Sonic's cost of acquiring the restaurant. If the restaurant represents a part of an acquisition of multiple restaurants, Sonic shall make a reasonable allocation of its cost to acquire the restaurant. The Licensee must notify Sonic of its decision regarding the right of first refusal within 30 days after Sonic gives the Licensee written notice of its intention to convert the restaurant to a Sonic drive-in restaurant or Non-traditional Location. If the Licensee chooses to exercise its right of first refusal, the Licensee must sign Sonic's then-current form of license agreement for a Sonic drive-in restaurant or Non-traditional Location, and pay the required license fee, as applicable, within 20 days after the Licensee notifies Sonic of its decision. In the event the Licensee fails to convert the restaurant to a Sonic drive-in restaurant or Non-traditional Location pursuant to the terms of the applicable license agreement, Sonic shall have the right to repurchase the restaurant from the Licensee at the same purchase price. If the Licensee does not exercise its right of first refusal, Sonic shall have the right to own, operate, and/or license other Persons to own or operate the restaurant or Sonic may sell or otherwise dispose of the restaurant to any person or entity under any terms or conditions Sonic deems appropriate, provided in no case will the restaurant be operated as a Sonic drive-in restaurant or a Non-traditional Location without the consent of Licensee, except as may be allowed pursuant to Section 2.02(c).

2.03. Licensee. Licensee shall advertise to the public as a licensee of Sonic.

2.04. Use of Sonic's Marks. Licensee shall adopt and use the Proprietary Marks, but only in connection with the sale from the Sonic Restaurant of those food and beverage products which have been designated in the Sonic menu as specified in the Sonic Operations Manual.

2.05. Site Selection. In the event the Licensee receives this License pursuant to Section 2.01(b), above, the selection of a site by Licensee shall be subject to the approval of Sonic in accordance with the standard site approval procedures required by this Agreement and the standard practices of Sonic. In the event a site for the Sonic Restaurant has not been approved by Sonic before the expiration of the six-month period provided for by Section 2.01(b), above, then this Agreement shall expire and be of no further force or effect. In such case, Sonic will immediately refund to Licensee the license fee less the sum of \$15,000, which shall be fully earned by Sonic upon execution and delivery of this Agreement.

2.06. Relocation. If the Licensee relocates the Sonic Restaurant during the term of this Agreement (which relocation must be within the Protected Area) with the written consent of Sonic (which consent Sonic shall not withhold unreasonably), this Agreement shall continue to apply to the Sonic Restaurant in accordance with the terms contained in this Agreement, except that Sonic and the Licensee shall enter into an amendment to this Agreement to change the address of the Sonic Restaurant accordingly. Upon such relocation, the Protected Area shall be shifted based on the new location according to Section 2.02 and less and except (i) the contractually-granted protected radius of any Sonic drive-in restaurant in existence prior to the relocation and (ii) the protected area of any developer under an area development agreement with Sonic in existence prior to the relocation.

2.07. Rights Reserved to Sonic. Except as expressly limited by this Agreement, Sonic retains all rights with respect to the Sonic System, the Proprietary Marks, the sale of similar or dissimilar products and services, and any other activities Sonic deems appropriate whenever and wherever it desires. Specifically, but without limitation, Sonic reserves the following rights:

(a) The right to establish and operate, and to grant to others the right to establish and operate, similar businesses or any other businesses offering similar or dissimilar products and services through similar or dissimilar channels of distribution, at any locations inside or outside the Protected Area under trademarks or service marks other than the Proprietary Marks and on any terms and conditions Sonic deems appropriate;

(b) The right to provide, offer, and sell, and to grant others the right to provide, offer, and sell, goods and services that are identical or similar to and/or competitive with those provided at the Sonic Restaurant, whether identified by the Proprietary Marks or other trademarks or service marks, through dissimilar distribution channels (including, without limitation, the Internet or similar electronic media) both inside and outside the Protected Area and on any terms and conditions Sonic deems appropriate;

(c) The right to establish and operate, and to grant to others the right to establish and operate, businesses offering dissimilar products and services, both inside and outside the Protected Area, under the Proprietary Marks and on any terms and conditions Sonic deems appropriate;

(d) The right to operate, and to grant others the right to operate, Sonic drive-in restaurants or Non-traditional Locations anywhere outside the Protected Area under any terms and conditions Sonic deems appropriate regardless of the proximity to the Sonic Restaurant;

(e) The right to be acquired (whether through acquisition of assets, ownership interests, or otherwise, regardless of the form of transaction) by a business providing products and services similar to those provided at the Sonic Restaurant, or by another business, even if such business operates, franchises, and/or licenses competitive businesses in the Protected Area.

### 3. TERM.

3.01. Initial Term. Unless sooner terminated as hereafter provided, the term of this Agreement, including the License, shall end 20 years from the effective date of this Agreement as set forth on the cover page to this Agreement.

3.02. Opening of Restaurant. Licensee expressly acknowledges and agrees that a pre-condition to opening the Sonic Restaurant shall be Sonic's written authorization to open, which authorization shall be given only upon Licensee's completing, to Sonic's satisfaction, (i) construction of the Sonic Restaurant, (ii) preparation of the Sonic Restaurant for commencement of operations, and (iii) training as required by Section 6.04 of this Agreement.

3.03. Option. At the end of the initial term, if Licensee desires, Licensee may renew the rights granted under this Agreement, including the License to adopt and use the Sonic System at the Sonic Restaurant, for an additional 10-year term, provided that prior to the expiration of the initial term:

(a) Licensee gives Sonic written notice of Licensee's election to renew not less than six months nor more than 12 months prior to the end of the initial term.

(b) Licensee is not, when notice is given, in material default of any provision of this Agreement or any amendment hereof or successor agreement hereto or in material default of any other agreement between Licensee and Sonic or Sonic's Affiliates involving any other license agreement and has substantially complied with the terms and conditions of this Agreement and all other such agreements, during the term thereof.

(c) All monetary obligations owed by Licensee to Sonic or Sonic's Affiliates from any source whatsoever (whether under this Agreement or otherwise) have been satisfied prior to renewal.

(d) The Licensee executes a license agreement containing the same terms and conditions as this Agreement, except that the license agreement shall provide for a term of 10 years and shall contain the then-current royalty rate and the then-current advertising and brand expenditure requirements; provided, however, that in lieu of an initial license fee, a renewal fee shall be paid to Sonic in the amount of: (i) \$4,500, or (ii) 20% of the then-current initial license fee, whichever is greater. However, the renewal fee shall not exceed \$9,000 as adjusted for

inflation on January 1 of each year in accordance with the consumer price index and using December of 2006 as the base amount.

(e) Licensee performs such remodeling, repairs, replacements, and redecorations as Sonic may reasonably require to cause the restaurant equipment and fixtures to conform to the plans and specifications being used for new or remodeled Sonic drive-in restaurants on the renewal date.

(f) Licensee executes a general release, in a form satisfactory to Sonic, of any and all claims the Licensee may have against Sonic and its Affiliates, including (without limitation) all claims arising under any federal, state, or local law, rule, or ordinance.

(g) Licensee principal and/or manager at their expense attend and satisfactorily complete such retraining program as Sonic may require at its sole discretion.

(h) Licensee meets the remodeling requirements set forth in Section 6.02(d) herein.

4. DUTIES OF SONIC. Sonic agrees to regularly advise and consult with Licensee in connection with the operation of the Sonic Restaurant and to provide the following to Licensee:

4.01. Plans. Standard Sonic Plans and Specifications for a free standing building, equipment layout, and signs (see Section 6.03), together with advice and consultation. Any modifications for nonstandard buildings, whether required by local zoning or building laws or otherwise, must be approved in writing by Sonic and are to be paid by Licensee.

4.02. Operations Manual. The Sonic Operations Manual containing the standards, specifications, procedures, and methods for operating a Sonic drive-in restaurant, one copy to which Licensee will be given access for the term of this Agreement.

4.03. Marketing Assistance. Certain marketing materials and such merchandising, marketing, and advertising research data and advice as may be developed from time to time by Sonic and deemed to be helpful in the operation of a Sonic drive-in restaurant.

4.04. Communication. Certain management development and motivational seminars and periodic newsletters which communicate to Licensee available advertising materials and new developments, techniques, and improvements in areas of restaurant equipment, management, food preparation, and service which are pertinent to the operation of a restaurant using the Sonic System.

4.05. Evaluation Program. A field evaluation of the Restaurant will be conducted for the mutual benefit of both Sonic and Licensee to promote uniform standards of operation and quality control.

5. FEES.

5.01. License Fee. The Licensee acknowledges that: (a) the initial grant of the License constitutes the sole consideration for the payment of a license fee of \$45,000 paid by Licensee to Sonic concurrently with the execution hereof; and (b) the fee has been earned by Sonic (except where the construction of the Restaurant has not been completed within one year from the date of this Agreement as discussed in Section 6.02(a) and except as provided hereafter in this Section 5.01). Sonic reserves the right, in case construction of the Restaurant should be abandoned, the lease assigned for a purpose other than the operation of the Sonic Restaurant, or other interest in the premises be relinquished for a purpose other than the operation of the Sonic Restaurant, to terminate this Agreement, including the License, upon written notice, after which Sonic will immediately refund to Licensee the license fee less the sum of \$15,000, which shall be fully earned by Sonic upon execution and delivery of this Agreement. Licensee shall have the right, if Licensee does not consummate a lease or purchase a site for the Restaurant within one year from the date of this Agreement, to terminate this Agreement, including the License, upon written notice, after which Sonic will immediately refund to Licensee the license fee less the sum of \$15,000, which shall be fully earned by Sonic upon execution and delivery of this Agreement.

5.02. Royalty Fees. On or before the 10th day of each calendar month, the Licensee shall pay a royalty fee determined by the following scale based on Gross Sales for the calendar month preceding the date of such payment:

Monthly Gross Sales	But Not	Royalty
<u>Greater Than</u>	<u>More Than</u>	<u>Rate</u>
\$0.00	\$5,000.00	2.00%
\$5,000.00	\$10,000.00	3.00%
\$10,000.00	\$15,000.00	3.50%
\$15,000.00	\$20,000.00	4.00%
\$20,000.00	\$25,000.00	4.50%
\$25,000.00	N/A	5.00%

The calculation of Gross Sales and the corresponding royalty fees shall take place on a cumulative basis. For example, the following formula results in the calculation of the royalty fee on \$50,000 of Gross Sales: Royalty Fee = (\$5,000 x .02) + (\$5,000 x .03) + (\$5,000 x .035) + (\$5,000 x .04) + (\$5,000 x .045) + (\$25,000 x .05).

The payment of royalty fees, as well as the payment of any other obligations incurred under the terms of this Agreement, shall be made via automated clearing house (ACH) or other electronic means approved by Sonic.

5.03. Brand Fee. (a) On or before the 10th day of each calendar month throughout the term of this Agreement, Licensee shall pay to the Sonic Brand Fund, which is administered by Sonic, a brand contribution fee in an amount equal to .90% of the Gross Sales of the Sonic Restaurant during the calendar month next preceding the date of such payment.

(b) The amount due to Sonic by Licensee pursuant to Section 5.03(a), above, shall be in addition to and separate from that which Licensee is obligated to contribute pursuant to Sections 11.01(a) and 11.01(c) of this Agreement.

5.04. Transfer Fee. (a) A transfer fee in the amount of \$1,000 shall be paid by Licensee in the event of a transfer or assignment of this Agreement (resulting in a change in Control of the Agreement) to a licensee then-currently qualified as a licensee, excluding assignments under Sections 13.02 and 13.03.

(b) A transfer fee in the amount of \$3,000 shall be paid by Licensee in the event of a transfer or assignment of this Agreement (resulting in a change in Control of this License) to a new licensee not then-currently qualified as a licensee, excluding assignments under Sections 13.02 and 13.03.

5.05. Late Payments. In the event any payments required by Sections 5.02, 5.03, 5.04, or 5.07 are not paid on or before the date on which they are due, a late charge in an amount equal to 1.75% per month shall be levied against such amounts due and shall be owing to Sonic by the Licensee from the date on which such obligations were due until any such obligations are paid in full. In the event any payments required by Sections 5.02, 5.03, 5.04, or 5.07 are not paid on or before the date on which they are due three or more times during any 12-month period, in addition to all other rights of Sonic contained in this Agreement or otherwise, (a) Sonic may require the Licensee to submit a statement of Gross Sales in the form prescribed by Sonic and at a frequency prescribed by Sonic, such as weekly; and (b) Sonic may require the Licensee to pay obligations incurred under the terms of this Agreement more frequently than once a month, such as weekly. In the event the interest rate set out in this Section 5.05 exceeds that amount permitted by Oklahoma law, then the maximum interest rate permitted by Oklahoma law shall be charged. Sonic's acceptance of any partial or late payment does not affect Sonic's right to terminate this Agreement pursuant to the terms of this Agreement. Further, Licensee acknowledges that this Section 5.05 is not an agreement to accept any partial payments or payments after they are due or Sonic's commitment to extend credit to, or otherwise finance the operation of, the Sonic Restaurant.

5.06. Taxes. (a) Licensee shall pay when due all taxes levied or assessed on Licensee and the Sonic Restaurant including, without limitation, unemployment, sales, or gross receipts taxes, and all accounts or other indebtedness of any kind incurred by Licensee in conducting the business of the Sonic Restaurant.

(b) In the time and manner prescribed by Sonic, Licensee shall also pay an amount equal to any sales tax or gross receipts tax, but not including any net income tax upon Sonic, imposed on Sonic or its Affiliates with respect to any payments from Licensee to Sonic required under this Agreement, unless the tax is credited against a net income tax otherwise payable by Sonic.

(c) (i) In the event of a dispute with a taxing authority as to (a) Licensee's liability for taxes or (b) Sonic's or its Affiliate's liability for any taxes upon which Licensee is required under this Section 5.06 to make payment to Sonic, Licensee may contest the validity or the amount of the tax or indebtedness in accordance with the law and regulations of the taxing authority. Sonic shall provide Licensee with all information, cooperation, and assistance that Licensee may reasonably request in connection with any dispute as to Licensee's, Sonic's, or Sonic's Affiliate's liability for taxes. Licensee shall not permit a tax sale, seizure, levy, or similar writ or warrant by a creditor to occur against the Sonic Restaurant or any of its assets.

(ii) In the event a state taxing authority makes a refund to Sonic or its Affiliate of taxes paid for which Sonic previously received payment from Licensee under this Section 5.06, Sonic shall pay to Licensee the amount of the taxes refunded by the state taxing authority to Sonic or its Affiliate which equals the amount Licensee previously paid to Sonic under this Section 5.06.

(d) All notices received by Licensee from a state taxing authority regarding the alleged, potential, or actual tax liability of Sonic or its Affiliates shall be given to Sonic within 15 calendar days of receipt by Licensee. Sonic and Licensee agree to consult in good faith to determine the nature of any action to be taken in connection with the notice or any demands contained therein.

5.07 Technology Fee. (a) For Gross Sales incurred beginning on March 1, 2016, and thereafter during the continuance of this Agreement, but subject to Section 5.07(b) below, Licensee shall pay to the Brand Technology Fund, on or before the 10th day of each calendar month throughout the term of this Agreement, a technology fee in an amount equal to .25% of the Gross Sales during the calendar month next preceding the date of such payment, provided:

(i) If the Sonic Restaurant is in operation for the full calendar year 2015, the monthly technology fee paid through the March 2021 payment shall instead be an amount equal to .25% of the Gross Sales for calendar year 2015 divided by 12. For example, if the Gross Sales for calendar year 2015 were \$1,200,000.00, then the monthly technology fee beginning with the April 2016 payment through the March 2021 payment would be \$250.00.

(ii) If the Sonic Restaurant is in operation for the full calendar year 2020, the monthly technology fee paid from the April 2021 payment through the March 2026 payment shall instead be an amount equal to .25% of the Gross Sales for calendar year 2020 divided by 12.

(b) The technology fee will continue for Gross Sales incurred on or after March 1, 2026, only upon (i) the approval of a majority of the Franchise Advisory Council (or its successor) and (ii) the approval of 67% of the licensees of the Sonic restaurants in the Sonic System (with one vote per restaurant).

## 6. DUTIES OF LICENSEE.

6.01. Sonic Restaurant Site. (a) The site at which Licensee shall operate the Sonic Restaurant is more fully described in Section 2.01(a). During the term of this Agreement, the site shall be used exclusively for the purpose of operating a license d Sonic drive in restaurant.

(b) In the event the Sonic Restaurant premises suffers some physical casualty, the minimum acceptable quality and appearance for the restored restaurant will be that which existed just prior to the casualty, unless the Sonic Restaurant was below minimum acceptable standards for Sonic at the time of casualty in which event the

Sonic Restaurant will be restored to a condition which meets the minimum acceptable standard according to Sonic. However, Licensee agrees to make all reasonable effort to have the restored Sonic Restaurant reflect the then-current image, design, and specifications of Sonic drive in restaurants. If the Sonic Restaurant is substantially destroyed by fire or other casualty, Licensee may, with the written consent of Sonic, elect to terminate this Agreement in lieu of Licensee reconstructing the restaurant, provided that for a period of 18 months after said election, Licensee shall not enter into, become landlord of, or loan money to any restaurant business within a three-mile radius of the Sonic Restaurant premises which is similar in nature to or competitive with a Sonic drive in restaurant or considered a quick-service restaurant establishment.

6.02. Construction and Opening. (a) Licensee agrees to complete the construction of the Sonic Restaurant and open the Sonic Restaurant to the public within one year from the effective date of this Agreement. If the Sonic Restaurant is not constructed and opened to the public before the expiration of the one-year period, then Sonic may terminate this Agreement, making it of no further force or effect. In such case, Sonic will immediately refund to Licensee the license fee less the sum of \$15,000, which shall be fully earned by Sonic upon execution and delivery of this Agreement. Unless Licensee is remodeling an existing building, Licensee shall construct the Sonic Restaurant in accordance with the site plan approved by Sonic for such site and with Sonic's standard construction plans and specifications ("Sonic Plans and Specifications") and layout subject, however, to any alterations thereto that may be required by any applicable law, regulation, or ordinance. If alterations of any kind are required to be made to the site plan, as approved by Sonic, or to the Sonic Plans and Specifications or layouts for any reason, such alterations must be approved by Sonic in writing before any work is begun on the Sonic Restaurant. The Licensee shall submit the final site layout and construction plans for the Sonic Restaurant to Sonic for its written approval. Any costs, including engineering and architectural fees, incurred in obtaining approvals by the appropriate governmental authorities of the construction plans, specifications, and layouts shall be paid by Licensee. Prior to opening, Licensee shall submit to Sonic, at no cost to Sonic, a record set of drawings showing all approved changes to the plans and specifications.

(b) If Licensee is remodeling the existing Restaurant, Sonic shall have the right to inspect and approve all plans and specifications prior to the commencement of any work. The Licensee shall submit the final remodeling plans and specifications for the Sonic Restaurant to Sonic for its written approval. Nothing in this section shall be construed as an endorsement or guarantee of the conformity of such plans to applicable local, state, or federal building or safety codes, or a guarantee that construction will be done in conformity with such approved plans. In any event, Licensee shall obtain written approval of such plans or written notice of Sonic's waiver of the rights reserved hereunder prior to the commencement of construction.

(c) Licensee shall not deviate from the approved plans and specifications in any manner in the construction or remodeling of the restaurant without the prior written approval of Sonic. If at any time Sonic determines (prior to opening date) that Licensee has not constructed or remodeled the Sonic Restaurant in accordance with the plans and specifications approved by Sonic, Sonic shall, in addition to any other remedies, have the right to obtain an injunction from a court of competent authority against the continued construction and opening of the Sonic Restaurant, and Licensee hereby consents to any such injunction.

(d) Sonic may require the Licensee to undertake extensive remodeling and renovation and substantial modifications to existing buildings necessary for the Licensee's restaurant to conform with Sonic's then-existing system image. Sonic may exercise the foregoing right at any time during the term of this Agreement, but may not require (1) the remodeling of the restaurant more than once every seven years or (2) the remodeling of a restaurant built within the preceding three years, unless the required remodeling will not exceed 15% of the original cost of the building, equipment, and land improvements (as adjusted for increases in the consumer price index after the construction date of the restaurant). Notwithstanding the foregoing, Sonic shall have the right to require the Licensee to modify or replace the large Sonic sign for the restaurant at any time during the term of this Agreement. If Sonic exercises its right to require the Licensee to undertake extensive remodeling or renovation or substantial modification within five years of the end of the term of this Agreement, the Licensee may exercise any right to renew the term of this Agreement at that point in time in accordance with the applicable provisions of this Agreement, which renewal then shall take effect as of the expiration of the then-current term of this Agreement.

6.03. Equipment and Sign. (a) Licensee shall install in and about the Sonic Restaurant such equipment, fixtures, furnishings, and other personal property, and shall upgrade or purchase additional equipment, fixtures, furnishings, and other personal property, as are required and which strictly conform to the appearance, uniform

standards, and specifications of Sonic existing from time to time, which shall be communicated to Licensee in the Sonic Operations Manual or otherwise in writing. Equipment not required by Sonic shall not be installed without Sonic's prior written consent, except that Licensee may, without Sonic's prior written consent, install security-related equipment that does not interfere with the operation or trade dress of the Sonic Restaurant.

(b) In order to provide maximum exposure of the Sonic name and marks, Licensee shall prominently display and maintain at Licensee's own expense one Sonic drive in sign ("Sign") which complies with the specifications required by Sonic from time to time and in such location as Sonic may approve. Licensee shall not display any other sign or advertising at the Sonic Restaurant without Sonic's prior written approval.

(c) Licensee may lease the required Sign from any source approved by Sonic. Licensee agrees to require in any lease agreement with suppliers a clause giving Sonic the right to remove the Sign from the Sonic Restaurant upon termination of this Agreement.

(d) Licensee hereby agrees that it shall obtain from the landlord of the property at which the Sonic Restaurant is located a landlord's waiver releasing all claims against any equipment or sign which belongs to Sonic and all claims to fixtures and furnishings that constitute Proprietary Marks of Sonic.

(e) If Licensee is or becomes a lessee of the Sonic Restaurant premises, Licensee shall provide Sonic with a true and correct, complete copy of any such lease and obtain Sonic's written approval of the lease terms prior to executing the lease. Licensee shall have included in the lease provisions, in form satisfactory to Sonic, expressly permitting both the Licensee and Sonic to take all actions and make all alterations referred to under Section 15.01. Any such lease shall also require the lessor thereunder to give Sonic reasonable notice of any contemplated termination and a reasonable time in which to take and make the above actions and alterations and provide that the Licensee has the unrestricted right to assign such lease to Sonic.

6.04. Training. (a) Licensee acknowledges the importance of the quality of business operations among all restaurants in the Sonic System and agrees that it will not allow any of its licensed establishments to be opened or operated without having at least one individual working full time at the Sonic Restaurant who has completed the Stage Career Development Program or other Sonic-designated training program. If the trained individual ceases to work full time at the Sonic Restaurant for whatever reason, the Licensee shall promptly replace the individual with a person who has completed the Stage Career Development Program or other Sonic-designated training program. Licensee agrees that each individual who participates in the Stage Career Development Program or other Sonic-designated training program for the Sonic Restaurant will, at the request of Sonic, sign a confidentiality agreement in a form prescribed by Sonic agreeing to maintain as confidential certain information learned and received during the program.

(b) Licensee shall pay all traveling expenses, living expenses, and any other personal expenses for themselves and managers while enrolled in the training program. As part of the initial license fee paid pursuant to Section 5.01 herein, Licensee shall have the right to have one principal and one manager of the Sonic Restaurant attend the Stage Career Development Program or other Sonic-designated training program for no cost other than those set out in the preceding sentence. Any additional parties attending the Stage Career Development Program or other Sonic-designated training program shall bear the cost, including any fees and tuition due for such training program.

(c) Upon opening the Sonic Restaurant, all management personnel shall be certified in ServSafe or in another comparable, nationally recognized food safety training and certification program approved by Sonic, the cost of which shall be borne by Licensee. Management personnel subsequently employed by Licensee at the Sonic Restaurant shall have 120 days from the beginning date of such employment to successfully complete such training. Licensee shall pay all traveling expenses, living expenses, and any other personal expenses for such persons while participating in the training. Management personnel include any person who has shift responsibility or employee oversight at the Sonic Restaurant and also includes the operating principal of the Sonic Restaurant.

6.05. Compliance with Entire System. (a) Licensee acknowledges that every component of the Sonic System is important to Sonic and to the operation of the Sonic Restaurant as a Sonic drive in restaurant, including a designated menu of food and beverage products; uniformity of food specifications, preparation methods, quality, and appearance; and uniformity of facilities and service.

(b) Sonic shall have the right to inspect the Sonic Restaurant at all reasonable times to ensure that Licensee's operation thereof is in compliance with the standards and policies of the Sonic System. This right to inspect includes the right of Sonic or a third party on behalf of Sonic to conduct food safety audits and operational assessments. In the event that any inspection, including a food safety audit or an operational assessment, reveals any deficiency or unsatisfactory condition with respect to any aspect of the Sonic Restaurant operation, Licensee shall, within 72 hours of Licensee's receipt of notice of such condition or such other time as Sonic in its sole discretion may provide, correct or repair such deficiency or unsatisfactory condition if it is correctable or repairable within such time period, and, if not, shall within such time commence such correction or repair and thereafter diligently pursue same to completion. The preceding sentence notwithstanding, the Licensee shall take immediate action to correct or repair any deficiency or unsatisfactory condition which poses a risk to public health or safety. In the event Licensee fails to comply with the foregoing obligations to correct and repair, Sonic, upon 24 hours' notice to Licensee, shall have the right (but no obligation), without being guilty of trespass or tort, to forthwith make or cause to be made such corrections or repairs, and the expense thereof, including board, wages, lodging, and transportation of Sonic personnel, if utilized, shall be paid by Licensee upon billing by Sonic. The foregoing shall be in addition to any other right or remedies Sonic may have.

(c) Licensee shall comply with the entire Sonic System as described herein and in the Sonic Operations Manual, including but not limited to the following:

(i) Operate the Sonic Restaurant in a clean, wholesome manner in compliance with standards of quality, food safety, service, cleanliness, and appearance as prescribed by governmental authorities and by Sonic; comply with all business policies, practices, and procedures imposed by Sonic; and maintain the building, equipment, and parking area in a good, clean, wholesome condition and repair, well lighted, and in compliance with designated standards as may be prescribed from time to time by Sonic.

(ii) Purchase and install kitchen fixtures, lighting, payment systems, and equipment, and office equipment and signs in accordance with the equipment specifications and layout designated by Sonic.

(iii) Without the prior written consent of Sonic, make no (a) building design conversion or (b) alterations, conversions, or additions to the building or parking area.

(iv) Make repairs or replacements required because of damage, wear, and tear or in order to maintain the Sonic Restaurant building, fixtures, and parking area in good condition and in conformity with blueprints and plans.

(v) Maintain the parking stalls, as required in the standard Sonic Plans and Specifications, for the exclusive use of Sonic Restaurant customers.

(vi) Operate the Sonic Restaurant everyday of the year (except Easter, Thanksgiving, and Christmas), and at least 15 hours per day or such other hours, including specific opening and closing times, as may from time to time be reasonably prescribed by Sonic (except when the Sonic Restaurant is untenable as a result of fire or other casualty), maintain sufficient supplies of food and paper products, and employ adequate personnel so as to operate the Sonic Restaurant at its maximum capacity and efficiency.

(vii) Cause all employees of Licensee, while working in the Sonic Restaurant, to: (a) wear uniforms of such color, design, and other specifications as Sonic may designate from time to time, (b) present a neat and clean appearance, and (c) render competent and courteous service to Sonic Restaurant customers.

(viii) Serve all menu items which Sonic may deem appropriate and which are included in the menu approved by Sonic at the time to take full advantage of the potential market and achieve standardization in the Sonic System, serve no items which are not set forth in the Sonic Operations Manual and which are not otherwise authorized and approved in writing by Sonic, and display and offer only the menu approved by Sonic at the time.

(ix) In the dispensing and sale of food products: (a) use only containers, cartons, bags, napkins, and other paper goods and packaging bearing the approved trademarks and which meet the Sonic System specifications and quality standards, (b) use only those flavorings, garnishments, and food and beverage ingredients, manufacturers, and brands which meet the Sonic System specifications and quality standards, which Sonic may designate from time to time, and (c) employ only those methods of food handling, preparation, and serving which Sonic may designate from time to time.

(x) Make prompt payment in accordance with the terms of invoices rendered to Licensee including, but not limited to, invoices for the purchase of fixtures, equipment, and food and paper supplies.

(xi) At Licensee's expense, comply with all federal, state, and local laws, ordinances, and regulations affecting the operation of the Sonic Restaurant, including all laws, ordinances, or regulations relating to terrorist activities.

(xii) Install no electronic games or other games of chance at the Sonic Restaurant without the express prior or written consent of Sonic.

(xiii) Furnish Sonic with current home addresses and phone numbers of Licensee and Licensee's owners and manager; furnish Sonic with current information regarding the legal and equity ownership and Control of the operation of the Sonic Restaurant; and, upon Sonic's reasonable request, provide updates of financial information, personal financial statements, and credit information.

(xiv) Notify Sonic's Communications Department or, if not available, the most senior executive officer of Sonic as soon as possible and, in any event, within 12 hours after the occurrence at the Sonic Restaurant of any event which could have an adverse impact on the Sonic Restaurant and/or the Sonic System, including (without limitation) the death or serious bodily injury of any employee or customer for any reason or the risk of infection by a contagious disease.

(xv) Only provide a Sonic-approved toy premium that is appropriate for the age of the child; make a Sonic-approved all-age toy premium available upon customer request; and, except in the case of an all-age toy premium provided as appropriate, only offer the Sonic-approved toy premium corresponding to the Sonic-designated promotion.

(xvi) Accept Sonic-designated debit and credit cards, Sonic-approved stored-value cards, and any other Sonic-designated payment means.

(xvii) Participate in system-wide initiatives, including technology initiatives such as the PartnerNet technology initiative and other initiatives as may be designated by Sonic from time to time.

(xviii) Deal with Persons supplying goods and services to the Sonic Restaurant in a respectful and responsive manner such that the reputation and goodwill of Sonic, its licensees, and the Sonic System are not tarnished in the business community or with consumers; ensure that all Persons that provide goods or services to the Sonic Restaurant during construction and operation are timely and fully paid for such goods and services, except only to the extent that any of the goods and services are non-conforming, damaged, defective, or missing; and, in the event that a dispute arises as to quality or quantity of goods or services furnished to the Sonic Restaurant, timely communicate with and respond to the supplier in a good faith effort to resolve the dispute. Licensee cannot avoid the obligations contained in this Section 6.05(c)(xviii) by contracting for or obtaining the goods or services indirectly, such as through an intermediary.

(xix) Except as to bottled water and paper products and except as allowed by any policy contained in the Sonic Operations Manual, do not sell or serve food and beverage products outside of the Sonic Restaurant premises and do not donate food and beverage products to a third party except upon the prior written consent of Sonic.

(xx) Do not sell Sonic coupons, and only sell Sonic-related merchandise on the Internet or by other means upon the prior written consent of Sonic.

(xxi) Participate in Sonic-approved marketing, advertising, promotional, and brand enhancement programs.

(xxii) In the event Sonic sets a maximum price for any product, do not charge a price in excess of such maximum price for the product; however, Licensee may charge a price lower than the maximum price.

(xxiii) Sell the Sonic-approved stored-value card or other Sonic-designated pre-paid payment means.

(xiv) Utilize at the Sonic Restaurant a Sonic-approved point-of-sale system that at all times has a non-alterable grand total function so that each item entered in such register and each day's totals may not be altered once entered.

(d) Sonic shall have the right to establish new or to modify existing operating procedures, policies, practices, requirements, and guidelines, which shall be effective upon notice from Sonic unless Sonic specifies otherwise. Such new or modified operating procedures, policies, practices, requirements, and guidelines may require Licensee to incur additional expense.

6.06. Approved Suppliers and Advertising Agencies. (a) Sonic may require the Licensee (i) to purchase food, beverages, signs, and equipment which meet the specifications established by Sonic; (ii) to purchase such items only from Sonic-designated suppliers (which designated suppliers may include Sonic or its Affiliates); and (iii) to retain and utilize exclusively the marketing and advertising services of the Sonic-approved advertising agency of record. In addition, the Licensee immediately shall use the Licensee's vote or votes in all advertising cooperatives in which the Licensee participates to support the use of the advertising agency of record for the Sonic drive-in restaurant chain.

(b) Sonic may require the Licensee to support the use of and to use the products and programs of the beverage syrup supplier approved by Sonic and used by a majority of all Sonic drive-in restaurants, to the exclusion of any other supplier of beverage syrup.

(c) Sonic may require the Licensee to comply with the foregoing provisions not only for the Sonic Restaurant, but also (to the extent the Licensee exercises Control) for all other Sonic drive-in restaurants for which the Licensee serves as a licensee.

(d) Sonic hereby explicitly retains the exclusive right to consider, review, and approve any and all suppliers that may hold, sell, or distribute Sonic-labeled goods or products.

(e) Licensee agrees that its suppliers may provide to Sonic information regarding Licensee's past due amounts.

(f) The terms of this Section 6.06 shall continue in effect for as long as the Licensee serves as a licensee for a Sonic drive-in restaurant and shall survive the expiration or termination of this Agreement.

(g) If at least 95% of all Sonic drive-in restaurants are in compliance with Sections 6.06(a) and 6.06(b), Sonic periodically shall submit the approved advertising agency or beverage syrup supplier to competitive bid or review, but shall not be obligated to do so more often than once every three years.

6.07. Best Efforts. Licensee shall diligently and fully exploit his rights in this Agreement by personally devoting his best efforts and, in case more than one individual has executed this Agreement as the Licensee, at least one individual Licensee shall devote his full time and best efforts to the operation of the Sonic Restaurant. Licensee shall avoid any activities which, in Sonic's sole judgment, would be detrimental to or interfere with the business of the Sonic Restaurant, the Sonic System, or Sonic.

6.08. Interference with Employment Relations of Others. During the term of this Agreement, except upon the prior written consent of Sonic, Licensee shall not employ or seek to employ any person who is at the time or was at any time during the prior six months employed by Sonic or any of its subsidiaries. In addition, during the term of this Agreement, except upon the prior written consent of Licensee, Sonic agrees not to employ or seek to employ

any person who is at the time or was at any time during the prior six months employed by Licensee in a management level position.

6.09. Sonic's Standards. Licensee shall operate the Sonic Restaurant specified in this Agreement in conformity with the Sonic System and the obligations set forth in this Agreement and shall strictly adhere to Sonic's standards and policies as they exist now and as they may be from time to time modified.

6.10. Majority Interest Owner. Licensee represents, warrants, and agrees that Licensee actually owns the majority interest in the legal and equity ownership and Control of the operation of the Sonic Restaurant, and that Licensee shall maintain such interest during the term of this Agreement except only as otherwise permitted pursuant to the terms and conditions of this Agreement. Licensee shall furnish Sonic with such evidence as Sonic may request from time to time for the purpose of assuring Sonic that Licensee's interest remains as represented herein.

6.11. Electronic Communication and Use of Internet. (a) At Sonic's option, Sonic may post the Sonic Operations Manual (pursuant to Sonic's obligation to provide Licensee with access to the Sonic Operations Manual, as set forth in Section 8) and other communications on a restricted Intranet or other website to which Licensee will have access. If Sonic does so, Licensee must periodically monitor the site for any updates to the Sonic Operations Manual or other standards, specifications, and procedures. Any passwords or other digital identification necessary to access the Sonic Operations Manual and other information on such a site will be deemed to be part of the Confidential Information (defined in Section 9.01). Further, Licensee agrees that Licensee will establish the channels of communication with Sonic and Licensee's customers as required by Sonic from time to time, including e-mail, Internet, and other electronic forms of communication, and that Licensee will acquire and maintain any computer or other components necessary for the transmission of such communications.

(b) Licensee will not establish or operate a website for the Sonic Restaurant or for Licensee's organization that owns and operates the Sonic Restaurant or other Sonic restaurants under license agreements with Sonic.

## 7. PROPRIETARY MARKS.

7.01. Sonic's Representations. Sonic represents with respect to the Proprietary Marks that Sonic will use and permit Licensee and other licensees to use the Proprietary Marks only in accordance with the Sonic System and the standards and specifications attendant thereto which underlie the goodwill associated with and symbolized by the Proprietary Marks.

7.02. Use of Marks. With respect to Licensee's licensed use of the Proprietary Marks pursuant to this Agreement, Licensee agrees that:

(a) Licensee shall use only the Proprietary Marks designated by Sonic and shall use them only in the manner authorized and permitted by Sonic.

(b) Licensee shall use the Proprietary Marks only for the operation of the Sonic Restaurant.

(c) During the term of this Agreement and any renewal hereof, Licensee shall identify itself as the owner of the Sonic Restaurant in conjunction with any use of the Proprietary Marks, including, but not limited to, invoices, order forms, receipts, and contracts, as well as at conspicuous locations on the premises of the Sonic Restaurant. The identification shall be in the form which specifies Licensee's name, followed by the term "Licensed Proprietor", or such other identification as shall be approved by Sonic.

(d) Licensee's rights to use the Proprietary Marks are limited to such uses as are authorized under this Agreement, and any unauthorized use thereof shall constitute an infringement of Sonic's rights.

(e) Licensee shall not use the Proprietary Marks to incur any obligation or indebtedness on behalf of Sonic.

(f) Licensee shall not use the Proprietary Marks as part of its corporate or other legal name.

(g) Licensee shall comply with Sonic's instructions in filing and maintaining the requisite trade name or fictitious name registrations, and shall execute any documents deemed necessary by Sonic or its counsel to obtain protection for the Proprietary Marks or to maintain their continued validity and enforceability.

(h) In the event that litigation involving the Proprietary Marks is instituted or threatened against Licensee, Licensee shall promptly notify Sonic and shall cooperate fully in defending or settling such litigation.

7.03. Licensee's Understanding. Licensee expressly understands and acknowledges that:

(a) As between the parties hereto, Sonic owns the right and interest in and to the Proprietary Marks and the goodwill associated with and symbolized by them, and any and all use thereof by Licensee inures to the benefit of Sonic.

(b) The Proprietary Marks are valid and serve to identify the Sonic System and those who are licensed under the Sonic System.

(c) Licensee shall not directly or indirectly contest the validity or the ownership of the Proprietary Marks.

(d) Licensee's use of the Proprietary Marks pursuant to this Agreement does not give Licensee any ownership interest or other interest in or to the Proprietary Marks, except the nonexclusive license granted herein.

(e) Any and all goodwill arising from Licensee's use of the Proprietary Marks in its licensed operations under the Sonic System shall inure solely and exclusively to Sonic's benefit, and upon expiration or termination of this Agreement and the License herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Licensee's use of the Sonic System or the Proprietary Marks.

(f) The right and license of the Proprietary Marks granted hereunder to Licensee is nonexclusive except as provided in Section 2.01 of this Agreement, and Sonic thus has and retains the right among others:

(i) To grant other licenses for the Proprietary Marks, in addition to those licenses already granted to existing licensees.

(ii) To use the Proprietary Marks in connection with selling products and services.

(iii) To develop and establish other systems for the same or similar Proprietary Marks, or any other Proprietary Marks, and grant licenses or franchises thereto without providing any rights therein to Licensee.

(g) Sonic reserves the right to substitute different Proprietary Marks for use in identifying the Sonic System and the businesses operating thereunder if Sonic's currently owned Proprietary Marks no longer can be used.

7.04. Other Intellectual Property. If Licensee develops any trademark, service mark, trade dress, copyright, patent, or other intellectual property for use in promoting or operating the Sonic Restaurant or promoting the Sonic System, such intellectual property will be deemed the property of Sonic or its Affiliate, at Sonic's election, without charge or the payment of any royalty, and Licensee shall take action as necessary to convey such rights to Sonic.

8. MANUAL. Sonic shall provide Licensee access to, for use at the Sonic Restaurant, the Sonic Operations Manual prepared by Sonic for use by licensees of Sonic drive in restaurants similar to the Sonic Restaurant to be operated by Licensee. Licensee recognizes that the Sonic Operations Manual contains detailed information relating to operation of the Sonic Restaurant including: (a) food formulas and specifications for designated food and beverage products; (b) methods of inventory control; (c) bookkeeping and accounting procedures; (d) business practices and policies; (e) required equipment; and (f) other management and advertising policies. Licensee agrees to promptly adopt and use exclusively the formulas, methods, and policies contained in the Sonic Operations Manual, now and as they may be modified by Sonic from time to time, and to return said manual to Sonic at the expiration or earlier termination of this Agreement.

9. CONFIDENTIAL INFORMATION.

9.01. Sonic Proprietary and Confidential Information. Sonic possesses certain unique, proprietary, and confidential information, consisting of methods and procedures for preparation of food and beverage products, confidential recipes for food products, distinctive service and accessories, plans and specifications for interior and exterior signs, designs, layouts, and color schemes, and methods, techniques, formats, systems, specifications, procedures, business information, trade secrets, sales and marketing programs and information, methods of business operations and management, and knowledge of and experience in the operation and franchising of Sonic drive-in restaurants and the Sonic System (collectively, the "Confidential Information"). Sonic will disclose the Confidential Information to Licensee in furnishing Licensee the Sonic Plans and Specifications for a Sonic drive-in restaurant, the training program, and the Sonic Operations Manual, and in providing guidance and assistance to Licensee during the term of this Agreement. The Sonic Operations Manual, as modified by Sonic from time to time, and the policies contained therein, are incorporated in this Agreement by reference. Licensee acknowledges that Confidential Information will be disclosed by Sonic through various means, including orally, in writing, and electronically, such as on a restricted Intranet or other website.

9.02. Licensee's Use of Proprietary and Confidential Information. Licensee acknowledges and agrees that Licensee shall not acquire any interest in the Confidential Information, other than the right to utilize it in the development and operation of the Sonic Restaurant (and other Sonic drive-in restaurants under license agreements with Sonic) during the term of this Agreement, and that the use or duplication of the Confidential Information in any other business would constitute an unfair method of competition. Licensee acknowledges and agrees that the Confidential Information is proprietary to Sonic, may constitute trade secrets of Sonic, and is disclosed to Licensee solely on the condition that Licensee agrees, and Licensee does hereby agree, that Licensee:

(a) shall not use the Confidential Information in any other business or capacity, or for the benefit of any other Person or entity;

(b) shall maintain the absolute confidentiality of the Confidential Information, and shall not disclose or divulge the Confidential Information to any unauthorized Person or entity, during and after the term of the Agreement;

(c) shall not make unauthorized copies of any portion of the Confidential Information disclosed in printed, audio, or video form (except in connection with instruction of employees in the operation of the Sonic Restaurant); and

(d) shall adopt and implement all procedures prescribed from time to time by Sonic to prevent unauthorized use or disclosure of the Confidential Information, including, without limitation, restrictions on disclosure thereof to employees of the Sonic Restaurant and the use of nondisclosure and non-competition clauses in employment agreements with employees (including all owners, shareholders, members, officers, and partners of Licensee) who have access to the Confidential Information.

9.03. Licensee's Use of Sonic Operations Manual. Licensee may not at any time, in any manner, directly or indirectly, and whether or not intentionally, copy any part of the Sonic Operations Manual, permit any part of it to be copied, disclose any part of it except to employees or others having a need to know its contents for purposes of operating the Sonic Restaurant, or permit its removal from the Sonic Restaurant without prior written consent from Sonic. Notwithstanding anything to the contrary contained in this Agreement and provided Licensee shall have obtained Sonic's prior written consent, the restrictions on Licensee's disclosure and use of the Confidential Information shall not apply to the following:

(a) information, processes, or techniques which are or become generally known in the food service industry, other than through disclosure (whether deliberate or inadvertent) by Licensee; and

(b) disclosure of the Confidential Information in judicial or administrative proceedings to the extent that Licensee is legally compelled to disclose such information, provided Licensee shall have used its best efforts, and shall have afforded Sonic the opportunity, to obtain an appropriate protective order or other assurance satisfactory to Sonic of confidential treatment for the information required to be so disclosed.

9.04. No Information to the Public. Licensee acknowledges that Sonic's parent company, Sonic Corp., is a public company, and that Sonic Corp. makes certain information regarding the performance of the Sonic System available to the public, including investors and financial analysts, in the normal course of business. Licensee further acknowledges that Licensee's own disclosure of certain information to the public could interfere with the business of Sonic. Licensee agrees that it will not provide to the public, or to any investor, financial analyst, or person that influences investments, any information that might indicate the performance of the Sonic System, the Sonic restaurant chain, or any aspect thereof, including sales information, except that Licensee may provide information to attorneys, accountants, financial planners, and other professionals as required in the course of Licensee's personal business or the operation of the Sonic Restaurant.

10. ACCOUNTING AND RECORDS.

10.01. Due Date. On or before the 10th day of each month, Licensee shall submit to Sonic a complete profit and loss statement in a form prescribed by Sonic and such statistical reports in such form as Sonic shall reasonably require from time to time, for the previous month immediately ended, or for such other time period as may be designated by Sonic. Such profit and loss statements and other statistical and financial reports required by this Agreement shall be submitted by electronic means as specified by Sonic.

10.02. Record Retention. Licensee shall keep and preserve full and complete records of the Sonic Restaurant business for at least three years in a manner and form satisfactory to Sonic and shall also deliver such additional financial, operating, and other information and reports as Sonic may reasonably request on the forms and in the manner prescribed by Sonic; provided, however, that Licensee shall maintain, at a minimum, those books and records required to be kept by the Internal Revenue Service under the Internal Revenue Code for purposes of its regulation of Licensee's business and make the same books available to Sonic.

10.03. Charitable Contributions and Discounts. In meeting the requirements set forth in Sections 10.01 and 10.02 above, Licensee shall keep records substantiating and enter as a line item on its financial statements amounts representing the valuation for goods (whether food, paper, or otherwise) which constitute charitable contributions to third parties from the same goods out of the Sonic Restaurant. Likewise, the Licensee shall maintain records and enter on its financial statements (particularly a line item on its profit and loss statement) information representing the value or amount of sales represented by coupons traded with and discounts granted by the Licensee at the Sonic Restaurant.

10.04. Annual Reports. Licensee further agrees to submit, within 90 days following the close of each fiscal year of the Sonic Restaurant's operation, a profit and loss statement covering operations during such fiscal year and the balance sheet taken as of the close of such fiscal year.

10.05. Audit by Sonic. Sonic shall have the right to inspect and audit Licensee's accounts, books, records, and tax returns at all times during and after the term of this Agreement. If such inspection discloses that Gross Sales actually exceeded or, pursuant to generally accepted audit methodologies, should have exceeded the amount reported by Licensee, Licensee shall immediately pay Sonic: (i) the additional royalty fee, brand fee, technology fee and advertising expenditures; (ii) interest on all unpaid amounts (from the original due date) at a rate equal to that provided by Section 5.05 herein; and (iii) a 10% surcharge on all unpaid amounts. If such inspection discloses that Gross Sales actually exceeded or, pursuant to generally accepted audit methodologies, should have exceeded the amount reported by Licensee as Licensee's Gross Sales by an amount equal to 3% or more of the Gross Sales originally reported to Sonic, Licensee shall bear the cost of such inspection and audit at rates and fees customarily charged by Sonic for such auditing and inspecting services and duties. Unpaid brand fees, including interest and surcharges collected by Sonic pursuant to this section, shall be used in accordance with the expenditures authorized by Section 5.03; nevertheless, Sonic may, on a case by case basis, at Sonic's sole discretion, use such collected amounts in accordance with the expenditures authorized by Section 11.01. Sonic shall have the right to bring an action in its own name to collect unpaid brand and advertising expenditures required by Section 11 herein.

10.06. Third-Party Audit. If Sonic has reason to believe that the Licensee may not have reported all of its Gross Sales, Sonic may require the Licensee to have its profit and loss statement and balance sheet certified by an independent public accountant. Licensee shall at his expense cause a Certified Public Accountant to consult with

Sonic concerning such statement and balance sheet. The original of each such reports required by this Section 10.06 shall be mailed to Sonic's business office at the address designated in Section 19 below.

10.07. Licensee's Failure to Timely Deliver Financial Records. If Licensee fails to timely provide Sonic with complete profit and loss statements, accounts, books, records, and tax returns pertaining to the Sonic Restaurant business, or fails to fully cooperate with Sonic's audit of the Sonic Restaurant business, Sonic shall have the right to estimate Licensee's Gross Sales for the Sonic Restaurant using information available on the Sonic Restaurant or other Sonic drive-in restaurants. Licensee agrees to accept Sonic's estimates as conclusively correct until Licensee fully complies with Sonic's accounting and disclosure requirements under this Agreement. However, if the Licensee's subsequent accounting and disclosures reveal that Licensee under-reported Gross Sales or underpaid fees due under this Agreement, Sonic may recover all deficiencies and may litigate claims of fraud even though Sonic may have already obtained a judgment using Sonic's estimates. Furthermore, nothing in this Agreement or any judgment using estimates shall prevent or hinder Sonic's further efforts and rights to obtain the accounting and disclosures which Licensee is required to give to Sonic under this Agreement. Without regard to whether Licensee fails to timely provide records to Sonic or fails to fully cooperate with Sonic in the audit of the Sonic Restaurant, Sonic may make estimates during the audit process or for other purposes as allowed by generally accepted accounting principles or audit methodologies.

10.08. Financial Disclosure. Sonic shall have the right to assemble and disseminate to third parties financial and other information regarding the Licensee and other licensees of Sonic to the extent required by law or to the extent necessary or appropriate to further the interests of the Sonic System as a whole. Sonic shall have the right to disclose the business name, address, and telephone number of the Licensee as they appear in Sonic's records to any Person making inquiry as to the ownership of the Sonic Restaurant. Sonic shall not disclose specific financial information regarding the Licensee or the Sonic Restaurant to any Person without (a) the Licensee's prior, written consent or (b) being directed to disclose the information pursuant to the order of a court or other governmental agency.

10.09. Accounting Services. In the event that Licensee is late three or more times during any 12-month period in paying any fee or obligation required by this Agreement, including the royalty fees set forth in Section 5.02 and the brand and advertising expenditures set forth in Sections 5.03 and 11, Sonic shall have the right to require Licensee to use Sonic's accounting services for the term of this Agreement and any renewal, for which cost Licensee shall reimburse Sonic. This requirement is in addition to all other rights Sonic may have under the terms of this Agreement and otherwise.

10.10. Application of Payments. Despite any payment designation by Licensee, Sonic may apply any payments received from Licensee pursuant to this Agreement to the oldest debt or in accordance with any payment application process prescribed by Sonic.

## 11. ADVERTISING AND BRAND EXPENDITURES.

11.01. Standard Programs. Recognizing the value of advertising and the importance of the standardization of advertising and brand programs to the furtherance of the goodwill and public image of the System, the parties agree as follows:

(a) In the event the Sonic Restaurant lies within a DMA for which a Sonic-approved advertising cooperative has been formed, Licensee (i) shall join such advertising cooperative or such other advertising cooperative as may be designated by Sonic; (ii) shall abide by, follow, support, and promote the financial accounting requirements established by Sonic from time to time for advertising cooperatives, including complying with the format of financial reporting required by Sonic, acknowledging Sonic's right to audit the advertising cooperative, cooperating fully with Sonic in the event of any such audit, and using either the cooperative accounting services of Sonic or another Sonic-approved accounting service; (iii) shall support the adoption of only those bylaws approved by Sonic for the advertising cooperative; and (iv) shall not purchase media outside of the advertising cooperative. Licensee shall contribute to such advertising cooperative an amount required by such advertising cooperative on a schedule required by such advertising cooperative, provided that such contributions shall occur no less often than each calendar month and shall be of an amount not less than 3.25% of Licensee's Gross Sales from the Sonic Restaurant during each partial or full calendar month. If the DMA has, in Sonic's sole discretion, been designated a "developing market," Licensee shall instead contribute to the advertising cooperative not less than 5% of Licensee's

Gross Sales from the Sonic Restaurant during each partial or full calendar month; however, at any time Sonic may alternatively designate other uses for any portion of such developing market contribution if Sonic determines, in its sole discretion, that there is less need for advertising and a greater need for another use.

(b) In the event there exists no Sonic-approved advertising cooperative in the DMA in which the Sonic Restaurant is located, Licensee shall promptly form an advertising cooperative for the DMA and further comply with the requirements set forth in Sections 11.01(a) and 11.01(c) and other provisions of this Agreement applicable to and related to advertising cooperatives.

(c) Sonic or its designee shall maintain and administer a marketing fund for the Sonic System titled the System Marketing Fund (the "SMF") as follows:

(i) The SMF shall be administered by Sonic, and funds paid to the SMF shall be deposited in a separate bank account denoted as the System Marketing Fund.

(ii) The advertising cooperative of which Licensee is a member shall pay to the SMF a sum equal to 2% of Licensee's Gross Sales (or higher as may be prescribed by Sonic) from the contribution paid by Licensee to the advertising cooperative.

(iii) Sonic shall direct all marketing programs with sole discretion over the creative concepts, materials, and media used in such programs. The Licensee acknowledges that Sonic and its designees undertake no obligation in administering the SMF to make expenditures for Licensee which are equivalent or proportionate to Licensee's contribution.

(iv) The SMF is intended to complement local marketing efforts by promoting the message of the Sonic brand to an expanded audience. The SMF and all earnings thereof shall be used primarily to purchase national broadcast, print, interactive, and other media, sponsorships, and brand enhancement opportunities. The SMF and its earnings shall not inure to the benefit of Sonic.

(v) The SMF is not an asset of Sonic, and an independent certified public accountant designated by Sonic shall review the operation of the SMF annually, and the report shall be made available to Licensee upon request. Notwithstanding the foregoing, the body approved and designated by the Sonic as the body to consult with regarding the Sonic's maintenance and administration of the SMF (such as the Franchise Advisory Council Executive Committee or its successor) may designate the independent public accountant to conduct the required review of the operation of the SMF if requested in writing at least 30 but not more than 60 days prior to the end of each fiscal year.

(vi) Although Sonic intends the SMF to be of perpetual duration, Sonic maintains the right to terminate the SMF. The SMF shall not be terminated, however, until all monies in the SMF have been expended for marketing and promotional purposes as aforesaid.

(vii) On at least a quarterly basis, Sonic shall consult with the body approved and designated by Sonic (such as the Franchise Advisory Council Executive Committee or its successor) regarding Sonic's maintenance and administration of the SMF and shall report to that body on the SMF's operation.

(d) For purposes of determining the amount which the Licensee is required to contribute pursuant to Sections 11.01(a) and 5.03, above, for each calendar month which is the subject of review, the parties hereto agree that the preceding calendar month shall be used in determining the Gross Sales of the Sonic Restaurant to determine the contributions or expenditures required hereunder. For example, to determine the contributions or expenditures required for February, the parties hereto agree that they will look to the preceding January's sales in order to determine the Gross Sales to determine the amount which must be contributed or expended by the Licensee under these Sections 11.01(a) and 5.03. In the event the amounts required by Sections 11.01(a) and 5.03 are not paid in a timely fashion, Licensee shall pay Sonic in accordance with Section 10.05.

(e) All advertising by Licensee in any medium which utilizes the Proprietary Marks or refers in any way to the Sonic Restaurant shall be conducted in a dignified manner and shall conform to such standards and requirements as Sonic may specify from time to time in writing. Licensee shall submit to Sonic (in accordance with

the notice provisions contained herein), for Sonic's prior approval (except with respect to prices to be charged unless the terms of Section 6.05(c)(xxii) apply), samples of all advertising and promotional plans and materials that Licensee desires to use that use the Proprietary Marks or refer to the Sonic Restaurant and that have not been prepared or previously approved by Sonic. If written disapproval thereof is not received by Licensee within 15 days from the date of receipt by Sonic of such materials, Sonic shall be deemed to have given the required approval. Upon notice from Sonic, Licensee shall discontinue and/or remove any objectionable advertising material, whether or not same was previously approved by Sonic. If said materials are not discontinued and/or removed within five days after notice, Sonic or its authorized agents, may, at any time, enter upon Licensee's premises, or elsewhere, and remove any objectionable signs or advertising media and may keep or destroy such signs or other media without paying therefor, and without being guilty of trespass or other tort.

(f) Sonic may offer from time to time to provide, upon terms subject to the discretion of Sonic, approved local advertising and promotional plans and materials, including, without limitation, newspaper display space and distributed promotional materials.

(g) Sonic or its designee shall maintain and administer a fund for the Sonic System titled the Sonic Brand Fund (the "SBF") (formerly known as the Sonic Advertising Fund) as follows:

(i) As provided in Section 5.03 hereof, Licensee shall pay a brand contribution fee to the SBF, which shall be deposited in a separate bank account denoted as the Sonic Brand Fund.

(ii) Sonic shall direct all brand programs with sole discretion over the concepts, materials, guidelines, and media used in such programs. The SBF is intended to enhance the Sonic System and maximize general public recognition and acceptance of the Proprietary Marks for the benefit of the System, and the Licensee acknowledges that Sonic and its designees undertake no obligation in administering the SBF to make expenditures for Licensee which are equivalent or proportionate to Licensee's contribution, and nothing in this Section 11.01 shall contravene the intent in Section 11.01(g)(iv).

(iii) The SBF and all earnings thereof shall be used exclusively to meet any and all costs of maintaining, administering, directing, and preparing advertising and other promotional programs (including, without limitation, the cost of preparing and conducting television, radio, magazine, and newspaper advertising campaigns and other public relations activities; employing advertising agencies to assist therein; and providing promotional brochures and other marketing materials to licensees in the Sonic System) as well as any other purpose that promotes, enhances, or protects the Sonic System including, but not limited to, food safety programs, customer feedback programs, and Sonic Games. All sums paid by licensees to the SBF shall be maintained in a separate account from the other funds of Sonic. The SBF shall pay Sonic monthly an amount equal to 15% of the SBF's receipts during the preceding month, but not to exceed Sonic's actual administrative costs and overhead, if any, as Sonic may incur in activities reasonably related to the administration or direction of the SBF for the licensees and the Sonic System, including without limitation, conducting market research, preparing marketing, advertising, and other materials, and collecting and accounting for assessments for the SBF. The SBF and its earnings shall not inure to the benefit of Sonic.

(iv) All materials produced by the SBF shall be made available to all licensees on a regular basis at less than full production cost but including the cost of distribution. This Section 11.01(g)(iv) shall not preclude Sonic from offering other materials not produced by the SBF upon terms subject to the discretion of Sonic. (See Section 11.01(f).)

(v) The SBF is not an asset of Sonic, and an independent certified public accountant designated by Sonic shall review the operation of the SBF annually, and the report shall be made available to Licensee upon request. Notwithstanding the foregoing, the body approved and designated by Sonic as the body to consult with regarding Sonic's maintenance and administration of the SBF (such as the Franchise Advisory Council Executive Committee or its successor) may designate the independent public accountant to conduct the required review of the operation of the SBF, if requested in writing at least 30 but not more than 60 days prior to the end of each fiscal year.

(vi) Although Sonic intends the SBF to be of perpetual duration, Sonic maintains the right to terminate the SBF. Such SBF shall not be terminated, however, until all monies in the SBF have been expended for purposes as aforesaid.

(vii) On at least a quarterly basis, Sonic shall consult with the body approved and designated by Sonic (such as the Franchise Advisory Council Executive Committee or its successor) regarding Sonic's maintenance and administration of the SBF and shall report to that body on the SBF's operation.

(h) Coupons created or developed by or for Licensee for use in promoting the Sonic Restaurant are subject to the provisions of Section 11.01(e). Additionally, such coupons shall conspicuously state (i) the location(s) where the coupons will be accepted and (ii) an expiration date. Licensee shall use its best efforts to ensure that coupons created or developed for the Sonic Restaurant or its market are not distributed outside the area of the Sonic Restaurant or its market.

11.02. Publicity. Sonic shall have the right to photograph the Sonic Restaurant's exterior and/or interior, and the various foods served, and to use any such photographs in any of its publicity or advertising, and Licensee shall cooperate in securing such photographs and consent of Persons pictured.

## 12. INSURANCE.

12.01. Insurance Amounts. Prior to opening or taking possession of the Sonic Restaurant, the Licensee shall acquire and thereafter maintain insurance from insurance companies acceptable to Sonic. The Licensee shall determine the appropriate limits of liability insurance and shall also have the right to specify other forms of insurance, but Sonic shall require the following minimum amounts and policy forms of insurance:

(a) The Licensee shall maintain statutory worker's compensation insurance and employer's liability insurance having a minimum limit of liability of the greater of \$500,000 or the minimum amount otherwise required by applicable state law. Sonic shall accept participation in the Texas Sonic Employers Trade Association ("TSETA") or in the non-subscriber program for Sonic drive-in restaurants located in Texas as long as Texas law does not require statutory worker's compensation insurance.

(b) The Licensee shall maintain commercial general liability insurance, including bodily injury, property damage, products, personal, and advertising injury coverage, on an occurrence policy form having a minimum per occurrence and general aggregate limits of at least \$1,000,000 per location.

(c) The Licensee shall maintain non-owned automobile liability insurance having a minimum limit of \$1,000,000. The automobile policy also shall provide coverage for owned automobiles if owned or leased in the name of the Licensee.

(d) The Licensee shall maintain excess (umbrella) liability insurance having a minimum limit of \$1,000,000 per occurrence / general aggregate per location.

(e) The Licensee shall maintain business income interruption insurance with an endorsement providing for reimbursement for a minimum of 12 months to Sonic, any Sonic-administered fund, and the advertising cooperative of which the Licensee is a member, as applicable, for payments due under Sections 5.02, 5.03, 5.07, and 11.01 stemming from an event causing closure of the Sonic Restaurant for 48 hours or more.

(f) Sonic shall have the right to require the Licensee to increase the insurance specified above by giving the Licensee 60 days' written notice in accordance with the notice provisions of this Agreement, and the Licensee shall comply no later than the first policy renewal date after that 60-day period.

12.02. Sonic as Additional Insured. The Licensee shall name Sonic and Sonic's subsidiaries and Affiliates as additional insureds and loss payees under the insurance policies specified in Sections 12.01(b), 12.01(c), 12.01(d), and 12.01(e), above, and under any insurance policy (including any employment practices liability insurance policy) that provides coverage for an event that could result in a lawsuit in which Sonic is named a defendant. The Licensee's policies shall constitute primary policies of insurance with regard to other insurance, shall contain a

waiver of subrogation provision in favor of Sonic as it relates to the operation of the Sonic Restaurant, and shall provide for at least 30 days' written notice to Sonic prior to their cancellation or amendment.

12.03. General Conditions. Prior to opening or taking possession of the Sonic Restaurant and within 10 days of any request by Sonic, the Licensee shall furnish Sonic with certificates of insurance evidencing that the Licensee has obtained the required insurance in the form and amounts as specified above. In addition, the Licensee shall deliver evidence of the continuation of the required insurance policies at least 30 days prior to the expiration dates of each existing insurance policy. If the Licensee at any time fails to acquire and maintain the required insurance coverage, Sonic shall have the right, at the Licensee's expense, to acquire and administer the required minimum insurance coverage on behalf of the Licensee. However, Sonic shall not have any obligation to assume the premium expense, and nothing in this Agreement shall constitute a guaranty by Sonic against any losses sustained by the Licensee. Sonic may relieve itself of all duties with respect to the administration of any required insurance policies by giving 10 days' written notice to the Licensee.

13. TRANSFER OF INTEREST.

13.01. Assignment. The rights and duties created by this Agreement are personal to Licensee, and Sonic has granted the License in reliance on the collective character, skill, aptitude, and business and financial capacity of Licensee and Licensee's principals. Accordingly, except as may be otherwise permitted by this Section 13, neither Licensee nor any Person or entity with an interest in Licensee shall directly or indirectly, through one or more intermediaries, without Sonic's prior written consent, sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any direct or indirect interest in the Agreement; any interest in Licensee, if Licensee is a partnership, joint venture, closely held corporation, limited liability company, or other business entity; or any interest which, together with other related previous simultaneous or proposed transfers, constitutes a transfer of Control of Licensee where Licensee is registered under the Securities Exchange Act of 1934 or which is a trust. Any such purported assignment occurring by operation of law or without Sonic's prior written consent and pursuant to the terms of this Section 13, shall constitute a default of this Agreement by Licensee, and such purported assignment shall be null and void.

13.02. Death or Permanent Incapacity of Licensee. Upon the death or permanent incapacity of Licensee, the interest of Licensee in the Agreement may be assigned either pursuant to the terms of Section 13.04 herein or to one or more of the following Persons: Licensee's spouse, heirs, or nearest relatives by blood or marriage, subject to the following conditions: (1) If, in the sole discretion of Sonic, such persons shall be capable of conducting the Sonic Restaurant business in accordance with the terms and conditions of the Agreement, and (2) if such persons shall also execute an agreement by which they personally assume full and unconditional liability for and agree to perform all the terms and conditions of the Agreement to the same extent as the original Licensee. In the event that Licensee's heirs do not obtain the consent of Sonic as assignees of the Agreement, the personal representative of Licensee shall have the greater of 120 days or the completion of the probate of the Licensee's estate to dispose of Licensee's interest hereunder, which disposition shall be subject to all the terms and conditions for assignments under Section 13.04. Licensee's personal representative shall cooperate with Sonic to provide, in a timely manner, such documents as may be requested by Sonic, including without limitation Licensee's death certificate and estate documents, to assist Sonic to determine or confirm Licensee's assignees.

13.03. Assignment to Licensee's Corporation or Other Business Entity. Sonic may, upon Licensee's compliance with the following requirements, consent to an assignment of the Agreement to a corporation whose shares are owned and Controlled by Licensee or to another business entity, such as a limited liability company, whose interests are owned and Controlled by Licensee. Such written materials shall be supplied to Sonic within 15 days after the request by Sonic.

(a) Licensee's corporation or other business entity shall be newly organized, and its charter or equivalent organizational document shall provide that its activities are confined exclusively to operating the Sonic Restaurant.

(b) Licensee and Licensee's corporation or other business entity shall maintain stop transfer instructions against the transfer on Licensee's corporation's or other business entity's records of any securities or interests with any voting rights subject to the restrictions of Section 13 hereof, and shall issue no securities upon the face of which the following printed legend does not legibly and conspicuously appear.

The transfer of this stock is subject to terms and conditions of one or more license agreements with Sonic Franchising LLC or its affiliates. Reference is made to said license agreement(s) and the restrictive provisions of the Articles and By Laws of this corporation. By agreeing to receive these securities, the transferee hereby agrees to be bound by the terms of such agreements, articles, and by-laws.

(c) At any time upon Sonic's request, Licensee and Licensee's corporation or other business entity shall furnish Sonic with a list of all shareholders, partners, or members, as applicable, having an interest in Licensee's corporation or other business entity, the percentage interest of such shareholder, partner, or member, and a list of all officers and directors or managers in such form as Sonic may require.

(d) The name of Licensee's corporation or other business entity shall not include any of the Proprietary Marks granted by the Agreement. Licensee and Licensee's corporation or other business entity shall not use any mark nor any name deceptively similar thereto in a public or private offering of its securities or other interest, except to reflect Licensee's corporation's or other business entity's license relationship with Sonic. Any prospectus or registration Licensee or Licensee's corporation would propose to use in such a public or private offering shall be submitted to Sonic within a reasonable time prior to the effective date thereof for the purpose of permitting Sonic to verify compliance with this requirement by Licensee and Licensee's corporation.

(e) Articles of Incorporation, By Laws, and all other documents governing Licensee's corporation or other business entity shall be forwarded to Sonic for approval. Such documents shall recite that the issuance and transfer of any interest in Licensee's corporation or other business entity are restricted by the terms of Section 13 of this Agreement.

(f) Each shareholder, partner, or member, as applicable, of the Licensee's corporation or other business entity shall personally guarantee performance under this Agreement and shall be personally bound by the terms thereof.

(g) Any breach of this Agreement by Licensee's corporation or other business entity shall be deemed a breach of this Agreement by each shareholder, partner, or member, as applicable, of Licensee's corporation or other business entity and each shareholder, partner, or member, as applicable, shall be personally and fully liable and obligated by any and all such breaches.

(h) Licensee and Licensee's corporation or other business entity shall submit to Sonic, prior to any assignment hereunder, a shareholders, partners, or members agreement, as applicable, executed by the Board of Directors or managers, as applicable, and ratified by all shareholders, partners, or members, which states that, except as may be permitted by Section 13 of this Agreement, no shares of stock or other interest in Licensee's corporation or other business entity shall be issued, transferred, or assigned to any Person or entity without Sonic's prior written consent.

(i) Each and every shareholder, partner, or member of Licensee's corporation or other business entity or any party owning a security issued by, or owning any legal or equitable interest in Licensee's corporation or other business entity or in any security convertible to a legal or equitable interest in Licensee's corporation or other business entity shall meet those same standards of approval as an individual licensee shall be required to meet prior to being included as a licensee on a standard license agreement with Sonic.

13.04. Other Assignment. (a) In addition to any assignments or contingent assignments contemplated by the terms of Sections 13.02 and 13.03, Licensee shall not sell, transfer, or assign the Agreement to any Person or Persons (including to another Licensee under this Agreement where more than one Person has executed this Agreement) without Sonic's prior written consent. Such consent shall not be unreasonably withheld.

(b) In determining whether to grant or to withhold such consent, the following requirements must be met by Licensee:

(i) All of Licensee's accrued monetary obligations shall have been satisfied whether due under this Agreement or otherwise.

(ii) Sonic and the Licensee execute a general release of each other, in a form satisfactory to Sonic, of any and all claims the Licensee may have against Sonic and its Affiliates, including (without limitation) all claims arising under any federal, state, or local law, rule, or ordinance, but excluding (as to Sonic) any claims against the Licensee for (a) unpaid moneys due Sonic, its Affiliates, or Sonic-approved advertising cooperatives, (b) the violation of the legal rights of Sonic or its Affiliates regarding the Proprietary Marks, (c) the violation of any of the covenants contained in Section 16.01 of this Agreement, (d) the violation of any duty under this Agreement to insure, defend, or indemnify Sonic or its Affiliates or to hold Sonic or its Affiliates harmless, and (e) the violation of any other agreement with Sonic or its Affiliates. Sonic may waive the requirements of this Section 13.04(b)(ii) at Sonic's election.

(iii) Licensee shall not be in material breach of this Agreement or any other agreement between Sonic and Licensee.

(iv) Assignee (or the assignee's management, as the case may be) shall at Sonic's sole discretion enroll in and successfully complete such training programs as Sonic shall at that time designate according to Section 6.04 hereof.

(v) Sonic shall consider of each prospective transferee, by way of illustration, the following: (a) work experience and aptitude, (b) financial background, (c) character, (d) ability to personally devote full time and best efforts to managing the Sonic Restaurant, (e) residence in the locality of the Sonic Restaurant, (f) equity interest in the Sonic Restaurant, (g) conflicting interests, and (h) such other criteria and conditions as Sonic shall apply in the case of an application for a new license to operate a Sonic drive-in restaurant. Sonic's consent shall also be conditioned upon such transferee's execution of an agreement by which transferee personally assumes full and unconditional liability for and agrees to perform from the date of such transfer all obligations, covenants, and agreements contained in this Agreement to the same extent as if transferee had been an original party to the Agreement. At Sonic's election, Sonic may alternatively allow such transferee to sign the then-current form of license agreement for Sonic drive-in restaurants subject to all terms, conditions, obligations, and covenants contained in that form of license agreement, including the full term of that license agreement.

(c) Following License's sale, assignment, or transfer of this Agreement, Licensee shall remain subject to Section 16.01 of this Agreement.

13.05. Sonic's Right of First Refusal. (a) If Licensee or any Person or entity with an interest in Licensee has received and desires to accept any bona fide offer to purchase all or any part of Licensee's interest in this Agreement or in Licensee and the transfer of such interest would: (1) result in a change of Control of Licensee of this Agreement or (2) constitute a transfer of interest held by a Controlling Person of Licensee or of the Agreement, Licensee or such Person shall notify Sonic in writing of each such offer, with such notice including the name and address of the proposed purchaser, the amount and terms of the proposed purchase price, a copy of the proposed purchase contract (signed by the parties, but expressly subject to Sonic's right of first refusal), and all other terms and conditions of such offer. Sonic shall have the right and option, exercisable within 20 days after Sonic's receipt of such written notification, to send written notice to Licensee or such Person or entity that Sonic or its designee intends to purchase the interest which is proposed to be transferred on the same terms and conditions offered by the third party, provided that Sonic has the right to substitute cash for any consideration offered by the third party. Any material change in the terms of an offer prior to closing shall cause it to be deemed a new offer, subject to the same right of first refusal by Sonic or its designee as in the initial offer; provided, however, that such new offer shall not affect Sonic's right and option, within 20 days of notice to Sonic of the initial offer, to provide notice of its intent to purchase the interest on the terms and conditions in the initial offer. Sonic's failure to exercise its option shall not constitute a waiver of any other provision of this Agreement, including any of the requirements of this Section 13 with respect to the proposed transfer. Silence on the part of Sonic shall constitute rejection. If the proposed sale includes assets of Licensee not related to the operation of a licensed Sonic drive in restaurant, Sonic may purchase not only the assets related to the operation of a licensed Sonic drive in restaurant, but may also purchase the other assets. An equitable purchase price shall be allocated to each asset included in the proposed sale. In any purchase by Sonic pursuant to this Section 13(a), Sonic shall have the right to require the seller to make customary representations and warranties.

(b) The election by Sonic not to exercise its right of first refusal as to any offer shall not affect its right of first refusal as to any subsequent offer.

(c) Any sale or attempted sale effected without first giving Sonic the right of first refusal described above shall be void and of no force and effect.

(d) If Sonic does not accept the offer to purchase the Sonic Restaurant, Licensee may conclude the sale to the purchaser who made the offer so long as the terms and conditions of such sale are identical to those originally offered to Sonic; provided, however, that Sonic's approval of the assignee be first obtained, which consent shall not be unreasonably withheld upon compliance with the conditions on assignment imposed by this Agreement.

(e) The provisions of this Section 13.05 shall not apply to any proposed transfers to members of the Licensee's immediate family. For the purposes of this Section 13.05, a member of the Licensee's immediate family shall mean the Licensee's spouse, children (by birth or adoption), and stepchildren. In addition, the provisions of this Section 13.05 shall not apply to any proposed transfers to a Person who already owns an interest (directly or indirectly) in this Agreement as long as the transfer will not result in a change in Control of the Licensee or the Agreement.

13.06. Consent to Assignments. With regard to any transfer, assignment, or pledge of any interest in this Agreement or in the Licensee pursuant to the foregoing provisions of this Section 13, Sonic shall not withhold its consent unreasonably as long as the proposed transfer, assignment, or pledge otherwise complies with the other requirements set forth in this Section 13.

#### 14. DEFAULT AND TERMINATION.

14.01. Optional Termination. Licensee shall be deemed to be in breach of this Agreement and Sonic may, at its option, terminate this Agreement and all rights granted herein at any time during the term hereof without affording Licensee any opportunity to cure the breach, effective immediately upon Licensee's receipt of a notice of termination, upon the occurrence of any of the following events:

(a) Licensee shall become insolvent.

(b) Licensee, either personally, through an equity owner, or through Licensee's attorney, shall give oral or written notice to Sonic of Licensee's intent to file a voluntary petition under any bankruptcy law.

(c) A final judgment aggregating in excess of \$5,000 against the Sonic Restaurant or property connected with the Sonic Restaurant which remains unpaid for thirty days.

(d) Suit to foreclose any lien against any assets of the Sonic Restaurant is instituted against Licensee and (i) is not dismissed within 30 days, (ii) such lien is not contested and challenged through the applicable administrative agencies or courts, or (iii) a bond is not posted (if such remedy is available) to delay any such foreclosure and guarantee performance.

(e) The assets of the Sonic Restaurant are sold after being levied thereupon by sheriff, marshal, or a constable.

(f) Transfer of this Agreement, in whole or in part, is effected in any manner inconsistent with Section 13 hereof.

(g) The assets, property, or interests of Licensee are blocked under any law, ordinance, or regulation relating to terrorist activities or Licensee is otherwise in violation of any such law, ordinance, or regulation.

(h) If Licensee ceases to operate the Sonic Restaurant or otherwise abandons the Sonic Restaurant (other than closure permitted pursuant to Section 6.05(c)(vi) herein) or forfeits the legal right to do or transact business at the location licensed herein.

(i) If Licensee is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely, in the sole opinion of Sonic, to adversely affect the Sonic System, the Proprietary Marks, the goodwill associated therewith, or Sonic's rights therein.

(j) If Licensee misuses or makes any unauthorized use of any of the Proprietary Marks or any other identifying characteristic of the Sonic System or otherwise materially impairs the goodwill associated therewith or Sonic's rights therein, and the Licensee will not or cannot cure the default within 30 days.

(k) If Licensee improperly discloses trade secrets or confidential information, and the Licensee will not or cannot cure the default within 30 days.

(l) If continued operation of the Sonic Restaurant might endanger public health or safety. In such case, whether or not Sonic elects to terminate this Agreement, Sonic may immediately close the Sonic Restaurant unless and until the situation is, in Sonic's judgment, satisfactorily resolved.

(m) If Licensee knowingly or through gross negligence maintains false books or records or knowingly or through gross negligence submits any false report to Sonic.

(n) If Licensee is in default of this Agreement three or more times in any given 12-month period, whether or not such default is cured.

14.02. Period to Cure. Except as provided in Section 14.01, Licensee shall have 30 days after receipt from Sonic of a written notice of breach of this Agreement or such notice period as is required by the law of the state where the Sonic Restaurant is located, within which to remedy any breach hereunder. However, this period to cure will not be available to Licensee, and Sonic will not be required to delay termination of this Agreement, where the breach involved is one which Licensee cannot cure within the prescribed cure period or is one which is impossible to cure. Licensee shall be in breach hereunder for any failure to comply with any of the terms of this Agreement or to carry out the terms of this Agreement. Such breach shall include, but shall not be limited to, the occurrence of any of the following illustrative events:

(a) If the Licensee or Persons Controlling, Controlled by, or under common Control with Licensee fail to pay any past due amounts owed to Sonic, whether for the Sonic Restaurant or otherwise.

(b) If Licensee fails to promptly pay, or repeatedly delays the prompt payment of, undisputed invoices from Licensee's suppliers or in the remittance of rent and property tax as required in Licensee's lease.

(c) If Licensee fails to maintain and operate the Sonic Restaurant in a good, clean, and wholesome manner or otherwise is not in compliance with the standards prescribed by the Sonic System. In such case, whether or not Sonic elects to terminate this Agreement, Sonic may immediately close the Sonic Restaurant unless and until the failure or noncompliance is cured.

(d) If Licensee attempts to assign or transfer any interest in this Agreement in violation of Section 13 herein.

(e) If Licensee denies Sonic the right to inspect the Sonic Restaurant at reasonable times, which includes the right to photograph the interior and exterior of the Sonic Restaurant in its entirety.

(f) If Licensee breaches any other requirement set forth in this Agreement.

(g) If Licensee, upon the destruction of the Sonic Restaurant, fails to rebuild the licensed premises and resume operation within a reasonable time (cessation of the business from a licensed premises shall not constitute default of this Agreement if caused by condemnation, expiration of a location lease pursuant to its terms at execution, or when failure to rebuild following destruction of the licensed premises is prohibited by law or the location lease).

(h) If Licensee's conduct or the operation of the Sonic Restaurant by Licensee, in Sonic's judgment, damages or threatens to damage the goodwill of the Sonic System or the Sonic brand. In such case, whether or not

Sonic elects to terminate this Agreement, Sonic may immediately close the Sonic Restaurant unless and until the situation, in Sonic's judgment, is satisfactorily resolved.

(i) If Licensee fails to correct any deficiency or unsatisfactory condition within the time period required by Section 6.05(b).

14.03. Resolution of Disputes. The following provisions shall apply to any controversy between the Licensee and Sonic (including an Affiliate of Sonic) and relating (a) to this Agreement (including any claim that any part of this Agreement is invalid, illegal, or otherwise void or voidable and any claim that a controversy is not subject to arbitration), (b) to the parties' business activities conducted as a result of this Agreement, or (c) the parties' relationship or business dealings with one another generally, including all disputes and litigation pending or in existence as of the date of this Agreement.

(a) Negotiation. The parties first shall use their best efforts to discuss and negotiate a resolution of the controversy.

(b) Mediation. If the efforts to negotiate a resolution do not succeed, the parties shall submit the controversy to mediation in Oklahoma City, Oklahoma, by a mediation firm agreeable to the parties or by the American Arbitration Association, if the parties cannot agree.

(c) Arbitration. If the efforts to negotiate and mediate a resolution do not succeed, the parties shall resolve the controversy by final and binding arbitration in accordance with the Rules for Commercial Arbitration (the "Rules") of the American Arbitration Association in effect at the time of the execution of this Agreement and pursuant to the following additional provisions:

(i) Applicable Law. The Federal Arbitration Act (the "Federal Act"), as supplemented by the Oklahoma Arbitration Act (to the extent not inconsistent with the Federal Act), shall apply to the arbitration.

(ii) Selection of Arbitrator. The parties shall select one arbitrator within 10 days after the filing of a demand and submission in accordance with the Rules.

(iii) Location of Arbitration. The arbitration shall take place in Oklahoma City, Oklahoma, and the arbitrator shall issue any award at the place of arbitration. The arbitrator may conduct hearings and meetings at any other place agreeable to the parties or, upon the motion of a party, determined by the arbitrator as necessary to obtain significant testimony or evidence.

(iv) Scope of Proceeding. The parties shall conduct any arbitration proceeding and resolve any controversy on an individual basis only and not on a class-wide, multiple-party, or similar basis.

(v) Enforcement of Award. The prevailing party shall have the right to enter the award of the arbitrator in any court having jurisdiction over one or more of the parties or their assets. The parties specifically waive any right they may have to apply to any court for relief from the provisions of this Agreement or from any decision of the arbitrator made prior to the award. The award of the arbitrator shall not have any precedential or collateral estoppel effect on any other controversy involving Sonic or its Affiliates.

(d) Excluded Controversies. At the election of Sonic or its Affiliate, the provisions of this Section 14.03 shall not apply to any controversies relating to any fee due Sonic or its Affiliate; any promissory note payments due Sonic or its Affiliate; or any trade payables due Sonic or its Affiliate as a result of the purchase of equipment, goods, or supplies. At the election of Sonic or its Affiliate, the provisions of this Section 14.03 also shall not apply to any controversies relating to the use and protection of the Proprietary Marks or the Sonic System, including (without limitation) Sonic's right to apply to any court of competent jurisdiction for appropriate injunctive relief for the infringement of the Proprietary Marks or the Sonic System.

(e) Attorneys' Fees and Costs. The prevailing party to the arbitration or litigation shall have the right to an award of its reasonable attorneys' fees and costs incurred after the filing of the demand and submission, including a portion of the direct costs of any in-house legal staff reasonably allocable to the time devoted to the arbitration.

15. OBLIGATIONS UPON TERMINATION.

15.01. Effect of Termination, Cancellation, or Expiration of this Agreement. Except as otherwise authorized pursuant to the terms of any other license agreement between Sonic and the Licensee, the Licensee shall comply with the following provisions after the expiration or termination of this Agreement and the License:

(a) Licensee, upon any termination, cancellation, or expiration of this Agreement, shall promptly pay to Sonic and Sonic's subsidiaries any and all sums owed to them. In the event of termination for any breach by Licensee, such sums shall include all damages, costs, and expenses, including reasonable attorneys' fees, incurred by Sonic as a result of the breach, which obligation shall give rise to and remain, until paid in full, a lien in favor of Sonic against any and all of the assets of the Sonic Restaurant owned by Licensee at the time of default.

(b) Upon termination, cancellation, or expiration hereof for any reason, the License and all Licensee's rights hereunder shall terminate. Licensee shall not thereafter use or adopt any trade secrets disclosed to Licensee hereunder or any paper goods, emblems, signs, displays, menu housings, or other property on which Sonic's name or Proprietary Marks are imprinted or otherwise form a part thereof or any confusing simulations thereof. Licensee shall not otherwise use or duplicate the Sonic System or any portion thereof or assist others to do so. Licensee shall remove from the premises all signs, emblems, and displays identifying it as associated with Sonic or the Sonic System or which constitute or display any Proprietary Mark and shall also remove from the premises all menu housings and PAYS or other Sonic proprietary equipment. Licensee shall cease to use and shall return to Sonic all copies of the Sonic Operations Manual, instructions, or materials delivered to Licensee hereunder.

(c) Upon termination, cancellation, or expiration of this Agreement, unless otherwise directed in writing by Sonic, Licensee shall change the exterior and interior design and the decor of said premises, including, but not limited to, changing the color scheme, and shall make or cause to be made such changes in signs, buildings, and structures (excluding major structural changes) as Sonic shall reasonably direct so as to effectively distinguish the same from its former appearance and from any other Sonic drive in restaurant unit, and if Licensee fails or refuses to comply herewith, then Sonic shall have the right to enter upon the premises where said business is being conducted without being guilty of trespass or any other tort for the purpose of making or causing to be made such changes required by Sections 15.01(b) or 15.01(c) at the expense of Licensee, which expense Licensee agrees to pay on demand.

(d) Upon termination, cancellation, or expiration of this Agreement, in the event Licensee is the owner of the Sign, Sonic shall have an irrevocable option to purchase the Sign for its fair market value. In any event, Licensee shall not thereafter use any sign or panels displaying Sonic's name or Proprietary Marks or which primarily display the colors used in any other such sign at any other Sonic drive-in restaurant unit (see Section 15.04 for determining fair market value). Any agent, servant, or employee of Sonic may remove the Sign or any objectionable signs or advertising from the Sonic Restaurant without being guilty of trespass or other tort, and Licensee shall be liable for Sonic's costs plus attorneys' fees for any interference therewith.

(e) Upon termination, cancellation, or expiration of this Agreement, Licensee shall cease to hold Licensee out in any way as a licensee of Sonic or to do anything which would indicate any relationship between Licensee and Sonic.

(f) Notwithstanding the provisions contained in this Section 15.01, Licensee shall be solely responsible for the cost of any removals or changes required by this Section 15.01. Licensee hereby releases Sonic and its agents, servants, and employees from and agrees to indemnify, defend, and hold harmless Sonic and its agents, servants, and employees against any cost, damage, liability, or expense (including attorneys' fees) arising out of or resulting from Licensee granting Sonic and its agents, servants, and employees access to the premises, including without limitation any cost, damage, liability, or expense arising out of the removal of any sign, equipment, fixture, personal property, or other property from the premises or modification of the premises pursuant to this Agreement.

(g) The covenants set forth in this Section 15.01 shall survive the termination, cancellation, or expiration of this Agreement.

(h) All rights, claims, and indebtedness which may accrue to Sonic prior to termination, cancellation, or expiration of this Agreement shall survive termination, cancellation, or expiration and be enforceable by Sonic.

(i) Licensee shall complete all modifications required by this Section 15.01 within 30 days after this Agreement has been terminated or canceled or has expired. Licensee and Sonic agree that Sonic's damages resulting from a breach of this Section 15.01 are difficult to estimate or determine accurately. In the event of such breach by Licensee of the provisions of this Section 15.01, Licensee, in addition to any and all other remedies available to Sonic herein and elsewhere, will pay Sonic double the royalty, brand, and advertising fees prescribed in this Agreement until Licensee satisfactorily de-identifies the restaurant premises in the manner prescribed by this Section. This payment shall constitute liquidated damages and shall not be construed as a penalty since such payment has been agreed to by Licensee and Sonic as reasonably representative of the actual damage sustained by Sonic in the event of such a breach. The liquidated damages shall start on the 31st day after this Agreement has been terminated or canceled or has expired. These liquidated damages shall not constitute either a waiver of Licensee's obligation to de-identify or a license to use the Proprietary Marks or the Sonic System. These remedies will be in addition to any other remedies Sonic may have hereunder or under federal or state law.

15.02. Sonic's Option to Purchase. (a) Upon termination, cancellation, or expiration hereof, Sonic shall have the right and option to purchase all or any patented, special, or unique Sonic restaurant equipment, menu housings, signs, menus, and supplies of Licensee at their fair market value (see Section 15.04 for determining fair market value). Such right or option of Sonic shall be exercised as provided in Section 15.02(b). If Sonic elects to exercise any option to purchase herein provided, it shall have the right to set off all amounts due from Licensee to Sonic and one-half of the cost of any appraisals against any payment therefor.

(b) In the case of termination by expiration, Sonic shall exercise Sonic's option contained in this Section 15.02 by giving Licensee written notice at least 30 days prior to expiration. In the case of termination for any other reason, Sonic shall exercise its option by giving Licensee written notice within 30 days after termination.

(c) Sonic's option hereunder is without prejudice to Sonic's rights under any security agreement held by Sonic or with respect to which Sonic may have a guarantor's or surety's subrogation interest. If Sonic exercises this option, Sonic may pay any debt which Licensee owes to Sonic and shall remit any balance of the purchase price to Licensee. There shall be no allowance for goodwill.

15.03. Sonic's Obligation to Purchase. (a) Upon termination, cancellation, or expiration of this Agreement, if Licensee desires to sell Licensee's unbroken inventory packages of approved imprinted items and supplies with Proprietary Marks to Sonic, excluding all food items, Sonic shall have the obligation to repurchase such items at Licensee's cost.

(b) If Licensee desires to sell such items to Sonic, Licensee shall, not later than 10 days after termination, cancellation, or expiration of this Agreement, give Sonic 10 days written notice of Licensee's election and, at the expiration of the 10 days notice period, deliver such items at Licensee's expense with an itemized inventory to the nearest Sonic drive in restaurant designated by Sonic. Sonic agrees to pay Licensee or credit Licensee's account within seven days after said delivery.

15.04. Fair Market Value Determination. If the parties cannot agree on the fair market value of any item subject to an option to purchase in this Agreement within a reasonable time, one appraiser shall be designated by Sonic, one appraiser shall be designated by Licensee, and the two appraisers shall designate an independent appraiser, and the valuation of such third appraiser alone shall be binding. Sonic and the Licensee each shall pay one-half of the cost of any appraisals required pursuant to this Section 15.04.

## 16. COVENANTS.

16.01. Restrictions on Licensee. Licensee agrees and covenants as follows:

(a) During the term of this Agreement, Licensee shall not directly or indirectly through one or more intermediaries (i) engage in, (ii) acquire any financial or beneficial interest (including interests in corporations, limited liability companies, partnerships, trusts, unincorporated associations, joint ventures, or other business entities) in, (iii) loan money to, or (iv) become landlord of any restaurant business which has a menu similar to that of a Sonic drive-in restaurant (such as hamburgers, hot dogs, onion rings, and similar items customarily sold by Sonic drive-in restaurants) or which has an appearance similar to that of a Sonic drive-in restaurant (such as color pattern, use of canopies, use of speakers and menu housings for ordering food, or other items that are customarily used by a Sonic drive-in restaurant).

(b) Licensee shall not, for a period of 18 months after termination of this Agreement for any reason, directly or indirectly through one or more intermediaries (i) engage in, (ii) acquire any financial or beneficial interest (including interests in corporations, limited liability companies, partnerships, trusts, unincorporated associations, joint ventures, or other business entities) in, (iii) loan money to, or (iv) become a landlord of any restaurant business which has a menu similar to that of a Sonic drive-in restaurant (such as hamburgers, hot dogs, onion rings, and similar items customarily sold by Sonic drive-in restaurants) or which has an appearance similar to that of a Sonic drive-in restaurant (such as color pattern, use of canopies, use of speakers and menu housings for ordering food, or other items that are customarily used by a Sonic drive-in restaurant), and which (i) is within a three-mile radius of the Sonic Restaurant formerly licensed by this Agreement, (ii) is within a 20-mile radius of any Sonic drive in restaurant in operation or under construction, or (iii) is located within the MSA of the Sonic Restaurant.

(c) Licensee shall not appropriate, use, or duplicate the Sonic System, or any portion thereof, for use at any other restaurant business.

(d) During the term of this Agreement, Licensee shall (i) use Licensee's best efforts to promote the business of the Sonic Restaurant, (ii) devote Licensee's full time, energies, and attention to the operation and management of the Sonic Restaurant, and (iii) not engage in any other business or activity that might detract from, interfere with, or be detrimental to the Sonic System or Licensee's full and timely performance under this Agreement (except the ownership and operation of other Sonic drive-in restaurants under license agreements with Sonic).

(e) During the term of this Agreement, Licensee shall not perform or provide services as a director, officer, employee, agent, representative, or consultant or in any other capacity for any other restaurant business which has a menu or appearance similar to that of a Sonic drive-in restaurant.

(f) During the term of this Agreement, Licensee shall not directly or indirectly through one or more intermediaries (i) engage in, (ii) acquire any financial or beneficial interest in, (iii) loan money to, or (iv) become landlord of any operation which has granted or is granting franchises or licenses (except for those granted by Sonic) to others to operate any other restaurant business which has a menu or appearance similar to that of a Sonic drive-in restaurant.

(g) Sections 16.01(a), 16.01(b), and 16.01(f) shall not apply to ownership by Licensee of less than 2% beneficial interest in the outstanding equity securities of any corporation which is registered under the Securities Exchange Act of 1934; however, this Section 16.01(g) shall apply to all shareholders, partners, or members of Licensee (in the event Licensee is a corporation, partnership, limited liability company, or other business entity) and all members of Licensee's and their immediate families, and all Persons or entities guaranteeing this Agreement.

(h) The parties agree that each of the foregoing covenants shall be construed as independent of any covenant or provision of this Agreement. If all or any portion of a covenant in this Section 16 is held unreasonable or unenforceable by an arbitrator, court, or agency having valid jurisdiction in an unappealed final decision to which Sonic is a party, Licensee expressly agrees to be bound by any lesser covenant subsumed with the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 16.

(i) Licensee understands and acknowledges that Sonic shall have the right, in Sonic's sole discretion, to reduce the scope of any covenant set forth in Sections 16.01(a), 16.01(b), and 16.01(f), or any portion thereof, without Licensee's consent effective immediately upon receipt by Licensee of written notice thereof, and Licensee

agrees that it shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 16.01(k).

(j) Licensee expressly agrees that the existence of any claims Licensee may have against Sonic, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Sonic of the covenants in this Section 16.

(k) Licensee acknowledges that Licensee's violation of the terms of this Section 16 would result in irreparable injury to Sonic for which no adequate remedy at law is available, and Licensee accordingly consents to the ex parte issuance of restraining orders, temporary and permanent injunctions, and cease and desist orders prohibiting any conduct by Licensee in violation of the terms of this Section 16.

16.02. Covenants by Others. At the time of execution of this Agreement, Licensee shall obtain covenants similar in substance to those set forth in this Section 16 (including covenants applicable upon the termination of a Person's relationship with Licensee) from all officers, directors, and holders of a direct or indirect beneficial ownership interest in Licensee. With respect to each Person who becomes associated with Licensee in one of the capacities enumerated above subsequent to execution of this Agreement, Licensee shall require and obtain such covenants. In no event shall any Person enumerated be granted access to any confidential aspect of the Sonic System or the Sonic Restaurant prior to execution of such a covenant. All covenants required by this Section 16.02 shall include, without limitation, specific identification of Sonic as a third-party beneficiary of such covenants with the independent right to enforce them. Failure by Licensee to obtain execution of a covenant required by this Section 16.02 shall constitute a breach of this Agreement. Licensee shall furnish to Sonic executed copies of such covenants within 10 days of such request by Sonic.

## 17. INDEPENDENT CONTRACTOR & INDEMNIFICATION

17.01. Licensee not an Agent of Sonic; Employment Matters. It is understood and agreed that this Agreement does not create a fiduciary relationship between Sonic and Licensee, and that nothing herein contained shall constitute Licensee as the agent, legal representative, partner, joint venturer, or employee of Sonic. Licensee is, and shall remain, an independent contractor responsible for all obligations and liabilities of, and for all loss or damage to, the Sonic Restaurant and its business, including any personal property, equipment, fixtures, or real property connected therewith and for all claims or demands based on damage or destruction of property or based on injury, illness, or death of any person or persons, directly or indirectly, resulting from the operation of the Sonic Restaurant. Licensee's responsibility for the Sonic Restaurant and its business shall include responsibility for all of the employment matters (including employment decisions) of the Sonic Restaurant and for compliance with federal, state, and local laws and regulations relating to such employment matters. Sonic will refer all complaints related to employment matters of the Sonic Restaurant to Licensee for resolution, and the indemnification and hold harmless provisions of Section 17.03 shall apply to all employment matters of the Sonic Restaurant.

17.02. Cost of Enforcement. If Sonic or Sonic's Affiliates become involved in any action at law or in equity or in any proceeding opposing Licensee to secure, enforce, protect, or defend Sonic's or Sonic's Affiliates' rights and remedies under this Agreement, in addition to any judgment entered in their favor, Sonic or Sonic's Affiliates, as applicable, shall be entitled to demand of and (in the event Sonic or Sonic's Affiliates, as applicable, prevail in such actions or proceedings) recover from Licensee the reasonable costs, expenses, and attorneys' fees incurred by Sonic or Sonic's Affiliates. If, in such applicable final judgment Sonic does not prevail, Licensee shall be entitled to recover from Sonic in any such action or proceeding the reasonable costs, expenses, and attorneys' fees incurred by Licensee. Licensee's responsibility for the Sonic Restaurant and its business shall include responsibility for all of the employment matters (including employment decisions) of the Sonic Restaurant and for compliance with federal, state, and local laws and regulations relating to such employment matters.

17.03. Indemnification. If Sonic or Sonic's Affiliates shall be subject to any claim, demand, or penalty or become a party to any suit or other judicial or administrative proceeding by reason of any claimed act or omission by Licensee or Licensee's employees or agents, or by reason of any act occurring on the Sonic Restaurant premises, or by reason of any act or omission with respect to the business or operation of the Sonic Restaurant, Licensee shall indemnify and hold Sonic and Sonic's Affiliates harmless against all judgments, settlements, penalties, and expenses, including attorneys' fees, court costs, and other expenses of litigation or administrative proceeding, incurred by or imposed on Sonic or Sonic's Affiliates in connection with the investigation or defense relating to

such claim or litigation or administrative proceeding and, at the election of Sonic, Licensee shall also defend Sonic and Sonic's Affiliates. The Licensee shall not have any obligation to indemnify, defend, or hold harmless Sonic or any other Person pursuant to the provisions of this Section 17.03 to extent the obligation arises predominantly as a proximate result of Sonic's act or failure to act when under a duty to act.

18. EFFECT OF WAIVERS. No waiver by Sonic of any breach or series of breaches of this Agreement shall constitute a waiver of any subsequent breach or waiver of the terms of this Agreement.

19. NOTICES.

19.01. Delivery. Any notice required hereunder, if not specified, shall be in writing and shall be delivered by (i) personal service, (ii) by overnight, receipted delivery service, (iii) by United States certified or registered mail, with postage prepaid, addressed to Licensee at the Sonic Restaurant or at such other address of Licensee then appearing on the records of Sonic or to Sonic addressed to the attention of Sonic's General Counsel at 300 Johnny Bench Drive, Oklahoma City, Oklahoma 73104, or at the subsequent address of Sonic's corporate headquarters. Either party, by a similar written notice, may change the address to which notices shall be sent. Notice shall be deemed effective on the date of delivery, if delivery is by personal service or overnight delivery, or three business days after the party places the notice in the United States mail, if delivery is by certified or registered mail.

19.02. Failure to Accept. If Sonic is unable to give actual notice of any breach or termination of this Agreement because Licensee has failed to provide Sonic with a current address, because Licensee fails to accept or pick up this mailed notice, or due to any reason which is not the fault of Sonic, then such notice shall be deemed as given when Sonic sends such notice by overnight receipted delivery service or registered or certified mail, postage prepaid.

19.03. Licensee's Principal. Licensee has designated on the first page of this Agreement a Principal to serve as the party receiving primary notice on behalf of the Licensee. Each Licensee hereby agrees that Sonic may send its notices and communications under this Agreement to the Principal provided for herein, that Sonic may use the Principal as its primary contact for purposes of communications and notices permitted or required hereunder, and that all communications and notices given by Sonic to the Principal will be just as effective on each Licensee as though the same had been given to each Licensee.

20. ENTIRE AGREEMENT.

20.01. No Oral Agreements. This Agreement and all addenda, appendices, and amendments hereto constitute the entire agreement between the parties and supersede all prior and contemporaneous, oral or written agreements or understandings of the parties.

20.02. Scope and Modification of Agreement. No interpretation, change, termination, or waiver of any of the provisions hereof shall be binding upon Sonic unless in writing signed by an officer of Sonic. No modification, waiver, termination, rescission, discharge, or cancellation of this Agreement shall affect the right of any party hereto to enforce any claim or right hereunder, whether or not liquidated, which occurred prior to the date of such modification, waiver, termination, rescission, discharge, or cancellation.

21. CONSTRUCTION AND SEVERABILITY.

21.01. Interpretation. The recitals shall be considered a part of this Agreement. Section and Subsection captions are used only for convenience and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular Sections, Subsections, Paragraphs, and Subparagraphs to which they refer. Words of any gender used in this Agreement shall include any other gender, and words in the singular shall include the plural where the context requires.

21.02. Scope of Protected Area. Neither party to this Agreement intends to expand the scope of any covenants or commitments contained in Section 2 beyond the terms and provisions expressly stated in Section 2, and the parties to this Agreement agree that no Person, court, or arbitrator may interpret any of the foregoing covenants or commitments in Section 2 in that manner.

21.03. Invalidity. If any part of this Agreement for any reason shall be declared invalid, such decision shall not affect the validity of any remaining portion, which shall remain in full force and effect. In the event any material provision of this Agreement shall be stricken or declared invalid, Sonic reserves the right to terminate this Agreement.

21.04. Binding Effect. This Agreement shall be binding upon the parties, and their heirs, executors, personal representatives, successors, and assigns.

21.05. Survival. Any provisions of this Agreement which impose an obligation after termination or expiration of this Agreement shall survive the termination or expiration of this Agreement and be binding on the parties.

21.06. Liability of Multiple Licensees. If Licensee consists of more than one Person or entity, each such Person and entity, and each proprietor, partner, member, and shareholder of each such entity, shall be jointly and severally liable for any and all of Licensee's obligations and prohibitions under this Agreement. Consequently, if and when a Person or entity as Licensee is in breach of this Agreement and fails or is unable to cure such breach in a timely manner, Sonic may terminate the rights of the so-affected Person or entity under this Agreement whereby this Agreement is terminated as to only such Person or entity while remaining fully effective as to all other Persons and entities remaining as Licensee on this Agreement. This Person or entity removed as Licensee shall remain jointly and severally obligated with the Persons and entities remaining as Licensee for any and all obligations and liabilities of Licensee which occurred or accrued through the date of removal of said Person or entity.

## 22. BUSINESS ENTITY LICENSEES

22.01. Corporate, Partnership, and Limited Liability Company Licensees. If the Licensee is a corporation, partnership, or limited liability company, the Licensee shall comply with the following provisions:

(a) Purpose. The certificate of incorporation and bylaws, partnership agreement and certificate of limited partnership (if applicable), or articles of organization and operating agreement of the Licensee (collectively, "Organizational Documents"), as applicable, shall provide that the purpose of the business entity shall consist only in the development, ownership, operation, and maintenance of Sonic drive-in restaurants.

(b) Transfer Restrictions. The Organizational Documents of the Licensee shall provide that the Licensee shall not issue any additional capital stock or interest of the Licensee and that no stockholder, partner, or member, as applicable, may transfer, assign, or pledge any issued capital stock or interest of the Licensee without the prior, written consent of Sonic, and each stock certificate, if applicable, issued to evidence the capital stock of the Licensee shall contain a legend disclosing the foregoing restriction. Sonic shall not withhold its consent to the issuance of additional capital stock or interest or a transfer, assignment, or pledge without a reasonable basis. In giving its consent, Sonic shall have the right (but not the obligation) to impose one or more reasonable conditions, including (without limitation) the requirement that the recipient of the capital stock or interest execute an agreement substantially similar to the Guaranty and Restriction Agreement attached as Schedule I to this Agreement.

(c) Stockholder/Partner/Member Guaranty. Each stockholder, partner, or member of the Licensee, as applicable, shall execute the Guaranty and Restriction Agreement attached as Schedule I to this Agreement.

(d) Documents. Prior to Sonic's execution of this Agreement, the Licensee shall deliver to Sonic copies of its Organizational Documents and issued stock certificates, as applicable, reflecting compliance with the provisions of this Section 22.01.

22.02. Other Entity Licensee. If the Licensee is any other form of business entity, the Licensee shall deliver to Sonic copies of its organizational documents containing provisions substantially similar to those required by Section 22.01.

22.03. Employee Stock Purchase Plans. The Licensee shall have the right to transfer up to 49% of its outstanding capital stock or other equity interests to an employee stock purchase plan as long as one individual who qualifies as a licensee of Sonic for the Sonic Restaurant continues to own and Control, directly or indirectly, at least 51% of the Licensee's outstanding capital stock or other equity interests.

22.04 Good Standing. If the Licensee is a business entity, Licensee shall remain an active entity in good standing in its state of formation.

23. APPLICABLE LAWS; WAIVER OF JURY TRIAL; LIMITATIONS. The terms and provisions of this Agreement shall be interpreted in accordance with and governed by the laws of the State of Oklahoma, provided that if the laws of the State of Oklahoma would not permit full enforcement of Section 16 of this Agreement, then the laws of the state in which the Sonic Restaurant is located or Licensee is domiciled shall apply to the extent that any or all of such laws more fully permit enforcement of Section 16 of this Agreement. Except as provided in Section 14.03, Licensee agrees that jurisdiction over Licensee exists and is proper within the county where the corporate headquarters of Sonic are located and within any and all courts, whether federal, state, or local, located within that county, and venue for any matter, claim, or cause of action relating to (a) this Agreement or any other agreement between Licensee and Sonic or Sonic's Affiliates, (b) the parties' business activities conducted as a result of this Agreement, or (c) the parties' relationship or business dealings with one another generally, including all disputes and litigation pending or in existence as of the date of this Agreement, shall only exist and is only proper within the same county where the corporate headquarters of Sonic are located and within any and all courts, whether federal, state, or local, located within that county. Licensee waives any and all defenses and objections, and Licensee agrees not to assert any defense or objection, to jurisdiction over Licensee and to venue as described hereinabove regarding any action, proceeding, or litigation instituted by Sonic against Licensee. Sonic and Licensee agree that any and all breaches of this Agreement, including breaches occurring after termination, cancellation, or expiration of this Agreement, shall be deemed to have occurred where the corporate headquarters of Sonic are located. SONIC AND LICENSEE WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY. SONIC AND LICENSEE ALSO WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO OR CLAIM OF PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN THEM, EACH SHALL BE LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED BY IT. EXCEPT FOR CLAIMS ARISING FROM LICENSEE'S NON-PAYMENT OR UNDERPAYMENT OF AMOUNTS LICENSEE OWES SONIC, ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR SONIC'S RELATIONSHIP WITH LICENSEE WILL BE BARRED UNLESS A JUDICIAL OR ARBITRATION PROCEEDING IS COMMENCED WITHIN ONE YEAR FROM THE DATE ON WHICH THE PARTY ASSERTING THE CLAIM KNEW OR SHOULD HAVE KNOWN OF THE FACTS GIVING RISE TO THE CLAIMS.

24. ACKNOWLEDGEMENT. Licensee acknowledges:

24.01. Initial Term. The term of this Agreement is for a single 20-year term with no promise or representation as to the renewal of this Agreement or the grant of a new license except as provided herein.

24.02. Consultation with Counsel. Licensee hereby represents that Licensee has received a copy of this Agreement and has had an opportunity to consult with Licensee's attorney with respect thereto at least 10 days prior to Licensee's execution hereof. Licensee further represents that Licensee has had this Agreement in hand for review at least five business days prior to Licensee's execution hereof.

24.03. Profitability. No representation has been made by Sonic as to the future profitability of the Sonic Restaurant.

24.04. Licensee's Investigation. Prior to the execution of this Agreement, Licensee has had ample opportunity to contact existing licensees of Sonic and to investigate all representations made by Sonic relating to the Sonic System. The Licensee has conducted an independent investigation of the business contemplated by this Agreement and recognizes that it involves substantial business risks making the success of the venture largely dependent on the business abilities of the Licensee. Sonic disclaims and the Licensee has not received from Sonic or its Affiliates any express or implied warranty or guaranty regarding the potential volume, profits, or success of the business venture contemplated by this Agreement. The Licensee has not relied on any express or implied warranty or guaranty from Sonic or its Affiliates regarding the potential volume, profits, or success of the business venture contemplated by this Agreement.

24.05. Contrary Representations. The Licensee knows of no representations by Sonic or its Affiliates about the business contemplated by this Agreement which contradict the terms of this Agreement. The Licensee has not

relied on any representations from Sonic or its Affiliates about the business contemplated by this Agreement which contradict the terms of this Agreement or the disclosures set forth in the Franchise Disclosure Document delivered to the Licensee in connection with the issuance of this Agreement.

24.06. Variances to Other Licensees. The Licensee understands that other developers and licensees may operate under different forms of agreements and, consequently, that Sonic's rights and obligations with regard to its various licensees may differ materially in certain circumstances.

24.07. Complete Agreement. This Agreement supersedes any and all other agreements or representations respecting the Sonic Restaurant and contains all the terms, conditions, and obligations of the parties with respect to the grant of this Agreement. Nothing in this Agreement or any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

25. INPUT AND ADVICE FROM LICENSEES. In connection with the implementation of or significant changes in the programs or policies referred to in Sections 6.04, 6.05(c), 6.06, 8, 11.01(c), and 11.01(g) of this Agreement, Sonic shall solicit input and advice from a group of licensees gathered together for such purpose (whether established ongoing for such purpose or gathered on an ad hoc basis from time to time). Sonic further shall use its best efforts to ensure that such groups are balanced in terms of geographic base, size of operating group, and period of tenure within the Sonic System. Notwithstanding the foregoing, this Section 25 shall not have any effect unless the license agreements in effect for at least one-third of all Sonic drive-in restaurants contain this provision or a substantially similar provision.

26. INJUNCTIVE RELIEF. The Licensee acknowledges that Sonic's remedy at law for any breach of (a) any of the Licensee's covenants under this Agreement (other than those involving only the payment of money), including the covenants contained in Section 16 of this Agreement; and (b) Sections 14.01(l), 14.02(c), 14.03(h), 15.01(b), 15.01(c), 15.01(d), and 15.01(e) of this Agreement, would not constitute an adequate remedy at law and, therefore, Sonic shall have the right to obtain temporary and permanent injunctive relief in any proceeding brought to enforce any of those provisions, without the necessity of proof of actual damages. Licensee acknowledges and expressly agrees that Sonic shall not be required to post any bond or other form of security in connection with any request for the issuance of injunctive relief, and Licensee expressly and unconditionally waives any requirement for the provision of security. Licensee also agrees that injunctive relief sought by Sonic and ordered by any court of competent jurisdiction shall be given full force and effect in any other jurisdiction, including the jurisdiction in which the Sonic Restaurant is located, and that Licensee will not oppose the enforcement of such relief. Nothing in this Section 26 shall prevent Sonic from pursuing separately or concurrently one or more of any other remedies available at law, subject to the provisions of Section 14.03 of this Agreement.

27. GENERAL RELEASE AND COVENANT NOT TO SUE. THE LICENSEE HEREBY RELEASES SONIC, SONIC CORP., AND THEIR SUBSIDIARIES AND AFFILIATES, AND THE OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS OF SONIC, SONIC CORP., AND THEIR SUBSIDIARIES AND AFFILIATES, FROM ANY AND ALL CLAIMS AND CAUSES OF ACTION, KNOWN OR UNKNOWN, WHICH MAY EXIST IN FAVOR OF THE LICENSEE AS OF THE DATE OF THIS AGREEMENT. IN ADDITION, THE LICENSEE COVENANTS THAT THE LICENSEE SHALL NOT FILE OR PURSUE ANY LEGAL ACTION OR COMPLAINT AGAINST ANY OF THE FOREGOING ENTITIES OR PERSONS WITH REGARD TO ANY OF THE FOREGOING CLAIMS OR CAUSES OF ACTION RELEASED PURSUANT TO THIS SECTION 27.

28. BRAND TECHNOLOGY FUND. Sonic or its designee shall maintain and administer a fund for the Sonic System titled the Brand Technology Fund (the "BTF") as follows:

(a) As provided in Section 5.07 hereof, Licensee shall pay a technology fee to the BTF, which shall be deposited in a separate bank account denoted as the Brand Technology Fund.

(b) The BTF and all earnings thereof will be used exclusively to meet any and all costs of designing, developing, implementing, maintaining, administering and supporting products, services and programs related to technology and information systems for the Sonic System as well as any other purpose that enhances or protects the technology and information systems of any portion of the Sonic System. All sums paid to the BTF shall be maintained in a separate account from the other funds of Sonic. The BTF shall pay Sonic monthly an amount equal

to 15% of the BTF's receipts during the preceding month, but not to exceed Sonic's actual administrative costs and overhead, if any, as Sonic may incur in activities reasonably related to the administration or direction of the BTF for the licensees and the Sonic System. The BTF and its earnings shall not inure to the benefit of Sonic, and obligations of the BTF shall not be obligations of Sonic.

(c) The BTF is not an asset of Sonic, and an independent certified public accountant designated by Sonic shall review the operation of the BTF annually, and the report shall be made available to Licensee upon request. Notwithstanding the foregoing, the body approved and designated by Sonic and the Franchise Advisory Council Executive Committee (or its successor) as the body to consult with regarding Sonic's maintenance and administration of the BTF may designate the independent public accountant to conduct the required review of the operation of the BTF, if requested in writing at least 30 days but not more than 60 days prior to the end of each fiscal year.

(d) The Licensee acknowledges that Sonic and its designees undertake no obligation in administering the BTF to make expenditures for Licensee which are equivalent or proportionate to Licensee's contribution to the BTF.

(e) Although Sonic intends the BTF to be of perpetual duration, Sonic maintains the right to terminate the BTF. Such BTF shall not be terminated, however, until all monies in the BTF have been expended for purposes as aforesaid.

(f) On at least a quarterly basis, Sonic shall consult with the body approved and designated by Sonic and the Franchise Advisory Council Executive Committee (or its successor) regarding Sonic's maintenance and administration of the BTF and shall report to that body on the BTF's operation.

Executed on the dates set forth below, to have effect as of \_\_\_\_\_, 20\_\_.

Licensor:

Sonic Franchising LLC

By: \_\_\_\_\_  
(Vice) President  
Date: \_\_\_\_\_, 20\_\_

Licensee:

By: \_\_\_\_\_  
Its:  
Date: \_\_\_\_\_, 20\_\_

**Schedule I**

**Guaranty and Restriction Agreement**

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## GUARANTY AND RESTRICTION AGREEMENT

The undersigned (jointly and severally or individually, the "Guarantor"), Sonic Franchising LLC ("Sonic"), and (the "Licensee") enter into this Guaranty and Restriction Agreement (this "Guaranty") as of \_\_\_\_\_, 20\_\_\_\_.

### WITNESSETH:

Whereas, Sonic is entering into a license agreement (the "License Agreement") dated the same date as this Guaranty with the Licensee for the Sonic Drive-In located at \_\_\_\_\_, \_\_\_\_\_ (the "Drive-in"); and

Whereas, as a condition to entering into the License Agreement, Sonic has asked the Guarantor to provide a personal guaranty of all obligations of the Licensee Agreement; and

Whereas, Sonic has also asked the Guarantor and the Licensee to agree to a restriction on the transfer of interests in the Licensee; and

Whereas Sonic, the Guarantor, and the Licensee are willing to enter into those agreements based upon the terms and conditions of this Guaranty.

Now, therefore, in consideration of the mutual covenants set forth below and other good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, the parties agree as follows:

1. Personal Guaranty of Payments. The Guarantor hereby guarantees the prompt and full payment and performance of all obligations under the License Agreement including:

- (a) all royalties due Sonic pursuant to the License Agreement,
- (b) all brand contribution fees to the Sonic Brand Fund pursuant to the License Agreement,
- (c) all contributions to approved advertising cooperatives pursuant to the License Agreement,
- (d) all technology fees to the Brand Technology Fund pursuant to the License Agreement,

and

(e) any other obligations owing to Sonic or its Affiliates (as defined in the License Agreement) relating to the Drive-in, including any sign lease agreement.

2. Nature of Guaranty. This guaranty shall constitute an absolute, unconditional, irrevocable, and continuing guaranty. Sonic shall not have any obligation to take any action against any other person or entity for collection of any payments prior to making any demand for payment or bringing any action against the Guarantor.

3. Permitted Actions. From time to time, Sonic shall have the right to take, permit, or suffer to occur any "Permitted Action," as defined below, without modifying, reducing, waiving, releasing, impairing, or otherwise affecting the obligations of the Guarantor under this Guaranty, without giving notice to the Guarantor or obtaining the Guarantor's consent, without the necessity of any reservations of rights against the Guarantor, and without liability on the part of Sonic. As used in this Section 3, the phrase "Permitted Action" shall mean (a) an agreed extension of time for payment of any sum due under the License Agreement, (b) an agreed change in the manner or place of payment of any sums due under the License Agreement, (c) any waiver by Sonic of any defaults under the provisions of the License Agreement, (d) any delay or failure by Sonic to exercise any right or remedy Sonic may have under the License Agreement, (e) the granting by Sonic of any leniencies, waivers, extensions, and indulgences under the License Agreement, and (f) any agreed amendments to the License Agreement.

4. Waiver of Notices. The Guarantor acknowledges and waives notice of Sonic's acceptance of the Guarantor's guaranty pursuant to the terms of this Guaranty. The Guarantor also waives any requirement that Sonic notify the Guarantor of any demands or enforcement actions by Sonic against the Licensee.

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5. Restrictions on Transfer. The Licensee shall not issue any additional shares of capital stock or other interest without the prior, written consent of Sonic. The Guarantor shall not transfer, assign, or pledge any of its shares of capital stock or other interest in the Licensee to any person without the prior, written consent of Sonic.

6. Disputes. Any dispute between the parties concerning this Guaranty will be resolved in accordance with the Resolution of Dispute provisions contained in the License Agreement. However, if Sonic files suit to enforce the provisions of this Guaranty, venue shall only exist in the federal and state courts in Oklahoma, and such courts shall have personal jurisdiction over the Guarantor. The Guarantor expressly waives any and all objections as to venue in any of those courts and agrees that Sonic may serve process by mailing a copy of the summons by certified mail, return receipt requested, with sufficient postage prepaid, to the address of Guarantor as specified in this Guaranty.

7. Attorneys' Fees, Costs, and Expenses. In any action brought by Sonic to enforce the obligations of the Guarantor, Sonic shall also have the right to collect its reasonable attorneys' fees, court costs, and expenses incurred in the action.

8. Headings. The headings used in this Guaranty appear strictly for the parties' convenience in identifying the provisions of this Guaranty and shall not affect the construction or interpretation of the provisions of this Guaranty.

9. Binding Effect. This Guaranty binds and inures to the benefit of the parties and their respective successors, legal representatives, heirs, and permitted assigns.

10. Waiver. The failure of a party to insist in any one or more instances on the performance of any term or condition of this Guaranty shall not operate as a waiver of any future performance of that term or condition.

11. Governing Law. Notwithstanding the place where the parties execute this Guaranty, the internal laws of Oklahoma shall govern the construction of the terms and the application of the provisions of this Guaranty.

12. Amendments. No amendments to this Guaranty shall become effective or binding on the parties unless agreed to in writing by all of the parties to be bound by the amendment.

13. Time. Time constitutes an essential part of each and every part of this Guaranty.

14. Notice. Except as otherwise provided in this Guaranty, when this Guaranty makes provision for notice or concurrence of any kind, the sending party shall deliver or address the notice to the other party by certified mail, telecopy, or nationally-recognized overnight delivery service to the addresses shown on Exhibit "A" to this Guaranty.

All notices pursuant to the provisions of this Guaranty shall run from the date that the other party receives the notice or three business days after the party places the notice in the United States mail. Each party may change the party's address by giving written notice to the other parties.

15. Release and Covenant Not To Sue. THE GUARANTOR AND THE LICENSEE, AND EACH OF THEM, HEREBY RELEASE ALL CLAIMS AND CAUSES OF ACTION WHICH THE GUARANTOR OR THE LICENSEE, OR BOTH OF THEM, MAY HAVE AGAINST SONIC, SONIC CORP., AND THEIR SUBSIDIARIES AND AFFILIATES, AND THE STOCKHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS OF SONIC, SONIC CORP., AND THEIR SUBSIDIARIES AND AFFILIATES. THE GUARANTOR AND THE LICENSEE, AND EACH OF THEM, FURTHER COVENANT NOT TO SUE ANY OF THE FOREGOING PERSONS OR ENTITIES ON ACCOUNT OF ANY OF THE FOREGOING CLAIMS OR CAUSES OF ACTION.

Executed and delivered as of the day and year first set forth above.

**Signatures on following page**

CIF \_\_\_\_

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Licensor:

Sonic Franchising LLC

By: \_\_\_\_\_  
(Vice) President  
Date: \_\_\_\_\_, 20

Guarantor:

\_\_\_\_\_  
\_\_\_\_\_

Licensee:

By: \_\_\_\_\_  
Its:  
Date: \_\_\_\_\_, 20

**This Guaranty and Restriction Agreement signature page is for the following:  
Sonic Drive-In #**

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CIF \_\_\_\_

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**EXHIBIT "A"**

Notice addresses are as follows:

Sonic:

300 Johnny Bench Drive  
Oklahoma City, OK 73104  
Attention: General Counsel  
(405) 225-5973 Fax

Guarantors:

Fax

Fax

Licensee:

Fax

CIF \_\_\_\_

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Sonic Corp. 2006 Long-Term Incentive Plan  
Award Agreement

Award Agreement Number: \_\_\_\_\_  
Grant Date: \_\_\_\_\_  
Number of Options Granted: \_\_\_\_\_  
Exercise Price per Share: \$ \_\_\_\_\_  
Expiration Date: \_\_\_\_\_  
Vesting Schedule: 1/3 of all options granted on Grant  
Date will vest on each of the first three anniversaries  
of the Grant Date.

Dear \_\_\_\_\_ :

I am pleased to inform you that you have been granted stock options to purchase the number of shares of common stock of Sonic Corp. set forth above at the per share exercise price set forth above.

Your grant has been made under the Sonic Corp. 2006 Long-Term Incentive Plan (as it may be amended from time to time, the "Plan"). Your options are designated as either ISO for Incentive Stock Options or NQ for Non-Qualified Stock Options, which are further defined in the Plan. Your options are subject to the terms and conditions contained in Schedule A attached to this Agreement and the Plan, both of which are made a part of this Agreement. Schedule A and the Plan are available on Sonic's intranet site.

Sincerely,

Cliff Hudson  
Chairman & CEO

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**SCHEDULE A**  
**Sonic Corp. 2006 Long-Term Incentive Plan**  
**Award Agreement**  
**[Incentive/Non-Qualified] Options**

**2006 Long-Term Incentive Plan (the "Plan")**. The Options granted by this Agreement are granted by Sonic Corp. (the "Company") pursuant to the Plan, a copy of which Plan has been made available to the Participant and is hereby made a part of this Agreement. This Agreement is subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs these Options, and, in the event of any question as to the construction of this Agreement or of a conflict between the Plan and this Agreement, the Plan shall govern, except as the Plan otherwise provides.

**Period of Option**. The Options will expire at the close of business seven years from the Date of Grant (the "Expiration Date"), as indicated on the Award Agreement, unless earlier terminated.

**Right of Exercise**. The Options shall vest and become exercisable upon vesting, which shall occur at the rate of one-third of the total amount of Options on each of the first three anniversaries of the Grant Date (full vesting on the third anniversary of the Grant Date). Once vested, the Options may be exercised at any time prior to their expiration, cancellation or termination as provided in the Plan. Partial exercise is permitted, provided that no partial exercise of the Options shall be for a fractional number of Shares.

**Incentive Stock Options Only: Incentive Stock Option Limitations**. The aggregate Fair Market Value of Stock with respect to which Incentive Stock Options granted under the Plan are exercisable for the first time by a Participant during any calendar year under the Plan and any other stock option plan of the Company (and its parent and subsidiary corporations as those terms are used in Section 422 of the Code) shall not exceed \$100,000, which limit shall be applied by taking Options into account in the order in which they are granted. Such Fair Market Value shall be determined as of the date on which each such Incentive Stock Option is granted. To the extent that the aggregate Fair Market Value of Stock with respect to such Incentive Stock Option exceeds \$100,000, such Incentive Stock Option shall be treated as a Non-Qualified Stock Option, but all other terms and provisions of such Incentive Stock Option shall remain unchanged.]

**Exercise of Options**. The Options shall, during the lifetime of the Participant, be exercisable only by said Participant, or by the Participant's guardian or other legal representative, and shall not be transferable by the Participant, in whole or in part, other than by will or by the laws of descent and distribution. You may exercise your Options, in whole or in part, by following the exercise procedures set forth on the Company's intranet site under the heading "Stock Options."

Payment for Shares purchased upon exercise of an Option shall be made at the time of exercise either (a) in cash, (b) by certified check, (c) in Stock owned by the Participant and valued at its Fair Market Value on the date of exercise, (d) partly in Stock with the

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balance in cash or by certified check, (e) pursuant to a broker-assisted "cashless exercise" arrangement, or (f) by any combination of the foregoing. Any payment in Stock shall be effected by the delivery to the Company's General Counsel's office of the appropriate stock certificates, endorsed in blank.

**Restrictions on Exercise.** The Options may not be exercised if such exercise would violate any provision of applicable federal or state securities law, or other law, rule or regulation or the Company's employee trading policy or Code of Business Conduct.

**Delivery of Stock Upon Exercise.** Stock purchased upon exercise of Options shall be issued and delivered as soon as practicable following the date the Options are exercised and shall be issued in the name of the Participant or, in the event of the Participant's death prior to exercise, the Participant's properly designated beneficiary.

**Buyout.** The Company may at any time offer to buy out, for a payment in cash or Common Stock (including restricted stock), Options previously granted, based on such terms and conditions as the Company shall establish and communicate to the Participant at the time that such offer is made.

**Termination of Employment or Service.**

(1) **Disability or Death.** In the event of termination of a Participant's employment or service to the Company by reason of such Participant's Disability or death, any outstanding Options held by such Participant shall become fully vested as of the date of termination as to the total number of shares of Stock subject thereto (whether or not exercisable to that extent prior to such date) and the Participant or the Participant's estate will have a period of three years from the date of termination to exercise the Options (unless such Options expire earlier by their terms).

(2) **Retirement.** In the event of termination of a Participant's employment or service to the Company by reason of such Participant's "Retirement," as hereafter defined, the Participant will have a period of three years from the effective date of the Participant's Retirement to exercise the Options (unless such Options expire earlier by their terms) to the extent such Options were vested as of the effective date of Retirement. Any options that are not exercisable on the effective date of Retirement shall terminate. For purposes of this Agreement, "Retirement" is defined as: (i) if the Participant is an employee, the Participant's termination of employment with the Company after the Participant has both reached the age of 65 and served as an employee of the Company or any Subsidiary for ten consecutive years; and (ii) if the Participant is a director, the Participant's termination of service on the Board of Directors of the Company after the Participant has both reached the age of 65 and provided ten consecutive years of service as a director of the Company. In the event of termination of a Participant's employment or service to the Company by reason of such Participant's retirement under conditions not satisfying the definition of "Retirement" set forth above (but, in the case of an employee, in accordance with an applicable retirement plan), the Participant will have a period of three months from the effective date of the Participant's Retirement to exercise the Options (unless such Options

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expire earlier by their terms) to the extent such Options were vested as of the effective date of Retirement. Any options that are not exercisable on the effective date of such retirement shall terminate.

(3) Other Reasons. In the event of the termination of the Participant's employment or service otherwise than as described in Sections (1) and (2) above, any outstanding Options held by such Participant may be exercised during the 30-day period following the date of termination to the extent such Options were vested and not already exercised as of the date of termination. Any options that are not exercisable on the date of the termination of the Participant's employment or service shall terminate. The Company shall have discretion to determine (a) if an authorized leave of absence, or absence in military or government service, shall constitute termination of employment or service for purposes of the Plan, (b) whether a Participant has ceased to be employed by or ceased service for the Company or any Subsidiary, as appropriate, and (c) the effective date on which such employment or service terminated.

**No Employment Rights**. Nothing contained in the Plan or any Options shall confer upon any Participant any right with respect to the continuation of his employment by the Company or interfere in any way with the right of the Company's shareholders or the Board, subject to the terms of any separate employment agreement to the contrary, at any time, to terminate such tenure or employment or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Option.

**Taxes and Withholding**. Any exercise of a Non-Qualified Stock Option is generally a taxable event, and if the Company determines that any federal, state, or local withholding payment is required relating to the exercise or sale of shares arising from this grant, the Company shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company.

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**Sonic Corp. 2006 Long-Term Incentive Plan  
Award Agreement  
Officer Restricted Stock Units**

**Award Agreement Number:**

**Grant Date:**

**Type of Award: Restricted Stock Units (a right to receive Stock in the future that is subject to certain restrictions)**

**Maximum Number:** \_\_\_\_\_ shares of Stock

**Vesting Period:** \_\_\_\_\_ – \_\_\_\_\_

**Vesting Schedule: Unless earlier forfeited or vested in accordance with the Plan and this Award Agreement, and subject to the Participant's continued employment, the Restricted Stock Units will vest as set forth in Schedule A**

Dear \_\_\_\_\_:

I am pleased to inform you that you have been granted, as set forth above, Restricted Stock Units under the Sonic Corp. 2006 Long-Term Incentive Plan (as it may be amended from time to time, the "Plan"), effective as of the Grant Date.

Subject to the terms and conditions contained in the Plan and Schedule A, attached to this Award Agreement (both of which are made a part of this Award Agreement), the Restricted Stock Units will vest on \_\_\_\_\_ and settle within 60 days

All capitalized terms used in this Award Agreement and in Schedule A shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise.

Sincerely,

Cliff Hudson  
Chairman of the Board and  
Chief Executive Officer

EXHIBIT "A"

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**SCHEDULE A**  
**Sonic Corp. 2006 Long-Term Incentive Plan**  
**Award Agreement**  
**Officer Restricted Stock Units**

**A. Sonic Corp. 2006 Long-Term Incentive Plan .** The Restricted Stock Units granted by the Award Agreement are granted by the Corporation pursuant to the Plan, a copy of which Plan has been made available to the Participant and is hereby made a part of the Award Agreement. The Award Agreement is subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs these Restricted Stock Units, and, in the event of any question as to the construction of the Award Agreement, or of a conflict between the Plan or the Award Agreement, the Plan shall govern, except as the Plan otherwise provides. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein.

**B. Vesting and Settlement for Restricted Stock Units .**

- (1) Vesting. Each Restricted Stock Unit represents the unsecured right to receive, subject to vesting and the terms hereof, one share of Stock. Subject to termination of the Participant's employment with the Corporation or any Affiliate (the "Corporation Group") for any reason set forth in Section D(2) of this Award Agreement, one hundred percent (100%) of the Restricted Stock Units shall vest on \_\_\_\_\_, hereafter referred to as the "Vesting Date."
- (2) Settlement. Each vested Restricted Stock Unit shall be settled through the delivery of one share of Stock no later than 60 days after the Vesting Date (the "Settlement Date"). The shares of Stock delivered to the Participant on the applicable Settlement Date shall not be subject to transfer restrictions and shall be fully paid, non-assessable and registered in the Participant's name.

**C. Dividends .** If, after the Grant Date and prior to the Vesting Date, ordinary dividends with respect to shares of Stock are declared or paid by the Corporation, the Participant shall be entitled to receive dividend equivalents in an amount, without interest, equal to the cumulative ordinary dividends declared or paid on a share of Stock, if any, during such period multiplied by the number of the Participant's unvested Restricted Stock Units. If and when Restricted Stock Units have vested, the dividend equivalents in respect of such vested Restricted Stock Units shall be paid in cash (or Stock, if the dividend was paid in Stock) on the applicable Settlement Date. If, after the Grant Date and prior to the Vesting Date, the Participant's employment with the Corporation Group terminates for any reason set forth in Section D(1) of this Award Agreement or if a Change of Control occurs, the Participant shall be entitled to receive dividend equivalents (on the same date as payment is made in respect of the Participant's Restricted Stock Units pursuant to Sections D(1) or E below, as applicable) in an amount equal to (i) the cumulative dividends declared or paid on a share of Stock during the period beginning on the Grant Date, and ending on the last day of the month during which the termination of employment or Change

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of Control occurs, multiplied by (ii) the number of the Participant's unvested Restricted Stock Units. If the Participant's employment terminates prior to a Settlement Date for any reason set forth in Section D(2), any accrued and unpaid dividend equivalents shall be forfeited.

**D. Termination of Employment .**

- (1) Disability; Death; Removal Without Cause . If the Participant's employment with the Corporation Group terminates during the Vesting Period due to the Participant's death or Disability or the Participant's employment by the Corporation Group is terminated without Cause, the number of Restricted Stock Units to vest to the Participant (or his beneficiary or estate, as applicable) shall equal X multiplied by Y, where X is a fraction, the numerator of which is the number of months transpired from the first day of the Vesting Period until the last day of the month in which the death, Disability or termination without Cause occurred, and the denominator of which is 36, and where Y is the Maximum Number of Restricted Stock Units. The final number of Restricted Stock Units to vest shall settle in accordance with Section B(2).
- (2) Other Reasons . If the Participant's employment with the Corporation Group terminates during the Vesting Period for any reason other than as set forth in Section D(1) (including as a result of a retirement or other voluntary resignation by the Participant or termination by the Corporation for Cause), the unvested Restricted Stock Units as of such termination shall be cancelled, and the Participant shall not be entitled to receive any payments with respect to the unvested Restricted Stock Units.
- (3) Special Circumstances . The Corporation shall have discretion to determine (a) if an authorized leave of absence, or absence in military or government service, shall constitute termination of employment for purposes of the Plan, (b) whether a Participant has ceased to be employed with the Corporation Group and (c) the effective date on which such employment terminated.

**E. Change of Control** . Notwithstanding any provision contained in the Plan, the Award Agreement or this Schedule A to the contrary, upon a Change in Control, as determined under the applicable employment agreement or severance plan of the Corporation, in the event that a successor company assumes or substitutes comparable awards under the Plan, unvested Restricted Stock Units shall vest immediately if, within 24 months following such Change in Control, the Participant's employment with the Corporation is terminated without cause or the Participant resigns for good reason. In the event that a successor company in the Change in Control does not assume or substitute comparable awards under the Plan, then all unvested Restricted Stock Units shall vest immediately upon the Change in Control. The Restricted Stock Units shall settle, in accordance with Section B, within 30 days following the effective date of any such accelerated vesting event.

**F. Transferability** . Restricted Stock Units are not transferable other than by last will and testament, by the laws of descent and distribution, pursuant to a domestic relations order, or as

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otherwise permitted under Article 13 of the Plan. Further, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant, or in the event of the Participant's legal incapacity, the Participant's legal guardian or representative.

**G. No Employment Rights** . Nothing contained in the Plan, the Award Agreement, this Schedule A or any Restricted Stock Units shall confer upon any Participant any right with respect to the continuation of his or her employment by the Corporation Group or interfere in any way with the right of the Corporation's shareholders or the Board, subject to the terms of any separate employment agreement to the contrary, at any time, to terminate the Participant's tenure or employment or to increase or decrease the compensation of the Participant from the rate in existence as of the Grant Date.

**H. Taxes and Withholding** . Delivery of the shares of Stock underlying the Restricted Stock Units upon settlement shall be subject to the Participant satisfying all applicable federal, state, local and foreign taxes (including the Participant's FICA obligation). The Corporation shall have the power and the right to (i) deduct or withhold from all amounts payable to the Participant pursuant to the Restricted Stock Units or otherwise or (ii) require the Participant to remit to the Corporation an amount sufficient to satisfy any applicable taxes required by law. Further, the Corporation may permit or require the Participant to satisfy, in whole or in part, the tax obligations by deducting or withholding from all amounts Stock that would otherwise be received upon settlement of the Restricted Stock Units. Any amount deducted or withheld by the Corporation pursuant to this Section H, either in cash or shares of Stock, shall not exceed the minimum statutory withholding requirements.

**I. Miscellaneous** .

- (1) The Committee shall have the right to impose restrictions on any shares of Stock acquired pursuant to Restricted Stock Units as it deems necessary or advisable under applicable securities laws, and/or the rules and regulations of any stock exchange or market upon which such shares of Stock are then listed and/or traded. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to administer the Plan and this Award Agreement, all of which shall be binding upon the Participant.
  - (2) The Board or the Committee may at any time, or from time to time, terminate, amend or modify the Plan, and the Board or the Committee may terminate, amend or modify the Award Agreement or this Schedule A at any time; provided, however, that no termination, amendment or modification shall materially and adversely alter or impair the rights of the Participant under the Award Agreement or this Schedule A, without the Participant's written consent.
  - (3) Notwithstanding the foregoing or any provision of the Plan, the Award Agreement or this Schedule A, if the Corporation determines that any provision of the Plan, the Award Agreement or this Schedule A contravenes Section 409A or could cause the Participant to incur any tax, interest or penalties under Section 409A, the Committee may, in its sole discretion and without the Participant's consent, modify
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such provision to (i) comply with, or avoid being subject to, Section 409A, or to avoid the incurrence of taxes, interest and penalties under Section 409A, and/or (ii) maintain, to the maximum extent practicable, the original intent and economic benefit to the Participant of the applicable provision without materially increasing the cost to the Corporation or contravening the provisions of Section 409A. This provision does not create an obligation on the part of the Corporation to modify the Plan, the Award Agreement or this Schedule A, and does not guarantee that the Restricted Stock Units will not be subject to taxes, interest and penalties under Section 409A.

- (4) The Award Agreement and this Schedule A shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required or the Committee determines are advisable. The Participant agrees to take all steps the Corporation determines are necessary to comply with all applicable provisions of federal and state securities law in exercising his or her rights under the Award Agreement or this Schedule A.
- (5) All obligations of the Corporation under the Plan, Award Agreement or this Schedule A, with respect to the Award, shall be binding on any successor to the Corporation, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Corporation.
- (6) To the extent not preempted by federal law, this Award Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware.

**J. Acceptance and Acknowledgement of Award** . By accepting this Award Agreement, the Participant is agreeing to all of the terms contained in this Award Agreement. If the Participant desires to refuse the Award, the Participant must notify the Corporation in writing. Such notification should be sent to Sonic Corp., General Counsel, 300 Johnny Bench Drive, Oklahoma City, OK 73104, no later than 30 days after receipt of the Award Agreement.

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**Sonic Corp. 2006 Long-Term Incentive Plan  
Award Agreement**

Award Agreement Number: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Number of Options Granted: \_\_\_\_\_ NQ

Exercise Price per Share: \$ \_\_\_\_\_

Expiration Date: \_\_\_\_\_

Vesting Schedule: All options will vest on the earlier of (i) the first anniversary of the Grant Date, or (ii) the date of the Sonic Corp. annual shareholders meeting in the following year.

Dear [Director]:

I am pleased to inform you that you have been granted Non-Qualified Stock Options to purchase the number of shares of common stock of Sonic Corp. set forth above at the per share exercise price set forth above.

Your grant has been made under the Sonic Corp. 2006 Long-Term Incentive Plan (as it may be amended from time to time, the "Plan"). Your options are designated as NQ for Non-Qualified Stock Options, which are further defined in the Plan. Your options are subject to the terms and conditions contained in Schedule A attached to this Agreement and the Plan, both of which are made a part of this Agreement. The Plan and Schedule A are available in the Director Handbook located in the Resource Center of the Board portal.

Sincerely,

Clifford Hudson  
Chairman and CEO

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## SCHEDULE A

### **Sonic Corp. 2006 Long-Term Incentive Plan Award Agreement Non-Qualified Options**

**2006 Long-Term Incentive Plan (the "Plan")**. The Options granted by this Agreement are granted by Sonic Corp. (the "Company") pursuant to the Plan, a copy of which Plan has been made available to the Participant and is hereby made a part of this Agreement. This Agreement is subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs these Options, and, in the event of any question as to the construction of this Agreement or of a conflict between the Plan and this Agreement, the Plan shall govern, except as the Plan otherwise provides.

**Period of Option**. The Options will expire at the close of business seven years from the Date of Grant (the "Expiration Date"), as indicated on the Award Agreement, unless earlier terminated.

**Right of Exercise**. The Options shall vest and become exercisable upon vesting, which shall occur on the earlier of (i) the first anniversary of the Grant Date or (ii) the date of the Sonic Corp. annual shareholders meeting in the following year. Once vested, the Options may be exercised at any time prior to their expiration, cancellation or termination as provided in the Plan. Partial exercise is permitted, provided that no partial exercise of the Options shall be for a fractional number of Shares.

**Exercise of Options**. The Options shall, during the lifetime of the Participant, be exercisable only by said Participant, or by the Participant's guardian or other legal representative, and shall not be transferable by the Participant, in whole or in part, other than by will or by the laws of descent and distribution. You may exercise your Options, in whole or in part, by following the exercise procedures set forth on the Company's intranet site under the heading "Stock Options."

Payment for Shares purchased upon exercise of an Option shall be made at the time of exercise either (a) in cash, (b) by certified check, (c) in Stock owned by the Participant and valued at its Fair Market Value on the date of exercise, (d) partly in Stock with the balance in cash or by certified check, (e) pursuant to a broker-assisted "cashless exercise" arrangement, or (f) by any combination of the foregoing. Any payment in Stock shall be effected by the delivery to the Company's General Counsel's office of the appropriate stock certificates, endorsed in blank.

**Restrictions on Exercise**. The Options may not be exercised if such exercise would violate any provision of applicable federal or state securities law, or other law, rule or regulation or the Company's employee trading policy or Code of Business Conduct.

**Delivery of Stock Upon Exercise**. Stock purchased upon exercise of Options shall be issued and delivered as soon as practicable following the date the Options are exercised and shall

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be issued in the name of the Participant or, in the event of the Participant's death prior to exercise, the Participant's properly designated beneficiary.

**Buyout** . The Company may at any time offer to buy out, for a payment in cash or Common Stock (including restricted stock), Options previously granted, based on such terms and conditions as the Company shall establish and communicate to the Participant at the time that such offer is made.

**Termination of Employment or Service** .

(1) **Disability or Death** . In the event of termination of a Participant's employment or service to the Company by reason of such Participant's Disability or death, any outstanding Options held by such Participant shall become fully vested as of the date of termination as to the total number of shares of Stock subject thereto (whether or not exercisable to that extent prior to such date) and the Participant or the Participant's estate will have a period of three years from the date of termination to exercise the Options (unless such Options expire earlier by their terms).

(2) **Retirement** . In the event of termination of a Participant's employment or service to the Company by reason of such Participant's "Retirement," as hereafter defined, the Participant will have a period of three years from the effective date of the Participant's Retirement to exercise the Options (unless such Options expire earlier by their terms) to the extent such Options were vested as of the effective date of Retirement. Any options that are not exercisable on the effective date of Retirement shall terminate. For purposes of this Agreement, "Retirement" is defined as: (i) if the Participant is an employee, the Participant's termination of employment with the Company after the Participant has both reached the age of 65 and served as an employee of the Company or any Subsidiary for ten consecutive years; and (ii) if the Participant is a director, the Participant's termination of service on the Board of Directors of the Company after the Participant has both reached the age of 65 and provided ten consecutive years of service as a director of the Company. In the event of termination of a Participant's employment or service to the Company by reason of such Participant's retirement under conditions not satisfying the definition of "Retirement" set forth above (but, in the case of an employee, in accordance with an applicable retirement plan), the Participant will have a period of three months from the effective date of the Participant's Retirement to exercise the Options (unless such Options expire earlier by their terms) to the extent such Options were vested as of the effective date of Retirement. Any options that are not exercisable on the effective date of such retirement shall terminate.

(3) **Other Reasons** . In the event of the termination of the Participant's employment or service otherwise than as described in Sections (1) and (2) above, any outstanding Options held by such Participant may be exercised during the 30-day period following the date of termination to the extent such Options were vested and not already exercised as of the date of termination. Any options that are not exercisable on the date of the termination of the Participant's employment or service shall terminate. The Company shall have discretion to determine (a) if an authorized leave of absence, or absence in military or government service, shall constitute termination of employment or service for purposes of the Plan, (b) whether a Participant has ceased to be employed by or ceased service for the Company or any Subsidiary, as appropriate, and (c) the effective date on which such employment or service terminated.

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**No Employment Rights** . Nothing contained in the Plan or any Options shall confer upon any Participant any right with respect to the continuation of his employment by the Company or interfere in any way with the right of the Company's shareholders or the Board, subject to the terms of any separate employment agreement to the contrary, at any time, to terminate such tenure or employment or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Option.

**Taxes and Withholding** . Any exercise of a Non-Qualified Stock Option is generally a taxable event, and if the Company determines that any federal, state, or local withholding payment is required relating to the exercise or sale of shares arising from this grant, the Company shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company.

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**Sonic Corp. 2006 Long-Term Incentive Plan  
Award Agreement  
Director Restricted Stock Units**

**Award Agreement Number:** \_\_\_\_\_ .

**Grant Date:** \_\_\_\_\_

**Type of Award:** Restricted Stock Units (a right to receive Stock in the future that is subject to certain restrictions and to a risk of forfeiture).

**Maximum Number:** \_\_\_\_\_ shares of Stock.

**Vesting Schedule:** Unless earlier forfeited or vested in accordance with the Plan and this Award Agreement, and subject to the Participant's continued service, the Restricted Stock Units will vest on the earlier of (i) the first anniversary of the Grant Date or (ii) the date of the Sonic Corp. annual shareholders meeting in the following year.

Dear [Director]:

I am pleased to inform you that you have been granted, as set forth above, Restricted Stock Units under the Sonic Corp. 2006 Long-Term Incentive Plan (as it may be amended from time to time, the "Plan"), effective as of the Grant Date.

Subject to the terms and conditions contained in the Plan and Schedule A, attached to this Award Agreement (both of which are made a part of this Award Agreement), the Restricted Stock Units will all vest and settle on the earlier of (i) the first anniversary of the Grant Date or (ii) the date of the Sonic Corp. annual shareholders meeting in the following year.

All capitalized terms used in this Award Agreement and in Schedule A shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise. The Plan and Schedule A are available in the Director Handbook located in the Resource Center of the Board portal.

Sincerely,

Clifford Hudson  
Chairman and CEO

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**SCHEDULE A**  
**Sonic Corp. 2006 Long-Term Incentive Plan**  
**Award Agreement**  
**Director Restricted Stock Units**

**A. Sonic Corp. 2006 Long-Term Incentive Plan .** The Restricted Stock Units granted by the Award Agreement are granted by the Corporation pursuant to the Plan, a copy of which Plan has been made available to the Participant and is hereby made a part of the Award Agreement. The Award Agreement is subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs these Restricted Stock Units, and, in the event of any question as to the construction of the Award Agreement, or of a conflict between the Plan or the Award Agreement, the Plan shall govern, except as the Plan otherwise provides. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein.

**B. Vesting and Settlement for Restricted Stock Units .**

- (1) Vesting. Each Restricted Stock Unit represents the unsecured right to receive, subject to vesting and the terms hereof, one share of Stock. Subject to the Participant's separation from service with the Corporation or any Affiliate (the "Corporation Group") for any reason set forth in Section D(2) of this Award Agreement, one hundred percent (100%) of the Restricted Stock Units shall vest on the earlier of (i) the first anniversary of the Grant Date or (ii) the date of the Sonic Corp. annual shareholders' meeting in the following year ("Vesting Date").
- (2) Settlement. Each vested Restricted Stock Unit shall be settled through the delivery of one share of Stock no later than 60 days after the Vesting Date (the "Settlement Date"). The shares of Stock delivered to the Participant on the Settlement Date shall not be subject to transfer restrictions and shall be fully paid, non-assessable and registered in the Participant name.

**C. Dividends .** If, after the Grant Date and prior to the Vesting Date, ordinary dividends with respect to shares of Stock are declared or paid by the Corporation, the Participant shall be entitled to receive dividend equivalents in an amount, without interest, equal to the cumulative ordinary dividends declared or paid on a share of Stock, if any, during such period multiplied by the number of the Participant's unvested Restricted Stock Units. If and when Restricted Stock Units have vested, the dividend equivalents in respect of such vested Restricted Stock Units shall be paid in cash (or Stock, if the dividend was paid in Stock) on the Settlement Date. If, after the Grant Date and prior to the Vesting Date, the Participant incurs a separation from service with the Corporation Group for any reason set forth in Section D(1) of this Award Agreement or if a Change of Control occurs, the Participant shall be entitled to receive dividend equivalents (on the same date as payment is made in respect of the Participant's Restricted Stock Units pursuant to Sections D(1) or E below, as applicable) in an amount equal to (i) the cumulative dividends declared or paid on a share of Stock during the period beginning on the Grant Date or the Vesting Date, as applicable, and ending on the last day of the month during which the separation

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from service or Change of Control occurs, multiplied by (ii) the number of the Participant's unvested Restricted Stock Units. If the Participant's service terminates prior to a Settlement Date for any reason set forth in Section D(2), any accrued and unpaid dividend equivalents shall be forfeited.

**D. Separation from Service .**

- (1) Disability; Death; Removal Without Cause . If the Participant incurs a separation from service with the Corporation Group during the Vesting Period due to the Participant's death or Disability or the Participant is removed from service by the Corporation Group without Cause, the Restricted Stock Units shall vest as of the date of such death, Disability, or removal, as the case may be, and shall settle in accordance with Section B, no later than the last business day of the following month.
- (2) Other Reasons . If the Participant incurs a separation from service with the Corporation Group during the Vesting Period for any reason other than as set forth in Section D(1) (including as a result of a failure to be re-nominated or, if re-nominated, re-elected to the Board, voluntary resignation by the Participant or removal by the Corporation for Cause), the unvested Restricted Stock Units as of such separation shall be cancelled, and the Participant shall not be entitled to receive any payments with respect to the unvested Restricted Stock Units.
- (3) Special Circumstances . The Corporation shall have discretion to determine (a) if an authorized leave of absence, or absence in military or government service, shall constitute a separation from service for purposes of the Plan, (b) whether a Participant has ceased service with the Corporation Group and (c) the effective date on which such service terminated.

**E. Change of Control** . Notwithstanding any provision contained in the Plan, the Award Agreement or this Schedule A to the contrary, upon the occurrence of a Change of Control prior to the Participant's separation from service, the Restricted Stock Units shall vest immediately and shall settle, in accordance with Section B, within 30 days following the effective date of the Change of Control.

**F. Transferability** . Restricted Stock Units are not transferable other than by last will and testament, by the laws of descent and distribution, pursuant to a domestic relations order, or as otherwise permitted under Article 13 of the Plan. Further, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant, or in the event of the Participant's legal incapacity, the Participant's legal guardian or representative.

**G. No Employment or Service Rights** . Nothing contained in the Plan, the Award Agreement, this Schedule A or any Restricted Stock Units shall confer upon any Participant any right with respect to employment by or service for the Corporation Group or interfere in any way with the right of the Corporation's shareholders or the Board, subject to the terms of any separate agreement to the contrary, at any time, to terminate the Participant's tenure or service or to

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increase or decrease the compensation of the Participant from the rate in existence as of the Grant Date.

**H. Taxes and Withholding** . Delivery of the shares of Stock underlying the Restricted Stock Units upon settlement shall be subject to the Participant satisfying all applicable federal, state, local and foreign taxes. The Corporation shall have the power and the right to require the Participant to remit to the Corporation an amount sufficient to satisfy any applicable taxes required by law. Further, the Corporation may permit or require the Participant to satisfy, in whole or in part, the tax obligations by deducting or withholding from all amounts Stock that would otherwise be received upon settlement of the Restricted Stock Units. Any amount deducted or withheld by the Corporation pursuant to this Section H, either in cash or shares of Stock, shall not exceed the minimum statutory withholding requirements.

**I. Miscellaneous** .

- (1) The Committee shall have the right to impose restrictions on any shares of Stock acquired pursuant to Restricted Stock Units as it deems necessary or advisable under applicable securities laws, and/or the rules and regulations of any stock exchange or market upon which such shares of Stock are then listed and/or traded. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to administer the Plan and this Award Agreement, all of which shall be binding upon the Participant.
  - (2) The Board or the Committee may at any time, or from time to time, terminate, amend or modify the Plan, and the Board or the Committee may terminate, amend or modify the Award Agreement or this Schedule A at any time; provided, however, that no termination, amendment or modification shall materially and adversely alter or impair the rights of the Participant under the Award Agreement or this Schedule A, without the Participant's written consent.
  - (3) Notwithstanding the foregoing or any provision of the Plan, the Award Agreement or this Schedule A, if the Corporation determines that any provision of the Plan, the Award Agreement or this Schedule A contravenes Section 409A or could cause the Participant to incur any tax, interest or penalties under Section 409A, the Committee may, in its sole discretion and without the Participant's consent, modify such provision to (i) comply with, or avoid being subject to, Section 409A, or to avoid the incurrence of taxes, interest and penalties under Section 409A, and/or (ii) maintain, to the maximum extent practicable, the original intent and economic benefit to the Participant of the applicable provision without materially increasing the cost to the Corporation or contravening the provisions of Section 409A. This provision does not create an obligation on the part of the Corporation to modify the Plan, the Award Agreement or this Schedule A, and does not guarantee that the Restricted Stock Units will not be subject to taxes, interest and penalties under Section 409A.
  - (4) The Award Agreement and this Schedule A shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or
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national securities exchanges as may be required or the Committee determines are advisable. The Participant agrees to take all steps the Corporation determines are necessary to comply with all applicable provisions of federal and state securities law in exercising his or her rights under the Award Agreement or this Schedule A.

- (5) All obligations of the Corporation under the Plan, Award Agreement or this Schedule A, with respect to the Award, shall be binding on any successor to the Corporation, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Corporation.
- (6) To the extent not preempted by federal law, this Award Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware.

**J. Acceptance and Acknowledgement of Award** . By accepting this Award Agreement, the Participant is agreeing to all of the terms contained in this Award Agreement. If the Participant desires to refuse the Award, the Participant must notify the Corporation in writing. Such notification should be sent to Sonic Corp., General Counsel, 300 Johnny Bench Drive, Oklahoma City, OK 73104, no later than 30 days after receipt of the Award Agreement.

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**SONIC CORP. SENIOR EXECUTIVE CASH INCENTIVE PLAN**  
**LONG-TERM AWARD AGREEMENT**

This Award Agreement (the “**Agreement**”), effective as of \_\_\_\_\_ (the “**Grant Date**”), sets forth the grant of a long-term cash incentive award (the “**Award**”) by Sonic Corp., a Delaware corporation (the “**Company**”), pursuant to the provisions of the Sonic Corp. Senior Executive Cash Incentive Plan, as amended or restated from time to time (the “**Plan**”).

This Agreement is only applicable to the long-term cash incentive award granted to the Participant on the Grant Date. If the Participant receives or has received any other award under the Plan, it shall be governed by the terms of the applicable award agreement, which may be different from those set forth herein. By accepting Award, the Participant agrees to the terms and conditions set forth in this Agreement, the Plan and the attached Award Notice (the “**Notice**”), which we collectively refer to as the “**Plan Documents** . ”

All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein.

1. Grant of Award. The Company hereby grants to the individual set forth in the Notice (the “**Participant**”) the Award subject to the terms and conditions of the Plan and this Agreement as follows. The Performance Period, Target Amount and Performance Targets applicable to the Award are set forth in the Notice.

2. Determination of Award. As soon as administratively practicable after the end of the Performance Period, in accordance with Section 4(b) of the Plan, the Committee shall certify in writing (a) the level of attainment of the Performance Targets and (b) the incentive amounts earned by the Participant pursuant to the Award. Notwithstanding the level attained for each Performance Target, the Committee may reduce the amount payable to the Participant with respect to the Award based on factors the Committee deems relevant.

3. Payment of Award. The incentive amount for an Award determined pursuant to Section 2 shall be paid in cash on a date determined by the Committee in its sole discretion (the “**Payment Date**”) after the end of the Performance Period, but in no event later than the fifteenth day of the third month following the last day of the Performance Period.

4. Termination of Employment.

(a) Disability or Death; Without Cause. If the Participant’s employment with the Company and its Subsidiaries (the “**Company Group**”) terminates during the Performance Period due to the Participant’s death or Disability or the Participant’s termination by the Company Group without Cause, the Participant shall receive a payment with respect to the Award equal to the actual incentive amount determined in accordance with Section 2 multiplied by a fraction, the numerator of which is the number of months transpired from the first day of the

Performance Period until the last day of the month in which the death, Disability or termination without Cause occurred, and the denominator of which is the number of months in the Performance Period. The Award earned pursuant to this Section 4(a) shall be paid to the Participant (or his beneficiary or estate, as applicable) on the Payment Date.

(b) Change of control. In the event that during a Performance Period (i) a Participant's employment with the Company Group is actually or constructively terminated during the Performance Period and (ii) a Change in Control shall have occurred within the 365 days immediately preceding the date of such termination, then the Participant shall receive a payment with respect to the Award equal to the actual incentive amount determined in accordance with Section 2 multiplied by a fraction, the numerator of which is the number of months transpired from the first day of the Performance Period until the last day of the month in which the termination occurred, and the denominator of which is the number of months in the Performance Period. The Award earned pursuant to this Section 4(a) shall be paid to the Participant on the Payment Date.

(c) Other Terminations. If the Participant's employment with the Company Group terminates during the Performance Period for any reason other than as set forth in Section 4(a) or (b) (including as a result of a retirement or other voluntary termination by the Participant or a termination by the Company for Cause), the Award shall be cancelled and the Participant shall not be entitled to receive any payments with respect to the Award.

(d) Special Circumstances. The Corporation shall have discretion to determine (a) if an authorized leave of absence, or absence in military or government service, shall constitute termination of employment for purposes of the Plan, (b) whether a Participant has ceased to be employed by the Corporation or any Affiliate, as appropriate, and (c) the effective date on which such employment terminated.

## 5. Miscellaneous.

(a) Incorporation of the Plan. The Plan provides a complete description of the terms and conditions governing all awards granted thereunder. This Agreement and the rights of the Participant hereunder are subject to the terms and conditions of the Plan, as amended or restated from time to time, and to such rules and regulations as the Committee may adopt. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall supersede and replace the conflicting terms of this Agreement. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to administer the Plan and this Agreement, all of which shall be binding upon the Participant.

(b) Entire Agreement. This Agreement, the Notice and the Plan set forth the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof.

(c) Headings. The headings of sections and subsections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of this Agreement.

(d) Withholding. Payment of the Award is subject to the Participant satisfying all applicable federal, state, local and other tax that the Company is required to withhold with respect to the Award on a Payment Date (including the Participant's FICA obligation). The Company shall have the power and the right to (i) deduct or withhold from all amounts payable to the Participant pursuant to the Award or otherwise or (ii) require the Participant to remit to the Company an amount sufficient to satisfy any applicable taxes required by law.

(e) Notice. Any notice which either party hereto may be required or permitted to give to the other shall be in writing. Notice may be delivered to the Company personally or by mail, postage prepaid, addressed as follows: General Counsel, Sonic Corp., 300 Johnny Bench Drive, Oklahoma City, Oklahoma 73104, or at such other address as the Company, by notice to you, may designate in writing from time to time. Notice to you shall be directed either to your address as shown on the records of the Company or at such other address as you, by notice to the Company, may designate in writing from time to time or to you by a combination of interoffice mail and email.

(f) Nature of Payments. The Award is a discretionary award. The Award does not constitute salary, wages, regular compensation or contractual compensation for the year or grant or any subsequent year. The parties agree that the Award is not to be included in or taken into account in computing the amount of salary or compensation of the Participant for the purposes of determining (i) any pension, retirement, profit-sharing, bonus, life insurance or other benefits under any pension, retirement, profit-sharing, bonus, life insurance or other benefit plan of the Company, (ii) any severance or other amounts payable under any other agreement between the Company and the Participant, or (iii) any other employment related rights or benefits under law or any plan, program or agreement.

(g) No Right to Future Awards or Employment. The Award is a discretionary award. The grant of the Award and the terms set forth in this Agreement shall not confer upon the Participant the right to continue in the employ or other service of the Company Group, and shall not affect any right which the Company may have to terminate such employment or service. Neither this Agreement or the Plan, nor the grant of the Award confers on the Participant any right or entitlement to receive another award under the Plan or any other plan at any time in the future or with respect to any future period.

(h) Successors and Assigns. The terms of this Agreement shall be binding upon and inure to the benefit of the Company and the successors and assigns of the Company. Except as otherwise determined by the Committee in its sole discretion, the Participant's rights and interests under the Award and this Agreement may not be sold, assigned, transferred, or otherwise disposed of, or made subject to any encumbrance, pledge, hypothecation or charge of any nature. If the Participant attempts to violate this Section 5(h), such attempted violation shall be null and void and without effect.

(i) Amendments. Notwithstanding any provision set forth in this Agreement and the Plan and subject to all applicable laws, rules and regulations, the Committee shall have the power to: (i) alter or amend the terms and conditions of the Award in any manner consistent with the provisions of Section 9 of the Plan; (ii) without the Participant's consent, alter or amend the terms and conditions of the Awards in any manner that the Committee considers necessary or advisable, in its sole discretion, to comply with, or take into account changes in, or interpretations or rescissions of, applicable tax laws, securities laws, employment laws, accounting rules or standards and other applicable laws, rules, regulations, guidance, ruling, judicial decision or legal requirement; (iii) ensure that the Awards are not subject to federal, state, local or foreign taxes prior to settlement or payment, as applicable; or (iv) without the Participant's consent, waive any terms and conditions that operate in favor of the Company. Any alteration or amendment of the terms of the Awards by the Committee shall, upon adoption, become and be binding on all persons affected thereby without requirement for consent or other action with respect thereto by any such person. The Committee shall give notice to the Participant of any such alteration or amendment as promptly as practicable after the adoption thereof.

(j) Governing Law. To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with, the laws of the State of Oklahoma.

(k) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same agreement.

(l) Award Subject to Recoupment Policy. If the Participant is an "executive officer" of the Company as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, or any other officer either reporting directly to the Chief Executive Officer of the Company or holding a title of Senior Vice President or above, then this Award is subject to the Sonic Corp. Compensation Recoupment Policy ("Recoupment Policy"), effective October 19, 2016, as may be amended from time to time

6. Acceptance and Acknowledgement of Award. The financial measures set forth in the Notice must remain confidential. The information in the Plan Documents should not be discussed with, shared with, photocopied or distributed to others. Participation in the Plan and the details of the Award are highly confidential and may not be discussed by the Participant with anyone other than the Participant's spouse or immediate family or financial or legal advisors. Breach of this confidentiality condition could affect the amount of the Participant's actual award. By accepting the Award, the Participant is agreeing to all of the terms contained in the Plan Documents, including, but not limited to, the terms related to confidentiality. If the Participant desires to refuse the Award, the Participant must notify the Corporation in writing. Such notification should be sent to Sonic Corp., General Counsel, 300 Johnny Bench Drive, Oklahoma City, OK 73104, no later than 30 days after receipt of this Agreement.

**SONIC CORP. SENIOR EXECUTIVE CASH INCENTIVE PLAN****SHORT-TERM AWARD AGREEMENT**

This Award Agreement (the “**Agreement**”), effective as of \_\_\_\_\_ (the “**Grant Date**”), sets forth the grant of a short-term cash incentive award (the “**Award**”) by Sonic Corp., a Delaware corporation (the “**Company**”), pursuant to the provisions of the Sonic Corp. Senior Executive Cash Incentive Plan, as amended or restated from time to time (the “**Plan**”).

This Agreement is only applicable to the short-term cash incentive award granted to the Participant on the Grant Date. If the Participant receives or has received any other award under the Plan, it shall be governed by the terms of the applicable award agreement, which may be different from those set forth herein. By accepting Award, the Participant agrees to the terms and conditions set forth in this Agreement, the Plan and the attached Award Notice (the “**Notice**”), which we collectively refer to as the “**Plan Documents**”.

All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein.

1. Grant of Award. The Company hereby grants to the individual set forth in the Notice (the “**Participant**”) the Award subject to the terms and conditions of the Plan and this Agreement as follows. The Performance Period, Target Amount and Performance Targets applicable to the Award are set forth in the Notice.

2. Determination of Award. As soon as administratively practicable after the end of the Performance Period, in accordance with Section 4(b) of the Plan, the Committee shall certify in writing (a) the level of attainment of the Performance Targets and (b) the incentive amounts earned by the Participant pursuant to the Award. Notwithstanding the level attained for each Performance Target, the Committee may reduce the amount payable to the Participant with respect to the Award based on factors the Committee deems relevant.

3. Payment of Award. The incentive amount for an Award determined pursuant to Section 2 shall be paid in cash on a date determined by the Committee in its sole discretion (the “**Payment Date**”) after the end of the Performance Period, but in no event later than the fifteenth day of the third month following the last day of the Performance Period.

4. Termination of Employment.

(a) Change of control. In the event that during a Performance Period (i) a Participant’s employment with the Company and its Subsidiaries (the “**Company Group**”) is actually or constructively terminated during the Performance Period and (ii) a Change in Control shall have occurred within the 365 days immediately preceding the date of such termination, then the Participant shall receive a payment with respect to the Award equal to the actual incentive amount determined in accordance with Section 2 multiplied by a fraction, the numerator of

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which is the number of months transpired from the first day of the Performance Period until the last day of the month in which the termination occurred, and the denominator of which is the number of months in the Performance Period. The Award earned pursuant to this Section 4(a) shall be paid to the Participant on the Payment Date.

(b) Other Terminations. If the Participant's employment with the Company Group terminates during the Performance Period for any reason other than as set forth in Section 4(a) (including as a result of a retirement or other voluntary termination by the Participant or a termination by the Company for Cause), the Award shall be cancelled and the Participant shall not be entitled to receive any payments with respect to the Award.

## 5. Miscellaneous.

(a) Incorporation of the Plan. The Plan provides a complete description of the terms and conditions governing all awards granted thereunder. This Agreement and the rights of the Participant hereunder are subject to the terms and conditions of the Plan, as amended or restated from time to time, and to such rules and regulations as the Committee may adopt. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall supersede and replace the conflicting terms of this Agreement. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to administer the Plan and this Agreement, all of which shall be binding upon the Participant.

(b) Entire Agreement. This Agreement, the Notice and the Plan set forth the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof.

(c) Headings. The headings of sections and subsections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of this Agreement.

(d) Withholding. Payment of the Award is subject to the Participant satisfying all applicable federal, state, local and other tax that the Company is required to withhold with respect to the Award on a Payment Date (including the Participant's FICA obligation). The Company shall have the power and the right to (i) deduct or withhold from all amounts payable to the Participant pursuant to the Award or otherwise or (ii) require the Participant to remit to the Company an amount sufficient to satisfy any applicable taxes required by law.

(e) Notice. Any notice which either party hereto may be required or permitted to give to the other shall be in writing. Notice may be delivered to the Company personally or by mail, postage prepaid, addressed as follows: General Counsel, Sonic Corp., 300 Johnny Bench Drive, Oklahoma City, Oklahoma 73104, or at such other address as the Company, by notice to you, may designate in writing from time to time. Notice to you shall be directed either to your address as shown on the records of the Company or at such other address as you, by notice to the Company, may designate in writing from time to time or to you by a combination of interoffice mail and email.

(f) Nature of Payments. The Award is a discretionary award. The Award does not constitute salary, wages, regular compensation or contractual compensation for the year or grant or any subsequent year. The parties agree that the Award is not to be included in or taken into account in computing the amount of salary or compensation of the Participant for the purposes of determining (i) any pension, retirement, profit-sharing, bonus, life insurance or other benefits under any pension, retirement, profit-sharing, bonus, life insurance or other benefit plan of the Company, (ii) any severance or other amounts payable under any other agreement between the Company and the Participant, or (iii) any other employment related rights or benefits under law or any plan, program or agreement.

(g) No Right to Future Awards or Employment. The Award is a discretionary award. The grant of the Award and the terms set forth in this Agreement shall not confer upon the Participant the right to continue in the employ or other service of the Company Group, and shall not affect any right which the Company may have to terminate such employment or service. Neither this Agreement or the Plan, nor the grant of the Award confers on the Participant any right or entitlement to receive another award under the Plan or any other plan at any time in the future or with respect to any future period.

(h) Successors and Assigns. The terms of this Agreement shall be binding upon and inure to the benefit of the Company and the successors and assigns of the Company. Except as otherwise determined by the Committee in its sole discretion, the Participant's rights and interests under the Award and this Agreement may not be sold, assigned, transferred, or otherwise disposed of, or made subject to any encumbrance, pledge, hypothecation or charge of any nature. If the Participant attempts to violate this Section 5(h), such attempted violation shall be null and void and without effect.

(i) Amendments. Notwithstanding any provision set forth in this Agreement and the Plan and subject to all applicable laws, rules and regulations, the Committee shall have the power to: (i) alter or amend the terms and conditions of the Award in any manner consistent with the provisions of Section 9 of the Plan; (ii) without the Participant's consent, alter or amend the terms and conditions of the Awards in any manner that the Committee considers necessary or advisable, in its sole discretion, to comply with, or take into account changes in, or interpretations or rescissions of, applicable tax laws, securities laws, employment laws, accounting rules or standards and other applicable laws, rules, regulations, guidance, ruling, judicial decision or legal requirement; (iii) ensure that the Awards are not subject to federal, state, local or foreign taxes prior to settlement or payment, as applicable; or (iv) without the Participant's consent, waive any terms and conditions that operate in favor of the Company. Any alteration or amendment of the terms of the Awards by the Committee shall, upon adoption, become and be binding on all persons affected thereby without requirement for consent or other action with respect thereto by any such person. The Committee shall give notice to the Participant of any such alteration or amendment as promptly as practicable after the adoption thereof.

(j) Governing Law. To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with, the laws of the State of Oklahoma.

(k) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same agreement.

(l) Award Subject to Recoupment Policy. If the Participant is an “executive officer” of the Company as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, or any other officer either reporting directly to the Chief Executive Officer of the Company or holding a title of Senior Vice President or above, then this Award is subject to the Sonic Corp. Compensation Recoupment Policy (“Recoupment Policy”), effective October 19, 2016, as may be amended from time to time .

6. Acceptance and Acknowledgement of Award. The financial measures set forth in the Notice must remain confidential. The information in the Plan Documents should not be discussed with, shared with, photocopied or distributed to others. Participation in the Plan and the details of the Award are highly confidential and may not be discussed by the Participant with anyone other than the Participant’s spouse or immediate family or financial or legal advisors. Breach of this confidentiality condition could affect the amount of the Participant’s actual award. By accepting the Award, the Participant is agreeing to all of the terms contained in the Plan Documents, including, but not limited to, the terms related to confidentiality. If the Participant desires to refuse the Award, the Participant must notify the Corporation in writing. Such notification should be sent to Sonic Corp., General Counsel, 300 Johnny Bench Drive, Oklahoma City, OK 73104, no later than 30 days after receipt of this Agreement.

**SONIC CORP.**  
**Compensation Recoupment Policy**  
**Effective October 19, 2016**

It is the policy of Sonic Corp. (the “*Company*”) that in the event the Company is required to prepare an Accounting Restatement, the Company will recover from each Covered Executive any Excess Incentive-Based Compensation received during the Recovery Period. It is intended that this policy be administered in a manner that will comply with applicable law and securities exchange listing requirements including, without limitation, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Rule 10D-1 under the Securities Exchange Act of 1934, as amended, and the listing standards of NASDAQ.

**Article 1. Definitions**

**1.1 “ Accounting Restatement ”** means the result of the process of revising previously issued financial statements to reflect the correction of one or more errors that are material to those financial statements; provided, however, that the retroactive application of a change in accounting principles (as well as other retroactive changes not considered corrections of errors under applicable accounting standards) will not be considered correction of one or more errors for this purpose.

**1.2 “ Affiliate ”** means any entity that controls, is under common control with, or is controlled by, the Company while this policy is in effect.

**1.3 “ Committee ”** means the Compensation Committee of the Board of Directors of the Company.

**1.4 “ Covered Executive ”** means any current or former “executive officer” of the Company (as such term is defined in Rule 16a-1(f) of the US Securities Exchange Act of 1934, as amended), any officer reporting directly to the Chief Executive Officer of the Company and any other officer holding a title of Senior Vice President or above of the Company or its subsidiaries.

**1.5 “ Covered Pay ”** means (i) cash bonus awards (including annual bonuses and other long and short-term cash incentives), (ii) equity-based compensation, (iii) gains on nonqualified deferred compensation and (iv) proceeds received from the sale of shares acquired through an incentive award; provided that equity awards that vest solely on the basis of time, such as time-based stock options and restricted stock units are specifically excluded.

**1.6 “ Excess Incentive-Based Compensation ”** means the excess of (i) the amount paid or payable to a Covered Executive pursuant to any Incentive-Based Compensation award, the amount of which was determined based on financial statements that contain errors that will require the Company to prepare an Accounting Restatement, over (ii) the amount that would have been paid or payable to the Covered Executive had the Incentive-Based Compensation been calculated based on the Accounting Restatement.

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**1.7 “ Financial Reporting Measure ”** means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, including any measures derived wholly or in part from such financial information.

**1.8 “ Incentive-Based Compensation ”** means any Covered Pay that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

**1.9 “ Recovery Period ”** means the three completed fiscal years immediately preceding the Restatement Date.

**1.10 “ Restatement Date ”** means the earlier of (i) the date the Company’s board of directors, a committee of the board of directors or the officers or officers of the Company authorized to take such action if board action is not required, concludes, or reasonably should have concluded, that the Company’s previously issued financial statements contain a material error and (ii) the date a court, regulator or other legally authorized body directs the issuer to prepare an Accounting Restatement.

## **Article 2. Recovery of Covered Pay**

**2.1 Mandatory Recovery .** In the event that the Company is required to prepare an Accounting Restatement, the Company will recover from each Covered Executive, and each Covered Executive will return to the Company, any Excess Incentive-Based Compensation received by the Covered Executive during the Recovery Period. With respect to Incentive-Based Compensation based on a Financial Reporting Measure of either stock price or total shareholder return, the amount of Excess-Incentive Based Compensation shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received.

Notwithstanding anything in Section 2.2 to the contrary, the Company shall not be required to recover any portion of Covered Pay under this policy if:

(a) after a reasonable attempt to recover the Covered Pay, the Company determines that the direct expense that would be paid to a third party to assist in enforcing the policy would exceed the amount to be recovered, or

(b) that portion of the Covered Pay had previously been reimbursed to the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, as amended.

**2.2 Receipt of Covered Pay .** For purposes of this Article 2, Covered Pay shall be deemed to have been received by a Covered Executive during the Recovery Period if the Financial Reporting Measure specified in the Covered Pay award is attained during the Recovery Period, even if payment or grant of the Covered Pay occurs after the end of the Recovery Period.

### **Article 3. Manner of Recovery**

**3.1 Management Authorization** . If the Committee is required to seek recovery pursuant to this policy, the Committee will authorize management to take action to promptly enforce the Covered Executive's obligations to the Company as the Committee deems appropriate based on the facts and circumstances of each particular case. These actions may include, without limitation, written demand for repayment of Covered Pay within a reasonable period of time, legal action against the Covered Executive, or such other action as the Committee may deem appropriate under the circumstances. Any such required action for recovery of Covered Pay must be instituted within a reasonable period of time, but in no event later than three years after the Restatement Date.

**3.2 Means of Recovery** . The Committee shall determine, in its sole discretion, the appropriate means of recovering Covered Pay. Means of recovery may include, without limitation, reducing future incentive compensation, cancelling outstanding incentive compensation, seeking repayment of incentive compensation paid to the Covered Executive (including the proceeds of the sale of any shares received as incentive compensation) or setting-off any amounts it is entitled to recover under this policy against any amounts owed by the Company to the Executive under any of the Company's deferred compensation plans.

**3.3 Pre-Tax Recovery** . Covered Pay shall be recovered on a pre-tax basis.

**3.4 Section 409A** . It is intended that any repayment, forfeiture, cancellation or right of offset pursuant to the Policy shall be administered in a manner designed to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued thereunder.

### **Article 4. Miscellaneous**

**4.1** The Committee shall be responsible for administering this policy. All actions taken and all interpretations and determination made by the Committee shall be final and binding upon the Company, the Covered Executives and all other interested individuals. The Committee shall have full and exclusive discretionary power to interpret the terms and intent of this policy. The authority of the Committee shall include, but not be limited to, determining when and how to seek recovery from a Covered Executive, and the amount of Covered Pay to be recovered.

**4.2** The right to recoupment under this policy is in addition to any other rights that the Company may have against any Covered Executive, including any remedies at law or in equity. Application of this policy does not preclude the Company from taking any other action to enforce a Covered Executive's obligations to the Company, including termination of employment or institution of civil or criminal proceedings.

**4.3** It is intended that this policy be administered in a manner that will comply with applicable law and securities exchange listing requirements including, without limitation, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Rule 10D-1 under the

Securities Exchange Act of 1934, as amended, and the listing standards of NASDAQ. The Committee is authorized to adopt amendments to this policy, as well as any rules and procedures deemed necessary or appropriate.

**Subsidiaries of the Company**

America's Drive-In Brand Properties LLC, a Kansas limited liability company  
America's Drive-In Restaurants LLC, a Delaware limited liability company  
SDI Interests Inc., an Oklahoma corporation  
Sonic Capital LLC, a Delaware limited liability company  
Sonic Franchising LLC, a Delaware limited liability company  
Sonic Industries LLC, a Delaware limited liability company  
Sonic Industries Services Inc., an Oklahoma corporation  
Sonic Restaurants, Inc., an Oklahoma corporation  
Sonic Value Card, L.L.C., a Virginia limited liability company  
SPOTlight, LLC, an Oklahoma limited liability company  
SRI Real Estate Holding LLC, a Delaware limited liability company  
SRI Real Estate Properties LLC, a Delaware limited liability company

As of August 31, 2016, Sonic Restaurants, Inc. owned the majority interest in 13 general partnerships, each of which operates a Sonic Drive-In restaurant. The names of those 13 entities have been omitted.

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**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Sonic Corp.:

We consent to the incorporation by reference in the registration statements (No. 333 - XXXXX ) on Forms S-3 and S-8 of Sonic Corp. and subsidiaries of our reports dated October 31, 2016, with respect to the consolidated balance sheets of Sonic Corp. and subsidiaries as of August 31, 2016 and 2015, 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, 2016, and the related financial statement schedule II, and the effectiveness of internal control over financial reporting as of August 31, 2016, which reports appear in the August 31, 2016 annual report on Form 10 - K of Sonic Corp.

( signed) KPMG LLP

Oklahoma City, OK  
October 31, 2016

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CERTIFICATION PURSUANT TO  
SEC RULE 13a-14

I, J. Clifford Hudson, certify that:

1. I have reviewed this annual report on Form 10-K 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: October 31, 2016

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

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CERTIFICATION PURSUANT TO  
SEC RULE 13a-14

I, Claudia S. San Pedro , certify that:

1. I have reviewed this annual report on Form 10-K 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: October 31 , 2016

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

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

The undersigned hereby certifies that to his knowledge the annual 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: October 31, 2016

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

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

The undersigned hereby certifies that to his knowledge the annual 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: October 31, 2016

/s/ Claudia S. San Pedro

Claudia S. San Pedro

Chief Financial Officer

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