

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such as partnerships because the capital under our control is captive, unlike a hedge fund, in which capital can be withdrawn by its partners.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*.

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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.

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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