

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

FORM 10-Q

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

For the quarterly period ended April 13, 2011

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 0-8445

**BIGLARI HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation)

37-0684070

(I.R.S. Employer Identification No.)

175 East Houston Street, Suite 1300  
San Antonio, Texas

(Address of principal executive offices)

78205

(Zip code)

(210) 344-3400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 May 18, 2011 1,432,854 shares of the registrant's Common Stock, \$.50 stated value, were outstanding.

**BIGLARI HOLDINGS INC.**

	<u>Page No.</u>
<b>Part I – Financial Information</b>	
<b>Item 1. Financial Statements</b>	
Condensed Consolidated Balance Sheets —	
April 13, 2011 and September 29, 2010 .....	2
Condensed Consolidated Statements of Earnings—	
Sixteen and Twenty-Eight Weeks Ended April 13, 2011 and April 14, 2010 .....	3
Condensed Consolidated Statements of Cash Flows—	
Twenty-Eight Weeks Ended April 13, 2011 and April 14, 2010 .....	4
Condensed Consolidated Statements of Changes in Shareholders’ Equity—	
Twenty-Eight Weeks Ended April 13, 2011 and April 14, 2010 .....	5
Notes to Condensed Consolidated Financial Statements .....	6-18
<b>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations .....</b>	<b>19-26</b>
<b>Item 3. Quantitative and Qualitative Disclosures about Market Risk .....</b>	<b>26</b>
<b>Item 4. Controls and Procedures .....</b>	<b>27</b>
<b>Part II – Other Information</b>	
<b>Item 1A. Risk Factors .....</b>	<b>28</b>
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds .....</b>	<b>28</b>
<b>Item 6. Exhibits .....</b>	<b>29</b>
<b>Signatures .....</b>	<b>30</b>

**Part I Financial Information**  
**Item 1. Financial Statements**  
**BIGLARI HOLDINGS INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(amounts in \$000s, except share and per share data)

	<u>April 13,</u> <u>2011</u>	<u>September 29,</u> <u>2010</u>
	<u>(Unaudited)</u>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	\$ 69,214	\$ 47,563
Investments .....	21,127	32,523
Receivables, net of allowance of \$497 and \$475, respectively .....	11,081	5,818
Inventories .....	6,157	6,061
Deferred income taxes .....	5,340	3,802
Assets held for sale .....	7,816	9,611
Other current assets.....	3,588	4,453
<b>Total current assets</b> .....	<b>124,323</b>	<b>109,831</b>
Property and equipment, net .....	378,134	386,181
Goodwill .....	27,529	28,759
Other intangible assets, net .....	7,567	7,959
Other assets.....	6,647	7,612
Investments held by consolidated affiliated partnerships.....	17,825	23,497
<b>Total assets</b> .....	<b>\$ 562,025</b>	<b>\$ 563,839</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable.....	\$ 29,405	\$ 26,752
Due to broker .....	—	3,903
Accrued expenses .....	37,770	37,401
Revolving credit.....	13,044	18,000
Current portion of obligations under leases .....	4,686	4,556
Current portion of long-term debt .....	4,135	151
<b>Total current liabilities</b> .....	<b>89,040</b>	<b>90,763</b>
Deferred income taxes .....	13,208	10,309
Obligations under leases .....	119,805	124,247
Long-term debt .....	18,508	17,781
Other long-term liabilities.....	10,127	9,499
<b>Total liabilities</b> .....	<b>250,688</b>	<b>252,599</b>
Commitments and contingencies		
Redeemable noncontrolling interests of consolidated affiliated partnerships .....	52,821	62,245
<b>Shareholders' equity</b>		
Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,511,174 and 1,511,175 shares issued, 1,227,056 and 1,227,654 shares outstanding (net of treasury stock), respectively .....	756	756
Additional paid-in capital .....	136,594	143,521
Retained earnings.....	210,933	195,825
Accumulated other comprehensive income (loss) .....	725	(1,152)
Treasury stock – at cost: 284,118 shares and 283,521 shares (includes 205,743 shares held by consolidated affiliated partnerships) at April 13, 2011 and September 29, 2010, respectively .....	(90,492)	(89,955)
<b>Biglari Holdings Inc. shareholders' equity</b> .....	<b>258,516</b>	<b>248,995</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>\$ 562,025</b>	<b>\$ 563,839</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
*(Sixteen and Twenty-Eight Weeks Ended April 13, 2011 and April 14, 2010)*  
(amounts in \$000s, except share and per share data)

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
<b>Net revenues</b>				
<i>Restaurant Operations</i>				
Net sales .....	\$ 207,896	\$ 197,257	\$ 360,955	\$ 345,181
Franchise fees .....	2,305	1,192	4,350	2,111
Other revenue .....	711	667	1,222	1,182
<b>Total</b>	<b>210,912</b>	<b>199,116</b>	<b>366,527</b>	<b>348,474</b>
<i>Investment Management Operations</i>				
Management fee income .....	114	—	224	—
<i>Consolidated Affiliated Partnerships</i>				
Investment gains/losses .....	259	—	2,946	—
Other income/loss .....	(8)	—	302	—
<b>Total</b>	<b>365</b>	<b>—</b>	<b>3,472</b>	<b>—</b>
<b>Total net revenues</b>	<b>211,277</b>	<b>199,116</b>	<b>369,999</b>	<b>348,474</b>
<b>Costs and expenses</b>				
Cost of sales .....	57,543	54,160	98,823	92,639
Restaurant operating costs .....	102,640	98,476	175,329	171,714
General and administrative .....	14,595	11,609	25,609	20,394
Depreciation and amortization .....	8,683	8,962	15,292	15,885
Marketing .....	10,780	9,882	19,731	17,609
Rent .....	5,124	4,988	9,020	8,696
Pre-opening costs .....	34	—	76	—
Asset impairments and provision for restaurant closings .....	(270)	(28)	13	143
Loss on disposal of assets .....	153	122	257	99
Other operating (income) expense .....	(57)	(408)	765	(471)
<b>Total costs and expenses, net</b>	<b>199,225</b>	<b>187,763</b>	<b>344,915</b>	<b>326,708</b>
<b>Other income (expense)</b>				
Interest, dividend and other investment income .....	118	154	153	229
Interest on obligations under leases .....	(3,261)	(3,477)	(5,710)	(5,953)
Interest expense .....	(867)	(197)	(1,432)	(343)
Realized investment gains/losses .....	366	522	3,244	834
Derivative gains/losses .....	32	—	207	—
<b>Total other income (expense)</b>	<b>(3,612)</b>	<b>(2,998)</b>	<b>(3,538)</b>	<b>(5,233)</b>
<b>Earnings before income taxes</b>	<b>8,440</b>	<b>8,355</b>	<b>21,546</b>	<b>16,533</b>
Income taxes .....	2,687	2,838	7,028	5,522
<b>Net earnings</b>	<b>5,753</b>	<b>5,517</b>	<b>14,518</b>	<b>11,011</b>
Earnings/loss attributable to noncontrolling interest .....	—	7	—	(10)
Earnings/loss attributable to redeemable noncontrolling interests:				
Income allocation .....	(108)	—	(1,920)	—
Incentive fee reallocation .....	—	—	2,510	—
Total earnings/loss attributable to redeemable noncontrolling interests .....	<b>(108)</b>	<b>—</b>	<b>590</b>	<b>—</b>
<b>Net earnings attributable to Biglari Holdings Inc.</b>	<b>\$ 5,645</b>	<b>\$ 5,524</b>	<b>\$ 15,108</b>	<b>\$ 11,001</b>
<b>Earnings per share attributable to Biglari Holdings Inc.</b>				
Basic earnings per common and common equivalent share .....	\$ 4 25	\$ 3.87	\$ 11.38	\$ 7.70
Diluted earnings per common and common equivalent share .....	\$ 4 23	\$ 3.84	\$ 11.31	\$ 7.66
<b>Weighted average shares and equivalents</b>				
Basic .....	1,327,685	1,428,699	1,327,480	1,427,835
Diluted .....	1,334,653	1,437,806	1,335,878	1,436,746

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Twenty-Eight Weeks Ended April 13, 2011 and April 14, 2010)*

(amounts in \$000s)

	<u>Twenty-Eight Weeks Ended</u>	
	<u>2011</u>	<u>2010</u>
	(Unaudited)	
<b>Operating activities</b>		
Net earnings .....	\$ 14,518	\$ 11,011
Adjustments to reconcile net earnings to operating cash flows (excluding investment operations of consolidated affiliated partnerships):		
Depreciation and amortization .....	15,292	15,885
Provision for deferred income taxes .....	1,314	1,519
Asset impairments and provision for restaurant closings.....	13	143
Stock-based compensation and other non-cash expenses .....	572	900
Loss on disposal of assets.....	257	99
Realized investment (gains) .....	(3,244)	(834)
Derivative gains/losses.....	(207)	—
Changes in receivables and inventories .....	(5,161)	(3,152)
Changes in other assets .....	1,261	(126)
Changes in accounts payable and accrued expenses.....	2,679	5,650
Investment operations of consolidated affiliated partnerships:		
Purchases of investments.....	(28,057)	—
Sales of investments.....	37,752	—
Realized investment (gains), net.....	(2,567)	—
Unrealized gains on marketable securities held by consolidated affiliated partnerships.....	(379)	—
Changes in cash equivalents held by consolidated affiliated partnerships .....	(1,858)	—
<b>Net cash provided by operating activities .....</b>	<b>32,185</b>	<b>31,095</b>
<b>Investing activities</b>		
Additions of property and equipment.....	(7,556)	(4,648)
Proceeds from property and equipment disposals.....	1,988	711
Purchases of investments.....	(25,841)	(9,532)
Sales of investments.....	44,422	9,169
Changes in due to/from broker.....	(3,903)	—
Cash from merger activities.....	—	1,208
<b>Net cash provided by (used in) investing activities.....</b>	<b>9,110</b>	<b>(3,092)</b>
<b>Financing activities</b>		
Proceeds from revolving credit facility .....	144,325	—
Payments on revolving credit facility.....	(149,281)	(1,000)
Borrowings on long-term debt.....	20,000	—
Principal payments on long-term debt.....	(15,289)	(8)
Principal payments on direct financing lease obligations .....	(4,301)	(2,253)
Proceeds and tax benefits from exercise of stock options and employees stock purchase plan .....	477	210
Cash paid in lieu of fractional shares.....	—	(711)
Repurchase of employee shares for tax withholding .....	(494)	(199)
Distributions to noncontrolling interest.....	—	(221)
Financing activities of consolidated affiliated partnerships:		
Contributions from noncontrolling interests.....	691	—
Distributions to noncontrolling interests.....	(15,772)	—
<b>Net cash used in financing activities.....</b>	<b>(19,644)</b>	<b>(4,182)</b>
Increase in cash and cash equivalents .....	21,651	23,821
Cash and cash equivalents at beginning of period .....	47,563	51,395
<b>Cash and cash equivalents at end of period .....</b>	<b>\$ 69,214</b>	<b>\$ 75,216</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Twenty-Eight Weeks Ended April 13, 2011 and April 14, 2010)*  
(amounts in \$000s)

(Unaudited)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at September 29, 2010 .....	\$ 756	\$ 143,521	\$ 195,825	\$ (1,152)	\$ (89,955)	\$ 248,995
Net earnings attributable to Biglari Holdings Inc. ....			15,108			15,108
Reclassification of investment appreciation in net earnings, net of \$821 tax .....				1,285		1,285
Net change in unrealized gains and losses on investments, net of \$379 tax .....				592		592
<b>Total comprehensive income</b> .....						<u>16,985</u>
Exercise of stock options and other stock compensation transactions .....		741			(537)	204
Adjustment to redeemable noncontrolling interests to reflect maximum redemption value .....		(7,668)				(7,668)
Balance at April 13, 2011 .....	<u>\$ 756</u>	<u>\$ 136,594</u>	<u>\$ 210,933</u>	<u>\$ 725</u>	<u>\$ (90,492)</u>	<u>\$ 258,516</u>
Balance at September 30, 2009 .....	\$ 757	\$ 143,691	\$ 167,731	\$ 112	\$ (20,430)	\$ 291,861
Net earnings attributable to Biglari Holdings Inc. ....			11,001			11,001
Reclassification of investment appreciation in net earnings, net of \$58 tax .....				(92)		(92)
Net change in unrealized gains and losses on investments, net of \$148 tax .....				232		232
<b>Total comprehensive income</b> .....						<u>11,141</u>
Exercise of stock options and other stock compensation transactions .....		712			(353)	359
Retirement of shares held by subsidiary .....	(1)	1				—
Cash paid in lieu of fractional shares .....		(711)				(711)
Reacquired shares from acquisition .....					(368)	(368)
Balance at April 14, 2010 .....	<u>\$ 756</u>	<u>\$ 143,693</u>	<u>\$ 178,732</u>	<u>\$ 252</u>	<u>\$ (21,151)</u>	<u>\$ 302,282</u>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

## **BIGLARI HOLDINGS INC.**

### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**April 13, 2011**

(amounts in \$000s, except share and per share data)

#### **1. General**

The accompanying unaudited condensed consolidated financial statements of Biglari Holdings Inc. (“we”, “us”, “our”, “Biglari Holdings”, or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments considered necessary to present fairly the condensed consolidated Balance Sheet as of April 13, 2011, the condensed consolidated Statements of Earnings for the sixteen and twenty-eight weeks ended April 13, 2011 and April 14, 2010, and the condensed consolidated Statements of Cash Flows and Statements of Changes in Shareholders’ Equity for the twenty-eight weeks ended April 13, 2011 and April 14, 2010 have been included, and consist only of normal recurring adjustments. The condensed consolidated Statements of Earnings for the sixteen and twenty-eight weeks ended April 13, 2011 and April 14, 2010 are not necessarily indicative of the condensed consolidated Statements of Earnings for the entire fiscal years. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 29, 2010.

Biglari Holdings Inc. is a diversified holding company engaged in a number of diverse business activities. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings and its major operating subsidiaries. The Company’s long-term objective is to maximize per-share intrinsic value of the Company. Our strategy is to reinvest cash generated from our operating subsidiaries into any investments with the objective of achieving high risk-adjusted returns. All major operating, investment, and capital allocation decisions are made for the Company by Mr. Biglari.

#### ***Basis of Presentation and Consolidation***

As of April 13, 2011, the condensed consolidated financial statements include the accounts of (i) the Company, (ii) its wholly-owned subsidiaries Steak n Shake Operations, Inc. (“Steak n Shake”), Western Sizzlin Corporation (“Western”), and Biglari Capital Corp. (“Biglari Capital”), and (iii) investment related subsidiaries and limited partnerships (the “consolidated affiliated partnerships”). As a result of the Company’s acquisitions of Western and Biglari Capital during fiscal year 2010, the Company acquired financial interests in The Lion Fund, L.P. (the “Lion Fund”), Western Acquisitions, L.P., Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P., investment limited partnerships (collectively referred to as consolidated affiliated partnerships), for which the Company has a substantive controlling interest. We consolidate entities in which we have a wholly-owned or controlling interest in the general partner. The consolidated affiliated partnerships’ assets and liabilities are consolidated on the Company’s April 13, 2011 balance sheet even though outside limited partners have majority ownership in all of the investment partnerships. The Company does not guarantee any of the liabilities of its subsidiaries that are serving as general partners to these consolidated affiliated partnerships. All intercompany accounts and transactions have been eliminated in consolidation.

The financial information of Western and Biglari Capital has been reflected in the condensed consolidated financial statements of the Company as of March 30, 2010 and April 30, 2010, their respective acquisition dates. Western’s and Biglari Capital’s March 31 quarter end for financial reporting purposes differs from the end of the Company’s fiscal quarter of April 13, 2011. Significant transactions in the intervening period are disclosed.

#### **2. Acquisitions**

##### ***Biglari Capital Corp.***

On April 30, 2010, the Company acquired Biglari Capital pursuant to a Stock Purchase Agreement, dated April 30, 2010 (the “Stock Purchase Agreement”), between the Company and Sardar Biglari, Chairman and Chief Executive Officer, who was the sole shareholder of Biglari Capital. Biglari Capital is the general partner of the Lion Fund, a Delaware limited partnership operating as a private investment fund. The Lion Fund functions as a strategic investment arm for Biglari Holdings, principally to assist in facilitating the partial ownership of other publicly traded companies.

Pursuant to the Stock Purchase Agreement, Mr. Biglari sold all of the shares of Biglari Capital to the Company for a purchase price of \$1.00 plus (i) an amount equal to Biglari Capital’s adjusted capital balance in its capacity as general partner of the Lion Fund, and (ii) an amount equal to the total incentive reallocation allocable to Biglari Capital for the period from January 1, 2010 through April 30, 2010, less any distributions in respect of such amounts previously received by Mr. Biglari. The payments set forth in clauses (i) and (ii) total \$4,107.

In accordance with the Stock Purchase Agreement, the Company prepared and filed with the Securities and Exchange Commission on September 29, 2010, proxy materials for a special meeting of its shareholders. At the special meeting, held November 5, 2010, the Company submitted the Incentive Bonus Agreement (which the Company entered into with Mr. Biglari) for approval by its shareholders for purposes of Section 162(m) under the Internal Revenue Code of 1986, as amended (the “Code”), in order to preserve the tax deductibility to the Company of the performance-based compensation payable to Mr. Biglari under such agreement. The Incentive Bonus Agreement was approved by the shareholders.

Because Biglari Capital is the general partner of the Lion Fund and has a substantive controlling interest, the Company has consolidated the Lion Fund. The Lion Fund is an investment fund that accounts for its investments at fair value. The fair value of the noncontrolling interests approximated the net asset value of the Lion Fund attributable to investors other than the Company, less the accrued incentive reallocation at the time of the acquisition. The Lion Fund investors may redeem their interests in the Lion Fund upon certain occurrences.

At the acquisition date, the Lion Fund owned 76,421 shares of common stock of the Company as well as \$7,540 of the Company’s debentures. The fair value of the Company stock owned by the Lion Fund was \$29,900, which was recorded as Treasury stock yet the shares remain outstanding. The debentures owned by the Lion Fund were recorded as a debt extinguishment. As the debentures had just been issued by the Company 30 days before the acquisition, the fair value of the debentures approximated their cost, and no gain or loss was recorded on the debt extinguishment (the debentures remained outstanding until their redemption on March 30, 2011 [See Note 14]). The noncontrolling interests in the Lion Fund had a fair value of \$44,193 as of April 30, 2010.

The Company accounted for the acquisition in accordance with ASC Topic 805, whereby the purchase price paid is allocated to the assets acquired and liabilities assumed from Biglari Capital based on their estimated fair values as of the closing date.

The following table represents the Company’s final assessment of the total purchase consideration allocated to the estimated fair values of the assets acquired and liabilities assumed from Biglari Capital as of April 30, 2010:

	<u>Purchase</u> <u>Allocation</u>
Investments .....	\$ 10,926
Company debentures .....	7,540
Total assets acquired .....	<u>18,466</u>
Current liabilities .....	66
Redeemable noncontrolling interests of consolidated affiliated partnerships .....	44,193
Treasury stock .....	<u>(29,900)</u>
Total liabilities assumed and treasury stock acquired .....	<u>14,359</u>
Net assets acquired .....	<u>\$ 4,107</u>

### ***Western Sizzlin Corporation***

On March 30, 2010, the Company, through its wholly-owned subsidiary, Grill Acquisition Corporation (“Merger Sub”), acquired 100% of the outstanding equity interests of Western, pursuant to an Agreement and Plan of Merger among the Company, Merger Sub and Western, dated as of October 22, 2009 (the “Merger Agreement”). Sardar Biglari, Chairman and Chief Executive Officer, was also Chairman and Chief Executive Officer of Western at the time of the acquisition. Pursuant to the Merger Agreement, Merger Sub merged with and into Western, with Western continuing as the surviving corporation and as a wholly-owned subsidiary of the Company. Western, which is primarily engaged in the franchising of restaurants, includes (i) Western Sizzlin Franchise Corporation, Western Sizzlin Stores, Inc., Western Sizzlin Stores of Little Rock, Inc., Austins of Omaha, Inc., Western Investments, Inc., and Western Properties, Inc., wholly-owned subsidiaries, (ii) Western Acquisitions, L.P., (iii) Western Real Estate, L.P., (iv) Western Mustang Holdings, L.L.C. and Mustang Capital Management, L.L.C., (v) Mustang Capital Advisors, L.P., a majority-owned limited partnership, and (vi) two limited partnerships, Mustang Capital Partners I, L.P.



and Mustang Capital Partners II, L.P. During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated and the funds were distributed to the partners. Subsequent to the second quarter of fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. See Note 23 for further information.

Under the terms of the Merger Agreement, each share of Western's common stock was cancelled upon the completion of the merger and converted into the right to receive a pro rata portion of a new issue of 14% redeemable subordinated debentures due 2015 issued by the Company (the "Debentures") in the aggregate principal amount of \$22,959 (approximately \$8.07 principal amount of Debentures per Western share), with cash of \$194 paid in lieu of fractional Debenture interests. See Note 14 for further information on the Debentures.

The Company accounted for the acquisition in accordance with ASC Topic 805, whereby the purchase price paid is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed from Western based on their estimated fair values as of the closing date.

During the twenty-eight weeks ended April 14, 2010, we incurred \$701 of transaction related costs which have been recorded in General and administrative expenses in the condensed consolidated Statement of Earnings.

The table shown below reflects the final purchase price allocation recognized at April 13, 2011.

	Amounts Previously Recognized <sup>1</sup>	Measurement Period Adjustments	Amounts at April 13, 2011
Current assets .....	\$ 3,310	\$ —	\$ 3,310
Property and equipment, net .....	4,874		4,874
Investments, including marketable securities held by consolidated affiliated partnerships ....	13,037		13,037
Goodwill <sup>2</sup> .....	14,256	(1,230)	13,026
Intangible assets .....	6,880		6,880
Other assets <sup>2</sup> .....	586	77	663
Total assets acquired .....	<u>42,943</u>	<u>(1,153)</u>	<u>41,790</u>
Current liabilities .....	1,966		1,966
Debt .....	2,595		2,595
Other long-term liabilities <sup>2</sup> .....	3,787	(1,153)	2,634
Redeemable noncontrolling interests of consolidated affiliated partnerships .....	15,882		15,882
Treasury stock .....	(4,246)		(4,246)
Total liabilities assumed and treasury stock acquired .....	<u>19,984</u>	<u>(1,153)</u>	<u>18,831</u>
Net assets acquired .....	<u>\$ 22,959</u>	<u>\$ —</u>	<u>\$ 22,959</u>

<sup>1</sup> Amounts reported in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended September 29, 2010.

<sup>2</sup> The adjustment related to valuation of income tax assets and liabilities determined after the filing of the final Western income tax return during the second quarter of fiscal year 2011.

The goodwill and intangible assets generated from the merger is a result of the excess purchase price over the net fair value of the assets and liabilities acquired. We expect goodwill of approximately \$942 to be deductible for tax purposes. Goodwill in the amount of \$13,026 has been recorded in the Restaurant Operations segment.

### ***Pro Forma Information***

The following unaudited pro forma combined results of operations as of April 14, 2010, give effect to the acquisitions of Western and Biglari Capital as if they had occurred at the beginning of the periods presented. The unaudited pro forma combined results of operations do not purport to represent our consolidated earnings had the acquisitions occurred on the dates assumed, nor are these results necessarily indicative of the Company's future consolidated results of operations. The pro forma results do not reflect any expected cost savings.

	<u>Sixteen Weeks Ended</u>		<u>Twenty-Eight Weeks Ended</u>	
	<u>April 13, 2011</u>	April 14, 2010 (Pro forma)	<u>April 13, 2011</u>	April 14, 2010 (Pro forma)
Net revenues .....	<b>\$211,277</b>	\$204,678	<b>\$369,999</b>	\$357,830
Net earnings .....	<b>\$5,645</b>	\$5,199	<b>\$15,108</b>	\$7,967
Basic earnings per share .....	<b>\$4.25</b>	\$3.64	<b>\$11.38</b>	\$5.65
Diluted earnings per share .....	<b>\$4.23</b>	\$3.62	<b>\$11.31</b>	\$5.62

### 3. Seasonality of Restaurant Operations

Our restaurant operations have substantial fixed costs that do not decline concomitantly with sales. Results for our restaurant operations for the first and second fiscal quarters, which include the winter months, usually reflect lower customer traffic than in the third and fourth fiscal quarters.

Additionally, sales in the first and second fiscal quarters can be adversely affected by severe winter weather. Unfavorable weather could also occur during the first and fourth fiscal quarters as a result of hurricanes and tropical storms in the Southeastern portion of the United States.

### 4. New Accounting Standards

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updated (“ASU”) 2010-06, *Improving Disclosures about Fair Value Measurements* (“ASU 2010-06”). ASU 2010-06 amends Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* (“ASC Topic 820”), and requires additional disclosure about significant transfers between levels 1, 2, and 3 of the fair value hierarchy as well as disclosure of changes in level 3 activity on a gross basis. In addition, the guidance clarifies existing requirements regarding the required level of disaggregation by class of assets and liabilities and also clarifies disclosures of inputs and valuation techniques. The guidance became effective beginning in the Company's second quarter of fiscal year 2010, except for the requirement to disclose level 3 activity on a gross basis, which will be effective as of the beginning of the Company's fiscal year 2012. The adoption did not have a material impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB issued guidance that amends FASB ASC Section 810-10-25, *Consolidation — Recognition* (FASB Interpretation No. 46[R]) to require an entity to perform an analysis to determine whether the entity's variable interest or interests give it a controlling financial interest in a variable interest entity. The guidance is effective as of the beginning of an entity's first annual reporting period that begins after November 15, 2009, our fiscal year 2011. The adoption of this standard did not have a material impact on our condensed consolidated Balance Sheet or Statement of Earnings.

In June 2009, the FASB issued guidance related to the accounting for transfers of financial assets. The guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The guidance is effective as of the beginning of an entity's first annual reporting period that begins after November 15, 2009, our fiscal year 2011. The adoption of this standard did not have a material impact on our condensed consolidated Balance Sheet or Statement of Earnings.

### 5. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation. The reclassifications primarily relate to the reorganization of our condensed consolidated Statement of Earnings to better align with the Company's new holding company structure and diversification into other industries. The reclassifications had no effect on net earnings, total assets, or cash flows. Amounts reclassified for the sixteen and twenty-eight weeks ended April 14, 2010 included:

- Reclassification of \$3,674 and \$6,296, respectively, from interest expense previously included in Costs and expenses to Interest on obligations under leases and Interest expense within Other income;
- Reclassification of \$667 and \$1,182, respectively, from Other operating income to Other revenue within restaurant operations, primarily representing revenue generated from rental income;

- Reclassification of \$607 and \$945, respectively, from Other operating income to Net sales, primarily representing revenue from ancillary sources.

The remaining reclassifications were immaterial individually and in the aggregate.

## 6. Earnings Per Share

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. For financial reporting purposes all common shares of the Company held by the consolidated affiliated partnerships are recorded in Treasury stock on the condensed consolidated Balance Sheet. For purposes of computing the weighted average common shares outstanding, the shares of treasury stock attributable to the unrelated limited partners of the consolidated affiliated partnerships — based on their proportional ownership during the period — are considered outstanding shares.

The following table presents a reconciliation of basic and diluted weighted average common shares.

	<u>Sixteen Weeks Ended</u>		<u>Twenty-Eight Weeks Ended</u>	
	<u>April 13, 2011</u>	<u>April 14, 2010</u>	<u>April 13, 2011</u>	<u>April 14, 2010</u>
Basic earnings per share:				
Weighted average common shares .....	<b>1,327,685</b>	1,428,699	<b>1,327,480</b>	1,427,835
Diluted earnings per share:				
Weighted average common shares .....	<b>1,327,685</b>	1,428,699	<b>1,327,480</b>	1,427,835
Dilutive effect of stock awards .....	<b>6,968</b>	9,107	<b>8,398</b>	8,911
Weighted average common and incremental shares .....	<b>1,334,653</b>	1,437,806	<b>1,335,878</b>	1,436,746
Number of share-based awards excluded from the calculation of earnings per share as the awards' exercise prices were greater than the average market price of the Company's common stock .....	—	14,714	<b>1,030</b>	16,367

## 7. Investments

Investments consisted of the following:

	<u>April 13, 2011</u>	<u>September 29, 2010</u>
Cost .....	\$ <b>19,939</b>	\$ 34,412
Gross unrealized gains .....	<b>1,432</b>	657
Gross unrealized losses .....	<b>(244)</b>	(2,546)
Fair value .....	<u>\$ <b>21,127</b></u>	<u>\$ 32,523</u>

Unrealized losses of marketable equity securities at April 13, 2011 relate to securities that have been in an unrealized loss position for less than 12 months. We consider several factors in determining other-than-temporary impairment losses including the current and expected long-term business prospects of these issuers, the length of time and relative magnitude of the price decline and our ability and intent to hold the investment until the price recovers. The gross unrealized loss at April 13, 2011 was insignificant.

Investment gains/losses are recognized when investments are sold (as determined on a specific identification basis) or as otherwise required by GAAP. The timing of realized gains and losses from sales can have a material effect on periodic earnings. However, such realized gains or losses usually have little, if any, impact on total Shareholders' equity because the investments are carried at fair value with any unrealized gains/losses included as a component of Accumulated other comprehensive income in Shareholders' equity.

Realized investment gains/losses were as follows:

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	April 13, 2011	April 14, 2010	April 13, 2011	April 14, 2010
Gross realized gains on sales .....	\$ 366	\$ 522	\$ 3,250	\$ 834
Gross realized losses on sales .....	\$ —	\$ —	\$ (6)	\$ —

From time to time, the Company enters into certain derivative options in equity securities as part of its investment strategy. In accordance with FASB ASC 815, *Accounting for Derivative Instruments and Hedging Activities*, these options are marked to market for each reporting period and this fair value adjustment is recorded as a gain or loss in the condensed consolidated Statement of Earnings. We believe that realized investment gains/losses are often meaningless in terms of understanding reported results. Short term investment gains/losses have caused and may continue to cause significant volatility in our results.

During the quarter which ended April 13, 2011, the Company entered into short sales on certain equity securities, that is, a transaction in which the Company sells securities it does not own. The Company's use of short sales involves the risk that the price of the security in the open market may be higher when it is purchased in order to close out the Company's short position, resulting in a loss to the Company. Such a loss is theoretically limitless because there are no restrictions on the potential increase in the price of a security, or any guarantee as to the price at which the Company would be able to purchase the security in the open market. Securities sold in short sale transactions and the interest and dividends payable on such securities, if any, are reflected as a liability in Accrued expenses in the condensed consolidated Balance Sheet. As of April 13, 2011, the total liability of the securities in short position was \$732. We had no outstanding short sales at September 29, 2010.

For the sixteen and twenty-eight weeks ended April 13, 2011, the Company recorded investment gains from marking derivatives to market of \$32 and \$207, respectively. No derivatives were held prior to the third quarter of fiscal year 2010.

## 8. Consolidated Affiliated Partnerships

Collectively, The Lion Fund L.P., Western Acquisitions, L.P., Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. are referred to as consolidated affiliated partnerships of the Company. Investments held directly by the consolidated affiliated partnerships usually consist of domestic equity securities. Certain of the consolidated affiliated partnerships hold the Company's common stock as investments. In our condensed consolidated financial statements, the Company classifies this common stock as Treasury stock despite the shares being legally outstanding. As stated in Note 2, certain of the consolidated affiliated partnerships held the Company's Debentures as investments. These Debentures were redeemed by the Company on March 30, 2011. Refer to Note 14 for further information. As of April 13, 2011 and September 29, 2010, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost) and \$0 and \$7,540 of Debentures, respectively.

Consolidated net earnings of the Company include the realized and unrealized appreciation and depreciation of the investments held by consolidated affiliated partnerships, other than realized and unrealized appreciation and depreciation of investments the consolidated affiliated partnerships hold in the Company's debt and equity securities which has been eliminated in consolidation.

Throughout fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these investments in the Lion Fund totaled \$51,059 at April 13, 2011. These investments in the Lion Fund do not appear explicitly in the Company's condensed consolidated Balance Sheet because of the requirement to consolidate fully the Lion Fund (inclusive of third party interests) in the Company's financial statements. Further, the Lion Fund's portfolio holds significant interests in Biglari Holdings' common stock, which as described above is classified on the Company's condensed consolidated Balance Sheet as a reduction to Shareholders' equity. Biglari Holdings' pro-rata ownership of its Company common stock through the Lion Fund at April 13, 2011 was 100,623 shares of stock (with a fair value of \$42,619) based on Biglari Holdings' ownership interest in the Lion Fund on April 13, 2011.

The following table summarizes the cost and fair value of the investments held by the consolidated affiliated partnerships, other than holdings of the Company's debt and equity securities:

	<u>April 13, 2011</u>	<u>September 29, 2010</u>
Equity securities:		
Cost .....	\$ 7,687	\$ 14,725
Fair value .....	\$ 8,101	\$ 15,627

Investments held by consolidated affiliated partnerships on the condensed consolidated Balance Sheet includes \$9,724 and \$7,870 of cash and cash equivalents that are only available for use by the consolidated affiliated partnerships at April 13, 2011 and September 29, 2010, respectively.

Realized investment gains/losses arise when investments are sold (as determined on a specific identification basis). The gross unrealized gains/losses and net realized gains/losses from investments held by consolidated affiliated partnerships, other than holdings of the Company's debt and equity securities, were as follows:

	<u>Sixteen Weeks Ended April 13, 2011</u>	<u>Twenty-Eight Weeks Ended April 13, 2011</u>
Gross unrealized gains .....	\$ 176	\$ 440
Gross unrealized losses .....	\$ (22)	\$ (61)
Net realized gains/losses from sale .....	\$ 105	\$ 2,567

The limited partners of each of the investment funds have the ability to redeem their capital upon certain occurrences; therefore, the ownership of the investment funds held by the limited partners is presented as Redeemable noncontrolling interests of consolidated affiliated partnerships and measured at the greater of carrying value or fair value on the accompanying condensed consolidated Balance Sheet. The maximum redemption amount of the redeemable noncontrolling interests as of April 13, 2011 is \$52,821.

The following is a reconciliation of the redeemable noncontrolling interests in the consolidated affiliated partnerships.

Carrying value at September 29, 2010 .....	\$ 62,245
Contributions from noncontrolling interests .....	691
Distributions to noncontrolling interests .....	(17,193)
Incentive fee reallocation .....	(2,510)
Income / loss allocation .....	1,920
Adjustment to noncontrolling interests to reflect maximum redemption value .....	7,668
Carrying value at April 13, 2011 .....	<u>\$ 52,821</u>

The Company, through its ownership of Biglari Capital and Western Investments, is entitled to an incentive fee reallocation to the extent investment performance of the consolidated affiliated partnerships exceeds specified hurdle rates. Any such reallocation is included in net earnings attributable to the Company in the period the reallocation is earned.

Biglari Capital, the general partner of the Lion Fund, earned a \$5,199 incentive allocation fee; however, \$2,689 is eliminated, for that amount represents the Company's fee as a limited partner, which is uncharged because the Company owns the general partner. The remaining \$2,510 is an incentive fee that is charged and reallocated from outside limited partners of the Lion Fund. The incentive fee is assessed only once a year in the calendar year end quarter, and no predictability of such earnings exists because the Lion Fund annual performance is unpredictable.

Net earnings attributable to the Company only includes the Company's share of earnings and losses related to our investments in the consolidated affiliated partnerships; all other earnings or losses from the consolidated affiliated partnerships are allocated to the redeemable noncontrolling interests.

During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated and the funds were distributed to the partners, which are now managed as separate accounts by Mustang Capital Advisors, L.P. The distribution of \$15,660, including \$1,421 of noncash distributions, is included in the Distributions to noncontrolling interests line in the above reconciliation.

Subsequent to the second quarter of fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. See Note 23 for further information.

## 9. Assets Held for Sale

Assets held for sale are composed of the following:

	<b>April 13, 2011</b>	September 29, 2010
Land and buildings .....	<b>\$ 7,176</b>	\$ 8,789
Improvements .....	<b>640</b>	822
Total assets held for sale .....	<b><u>\$ 7,816</u></b>	<u>\$ 9,611</u>

The April 13, 2011 balance included the following assets: one office building, four restaurants, and eight parcels of land. The Company expects to sell these properties within the next 12 months. For assets that have been held for sale for greater than one year, management continues to proactively market them. One parcel of land was sold during the first quarter of fiscal year 2011 and one restaurant was subleased during the second quarter of fiscal year 2011, which then was retransferred back to Property and equipment.

## 10. Other Current Assets

Other current assets primarily included prepaid rent, taxes, contractual agreements and deferred marketing expenditures.

## 11. Property and Equipment

Property and equipment is composed of the following:

	<b>April 13, 2011</b>	September 29, 2010
Land .....	<b>\$ 159,892</b>	\$ 158,526
Buildings .....	<b>149,652</b>	148,718
Land and leasehold improvements .....	<b>154,441</b>	155,166
Equipment .....	<b>203,578</b>	203,757
Construction in progress .....	<b>1,381</b>	1,261
	<b>668,944</b>	667,428
Less accumulated depreciation and amortization .....	<b>(290,810)</b>	(281,247)
Property and equipment, net .....	<b><u>\$ 378,134</u></b>	<u>\$ 386,181</u>

## 12. Goodwill and Other Intangibles

### *Goodwill*

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired in connection with business acquisitions. The carrying value of goodwill decreased from September 29, 2010 due to the final purchase price adjustments relating to the Western acquisition. Refer to Note 2 for detail of the adjustments impacting goodwill.

We are required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The analysis of potential impairment of goodwill requires a two-step approach. The first step is the estimation of fair value of each reporting unit. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

During the quarter ended September 29, 2010, we performed our annual assessment of the recoverability of our goodwill related to four reporting units. During the second quarter of fiscal year 2011, we performed our annual assessment of our recoverability of goodwill related to two reporting units. The valuation methodology and underlying financial information included in our determination of fair value require significant judgments to be made by management. We use both market and income approaches to derive fair value. The judgments in these two approaches include, but are not limited to, comparable market multiples, long-term projections of future financial performance, and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

### ***Other Intangibles***

Other intangibles are composed of the following:

	April 13, 2011			September 29, 2010		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Right to operate .....	\$ 1,480	\$ (1,063)	\$ 417	\$ 1,480	\$ (999)	\$ 481
Franchise agreement .....	5,310	(531)	4,779	5,310	(266)	5,044
Other .....	1,136	(509)	627	1,136	(446)	690
Total .....	<u>7,926</u>	<u>(2,103)</u>	<u>5,823</u>	<u>7,926</u>	<u>(1,711)</u>	<u>6,215</u>
Intangible assets with indefinite lives .....	<u>1,744</u>	<u>—</u>	<u>1,744</u>	<u>1,744</u>	<u>—</u>	<u>1,744</u>
Total intangible assets .....	<u>\$ 9,670</u>	<u>\$ (2,103)</u>	<u>\$ 7,567</u>	<u>\$ 9,670</u>	<u>\$ (1,711)</u>	<u>\$ 7,959</u>

Intangible assets subject to amortization consist of franchise agreements and certain customer relationships acquired in connection with the acquisition of Western, a right to operate and favorable leases acquired in connection with prior acquisitions and are being amortized over their estimated weighted average useful lives ranging from five to twelve years. Amortization expense for the sixteen weeks ended April 13, 2011 and April 14, 2010 was \$200 and \$60, respectively. Amortization expense for the twenty-eight weeks ended April 13, 2011 and April 14, 2010 was \$392 and \$104, respectively. Total annual amortization expense for each of the next five years will approximate \$810.

Intangible assets with indefinite lives consist of a trade name acquired in connection with the acquisition of Western and reacquired franchise rights acquired in connection with previous acquisitions.

### **13. Other Assets**

Other assets primarily include capitalized software, non-qualified plan investments, and a note receivable.

### **14. Borrowings**

#### ***Debentures***

In connection with the acquisition of Western, the Company issued 14% redeemable subordinated debentures due 2015 (the "Debentures") in the aggregate principal amount of \$22,959. On March 30, 2011, the Company redeemed all of its outstanding Debentures. The Debentures were redeemed for cash at an aggregate redemption price of approximately \$23,420, representing 100% of the principal amount outstanding, plus accrued and unpaid interest up to, but not including, March 30, 2011. The Debentures were issued and the redemption was effected pursuant to the provisions of the Indenture, dated March 30, 2010 (the "Indenture"), between the Company and Wells Fargo Bank, National Association, as trustee. Upon the redemption of the Debentures, the Company's obligations under the Debentures and the Indenture were satisfied and discharged in accordance with their terms. Included in the Debentures aggregate redemption price of \$23,420 was approximately \$7,804 of principal and interest paid to the Lion Fund. The payment to the Lion Fund does not appear explicitly in the Company's condensed consolidated Statement of Cash Flows because of the requirement to consolidate fully the Lion Fund in the Company's financial statements.

#### ***Steak n Shake Revolving Credit Facility and Term Loan***

As of April 13, 2011, Steak n Shake's Revolving Credit Facility ("Facility") enables it to borrow up to \$30,000 under a revolving loan, which bears interest based on the London Interbank Offered Rate ("LIBOR") plus 150 basis points. The Facility is scheduled to expire February 15, 2013. On April 13, 2011, outstanding borrowings under the revolving loan were \$12,894 at an

interest rate of 1.8%. The Facility was amended effective February 15, 2011 to extend the maturity date and decrease the interest rate of the revolving loan. The lender also made a five-year \$20,000 term loan to Steak n Shake under the amendment. In connection with the issuance of the term loan, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixes the interest rate on the term loan at 3.25% through its maturity. At April 13, 2011, outstanding borrowings under the term loan were \$20,000 at an effective interest rate of 3.25%. The fair value of the interest rate swap was not material on April 13, 2011.

The Facility contains restrictions and covenants customary for credit agreements of these types which, among other things, require Steak n Shake to maintain certain financial ratios, including minimum tangible net worth, as well as restrict the amount of distributions to the parent Company. Additionally, the Facility is not guaranteed by or an obligation of the parent Company; rather the Facility is guaranteed by two Steak n Shake subsidiaries. Steak n Shake was in compliance with all covenants under the Facility as of April 13, 2011.

The Facility is secured with the deposit accounts, accounts receivable, inventory, equipment, general intangibles, chattel paper, software, and all other personal property of Steak n Shake (and its two subsidiaries).

#### ***Other Debt***

Other debt amounts include a promissory note secured by 23 acres of real property, line of credit, and notes payable.

The carrying amounts for debt reported in the condensed consolidated Balance Sheet do not differ materially from their fair values at April 13, 2011.

#### **15. Other Long-term Liabilities**

Other long-term liabilities include deferred rent expense, non-qualified plan obligations, deferred gain on sale-leaseback transactions, uncertain tax positions, deferred compensation, and a purchase obligation.

#### **16. Income Taxes**

Our effective income tax rate for the twenty-eight weeks ended April 13, 2011 was 32.6%, which is relatively consistent with 33.4% in the same period in the prior year.

As of April 13, 2011, we had approximately \$1,608 of unrecognized tax benefits, which are included in Other long-term liabilities in the condensed consolidated Balance Sheet.

#### **17. Common Stock Plans**

Employee Stock Options – During the twenty-eight weeks ended April 13, 2011, employees exercised 2,812 options under plans approved by our shareholders. Employees and non-employee directors forfeited 1,938 options during the fiscal quarter. Pre-tax stock-based compensation expense recorded during the twenty-eight weeks ended April 13, 2011 for the stock option plans totaled \$142. The Company has placed an indefinite moratorium on the issuance of stock options.

Restricted Shares – During the twenty-eight weeks ended April 13, 2011, 425 restricted shares were forfeited and 4,547 restricted shares vested. Pre-tax stock-based compensation expense recorded during the twenty-eight weeks ended April 13, 2011 for the plan totaled \$78. The Company has placed an indefinite moratorium on the issuance of restricted stock.

Our compensation philosophy, including the various equity plans, has changed to reflect present management's view on the most effective method to create shareholder value. The new incentives, which are cash based, are designed to ensure alignment with the Company's objective to maximize intrinsic business value on a per share basis. During the first quarter of fiscal year 2010, we resolved to suspend, indefinitely, all future option grants under the 2008 Employee Stock Option Plan. Then, we terminated the 2009 Employee Stock Purchase Plan, under which no shares had been granted to date; we placed an indefinite moratorium on the issuance of restricted stock; and we terminated the 2006 Employee Stock Purchase Plan.



## 18. Commitments and Contingencies

We are involved in various legal proceedings and have certain unresolved claims pending. We believe, based on examination of these matters and experiences to date, that the ultimate liability, if any, in excess of amounts already provided in our condensed financial statements is not likely to have a material effect on our results of operations, financial position or cash flows.

## 19. Fair Value of Financial Assets and Liabilities

The fair value framework as established in ASC paragraph 820-10-50-2 requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair values, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the condensed consolidated Balance Sheet.

*Cash equivalents:* Cash equivalents primarily consist of money market funds. Money market funds that are carried at fair value, based on quoted market prices, are classified within Level 1 of the fair value hierarchy. All other cash equivalents carried at fair value based on observable inputs for which a quoted market price is not available are classified within Level 2 of the fair value hierarchy. Cash equivalents reflected below includes \$0 and \$6,845 of cash equivalents held by the consolidated affiliated partnerships at April 13, 2011 and September 29, 2010, respectively.

*Equity securities:* Except as follows, the Company's investments in equity securities are carried at fair value, based on quoted market prices, and are classified within Level 1 of the fair value hierarchy. Approximately \$814 of the investments held by consolidated affiliated partnerships at September 29, 2010 have been classified within Level 2 of the fair value hierarchy and have been valued, in the absence of observable market prices, by management, using valuation methodologies after giving consideration to a range of observable factors.

*Non-qualified deferred compensation plan investments:* The assets of the Non-Qualified Deferred Compensation plan are set up in a rabbi trust. They represent mutual funds that are carried at fair value, based on quoted market prices, and are classified within Level 1 of the fair value hierarchy.

*Investment held by consolidated affiliated partnership:* Investments of \$336 and \$323 as of April 13, 2011 and September 29, 2010, respectively, have been classified within Level 3 of the fair value hierarchy and represents a private security.

*Derivatives:* Derivatives are marked to market each reporting period with fair value based on readily available market quotes, and are classified within Level 2 of the fair value hierarchy. Derivatives of \$732 held by the Company and \$659 held by consolidated affiliated partnerships at April 13, 2011 have been classified within Level 2 of the fair value hierarchy and represent the short sale of stock.

As of April 13, 2011, the fair values of financial assets and liabilities were as follows:

	April 13, 2011				September 29, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents .....	\$ -	\$ 51,890	\$ -	\$ 51,890	\$ 6,845	\$ 38,134	\$ -	\$ 44,979
Equity securities:								
Restaurant/Retail .....	12,803	-	-	12,803	26,789	-	-	26,789
Other .....	8,324	-	-	8,324	5,734	-	-	5,734
Equity securities held by consolidated affiliated partnerships:								
Restaurant/Retail .....	5,565	-	-	5,565	5,559	-	-	5,559
Other .....	2,200	-	-	2,200	8,931	814	-	9,745
Non-qualified deferred compensation plan investments .....	558	-	-	558	476	-	-	476
Investment held by consolidated affiliated partnership .....	-	-	336	336	-	-	323	323
Total assets at fair value .....	\$ 29,450	\$ 51,890	\$ 336	\$ 81,676	\$ 54,334	\$ 38,948	\$ 323	\$ 93,605
<b>Liabilities</b>								
Derivatives .....	\$ -	\$ 1,391	\$ -	\$ 1,391	\$ -	\$ 97	\$ -	\$ 97
Total liabilities at fair value .....	\$ -	\$ 1,391	\$ -	\$ 1,391	\$ -	\$ 97	\$ -	\$ 97

There were no changes in our valuation techniques used to measure fair values on a recurring basis.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs is as follows:

	April 13, 2011
Beginning of period balance .....	\$ 323
Gain included in earnings .....	13
End of period balance .....	<u>\$ 336</u>

During fiscal 2011, the Company had no significant fair value adjustments applicable to items that are subject to non-recurring fair value measurement after the initial measurement date.

## 20. Steak n Shake of Tallahassee

During the second quarter of fiscal 2010, Steak n Shake reacquired the noncontrolling interest of Steak n Shake of Tallahassee LLC for \$168.

## 21. Related Party Transactions

Mr. Biglari, along with his affiliates, and certain directors of the Company make investments in the Lion Fund (other than the amounts invested by the Company), which are not subject to special profits, interest allocations, or incentive allocations. However, Mr. Biglari does not pay an incentive allocation fee as a limited partner in the Lion Fund. As of April 13, 2011, the total fair value of these investments was approximately \$2,651.

## 22. Business Segment Reporting

Net revenue and earnings before income taxes and noncontrolling interests by segment data for the sixteen and twenty-eight weeks ended April 13, 2011 and April 14, 2010 were as follows:

	Net Revenue			
	Sixteen Weeks		Twenty-Eight Weeks	
	2011	2010	2011	2010
<b>Operating Business:</b>				
Restaurant Operations:				
Steak n Shake .....	\$ 207,142	\$ 199,116	\$ 359,038	\$ 348,474
Western .....	3,770	—	7,489	—
Total Restaurant Operations .....	<u>210,912</u>	<u>199,116</u>	<u>366,527</u>	<u>348,474</u>
Investment Management:				
Management fees .....	114	—	224	—
Consolidated affiliated partnerships .....	251	—	3,248	—
Total Investment Management Operations .....	<u>365</u>	<u>—</u>	<u>3,472</u>	<u>—</u>
	<u>\$ 211,277</u>	<u>\$ 199,116</u>	<u>\$ 369,999</u>	<u>\$ 348,474</u>

	Earnings before income taxes and noncontrolling interests				Net earnings attributable to Biglari Holdings Inc.			
	Sixteen Weeks		Twenty-Eight Weeks		Sixteen Weeks		Twenty-Eight Weeks	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Operating Business:</b>								
Restaurant Operations:								
Steak n Shake .....	\$ 9,299	\$ 8,092	\$ 18,760	\$ 16,552	\$ 6,669	\$ 5,770	\$ 13,199	\$ 11,423
Western .....	449	—	863	—	277	—	529	—
Total Restaurant Operations .....	<u>9,748</u>	<u>8,092</u>	<u>19,623</u>	<u>16,552</u>	<u>6,946</u>	<u>5,770</u>	<u>13,728</u>	<u>11,423</u>
Investment Management:								
Management fees .....	114	—	224	—	71	—	139	—
Incentive fee reallocation .....	—	—	2,510	—	—	—	1,535	—
Consolidated affiliated partnerships .....	50	—	1,841	—	184	—	265	—
Total Investment Management Operations .....	<u>164</u>	<u>—</u>	<u>4,575</u>	<u>—</u>	<u>255</u>	<u>—</u>	<u>1,939</u>	<u>—</u>
<b>Corporate and Other:</b>								
Corporate and other .....	(1,870)	(259)	(3,593)	(853)	(1,344)	(620)	(2,610)	(989)
Investment and derivative gains/losses .....	398	522	3,451	834	251	374	2,174	567
Total Corporate and Other .....	<u>(1,472)</u>	<u>263</u>	<u>(142)</u>	<u>(19)</u>	<u>(1,093)</u>	<u>(246)</u>	<u>(436)</u>	<u>(422)</u>
<b>Reconciliation of segments to consolidated amount:</b>								
Eliminations .....	—	—	(2,510)	—	(463)	—	(123)	—
	<u>\$ 8,440</u>	<u>\$ 8,355</u>	<u>\$ 21,546</u>	<u>\$ 16,533</u>	<u>\$ 5,645</u>	<u>\$ 5,524</u>	<u>\$ 15,108</u>	<u>\$ 11,001</u>

Biglari Capital, the general partner of the Lion Fund, earned a \$5,199 incentive allocation fee; however, \$2,689 is eliminated, for that amount represents the Company's fee as a limited partner, which is uncharged because the Company owns the general partner. The remaining \$2,510 is an incentive fee that is charged and reallocated from outside limited partners of the Lion Fund. The incentive fee is assessed only once a year in the calendar year end quarter, and no predictability of such earnings exists because the Lion Fund annual performance is unpredictable.

## 23. Subsequent Events

Subsequent to Western's second quarter in fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. As a result of the sale, we anticipate recording a gain of approximately \$1,500, most of which will not be a cash gain, during the third quarter of fiscal year 2011.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(Amounts in \$000s, except per share data)

Biglari Holdings Inc. is a diversified holding company engaged in a number of diverse business activities. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, Steak n Shake, Western, and Biglari Capital. The Company's long-term objective is to maximize per-share intrinsic value of the Company. The Company's strategy is to reinvest cash generated from its operating subsidiaries into any investments with the objective of achieving high risk-adjusted returns. All major operating, investment, and capital allocation decisions are made for the Company by Mr. Biglari.

On March 30, 2010, the Company, through Merger Sub, acquired 100% of the outstanding equity interests of Western, pursuant to the Merger Agreement. Upon the consummation of the merger pursuant to the Merger Agreement, Merger Sub merged with and into Western, with Western continuing as the surviving corporation and as a wholly-owned subsidiary of the Company.

The Company's Restaurant Operations consist of Steak n Shake and Western. As of April 13, 2011, Steak n Shake operated 413 company-owned restaurants and franchised 75 units in 22 states. Western operated 5 company-operated restaurants and franchised 90 units in 17 states.

On April 30, 2010, the Company acquired Biglari Capital pursuant to the Stock Purchase Agreement between the Company and our CEO, who was the sole shareholder of Biglari Capital. Biglari Capital is the general partner of the Lion Fund, a limited partnership operating as a private investment fund whose objective is to achieve above-average, long-term growth of capital from investments in stocks of simple, predictable businesses that generate substantial cash flow, yet trade at a significant discount to intrinsic value. The Lion Fund functions as a strategic investment arm for Biglari Holdings principally to assist in facilitating the partial ownership of other publicly traded companies.

### ***Overview***

In the following discussion, the term "same-store sales" refers to the sales of only those units open at least 18 months as of the beginning of the current fiscal period being discussed and which remained open through the end of the fiscal period.

Investment gains/losses in any given period will vary; therefore, for analytical purposes, management measures operating performance by analyzing earnings before realized and unrealized investment gains/losses.

The condensed consolidated financial statements include the accounts of (i) Biglari Holdings Inc., (ii) the wholly and majority owned subsidiaries of Biglari Holdings Inc. in which control can be exercised and (iii) limited partnership investment companies in which we have a controlling interest as the general partner. In evaluating whether we have a controlling interest in entities that we would consolidate, we consider the following: (1) for voting interest entities, we consolidate those entities in which we own a majority of the voting interests; and (2) for limited partnership entities, we consolidate those entities if we are the general partner of such entities and for which no substantive removal rights exist. All material intercompany accounts and transactions have been eliminated in consolidation. The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered include the determination as to the degree of control over an entity by its various equity holders and the design of the entity.

### ***Sixteen Weeks Ended April 13, 2011***

We recorded net earnings of \$5,645 for the second quarter of fiscal year 2011, as compared with net earnings of \$5,524 in the second quarter of fiscal year 2010. The increase was primarily driven by the performance of our operating businesses and inclusion of Western's results.

### ***Twenty-Eight Weeks Ended April 13, 2011***

We recorded net earnings of \$15,108 for the current year-to-date period, as compared with net earnings of \$11,001 in the same period of fiscal year 2010. The increase was primarily driven by the performance of our operating businesses, realized investment gains, and inclusion of Western's results. Additionally, the increase was impacted by the \$2,510 of incentive fee reallocation earned by Biglari Holdings as recorded in noncontrolling interests.

As of April 13, 2011 the total number of company-owned and franchised restaurants was 583 as follows:

	<u>Company- owned</u>	<u>Franchised</u>	<u>Total</u>
<b>Steak n Shake</b> .....	413	75	488
<b>Western</b> .....	5	90	95
<b>Total</b> .....	<u>418</u>	<u>165</u>	<u>583</u>

During the second quarter of fiscal year 2011, Restaurant Operations suffered no closings of underperforming company-owned restaurants or transfers to franchisees while opening one new company-owned unit. Also during the current year-to-date period, Steak n Shake endured no franchise closures while opening four new franchise units.

***Critical Accounting Policies***

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized in our financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in our financial statements will likely increase or decrease in the future as additional information becomes available. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 29, 2010.

## Results of Operations

The following table sets forth the percentage relationship to total net revenues, unless otherwise noted, of items included in the condensed consolidated Statements of Earnings for the periods indicated:

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	April 13, 2011	April 14, 2010	April 13, 2011	April 14, 2010
<b>Net revenues</b>				
<i>Restaurant Operations</i>				
Net sales .....	98.4%	99.1%	97.6%	99.1%
Franchise fees .....	1.1	0.6	1.2	0.6
Other revenue .....	0.3	0.3	0.3	0.3
<b>Total</b> .....	<b>99.8</b>	<b>100.0</b>	<b>99.1</b>	<b>100.0</b>
<i>Investment Management Operations</i>				
Management fee income .....	0.1	0.0	0.1	0.0
<i>Consolidated Affiliated Partnerships</i>				
Investment gains/losses .....	0.1	0.0	0.8	0.0
Other income/loss .....	(0.0)	0.0	0.1	0.0
<b>Total</b> .....	<b>0.2</b>	<b>0.0</b>	<b>0.9</b>	<b>0.0</b>
<b>Total net revenues</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Costs and expenses</b>				
Cost of sales <sup>(1)</sup> .....	27.7	27.5	27.4	26.8
Restaurant operating costs <sup>(1)</sup> .....	49.4	49.9	48.6	49.7
General and administrative .....	6.9	5.8	6.9	5.9
Depreciation and amortization .....	4.1	4.5	4.1	4.6
Marketing .....	5.1	5.0	5.3	5.1
Rent .....	2.4	2.5	2.4	2.5
Pre-opening costs .....	0.0	0.0	0.0	0.0
Asset impairments and provision for restaurant closings .....	(0.1)	(0.0)	0.0	0.0
Loss on disposal of assets .....	0.1	0.1	0.1	0.0
Other operating (income) expense .....	(0.0)	(0.2)	0.2	(0.1)
<b>Other income (expense)</b>				
Interest, dividend and other investment income .....	0.1	0.1	0.0	0.1
Interest on obligations under leases .....	(1.5)	(1.7)	(1.5)	(1.7)
Interest expense .....	(0.4)	(0.1)	(0.4)	(0.1)
Realized investment gains/losses .....	0.2	0.3	0.9	0.2
Derivative gains/losses .....	0.0	0.0	0.1	0.0
<b>Total other income (expense)</b> .....	<b>(1.7)</b>	<b>(1.5)</b>	<b>(1.0)</b>	<b>(1.5)</b>
<b>Earnings before income taxes</b> .....	<b>4.0</b>	<b>4.2</b>	<b>5.8</b>	<b>4.7</b>
Income taxes .....	1.3	1.4	1.9	1.6
<b>Net earnings</b> .....	<b>2.7</b>	<b>2.8</b>	<b>3.9</b>	<b>3.2</b>
Earnings/loss attributable to noncontrolling interest .....	0.0	0.0	0.0	(0.0)
Earnings/loss attributable to redeemable noncontrolling interests:				
Income/loss allocation .....	(0.1)	0.0	(0.5)	0.0
Incentive fee reallocation .....	0.0	0.0	0.7	0.0
Total earnings/loss attributable to redeemable noncontrolling interests .....	(0.1)	0.0	0.2	0.0
<b>Net earnings attributable to Biglari Holdings Inc.</b> .....	<b>2.7%</b>	<b>2.8%</b>	<b>4.1%</b>	<b>3.2%</b>

(1) Cost of sales and Restaurant operating costs are expressed as a percentage of Net sales.

## Comparison of Sixteen Weeks Ended April 13, 2011 to Sixteen Weeks Ended April 14, 2010

### Net Earnings

We recorded net earnings of \$5,645, or \$4.23 per diluted share, for the current quarter, as compared with net earnings of \$5,524, or \$3.84 per diluted share, for the second quarter of fiscal year 2010. The increase was primarily driven by the performance of our operating businesses and inclusion of Western's results.

### *Net Sales*

In the second quarter of fiscal year 2011, net sales increased 5.4% from \$197,257 to \$207,896, mainly because of the performance of our Restaurant Operations, including the increase in Steak n Shake's same-store sales. Steak n Shake's same store sales advanced 4.3% during the second quarter of fiscal year 2011, the consequence of increased guest traffic by 5.2%, but partially offset by lower average selling prices. The acquisition of Western increased total net sales by \$3,000 or 1.4%.

Franchise fees increased \$1,113 or 93.4% compared to the second quarter of fiscal year 2010. The number of franchised units increased from 73 at April 14, 2010 to 165 at April 13, 2011, primarily because of the inclusion of Western franchised units.

### *Costs and Expenses*

Cost of sales was \$57,543 or 27.7% of net sales, compared with \$54,160 or 27.5% of net sales in the second quarter of fiscal year 2010.

Restaurant operating costs were \$102,640 or 49.4% of net sales, compared with \$98,476 or 49.9% of net sales in the second quarter of fiscal year 2010. The decrease in percentage of net sales stemmed from the implementation of several operating initiatives, which have produced higher productivity and labor efficiency.

General and administrative expenses increased as a percentage of total net revenues from 5.8% to 6.9% because of the inclusion of Western's general and administrative expenses, incentive compensation expense, legal costs, and the integration of certain business functions such as supply chain management. For strategic purposes, the Company over the last year transitioned to and centralized selected business functions at the Company's headquarters in San Antonio, namely, supply chain management, franchise development, human resources, and training.

Depreciation and amortization expense was \$8,683 or 4.1% of total net revenues, versus \$8,962 or 4.5% of total net revenues in the second quarter of fiscal year 2010.

Marketing expense was \$10,780 or 5.1% of total net revenues, versus \$9,882 or 5.0% of total net revenues in the second quarter of fiscal year 2010.

Rent expense remained comparable as a percentage of total net revenues at 2.4% in the current quarter, compared to 2.5% in the second quarter of fiscal year 2010.

Asset impairments and provision for restaurant closings for the second quarter of fiscal year 2011 amounted to a credit of \$270 or 0.1% of total net revenues, versus a credit of \$28 in the second quarter of fiscal year 2010.

Loss on disposal of assets was \$153 in the second quarter of fiscal year 2011, versus \$122 in the second quarter of fiscal year 2010.

Interest expense on obligations under leases was \$3,261 or 1.5% of total net revenues, versus \$3,477 or 1.7% of total net revenues in the second quarter of fiscal year 2010.

Our effective income tax rate was 31.8% in the second quarter of fiscal year 2011, compared with the income tax rate of 34.0% in the second quarter of fiscal year 2010. The decrease is primarily due to one-time non-deductible expenses in relation to the Western acquisition.

### *Biglari Holdings Investment Gains*

We recorded net realized investment gains of \$366 for the current quarter connected primarily to dispositions of marketable equity securities and investment gains of \$32 related to the change in fair value of derivatives and dispositions. We recorded \$522 of realized gains on investments during the second quarter of fiscal year 2010. These investments are retained directly by Biglari Holdings, not by our consolidated affiliated partnerships.

### *Consolidated Affiliated Partnerships Investment Gains (Losses)*

We recorded a net realized gain of \$105 for the current quarter related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized investment gain of \$154. These amounts were offset by \$108 related to earnings attributable to redeemable noncontrolling interests to determine earnings allocated to the Company.

## ***Comparison of Twenty-Eight Weeks Ended April 13, 2011 to Twenty-Eight Weeks Ended April 14, 2010***

### *Net Earnings*

We recorded net earnings of \$15,108, or \$11.31 per diluted share, for the current year-to-date period, as compared with net earnings of \$11,001, or \$7.66 per diluted share, for the same period of fiscal year 2010. The increase was primarily driven by the performance of our operating businesses, realized investment gains, and inclusion of Western's results. Additionally, the increase was impacted by the \$2,510 of incentive fee reallocation earned by Biglari Holdings as recorded in noncontrolling interests.

### *Net Sales*

In the current year-to-date period, net sales increased 4.6% from \$345,181 to \$360,955, mainly because of the performance of our Restaurant Operations, including the increase in Steak n Shake's same-store sales. Steak n Shake's same store sales advanced 3.4% during the current year-to-date period, the consequence of increased guest traffic by 4.5%, but partially offset by lower average selling prices. The acquisition of Western increased total net sales by \$5,953 or 1.6%.

Franchise fees increased \$2,239 or 106.1% compared to the same period of fiscal year 2010. The number of franchised units increased from 73 at April 14, 2010 to 165 at April 13, 2011, primarily because of the inclusion of Western franchised units.

### *Costs and Expenses*

Cost of sales was \$98,823 or 27.4% of net sales, compared with \$92,639 or 26.8% of net sales in the same period of fiscal year 2010.

Restaurant operating costs were \$175,329 or 48.6% of net sales, compared with \$171,714 or 49.7% of net sales in the same period of fiscal year 2010. The decrease in percentage of net sales stemmed from the implementation of several operating initiatives, which have produced higher productivity and labor efficiency.

General and administrative expenses increased as a percentage of total net revenues from 5.9% to 6.9% because of the inclusion of Western's general and administrative expenses, incentive compensation expense, legal costs, and the integration of certain business functions such as supply chain management. For strategic purposes, the Company over the last year transitioned to and centralized selected business functions at the Company's headquarters in San Antonio, namely, supply chain management, franchise development, human resources, and training.

Depreciation and amortization expense was \$15,292 or 4.1% of total net revenues, versus \$15,885 or 4.6% of total net revenues in the same period of fiscal year 2010.

Marketing expense was \$19,731 or 5.3% of total net revenues, versus \$17,609 or 5.1% of total net revenues in the same period of fiscal year 2010.

Rent expense remained comparable as a percentage of total net revenues at 2.4% in the current year-to-date period, compared to 2.5% in the same period of fiscal year 2010.

Asset impairments and provision for restaurant closings for the current year-to-date period amounted to \$13, versus \$143 in the same period of fiscal year 2010.

Loss on disposal of assets was \$257 in the current year-to-date period, versus \$99 in the same period of fiscal year 2010.

Interest expense on obligations under leases was \$5,710 or 1.5% of total net revenues, versus \$5,953 or 1.7% of total net revenues in the same period of fiscal year 2010.

Our effective income tax rate was 32.6% in the current year-to-date period, a figure relatively consistent with the income tax rate of 33.4% in the same period of fiscal year 2010.

### *Biglari Holdings Investment Gains*

We recorded net realized investment gains of \$3,244 for the current year-to-date period connected primarily to dispositions of marketable equity securities and investment gains of \$207 related to the change in fair value of derivatives and dispositions. We recorded \$834 of realized gains on investments during the same period of fiscal year 2010. These investments are retained directly by Biglari Holdings, not by our consolidated affiliated partnerships.



### *Consolidated Affiliated Partnerships Investment Gains (Losses)*

We recorded a net realized gain of \$2,567 for the current year-to-date period related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized investment gain of \$379. These amounts were offset by \$1,920 related to earnings attributable to redeemable noncontrolling interests to determine earnings allocated to the Company.

### *Consolidated Affiliated Partnerships*

Investments held directly by the consolidated affiliated partnerships usually consist of domestic equity securities. Certain of the consolidated affiliated partnerships hold the Company's common stock as investments. In our condensed consolidated financial statements, the Company classifies this common stock as Treasury stock despite the shares being legally outstanding. As stated in Note 2 of the Notes to Condensed Consolidated Financial Statements, certain of the consolidated affiliated partnerships held the Company's Debentures as investments. These Debentures were redeemed by the Company on March 30, 2011. Refer to Note 14 of the Notes to Condensed Consolidated Financial Statements for further information. As of April 13, 2011 and September 29, 2010, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost) and \$0 and \$7,540 of Debentures, respectively.

Throughout fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these purchases of the Lion Fund totaled \$51,059 at April 13, 2011. These investments in the Lion Fund do not appear explicitly in the Company's condensed consolidated Balance Sheet because of the requirement to consolidate fully the Lion Fund (inclusive of third party interests) in the Company's financial statements. Further, the Lion Fund's portfolio holds significant interests in Biglari Holdings' common stock, which is classified on the Company's condensed consolidated Balance Sheet as a reduction to Shareholders' equity. Biglari Holdings' pro-rata ownership of its Company common stock and Debentures through the Lion Fund at April 13, 2011 was 100,623 shares of stock (with a fair value of \$42,619) based on Biglari Holdings' ownership interest in the Lion Fund on April 13, 2011.

### *Liquidity and Capital Resources*

We generated \$32,185 in cash flows from operations during the current year-to-date period as compared to \$31,095 during the same period of fiscal year 2010. The increase was based primarily on net earnings in the current year-to-date period, realized gains on investments, the inclusion of investment operations of consolidated affiliated partnerships, and the change in working capital accounts.

Net cash provided by investing activities of \$9,110 during the current year-to-date period was primarily a result of net sales of investments partially offset by capital expenditures. Net cash used in investing activities of \$3,092 during the same period of fiscal year 2010 included purchases of investments of \$9,532.

Net cash used in financing activities during the current year-to-date period was \$19,644 compared to net cash used of \$4,182 during the same period of fiscal year 2010. The increase resulted primarily from the consolidated affiliated partnerships' distributions to noncontrolling interests.

Our balance sheet continues to maintain significant liquidity. We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations, existing credit facilities, and the sale of excess properties and investments. We continually review available financing alternatives. In addition, we may consider, on an opportunistic basis, strategic decisions to create value and improve operating performance.

### *Debentures*

The Company acquired 100% of the outstanding equity interests of Western. Under the terms of the Merger Agreement, each share of Western's common stock was cancelled upon the completion of the merger and converted into the right to receive a pro rata portion of a new issue of 14% redeemable subordinated debentures due 2015 issued by the Company (the "Debentures") in the aggregate principal amount of \$22,959 with cash paid in lieu of fractional Debenture interests. The Company paid \$194 in lieu of fractional Debentures.

On March 30, 2011, the Company redeemed all of its outstanding Debentures. The Debentures were redeemed for cash at an aggregate redemption price of approximately \$23,420, representing 100% of the principal amount outstanding, plus accrued and unpaid interest up to, but not including, March 30, 2011. The Debentures were issued and the redemption was effected pursuant to the provisions of the Indenture, dated March 30, 2010 (the "Indenture"), between the Company and Wells Fargo Bank,

National Association, as trustee. Upon the redemption of the Debentures, the Company's obligations under the Debentures and the Indenture were satisfied and discharged in accordance with their terms. Included in the Debentures aggregate redemption price of \$23,420 was approximately \$7,804 of principal and interest paid to the Lion Fund. The payment to the Lion Fund does not appear explicitly in the Company's condensed consolidated Statement of Cash Flows because of the requirement to consolidate fully the Lion Fund in the Company's financial statements.

#### *Steak n Shake Revolving Credit Facility*

As of April 13, 2011, Steak n Shake's Revolving Credit Facility ("Facility") allows it to borrow up to \$30,000 under a revolving loan, which bears interest based on the London Interbank Offered Rate ("LIBOR") plus 150 basis points. The Facility is scheduled to expire on February 15, 2013. At April 13, 2011, outstanding borrowings under the revolving loan were \$12,894 at an interest rate of 1.8%. The Facility was amended effective February 15, 2011 to extend the maturity date and decrease the interest rate of the revolving loan. The lender also made a five year \$20,000 term loan to Steak n Shake under the amendment. In connection with the issuance of the term loan, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixes the interest rate on the term loan at 3.25% through its maturity. At April 13, 2011, outstanding borrowings under the term loan were \$20,000 at an effective interest rate of 3.25%. The fair value of the interest rate swap was not material at April 13, 2011.

The Facility contains restrictions and covenants customary for credit agreements of these types which, among other things, require Steak n Shake to maintain certain financial ratios, including minimum tangible net worth, as well as restrict the amount of distributions to the parent Company. Additionally, the Facility is not guaranteed by or an obligation of the parent Company; rather the Facility is guaranteed by two Steak n Shake subsidiaries. These restrictions and covenants include requirements to limit the ratio of total liabilities to tangible net worth (as defined in the Facility) to a maximum of 2.25, to maintain a minimum fixed charge coverage ratio and a funded indebtedness ratio (as defined in the Facility) of 1.75 and 2.50, respectively, and maintain minimum tangible net worth of \$150,000 for fiscal year 2011. Steak n Shake was in compliance with all covenants under the Facility as of April 13, 2011.

The Facility is secured with the deposit accounts, accounts receivable, inventory, equipment, general intangibles, chattel paper, software, and all other personal property of Steak n Shake (and its two subsidiaries).

The carrying amounts for debt reported in the condensed consolidated Balance Sheet do not differ materially from their fair values at April 13, 2011.

#### *New Accounting Standards*

See Note 4 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

#### *Effects of Governmental Regulations and Inflation*

Most employees are paid hourly rates related to federal and state minimum wage laws. Any increase in the legal minimum wage would directly increase the Company's operating costs. The Company is also subject to various federal, state and local laws related to zoning, land use, safety standards, working conditions, and accessibility standards. Any changes in these laws that require improvements to its restaurants would increase operating costs. In addition, the Company is subject to franchise registration requirements and certain related federal and state laws regarding franchise operations. Any changes in these laws could affect its ability to attract and retain franchisees.

Inflation in food, labor, fringe benefits, energy costs, transportation costs, and other operating costs also directly affect our restaurant operations.

### ***Risks Associated with Forward-Looking Statements***

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items, and assumptions underlying any of the foregoing. Forward-looking statements reflect management's current expectations regarding future events and use words such as "anticipate," "believe," "expect," "may," and other similar terminology. 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. 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, many beyond our control, including, but not limited to:

- the ability of the restaurant operations to increase store traffic on a profitable basis;
- competition in the restaurant industry for customers, staff, locations, and new products;
- disruptions in the overall economy and the financial markets;
- the Company's ability to comply with the restrictions and covenants to its debt agreements;
- declines in the market price of our common stock, which could adversely affect our goodwill impairment analysis;
- the potential to recognize additional impairment charges on our long-lived assets;
- fluctuations in food commodity and energy prices and the availability of food commodities;
- the ability of our franchisees to operate profitable restaurants;
- the poor performance or closing of even a small number of restaurants;
- changes in customer preferences, tastes, and dietary habits;
- changes in minimum wage rates and the availability and cost of qualified personnel;
- harsh weather conditions or losses due to casualties;
- unfavorable publicity relating to food safety or food-borne illness;
- exposure to liabilities related to the ownership and leasing of significant amounts of real estate;
- our ability to comply with existing and future governmental regulations;
- our ability to adequately protect our trademarks, service marks, and other components of our brand;
- changes in market prices of our investments; and
- other risks identified in the periodic reports we file with the Securities and Exchange Commission.

Accordingly, such forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized. Additional risks and uncertainties not currently known to us or that are currently deemed immaterial may also become important factors that may harm our business, financial condition, results of operations or cash flows. We assume no obligation to update forward-looking statements except as required in our periodic reports.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our investments are generally concentrated in common stocks. A significant decline in the general stock market or in the price of major investments may produce a large decrease in our consolidated Shareholders' equity and under certain circumstances may require the recognition of losses in the condensed consolidated Statement of Earnings. Decreases in values of equity investments can have a material adverse effect on our consolidated Shareholders' equity.

At April 13, 2011 the revolving loan under the Facility bore interest at a rate based upon LIBOR plus 150 basis points. Historically, we have not used derivative financial instruments to manage exposure to interest rate changes under the revolving loan. At April 13, 2011, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$79 on our net earnings. In February 2011, in connection with the issuance of the term loan under the Facility, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixes the interest rate on the term loan at 3.25% through its maturity. The fair value of the interest rate swap was not material at April 13, 2011.

We do not have exposure to foreign currency exchange rate fluctuations, as we do not transact business in international markets and are not a party to any material non-U.S. dollar denominated contracts.

**Item 4. Controls and Procedures**

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (c)), our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of April 13, 2011.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended April 13, 2011 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## Part II Other Information

### Item 1A. Risk Factors

An investment in the common stock of any company involves a degree of risk. Investors should consider carefully the risks and uncertainties described in the Company's Annual Report on Form 10-K filed with the SEC, and those other risks described elsewhere in this report, before deciding whether to purchase our common stock. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm the Company's business, financial condition, and results of operations. The occurrence of risk factors could harm the Company's business, financial condition, and results of operations. The trading price of the Company's common stock could decline due to any of these risks and uncertainties, and stockholders may lose part or all of their investment.

There have been no material changes in the risk factors described in the Company's Annual Report on Form 10-K for the year ended September 29, 2010.

### Item 2. Unregistered Sales of Equity Securities And Use Of Proceeds

During the sixteen weeks ended April 13, 2011, we withheld shares of our common stock to satisfy tax withholding obligations upon the vesting on April 12, 2011 of shares of restricted stock, which shares were automatically withheld in accordance with the terms of our 2008 Equity Incentive Plan, as amended. The following table provides information on the shares withheld (which are considered repurchased) during the sixteen weeks ended April 13, 2011:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
December 23, 2010 – January 22, 2011	—	\$ —	—	\$ —
January 23, 2011 – February 22, 2011	—	\$ —	—	\$ —
February 23, 2011 – March 22, 2011	—	\$ —	—	\$ —
March 23, 2011 – April 13, 2011	1,189	\$ 403.69	—	\$ —

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
10.01	Third Amendment to Credit Agreement by and between Steak n Shake Operations, Inc. and Fifth Third Bank, dated as of October 13, 2010
10.02	Fourth Amendment to Credit Agreement by and between Steak n Shake Operations, Inc. and Fifth Third Bank, effective as of February 15, 2011
31.01	Rule 13(a)-14(a)/15d-14(a) Certification of Chief Executive Officer
31.02	Rule 13(a)-14(a)/15d-14(a) Certification of Chief Financial Officer
32.01	Section 1350 Certifications

## SIGNATURES

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

Date: May 20, 2011

BIGLARI HOLDINGS INC.

By: /s/ Duane E. Geiger

Duane E. Geiger  
Interim Chief Financial Officer