

BIGLARI HOLDINGS INC.
Form 10-Q
January 27, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 21, 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 or organization)

37-0684070
(I.R.S. Employer Identification No.)

17802 IH 10 West, Suite 400
San Antonio, Texas
(Address of principal executive offices)

78257
(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of January 25, 2012 1,433,029 shares of the registrant's Common Stock, \$.50 stated value, were outstanding.

BIGLARI HOLDINGS INC.

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Part I Financial Information

Item 1. Financial Statements
BIGLARI HOLDINGS INC.CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in \$000s, except share and per share data)

| | December 21, 2011 (Unaudited) | September 28, 2011 |
|---|--|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 115,421 | \$ 98,987 |
| Investments | 118,704 | 115,321 |
| Receivables, net of allowance of \$638 and \$559, respectively | 5,893 | 4,133 |
| Inventories | 6,208 | 5,886 |
| Deferred income taxes | 2,027 | 6,150 |
| Assets held for sale | 7,111 | 6,870 |
| Other current assets | 3,285 | 3,237 |
| Total current assets | 258,649 | 240,584 |
| Property and equipment, net | 367,386 | 371,736 |
| Goodwill | 27,529 | 27,529 |
| Other intangible assets, net | 6,774 | 6,950 |
| Other assets | 8,404 | 7,278 |
| Investments held by consolidated affiliated partnerships | 21,387 | 18,783 |
| Total assets | \$ 690,129 | \$ 672,860 |
| Liabilities and shareholders' equity | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | \$ 33,632 | \$ 29,236 |
| Due to broker | — | 7,272 |
| Accrued expenses | 41,233 | 46,948 |
| Revolving credit | 15,000 | 15,000 |
| Current portion of obligations under leases | 5,403 | 5,272 |
| Current portion of long-term debt | 11,135 | 11,141 |
| Total current liabilities | 106,403 | 114,869 |
| Deferred income taxes | 10,444 | 6,664 |
| Obligations under leases | 114,663 | 116,066 |
| Long-term debt | 101,381 | 101,417 |
| Other long-term liabilities | 9,150 | 8,914 |
| Total liabilities | 342,041 | 347,930 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests of consolidated affiliated partnerships | 50,005 | 45,252 |
| Shareholders' equity | | |
| | 756 | 756 |

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| | | |
|---|------------|------------|
| Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,511,174 shares issued, 1,227,281 and 1,227,276 shares outstanding (net of treasury stock), respectively | | |
| Additional paid-in capital | 142,422 | 144,569 |
| Retained earnings | 239,185 | 230,390 |
| Accumulated other comprehensive income (loss) | 6,289 | (5,468) |
| Treasury stock – at cost: 283,893 and 283,898 shares (includes 205,743 shares held by consolidated affiliated partnerships) at December 21, 2011 and September 28, 2011, respectively | (90,569) | (90,569) |
| Biglari Holdings Inc. shareholders' equity | 298,083 | 279,678 |
| Total liabilities and shareholders' equity | \$ 690,129 | \$ 672,860 |

See accompanying Notes to Condensed Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Twelve Weeks Ended December 21, 2011 and December 22, 2010)

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

| | Twelve Weeks Ended | |
|---|--------------------|------------|
| | 2011 | 2010 |
| | (Unaudited) | |
| Net revenues | | |
| Restaurant Operations: | | |
| Net sales | \$ 161,516 | \$ 153,059 |
| Franchise fees | 2,144 | 2,045 |
| Other revenue | 530 | 511 |
| Total | 164,190 | 155,615 |
| Investment Management Operations: | | |
| Management fee income | — | 110 |
| Consolidated Affiliated Partnerships: | | |
| Investment gains/losses | 2,124 | 2,687 |
| Other income | 76 | 310 |
| Total | 2,200 | 3,107 |
| Total net revenues | 166,390 | 158,722 |
| Costs and expenses | | |
| Cost of sales | 45,424 | 41,280 |
| Restaurant operating costs | 73,963 | 72,689 |
| General and administrative | 13,258 | 11,014 |
| Depreciation and amortization | 6,301 | 6,609 |
| Marketing | 8,887 | 8,951 |
| Rent | 4,047 | 3,896 |
| Pre-opening costs | 101 | 42 |
| Asset impairments and provision for restaurant closings | — | 283 |
| Loss on disposal of assets | 216 | 104 |
| Other operating (income) expense | (519) | 822 |
| Total costs and expenses, net | 151,678 | 145,690 |
| Other income (expense) | | |
| Interest, dividend and other investment income | 626 | 35 |
| Interest on obligations under leases | (2,325) | (2,449) |
| Interest expense | (1,855) | (565) |
| Realized investment gains/losses | 3,595 | 2,878 |
| Derivative and short sale gains/losses | — | 175 |
| Total other income (expense) | 41 | 74 |
| Earnings before income taxes | 14,753 | 13,106 |
| Income taxes | 4,760 | 4,341 |

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| | | |
|---|-----------|-----------|
| Net earnings | 9,993 | 8,765 |
| Earnings attributable to redeemable noncontrolling interest: | | |
| Income allocation | (1,234) | (1,812) |
| Incentive fee | 36 | 2,510 |
| Total earnings/loss attributable to redeemable noncontrolling interests | (1,198) | 698 |
| Net earnings attributable to Biglari Holdings Inc. | \$ 8,795 | \$ 9,463 |
| Earnings per share attributable to Biglari Holdings Inc. | | |
| Basic earnings per common and common equivalent share | \$ 6.60 | \$ 7.13 |
| Diluted earnings per common and common equivalent share | \$ 6.58 | \$ 7.08 |
| Weighted average shares and equivalents | | |
| Basic | 1,333,467 | 1,327,207 |
| Diluted | 1,335,926 | 1,335,982 |

See accompanying Notes to Condensed Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Twelve Weeks Ended December 21, 2011 and December 22, 2010)

(amounts in \$000s)

| | Twelve Weeks Ended | |
|--|---------------------|---------------------|
| | 2011 (Unaudited) | 2010 (Unaudited) |
| Operating activities | | |
| Net earnings | \$ 9,993 | \$ 8,765 |
| Adjustments to reconcile net earnings to operating cash flows (excluding investment operations of consolidated affiliated partnerships): | | |
| Depreciation and amortization | 6,301 | 6,609 |
| Provision for deferred income taxes | 698 | 158 |
| Asset impairments and provision for restaurant closings | — | 283 |
| Stock-based compensation and other non-cash expenses | 157 | 301 |
| Loss on disposal of assets | 216 | 104 |
| Realized investment gains/losses | (3,595) | (2,878) |
| Derivative and short sale gains/losses | — | (175) |
| Changes in receivables and inventories | (2,082) | 1,273 |
| Changes in other assets | (1,554) | 1,161 |
| Changes in accounts payable and accrued expenses | (1,085) | (742) |
| Investment operations of consolidated affiliated partnerships: | | |
| Purchases of investments | (5,114) | (16,997) |
| Sales of investments | 11,268 | 31,447 |
| Realized investment gains, net | (1,426) | (2,462) |
| Unrealized gains on marketable securities held by consolidated affiliated partnerships | (698) | (225) |
| Changes in due to/from broker and cash equivalents held by consolidated affiliated partnerships | (6,630) | 401 |
| Net cash provided by operating activities | 6,449 | 27,023 |
| Investing activities | | |

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| | | |
|---|------------|-----------|
| Additions of property and equipment | (1,977) | (2,051) |
| Proceeds from property and equipment disposals | — | 917 |
| Purchases of investments | (7,085) | (2,554) |
| Sales of investments | 26,259 | 33,439 |
| Changes in due to/from broker | (7,272) | (3,903) |
| Net cash provided by investing activities | 9,925 | 25,848 |
| Financing activities | | |
| Proceeds from revolving credit facility | — | 53,550 |
| Payments on revolving credit facility | — | (57,300) |
| Principal payments on long-term debt | (42) | (24) |
| Principal payments on direct financing lease obligations | (1,272) | (2,398) |
| Proceeds from exercise of stock options and employees stock purchase plan | 1 | 28 |
| Excess tax benefits from stock-based awards | 445 | — |
| Repurchase of employee shares for tax withholding | 1 | (14) |
| Financing activities of consolidated affiliated partnerships: | | |
| Contributions from noncontrolling interests | 927 | 166 |
| Distributions to noncontrolling interests | — | (15,016) |
| Net cash provided by (used in) financing activities | 60 | (21,008) |
| Increase in cash and cash equivalents | 16,434 | 31,863 |
| Cash and cash equivalents at beginning of year | 98,987 | 47,563 |
| Cash and cash equivalents at end of year | \$ 115,421 | \$ 79,426 |

See accompanying Notes to Condensed Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Twelve Weeks Ended December 21, 2011 and December 22, 2010)

(amounts in \$000s)

| (Unaudited) | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|---|-----------------|----------------------------------|----------------------|---|-------------------|-----------|
| Balance at September 28, 2011 | \$756 | \$144,569 | \$230,390 | \$ (5,468) | \$(90,569) | \$279,678 |
| Net earnings attributable to Biglari Holdings Inc. | | | 8,795 | | | 8,795 |
| Reclassification of investment appreciation in net earnings, net of \$552 tax | | | | (901) | | (901) |
| Net change in unrealized gains and losses on investments, net of \$7,758 tax | | | | 12,658 | | 12,658 |
| Total comprehensive income | | | | | | 20,552 |
| Exercise of stock options and other stock compensation transactions | | 481 | | | | 481 |
| Adjustment to redeemable noncontrolling interest to reflect maximum redemption value | | (2,628) | | | | (2,628) |
| Balance at December 21, 2011 | \$756 | \$142,422 | \$239,185 | \$ 6,289 | \$(90,569) | \$298,083 |
| Balance at September 29, 2010 | \$756 | \$143,521 | \$195,825 | \$ (1,152) | \$(89,955) | \$248,995 |
| Net earnings attributable to Biglari Holdings Inc. | | | 9,463 | | | 9,463 |
| Reclassification of investment appreciation in net earnings, net of \$818 tax | | | | 1,280 | | 1,280 |
| Net change in unrealized gains and losses on investments, net of \$279 tax | | | | 436 | | 436 |
| Total comprehensive income | | | | | | 11,179 |
| Exercise of stock options and other stock compensation transactions | | 182 | | | (12) | 170 |
| Adjustment to redeemable noncontrolling interest to reflect maximum redemption value | | (6,130) | | | | (6,130) |
| Balance at December 22, 2010 | \$756 | \$137,573 | \$205,288 | \$ 564 | \$(89,967) | \$254,214 |

See accompanying Notes to Condensed Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

December 21, 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 December 21, 2011, the condensed consolidated Statements of Earnings, the condensed consolidated Statements of Cash Flows and the condensed consolidated Statements of Changes in Shareholders’ Equity for the twelve weeks ended December 21, 2011 and December 22, 2010 have been included, and consist only of normal recurring adjustments. The condensed consolidated Statements of Earnings for the twelve weeks ended December 21, 2011 and December 22, 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 28, 2011.

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 and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

Basis of Presentation and Consolidation

As of December 21, 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. 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 distributed to the partners. During the third 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.

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 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.

Western's and Biglari Capital's December 31 quarter end for financial reporting purposes differs from the end of the Company's fiscal quarter of December 21, 2011. There were no significant transactions in the intervening period.

2. 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.

3. New Accounting Standards

In December 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2011-12, Comprehensive Income (“ASU 2011-12”). The amendments in ASU 2011-12 superseded certain pending paragraphs in ASU 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”) to effectively defer only those changes in ASU 2011-05 that related to the presentation of reclassification adjustments out of accumulated other comprehensive income.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”). ASU 2011-08 amends Accounting Standards Codification (“ASC”) Topic 350, Intangibles – Goodwill and Other (“ASC Topic 350”), and allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which is effective for the Company’s first quarter of fiscal year 2013. We do not believe that the adoption of ASU 2011-08 will have a material effect on the Company’s condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05. ASU 2011-05 amends ASC Topic 220, Comprehensive Income (“ASC Topic 220”), and allows entities the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance should be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2011, which is effective for the Company’s first quarter of fiscal year 2013. The adoption of ASU 2011-05 will not impact the measurement of net earnings or other comprehensive income.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”). ASU 2011-04 attempts to improve the comparability of fair value measurements disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. Amendments in ASU 2011-04 clarify the intent of the application of existing fair value measurement and disclosure requirements, as well as change certain measurement requirements and disclosures. ASU 2011-04 was effective for the Company’s first quarter of fiscal year 2012 and was applied on a prospective basis. The adoption of ASU 2011-04 did not have a material effect on the Company’s condensed consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements (“ASU 2010-06”). ASU 2010-06 amends 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 was 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.

4. 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.

| | Twelve Weeks Ended | |
|--|-------------------------|-------------------------|
| | December 21, 2011 | December 22, 2010 |
| Basic earnings per share: | | |
| Weighted average common shares | 1,333,467 | 1,327,207 |
| Diluted earnings per share: | | |
| Weighted average common shares | 1,333,467 | 1,327,207 |
| Dilutive effect of stock awards | 2,459 | 8,775 |
| Weighted average common and incremental shares | 1,335,926 | 1,335,982 |
| 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 | 7,484 | 1,378 |

5. Investments

Investments consisted of the following:

| | December 21, 2011 | September 28, 2011 |
|-------------------------|----------------------|-----------------------|
| Cost | \$108,561 | \$124,140 |
| Gross unrealized gains | 10,472 | 1,956 |
| Gross unrealized losses | (329) | (10,775) |
| Fair value | \$118,704 | \$115,321 |

Unrealized losses of marketable equity securities at December 21, 2011 relate to securities that have been in an unrealized loss position for less than 12 months. A majority of the gross unrealized losses at September 28, 2011 were due to one investment. We consider several factors in determining other-than-temporary impairment losses including the current and 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.

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:

| | Twelve Weeks Ended | |
|--------------------------------|-------------------------|-------------------------|
| | December 21, 2011 | December 22, 2010 |
| Gross realized gains on sales | \$3,979 | \$2,884 |
| Gross realized losses on sales | \$(384) | \$(6) |

6. 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 consolidated financial statements, the Company classifies this common stock as Treasury stock despite the shares being legally outstanding. As of December 21, 2011 and September 28, 2011, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost).

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 equity securities which has been eliminated in consolidation.

In 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 \$46,663 as of the end of the fiscal 2012 first quarter. No amounts were invested in the year-to-date period in fiscal year 2012 or in fiscal year 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 was 98,776 shares of stock (with a fair value of \$36,373) based on Biglari Holdings' ownership interest in the Lion Fund as of the end of the fiscal 2012 first quarter.

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 distributed to the partners. The distribution of \$15,660, including \$1,421 of noncash distributions, is noted in the Distributions to noncontrolling interests line in the below reconciliation.

During the third 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. As a result of the sale, the Company does not have involvement in the operations of Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. Although these entities meet the definition of "discontinued operations," as defined in FASB ASC paragraph 205-20-45-1, Reporting Discontinued Operations ("ASC paragraph 205-20-45-1"), we have not separated the results of operations because the amounts are immaterial to our consolidated financial numbers. Net earnings after tax related to the entities was approximately \$1,050 for the twelve weeks ended December 22, 2010, including \$1,246 that was attributable to noncontrolling interests.

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 equity securities:

| | December 21, 2011 | September 28, 2011 |
|--------------------|----------------------|-----------------------|
| Equity securities: | | |
| Cost | \$14,247 | \$19,122 |
| Fair value | \$14,757 | \$18,783 |

Investments held by consolidated affiliated partnerships on the condensed consolidated Balance Sheet includes \$6,630 and \$0 of cash that is only available for use by the consolidated affiliated partnerships at December 21, 2011 and September 28, 2011, respectively.

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

Twelve Weeks Ended

| | December 21, 2011 | December 22, 2010 |
|--|-------------------------|----------------------|
| Net unrealized gains/losses | \$698 | \$225 |
| Net realized gains/losses from sale | \$1,426 | \$2,462 |

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 December 21, 2011 is \$50,005.

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

| | Twelve Weeks Ended | |
|--|----------------------|----------------------|
| | December 21, 2011 | December 22, 2010 |
| Carrying value at beginning of period | \$45,252 | \$62,245 |
| Contributions from noncontrolling interests | 927 | 166 |
| Distributions to noncontrolling interests | — | (16,437) |
| Incentive fee | (36) | (2,510) |
| Income / loss allocation | 1,234 | 1,812 |
| Adjustment to redeemable noncontrolling interest to reflect maximum redemption value | 2,628 | 6,130 |
| Carrying value at end of period | \$50,005 | \$51,406 |

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

Biglari Capital, the general partner of the Lion Fund, earned a \$36 incentive reallocation fee at December 31, 2011. At December 31, 2010, Biglari Capital earned a \$5,199 incentive reallocation fee; however, \$2,689 was eliminated, for that amount represents the Company's fee as a limited partner, which was uncharged because the Company owns the general partner. The remaining \$2,510 is an incentive fee that was charged and reallocated from outside limited partners of the Lion Fund. The incentive fee is assessed only once a year, on December 31, 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.

7. Assets Held for Sale

Assets held for sale are composed of the following:

| | December 21, 2011 | September 28, 2011 |
|----------------------------|----------------------|-----------------------|
| Land and buildings | \$6,503 | \$6,262 |
| Improvements | 608 | 608 |
| Total assets held for sale | \$7,111 | \$6,870 |

The December 21, 2011 balance included the following assets: one office building, four restaurants, and nine parcels of land. The Company expects to sell these properties by fiscal year end. For any of these properties that are not sold by then, management expects to classify them as long term.

8. Other Current Assets

Other current assets primarily include prepaid rent, prepaid contractual obligations and current portion of capitalized loan acquisition costs.

9. Property and Equipment

Property and equipment is composed of the following:

| | December 21, 2011 | September 28, 2011 |
|---|----------------------|-----------------------|
| Land | \$ 161,098 | \$ 161,339 |
| Buildings | 149,484 | 149,444 |
| Land and leasehold improvements | 153,912 | 153,731 |
| Equipment | 202,696 | 202,933 |
| Construction in progress | 2,774 | 1,850 |
| | 669,964 | 669,297 |
| Less accumulated depreciation and amortization | (302,578) | (297,561) |
| Property and equipment, net | \$367,386 | \$371,736 |

10. 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. There was no change to the carrying value of goodwill from September 28, 2011.

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 28, 2011, 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:

| | December 21, 2011 | | | September 28, 2011 | | |
|------------------|-----------------------------|-----------------------------|-------|-----------------------------|-----------------------------|-------|
| | Gross carrying amount | Accumulated amortization | Total | Gross carrying amount | Accumulated amortization | Total |
| Right to operate | \$1,480 | \$ (1,144) | \$336 | \$1,480 | \$ (1,117) | \$363 |

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| | | | | | | |
|---|---------|-------------|---------|---------|-------------|---------|
| Franchise agreement | 5,310 | (930) | 4,380 | 5,310 | (797) | 4,513 |
| Other | 810 | (496) | 314 | 810 | (480) | 330 |
| Total | 7,600 | (2,570) | 5,030 | 7,600 | (2,394) | 5,206 |
| Intangible assets with indefinite lives | 1,744 | — | 1,744 | 1,744 | — | 1,744 |
| Total intangible assets | \$9,344 | \$ (2,570) | \$6,774 | \$9,344 | \$ (2,394) | \$6,950 |

Intangible assets subject to amortization consist of franchise agreements 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 eight to twelve years.

Amortization expense for the twelve weeks ended December 21, 2011 and December 22, 2010 was \$176 and \$192, respectively. Total annual amortization expense for each of the next five years will approximate \$650.

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.

11. Other Assets

Other assets primarily include capitalized software, non-qualified plan investments, non-current portion of capitalized loan acquisition costs, and a note receivable.

12. Borrowings

There were no material changes in our borrowings from September 28, 2011.

Steak n Shake's Credit Facility includes customary affirmative and negative covenants and events of default, as well as financial covenants relating to a maximum total leverage ratio and a minimum consolidated fixed charge coverage ratio.

Steak n Shake was in compliance with all covenants under the Credit Facility as of December 21, 2011.

The carrying amounts for debt reported in the condensed consolidated Balance Sheet do not differ materially from their fair values at December 21, 2011.

13. 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, and deferred compensation.

14. Income Taxes

Our effective income tax rate for the twelve weeks ended December 21, 2011 was 32.3%, which is relatively consistent with our effective income tax rate of 33.1% in the same period in the prior year.

As of December 21, 2011, we had approximately \$1,819 of unrecognized tax benefits, which are included in Other long-term liabilities in the condensed consolidated Balance Sheet.

15. 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 consolidated financial statements is not likely to have a material effect on our results of operations, financial position or cash flows.

16. 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. Consolidated affiliated partnerships did not hold cash equivalents at December 21, 2011 and September 28, 2011.

Equity securities: 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.

Non-qualified deferred compensation plan investments: The assets of our Non-Qualified Savings 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 \$197 and \$193 as of December 21, 2011 and September 28, 2011, respectively, have been classified within Level 3 of the fair value hierarchy and represent a private security.

Investment derivatives and interest rate swaps: Investment derivatives and interest rate swaps 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. Interest rate swaps at December 21, 2011 and September 28, 2011 represent the mark to market adjustment for Steak n Shake's interest rate swap.

The fair values of financial assets and liabilities were as follows:

| | December 21, 2011 | | | | September 28, 2011 | | | |
|--|-------------------|------------------|---------------|-------------------|--------------------|------------------|---------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Cash equivalents | \$ - | \$ 87,078 | \$ - | \$ 87,078 | \$ - | \$ 88,022 | \$ - | \$ 88,022 |
| Equity securities: | | | | | | | | |
| Restaurant/Retail | 110,033 | - | - | 110,033 | 89,971 | - | - | 89,971 |
| Other | 8,671 | - | - | 8,671 | 25,350 | - | - | 25,350 |
| Equity securities held by consolidated affiliated partnerships: | | | | | | | | |
| Restaurant/Retail | 9,098 | - | - | 9,098 | 7,677 | - | - | 7,677 |
| Other | 5,462 | - | - | 5,462 | 10,913 | - | - | 10,913 |
| Non-qualified deferred compensation plan investments | 622 | - | - | 622 | 546 | - | - | 546 |
| Investment held by consolidated affiliated partnership | - | - | 197 | 197 | - | - | 193 | 193 |
| Total assets at fair value | \$ 133,886 | \$ 87,078 | \$ 197 | \$ 221,161 | \$ 134,457 | \$ 88,022 | \$ 193 | \$ 222,672 |
| Liabilities | | | | | | | | |
| Interest rate swaps | \$ - | \$ 352 | \$ - | \$ 352 | \$ - | \$ 439 | \$ - | \$ 439 |

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:

| | December 21, 2011 | December 22, 2010 |
|-----------------------------|-------------------|-------------------|
| Beginning of period balance | \$193 | \$323 |

| | | |
|---------------------------|-------|-------|
| Gain included in earnings | 4 | 8 |
| End of period balance | \$197 | \$331 |

For the year-to-date period in fiscal year 2012, 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.

17. 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 December 21, 2011 and September 28, 2011, the total fair value of these investments was approximately \$2,421 and \$1,997, respectively.

18. Business Segment Reporting

Net revenue and earnings before income taxes and noncontrolling interests for the twelve weeks ended December 21, 2011 and December 22, 2010 were as follows:

| | Net Revenue | |
|--|-------------|-----------|
| | 2011 | 2010 |
| Operating Business: | | |
| Restaurant Operations: | | |
| Steak n Shake | \$160,492 | \$151,896 |
| Western | 3,698 | 3,719 |
| Total Restaurant Operations | 164,190 | 155,615 |
| Investment Management: | | |
| Management fees | — | 110 |
| Consolidated affiliated partnerships | 2,200 | 2,997 |
| Total Investment Management Operations | 2,200 | 3,107 |
| | \$166,390 | \$158,722 |

The earnings presentation was adjusted from the prior year to show interest expense, excluding interest allocated to operating businesses, as a reconciliation of segments to consolidated amounts in order to more accurately reflect the earnings before and after tax of the restaurant operations.

| | Earnings before income taxes and noncontrolling interests | | Net earnings attributable to Biglari Holdings Inc. | |
|--|---|---------|--|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Operating Business: | | | | |
| Restaurant Operations: | | | | |
| Steak n Shake | \$13,649 | \$9,556 | \$8,959 | \$6,589 |
| Western | 391 | 423 | 241 | 257 |
| Total Restaurant Operations | 14,040 | 9,979 | 9,200 | 6,846 |
| Investment Management: | | | | |
| Biglari Capital Corp. (Incentive Fee) | 36 | 2,510 | 22 | 1,535 |
| Management fees | — | 110 | — | 68 |
| Consolidated affiliated partnerships | 2,098 | 1,791 | 276 | (81) |
| Total Investment Management Operations | 2,134 | 4,411 | 298 | 1,522 |
| Corporate and Other: | | | | |
| Corporate and other | (3,125) | (1,262) | (1,782) | (818) |
| Investment and derivative gains/losses | 3,595 | 3,053 | 2,229 | 1,923 |
| Total Corporate and Other | 470 | 1,791 | 447 | 1,105 |
| Reconciliation of segments to consolidated amount: | | | | |
| Eliminations | (36) | (2,510) | — | 340 |
| Interest expense, excluding interest allocated to operating businesses | (1,855) | (565) | (1,150) | (350) |

| | | | |
|----------|----------|---------|---------|
| \$14,753 | \$13,106 | \$8,795 | \$9,463 |
|----------|----------|---------|---------|

Biglari Capital, the general partner of the Lion Fund, earned a \$36 incentive reallocation fee at December 31, 2011. At December 31, 2010, Biglari Capital earned a \$5,199 incentive reallocation fee; however, \$2,689 was eliminated, for that amount represents the Company's fee as a limited partner, which was uncharged because the Company owns the general partner. The remaining \$2,510 is an incentive fee that was charged and reallocated from outside limited partners of the Lion Fund. The incentive fee is assessed only once a year, on December 31, and no predictability of such earnings exists because the Lion Fund annual performance is unpredictable.

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

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

Biglari Holdings Inc. ("Biglari Holdings" or the "Company") 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 Operations, Inc. ("Steak n Shake"), Western Sizzlin Corporation ("Western"), and Biglari Capital Corp. ("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 and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

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.

Net earnings attributable to Biglari Holdings for the twelve weeks ended December 21, 2011 and December 22, 2010 are disaggregated in the table that follows.

| | 2011 | 2010 |
|--|----------|---------|
| Operating Business: | | |
| Restaurant Operations: | | |
| Steak n Shake | \$8,959 | \$6,589 |
| Western | 241 | 257 |
| Total Restaurant Operations | 9,200 | 6,846 |
| Investment Management: | | |
| Biglari Capital Corp. (Incentive Fee) | 22 | 1,535 |
| Management fees | — | 68 |
| Consolidated affiliated partnerships | 276 | (81) |
| Total Investment Management Operations | 298 | 1,522 |
| Corporate and Other: | | |
| Corporate and other | (1,782) | (818) |
| Investment and derivative gains/losses | 2,229 | 1,923 |
| Total Corporate and Other | 447 | 1,105 |
| Reconciliation of segments to consolidated amount: | | |
| Eliminations | — | 340 |
| Interest expense, excluding interest allocated to operating businesses | (1,150) | (350) |
| | \$8,795 | \$9,463 |

Twelve Weeks Ended December 21, 2011

We recorded net earnings of \$8,795 for the first quarter of fiscal year 2012, as compared with net earnings of \$9,463 in the first quarter of fiscal year 2011.

As of December 21, 2011 the total number of company-operated and franchised restaurants was 583 as follows:

| | Company-operated | Franchised | Total |
|---------------|------------------|------------|-------|
| Steak n Shake | 413 | 78 | 491 |
| Western | 5 | 87 | 92 |
| Total | 418 | 165 | 583 |

During the first quarter of fiscal year 2012, two Western Sizzlin franchised units were closed and two Steak n Shake franchised units were opened.

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 28, 2011.

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 twelve weeks ended December 21, 2011 and December 22, 2010:

| | 2011 | | 2010 | |
|--|-------|---|-------|---|
| Net revenues | | | | |
| Restaurant Operations: | | | | |
| Net sales | 97.1 | % | 96.4 | % |
| Franchise fees | 1.3 | | 1.3 | |
| Other revenue | 0.3 | | 0.3 | |
| Total | 98.7 | | 98.0 | |
| Investment Management Operations: | | | | |
| Management fee income | 0.0 | | 0.1 | |
| Consolidated Affiliated Partnerships: | | | | |
| Investment gains/losses | 1.3 | | 1.7 | |
| Other income | 0.0 | | 0.2 | |
| Total | 1.3 | | 2.0 | |
| Total net revenues | 100.0 | | 100.0 | |
| Costs and expenses | | | | |
| Cost of sales (1) | 28.1 | | 27.0 | |
| Restaurant operating costs (1) | 45.8 | | 47.5 | |
| General and administrative | 8.0 | | 6.9 | |
| Depreciation and amortization | 3.8 | | 4.2 | |
| Marketing | 5.3 | | 5.6 | |
| Rent | 2.4 | | 2.5 | |
| Pre-opening costs | 0.1 | | 0.0 | |
| Asset impairments and provision for restaurant closings | 0.0 | | 0.2 | |
| Loss on disposal of assets | 0.1 | | 0.1 | |
| Other operating (income) expense | (0.3 |) | 0.5 | |
| Other income (expense) | | | | |
| Interest, dividend and other investment income | 0.4 | | 0.0 | |
| Interest on obligations under leases | (1.4 |) | (1.5 |) |
| Interest expense | (1.1 |) | (0.4 |) |
| Realized investment gains/losses | 2.2 | | 1.8 | |
| Derivative and short sale gains/losses | 0.0 | | 0.1 | |
| Total other income (expense) | 0.0 | | 0.0 | |
| Earnings before income taxes | 8.9 | | 8.3 | |
| Income taxes | 2.9 | | 2.7 | |
| Net earnings | 6.0 | | 5.5 | |
| Earnings attributable to redeemable noncontrolling interest: | | | | |
| Income allocation | (0.7 |) | (1.1 |) |
| Incentive fee | 0.0 | | 1.6 | |

| | | | | |
|---|------|---|-----|---|
| Total earnings/loss attributable to redeemable noncontrolling interests | (0.7 |) | 0.4 | |
| Net earnings attributable to Biglari Holdings Inc. | 5.3 | % | 6.0 | % |

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

(Amounts in \$000s)

Comparison of Twelve Weeks Ended December 21, 2011 to Twelve Weeks Ended December 22, 2010

Net Earnings

We recorded net earnings of \$8,795, or \$6.58 per diluted share, for the current quarter, as compared with net earnings of \$9,463, or \$7.08 per diluted share, for the first quarter of fiscal year 2011.

Net Sales

In the first quarter of fiscal year 2012, net sales increased 5.5% from \$153,059 to \$161,516 primarily because of the performance of our Restaurant Operations, mainly through the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 5.5% during the first quarter of fiscal year 2012. The increase in same-store sales resulted from an increment in guest traffic of 5.7%, partially offset by lower average selling prices.

Franchise fees increased 4.8% during the first quarter of fiscal year 2012. The number of franchised units remained consistent at 165 on December 21, 2011 as compared to December 22, 2010. The increase in franchise fees is in part attributable to the inclusion of the franchised units for the full twelve week period ended December 21, 2011 compared to only part of the first quarter of fiscal year 2011. Furthermore, franchise sales were higher in the first quarter of fiscal year 2012 as compared with the first quarter of fiscal year 2011.

Cost and Expenses

Cost of sales was \$45,424 or 28.1% of net sales, compared with \$41,280 or 27.0% of net sales in the first quarter of fiscal year 2011. This increase in percentage of net sales was created primarily by inflationary pressures on commodities.

Restaurant operating costs were \$73,963 or 45.8% of net sales compared to \$72,689 or 47.5% of net sales in the first quarter of fiscal year 2011. The decrease as a percentage of net sales resulted from the implementation of several operating initiatives, which have induced higher productivity and labor efficiency.

General and administrative expenses increased from \$11,014 or 6.9% of total net revenues in the first quarter of fiscal year 2011 to \$13,258 or 8.0% of total net revenues because of our efforts to franchise the Steak n Shake concept, the accrual of the incentive compensation costs, and the inclusion of expenses related to the Cracker Barrel proxy contest.

Depreciation and amortization expense was \$6,301 or 3.8% of total net revenues, versus \$6,609 or 4.2% of total net revenues in the first quarter of fiscal year 2011.

Marketing expense was \$8,887 or 5.3% of total net revenues, versus \$8,951 or 5.6% of total net revenues in the first quarter of fiscal year 2011.

Rent expense decreased from 2.5% to 2.4% as a percentage of total net revenues compared to the prior fiscal year quarter.

Pre-opening costs increased to \$101 as compared to \$42 in the first quarter of fiscal year 2011.

Asset impairments and provision for restaurant closings for the current quarter was \$0, versus \$283 or 0.2% of total net revenues in the first quarter of fiscal year 2011.

Loss on disposal of assets was \$216 or 0.1% of total net revenues as compared to \$104 or 0.1% of total net revenues in the first quarter of fiscal year 2011.

Other operating income was \$519 compared to other operating expenses of \$822 for the first quarter of fiscal year 2011. The \$822 of expenses for the first quarter of fiscal year 2011 included expenses related to the change in value of a purchase obligation which was relieved upon the sale of Mustang Capital Management, L.L.C and Mustang Capital Advisors, L.P. in the third quarter of fiscal year 2011.

Interest expense on obligations under leases was \$2,325 or 1.4% of total net revenues, versus \$2,449 or 1.5% of total net revenues in the first quarter of fiscal year 2011.

Interest expense increased from \$565 for the first quarter of fiscal year 2011 to \$1,855 for the current fiscal quarter. The increase is primarily related to the interest on the Steak n Shake's credit facility. The outstanding borrowings at December 21, 2011 were \$125,000 compared to \$14,250 at December 22, 2010. Additionally, the interest rate increased from 2.5% at December 22, 2010 to 5.5% at December 21, 2011.

Our effective income tax rate for the twelve weeks ended December 21, 2011 was 32.3%, which is relatively consistent with our effective income tax rate of 33.1% in the same period in the prior year.

Biglari Holdings Investment Gains

We recorded net realized investment gains of \$3,595 for the current quarter related to dispositions of marketable equity securities. We recorded \$2,878 of net realized gains on investments and \$175 of investment gains related to the change in fair value of derivatives and dispositions during the first quarter of fiscal year 2011. These investments are held directly by us and not by our consolidated affiliated partnerships.

Consolidated Affiliated Partnerships Investment Gains

We recorded a net realized gain of \$1,426 for the current fiscal quarter related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of \$698 for a total of \$2,124. We also received an incentive fee of \$36. These amounts were offset by \$1,234 related to earnings attributable to redeemable noncontrolling interests.

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 of December 21, 2011 and September 28, 2011, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost).

In 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 \$46,663 as of the end of the fiscal 2012 first quarter. 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 through the Lion Fund was 98,776 shares of stock (with a fair value of \$36,373) based on Biglari Holdings' ownership interest in the Lion Fund as of the end of the fiscal 2012 first quarter.

Liquidity and Capital Resources

We generated \$6,449 in cash flows from operations during the current year-to-date period as compared to \$27,023 during the same period of fiscal year 2011. The decrease is primarily due to the investment activities of the consolidated affiliated partnerships. Net purchases and sales activities of the consolidated affiliated partnerships decreased to \$6,154 from \$14,450 during the first quarter of fiscal year 2011. Additionally, due to/from broker and cash equivalents held by consolidated affiliated partnerships decreased by \$7,031 during the first quarter of fiscal year 2012 as compared to the first quarter of fiscal year 2011.

Net cash provided by investing activities during the current year-to-date period was \$9,925 compared to net cash provided by investing activities of \$25,848 during the first quarter of fiscal year 2011. The decrease resulted primarily from the net purchases and sales activities of the Company.

Net cash provided by financing activities during the current year-to-date period was \$60 compared to net cash used in financing activities of \$21,008 during the first quarter of fiscal year 2011. Net cash used in financing activities during the first quarter of fiscal year 2011 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.

Steak n Shake Credit Facility

Steak n Shake's Credit Facility includes customary affirmative and negative covenants and events of default, as well as financial covenants relating to a maximum total leverage ratio and a minimum consolidated fixed charge coverage ratio.

Steak n Shake was in compliance with all covenants under the Credit Facility as of December 21, 2011.

The carrying amounts for debt reported in the condensed consolidated Balance Sheet do not differ materially from their fair market values at December 21, 2011.

New Accounting Standards

See Note 3 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.

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At December 21, 2011 interest on the Term Loan was based on a base rate or Eurodollar rate plus an applicable margin of 3.5% and 4.5%, respectively. Interest on the Revolver was based on a base rate or Eurodollar rate plus an applicable margin ranging from 2.0% to 2.5% and 3.0% to 3.5%, respectively, based on Steak n Shake's total leverage ratio. At December 21, 2011, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$775 on our annual net earnings. In February 2011, in connection with the issuance of the term loan under Steak n Shake's previous credit facility, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixed the interest rate on the term loan at 3.25% through its maturity. The fair value of the interest rate swap was a loss of \$352 at December 21, 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 (e)), our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 21, 2011.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 21, 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 28, 2011.

Item 6. Exhibits

Exhibit

Number Description

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

101 The following financial information from Biglari Holdings Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended December 21, 2011, formatted in XBRL (Extensible Business Reporting Language), includes: (i) the Condensed Consolidated Balance Sheets as of December 21, 2011 and September 28, 2011, (ii) the Condensed Consolidated Statements of Earnings for the Twelve Weeks Ended December 21, 2011 and December 22, 2010, (iii) the Condensed Consolidated Statements of Cash Flows for the Twelve Weeks Ended December 21, 2011 and December 22, 2010, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the Twelve Weeks Ended December 21, 2011 and December 22, 2010, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text

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: January 27, 2012

Biglari Holdings inc.

By: /s/ Duane E. Geiger
Duane E. Geiger
Interim Chief Financial Officer