Dear Shareholders of Biglari Holdings Inc.:

Ever since present management took over the company a little more than two years ago, significant changes have refashioned the purpose of the corporation, information which shareholders must fully understand. This letter will detail the founding of and transformation to Biglari Holdings, or BH, and the resultant alterations in the entire operation. I am dispatching this letter to enlighten all shareholders concerning the new direction of the company.

Phil Cooley, Vice Chairman of BH, and I view you as true partners of the business. To ensure a long lasting partnership, it is our beholden duty to communicate clearly our approach, business objectives, philosophy, principles — in an effort to cement an alignment of expectations with all owners. Step one is to make certain shareholders know what they own and what they do not own.

Diversified Holding Company

Simply put, BH is in the business of owning other businesses in whole and in part. Wholly- or majority-owned businesses steer earnings — those not retained for their growth — upstairs to the parent for reallocation to fuel holding company growth. With this perspective, BH is a liquidity provider. We seek to grow and diversify the cash streams going to BH through a collection of wholly-owned operating businesses as well as through an assemblage of positions in other publicly traded companies. Moreover, because I have full capital allocation responsibility with maximum latitude, we resemble a capital allocating vehicle (akin to a hedge fund with a similar incentive system) except that most of our assets will continue to amalgamate in companies we control. However, the critical point is that we could in one particular moment derive most of our earnings from one industry, such as restaurants, and then with a single large acquisition begin to derive most of our earnings from a different industry. Therefore, it would be a sizable mistake if a shareholder owns BH assuming that he or she owns a restaurant holding company or if the owner is partial to a particular subsidiary. Although capital allocation is a crucial element at most businesses, it *is* our business at BH.

As I allocate capital, opportunity, not preconceived notions, will drive my decision-making. As a corollary, my idea of a master strategy for BH is to follow in the footsteps of the late Henry Singleton of Teledyne, Inc., who explained his grand plan thus: “My only plan is to keep coming to work every day.” In a similar vein, I have founded our capital apportionment approach unrestricted by institutional constraints. Therefore, we enjoy great flexibility in implementing our underlying concept.

Phil and I have set BH’s long-term economic objective as maximizing per-share intrinsic value.[*] In fulfilling that objective, we will require favorable investment opportunities, preferably controlling interests in businesses with diverse operating and financial traits. We are searching for businesses in simple, comprehensible, and predictable industries that are cash generating, not cash consuming.

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[*]Intrinsic value is measured by taking all future cash flows into and out of the business and discounting the net figures at an appropriate interest rate.

Our corporate performance is a construct of both the funds generated through operating subsidiaries and through BH's effective redeployment of cash. These two drivers — operating businesses and investments — underlie our performance, which according to our criterion, must outdo the S&P 500 Index, the ultimate "conglomerate."

Entering fiscal 2010, I was concurrently managing three separate businesses whose ownership was divergent: (1) Steak n Shake Operations, Inc., (2) Western Sizzlin Corp., a former NASDAQ-listed company whose main businesses lie in investment management and franchising/operating restaurants, and (3) Biglari Capital Corp., general partner to The Lion Fund, L.P.

Exiting fiscal 2010, these three businesses became wholly-owned subsidiaries of BH. Resultantly, all my business affairs have been centralized into BH. Furthermore, the acquisitions of Western and BCC are small but important steps for BH's morphing into a diversified holding company.

We think of BH as comprising two types of enterprises: investments and operating businesses. To illuminate the factors required to estimate the value of BH, we will break down the business into segments.

Investments

As of the end of fiscal 2010, total investments (cash and stocks) amounted to $80.1 million, increasing from $54.4 million, for a sizable year-over-year gain of 47.2%. This sum excludes the investments held by the operating subsidiaries engaged in investment management.

Over the last two years our operating businesses dispatched an aggregate of $104 million to BH. These funds have been utilized at the parent level to make other investments, including a $35.7 million allocation to a controlled entity, The Lion Fund.

Securities held at BH are carried at market value with realized gains/losses weighing on reported earnings, sometimes materially. We present to you the table below because most of our gains last year were realized. The numbers substantially influence reported earnings:

	Pre-Tax Gain (in 000's)
Common Stocks	$ 2,909
Derivatives	893
Total	$ 3,802

Enjoy reading about the gains recorded on the above table, but do not grow accustomed to them. Our goal is not to realize gains.

In the long run, all gains — realized and unrealized — are essential to the value of the company. But the timing of realizing gains or losses does not impact business value. Therefore, we do not realize gains or avoid realizing losses in order to report higher earnings. Consequently, we encourage you to analyze our business performance *before* interpreting the ramifications of realized gains.

Furthermore, because of our corporate structure, we would be better off if we delayed realizing gains, for the resultant tax costs are a significant drag. That's why our preference would be to choose investments in which we were able to postpone the process of realizing gains. The unrealized gains would carry a reserve (using the prevailing corporate tax rate) recorded as a liability on our balance sheet for deferred taxes. To us, this liability or "loan" is valuable because it is interest-free and because we would be in control of the timing of the repayment. Notwithstanding the importance of taxes to us, our prime objective is to achieve the highest *after-tax* return and in doing so we may incur taxes because we aim to maintain an optimal collection of undervalued investments.

In addition to realizing gains in equities, I also transacted a number of exchange-traded derivative contracts that paid off consistently throughout the year. The higher the volatility of the market, the more attractive we deem this category. We find that these opportunities, *inter alia*, surface in times of adversity.

* * *

Whether in stocks, bonds, derivatives, or other assets, we pinpoint inefficiencies on the basis of price-to-value. From a return/risk ratio, we find the greatest opportunities in equities. Our perspective is to view stocks as a representation of ownership in a business, meaning our primary concern encompasses business value and competitive advantage. We seek mispricings between the value of a business and its price, the latter, a figure based on investor expectations. Accordingly, we apportion capital opportunistically, regardless of the economic or market cycle. Ergo, we do not engage in the futility of predicting markets; we take advantage of them.

We discover profitable opportunities arise when there is general misunderstanding — and therefore mispricing — by market participants. To spot boons like these revolves not around using common sense but, rather, around good sense, which can be *uncommon*.

To achieve high risk-adjusted returns, we seek the purchase of undervalued securities by taking advantage of mispricing of risk — being paid for perceived, not real, risk. Moreover, we view any risk — e.g., investment, currency, or credit — as inversely related to one's knowledge. The more one knows, the less one risks. Our concern diminishes over a specific risk when our specific knowledge about it increases — and vice versa. Because of our perspective on investment risk — defined as the possibility of permanent loss of capital — we limit our allocations to investments we can properly and fully evaluate. Specifically, our approach to purchasing stocks becomes two-pronged: either we invest heavily or we opt out. This maneuver leads us to be risk-averse, concentrated, and conservative with our capital. Yet a concentrated portfolio magnifies volatility, which is not tantamount to investment risk. While we accept higher oscillation of prices, we reject investment risk.

Our prospecting frequently leads us to underperforming, undermanaged, and undervalued companies because they afford better opportunities for outsized gain. Buying into an undervalued company and then having the ability to capitalize on the benefits of better resource allocation constitute a pathway towards excess returns. We are control investors, so named because we put ourselves in a position allowing us to improve operations, or control and create other types of beneficial modifications. As control investors, we are searching for viable situations in which we would have an operating plan to unearth the underlying value *ex ante* our investment.

* * *

Although we cheerfully will discuss our investment philosophy and operating catechism as we believe it necessary to clarify expectations for you, we will not telegraph our interests in specific publicly traded companies, our rationale, or our plans. Outside of regulatory requirements, we will not air our investment ideas, particularly in a world of investment competitors. We leave the yammering to others.

Acquisitions

On March 30 of this year, we completed our $23 million acquisition of Western Sizzlin Corp. in a fully leveraged transaction. BH issued five-year callable (after one year) subordinated debentures at an annual interest rate of 14%.

Western's core business stresses the franchising of restaurants under the names of Western Sizzlin, Wood Grill Buffet, and Great American Steak & Buffet. In all, Western has under its umbrella 90 franchised locations and 5 company-owned units. In addition, Western has interests in a mélange of other assets.

Immediately following the transaction, Western distributed 3,529 shares of BH stock that we retired as treasury stock, totaling a value of approximately $1.3 million, which reduced the effective purchase price to $21.7 million from $23 million.

You may be interested to learn that the 23 acres of San Antonio land included in the Western transaction is now nearly ready for development. In the coming months a small portion of the property will be home to a company-owned Steak n Shake.

The next transaction also involved a related business, Biglari Capital Corp. ("BCC"), general partner to The Lion Fund, L.P. ("TLF"), a hedge fund. This purchase was consummated on April 30. Concern for valuation was irrelevant because BCC was folded in for $1. The transaction was contingent upon a compensation arrangement that I will discuss shortly. This unifying of BH and TLF was significant given our strategy of purchasing interests in other companies, espousing the unlocking of value. Removing potential conflicts allows me to invest freely for the benefit of TLF partners and BH shareholders without concern for divergent interests because now, not I, but BH, is the sole beneficiary of incentive fees amassed through its position as general partner. Additionally, because BH is in the business of obtaining other businesses in whole or in part, an investment arm will assist, mainly in facilitating and expediting the partial ownership of other companies. The partners of TLF are receiving advantages from the resources of BH, and BH shareholders will gain because of their access to capital as well as to the incentive fees that over time should build.

Operating Businesses

The second power behind BH's value lies in operating businesses, which produce significant earnings, with almost none retained at the subsidiary level in order to make the funds available for other purposes. All of our operating businesses undoubtedly are managed for cash. We maintain tight financial controls for each business to ensure that it is an efficient cash generator.

Currently, our operating businesses are involved in restaurant operations (Steak n Shake, Western Sizzlin) and investment management (Biglari Capital Corp., Western Mustang Holdings, LLC, and Western Investments, Inc.). The following table delineating earnings is presented in a way we believe is most useful to shareholders:

	(in 000's)	
	2010	**2009**
Operating Earnings:		
Restaurant Operations:		
Steak n Shake	$ 37,731	$ 8,747
Western Sizzlin[1].............................	1,019	–
Investment Management	233	–
Other[2]...	(2,894)	(1,595)
Operating Earnings..............................	36,089	7,152
Income taxes..	10,490	1,160
Net Operating Earnings........................	25,599	5,992
Investment Gains (net of taxes)............	2,495	6
Total Earnings	$ 28,094	$ 5,998

(1) From date of acquisition, March 30, 2010.
(2) Includes consolidated affiliated partnerships, unallocated corporate overhead, and interest expense on subordinated debentures.

For the 2010 fiscal year, net operating earnings (before realized investment gains) were $25.6 million versus $6 million the prior year. (2010 and 2009 include non-cash charges of $.4 million and $2.6 million, respectively.) Last year can be summarized by the memorable Sinatra lyric, "It was a very good year."

Restaurant Operations

We own two restaurant businesses, Steak n Shake and Western Sizzlin. The business models of each are diametrically opposed in that Steak n Shake is principally involved in operating restaurants whereas Western is principally involved in franchising them.

The impact of Western results, however, is quite small because of the size of its operations. Moreover, its impact is further diminished in our overall 2010 results because we completed the acquisition on March 30, and only report numbers from date of acquisition.

BH is already pleased with the benefits of its acquisition of Western. For instance, in the calendar year ending 2009, Western's general and administrative expenses were $2.5 million. After purchasing the company and achieving cost advantages from the merger, we presently estimate that these expenses in the coming year will be under $800,000. The integration of supply chain, legal, and finance has been critical in lowering the business's cost structure. Furthermore, throughout the past year we transitioned to and centralized selected business functions to San Antonio at BH's headquarters — namely, supply chain, franchise development, human resources, and training — to achieve long-term efficiency. The propinquity of certain business functions engenders cost savings through shared services as well as provides an operating platform for future acquisitions.

We expect Western to generate cash in excess of the $3.2 million interest incurred by the subordinated debentures. We do not like paying the high interest rate; therefore, because of the parent company's excellent cash position, we plan to pay off the financial obligation quite soon.

* * *

Steak n Shake had a banner year.

To put Steak n Shake's 2010 performance in context, the year before, fiscal 2009, started off with Steak n Shake's *losing* nearly $100,000 per day…but in fiscal 2010 the chain was *making* over $100,000 per day. Steak n Shake was a troubled company whose brand required repositioning, a task made even more enervating because it had to be undertaken in the midst of the Great Recession. After we removed the near-lethal cancer of bad strategy, the turnaround was quickly successful because of the fortitude, tenacity, and commitment of all 20,000 associates who put their collective shoulders to the wheel executing the new plan. Because of *their* performance thousands of jobs were saved, and *Nation's Restaurant News* recognized this robust achievement by awarding the Golden Chain accolade, given only to the country's top six performing chains every year.

Below is a review of the customer traffic and same-store sales beginning in the fourth quarter of fiscal 2005, when Steak n Shake began to undergo a gloomy quarterly decline in same-store sales, which lasted three and one-half years. The figures in bold represent the period present management has overseen.

	Customer Traffic				**Same-Store Sales**			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
2005	–	–	–	-6.7%	–	–	–	-3.0%
2006	-5.1%	-5.0%	-7.9%	-6.5%	-1.1%	-0.3%	-3.9%	-3.4%
2007	-3.8%	-6.0%	-5.7%	-6.6%	-1.7%	-4.7%	-4.3%	-3.9%
2008	-13.3%	-8.8%	-8.5%	-10.2%	-9.5%	-6.3%	-5.8%	-7.4%
2009	**-0.9%**	**7.8%**	**13.4%**	**20.0%**	**-1.4%**	**2.4%**	**5.0%**	**10.1%**
2010	**23.0%**	**7.4%**	**9.6%**	**8.6%**	**14.4%**	**5.1%**	**7.5%**	**6.8%**

I find multi-year changes in traffic and same-store sales to be substantially more meaningful than those from a single year. But as I wrote last year, and I emphasize repeatedly, whereas the same-store sales metric has validity, it should not be the sole or primary metric for measurement. Relying on the metric of same-store sales could lead to ruinous behavior, as evidenced by the multitude of retail and restaurant executives who spent considerable shareholder money simply to grow same-store sales without achieving a proper return, thus demolishing shareholder wealth. Centering on one metric is akin to a pilot's depending on the only functioning gauge when all the other gauges signal a CRASH.

Throughout 2010 we served, on average, 276,000 customers every day up from 250,000 the year before — all through the *exact* same four walls. The additional 26,000 daily visits total 9.5 million more transactions annually! A patron's overall experience will determine the frequency of his or her future visit. The pleased guests will certainly return, and perhaps more frequently, and spread the good word that their listeners ought to visit. In contrast, displeased guests can hugely damage future traffic. For this simple, somewhat clichéd observation, we continue to invest in more effective training programs for managers and associates — all with devotion to the pragmatism inherent in continuous improvement of operational execution.

In fiscal 2010 Steak n Shake improved its competitive position and generated significant profits. However, in fiscal 2011, we expect signature difficulties in exceeding prior year profits. We seek to strengthen our competitive position and seize engaging opportunities that lead us knowingly to trade near-term profits for higher long-term value. As a consequence, we are investing in human resources, training, supply chain, and, more significantly, franchising.

Rest assured! The entire Steak n Shake organization is obsessed with controlling costs that will not impact the customer. By keeping a tight lid on expenses, we can pass much of the savings along to the customer. Maximizing the value to customers is a prerequisite for maximizing the value for shareholders. At Steak n Shake, the customer is the ultimate boss. Naturally, short-term profits could be augmented over the coming quarters by cutting the quality of the product/service. That would be not only nearsighted but also destructive. Cuts on quality are not part of our corporate culture.

Investing in Steak n Shake's franchising program represents one of the best uses of our capital. To achieve high rates of return on incremental capital at Steak n Shake yet concomitantly reduce operating risk is to grow through franchising. *Steak n Shake's future lies in franchising*. It is a fiery growth engine, the kind of business we like to own: one that does not require enormous sums of cash to generate annuity-like cash flow.

The first franchised location opened in 1939, five years after Augustus H. "Gus" Belt started Steak n Shake. Over the last 71 years, the company has produced an average of one franchised unit per year. That is not the kind of pace to which I am accustomed. This segment of the business requires a truly entrepreneurial approach because, though 71 years in existence, it now resembles a start-up. We are recruiting and filling vital positions and building an infrastructure to execute effectively. Over the next decade I would be disappointed if we do not open a multiple of the current base of franchised units.

The former design of a Steak n Shake restaurant, which had not been updated for decades, cost over $2.2 million, yet with an average unit volume of $1.5 million, the economics simply did not work. With capital investment too high in relation to sales, the required operating margin was obviously too high to generate an adequate return on investment.

Culminating after eighteen months of disciplined effort, we have corrected the unit economics along with producing an artful design of the building, an accommodation that, once seen, arouses excitement and enthusiasm. We expended the time and energy to delineate, develop, and bring to fruition a terrific and unequalled restaurant. The revisions embellish the customers' experiences to make the place even more inviting. The new layout provides the theater in which we can showcase the production of made-to-order steakburgers and hand-dipped milkshakes to entertain guests. Now, a franchisee can open an efficient, beautiful unit for about $1.5 million. My projection is that revenues emanating from each unit will doubtless surpass the $1.5 million mark, which combined with our current operating margin would yield an attractive return on investment for the franchisee. We shrank the former box size from about 4,200 square feet to nearly 3,200 square feet but kept the same number of seats in the dining area. The former model was simply inefficiently designed. The new prototype is a display of our uncompromising dedication to the pursuit of excellence.

Now we look forward to teaming up with the right franchise partners to expand the brand, which travels well and is universally welcome. We have made progress in recent months. We chose Rome, Georgia, a beautiful city in which we launched our prototype. This location was number one in our march to open 1,000 franchised units domestically. We have since established three more, and a fifth is slated to open December 16 in Las Vegas inside the bustling South Point Casino. 995 more to go.

Accounting Rules Regulating Affiliated Partnerships

The investment partnerships we control — the largest of which is The Lion Fund — we term consolidated affiliated partnerships. The current accounting policies require us to consolidate these partnerships' assets and liabilities even though outside limited partners own the majority of them. I should warn you that the following discussion surrounding the accounting is not exciting, but shareholders would find it beneficial to understand the intersection of TLF and BH.

Throughout the year BH invested a total of $35.7 million in TLF, the value of which stood at $38.6 million at the end of the fiscal year. This figure does not appear explicitly on the balance sheet because of the accounting requirement to consolidate TLF fully in the company's financial statements. Further, TLF's portfolio holds a significant interest in both BH's common stock and its debentures, which are classified on the company's balance sheet as reductions to shareholders' equity and long-term debt, respectively. The parent company's pro-rata ownership of BH stock and debentures through TLF at fiscal year end was 94,754 shares of stock and $3.5 million in debentures.

Phil and I disagree with the accounting rule governing affiliated partnerships and find it a distortion of BH's consolidated financial statements. After all, BH invested in TLF for investment purposes. Nonetheless, in rebuttal to the accounting regulations, to which we adhere, the following is a simplified perspective: Factor in BH's investment in TLF (fair value of $38.6 million), ignore reductions to shareholders' equity and long-term debt, and calculate per-share numbers using the shares outstanding (1.434 million) on the cover of our 10K. If you take that view, be sure not to use the shares outstanding on the balance sheet or income statement; otherwise, your analysis will be misleading.

Performance-Based Compensation

The variable compensation program, established between the company and me, was presented at the special meeting on November 5, 2010 with the incentive agreement posted on our website at biglariholdings.com.

The incentive plan stipulates that I would earn 25% of the increase in BH's adjusted book value exceeding a 6% hurdle rate. The adjusted book value gain was chosen as a proxy, albeit usually understated, able to measure per-share progress in intrinsic value. Book value encompasses both operating earnings/losses as well as unrealized gains/losses on investments. Headway on both — operating businesses and investments — is most appropriately reflected in the growth of the company's adjusted book value. The reason book value is adjusted is to prevent noneconomic factors from artificially inflating the incentive payment.

At the November 5 special meeting, 82% of the votes cast were in favor of the compensation arrangement, a figure accentuating the positive outcome of the remuneration plan. The vote at the special meeting was the ultimate "say-on-pay."

I have long believed that pay should be tied to performance. What we too often learn in Corporate America is pay-for-failure because of asymmetrical payouts through which executives win regardless of whether their shareholders win or lose. True pay-for-performance is a concept that most investors accept intellectually. TLF partners, for example, sign up for a pay-for-performance arrangement in which BH receives an incentive fee only if performance exceeds a hurdle rate. That thesis underlies my compensation system under BH.

After I consolidated all my business affairs to be conducted under the aegis of BH, I was exclusively committed to the company. A compensation methodology was structured to reflect my role as designed under the transformed business model. The incentive compensation system is similar to those seen in investment partnerships (e.g., hedge funds). As we have stated, our attitude is fully akin to a partnership, though legally we operate as a corporation. We do not believe one's attitude should change even if the legal structure does. Clearly, as evidenced by the overwhelming vote, our shareholders approved of the change.

Shareholder Communications

My aim in the Chairman's Letter is to provide logical, absolutely necessary commentary so you will be quite well informed about our business. Our communications consistently underwrite our desire to attract only long-term shareholders whom we label as true blue-chip investors. Possessing a long-term orientation is a competitive advantage. For us to invest for the long haul, we know it is imperative that our shareholders invest in BH for the long haul. We will continue to strive to avidly excite the attention of blue-chip shareholders who are unfazed by near-term fluctuations in our stock or by the vagaries of the stock market. Rather, such investors are placing their confidence in us and, like us, judge performance on the basis of long-term value creation. If you think this system does not jibe with your expectations, the time to sell is now, not after an economic shock or a negative press report.

We will issue press releases on fiscal 2011 quarterly results after the market closes on January 28, May 20, and August 12. The 2011 annual report will be posted on our website on Saturday, December 10, 2011.

Our annual meeting will be held on Thursday, April 7, 2011 in New York City at the St. Regis Hotel. We will begin at 1:00 pm. The bulk of the meeting, following prior years' practices, will center on answering your questions. Incidentally, last year's meeting with about 200 shareholders attending lasted almost five hours. Phil and I enjoy the annual meetings and are delighted to spend abundant time that day with shareholders. It is understandable that shareholders would have lots of questions since we do not engage in quarterly conference calls, road shows, or other investor relations activities held by most public companies. To be fair to all shareholders as well as to be efficient with our time, we utilize the annual meetings as a replacement for one-on-one communication.

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It should be clear by now that most of what we do at BH is unorthodox not because we favor nontraditional methods but because attaining better results calls for either going with the crowd or against it. Call us nonconformists because we take a rather grim view when we adjudge all that could go wrong and then guard against it. We are managing BH to withstand severe economic conditions. Consequently, we shun excessive debt because we believe in John Maynard Keynes' maxim, "Markets can remain irrational longer than you can remain solvent." We enjoy the responsibility and challenge of first protecting and then amplifying the capital under our stewardship. We value your long-term commitment, and we anticipate a continuing, prosperous partnership.

We look forward to welcoming you at the annual meeting.

Sardar Biglari
Chairman of the Board

December 9, 2010