

Dear Shareholders of Biglari Holdings Inc.:

Fiscal 2011 marks the third anniversary since present leadership assumed control. We entered upon the scene of a struggling restaurant chain that today is a well-performing subsidiary of what we subsequently founded, Biglari Holdings, a diversified holding company that owns controlled and noncontrolled businesses. We are building Biglari Holdings, or BH, as a multi-industry company which will persist in assembling an amalgam of cash-generating companies.

BH resembles a capital allocating vehicle, one that will continue to hold most of its assets in controlled companies. I have full responsibility over capital deployment with no constraints in structure or in preconceived strategy. Further, we have inherent advantages over other forms such as partnerships because the capital under our control is captive, unlike a hedge fund, in which capital can be withdrawn by its partners. BH possesses structural advantages — a combination of permanent capital along with controlled businesses generating cash to BH for reallocation. Such a framework allows for the opportunistic deployment of cash regardless of the state of the economy or of the stock market. Most investment funds run the risk of redemption, usually during a severe market decline, plainly the very moment capital is essential to take advantage of lower prices. In contrast, we welcome market volatility — the more extreme, the better — for in times of market dislocations myriad opportunities surface. When allocating capital, a prepared mind and a prepared financial posture are absolutes for taking advantage of a rewarding opportunity when it presents itself. Thus, we can be aggressive when others are mired in apprehension.

Because our subsidiaries generate and dispatch substantial cash to BH, the cash accumulation process becomes an *ipso facto* diversification maneuver. We focus on cash-generating companies, and we seek redeployment of cash to add to a varied collection of businesses. It is apparent where the source of the cash is currently coming from — restaurant operations and investment management — but it is unclear where the funds will be going for reinvestment. We feel certain that our redeployment of capital to other industries over time will dwarf our current exposure to the restaurant business.

The capital allotment decisions I will make will shape the organization. Therefore, Biglari Holdings is a jockey stock. You are choosing the jockey; I am choosing the horses. It would be asinine to bet on the jockey and then deny him the saddle or whip. In a similar vein, to secure advantages at BH, we have organized the company as an investment machine with maximum flexibility — even if the ideas behind it are uncommon.

We view Biglari Holdings as a brand, one we are fostering and whose ascendancy is contingent upon simple yet impeccable standards building upon compelling notions of quality and strength. Moreover, we view shareholders as partners, an ethos bolstered by the Chairman's Letters and annual meetings.

Phil Cooley, Vice Chairman of BH, and I believe we have designed an ideal concept that maximizes our potential for aggrandized returns. While we do not have a fixed plan, we do have economic principles. One of them is our long-term economic credo: to maximize per-share intrinsic value. We do so by pursuing the production of cash flows and judiciously reallocating capital to earn high returns.

The combination of cash generated by operating subsidiaries along with my capital allocation work will stoke our corporate performance, which according to our criterion must outdo our benchmark, the S&P 500 Index. I think we would comfortably surpass the market if over the next decade we grow per-share intrinsic value at 15% per annum. Exceeding the S&P should be far easier than achieving 15%. Of course, there is no guarantee that we can achieve either, but we will aim for both.

Investments

As of the end of fiscal 2011, total investments (cash, stocks, and BH's investment in The Lion Fund, L.P.) amounted to \$252.8 million, increasing from \$118.7 million for a year-over-year gain of 113%. * Investments grew substantially, aided by a special dividend of \$83.2 million from Steak n Shake to BH. Steak n Shake added moderate debt to its capital structure to fund the dividend, which simply fast-forwards future cash flows dispatched to BH. Excluding the \$83.2 million payment, BH's total investments grew by 42.9%. The following table displays BH's annual total investments since fiscal 2008:

	<i>(In Millions)</i>			
	Fiscal Year			
	2011	2010	2009	2008
Cash Equivalents	\$ 99.0	\$ 47.6	\$ 51.4	\$ 6.9
Marketable Securities	115.3	32.5	3.0	–
The Lion Fund, L.P.	38.5	38.6	–	–
Total Investments	\$ 252.8	\$ 118.7	\$ 54.4	\$ 6.9

It would be a mistake to extrapolate from the above figures because, *inter alia*, our operating and acquisition strategies will impact the rate of growth in investments. Our unyielding allegiance is to a strategy centered on returns, not on asset allocation. We do not have an immovable capital allocation mindset. Because we are flexible, we evaluate multiple scenarios in order to generate high risk-adjusted returns.

Our primary business, our preference, is to acquire businesses in their entirety; however, the stock market frequently offers better value but in noncontrolled interests. Because we take a businessperson's perspective when investing in equities, we view stocks as ownership in a business. Out of thousands of publicly traded equities, our objective is to find a few underpriced securities, which result in extreme portfolio concentration.

We constantly cast about for stocks of businesses trading at a discount from our assessment of their worth. We will make money on a stock if we appraise its business correctly, if we purchase it at a discount, and if its price/value (p/v) converges.

*This sum excludes the investments held by the operating subsidiaries engaged in investment management, that is the funds we invest on behalf of limited partners. For more information on the accounting of The Lion Fund, L.P. ("TLF") review last year's Chairman's Letter under the heading of Accounting Rules Regulating Affiliated Partnerships.

Investors who take the same value approach usually depend on management to attain the peak value of the business for the benefit of its owners. But if they do not like the actions of management, their best choice is to sell the stock!

We, however, are control investors when we own a sizable block of stock engendering influence, which creates optionality and uncommon value. Control investors benefit from two additional possibilities: either to change leadership's views or to change leadership. Correspondingly, buying stocks at "knockoff" prices — and waiting passively for them to wend their way to their worth — compose a good strategy, one we often employ. The alternative strategy is the application of control investing. When management fails to create value and the board does not hold management accountable, we may perform the work that others have left undone. Correcting underperformance is often highly lucrative once we identify an undervalued target, purchase a large stake, assume leadership positions, and then implement winning ideas.

Here is an oversimplified illustration:

If a company's intrinsic value is \$1 billion and the market value is \$500 million, then a buyer is purchasing dollar bills for 50 cents. As a consequence, and assuming the p/v converges over a five-year period, the investor will profit at a rate of 15% per annum.

Our divergence from most investors is illustrated by their settling for the status quo whereas we purchase with an option: taking action to improve the productivity of the target's corporate assets. Thus, once we have assumed a position of influence by becoming active members of the board, let's presume that we can help turn \$1 in intrinsic value into \$2. That jump in value would indicate that our return over 5 years would not be 15% but 32% per year. Moreover, instead of hoping that p/v converges, we could do our part by initiating value-enhancing maneuvers to drive p/v conversion. As a consequence, the *sub rosa* value would be unlocked for all shareholders.

We are investing in a different market from that of most stock participants. Logically, the ability to create value in control situations is superior to simply holding passive positions.

Throughout our years of business, Phil and I have experienced firsthand that when board members do not hold meaningful ownership nor have serious business experience, they tend to tolerate management's failures. We are firm believers that achieving top-level corporate governance and enhancing long-term value require placing shareholders on the board who possess significant holdings along with rather deep business experience. This stipulation ensures the proper coalescence of interests between the board and its owners. The causality between lack of ownership and lack of accountability is commonsensical. Without a personal stake, directors' incentives, we believe, center on pay, prestige, and perks rather than on what is indispensable, performance. To put it succinctly, when a director has not made financial commitments on the same basis as owners have, then we believe he or she cannot relate well to the owners of the company. When directors do not purchase stock but become compensated through stock grants and stock options, they resemble employees not owners. By law, directors have a duty to represent owners. But who better to represent owners than a *true* owner?

Ownership separated from control can exhibit a profound disunity so serious that it engenders significant inefficiency, which, coupled by an imperfect equities market, opens opportunity for BH. When we get on the board of another company, we bring to the scene an

entrepreneurial, owner- and operations-centric approach. Twentieth century economist, Joseph A. Schumpeter, more than any other noted social scientist, concerned himself vitally with the idea that entrepreneurs through their innovations destroy old business paradigms to make room for the new through a process he called “creative destruction.” We have found that once we have gained board seats, it launches a robust discussion in the boardroom, a process I label *creative disruption*.

* * *

Securities held at BH are at market value with realized gains/losses impacting reported earnings, sometimes materially. In the long run, all gains — realized and unrealized — are essential to the value of the company. Yet such timing of realizing gains or losses does not impact the worth of a business. Therefore, we do not realize gains or avoid realizing losses in order to report higher earnings. On the contrary, we encourage you to analyze our business performance *before* interpreting the ramifications of realized gains. In fact, at fiscal year-end we had unrealized losses on our books, which if realized would have reduced reported earnings. We print the table below because most of our gains over the last two years were realized:

	<i>Pre-Tax Gain (In 000's)</i>		
	2011	2010	Total
Common Stocks	\$ 7,360	\$ 3,802	\$ 11,162
Derivatives/Other	610	222	832
Total.....	\$ 7,970	\$ 4,024	\$ 11,994

In fiscal 2011 the majority of our realized gains stemmed from our taking advantage of the volatility in that year’s equities market. Additionally, two consecutive investments in insurance stocks — Fremont Michigan InsuraCorp, Inc., and Penn Millers Holding Corp. — generated realized gains, though the latter will not be reported until the first quarter of fiscal 2012. In the fall of 2009 I invested \$3.5 million in Fremont, which gave us a 9.9% ownership. On April 18, 2011 Fremont, with our support, reached an agreement to sell to another firm, producing a return of 77% on our investment. About the same time, we invested \$6.1 million (half of it through TLF) into property and casualty insurer Penn Millers Holding Corp., an investment that gave us an 8.4% ownership. The board acted swiftly to sell the company, as it did on November 30, 2011, yielding us a gain of \$2.5 million. In short, we parlayed \$3.5 million into \$8.7 million, a \$5.2 million gain in two years. \$2.7 million was realized in 2011, and \$2.5 million will be realized in the first quarter of 2012, half of which is attributable to TLF.

Capital Structure

Over the last three years our operating subsidiaries sent an aggregate of \$266 million upstairs to BH, of which \$83.2 million was in the form of a special dividend paid by Steak n Shake using proceeds from its new credit facility. Steak n Shake’s debt is non-recourse to BH for the cogent reason that we aim for every subsidiary to stand independent. As of now, BH has no debt, and all our capital is under no restrictions for reinvestment. Moreover, we continue to

generate cash from operating businesses that we redeploy in investment opportunities, adding sizably to BH's financial strength. In doing so, we skirt any dependence on the capital markets. It is clear that under no circumstances do we want to place BH in a precarious situation.

Our basic view is that there should be an inverse relationship between capital-structure risk and business risk. Some businesses can exist with substantial financial leverage whereas others must curtail it because of their high operating leverage.

At BH we have diligently created a capital-structure advantage because stronger balance sheet firms benefit at the expense of more weakly positioned companies. We raised a sensible level of debt at Steak n Shake because the company had sufficient debt capacity, market conditions were favorable, and the resultant impact fortified BH's balance sheet. Further, opportunities are most abundant when markets are most turbulent — liquidity and opportunity usually are diametrically opposed.

Our views toward capital structure are conservative even though our returns could be more remunerative under a more conventional approach. Just make sure to sell your BH stock if we ever choose conventionality over rationality.

Operating Businesses

Our subsidiary businesses produce more cash than they consume. Invariably, we will utilize surplus cash to diversify BH into a broad range of unrelated businesses.

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

	<i>(In 000's)</i>	
	<u>2011</u>	<u>2010</u>
Operating Earnings:		
Restaurant Operations:		
Steak n Shake.....	\$ 39,628	\$ 37,731
Western Sizzlin.....	2,425	1,019
Investment Management:		
Biglari Capital (Incentive Fee)	2,510	—
Other	224	233
Corporate and Other ⁽¹⁾	<u>(4,325)</u>	<u>(2,894)</u>
Operating Earnings	40,462	36,089
Income Taxes	<u>10,838</u>	<u>10,490</u>
Net Operating Earnings.....	29,624	25,599
Investment Gains (net of taxes)	<u>4,941</u>	<u>2,495</u>
Total Earnings	<u>\$ 34,565</u>	<u>\$ 28,094</u>

(1) Represents earnings from consolidated affiliated partnerships and interest expense on subordinated debentures.

2011 was a solid year. Net operating earnings (before realized investment gains) were \$29.6 million versus \$25.6 million the prior year, a gain of 15.6%. Our largest profit-maker, Steak n Shake, continued to perform exceptionally well when measured by growth in intrinsic value, which in my view, far surpassed growth in earnings.

You should note that operating earnings include the profits of Biglari Capital, which are unpredictable because that entity derives results from the performance of The Lion Fund. Biglari Capital, as general partner of TLF, would have earned \$5.2 million as an incentive fee, but \$2.7 million is eliminated for that amount represents BH's fee as a limited partner, uncharged because BH owns the general partner. The remaining \$2.5 million is an incentive fee charged and reallocated from unaffiliated limited partners of TLF.

Restaurant Operations

We own two restaurant businesses, Steak n Shake and Western Sizzlin. The business models of each are different because Steak n Shake is primarily involved in operating restaurants with 490 locations, of which 413 are company-operated. However, Western is principally involved in franchising restaurants with 92 units — all but 5 franchisee run.

Western performed in line with our expectations by sending more than \$3.2 million of cash to BH. Furthermore, the acquisition and integration of Western will be a springboard to undertake similar acquisitions in the future.

* * *

Steak n Shake's pre-tax earnings climbed to \$39.6 million, up from \$37.7 million the prior year. The increment was accomplished despite our making major investments, most significant of which was franchising, the emerging side of the business. The reason for the upswing in profit is attributable to our making the stores in our domain far more productive. The principal reason unit-level performance has been improving is that unit-level customer traffic has been on the ascendency for the last eleven quarters.

	Customer Traffic						Same-Store Sales				
	Q1	Q2	Q3	Q4	FY		Q1	Q2	Q3	Q4	FY
2009	(0.9%)	7.8%	13.4%	20.0%	10.1%	2009	(1.4%)	2.4%	5.0%	10.1%	4.1%
2010	23.0%	7.4%	9.6%	8.6%	10.6%	2010	14.4%	5.1%	7.5%	6.8%	7.5%
2011	3.5%	5.2%	4.8%	5.4%	4.8%	2011	2.1%	4.3%	4.9%	5.3%	4.2%
Cumulative					27.6%	Cumulative					16.6%

I have repeatedly warned shareholders that measuring operating performance by a single metric, such as customer traffic or same-store sales, could be easily achieved but at incredible cost. However, I find multi-year changes in customer traffic and same-store sales to be substantially more meaningful than are the numbers from a single year. Far too often I find many restaurant companies facing multi-year declines in customer traffic compounding their

problem by committing two sins: (1) aggressively raising menu prices and (2) continuing to open new units instead of addressing the problems in existing ones. To add customers through the addition of new units while simultaneously losing customers through existing units is a pathway towards value destruction. Instead of fixing the leaks on the ships, the ship builders simply add more leaky ships to the fleet!

Steak n Shake has an extremely strong value proposition that resonates with consumers. We appeal to customers who favor the finest in burgers and shakes. In addition, our low-cost operating platform enables us to pass along most of the benefits to our customers. Our cost-focused culture along with our systemic process built around analysis and control of expenses allows us to achieve sustainable cost advantages. We operate on a basic principle: Great value for customers translates into great results for owners.

Since fiscal 2008, the number of customer visits has jumped by 20 million — from 85 million to 105 million — all through the same stores. Increasing customer traffic by building new units is not a managerial accomplishment. But boosting customer traffic *profitably* through existing stores — and leveraging fixed restaurant-level costs — enhances value more than any other concept.

To quantify the magnitude of the resurgence, expressed below is the operating earnings on a per unit basis for the last four fiscal years:

	<i>(In 000's)</i>			
	2011	2010	2009	2008
Operating Earnings	\$ 39,628	\$ 37,731	\$ 8,747	(\$ 33,320)
No. of Company-Operated Stores	413	412	412	423
Operating Earnings Per Store	\$ 96.0	\$ 91.6	\$ 21.2	(\$78.8)

Note Present management assumed control in the fourth quarter, 2008.

Over the same period we *lowered* menu prices, yet greatly improved product quality. For fiscal 2012, we have no intention of raising menu prices, especially because we are attempting to insulate our customers from inflation. By doing so we are not simply accepting lower profits than other restaurant chains; on the contrary, we intend to earn our profits through a different formula. We are willing to trade unit-level *profitability* for higher unit-level *profit*. As Henry Ford said, “I hold that it is better to sell a large number of cars at a reasonably small margin than to sell fewer cars at a large margin of profit.” Replace the word *cars* with *burgers*.

For the last eighteen months we have had the platform, performance, and profit potential to open new company-operated units. Strategically, we have opted to focus on franchising because it leverages the brand to generate nonvolatile revenue and high-return cash flow.

We have an ambitious plan: I believe Steak n Shake is a brand that will become global. To speed this idea into reality, franchising becomes integral to our growth. Consequently, our near-term profits have continued to be penalized, for we are developing and growing our franchise business, which we believe over the long haul will foster significant value.

Presently, most Steak n Shakes are freestanding units with a drive thru, which we have dubbed the Classic. We refashioned the restaurant to intimate an aesthetic that conveys a timeless, not an absolute age, date, or season, but to hint at artistic insights that give rise to novel aesthetics.

There have been eight new Classics opened in the last eighteen months with annualized revenue averaging \$2.7 million, 65% higher than the system average. Each time we have unwrapped a Steak n Shake in a new market, a tremendous turnout arrives to savor the experience. Plainly, an ardent following ensues.

One of the most exciting projects I have worked on has been the development of a new concept named Steak n Shake Signature. It features a counter-service-only model carrying a simple menu with choices centered primarily on core menu items such as steakburgers and milkshakes. Steak n Shake Signature prepares a 21st Century fare delivering the finest in quality burgers, fries, and shakes. Furthermore, the ambiance is unmatched. Then too, the architectural design has been formed for the Signature to appear as sleek, modern, exotic, inviting, and suitable for everyone's enjoyment. This concept affords prospective franchisees the opportunity to own a Steak n Shake at a less costly investment, smaller footprint, and a more simplified operation — ideally suited for shopping centers.

As I write this letter, we do not have a single Steak n Shake Signature unit open. The first one is slated to make its debut in New York City on Broadway, January 12, 2012.

For years I have said that “Steak n Shake’s future lies in franchising.” Well, the future is *now*. We have signed agreements with franchisees who in the coming years have committed to open 110 units. Although we have commitments, a franchisee must demonstrate high level performance without deviating from our stringent standards before we will permit additional openings.

We are quite pleased about our prospects for franchise growth. After all, we have the longest established name in the premium burger and milkshake segment of the restaurant industry. As a high-end fast food burger chain, Steak n Shake is optimally prepared to attain sustainable growth in its niche. What sets us apart is our creative skill to proffer the finest, most appealing combination of aesthetics, premium quality, and strong unit economics.

Our investing in Steak n Shake’s franchising program represents one of the most efficient uses of our capital because it achieves high rates of return yet concomitantly reduces operating risk. As a consequence, we plan to continue to invest significant capital in franchising even though it will *dilute* Steak n Shake’s earnings. The calculus I use is that the investment will be accretive not to earnings but to the long-term value of the company.

Shareholder Communications

I attempt to avoid too much repetition from year to year in my Chairman’s Letters in order to transmit ideas with the knowledge that our owners will read my past years’ letters, which can be easily accessed on our website at biglariholdings.com.

We have no investment committee, no person besides me involved in investment decision-making, and no investor relations department. We ask you to gain information about

our company directly from us and not rely on intermediaries such as analysts. Through our direct communications with you, we strive to advance your understanding of the business. Shareholders who invest in BH should do so as they would have in a partnership with a ten-year lock-up. But if your time horizon is not expressed in a decade or more, then do not own BH stock.

We will issue press releases on fiscal 2012's quarterly results after the market closes on January 27, May 18, and August 10. The 2012 annual report will be posted on our website on Saturday, December 8, 2012.

Our annual meeting will be held on Thursday, April 19, 2012 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. We expect the meeting to last about five and one-half hours. Phil and I enjoy spending the time answering shareholder questions. We find the annual meeting to be an efficient and ideal way to communicate.

* * *

We may be unconventional, nonconforming, and unorthodox, for we may take a divergent path to achieve a better result. We are guided by logic to do what makes sense, not what is commonplace. Doing business differently from others invites criticism, to which we are supremely insensitive.

Phil and I ignore the unimportant, but zero in on the fact that a number of shareholders have a significant portion of their net worth in BH stock, just as we have, and therefore we take the same approach as if BH were a private company — not to avoid discomfiture but to avoid catastrophe.

We hope to see you at the annual meeting.

Sardar Biglari
Chairman of the Board

December 10, 2011

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

FORM 10-K

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

For the fiscal year ended September 28, 2011

or

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

For the transition period from ___ to ___

Commission file number 0-8445

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation)

37-0684070

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

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

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

Title of each class

Name of each exchange on which registered

Common Stock, stated value \$.50 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of April 13, 2011 was approximately \$484,766,024 based on the closing stock price of \$399.55 per share on that day.

As of December 7, 2011, 1,433,019 shares of the registrant's Common Stock, \$0.50 stated value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. Business

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.

Biglari Holdings’ fiscal year ends on the last Wednesday in September. Accordingly, every five or six years, our fiscal year contains 53 weeks. Fiscal years 2011 and 2010 contained 52 weeks, while fiscal year 2009 contained 53. The Company’s first, third, and fourth quarters contain 12 weeks and our second quarter contains 16 weeks (except in fiscal years when there are 53 weeks, in which case the fourth quarter contains 13 weeks). Western and Biglari Capital’s September 30 year end for financial reporting purposes differs from the end of the Company’s fiscal year, the last Wednesday in September.

Restaurant Operations

The Company’s Restaurant Operations’ activities are conducted through two restaurant concepts, Steak n Shake and Western Sizzlin. As of September 28, 2011, Steak n Shake operated 413 company-operated restaurants and 76 franchised units in 22 states and Western operated 5 company-operated restaurants and 89 franchised units in 17 states.

Steak n Shake is engaged in the ownership, operation, and franchising of Steak n Shake restaurants. Founded in 1934 in Normal, Illinois, Steak n Shake is a classic American brand serving premium burgers and milk shakes.

Western Sizzlin is engaged primarily in the franchising of restaurants. Founded in 1962 in Augusta, Georgia, Western Sizzlin offers signature steak dishes as well as other classic American menu items. Western Sizzlin also operates other concepts, Great American Steak & Buffet, and Wood Grill Buffet consisting of hot and cold food buffet style dining.

Restaurant Operations

A typical restaurant’s management team consists of a general manager, a restaurant manager and other managers depending on the operating complexity and sales volume of the restaurant. Each restaurant’s general manager has primary responsibility for the day-to-day operations of his or her unit.

Purchasing

Restaurant Operations obtain food products and supplies from independent national distributors. Purchases are centrally negotiated to ensure uniformity in product quality.

Franchising

Restaurant Operations’ franchising program extends the brands to areas in which there are no current development plans for Company stores. The expansion plans include seeking qualified new franchisees and expanding relationships with current franchisees.

Restaurant Operations typically seek franchisees with both the financial resources necessary to fund successful development and significant experience in the restaurant/retail business. Both restaurant chains assist franchisees with the development and ongoing operation of their restaurants. In addition, personnel assist franchisees with site selection, approve restaurant sites, and provide prototype plans, construction support and specifications. Restaurant Operations’ staff provides both on-site and off-site instruction to franchised restaurant management and associates. Moreover, Steak n Shake franchised restaurants are required to serve only approved menu items.

Geographic Concentration and Restaurant Locations

The following table lists the locations of the 583 Steak n Shake and Western Sizzlin restaurants, including 165 franchised units, as of September 28, 2011:

	Steak n Shake		Western Sizzlin		Total
	Company-operated	Franchised	Company-operated	Franchised	
Alabama	2	3	—	5	10
Arkansas	—	2	—	17	19
California	—	—	—	2	2
Florida	80	1	—	—	81
Georgia.....	23	8	—	9	40
Illinois	63	6	—	1	70
Indiana.....	68	2	—	—	70
Iowa.....	3	—	—	—	3
Kansas	—	4	—	1	5
Kentucky	14	2	—	—	16
Louisiana	—	—	—	3	3
Maryland	—	—	—	2	2
Michigan	19	—	—	—	19
Mississippi.....	—	1	—	12	13
Missouri.....	39	21	—	2	62
Nevada	—	1	—	—	1
North Carolina.....	6	5	—	11	22
Ohio.....	63	—	—	1	64
Oklahoma	—	5	—	12	17
Pennsylvania.....	6	1	—	—	7
South Carolina.....	1	2	1	3	7
Tennessee	9	8	1	3	21
Texas	17	2	—	—	19
Virginia	—	1	3	4	8
West Virginia	—	1	—	1	2
Total	413	76	5	89	583

Competition

The restaurant business is one of the most intensely competitive industries in the United States. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company's Restaurant Operations capabilities. Restaurant businesses compete on the basis of price, menu, food quality, location, personnel and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, severe weather conditions, and competing restaurants. Additional factors that may adversely affect the restaurant industry include, but are not limited to, food and wage inflation, safety, and food-borne illness.

Government Regulation

The Company is subject to various federal, state and local laws affecting its Restaurant Operations. Each of the restaurants must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the state and/or municipality in which the restaurant is located. In addition, each restaurant must comply with various state and federal laws that regulate the franchisor/franchisee relationship, employment and pay practices and child labor laws. To date, none of the Company Restaurant Operations have been materially adversely affected by such laws or been affected by any difficulty, delay or failure to obtain required licenses or approvals.

Investment Management

The Investment Management segment is composed of Biglari Capital and Western Investments, Inc. This segment provides investment advisory services to private investment funds.

Biglari Capital, as General Partner of the The Lion Fund, L.P. (the “Lion Fund”) is entitled to receive a performance reallocation of 25% of the increase in net assets annually. This reallocation is subject to a 5% performance hurdle rate that the Lion Fund’s performance must exceed in order for the General Partner to be entitled to such reallocation.

The Company and its affiliates may also earn income through their investments in the Lion Fund and Western Acquisitions, L.P. (collectively the “consolidated affiliated partnerships”). In these cases, the income consists of realized and unrealized gains and losses on investment activities along with interest, dividends and other income.

Employees

The Company employs approximately 21,000 persons.

Trademarks

Steak n Shake trademarks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office include, among others: “Steak n Shake®”, “Steak’n Shake Famous For Steakburgers®”, “Famous For Steakburgers®”, “Takhomasak®”, “Original Steakburgers®”, “In Sight It Must Be Right®”, “Steak n Shake It’s a Meal®”, “The Original Steakburger®”, “Steak n Shake In Sight it Must be Right®”, and “Original Double Steakburger®”.

Western trademarks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office include, among others: “Western Sizzlin®”, “Western Sizzlin Steak House®”, “Western®”, “Sizzlin®”, “Western Sizzlin Wood Grill and Buffet®”, and “Western Sizzlin Wood Grill®”.

Additional information with respect to Biglari Holdings’ businesses

Information related to our reportable segments may be found in Part II, Item 8 of this Form 10-K.

Biglari Holdings maintains a website (www.biglariholdings.com) where its annual reports, press releases, interim shareholder reports and links to its subsidiaries’ websites can be found. Biglari Holdings’ periodic reports filed with the Securities and Exchange Commission (the “SEC”), which include Form 10-K, Form 10-Q, Form 8-K and amendments thereto, may be accessed by the public free of charge from the SEC and through Biglari Holdings’ website. In addition, corporate governance documents such as Corporate Governance Guidelines, Code of Conduct, Governance, Compensation and Nominating Committee Charter and Audit Committee Charter are posted on the Company’s website and are available without charge upon written request. The Company’s website and the information contained therein or connected thereto are not intended to be incorporated into this report on Form 10-K.

Item 1A. Risk Factors

Biglari Holdings and its subsidiaries (referred to herein as “we,” us,” “our,” or similar expressions) are subject to certain risks and uncertainties in our business operations which are described below. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair our business operations.

We are dependent on our Chairman and CEO.

Our success depends in large part on the services of Sardar Biglari, Chairman and Chief Executive Officer. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer. If for any reason the services of Mr. Biglari were to become unavailable, there could be a material adverse effect on our business.

We face continually increasing competition in the restaurant industry for guests, staff, locations, and new products, which may negatively impact operating performance.

The restaurant business is one of the most intensely competitive industries in the United States. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company’s Restaurant Operations capabilities. Restaurant businesses compete on the basis of price, menu, food quality, location, personnel and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, severe weather conditions, and competing restaurants. Additional factors that may adversely affect the restaurant industry include, but are not limited to, food and wage inflation, safety, and food-borne illness.

The recent disruptions in the overall economy and the financial markets may adversely impact our restaurant business.

The restaurant industry has been affected by current economic factors, including the deterioration of national, regional and local economic conditions, declines in employment levels, and shifts in consumer spending patterns. The recent disruptions in the overall economy and volatility in the financial markets have reduced, and may continue to reduce, consumer confidence in the economy, negatively affecting consumer restaurant spending, which could be harmful to our financial position and results of operations. As a result, decreased cash flow generated from our business may adversely affect our financial position and our ability to fund our operations. In addition, macroeconomic disruptions could adversely affect our ability to access credit markets and impact the availability of financing for our franchisees’ expansions and operations.

Our cash flows and financial position could be negatively impacted if we are unable to comply with the restrictions and covenants in our debt agreements.

The Company and its subsidiaries currently maintain debt instruments, including the Credit Agreement, dated as of September 8, 2011 (the “New Credit Facility”), by and among Steak n Shake, as borrower, Steak n Shake Enterprises, Inc., as a subsidiary guarantor, Steak n Shake, LLC, as a subsidiary guarantor, the lenders party thereto, and Jefferies Finance LLC, as arranger, book manager, administrative agent and collateral agent, and the promissory note issued by Western’s wholly-owned subsidiary, Western Real Estate, L.P. Covenants in the debt agreements impose operating and financial restrictions, including requiring operating subsidiaries to maintain certain financial ratios and restricting, among other things, their ability to incur additional indebtedness, prepay certain indebtedness and make distributions to the Company. Their failure to comply with these covenants and restrictions could constitute an event of default that, if not cured or waived, could result, among other things, in the acceleration of their indebtedness, which could negatively impact our operations and business and may also significantly affect our ability to obtain additional or alternative financing. In addition, the restrictions contained in these debt instruments could adversely affect our ability to finance our operations, make strategic acquisition or investments, engage in business activities, including future opportunities that may be in our interest, and plan for or react to market conditions or otherwise execute our business strategies.

We may be required to recognize additional impairment charges on our long-lived assets and goodwill, which would adversely affect our results of operations and financial position.

Long-lived assets, including restaurant sites, leasehold improvements, other fixed assets, and amortized intangible assets are reviewed for impairment annually or more frequently if circumstances indicate impairment may have occurred. Expected cash flows associated with an asset over its estimated useful life are the key factor in determining the recoverability of the carrying value of the asset. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance. Management’s estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, changes in economic conditions, changes to our business model or changes in operating performance. If the sum of the estimated undiscounted cash flows over an asset’s estimated useful life is less than the carrying value of the asset, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

We periodically evaluate our goodwill to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to income may be necessary. Estimated fair values developed based on our assumptions and judgments might be significantly different if other reasonable assumptions and estimates were to be used. If estimated fair values are less than the carrying values of goodwill in future impairment tests, or if significant impairment indicators are noted relative to other intangible assets subject to amortization, we may be required to record impairment losses against future income. Any future evaluations requiring an impairment of our goodwill and other intangible assets could materially affect our results of operations and shareholders' equity in the period in which the impairment occurs.

Judgments made by management related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions and changes in operating performance. As the ongoing expected cash flows and carrying amounts of long-lived assets are assessed, these factors could cause us to realize a material impairment charge. If assets are determined to be impaired, the determination of an asset's fair value, which is generally measured by discounting estimated future cash flows, is also subject to significant judgment, including the determination of a discount rate that is commensurate with the risk inherent in the projected cash flows. If the assumptions underlying these judgments change in the future, we may be required to realize further impairment charges for these assets.

Fluctuations in commodity and energy prices and the availability of commodities, including beef, fried products, poultry, and dairy, could affect our restaurant business.

The cost, availability and quality of ingredients Restaurant Operations use to prepare their food is subject to a range of factors, many of which are beyond their control. A significant component of our restaurant business' costs is related to food commodities, including beef, fried products, poultry, and dairy products, which can be subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, changes in international commodity markets, and other factors. If there is a substantial increase in prices for these food commodities, our results of operations may be negatively affected. In addition, our restaurants are dependent upon frequent deliveries of perishable food products that meet certain specifications. Shortages or interruptions in the supply of perishable food products caused by unanticipated demand, problems in production or distribution, disease or food-borne illnesses, inclement weather, or other conditions could adversely affect the availability, quality, and cost of ingredients, which would likely lower revenues, damage our reputation, or otherwise harm our business.

Our historical growth rate and performance may not be indicative of our future growth or financial results.

Our historical growth must be viewed in the context of the recent opportunities available to us as a result of our access to capital at a time when market conditions resulted in unprecedented asset acquisition opportunities. When evaluating our historical growth and prospects for future growth, it is also important to consider that while our business philosophy has remained relatively constant, our mix of business, distribution channels and areas of focus have changed and may continue to change. Our dynamic business model makes it difficult to assess our prospects for future growth.

The inability of Restaurant Operations' franchisees to operate profitable restaurants may negatively impact our financial performance.

Restaurant Operations operate franchise programs and collect royalties and marketing and service fees from their franchisees. Growth within the existing franchise base is dependent upon many of the same factors that apply to our Restaurant Operations' company-operated restaurants, and sometimes the challenges of opening profitable restaurants prove to be more difficult for the franchisees. For example, franchisees may not have access to the financial or management resources that they need to open or continue operating the restaurants contemplated by their franchise agreements. In addition, our Restaurant Operations' continued growth is also partially dependent upon our ability to find and retain qualified franchisees in new markets, which may include markets in which the Steak n Shake and Western brands are less well known. Furthermore, the loss of any of franchisees due to financial concerns and/or operational inefficiencies could impact our Restaurant Operations' profitability. Moreover, if our franchisees do not successfully operate or market restaurants in a manner consistent with our standards, our restaurant brands' reputations could be harmed, which in turn could adversely affect our business and operating results.

Adverse weather conditions or losses due to casualties could negatively impact our operating performance.

Although our restaurants maintain, and require franchisees to maintain, property and casualty insurance to protect against property damage caused by casualties and natural disasters, instances of inclement weather, flooding, hurricanes, fire, and other acts of nature can adversely impact sales in several ways. Many of Steak n Shake's and Western's restaurants are located in the Midwest and Southeast portions of the United States. During the first and second fiscal quarters, restaurants in the Midwest may face harsh winter weather conditions. During the first and fourth fiscal quarters, restaurants in the Southeast may experience hurricanes or tropical storms. Our sales and operating results may be negatively affected by these harsh weather conditions, which could make it more difficult for guests to visit our restaurants, necessitate the closure of restaurants for a period of time or costly repairs due to physical damage or lead to a shortage of employees resulting from unsafe road conditions or an evacuation of the general population.

We are subject to health, employment, environmental, and other government regulations, and failure to comply with existing or future government regulations could expose us to litigation or penalties, damage our reputation, and lower profits.

We are subject to various federal, state, and local laws and regulations affecting our business. If we fail to comply with any of these laws, we may be subject to governmental action or litigation, and our reputation could be accordingly harmed. Injury to our reputation would, in turn, likely reduce revenues and profits.

The development and construction of restaurants is subject to compliance with applicable zoning, land use, and environmental regulations. Difficulties in obtaining, or failure to obtain, the required licenses or approvals could delay or prevent the development of a new restaurant in a particular area.

In recent years, there has been an increased legislative, regulatory, and consumer focus on nutrition and advertising practices in the food industry. As a result, Restaurant Operations may become subject to regulatory initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of our food products, which could increase expenses. The operation of the Steak n Shake and Western franchise system is also subject to franchise laws and regulations enacted by a number of states, and to rules promulgated by the U.S. Federal Trade Commission. Any future legislation regulating franchise relationships may negatively affect our operations, particularly our relationship with franchisees. Failure to comply with new or existing franchise laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales.

Our investment activities may involve the purchase of securities on margin.

We may purchase securities on margin in connection with our investment activities, including through Western Acquisitions, L.P. and Lion Fund. If we do so, a significant decrease in the value of the securities that collateralize the margin line of credit could result in a margin call. If we do not have sufficient cash available from other sources in the event of a margin call, we may be required to sell those securities at a time when we prefer not to sell them, which could result in material losses.

We are subject to the risk of possibly becoming an investment company under the Investment Company Act of 1940.

Because we are a holding company and a significant portion of our assets may, from time to time, consist of investments in companies in which we own less than a 50% interest, we run the risk of inadvertently becoming an investment company that is required to register under the Investment Company Act. Registered investment companies are subject to extensive, restrictive and potentially adverse regulations relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid becoming and registering as an investment company under the Investment Company Act, we monitor the value of our investments and structure transactions accordingly. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings or adverse developments with respect to our ownership of certain of our subsidiaries, could result in our inadvertently becoming an investment company. If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the SEC, that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

Our investments are unusually concentrated and fair values are subject to a loss in value.

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 statement of earnings. Decreases in values of equity investments can have a material adverse effect on our consolidated book value.

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

The success of our business depends on the continued ability to use the existing trademarks, service marks, and other components of our brand to increase brand awareness and further develop branded products. While we take steps to protect our intellectual property, our rights to our trademarks could be challenged by third parties or our use of these trademarks may result in liability for trademark infringement, trademark dilution, or unfair competition, adversely affecting our profitability.

Litigation could have a material adverse effect on our financial position, cash flows and results of operations.

We are or may be from time to time a party to various legal actions brought by employees, consumers, suppliers, shareholders, government agencies or others in connection with matters incidental to our business. The outcome of such litigation is difficult to assess or quantify and the cost to defend future proceedings may be significant. Even if a claim is unsuccessful or is not fully pursued, the negative publicity surrounding any negative allegation regarding our Company, our business or our products could adversely affect our reputation with existing and potential customers. While we believe that the ultimate outcome of routine litigation matters individually and in the aggregate will not have a material impact on our financial position, we cannot assure that an adverse outcome on any of these matters would not, in fact, materially impact our financial position, cash flows and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Office and Warehouse Facilities

<u>Use</u>	<u>Location</u>	<u>Own/Lease</u>
Executive Office	San Antonio, TX	Lease
Executive Office	Indianapolis, IN	Lease
Executive Office	Roanoke, VA	Lease

Restaurant Properties

As of September 28, 2011, Restaurant Operations included 583 company-operated and franchised restaurants located in 25 states. Restaurant Operations owns the land and building for 153 restaurants. See “Geographic Concentration and Restaurant Locations” under Part I, Item 1 for additional detail.

Item 3. Legal Proceedings

None.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Biglari Holdings' common stock is listed for trading on the New York Stock Exchange (the "NYSE"), trading symbol: BH. The following table sets forth the high and low sales prices per share, as reported on the NYSE List during the periods indicated:

	2011		2010*	
	High	Low	High	Low
First Quarter	\$444.71	\$325.82	\$327.08	\$222.20
Second Quarter	459.77	391.45	411.25	289.74
Third Quarter.....	437.24	368.45	413.92	266.29
Fourth Quarter.....	405.50	288.29	333.42	264.00

* Adjusted for 1-for-20 reverse stock split effective December 18, 2009.

Shareholders

Biglari Holdings had approximately 10,500 record holders of its common stock at December 1, 2011.

Dividends

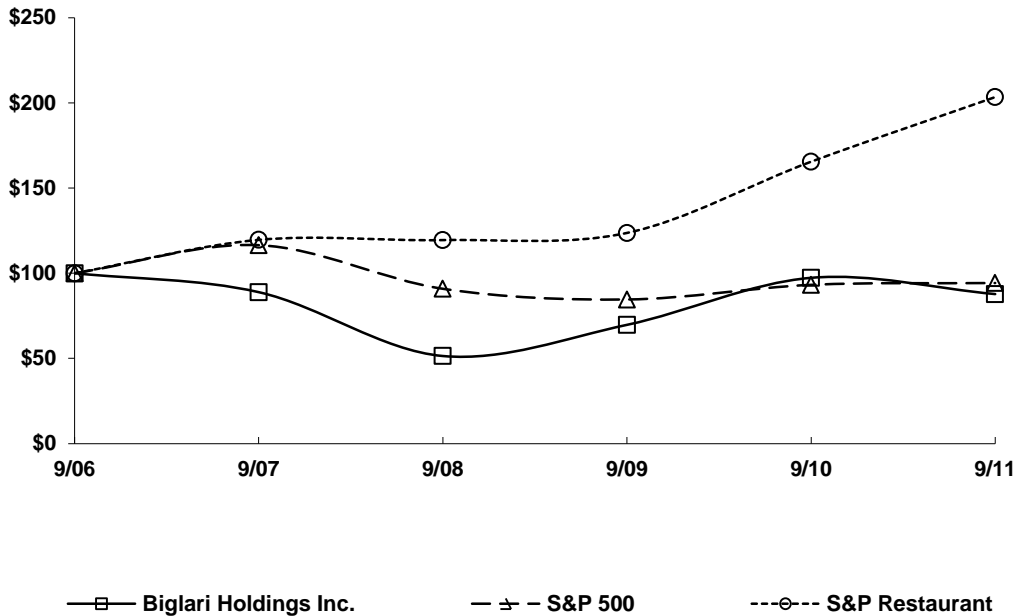
Biglari Holdings has not declared a cash dividend during the fiscal years ended September 28, 2011 and September 29, 2010.

Performance Graph

The following chart compares the subsequent value of \$100 invested in Biglari Holdings’ common stock on September 30, 2006 with a similar investment in the Standard and Poor’s 500 Stock Index and Standard and Poor’s Restaurant Index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Biglari Holdings Inc., the S&P 500 Index and the S&P Restaurant Index



*\$100 invested on 9/30/06 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

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The preceding stock price performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent that we specifically incorporate it by reference into such filings.

The “Equity Compensation Plan Information” required by Item 201(d) of Regulation S-K will be contained in our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed on or before January 26, 2012, and such information is incorporated herein by reference.

Item 6. Selected Financial Data

Selected Financial Data for the Past Five Years

(dollars in thousands except per share data)

	52 Weeks Ended		53 Weeks	52 Weeks Ended	
	Fiscal 2011 ⁽²⁾	Fiscal 2010 ⁽²⁾	Ended Fiscal 2009 ⁽²⁾	Fiscal 2008 ⁽²⁾	Fiscal 2007 ⁽²⁾
Revenue:					
Total net revenues	\$ 709,200	\$ 673,781	\$ 628,736	\$ 611,278	\$ 654,867
Earnings:					
Net earnings (loss) attributable to Biglari Holdings Inc.	\$ 34,565	\$ 28,094	\$ 5,998	\$ (22,979)	\$ 11,808
Basic earnings (loss) per share attributable to Biglari Holdings Inc. ⁽¹⁾	\$ 25.99	\$ 20.11	\$ 4.21	\$ (16.27)	\$ 8.43
Diluted earnings (loss) per share attributable to Biglari Holdings Inc. ⁽¹⁾	\$ 25.86	\$ 19.99	\$ 4.20	\$ (16.27)	\$ 8.37
Year-end data:					
Total assets	\$ 672,860	\$ 563,839	\$ 514,496	\$ 520,136	\$ 565,214
Long-term debt:					
Obligations under leases	116,066	124,247	130,076	134,809	139,493
Other long-term debt	101,417	17,781	48	15,783	16,522
Biglari Holdings Inc. shareholders' equity	\$ 279,678	\$ 248,995	\$ 291,861	\$ 283,579	\$ 303,864

(1) 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 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.

(2) Fiscal years 2011, 2010, 2009, 2008 and 2007 ended on September 28, 2011, September 29, 2010, September 30, 2009, September 24, 2008 and September 26, 2007, respectively.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of 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.

We have a 52/53 week fiscal year ending on the last Wednesday in September. Fiscal year 2011, which ended on September 28, 2011, and fiscal year 2010, which ended on September 29, 2010, both contained 52 weeks, while fiscal year 2009, which ended on September 30, 2009, contained 53 weeks.

The following discussion should be read in conjunction with Item 1, Business and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the “Cautionary Note Regarding Forward-Looking Statements” and the risks and uncertainties described in Item 1A, Risk Factors set forth above.

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 each of the past three years are disaggregated in the table that follows.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Business:			
Restaurant Operations:			
Steak n Shake	\$ 28,363	\$ 26,894	7,279
Western	1,591	634	—
Total Restaurant Operations	<u>29,954</u>	<u>27,528</u>	<u>7,279</u>
Investment Management:			
Biglari Capital Corp. (Incentive Fee)	1,535	—	—
Management fees	139	144	—
Consolidated affiliated partnerships	1,815	215	—
Total Investment Management Operations	<u>3,489</u>	<u>359</u>	<u>—</u>
Corporate and Other:			
Corporate and other	(3,819)	(2,288)	(1,287)
Investment and derivative gains/losses	4,941	2,495	6
Total Corporate and Other	<u>1,122</u>	<u>207</u>	<u>(1,281)</u>
	<u>\$ 34,565</u>	<u>\$ 28,094</u>	<u>\$ 5,998</u>

Fiscal Year 2011

We recorded net earnings of \$34,565 for the current fiscal year, as compared with net earnings of \$28,094 in fiscal year 2010. The increase was primarily driven by the performance of our operating businesses, realized investment gains, and the inclusion of Western’s full year results.

As of September 28, 2011 the total number of company-operated and franchised restaurants was 583 as follows:

	<u>Company-</u> <u>operated</u>	<u>Franchised</u>	<u>Total</u>
Steak n Shake	413	76	489
Western	5	89	94
Total	<u>418</u>	<u>165</u>	<u>583</u>

During fiscal year 2011, Restaurant Operations suffered no closings of underperforming company-operated restaurants or transfers to franchisees. Two Western Sizzlin franchised units were closed. Also during fiscal year 2011, Steak n Shake opened one company-operated unit, five franchise units, and did not experience any closures.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our 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.

We believe the following critical accounting policies represent our more significant judgments and estimates used in preparation of our consolidated financial statements.

Consolidation

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

Long-lived Assets — Impairment and Classification as Held for Sale

We review company-operated restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. We test for impairment by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total estimated future cash flows are less than the carrying amount of the asset, the carrying value is written down to the estimated fair value, and a loss is recognized in earnings. The future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, fair market value if the asset were to be sold, and other financial and economic assumptions.

We sell restaurants that have been closed due to underperformance. We classify an asset as held for sale in the period during which each of the following conditions is met: (a) management has committed to a plan to sell the asset; (b) the asset is available for immediate sale in its present condition; (c) an active search for a buyer has been initiated; (d) completion of the sale of the asset within one year is probable; (e) the asset is being marketed at a reasonable price; and (f) no significant changes to the plan of sale are expected. There is judgment involved in estimating the timing of completing the sale of an asset.

Insurance Reserves

We self-insure a significant portion of expected losses under our workers' compensation, general liability, and auto liability insurance programs. We purchase reinsurance for individual and aggregate claims that exceed predetermined limits. We record a liability for all unresolved claims and our estimates of incurred but not reported ("IBNR") claims at the anticipated cost to us. The liability estimate is based on information received from insurance companies, combined with management's judgments regarding frequency and severity of claims, claims development history, and settlement practices. Significant judgment is required to estimate IBNR claims as parties have yet to assert a claim, and therefore the degree to which injuries have been incurred and the related costs have not yet been determined. Additionally, estimates about future costs involve significant judgment regarding legislation, case jurisdictions, and other matters.

We self-insure our group health insurance risk. We record a liability for our group health insurance for all applied claims and our estimate of claims incurred but not yet reported. Our estimate is based on information received from our insurance company and claims processing practices.

Our reserve for self-insured liabilities at September 28, 2011 and September 29, 2010 were \$7,511 and \$5,908, respectively.

Income Taxes

We record deferred tax assets or liabilities based on differences between financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets would be unable to be utilized, we would record a valuation allowance against the unrealizable amount and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future. We must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded. Based on fiscal year 2011 results, a change of one percentage point in the annual effective tax rate would have an impact of \$478 on net earnings.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

Goodwill and Other Intangible Assets

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. We use both market and income approaches to derive fair value. The valuation methodology and underlying financial information included in our determination of fair value require significant judgments to be made by management. 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.

Leases

Restaurant Operations leases certain properties under operating leases. Many of these lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. Rent expense is recognized on a straight-line basis over the expected lease term, including cancelable option periods when failure to exercise such options would result in an economic penalty. We use a time period for straight-line rent expense calculation that equals or exceeds the time period used for depreciation. In addition, the rent commencement date of the lease term is the earlier of the date when they become legally obligated for the rent payments or the date when they take access to the grounds for build out. Accounting for leases involve significant management judgment.

Results of Operations

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

	2011 (52 Weeks)	2010 (52 Weeks)	2009 (53 Weeks)
Net revenues			
<i>Restaurant Operations</i>			
Net sales	97.9 %	98.5%	99.1%
Franchise fees	1.2	0.9	0.7
Other revenue	0.3	0.3	0.3
Total	<u>99.5</u>	<u>99.7</u>	<u>100.0</u>
<i>Investment Management Operations</i>			
Management fee income	0.0	0.0	0.0
<i>Consolidated Affiliated Partnerships</i>			
Investment gains/losses	0.4	0.3	0.0
Other income	0.1	0.0	0.0
Total	<u>0.5</u>	<u>0.3</u>	<u>0.0</u>
Total net revenues	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Costs and expenses			
Cost of sales ⁽¹⁾	27.7	27.1	26.6
Restaurant operating costs ⁽¹⁾	47.7	48.5	51.8
General and administrative	6.8	6.2	5.8
Depreciation and amortization	4.0	4.3	5.0
Marketing	5.4	5.2	5.3
Rent	2.4	2.5	2.5
Pre-opening costs	0.0	0.0	0.0
Asset impairments and provision for restaurant closings	0.1	0.1	0.4
Loss on disposal of assets	0.1	0.0	0.0
Other operating (income) expense	(0.2)	(0.1)	(0.1)
Other income (expense)			
Interest, dividend and other investment income	0.1	0.1	0.0
Interest on obligations under leases	(1.5)	(1.7)	(1.8)
Interest expense	(0.4)	(0.3)	(0.4)
Realized investment gains/losses	1.0	0.6	0.0
Derivative and short sale gains/losses	0.1	0.0	0.0
Total other income (expense)	<u>(0.7)</u>	<u>(1.3)</u>	<u>(2.2)</u>
Earnings before income taxes	6.7	6.2	1.1
Income taxes	2.0	1.8	0.2
Net earnings	4.8	4.4	1.0
Earnings attributable to noncontrolling interest	0.0	0.0	0.0
Earnings attributable to redeemable noncontrolling interest:			
Income allocation	(0.3)	(0.2)	0.0
Incentive fee	0.4	0.0	0.0
Total earnings/loss attributable to redeemable noncontrolling interests	<u>0.1</u>	<u>(0.2)</u>	<u>0.0</u>
Net earnings attributable to Biglari Holdings Inc.	<u>4.9 %</u>	<u>4.2 %</u>	<u>1.0 %</u>

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

(Amounts in \$000s)

Fiscal Year 2011 Compared with Fiscal Year 2010

Net Earnings

We recorded net earnings of \$34,565 for the current fiscal year, as compared with net earnings of \$28,094 in fiscal year 2010. The increase was primarily driven by the performance of our operating businesses, realized investment gains, and the inclusion of Western's results for the full year versus six months in fiscal year 2010.

Net Sales

In fiscal year 2011, net sales increased 4.7% from \$663,524 to \$694,378 primarily due to the performance of our Restaurant Operations, principally the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 4.2% during fiscal year 2011. The increase in same-store sales resulted from an increase in guest traffic of 4.8%, partially offset by lower average selling prices. The inclusion of Western for the full year increased total net revenue by \$7,322 or 1.0%.

Franchise fees increased 45.5% during fiscal year 2011. The number of franchised units increased from 162 at the end of fiscal year 2010 to 165 at the end of fiscal year 2011 due to the addition of Steak n Shake franchised units. The inclusion of Western for the full year increased franchise fees by \$1,531 or 0.2%.

Cost and Expenses

Cost of sales was \$192,645 or 27.7% of net sales, compared with \$179,633 or 27.1% of net sales in fiscal year 2010. This increase in percentage of net sales was created primarily by inflationary pressures on commodities.

Restaurant operating costs were \$331,262 or 47.7% of net sales compared to \$321,937 or 48.5% of net sales in fiscal year 2010. The decrease as a percentage of net sales resulted from the implementation of several operating initiatives, which has resulted in higher productivity and labor efficiency.

General and administrative expenses increased from \$41,553 or 6.2% of total net revenues, to \$48,404 or 6.8% of total net revenues because of the inclusion of Western's general and administrative expenses, our efforts to franchise the Steak n Shake concept and the accrual of the incentive compensation costs.

Depreciation and amortization expense was \$28,361 or 4.0% of total net revenues, versus \$29,258 or 4.3% of total net revenues in fiscal year 2010.

Marketing expense was \$38,476 or 5.4% of total net revenues, versus \$34,835 or 5.2% of total net revenues in fiscal year 2010.

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

Asset impairments and provision for restaurant closings for fiscal year 2011 was \$1,032 or 0.1% of total net revenues, versus \$353 or 0.1% of total net revenues in fiscal year 2010.

Loss on disposal of assets increased to \$702 or 0.1% of total net revenues as compared to \$126 or 0.0% in the prior year.

Interest expense on obligations under leases was \$10,565 or 1.5% of total net revenues, versus \$11,125 or 1.7% of total net revenues in fiscal year 2010.

Our fiscal year 2011 effective income tax rate remained consistent with the prior year at 29.0%.

Biglari Holdings Investment Gains

We recorded net realized investment gains of \$7,360 for the current fiscal year related to dispositions of marketable equity securities and investment gains of \$610 related to the change in fair value of derivatives and securities sold short. We recorded \$3,802 of net realized gains on investments and \$222 of investment gains related to the change in fair value of derivatives last fiscal year. 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 \$3,365 for the current fiscal year related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment loss of \$230 for a total of \$3,135. We also received an incentive fee of \$2,510. These amounts were offset by \$1,909 related to earnings attributable to redeemable noncontrolling interests.

Fiscal Year 2010 Compared with Fiscal Year 2009

Net Earnings

We recorded net earnings of \$28,094 for fiscal year 2010, as compared with net earnings of \$5,998 in fiscal year 2009. The increase was primarily driven by the performance of our operating businesses, realized investment gains, and the inclusion of Western's results. Comparatively, fiscal year 2009 net earnings included \$2,645 (\$1,613, net of tax) of non-cash impairment and store closing costs.

Net Sales

In fiscal year 2010, net sales increased 6.5% from \$622,944 to \$663,524 primarily due to the performance of our Restaurant Operations, principally the increase in Steak n Shake's same-store sales. The inclusion of an extra week in 2009 contributed \$9,374 in net sales. Adjusting for this extra week, Steak n Shake's same-store sales increased 7.5% during fiscal year 2010. The increase in same-store sales resulted from an increase in guest traffic of 10.6%, partially offset by lower average selling prices. The acquisition of Western increased total net revenue by \$8,755 or 1.4%.

Franchise fees increased 44.2% during fiscal year 2010. The number of franchised units increased from 73 at the end of fiscal year 2009 to 162 at the end of fiscal year 2010 due primarily to the addition of Western franchised units.

Cost and Expenses

Cost of sales was \$179,633 or 27.1% of net sales, compared with \$165,853 or 26.6% of net sales in fiscal year 2009.

Restaurant operating costs were \$321,937 or 48.5% of net sales compared to \$322,738 or 51.8% of net sales in fiscal year 2009. The decrease as a percentage of net sales resulted from the implementation of several operating initiatives, which has resulted in higher productivity and labor efficiency.

General and administrative expenses increased from \$36,671 or 5.8% of total net revenues, to \$41,553 or 6.2% of total net revenues because of the inclusion of Western's general and administrative expenses, costs associated with investment activities, and the integration of certain business functions such as supply chain management. For strategic purposes, the Company in fiscal year 2010 transitioned to and centralized selected business functions to the Company's headquarters in San Antonio, namely, supply chain management, franchise development, human resources, and training.

Depreciation and amortization expense was \$29,258 or 4.3% of total net revenues, versus \$31,369 or 5.0% of total net revenues in fiscal year 2009.

Marketing expense was \$34,835 or 5.2% of total net revenues, versus \$33,304 or 5.3% of total net revenues in fiscal year 2009.

Rent expense remained consistent as a percentage of total net revenues compared to the prior year.

Asset impairments and provision for restaurant closings for fiscal year 2010 was \$353 or 0.1% of total net revenues, versus \$2,645 or 0.4% of total net revenues in fiscal year 2009. The fiscal year 2009 charge included \$1,274 of an adjustment to record the related assets for previously closed units at the lower of their carrying values or fair values less cost.

Loss on disposal of assets stayed consistent as a percentage of total net revenues as compared to prior year.

Interest expense on obligations under leases was \$11,125 or 1.7% of total net revenues, versus \$11,010 or 1.8% of total net revenues in fiscal year 2009.

Our fiscal year 2010 effective income tax rate increased to 29.0% from 16.2% in the prior fiscal year. The prior fiscal year's effective tax rate was lower primarily due to the proportionate effect of federal income tax credits when compared to annual pre-tax earnings.

Biglari Holdings Investment Gains

We recorded net realized investment gains of \$3,802 for fiscal year 2010 related to dispositions of marketable equity securities and unrealized investment gains of \$222 related to the change in fair value of derivatives that we purchased during the fiscal year and held as of the end of the year. We recorded \$9 of realized gains on investments in fiscal year 2009. 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 \$831 for fiscal year 2010 related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of \$1,006 for a total of \$1,837. These amounts were offset by \$1,317 related to earnings attributable to redeemable noncontrolling interests.

Restaurant Closings

Steak n Shake did not close any company-operated restaurants in fiscal years 2011 and 2010 compared to four closures in fiscal year 2009. All of the restaurants closed in fiscal year 2009 were located near other company-operated stores that continue to operate. Therefore, the results of operations of these restaurants are not presented as discontinued operations and continue to be included in continuing operations in the Consolidated Statement of Earnings.

Effects of Governmental Regulations and Inflation

Most Restaurant Operation employees are paid hourly rates related to federal and state minimum wage laws. Any increase in the legal minimum wage would directly increase our operating costs. We are 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 our restaurants would increase our operating costs. In addition, we are subject to franchise registration requirements and certain related federal and state laws regarding franchise operations. Any changes in these laws could affect our ability to attract and retain franchisees.

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

Liquidity and Capital Resources

We generated \$71,577, \$68,618, and \$52,300 in cash flows from operations during fiscal years 2011, 2010, and 2009, respectively, based primarily on net earnings and due to timing of receipts and payment of disbursements related to operating activities in each of the fiscal years.

Net cash used in investing activities of \$89,503 and \$31,424 during fiscal years 2011 and 2010, respectively, was primarily a result of net purchases of investments. Net cash provided by investing activities of \$4,958 during fiscal year 2009 was primarily a result of proceeds from disposal of property and equipment of \$13,517. Steak n Shake transferred seven restaurants to an existing franchisee during fiscal year 2009.

Net cash provided by financing activities of \$69,350 during fiscal year 2011 resulted primarily from borrowings on long-term debt. Steak n Shake entered into a new credit facility further described below under "Steak n Shake New Credit Facility." Net cash used in financing activities of \$41,026 during fiscal year 2010 resulted primarily from the purchase of shares of Company stock by consolidated affiliated partnerships. Net cash used in financing activities of \$12,718 during fiscal year 2009 resulted primarily from principal payments on long-term debt of \$16,448.

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.

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 consolidated financial statements, the Company classifies this common stock as Treasury stock despite the shares being legally outstanding. The Debentures (as defined below) owned by the consolidated affiliated partnerships were recorded as a debt extinguishment upon acquisition (the Debentures remained outstanding until their redemption on March 30, 2011). As of September 28, 2011 and September 29, 2010, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost) and \$0 and \$7,540, respectively, of Debentures. Consolidated net earnings of the Company include the realized and unrealized appreciation and depreciation of the investments held by consolidated affiliated partnerships, other than realized and unrealized appreciation and depreciation of investments the consolidated affiliated partnerships hold in the Company's debt and equity securities which has been eliminated in consolidation.

Throughout fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these investments in the Lion Fund totaled \$38,455 at September 28, 2011. No amounts were invested in 2011. These investments in the Lion Fund do not appear explicitly in the Company's Consolidated Balance Sheet due to the requirement to fully consolidate 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 Consolidated Balance Sheet as reductions to Shareholders'

equity. Biglari Holdings' pro-rata ownership of its Company common stock through the Lion Fund at September 28, 2011 was 99,792 shares of stock (with a fair value of \$29,577) based on Biglari Holdings' ownership interest in the Lion Fund at year end.

Debentures

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

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

Steak n Shake New Credit Facility

On September 8, 2011, Steak n Shake, as borrower, Steak n Shake Enterprises, Inc. ("Steak n Shake Enterprises") and Steak n Shake, LLC, as guarantors (together with Steak n Shake Enterprises, the "Subsidiary Guarantors"), each subsidiaries of the Company, entered into a credit agreement (the "New Credit Facility") with the lenders party thereto and Jefferies Finance LLC, as arranger, book manager, administrative agent and collateral agent ("Jefferies Finance"). The New Credit Facility consists of an \$110,000 senior secured term loan facility (the "Term Loan") and a \$20,000 senior secured revolving credit facility (the "Revolver").

The Term Loan matures on September 8, 2015 and has a repayment schedule with monthly amortization, beginning on December 31, 2011, equal to 2.5% of the initial principal amount of the Term Loan (as adjusted pursuant to the New Credit Facility), together with accrued and unpaid interest on the principal amount to be paid, with the balance due at maturity. The Revolver will be available until September 8, 2014. Interest on the Term Loan is based on a base rate or Eurodollar rate plus an applicable margin of 3.5% and 4.5%, respectively. Interest on the Revolver is 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. The Revolver also carries a commitment fee of 0.75% per annum on the unused portion of the credit line.

As of September 28, 2011, outstanding borrowings were \$110,000 under the Term Loan at an interest rate of 5.5% and \$15,000 under the Revolver at an interest rate of 4.5%.

Both the Term Loan and the Revolver have been guaranteed by the Subsidiary Guarantors and secured by first priority security interests in substantially all the assets of Steak n Shake (including the capital stock of Steak n Shake Enterprises) and the Subsidiary Guarantors. Biglari Holdings is not a guarantor under the New Credit Facility. Net proceeds from the New Credit Facility were used to pay the Company a dividend in the amount of \$83,154 and to repay all outstanding amounts under Steak n Shake's former credit facility. In February of 2011, Steak n Shake amended its credit agreement and entered into a \$20,000 term loan and extended the maturity date of its existing \$30,000 credit facility. Term loan had a maturity date of February 15, 2016.

Outstanding borrowings under Steak n Shake's \$30,000 credit facility as of September 29, 2010 were \$18,000 at an interest rate of 2.5%. We had \$4,610 and \$522 in standby letters of credit outstanding as of September 28, 2011 and September 29, 2010, respectively. The facility was paid in full with the proceeds from the New Credit Facility.

The New 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 New Credit Facility as of September 28, 2011.

Security Agreement

In connection with the New Credit Facility, Steak n Shake and the Subsidiary Guarantors (together with the other guarantors from time to time party thereto, the "Pledgors") and Jefferies Finance, in its capacity as collateral agent pursuant to the New Credit Facility, entered into a security agreement (the "Security Agreement"). Pursuant to the Security Agreement, each Pledgor

granted to Jefferies Finance a lien on all of the Pledged Collateral (as defined in the Security Agreement) as security for the payment and performance in full of all the secured obligations under the New Credit Facility. The Pledged Collateral does not include the real estate of Steak n Shake and the Subsidiary Guarantors, but such real estate is subject to a springing lien if Steak n Shake does not maintain certain leverage ratios.

Interest Rate Swap

During fiscal year 2011, Steak n Shake entered into an interest rate swap agreement for a notional amount of \$20,000, which effectively fixed the interest rate at 3.25% through February 15, 2016. The notional amount decreases \$1,000 quarterly through its maturity on February 15, 2016. The fair value of the interest rate swap was a loss of \$439 on September 28, 2011 and is included in Accrued expenses on the Consolidated Balance Sheet.

Western Real Estate Loan Agreement and Note Payable

Western Real Estate, L.P. (“Western RE”), a wholly-owned subsidiary of Western, has a promissory note (the “Note”) which is secured by approximately 23 acres of real property. The principal amount of the Note is \$2,293 and the Note bears interest at a rate of 5.0% annually. The Note is due and payable in consecutive monthly payments of accrued interest only commencing on March 30, 2010. All principal and accrued interest thereon is due and payable on February 28, 2013. The Note may be prepaid in whole or in part at any time without penalty.

The loan agreement under which the Note was issued (the “Loan Agreement”) contains various affirmative and negative covenants, limitations and events of default customary for loans of this type to similar borrowers, including limitations on Western RE’s ability to incur indebtedness and liens, subject to limited exceptions, and certain financial covenants that must be maintained. Additionally, the Note is not guaranteed by or an obligation of the parent Company; rather, the Note is guaranteed by Western and its subsidiaries. Western RE was in compliance with all covenants under the Loan Agreement as of September 28, 2011.

The carrying amounts for debt reported in the Consolidated Balance Sheet do not differ materially from their fair market values as of September 28, 2011 as a result of the recent refinancing.

Contractual Obligations

Our significant contractual obligations and commitments as of September 28, 2011 are shown in the following table.

Contractual Obligations	Payments due by period				Total
	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	
Long-term debt ^{(1) (2)}	\$ 18,086	\$ 51,036	\$ 80,839	\$ —	\$149,961
Capital leases and finance obligations ⁽¹⁾	15,347	30,493	25,924	23,389	95,153
Operating leases ⁽³⁾	13,256	24,793	20,923	69,617	128,589
Purchase commitments ⁽⁴⁾	2,703	449	—	—	3,152
Other long-term liabilities ⁽⁵⁾	—	—	—	510	510
Total	\$ 49,392	\$106,771	\$127,686	\$ 93,516	\$377,365

(1) Includes principal and interest and assumes payoff of indebtedness at maturity date.

(2) Includes outstanding borrowings under the New Credit Facility as of September 28, 2011.

(3) Excludes amounts to be paid for contingent rents. Includes amounts to be paid for subleased properties.

(4) Includes agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms. Excludes agreements that are cancelable without penalty.

(5) Includes liabilities for Non-Qualified Deferred Compensation Plan. Excludes our unrecognized tax benefits of \$1,750 as of September 28, 2011 because we cannot make a reliable estimate of the timing of cash payments.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than operating leases entered into in the normal course of business.

Recently Issued Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our financial statements, see Note 1, “Summary of Significant Accounting Policies” in the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Cautionary Note Regarding 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 risks and uncertainties described in Item 1A, Risk Factors set forth above. We undertake no obligation to publicly update or revise them, except as may be required by law.

Item 7A. 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 Consolidated Statement of Earnings. Decreases in values of equity investments can have a material adverse effect on our Consolidated Shareholders' equity.

At September 28, 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 September 28, 2011, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$763 on our 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 \$439 at September 28, 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 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Biglari Holdings Inc.
San Antonio, Texas

We have audited the accompanying consolidated balance sheets of Biglari Holdings Inc. and subsidiaries (the "Company") as of September 28, 2011 and September 29, 2010, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for the years ended September 28, 2011, September 29, 2010, and September 30, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Biglari Holdings Inc. and subsidiaries as of September 28, 2011 and September 29, 2010, and the results of their operations and their cash flows for the years ended September 28, 2011, September 29, 2010, and September 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 28, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 10, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
December 10, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Biglari Holdings Inc.
San Antonio, Texas

We have audited the internal control over financial reporting of Biglari Holdings Inc. and subsidiaries (the "Company") as of September 28, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended September 28, 2011 of the Company and our report dated December 10, 2011 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
December 10, 2011

Management's Report on Internal Control Over Financial Reporting

The management of Biglari Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's board of directors, principal executive and principal financial officers, and effected by management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company;
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material impact on the financial statements; and
- Ensure that material information relating to the company, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period which this report is being prepared.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We completed our acquisitions of Western and Biglari Capital on March 30, 2010 and April 30, 2010, respectively. During the year ended September 28, 2011, we integrated activities and controls for the combined companies and included them in our assessment of effectiveness of internal control over financial reporting.

Management has evaluated the effectiveness of its internal control over financial reporting as of September 28, 2011 based on the criteria set forth in a report entitled *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that, as of September 28, 2011, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on the Company's internal control over financial reporting and their report is included herein.

/s/ Sardar Biglari

Sardar Biglari

Chairman and Chief Executive Officer

/s/ Duane E. Geiger

Duane E. Geiger

*Interim Chief Financial Officer, Vice President
and Controller*

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>(52 Weeks)</u>	<u>(52 Weeks)</u>	<u>(53 Weeks)</u>
Net revenues			
<i>Restaurant Operations</i>			
Net sales	\$ 694,378	\$ 663,524	\$ 622,944
Franchise fees	8,600	5,909	4,098
Other revenue	2,425	2,213	1,694
Total	<u>705,403</u>	<u>671,646</u>	<u>628,736</u>
<i>Investment Management Operations</i>			
Management fee income	224	233	—
<i>Consolidated Affiliated Partnerships</i>			
Investment gains/losses.....	3,135	1,837	—
Other income	438	65	—
Total	<u>3,797</u>	<u>2,135</u>	<u>—</u>
Total net revenues	<u>709,200</u>	<u>673,781</u>	<u>628,736</u>
Costs and expenses			
Cost of sales	192,645	179,633	165,853
Restaurant operating costs	331,262	321,937	322,738
General and administrative	48,404	41,553	36,671
Depreciation and amortization	28,361	29,258	31,369
Marketing	38,476	34,835	33,304
Rent	16,891	16,627	15,929
Pre-opening costs.....	89	—	—
Asset impairments and provision for restaurant closings	1,032	353	2,645
Loss on disposal of assets	702	126	151
Other operating (income) expense	(1,157)	(558)	(843)
Total costs and expenses, net	<u>656,705</u>	<u>623,764</u>	<u>607,817</u>
Other income (expense)			
Interest, dividend and other investment income	742	383	—
Interest on obligations under leases	(10,565)	(11,125)	(11,010)
Interest expense	(2,811)	(1,859)	(2,726)
Realized investment gains/losses	7,360	3,802	9
Derivative and short sale gains/losses	610	222	—
Total other income (expense)	<u>(4,664)</u>	<u>(8,577)</u>	<u>(13,727)</u>
Earnings before income taxes	<u>47,831</u>	<u>41,440</u>	<u>7,192</u>
Income taxes	13,867	12,019	1,163
Net earnings	<u>33,964</u>	<u>29,421</u>	<u>6,029</u>
Earnings attributable to noncontrolling interest	—	(10)	(31)
Earnings attributable to redeemable noncontrolling interest:			
Income allocation	(1,909)	(1,317)	—
Incentive fee	2,510	—	—
Total earnings/loss attributable to redeemable noncontrolling interests	<u>601</u>	<u>(1,317)</u>	<u>—</u>
Net earnings attributable to Biglari Holdings Inc.	<u>\$ 34,565</u>	<u>\$ 28,094</u>	<u>\$ 5,998</u>
Earnings per share attributable to Biglari Holdings Inc.			
Basic earnings per common and common equivalent share	\$ 25.99	\$ 20.11	\$ 4.21
Diluted earnings per common and common equivalent share	\$ 25.86	\$ 19.99	\$ 4.20
Weighted average shares and equivalents			
Basic	1,329,745	1,396,892	1,424,178
Diluted	1,336,693	1,405,375	1,429,549

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

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

	<u>September 28, 2011</u>	<u>September 29, 2010</u>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 98,987	\$ 47,563
Investments	115,321	32,523
Receivables, net of allowance of \$559 and \$475, respectively	4,133	5,818
Inventories	5,886	6,061
Deferred income taxes	6,150	3,802
Assets held for sale	6,870	9,611
Other current assets.....	3,237	4,453
Total current assets	<u>240,584</u>	<u>109,831</u>
Property and equipment, net	371,736	386,181
Goodwill.....	27,529	28,759
Other intangible assets, net	6,950	7,959
Other assets.....	7,278	7,612
Investments held by consolidated affiliated partnerships.....	18,783	23,497
Total assets	<u>\$ 672,860</u>	<u>\$ 563,839</u>
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable.....	\$ 29,236	\$ 26,752
Due to broker	7,272	3,903
Accrued expenses	46,948	37,401
Revolving credit.....	15,000	18,000
Current portion of obligations under leases	5,272	4,556
Current portion of long-term debt.....	11,141	151
Total current liabilities.....	<u>114,869</u>	<u>90,763</u>
Deferred income taxes	6,664	10,309
Obligations under leases	116,066	124,247
Long-term debt	101,417	17,781
Other long-term liabilities.....	8,914	9,499
Total liabilities	<u>347,930</u>	<u>252,599</u>
Commitments and contingencies		
Redeemable noncontrolling interests of consolidated affiliated partnerships	45,252	62,245
Shareholders' equity		
Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,511,174 and 1,511,175 shares issued, respectively, 1,227,276 and 1,227,654 shares outstanding (net of treasury stock), respectively .	756	756
Additional paid-in capital	144,569	143,521
Retained earnings.....	230,390	195,825
Accumulated other comprehensive loss	(5,468)	(1,152)
Treasury stock – at cost: 283,898 shares and 283,521 shares (includes 205,743 shares held by consolidated affiliated partnerships) at September 28, 2011 and September 29, 2010, respectively.....	<u>(90,569)</u>	<u>(89,955)</u>
Biglari Holdings Inc. shareholders' equity	<u>279,678</u>	<u>248,995</u>
Total liabilities and shareholders' equity	<u>\$ 672,860</u>	<u>\$ 563,839</u>

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)

(amounts in \$000s)

	2011	2010	2009
	<u>(52 Weeks)</u>	<u>(52 Weeks)</u>	<u>(53 Weeks)</u>
Operating activities			
Net earnings	\$ 33,964	\$ 29,421	\$ 6,029
Adjustments to reconcile net earnings to operating cash flows (excluding investment operations of consolidated affiliated partnerships):.....			
Depreciation and amortization	28,361	29,258	31,369
Provision for deferred income taxes	(2,186)	207	6,457
Asset impairments and provision for restaurant closings.....	1,032	353	2,645
Stock-based compensation and other non-cash expenses	950	1,735	2,881
Loss on disposal of assets.....	702	126	151
Gain on sale of subsidiary	(1,559)	—	—
Realized investment gains/losses	(7,360)	(3,802)	(9)
Derivative and short sale gains/losses	(610)	(222)	—
Changes in receivables and inventories.....	2,066	3,951	8,481
Changes in other assets	(202)	(123)	(1,724)
Changes in accounts payable and accrued expenses.....	12,918	8,834	(3,980)
Investment operations of consolidated affiliated partnerships:			
Purchases of investments.....	(53,727)	(24,771)	—
Sales of investments.....	52,271	25,117	—
Realized investment gains, net	(3,365)	(831)	—
Unrealized (gains) losses on marketable securities held by consolidated affiliated partnerships.....	230	(1,006)	—
Changes in cash equivalents held by consolidated affiliated partnerships	7,870	371	—
Changes in due to/from broker	222	—	—
Net cash provided by operating activities	<u>71,577</u>	<u>68,618</u>	<u>52,300</u>
Investing activities			
Additions of property and equipment.....	(13,018)	(8,650)	(5,751)
Proceeds from property and equipment disposals.....	2,007	1,885	13,517
Proceeds from sale of joint venture	—	457	—
Proceeds from sale of subsidiary, net of cash on hand	196	—	—
Purchases of investments.....	(171,893)	(73,228)	(3,047)
Sales of investments.....	90,058	47,112	239
Changes in due to/from broker.....	3,147	3,903	—
Cash from merger activities	—	(2,903)	—
Net cash (used in) provided by investing activities	<u>(89,503)</u>	<u>(31,424)</u>	<u>4,958</u>
Financing activities			
Proceeds from revolving credit facility	194,045	500	12,240
Payments on revolving credit facility	(197,045)	(1,000)	(7,920)
Borrowings on long-term debt	111,959	—	—
Principal payments on long-term debt.....	(17,333)	(80)	(16,448)
Proceeds from property sale-leasebacks	—	—	3,597
Principal payments on direct financing lease obligations	(7,469)	(4,570)	(5,008)
Proceeds from exercise of stock options and employees stock purchase plan	29	345	857
Excess tax benefits from stock-based awards.....	3	—	40
Cash paid in lieu of fractional shares.....	—	(711)	—
Repurchase of employee shares for tax withholding	(541)	(257)	(203)
Proceeds from noncontrolling interest.....	—	—	150
Distributions to noncontrolling interest.....	—	(221)	(23)
Financing activities of consolidated affiliated partnerships:			
Purchase of shares of Company stock by consolidated affiliated partnerships	—	(38,411)	—
Proceeds from sale of shares of Company stock by consolidated affiliated partnerships.....	—	2,651	—
Contributions from noncontrolling interests	1,780	1,878	—
Distributions to noncontrolling interests.....	(16,078)	(1,150)	—
Net cash provided by (used in) financing activities	<u>69,350</u>	<u>(41,026)</u>	<u>(12,718)</u>
Increase (decrease) in cash and cash equivalents.....	51,424	(3,832)	44,540
Cash and cash equivalents at beginning of year.....	47,563	51,395	6,855
Cash and cash equivalents at end of year	<u>\$ 98,987</u>	<u>\$ 47,563</u>	<u>\$ 51,395</u>

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)

(amounts in \$000s except share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance at September 24, 2008	\$ 757	\$ 142,935	\$ 161,733	\$ —	\$ (21,846)	\$ 283,579
Net earnings attributable to Biglari Holdings Inc.			5,998			5,998
Net change in unrealized gains and losses on investments, net of \$71 tax.....				112		112
Total comprehensive income.....						<u>6,110</u>
Compensation expense for share-based payments		1,801				1,801
Shares exchanged to exercise stock options and to satisfy minimum statutory tax withholding					(315)	(315)
Shares reissued to exercise stock options		(5)			120	115
Shares granted under Capital Appreciation Plan.....		(871)			871	—
Shares forfeited under Capital Appreciation Plan.....		974			(974)	—
Shares reissued for vendor payments.....		(137)			403	266
Tax effect relating to stock awards.....		(550)				(550)
Shares issued for Employee Stock Purchase Plan.....		(456)			1,311	855
Balance at September 30, 2009	<u>757</u>	<u>143,691</u>	<u>167,731</u>	<u>112</u>	<u>(20,430)</u>	<u>291,861</u>
Net earnings attributable to Biglari Holdings Inc.			28,094			28,094
Reclassification of investment appreciation in net earnings, net of \$58 tax.....				(92)		(92)
Net change in unrealized gains and losses on investments, net of \$750 tax.....				(1,172)		(1,172)
Total comprehensive income.....						<u>26,830</u>
Exercise of stock options and other stock compensation transactions		1,225			(304)	921
Retirement of shares held by subsidiary	(1)	1				—
Cash paid in lieu of fractional shares.....		(711)				(711)
Reacquired shares from acquisitions					(34,146)	(34,146)
Purchase of Company stock by consolidated affiliated partnerships					(38,411)	(38,411)
Sale of Company stock by consolidated affiliated partnerships.....		(685)			3,336	2,651
Balance at September 29, 2010	<u>756</u>	<u>143,521</u>	<u>195,825</u>	<u>(1,152)</u>	<u>(89,955)</u>	<u>248,995</u>
Net earnings attributable to Biglari Holdings Inc.			34,565			34,565
Reclassification of investment appreciation in net earnings, net of \$861 tax				1,352		1,352
Net change in unrealized gains and losses on investments, net of \$3,476 tax				(5,668)		(5,668)
Total comprehensive income						<u>30,249</u>
Exercise of stock options and other stock compensation transactions.....		375			(614)	(239)
Other		673				673
Balance at September 28, 2011	<u>\$ 756</u>	<u>\$ 144,569</u>	<u>\$ 230,390</u>	<u>\$ (5,468)</u>	<u>\$ (90,569)</u>	<u>\$ 279,678</u>

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)

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

1. Summary of Significant Accounting Policies

Description of Business

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 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.

Fiscal Year

Our fiscal year ends on the last Wednesday in September. Fiscal years 2011 and 2010 contain 52 weeks, while fiscal year 2009 contains 53 weeks.

Principles of Consolidation

As of September 28, 2011, the 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, 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. Refer to Note 5 for further information regarding the sale.

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.

The financial information of Western and Biglari Capital has been reflected in the consolidated financial statements of the Company as of March 30, 2010 and April 30, 2010, their respective acquisition dates. Western’s and Biglari Capital’s September 30 year end for financial reporting purposes differs from the end of the Company’s fiscal year, the last Wednesday in September.

Cash and Cash Equivalents

Cash equivalents primarily consist of U.S. Government securities and money market accounts, all of which have original maturities of three months or less. Cash equivalents are carried at fair value. Our policy is to reinvest cash equivalents to acquire businesses or to purchase securities.

Investments

Our investments consist of available-for-sale securities and are carried at fair value with net unrealized gains or losses reported as a component of Accumulated other comprehensive income in Shareholders’ equity. Realized gains and losses on disposals of investments are determined by specific identification of cost of investments sold and are included in Realized investment gains/losses, a component of Other income.

Investments Held by Consolidated Affiliated Partnerships

The consolidated affiliated partnerships are, for purposes of Accounting Principles Generally Accepted in the United States (“GAAP”), investment companies under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for these entities, pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946-810-45 (formerly EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation*). As such marketable equity securities held by the consolidated affiliated partnerships are recorded

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Years ended September 28, 2011, September 29, 2010, and September 30, 2009) (amounts in \$000s, except share and per share data)

1. Summary of Significant Accounting Policies – (continued)

at fair value with net unrealized and realized investment gains/losses included in Investment gains/losses of Consolidated Affiliated Partnerships, a component of Net revenues on the Consolidated Statement of Earnings.

Concentration of Equity Price 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 Consolidated Statement of Earnings. Decreases in values of equity investments can have a material adverse effect on our consolidated Shareholders' equity.

Receivables

Our accounts receivable balance consists primarily of franchisee, tax, and other receivables. We carry our accounts receivable at cost less an allowance for doubtful accounts which is based on a history of past write-offs and collections and current credit conditions.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market, and consist primarily of restaurant food items and supply inventory.

Assets Held for Sale

Assets held for sale consists of property and equipment related to restaurants and land that is currently being marketed for disposal. Assets held for sale are reported at the lower of carrying value or estimated fair value less costs to sell.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized on the straight-line method over the estimated useful lives of the assets (10 to 25 years for buildings and land improvements, and 3 to 10 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the term of the related leases. Interest costs associated with the construction of new restaurants are capitalized. Major improvements are also capitalized while repairs and maintenance are expensed as incurred. We review our long-lived assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For purposes of this assessment, assets are evaluated at the lowest level for which there are identifiable cash flows. If the future undiscounted cash flows of an asset are less than the recorded value, an impairment is recorded for the difference between the carrying value and the estimated fair value of the asset. Refer to Note 3 for information regarding asset impairments.

Goodwill and Intangible Assets

Goodwill and indefinite life intangibles are not amortized, but are tested for potential impairment on an annual basis, or more often if events or circumstances change that could cause goodwill or indefinite life intangibles to become impaired. Other purchased intangible assets are amortized over their estimated useful lives, generally on a straight-line basis. We perform reviews for impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying value. When an impairment is identified, we reduce the carrying value of the asset to its estimated fair value. No impairments were recorded on goodwill or intangible assets during fiscal years 2011, 2010, or 2009. Refer to Note 9 for information regarding our goodwill and other intangible assets.

Capitalized Software

Internal-use software is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life ranging from three to seven years. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, and internal payroll and payroll-related costs for employees who are directly associated with a software project. Upgrades and enhancements are capitalized if they result in added functionality which enables the software to perform tasks it was previously incapable of

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Years ended September 28, 2011, September 29, 2010, and September 30, 2009) (amounts in \$000s, except share and per share data)

1. Summary of Significant Accounting Policies – (continued)

performing. Software maintenance, training, data conversion, and business process reengineering costs are expensed in the period in which they are incurred. Capitalized software is included in the balance of Other assets in the Consolidated Balance Sheet.

Due to Broker

Due to broker represents margin debit balances collateralized by certain of the Company's investment in securities.

Operating Leases

The Company leases certain property under operating leases. Many of these lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. Rent expense is recognized on a straight-line basis over the expected lease term, including cancelable option periods when failure to exercise such options would result in an economic penalty. In addition, the rent commencement date of the lease term is the earlier of the date when we become legally obligated for the rent payments or the date when we take access to the property or the grounds for build out.

Revenue Recognition

Net Sales

We record revenue from restaurant sales at the time of sale, net of discounts. Revenue from the sale of gift cards is deferred at the time of sale and recognized upon redemption by the customer or at expiration of the gift cards. Sales revenues are presented net of sales taxes. Cost of sales primarily includes the cost of food and disposable paper and plastic goods used in preparing and selling our menu items and excludes depreciation and amortization, which is presented as a separate line item on the Consolidated Statement of Earnings.

Franchise Fees

Unit franchise fees and area development fees are recorded as revenue when the related restaurant begins operations. Royalty fees and administrative services fees are based on franchise sales and are recognized as revenue as earned.

Other Revenue

Other revenue relates primarily to rental income.

Management Fee Income

Management fees received by the Company are calculated quarterly based on contractual rates and the dollar amount of assets under management.

Investment Gains/Losses from Consolidated Affiliated Partnerships

Investment gains/losses from consolidated affiliated partnerships include realized and unrealized gains/losses on investments held by consolidated affiliated partnerships. Realized gains/losses from the disposal of investments held by consolidated affiliated partnerships are determined by specific identification of cost of investments sold.

Insurance Reserves

We self-insure a significant portion of expected losses under our workers' compensation, general liability, auto, and medical liability insurance programs, and record a reserve for our estimated losses on all unresolved open claims and our estimated incurred but not reported claims at the anticipated cost to us. Insurance reserves are recorded in the balance of Accrued expenses in the Consolidated Balance Sheet.

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 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.

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1. Summary of Significant Accounting Policies – (continued)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Basic earnings per share:			
Weighted average common shares	<u>1,329,745</u>	1,396,892	1,424,178
Diluted earnings per share:			
Weighted average common shares	<u>1,329,745</u>	1,396,892	1,424,178
Dilutive effect of stock awards	<u>6,948</u>	8,483	5,371
Weighted average common and incremental shares	<u>1,336,693</u>	1,405,375	1,429,549
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.	<u>705</u>	12,962	23,427

Stock-Based Compensation

We account for all stock-based compensation, including grants of employee stock options, nonvested stock and shares issued under our employee stock purchase plan, using the fair value based method. Refer to Note 17 for additional information regarding our stock-based compensation.

The Steak n Shake 401(k) Savings Plan

The Steak n Shake 401(k) Savings Plan (the "401(k) Plan") is a defined contribution plan covering substantially all employees after they have attained age 21 and completed six months of service and allows employees to defer up to 20% of their salaries. The Company made non-discretionary matching contributions through October 14, 2008. The matching contributions during fiscal year 2009 were equal to 50% of participants' pretax contributions and subject to a maximum of 6% of participants' eligible compensation contributed to the 401(k) Plan. Non-discretionary matching contributions paid in fiscal year 2009 were \$51. During fiscal year 2009, the 401(k) Plan was amended to eliminate the non-discretionary contributions and allow for discretionary matching contributions. Discretionary matching contributions of \$271 and \$253 were made in fiscal year 2011 and 2010, respectively. Discretionary contributions starting in 2010 were based on the profitability of the Company and are subject to quarterly revision.

Marketing Expense

Advertising costs are charged to expense at the latter of the date the expenditure is incurred, or the date the promotional item is first communicated.

Non-Qualified Deferred Compensation Plan

We maintain a self-directed Non-Qualified Deferred Compensation Plan (the "Non-Qualified Plan") for executive employees. The Non-Qualified Plan allows highly compensated employees to defer amounts from their salaries for retirement savings and includes a discretionary employer match generally equal to the amount of the match the employee would have received as a participant in our 401(k) Plan. The Non-Qualified Plan is structured as a rabbi trust; therefore, assets in the Non-Qualified Plan are subject to creditor claims in the event of bankruptcy. We recognize investment assets in Other assets on the Consolidated Balance Sheet at current fair value. A liability of the same amount is recorded in Other long-term liabilities on the Consolidated Balance Sheet representing our obligation to distribute funds to participants. The investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized in income.

Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates.

New Accounting Standards

In September 2011, FASB issued Accounting Standards Update ("ASU") 2011-08, *Testing Goodwill for Impairment* ("ASU

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1. Summary of Significant Accounting Policies – (continued)

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 consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (“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 ending after December 15, 2011, which is effective for the Company’s first quarter of fiscal year 2012. 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 is effective for the Company’s first quarter of fiscal year 2012 and will be applied on a prospective basis. We do not believe that the adoption of ASU 2011-04 will have a material effect on the Company’s 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 will be effective as of the beginning of the Company's fiscal year 2012. The adoption did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued guidance that amends FASB ASC Section 810-10-25, *Consolidation — Recognition* (FASB Interpretation No. 46(R)) to require an entity to perform an analysis to determine whether the entity’s variable interest or interests give it a controlling financial interest in a variable interest entity. The guidance is effective for our fiscal year 2011. The adoption of this standard did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued guidance related to the accounting for transfers of financial assets. The guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. The guidance is effective for our fiscal year 2011. The adoption of this standard did not have a material impact on our consolidated financial statements.

2. Acquisitions

Biglari Capital Corp.

On April 30, 2010, the Company acquired Biglari Capital for \$4,107 pursuant to a Stock Purchase Agreement (the “Stock Purchase Agreement”) between the Company and Sardar Biglari, Chairman and Chief Executive Officer, who was the sole shareholder of Biglari Capital. Biglari Capital is the general partner of the Lion Fund, a Delaware limited partnership operating as a private investment fund.

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2. Acquisitions – (continued)

The Lion Fund is an investment fund that accounts for its investments at fair value. The fair value of the noncontrolling interest approximated the net asset value of the Lion Fund attributable to investors other than the Company, less the accrued incentive fee at the time of the acquisition. The Lion Fund investors may redeem their interests in the Lion Fund upon certain occurrences.

At the acquisition date, the Lion Fund owned 76,421 shares of common stock of the Company as well as \$7,540 of the Company's debentures. The fair value of the Company stock owned by the Lion Fund was \$29,900, which was recorded as Treasury stock yet the shares remain outstanding. The debentures owned by the Lion Fund were recorded as a debt extinguishment. As the debentures had just been issued by the Company 30 days before the acquisition, the fair value of the debentures approximated their cost, and no gain or loss was recorded on the debt extinguishment (the debentures remained outstanding until their redemption on March 30, 2011 [See Note 15]). The noncontrolling interest in the Lion Fund had a fair value of \$44,193 as of April 30, 2010.

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

Acquisition related costs were not material and have been recorded in General and administrative expenses in the Consolidated Statement of Earnings.

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

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

Western Sizzlin Corporation

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

Under the terms of the Merger Agreement, each share of Western's common stock was cancelled upon the completion of the merger and converted into the right to receive a pro rata portion of a new issue of 14% redeemable subordinated debentures due 2015 issued by the Company (the "Debentures") in the aggregate principal amount of \$22,959 (approximately \$8.07 principal amount of Debentures per Western share), with cash of \$194 paid in lieu of fractional Debenture interests. See Note 15 for further information on the Debentures.

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2. Acquisitions – (continued)

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

During fiscal year 2010, we incurred \$701 of transaction related costs which have been recorded in General and administrative expenses in the Consolidated Statement of Earnings.

The table shown below reflects the final purchase price allocation.

	Amounts Previously Recognized ¹	Measurement Period Adjustments	Amounts at September 28, 2011
Current assets	\$ 3,310	\$ —	\$ 3,310
Property and equipment, net	4,874		4,874
Investments, including marketable securities held by consolidated affiliated partnerships	13,037		13,037
Goodwill ²	14,256	(1,230)	13,026
Intangible assets	6,880		6,880
Other assets ²	586	77	663
Total assets acquired	<u>42,943</u>	<u>(1,153)</u>	<u>41,790</u>
Current liabilities	1,966		1,966
Debt	2,595		2,595
Other long-term liabilities ²	3,787	(1,153)	2,634
Redeemable noncontrolling interests of consolidated affiliated partnerships	15,882		15,882
Treasury stock	(4,246)		(4,246)
Total liabilities assumed and treasury stock acquired	<u>19,984</u>	<u>(1,153)</u>	<u>18,831</u>
Net assets acquired	<u>\$ 22,959</u>	<u>\$ —</u>	<u>\$ 22,959</u>

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

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

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

Pro Forma Information

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

	September 29, 2010	September 30, 2009
	(52 weeks)	(53 weeks)
Net revenues	\$683,518	\$646,811
Net earnings	\$28,198	\$5,365
Basic earnings per share	\$20.25	\$3.96
Diluted earnings per share	\$20.13	\$3.94

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3. Impairment and Restaurant Closings

Steak n Shake recorded pre-tax asset impairment and provision for restaurant closings during fiscal years 2011, 2010 and 2009 of \$1,032, \$353 and \$2,645, respectively. Fiscal year 2009 included \$1,274 related to an adjustment to record the related assets for previously closed units at the lower of their carrying values or fair values less cost.

No company-operated restaurants were closed in fiscal years 2011 and 2010. During fiscal year 2009 four restaurants were closed. All of the restaurants closed in fiscal year 2009 were located near other company-operated stores that continue to operate. Therefore, the results of operations of these restaurants are not presented as discontinued operations and continue to be included in continuing operations in the Consolidated Statement of Earnings.

4. Investments

Investments consisted of the following:

	<u>2011</u>	<u>2010</u>
Cost	\$ 124,140	\$ 34,412
Gross unrealized gains	1,956	657
Gross unrealized losses	<u>(10,775)</u>	<u>(2,546)</u>
Fair value	<u>\$ 115,321</u>	<u>\$ 32,523</u>

Unrealized losses of marketable equity securities at September 28, 2011 relate to securities that have been in an unrealized loss position for less than 12 months. A majority of the gross unrealized losses for fiscal year 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 for the years ended September 28, 2011, September 29, 2010 and September 30, 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross realized gains on sales	\$ 7,775	\$ 3,810	\$ 9
Gross realized losses on sales	\$ (415)	\$ (8)	\$ —

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

The Company has entered into short sales on certain equity securities, that is, a transaction in which the Company sells securities it does not own. The Company's use of short sales involves the risk that the price of the security in the open market may be higher when it is purchased in order to close out the Company's short position, resulting in a loss to the Company. Such a loss is theoretically limitless because there are no restrictions on the potential increase in the price of a security, or any guarantee as to the price at which the Company would be able to purchase the security in the open market. Securities sold in short sale transactions and the interest and dividends payable on such securities, if any, are reflected as a liability in Accrued expenses in

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4. Investments – (continued)

the Consolidated Balance Sheet. As of September 28, 2011 and September 29, 2010 we had no outstanding short sales.

For the year ended September 28, 2011, the Company recorded investment gains of \$610 related to the change in fair value of derivatives and securities sold short. For the year ended September 29, 2010, the Company recorded investment gains from marking derivatives to market of \$222.

5. 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 stated in Note 2, certain of the consolidated affiliated partnerships held the Company's Debentures as investments. These Debentures were redeemed by the Company on March 30, 2011. Refer to Note 15 for further information. As of September 28, 2011 and September 29, 2010, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost) and \$0 and \$7,540 of Debentures, respectively.

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

Throughout fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these investments in the Lion Fund totaled \$38,455 at September 28, 2011. No amounts were invested in 2011. These investments in the Lion Fund do not appear explicitly in the Company's 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 Consolidated Balance Sheet as a reduction to Shareholders' equity. Biglari Holdings' pro-rata ownership of its Company common stock through the Lion Fund was 99,792 shares of stock (with a fair value of \$29,577) based on Biglari Holdings' ownership interest in the Lion Fund on September 28, 2011.

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. As a result of the sale, we recorded a gain of \$1,559 in which almost all of the gain was non-cash in Other operating income in the Consolidated Statement of Earnings.

As a result of the sale, the Company will 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 \$2,606 and \$621 for the year-to-date periods ended September 28, 2011 and September 29, 2010, respectively, including \$1,246 and \$192, respectively that is attributable to noncontrolling interests. The after-tax income for the year-to-date period ended September 28, 2011 includes the aforementioned gain on sale of \$1,559.

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5. Consolidated Affiliated Partnerships – (continued)

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

	2011	2010
Equity securities:		
Cost	\$ 19,122	\$ 14,725
Fair value	\$ 18,783	\$ 15,627

Investments held by consolidated affiliated partnerships on the Consolidated Balance Sheet includes \$0 and \$7,870 of cash and cash equivalents that are only available for use by the consolidated affiliated partnerships at September 28, 2011 and September 29, 2010, respectively.

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

	For the years ended	
	September 28, 2011	September 29, 2010
Gross unrealized gains	\$ 1,317	\$ 1,499
Gross unrealized losses	\$ (1,547)	\$ (493)
Net realized gains/losses from sale	\$ 3,365	\$ 831

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 Consolidated Balance Sheet. The maximum redemption amount of the redeemable noncontrolling interests as of September 28, 2011 is \$45,252.

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

	2011	2010
Carrying value at beginning of year	\$ 62,245	\$ 60,075
Contributions from noncontrolling interests	1,780	1,878
Distributions to noncontrolling interests	(17,499)	(1,025)
Incentive fee	(2,510)	—
Income / loss allocation	1,909	1,317
Other	(673)	—
Carrying value at end of year	\$ 45,252	\$ 62,245

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

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5. Consolidated Affiliated Partnerships – (continued)

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

During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated, and their funds were 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 above reconciliation.

6. Assets Held for Sale

Assets held for sale are composed of the following:

	<u>2011</u>	<u>2010</u>
Land and buildings	\$ 6,262	\$ 8,789
Improvements	608	822
Total assets held for sale	<u>\$ 6,870</u>	<u>\$ 9,611</u>

The fiscal year 2011 balances included the following assets: one office building, four restaurants, and eight parcels of land. In fiscal year 2011, one parcel of land was sold and one restaurant was subleased.

The fiscal year 2010 balances included assets related to one office, five restaurants, and nine parcels of land. During fiscal year 2010, we sold two restaurants that were held for sale as of September 30, 2009. Additionally, we reclassified one restaurant and five parcels of land as long term assets (Property and equipment) because we were no longer actively marketing them for sale.

The Company expects to sell these properties within the next 12 months. For assets that are not sold within the next 12 months, management expects to classify them as long term.

7. Other Current Assets

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

8. Property and Equipment

Property and equipment is composed of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 161,339	\$ 158,526
Buildings	149,444	148,718
Land and leasehold improvements	153,731	155,166
Equipment	202,933	203,757
Construction in progress	1,850	1,261
	<u>669,297</u>	<u>667,428</u>
Less accumulated depreciation and amortization	<u>(297,561)</u>	<u>(281,247)</u>
Property and equipment, net	<u>\$ 371,736</u>	<u>\$ 386,181</u>

Depreciation and amortization expense for property and equipment for fiscal 2011, 2010, and 2009 was \$25,169, \$26,373, and \$29,058, respectively.

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9. Goodwill and Other Intangibles

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired in connection with business acquisitions. The carrying value of goodwill decreased from September 29, 2010 by \$1,230 due to the final purchase price adjustment relating to the Western acquisition. Refer to Note 2 for detail of the adjustments impacting goodwill.

A reconciliation of the change in the carrying value of goodwill is as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 28,759	\$ 14,503
Acquisition of Western	—	14,256
Purchase price allocation adjustment	<u>(1,230)</u>	—
Balance at end of year	<u>\$ 27,529</u>	<u>\$ 28,759</u>

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 fourth quarter of the fiscal year, we perform our annual assessment of the recoverability of our goodwill related to four reporting units. During the second quarter of the fiscal year, we perform 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. No potential impairment was identified for our reporting units during fiscal years 2011, 2010, or 2009.

Other Intangibles

Other intangibles are composed of the following:

	<u>2011</u>			<u>2010</u>		
	<u>Gross</u>	<u>Accumulated</u>	<u>Total</u>	<u>Gross</u>	<u>Accumulated</u>	<u>Total</u>
	<u>carrying</u>	<u>amortization</u>		<u>carrying</u>	<u>amortization</u>	
	<u>amount</u>	<u>amount</u>		<u>amount</u>	<u>amount</u>	
Right to operate	\$ 1,480	\$ (1,117)	\$ 363	\$ 1,480	\$ (999)	\$ 481
Franchise agreement	5,310	(797)	4,513	5,310	(266)	5,044
Other	810	(480)	330	1,136	(446)	690
Total	<u>7,600</u>	<u>(2,394)</u>	<u>5,206</u>	<u>7,926</u>	<u>(1,711)</u>	<u>6,215</u>
Intangible assets with indefinite lives	1,744	—	1,744	1,744	—	1,744
Total intangible assets	<u>\$ 9,344</u>	<u>\$ (2,394)</u>	<u>\$ 6,950</u>	<u>\$ 9,670</u>	<u>\$ (1,711)</u>	<u>\$ 7,959</u>

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. In connection with the sale of Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. during the third quarter of fiscal year 2011, we disposed of an intangible asset relating to certain customer relationships with a gross carrying value and net basis at the time of disposal of \$326 and \$266, respectively. Such amount was included in the determination of the net gain on sale of the entities as further discussed in Note 2.

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9. Goodwill and Other Intangibles – (continued)

Amortization expense for fiscal years 2011, 2010, and 2009 was \$742, \$487, and \$198, 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.

10. Other Assets

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

11. Accrued Expenses

Accrued expenses include the following:

	<u>2011</u>	<u>2010</u>
Salaries, wages, vacation, and severance	\$ 15,340	\$14,260
Taxes payable	16,656	13,185
Insurance accruals	7,511	5,908
Other	7,441	4,048
Total accrued expenses	<u>\$ 46,948</u>	<u>\$37,401</u>

12. 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.

13. Income Taxes

The components of the provision for income taxes consist of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current:			
Federal	\$ 13,217	\$ 10,212	\$ (4,875)
State	2,836	1,600	(419)
Deferred	(2,186)	207	6,457
Total income taxes	<u>\$ 13,867</u>	<u>\$ 12,019</u>	<u>\$ 1,163</u>
Reconciliation of effective income tax:			
Tax at U.S. statutory rates (35%)	\$ 16,741	\$ 14,504	\$ 2,517
State income taxes, net of federal benefit	1,410	1,463	615
Federal income tax credits	(4,307)	(4,146)	(2,339)
Share-based payments	68	189	289
Other	(45)	9	81
Total income taxes	<u>\$ 13,867</u>	<u>\$ 12,019</u>	<u>\$ 1,163</u>

Income taxes paid totaled \$12,436 in fiscal year 2011, \$9,878 in fiscal year 2010, and \$987 in fiscal year 2009. Income tax refunds totaled \$2,856 in fiscal year 2011.

As of September 28, 2011, we had approximately \$1,750 of unrecognized tax benefits, including approximately \$270 of interest and penalties, which are included in Other long-term liabilities in the Consolidated Balance Sheet. During fiscal year 2011, we

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13. Income Taxes – (continued)

recognized approximately \$92 in potential interest and penalties associated with uncertain tax positions. Our continuing practice is to recognize interest expense and penalties related to income tax matters in Income tax expense. Of the \$1,750 of unrecognized tax benefits, \$1,153 would impact the effective income tax rate if recognized.

The following table summarizes the Company's unrecognized tax benefits, excluding interest and penalties:

September 24, 2008	\$ 773
Gross increases – prior period tax positions	439
Lapse of statute of limitations	(7)
September 30, 2009	<u>1,205</u>
Gross increases – prior period tax positions	281
Lapse of statute of limitations	(251)
September 29, 2010	<u>1,235</u>
Gross increases – current period tax positions	178
Gross increases – prior period tax positions	238
Lapse of statute of limitations	(171)
September 28, 2011	<u>\$ 1,480</u>

We file income tax returns which are periodically audited by various federal, state, and local jurisdictions. With few exceptions, we are no longer subject to federal, state, and local tax examinations for fiscal years prior to 2006. We believe we have certain state income tax exposures related to fiscal years 2006 through 2011. Due to the expiration of the various state statutes of limitations for these fiscal years, it is possible that the total amount of unrecognized tax benefits will decrease by approximately \$1,086 within 12 months.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. Our deferred tax assets and liabilities consist of the following:

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Insurance reserves	\$ 2,539	\$ 1,639
Share-based payments	330	676
Compensation accruals	1,645	882
Gift card accruals	561	619
State net operating loss credit carryforward	107	518
Investments	3,603	—
Other	1,724	1,650
Total deferred tax assets	<u>10,509</u>	<u>5,984</u>
Deferred tax liabilities:		
Fixed asset basis difference	7,833	9,484
Goodwill and intangibles	3,190	2,280
Other	—	727
Total deferred tax liabilities	<u>11,023</u>	<u>12,491</u>
Net deferred tax liability	(514)	(6,507)
Less current portion	6,150	3,802
Long-term liability	<u>\$ (6,664)</u>	<u>\$ (10,309)</u>

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13. Income Taxes – (continued)

Receivables on the Consolidated Balance Sheet include income tax receivables of \$1,853 as of September 29, 2010. Accrued expenses on the Consolidated Balance Sheet include income tax payables of \$4,372 as of September 28, 2011.

14. Leased Assets and Lease Commitments

We lease certain physical facilities under non-cancelable lease agreements. Restaurant leases typically have initial terms of 18 to 30 years and renewal terms aggregating 20 years or more. These leases require the payment of real estate taxes, insurance and maintenance costs. Certain leased facilities, which are no longer operated but are subleased to third parties or franchisees, are classified below as non-operating properties. Minimum future rental payments for non-operating properties have not been reduced by minimum sublease rentals of \$5,082 related to operating leases receivable under non-cancelable subleases. The property and equipment cost related to the finance obligations and capital leases as of September 28, 2011 is as follows: \$72,941 buildings, \$61,663 land, \$29,505 land and leasehold improvements, \$566 equipment and \$57,566 accumulated depreciation.

At September 28, 2011, obligations under non-cancelable finance obligations, capital leases, and operating leases (excluding real estate taxes, insurance and maintenance costs) require the following minimum future rental payments:

<u>Year</u>	<u>Financial Obligations</u>	<u>Capital Leases</u>	<u>Total</u>	<u>Operating Leases</u>	
				<u>Operating Property</u>	<u>Non-Operating Property</u>
2012	\$ 15,241	\$ 106	\$ 15,347	\$ 12,827	\$ 429
2013	16,082	106	16,188	12,473	412
2014	14,288	17	14,305	11,540	368
2015	13,496	17	13,513	10,683	318
2016	12,394	17	12,411	9,601	321
After 2016	23,357	32	23,389	66,481	3,136
Total minimum future rental payments	94,858	295	95,153	<u>\$ 123,605</u>	<u>\$ 4,984</u>
Less amount representing interest	54,733	46	54,779		
Total principal obligations under leases	40,125	249	40,374		
Less current portion	5,186	86	5,272		
Non-current principal obligations under leases	34,939	163	35,102		
Residual value at end of lease term	80,938	26	80,964		
Obligations under leases	<u>\$ 115,877</u>	<u>\$ 189</u>	<u>\$ 116,066</u>		

During fiscal year 2009, Steak n Shake sold two restaurants to a third party and simultaneously entered into a lease for each property. In conjunction with the first sale-leaseback transaction, net proceeds of \$2,005 were received. This transaction resulted in a gain of \$431, which was deferred and is being amortized over the life of the lease. The second sale-leaseback generated proceeds of \$1,592. The second transaction has been accounted for as financing and therefore, no gain has been recognized.

One of the 2009 leases has been classified as operating. The total of future minimum lease payments to be made under the terms of the sale-leaseback agreement is \$26,157. Minimum lease payments due for fiscal years 2012, 2013, 2014, 2015, 2016, and thereafter are \$1,557, \$1,582, \$1,616, \$1,648, \$1,674, and \$18,080, respectively.

Contingent rent totaling \$967 in fiscal year 2011, \$749 in fiscal year 2010, and \$783 in fiscal year 2009 is recorded in Rent expense in the accompanying Consolidated Statement of Earnings.

15. Borrowings

Debentures

In connection with the acquisition of Western, the Company issued 14% redeemable subordinated debentures due 2015 (the “Debentures”) in the aggregate principal amount of \$22,959. On March 30, 2011, the Company redeemed all of its outstanding Debentures. The Debentures were redeemed for cash at an aggregate redemption price of approximately \$23,420, representing

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15. Borrowings – (continued)

100% of the principal amount outstanding, plus accrued and unpaid interest up to, but not including, March 30, 2011. The Debentures were issued and the redemption was effected pursuant to the provisions of the Indenture, dated March 30, 2010 (the “Indenture”), between the Company and Wells Fargo Bank, National Association, as trustee. Upon the redemption of the Debentures, the Company’s obligations under the Debentures and the Indenture were satisfied and discharged in accordance with their terms. Included in the Debentures aggregate redemption price of \$23,420 was approximately \$7,804 of principal and interest paid to the Lion Fund. The payment to the Lion Fund does not appear explicitly in the Company’s Consolidated Statement of Cash Flows because of the requirement to consolidate fully the Lion Fund in the Company’s financial statements.

Steak n Shake New Credit Facility

On September 8, 2011, Steak n Shake, as borrower, Steak n Shake Enterprises, Inc. (“Steak n Shake Enterprises”) and Steak n Shake, LLC, as guarantors (together with Steak n Shake Enterprises, the “Subsidiary Guarantors”), each subsidiaries of the Company, entered into a credit agreement (the “New Credit Facility”) with the lenders party thereto and Jefferies Finance LLC, as arranger, book manager, administrative agent and collateral agent (“Jefferies Finance”). The New Credit Facility consists of an \$110,000 senior secured term loan facility (the “Term Loan”) and a \$20,000 senior secured revolving credit facility (the “Revolver”).

The Term Loan matures on September 8, 2015 and has a repayment schedule with monthly amortization, beginning on December 31, 2011, equal to 2.5% of the initial principal amount of the Term Loan (as adjusted pursuant to the New Credit Facility), together with accrued and unpaid interest on the principal amount to be paid, with the balance due at maturity. The Revolver will be available until September 8, 2014. Interest on the Term Loan is based on a base rate or Eurodollar rate plus an applicable margin of 3.5% and 4.5%, respectively. Interest on the Revolver is 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. The Revolver also carries a commitment fee of 0.75% per annum on the unused portion of the credit line.

As of September 28, 2011, outstanding borrowings were \$110,000 under the Term Loan at an interest rate of 5.5% and \$15,000 under the Revolver at an interest rate of 4.5%.

Both the Term Loan and the Revolver have been guaranteed by the Subsidiary Guarantors and secured by first priority security interests in substantially all the assets of Steak n Shake (including the capital stock of Steak n Shake Enterprises) and the Subsidiary Guarantors. Biglari Holdings is not a guarantor under the New Credit Facility. Net proceeds from the New Credit Facility were used to pay the Company a dividend in the amount of \$83,154 and to repay all outstanding amounts under Steak n Shake’s former credit facility. In February 2011, Steak n Shake amended the former credit agreement and entered into a \$20,000 term loan and extended the maturity date of its existing \$30,000 credit facility. Term loan had a maturity date of February 15, 2016.

Outstanding borrowings under Steak n Shake’s \$30,000 credit facility as of September 29, 2010 were \$18,000 at an interest rate of 2.5%. We had \$4,610 and \$522 in standby letters of credit outstanding as of September 28, 2011 and September 29, 2010, respectively. The facility was paid in full with the proceeds from the New Credit Facility.

The New 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 New Credit Facility as of September 28, 2011.

Security Agreement

In connection with the New Credit Facility, Steak n Shake and the Subsidiary Guarantors (together with the other guarantors from time to time party thereto, the “Pledgors”) and Jefferies Finance, in its capacity as collateral agent pursuant to the New Credit Facility, entered into a security agreement (the “Security Agreement”). Pursuant to the Security Agreement, each Pledgor granted to Jefferies Finance a lien on all of the Pledged Collateral (as defined in the Security Agreement) as security for the payment and performance in full of all the secured obligations under the New Credit Facility. The Pledged Collateral does not

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15. Borrowings – (continued)

include the real estate of Steak n Shake and the Subsidiary Guarantors, but such real estate is subject to a springing lien if Steak n Shake does not maintain certain leverage ratios.

Interest Rate Swap

During fiscal year 2011, Steak n Shake entered into an interest rate swap agreement for a notional amount of \$20,000, which effectively fixed the interest rate at 3.25% through February 15, 2016. The notional amount decreases \$1,000 quarterly through its maturity on February 15, 2016. The fair value of the interest rate swap was a loss of \$439 on September 28, 2011 and is included in Accrued expenses on the Consolidated Balance Sheet.

Western Real Estate Loan Agreement and Note Payable

Western Real Estate, L.P. (“Western RE”), a wholly-owned subsidiary of Western, has a promissory note (the “Note”) which is secured by approximately 23 acres of real property. The principal amount of the Note is \$2,293 and the Note bears interest at a rate of 5.0% annually. The Note is due and payable in consecutive monthly payments of accrued interest only commencing on March 30, 2010. All principal and accrued interest thereon is due and payable on February 28, 2013. The Note may be prepaid in whole or in part at any time without penalty.

The loan agreement under which the Note was issued (the “Loan Agreement”) contains various affirmative and negative covenants, limitations and events of default customary for loans of this type to similar borrowers, including limitations on Western RE’s ability to incur indebtedness and liens, subject to limited exceptions, and certain financial covenants that must be maintained. Additionally, the Note is not guaranteed by or an obligation of the parent Company; rather, the Note is guaranteed by Western and its subsidiaries. Western RE was in compliance with all covenants under the Loan Agreement as of September 28, 2011.

Expected principal payments for all outstanding borrowings, excluding the Revolver, include \$11,141 in 2012, \$13,417 in 2013, \$11,000 in 2014, and \$77,000 in 2015.

The carrying amounts for debt reported in the Consolidated Balance Sheet do not differ materially from their fair values at September 28, 2011 as a result of the recent refinancing.

Interest

No interest was capitalized in connection with financing additions to property and equipment during fiscal years 2011, 2010 and 2009. Interest paid on debt amounted to \$2,947 in 2011, \$1,274 in 2010, and \$2,861 in 2009. Interest paid on obligations under leases was \$10,565, \$10,697, and \$11,010 in 2011, 2010, and 2009, respectively.

16. Related Party Transactions

On April 30, 2010, the Company acquired Biglari Capital pursuant to a Stock Purchase Agreement between the Company and Sardar Biglari, Chairman and Chief Executive Officer, who was the sole shareholder of Biglari Capital. (Refer to Note 2.)

On March 30, 2010, the Company, through its wholly-owned subsidiary, Merger Sub, acquired 100% of the outstanding equity interests of Western. Sardar Biglari, Chairman and Chief Executive Officer, was also Chairman and Chief Executive Officer of Western at the time of the acquisition. Additionally, at the time of the merger, Mr. Biglari owned shares of Western’s common stock through his ownership interest in the Lion Fund. (Refer to Note 2.)

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 September 28, 2011 and September 29, 2010, the total fair value of these investments was approximately \$1,997 and \$2,119, respectively.

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17. Common Stock Plans

We maintain stock-based compensation plans which allow for the issuance of incentive stock options, non-qualified stock options, and restricted stock to officers, other key employees, and to members of the Board of Directors. We generally use treasury shares to satisfy the issuance of shares under these stock-based compensation plans. We utilize the fair value recognition provisions of FASB ASC paragraph 718-10-55-10, *Fair-Value-Based Instruments in a Share-Based Transaction*. This guidance applies to all awards granted after the effective date and to modifications, repurchases or cancellations of existing awards. Additionally, under the modified prospective method of adoption, we recognize compensation expense for the portion of outstanding awards on the adoption date for which the requisite service period has not yet been rendered based on the grant-date fair value of those awards.

The weighted average fair value of shares granted during the years ended September 29, 2010 and September 30, 2009 was \$158.52 and \$33.00, respectively. No shares were granted in fiscal year 2011. We estimate the fair value of each grant using the Black-Scholes option-pricing model. Expected volatilities are generally based on historical volatility of our stock. We use historical data to estimate the expected life, and groups of employees that have similar historical behaviors are considered separately for valuation purposes. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options, changes in the subjective input assumptions can materially affect the fair value estimate. The fair value estimates are based on the following weighted average assumptions:

	2010	2009
Risk-free interest rate	4.3%	4.3%
Dividend yield	0.0%	0.0%
Expected volatility	52.4%	31.8%
Expected life in years	3.0 years	5.0 years

Restricted Stock Plans

On March 7, 2008, our shareholders approved the 2008 Equity Incentive Plan (the “2008 Plan”). The 2008 Plan provides for grants of stock-based awards for up to 45,000 shares of common stock with a maximum of 35,000 shares which may be issued as restricted stock. These restricted stock awards are restricted for a period and are forfeited to us if the grantee is not employed (except for reasons of retirement, permanent disability or death) at the end of the vesting period. Awards of restricted stock are valued at 100% of market value at the date of grant. The total value of the stock grant is amortized to compensation expense ratably over the vesting period. There are no shares of restricted stock granted under the 2008 Plan for which restrictions have not lapsed at September 28, 2011. At September 28, 2011, 27,742 shares were reserved for future grants. To date, 11,660 shares have vested under the 2008 Plan.

The total fair value of shares vested during the years ended September 28, 2011, September 29, 2010, and September 30, 2009, was \$657, \$768, and \$1,149, respectively. The amount charged to expense under these plans was \$51 (\$32, net of tax) in 2011, \$235 (\$143, net of tax) in 2010, and \$890 (\$543, net of tax) in 2009. There was no unrecognized compensation cost at September 28, 2011.

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17. Common Stock Plans – (continued)

The following table summarizes the restricted stock activity under the plans:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at September 29, 2010	5,388	\$ 143.28
Granted	—	—
Forfeitures	841	136.02
Vested	4,547	144.62
Nonvested shares at September 28, 2011	<u>—</u>	<u>\$ —</u>

Employee Stock Option Plans

The 2008 Plan also provides for awards in the form of options to purchase shares of common stock. Options granted in 2009 under the 2008 Plan are exercisable as to 20% on each anniversary of the date of grant until fully exercisable. No options were granted in 2011 or 2010 under the 2008 Plan. Options granted in 2009 were at \$200 which exceeded the market price on the date of grant. Options granted in 2008 under the 2008 Plan are exercisable as to 25% on each anniversary of the date of grant until fully exercisable. The options expire ten years from the date of the grant and are issued with an exercise price equal to the fair market value of a share of common stock on the date of grant. Options are granted under the 2008 Plan to officers and key employees selected by the Governance, Compensation and Nominating Committee of the Board of Directors (the “Compensation Committee”). As of September 28, 2011, 10,362 options have been granted under the 2008 Plan and 27,742 shares are available for future issuance. These are the same shares available for future issuance referenced in the Restricted Stock Plan disclosure.

Non-Employee Director Stock Option Plans

Our Non-Employee Director Stock Option Plans provide for the grant of non-qualified stock options at a price equal to the fair market value of the common stock on the date of the grant. Options outstanding under each plan through fiscal year 2005 are exercisable as to 20% on the date of grant and 20% on each anniversary of the date of grant thereafter until fully exercisable. Options outstanding that were issued in fiscal year 2006 or later are exercisable as to 25% on each anniversary of the date of grant until fully exercisable. The options expire five years from the date of grant. At September 28, 2011, 10,500 options have been granted under the Non-Employee Director Stock Option Plans. The Non-Employee Director Stock Option Plans were replaced by the 2008 Plan and as a result, no shares are reserved for future grants under the Non-Employee Director Stock Option Plans.

The following table summarizes the options activity under all of our Stock Option Plans:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at September 29, 2010	22,887	\$ 274.75		
Granted	—	—		
Exercised	(4,383)	243.67		
Canceled or forfeited	(4,925)	281.11		
Outstanding at September 28, 2011	13,579	282.44	4.48 years	\$ 757
Vested or expected to vest at September 28, 2011	12,780	285.18	4.54 years	\$ 686
Exercisable at September 28, 2011	11,629	\$ 303.41	4.25 years	\$ 548

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17. Common Stock Plans – (continued)

During fiscal years 2011, 2010, and 2009, \$218 (\$210, net of tax), \$592 (\$570, net of tax), and \$758 (\$714, net of tax), respectively, was charged to expense related to the stock option plans. The total intrinsic value of options exercised during the years ended September 28, 2011, September 29, 2010, and September 30, 2009, was \$693, \$490, and \$57, respectively. Total unrecognized stock option compensation cost at September 28, 2011 was \$94 and is expected to be recognized over a weighted average period of 0.55 years.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (the “ESPP”), a maximum of 92,627 shares of common stock are available for issuance to all eligible employees as determined by the Board of Directors subject to a limitation of 7,500 shares per year. Unissued shares in any given calendar year are available to increase the annual maximum number of shares issuable in subsequent years. Employees may purchase shares of common stock through payroll deductions ranging from 2% to 10% of compensation up to a maximum fair market value of \$200 or a maximum purchase of 50 shares per year, whichever is less, within the limitations of the offering. Prior to the second quarter of fiscal year 2009, shares were purchased at a 15% discount from the lesser of the share price on the first or last day of the year. Beginning with the second quarter of fiscal year 2009, shares are purchased on a quarterly basis at a 15% discount from the share price on the last day of the quarter. Shares purchased under the ESPP were 812 in 2010 and 7,540 in 2009. During fiscal years 2010 and 2009, \$32 and \$153 was charged to expense related to the ESPP, respectively. No shares were purchased in fiscal year 2011.

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

18. Commitments and Contingencies

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

19. Fair Value of Financial Assets and Liabilities

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

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

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

Cash equivalents: Cash equivalents primarily consist of money market funds. Money market funds that are carried at fair value, based on quoted market prices, are classified within Level 1 of the fair value hierarchy. All other cash equivalents carried at fair value based on observable inputs for which a quoted market price is not available are classified within Level 2 of the fair value hierarchy. Cash equivalents reflected below includes \$0 and \$6,845 of cash equivalents held by the consolidated affiliated partnerships at September 28, 2011 and September 29, 2010, respectively.

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19. Fair Value of Financial Assets and Liabilities – (continued)

Equity securities: Except as follows, the Company's investments in equity securities are carried at fair value, based on quoted market prices, and are classified within Level 1 of the fair value hierarchy. Approximately \$814 of the investments held by consolidated affiliated partnerships at September 29, 2010 have been classified within Level 2 of the fair value hierarchy and have been valued, in the absence of observable market prices, by management, using valuation methodologies after giving consideration to a range of observable factors. The investment was sold during fiscal year 2011.

Non-qualified deferred compensation plan investments: The assets of the Non-Qualified 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 \$193 and \$323 as of September 28, 2011 and September 29, 2010, 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 September 28, 2011 represent the mark to market adjustment for Steak n Shake's interest rate swap.

As of September 28, 2011, the fair values of financial assets and liabilities were as follows:

	September 28, 2011				September 29, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	\$ -	\$ 88,022	\$ -	\$ 88,022	\$ 6,845	\$ 38,134	\$ -	\$ 44,979
Equity securities:								
Restaurant/Retail	89,971	-	-	89,971	26,789	-	-	26,789
Other	25,350	-	-	25,350	5,734	-	-	5,734
Equity securities held by consolidated affiliated partnerships:								
Restaurant/Retail	7,677	-	-	7,677	5,559	-	-	5,559
Other	10,913	-	-	10,913	8,931	814	-	9,745
Non-qualified deferred compensation plan investments	546	-	-	546	476	-	-	476
Investment held by consolidated affiliated partnership	-	-	193	193	-	-	323	323
Total assets at fair value	<u>\$134,457</u>	<u>\$ 88,022</u>	<u>\$ 193</u>	<u>\$222,672</u>	<u>\$ 54,334</u>	<u>\$ 38,948</u>	<u>\$ 323</u>	<u>\$93,605</u>
Liabilities								
Investment derivatives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97	\$ -	\$ 97
Interest rate swaps	-	439	-	439	-	-	-	-
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 439</u>	<u>\$ -</u>	<u>\$ 439</u>	<u>\$ -</u>	<u>\$ 97</u>	<u>\$ -</u>	<u>\$ 97</u>

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:

	September 28, 2011
Beginning of period balance	<u>\$ 323</u>
Sale of assets	<u>(124)</u>
Loss included in earnings	<u>(6)</u>
End of period balance	<u>\$ 193</u>

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)
(amounts in \$000s, except share and per share data)

19. Fair Value of Financial Assets and Liabilities – (continued)

During fiscal year 2011 the Company had impairments on long-lived assets of \$1,032. The fair value of the long-lived assets was determined based on Level 2 inputs using quoted prices for similar properties and quoted prices for the properties from brokers. During fiscal year 2010, the Company had no significant fair value adjustments applicable to items that are subject to non-recurring fair value measurement after the initial measurement date.

20. Steak n Shake of Tallahassee

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

21. Business Segment Reporting

Our reportable business segments are organized in a manner that reflects how management views those business activities. Certain businesses have been grouped together for segment reporting based upon operations even though those business units are operated under separate management.

As of September 28, 2011, our reportable segments are: (1) Restaurant Operations and (2) Investment Management. Our Restaurant Operations segment includes Steak n Shake and Western Sizzlin. The Company and its affiliates own a percentage of the funds included in our Investment Management segment and receive allocations of investment gains and losses. In addition to the two aforementioned reportable segments, we present information related to the holding company, Biglari Holdings, as Corporate and other.

We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are not necessarily indicative of cash available to fund cash requirements, nor synonymous with cash flow from operations.

The tabular information that follows shows data of our reportable segments reconciled to amounts reflected in the Consolidated Financial Statements. The segments' financial information does not reflect the impact of eliminations arising from intersegment transactions. The eliminations row represents the eliminations required to arrive at our consolidated GAAP reported results.

A disaggregation of select data from our Consolidated Statements of Earnings for the most recent year is presented in the tables that follow. Prior to the acquisitions of Western and Biglari Capital in fiscal year 2010, we had only one reportable segment, which was related to our Steak n Shake restaurants.

Net revenue and earnings before income taxes and noncontrolling interests for the years ended September 28, 2011, September 29, 2010, and September 30, 2009 were as follows:

	<u>Net Revenue</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Business:			
Restaurant Operations:			
Steak n Shake	\$ 689,325	\$ 662,891	\$ 628,736
Western	16,078	8,755	—
Total Restaurant Operations	<u>705,403</u>	<u>671,646</u>	<u>628,736</u>
Investment Management:			
Management fees	224	233	—
Consolidated affiliated partnerships	3,573	1,902	—
Total Investment Management Operations	<u>3,797</u>	<u>2,135</u>	<u>—</u>
	<u>\$ 709,200</u>	<u>\$ 673,781</u>	<u>\$ 628,736</u>

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)
(amounts in \$000s, except share and per share data)

21. Business Segment Reporting – (continued)

	<u>Earnings before income taxes and noncontrolling interests</u>			<u>Net earnings attributable to Biglari Holdings Inc.</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Business:						
Restaurant Operations:						
Steak n Shake	\$ 39,628	\$ 37,731	\$ 8,747	\$ 28,363	\$ 26,894	\$ 7,279
Western	2,425	1,019	—	1,591	634	—
Total Restaurant Operations	<u>42,053</u>	<u>38,750</u>	<u>8,747</u>	<u>29,954</u>	<u>27,528</u>	<u>7,279</u>
Investment Management:						
Biglari Capital Corp. (Incentive Fee)	2,510	—	—	1,535	—	—
Management fees	224	233	—	139	144	—
Consolidated affiliated partnerships	3,370	1,775	—	1,815	215	—
Total Investment Management Operations	<u>6,104</u>	<u>2,008</u>	<u>—</u>	<u>3,489</u>	<u>359</u>	<u>—</u>
Corporate and Other:						
Corporate and other	(5,786)	(3,342)	(1,564)	(3,819)	(2,288)	(1,287)
Investment and derivative gains/losses	7,970	4,024	9	4,941	2,495	6
Total Corporate and Other	<u>2,184</u>	<u>682</u>	<u>(1,555)</u>	<u>1,122</u>	<u>207</u>	<u>(1,281)</u>
Reconciliation of segments to consolidated amount:						
Eliminations	(2,510)	—	—	—	—	—
	<u>\$ 47,831</u>	<u>\$ 41,440</u>	<u>\$ 7,192</u>	<u>\$ 34,565</u>	<u>\$ 28,094</u>	<u>\$ 5,998</u>

A disaggregation of our consolidated capital expenditure, depreciation, and amortization captions for fiscal years ended September 28, 2011, September 29, 2010, and September 30, 2009 is presented in the table that follows.

	<u>Capital Expenditures</u>			<u>Depreciation and Amortization</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Reportable segments:						
Restaurant Operations:						
Steak n Shake	\$ 11,092	\$ 6,061	\$ 5,751	\$ 27,279	\$ 28,696	\$ 31,369
Western	18	—	—	785	431	—
Investment Management	—	—	—	27	33	—
Corporate and other	1,908	2,589	—	270	98	—
Consolidated Results	<u>\$ 13,018</u>	<u>\$ 8,650</u>	<u>\$ 5,751</u>	<u>\$ 28,361</u>	<u>\$ 29,258</u>	<u>\$ 31,369</u>

A disaggregation of our consolidated asset captions as of September 28, 2011 and September 29, 2010 is presented in the table that follows.

	<u>Goodwill</u>		<u>Identifiable Assets</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Reportable segments:				
Restaurant Operations:				
Steak n Shake	\$14,503	\$14,503	\$406,619	\$425,532
Western	13,026	14,256	7,919	8,705
Investment Management	—	—	19,186	24,328
Corporate and other	—	—	211,607	77,152
Eliminations	—	—	—	(637)
Consolidated results	<u>\$27,529</u>	<u>\$28,759</u>	<u>645,331</u>	<u>535,080</u>
Reconciliation of segments to consolidated amount:				
Goodwill	—	—	27,529	28,759
Total assets	—	—	<u>\$ 672,860</u>	<u>\$ 563,839</u>

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)

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

21. Business Segment Reporting – (continued)

During fiscal year 2011, the Company redefined its identifiable assets to exclude intercompany receivables and payables for purposes of segment reporting. Prior year amounts have been reclassified to match our current year presentation of identifiable assets.

22. Quarterly Financial Data (Unaudited)

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>
For the year ended September 28, 2011 (52 weeks) ⁽¹⁾				
Total net revenues	\$ 158,722	\$ 211,277	\$ 170,861	\$ 168,340
Gross profit ⁽²⁾	39,090	47,713	40,432	43,236
Costs and expenses	145,690	199,225	157,692	154,098
Earnings before income taxes	13,106	8,440	11,151	15,134
Net earnings attributable to Biglari Holdings Inc.	9,463	5,645	8,676	10,781
Basic earnings per common and common equivalent share	\$ 7.13	\$ 4.25	\$ 6.52	\$ 8.09
Diluted earnings per common and common equivalent share	\$ 7.08	\$ 4.23	\$ 6.49	\$ 8.08
For the year ended September 29, 2010 (52 weeks) ⁽¹⁾				
Total net revenues	\$ 149,358	\$ 199,117	\$ 160,924	\$ 164,382
Gross profit ⁽²⁾	36,197	44,631	41,503	39,623
Costs and expenses	138,945	187,764	148,123	148,932
Earnings before income taxes	8,178	8,355	10,581	14,326
Net earnings attributable to Biglari Holdings Inc.	5,477	5,524	8,691	8,402
Basic earnings per common and common equivalent share	\$ 3.84	\$ 3.87	\$ 6.27	\$ 6.30
Diluted earnings per common and common equivalent share	\$ 3.82	\$ 3.84	\$ 6.23	\$ 6.26

(1) Our fiscal year includes quarters consisting of 12, 16, 12 and 12 weeks, respectively, except for years where we have 53 weeks in which case the fourth quarter includes 13 weeks.

(2) We define Gross profit as Net sales less Cost of sales and Restaurant operating costs, which excludes Depreciation and amortization.

23. Supplemental Disclosures of Cash Flow Information

During fiscal year 2011, we had no new lease obligations or lease retirements, and had \$741 of capital expenditures in Accounts payable at year-end. During fiscal year 2010, we had new leases of \$248, lease retirements of \$1,453 and \$371 of capital expenditures in Accounts payable at year-end. Additionally, we issued \$22,959, of Debentures in connection with our acquisition of Western. We paid out \$194 of that amount in lieu of fractional Debentures. During fiscal year 2009, we issued 5,955 shares of restricted stock totaling \$871, had lease retirements of \$1,832, and had \$780 of capital expenditures in Accounts payable at year-end.

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

Not applicable.

Item 9A. 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 September 28, 2011.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 28, 2011 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be contained in our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed on or before January 26, 2012, and such information is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item will be contained in our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed on or before January 26, 2012, and such information is incorporated herein by reference.

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

The information required by this Item will be contained in our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed on or before January 26, 2012, and such information is incorporated herein by reference.

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

The information required by this Item will be contained in our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed on or before January 26, 2012, and such information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be contained in our definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed on or before January 26, 2012, and such information is incorporated herein by reference.

Part IV

Item 15 Exhibits and Financial Statement Schedules

(a) 1. *Financial Statements*

The following Consolidated Financial Statements, as well as the Reports of Independent Registered Public Accounting Firm, are included in Part II, Item 8 of this report:

	<u>PAGE</u>
Reports of Independent Registered Public Accounting Firm	21-22
Management’s Report on Internal Control over Financial Reporting	23
Consolidated Balance Sheets at September 28, 2011 and September 29, 2010	25
<i>For the years ended September 28, 2011, September 29, 2010, and September 30, 2009:</i>	
Consolidated Statements of Earnings	24
Consolidated Statements of Cash Flows	26
Consolidated Statements of Changes in Shareholders’ Equity	27
Notes to Consolidated Financial Statements	28

2. *Financial Statement Schedule*

Schedule I—Parent Company	
Condensed Balance Sheets at September 28, 2011 and September 29, 2010	56
<i>For the years ended September 28, 2011 September 29, 2010, and September 30, 2009:</i>	
Condensed Statements of Earnings	57
Condensed Statements of Cash Flows	58
Notes to Condensed Parent Company Financial Statements	59

Other schedules have been omitted for the reason that they are not required, are not applicable, or the required information is set forth in the financial statements or notes thereto.

(b) *Exhibits*

See the “Exhibit Index” at page 61.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on December 10, 2011.

BIGLARI HOLDINGS INC.

By: /s/ DUANE E. GEIGER
Duane E. Geiger
Interim Chief Financial Officer,
Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on December 10, 2011.

Signature	Title
<u> /s/ SARDAR BIGLARI </u> <p style="text-align: center; margin: 0;">Sardar Biglari</p>	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
<u> /s/ DUANE E. GEIGER </u> <p style="text-align: center; margin: 0;">Duane E. Geiger</p>	Interim Chief Financial Officer, Vice President and Controller (Principal Financial Officer and Principal Accounting Officer)
<u> /s/ PHILIP COOLEY </u> <p style="text-align: center; margin: 0;">Philip Cooley</p>	Director
<u> /s/ DR. RUTH J. PERSON </u> <p style="text-align: center; margin: 0;">Dr. Ruth J. Person</p>	Director
<u> /s/ KENNETH R. COOPER </u> <p style="text-align: center; margin: 0;">Kenneth R. Cooper</p>	Director

Condensed Balance Sheets

Biglari Holdings Inc. (Parent Company)

(Amounts in \$000s)

Schedule I

	September 28, 2011	September 29, 2010
Assets		
Cash and cash equivalents	\$ 88,004	\$ 38,130
Investments	114,176	30,824
Other	5,572	2,282
Investments in and advances to/from subsidiaries	80,879	206,684
Total assets	\$ 288,631	\$ 277,920
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	\$ 1,902	\$ 2,009
Due to broker	7,051	3,903
Current portion of lease obligations	—	70
Total current liabilities	8,953	5,982
Obligations under leases	—	178
Debentures	—	22,765
Total liabilities	8,953	28,925
Shareholders' equity	279,678	248,995
Total liabilities and shareholders' equity	\$ 288,631	\$ 277,920

See accompanying Notes to Condensed Parent Company Financial Statements.

Condensed Statements of Earnings

Biglari Holdings Inc. (Parent Company)

(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)

(Amounts in \$000s)

Schedule I (continued)

	<u>2011</u> <u>(52 Weeks)</u>	<u>2010</u> <u>(52 Weeks)</u>	<u>2009</u> <u>(53 Weeks)</u>
Income			
Distributed earnings from subsidiaries	\$ 28,094	\$ 26,679	\$ —
Undistributed earnings from subsidiaries	<u>5,500</u>	<u>1,390</u>	<u>7,279</u>
Total	<u>33,594</u>	<u>28,069</u>	<u>7,279</u>
Costs, expenses and other			
General and administrative	4,768	2,068	1,564
Interest	1,589	1,635	—
Other income, net	(329)	(67)	—
Investment income	<u>(7,970)</u>	<u>(4,024)</u>	<u>(9)</u>
Total	<u>(1,942)</u>	<u>(388)</u>	<u>1,555</u>
Income taxes	971	363	(274)
Net earnings	<u>\$ 34,565</u>	<u>\$ 28,094</u>	<u>\$ 5,998</u>

See accompanying Notes to Condensed Parent Company Financial Statements.

Condensed Statements of Cash Flows.

Biglari Holdings Inc. (Parent Company)

(Years ended September 28, 2011 September 29, 2010, and September 30, 2009)

(Amounts in \$000s)

Schedule I (continued)

	2011	2010	2009
	(52 Weeks)	(52 Weeks)	(53 Weeks)
Operating activities			
Net earnings	\$ 34,565	\$ 28,094	\$ 5,998
Adjustments to reconcile net earnings to net cash:			
Excess distributed earnings of subsidiaries	128,749	34,489	—
Undistributed earnings of subsidiaries	(5,500)	(1,390)	(7,279)
Realized investment gains/losses	(7,360)	(3,802)	(9)
Derivative and short sale gains/losses	(610)	(222)	—
Changes in accounts payable and accrued expenses	239	2,487	—
Other	(198)	657	247
Net cash provided by (used in) operating activities	149,885	60,313	(1,043)
Investing activities			
Investments in and advances to/ from subsidiaries, net	2,611	(32,637)	43,152
Additions of property and equipment	(661)	(2,589)	—
Purchases of investments	(171,893)	(73,228)	(3,047)
Sales of investments	90,058	47,112	230
Changes in due to/from broker	3,148	3,903	—
Payments for acquisitions	—	(4,107)	—
Net cash (used in) provided by investing activities	(76,737)	(61,546)	40,335
Financing activities			
Principal payments on long-term debt	(22,765)	—	—
Cash paid in lieu of fractional shares	—	(711)	—
Proceeds from exercise of stock options and employees stock purchase plan	29	345	857
Excess tax benefits from stock-based awards	3	—	40
Repurchase of employee shares for tax withholding	(541)	(257)	(203)
Net cash (used in) provided by financing activities	(23,274)	(623)	694
Increase (decrease) in cash and cash equivalents	49,874	(1,856)	39,986
Cash and cash equivalents at beginning of year	38,130	39,986	—
Cash and cash equivalents at end of year	\$ 88,004	\$ 38,130	\$ 39,986

See accompanying Notes to Condensed Parent Company Financial Statements.

Notes to Condensed Parent Company Financial Statements
Biglari Holdings Inc. (Parent Company)
(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)
(Amounts in \$000s)

1. Basis of Presentation

The Parent Company's (the "Company's") condensed financial information has been derived from the consolidated financial statements and should be read in conjunction with the consolidated financial statements included in this Form 10-K.

For the purpose of presenting the Company's Condensed Balance Sheet, the Company has treated shares of Biglari Holdings common stock held by certain consolidated affiliated partnerships as treasury stock of the Company and included as a component of Shareholders' equity. The inclusion of the 205,743 shares of treasury stock has decreased the Company's Shareholders' equity and Investment in subsidiaries by \$69,221.

2. Subsidiary Transactions

Dividends

During fiscal year 2011, the Company received cash dividends from subsidiaries of \$156,843, which included distributions of current year earnings of \$28,094 and historical earnings of \$128,749. The Company received cash dividends from subsidiaries of \$61,168 in fiscal year 2010, which included distributions of current year earnings of \$26,679 and historical earnings of \$34,489. No cash dividends were received during fiscal year 2009.

Our wholly-owned subsidiary has a credit facility that imposes restrictions on its ability to transfer funds to the Parent through intercompany loans, distributions, or dividends.

Investment in Subsidiaries

The Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries adjusted for the cost basis of shares of Biglari Holdings common stock held by certain consolidated affiliated partnerships.

On April 30, 2010, the Company acquired Biglari Capital pursuant to a Stock Purchase Agreement between the Company and Sardar Biglari, Chairman and Chief Executive Officer, who was the sole shareholder of Biglari Capital. The cash paid in connection with this acquisition totaled \$4,107.

On March 30, 2010, the Company, through its wholly-owned subsidiary, Merger Sub, acquired 100% of the outstanding equity interests of Western. Sardar Biglari, Chairman and Chief Executive Officer, was also Chairman and Chief Executive Officer of Western at the time of the acquisition. Additionally, at the time of the merger, Mr. Biglari owned shares of Western's common stock through his ownership interest in the Lion Fund.

3. Investments

Investments consisted of the following:

	<u>2011</u>	<u>2010</u>
Cost	\$ 122,762	\$ 33,033
Gross unrealized gains	1,950	333
Gross unrealized losses	(10,536)	(2,542)
Fair value	<u>\$ 114,176</u>	<u>\$ 30,824</u>

Unrealized losses of marketable equity securities at September 28, 2011 relate to securities that have been in an unrealized loss position for less than 12 months. A majority of the gross unrealized losses for fiscal year 2011 were due to one investment. The losses related to this security have been in an unrealized loss position for less than 3 months. We consider several factors in determining other-than-temporary impairment losses including the current and expected long-term business prospects of these issuers, the length of time and relative magnitude of the price decline and our ability and intent to hold the investment until the price recovers.

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 Shareholders' equity.

Notes to Condensed Parent Company Financial Statements
Biglari Holdings Inc. (Parent Company)
(Years ended September 28, 2011, September 29, 2010, and September 30, 2009)
(Amounts in \$000s)

3. Investments – (continued)

Realized investment gains/losses for the years ended September 28, 2011, September 29, 2010 and September 30, 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross realized gains on sales	\$ 7,775	\$ 3,810	\$ 9
Gross realized losses on sales	\$ (415)	\$ (8)	\$ —

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

The Company has entered into short sales on certain equity securities, that is, a transaction in which the Company sells securities it does not own. The Company's use of short sales involves the risk that the price of the security in the open market may be higher when it is purchased in order to close out the Company's short position, resulting in a loss to the Company. Such a loss is theoretically limitless because there are no restrictions on the potential increase in the price of a security, or any guarantee as to the price at which the Company would be able to purchase the security in the open market. Securities sold in short sale transactions and the interest and dividends payable on such securities, if any, are reflected as a liability in Accrued expenses in the Condensed Balance Sheet. As of September 28, 2011 and September 29, 2010 we had no outstanding short sales.

For the year ended September 28, 2011, the Company recorded investment gains of \$610 related to the change in fair value of derivatives and securities sold short. For the year ended September 29, 2010, the Company recorded investment gains from marking derivatives to market of \$222.

4. Debt

In connection with the acquisition of Western, the Company issued 14% redeemable subordinated debentures due 2015 (the "Debentures") in the aggregate principal amount of \$22,959, with cash of \$194 paid in lieu of fractional Debenture interests. On March 30, 2011, the Company redeemed all of its outstanding Debentures. The Debentures were redeemed for cash at an aggregate redemption price of approximately \$23,420, representing 100% of the principal amount outstanding, plus accrued and unpaid interest up to, but not including, March 30, 2011. Included in the Debentures aggregate redemption price of \$23,420 was approximately \$7,804 of principal and interest paid to the Lion Fund.

5. Income Taxes

Federal income taxes are paid based on the consolidated results of Biglari Holdings.

INDEX TO EXHIBITS

Exhibit Number	Description
2.01	Agreement and Plan of Merger, dated as of October 22, 2009, by and among the Company, Grill Acquisition Corporation and Western. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated October 23, 2009).
3.01	Amended and Restated Articles of Incorporation of the Company, filed March 27, 2002, as amended by Articles of Amendment dated December 17, 2009, January 27, 2010 and April 8, 2010. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 dated April 15, 2010).
3.02	Restated Bylaws of the Company, as amended through July 1, 2009. (Incorporated by reference to Exhibit 3.01 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2009).
4.01	Specimen certificate representing Common Stock of the Company. (Incorporated by reference to Exhibit 4.01 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 11, 2001).
4.02	Indenture, dated as of March 30, 2010, by and between the Company and Wells Fargo Bank, National Association, as Trustee. (Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A12B dated March 30, 2010).
4.03	Specimen of 14% Subordinated Debenture Due 2015. (Incorporated by reference to Exhibit 4.2 to the Registration Statement on Form 8-A12B dated March 30, 2010).
10.01*	1997 Employee Stock Option Plan. (Incorporated by reference to the Appendix to the Company's definitive Proxy Statement dated December 24, 1996).
10.02*	Amendment No. 1 to 1997 Employee Stock Option Plan. (Incorporated by reference to the Appendix to the Company's definitive Proxy Statement dated December 19, 2001).
10.03*	Form of Stock Option Agreement under the Company's 1997 Employee Stock Option Plan. (Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).
10.04*	2005 Director Stock Option Plan. (Incorporated by reference to Appendix B to the Company's definitive Proxy Statement dated December 20, 2004).
10.05*	2006 Employee Stock Option Plan. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 8, 2006).
10.06*	2006 Incentive Bonus Plan. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 8, 2006).
10.07*	Form of Incentive Stock Option Agreement under the 2006 Employee Stock Option Plan (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 8, 2006).
10.08*	2007 Non-Employee Director Restricted Stock Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 9, 2007).
10.09*	2008 Equity Incentive Plan. (Incorporated by reference to Appendix A to the Company's definitive Proxy Statement dated February 8, 2008).
10.10*	Form of Employee Stock Option Agreement under the Company's 2008 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 9, 2008).
10.11*	Form of 2008 Equity Incentive Plan Restricted Stock Agreement under the Company's 2008 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.02 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 9, 2008).
10.12*	The Steak n Shake Non-Qualified Savings Plan, amended and restated as of March 15, 2010. (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 dated April 22, 2010).
10.13	Multiple Unit Franchise Agreement, dated as of September 21, 2005, by and among the Company, Reinwald Enterprises Emory, LLC and Reinwald Enterprises Wild Geese, LLC. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 27, 2005)

Exhibit Number	Description
10.14*	Form of Indemnity Agreement entered into on October 9, 2007 with the following Officers and Directors of the Company: Jeffrey A. Blade, Duane E. Geiger, Alan B. Gilman, Omar Janjua, David C. Milne, Thomas Murrill, Gary T. Reinwald, Steven M. Schiller, J. Michael Vance, Geoff Ballotti, Wayne Kelley, Charles Lanham, Ruth Person, John W. Ryan, J. Fred Risk, Steven M. Schmidt, Edward Wilhelm, and James Williamson, Jr. (Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the period ended September 26, 2007).
10.15*	Severance Agreement, dated as of January 26, 2010, by and between the Company and Duane Geiger. (Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the period ended December 23, 2009).
10.16	Stock Purchase Agreement, dated April 30, 2010, by and between the Company and Sardar Biglari. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 30, 2010).
10.17*	Amended and Restated Incentive Bonus Agreement, dated September 28, 2010, by and between the Company and Sardar Biglari. (Incorporated by reference to Annex A to the Company's definitive Proxy Statement dated September 29, 2010).
10.18	Credit Agreement, dated as of September 8, 2011, by and among Steak n Shake Operations, Inc., as borrower, Steak n Shake Enterprises, Inc., as a subsidiary guarantor, Steak n Shake, LLC, as a subsidiary guarantor, the lenders party thereto, and Jefferies Finance LLC, as arranger, book manager, administrative agent and collateral agent. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 13, 2011).
10.19	Security Agreement, dated as of September 8, 2011, by and among Steak n Shake Operations, Inc., the other guarantors from time to time party thereto, and Jefferies Finance LLC, as collateral agent pursuant to the Credit Agreement. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 13, 2011).
14.01	Code of Conduct, dated May 17, 2010.
21.01	Subsidiaries of the Company.
23.01	Consent of Independent Registered Public Accounting Firm.
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 Annual Report on Form 10-K for the fiscal year ended September 28, 2011, formatted in XBRL (Extensible Business Reporting Language), includes: (i) the Consolidated Balance Sheets as of September 28, 2011 and September 29, 2010, (ii) the Consolidated Statements of Earnings for the Years Ended September 28, 2011, September 29, 2010 and September 30, 2009, (iii) the Consolidated Statements of Cash Flows for the Years Ended September 28, 2011, September 29, 2010 and September 30, 2009, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 28, 2011, September 29, 2010 and September 30, 2009, and (v) the Notes to Consolidated Financial Statements and Schedule I, tagged as blocks of text.

* Indicates management contract or compensatory plans or arrangements required to be filed as an exhibit to this Annual Report on Form 10-K.

BIGLARI HOLDINGS INC.

<u>Subsidiaries</u>	<u>State of Incorporation or Organization</u>
Austins of Omaha, Inc.	Nebraska
Biglari Capital Corp.	Delaware
Consolidated Specialty Restaurants, Inc.	Indiana
SNS Investment Company	Indiana
Steak n Shake, LLC	Indiana
Steak n Shake Enterprises, Inc.	Indiana
Steak n Shake of Tallahassee LLC	Indiana
Steak n Shake Operations, Inc.	Indiana
The Lion Fund, L.P.	Delaware
The Western Sizzlin Stores of Little Rock, Inc.	Arkansas
The Western Sizzlin Stores, Inc.	Tennessee
TLF Realty, L.L.C.	Texas
Western Acquisitions, L.P.	Delaware
Western Investments, Inc.	Delaware
Western Mustang Holdings, LLC	Delaware
Western Properties, Inc.	Delaware
Western Real Estate, L.P.	Delaware
Western Sizzlin Corporation	Delaware
Western Sizzlin Franchise Corporation	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-115727 on Form S-3 and Nos. 333-166265, 333-156000, 333-148202, 333-136941, 333-88670, and 333-33667 on Form S-8 of our reports dated December 10, 2011, relating to the consolidated financial statements and financial statement schedule of Biglari Holdings Inc., and the effectiveness of Biglari Holdings Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Biglari Holdings Inc. for the year ended September 28, 2011.

/s/ Deloitte & Touche LLP

Indianapolis, Indiana

December 10, 2011

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sardar Biglari, certify that:

1. I have reviewed this annual report on Form 10-K of Biglari Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 10, 2011

/s/ Sardar Biglari
Sardar Biglari
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Duane E. Geiger, certify that:

1. I have reviewed this annual report on Form 10-K of Biglari Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 10, 2011

/s/ Duane E. Geiger

Duane E. Geiger

Interim Chief Financial Officer, Vice President and Controller

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Biglari Holdings, Inc. (the “Company”) on Form 10-K for the period ending September 28, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sardar Biglari

Sardar Biglari

Chairman and Chief Executive Officer

December 10, 2011

/s/ Duane E. Geiger

Duane E. Geiger

Interim Chief Financial Officer, Vice President and
Controller

December 10, 2011

