



## Sonic Reports Record First Quarter Results

■ **By Clifford Hudson**  
*Chairman and Chief Executive Officer*

The headlines tell the story, highlighting a solid start to a new fiscal year for Sonic. Against the backdrop of considerable uncertainty in our nation and shaken consumer confidence during the few months, Sonic continued to forge ahead with record revenues and earnings for its first quarter of fiscal 2002, which ended on November 30, 2001. These results reflected a significant acceleration in same-store sales during November, increased new unit openings, and improved profitability at the restaurant level.

Importantly, the sales momentum building in the first quarter also helped us achieve system-wide sales in excess of \$2 billion for the 12-month period ended November 2001. This is a particularly significant feat considering that it took about 43 years for the Sonic system to reach annual sales of \$1 billion, and then only five more to double that mark.

After a somewhat sluggish sales environment during September and October, same-store sales accelerated handsomely in November and were significantly ahead of our targeted range of 2% to 4% for that month. For the first quarter as a whole, system-wide same-store sales rose 2.1%. On the strength of these sales results and with the sales impact of drive-ins acquired from franchisees last year, revenues for the first quarter increased 23% to \$87.3 million compared with \$71.0 million in the first quarter last year. Net income for the first quarter gained 12% to \$9.6 million versus \$8.5 million in the same period last year and, on a diluted per share basis, rose 10% to \$0.34 from \$0.31 in the year-earlier period.

Sonic's stronger sales trends continued in December and underscored the ongoing success of our core sales-driving strategies, which also produced a 4.8% gain in same-store sales during the last six months of fiscal 2001. Specifically, first quarter sales benefited from higher media expenditures that are set to ramp up to more than \$90 million in fiscal 2002 from \$80 million last year.

Ongoing successful promotions and strong new product news also helped fuel sales – beginning in September with our Pink Flamingo drink and ending with "Everything Tastes Better with Chili" month in November. These promotions tie in with our invitation to customers to "Get an ADDitude!"™ by experimenting with different taste sensations and flavors and, in a more basic sense, learn to play with their food! Obviously, we believe these kinds of promotions resonate with diners looking for quality products and fast service, and we have plenty of the same to come, beginning with the "Big Cheese" promotion in December, teamed with an Egg Nog Shake to ring in the holidays.

During the first quarter, we also finalized plans to expand our breakfast program significantly, which began as a test last year. We have been very encouraged by the response to our breakfast initiative from both customers and operators and, as a result, we now intend to more than double the number of stores participating in the breakfast program from approximately 400 stores today to well over 900 stores by the end of spring 2002.

The expansion of our breakfast program follows the strategy we historically have pursued to develop important day parts and further penetrate the under-leveraged ones. Considering that some competitors achieve as much as 10% of their daily business during the breakfast day part while we currently derive just 3% of ours from the same time period, we obviously see this as a real opportunity to increase sales for Sonic. More important, we think the expansion of our breakfast program will have far reaching effects on our overall business – with an energizing impact on all of our day parts, helping us build our business in a broader sort of way to reach a new level of operations. The same results could be said for our earlier efforts to develop our drink and dessert offerings a few years ago with the introduc-

tion of our Fountain Favorites® and Frozen Favorites® menu. We are excited about this new opportunity and see it as a way to support our goal of increasing average unit volumes and profits.

Fast-track progress also continues in our new drive-in development program. Sonic opened 48 new drive-ins during the first quarter, including 36 franchised restaurants, keeping us on pace to open a record 190 to 200 new drive-ins to our chain in fiscal 2002. With this ongoing progress and the good momentum in sales we saw building at the end of the first quarter, we remain encouraged by the prospects that strong, predictable growth in franchising income will again characterize our results in fiscal 2002.

We believe Sonic remains in a very sound position to deliver industry-leading growth in sales and profits during the balance of fiscal 2002 and beyond. Our confidence reflects the proven success of our multi-layered growth strategy, which includes continued strong sales growth, higher franchise income stemming from our unique ascending royalty rate, increased new unit openings, and ongoing operating leverage, particularly from corporate-level expenses. Our expected revenue growth is based on new store development, as well as our target for 2% to 4% higher same-store sales, driven by ongoing new product news, higher media expenditures, and our day part initiatives, including the expansion of the breakfast program. The resulting increase in average unit volumes should boost our franchise income and create the opportunity for leverage on the lower part of the income statement, generating 18% to 20% earnings growth for fiscal 2002.

### Sonic Snapshot

	Three Months Ended November 30,	
	2001	2000
Restaurants open, end of period:		
Company-owned	403	319
Franchised	2,003	1,900
Total	<u>2,406</u>	<u>2,219</u>
Restaurant sales (000s):		
Company-owned	\$ 71,721	\$ 55,562
Franchised	426,857	393,811
System-wide	<u>\$ 498,578</u>	<u>\$ 449,373</u>
Same-store sales increase:		
Company-owned	-0.3%	-2.2%
Franchised	2.6%	-0.9%
System-wide	2.1%	-1.1%

**Condensed Consolidated Balance Sheets***(In thousands)*

	November 30, 2001	August 31, 2001
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,840	\$ 6,971
Other current assets	16,488	16,558
Total current assets	22,328	23,529
Property, equipment and capital leases, net	278,854	273,198
Intangibles and other assets, net	60,304	61,273
Total assets	<u>\$ 361,486</u>	<u>\$ 358,000</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Obligations under capital leases and long-term debt	\$ 34,045	\$ 26,864
Other noncurrent liabilities	117,646	121,773
Total stockholders' equity	7,591	8,644
Total liabilities and stockholders' equity	<u>202,204</u>	<u>200,719</u>
	<u>\$ 361,486</u>	<u>\$ 358,000</u>

**Condensed Consolidated Statements of Income***(In thousands, except per share data)*

	Three Months Ended November 30	
	2001	2000
	(Unaudited)	
<b>Revenues:</b>		
Company-owned restaurant sales	\$ 71,721	\$ 55,562
Franchised restaurants:		
Franchise royalties	13,774	13,460
Franchise fees	1,049	1,084
Other	785	918
	<u>87,329</u>	<u>71,024</u>
<b>Costs and expenses:</b>		
Company-owned restaurants:		
Food and packaging	19,090	14,894
Payroll and other employee benefits	20,733	16,150
Other operating expenses	14,199	11,134
	<u>54,022</u>	<u>42,178</u>
Selling, general and administrative	7,658	6,813
Depreciation and amortization	6,255	5,369
Minority interest in earnings of restaurants	2,598	1,895
	<u>70,533</u>	<u>56,255</u>
<b>Income from operations</b>	<b>16,796</b>	<b>14,769</b>
Interest expense	1,827	1,471
Interest income	(258)	(252)
Net interest expense	<u>1,569</u>	<u>1,219</u>
Income before income taxes	15,227	13,550
Provision for income taxes	5,672	5,047
<b>Net Income</b>	<u>\$ 9,555</u>	<u>\$ 8,503</u>
<b>Net Income Per Share</b>		
Basic	<u>\$ 0.36</u>	<u>\$ 0.32</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.31</u>
<b>Weighted average shares used in calculation</b>		
Basic	<u>26,660</u>	<u>26,384</u>
Diluted	<u>27,947</u>	<u>27,605</u>

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**Forward-Looking Statements**

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