

BIGLARI HOLDINGS INC.  
Form 10-Q  
May 18, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 11, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-8445

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation or organization)

37-0684070

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

17802 IH 10 West, Suite 400

San Antonio, Texas

(Address of principal executive offices)

78257

(Zip Code)

(210) 344-3400

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of May 16, 2012 1,433,513 shares of the registrant’s Common Stock, \$.50 stated value, were outstanding.

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## Part I Financial Information

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

	April 11, 2012 (Unaudited)	September 28, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$37,042	\$98,987
Investments	217,743	115,321
Receivables, net of allowance of \$742 and \$559, respectively	8,131	4,133
Inventories	6,423	5,886
Deferred income taxes	—	6,150
Assets held for sale	6,203	6,870
Other current assets	6,393	3,237
Total current assets	281,935	240,584
Property and equipment, net	362,079	371,736
Goodwill	27,529	27,529
Other intangible assets, net	6,587	6,950
Other assets	9,615	7,278
Investments held by consolidated affiliated partnerships	23,603	18,783
Total assets	\$711,348	\$672,860
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable	\$33,921	\$29,236
Due to broker	3,852	7,272
Accrued expenses	44,888	46,948
Revolving credit	15,000	15,000
Deferred income taxes	4,029	—
Current portion of obligations under leases	5,560	5,272
Current portion of long-term debt	11,180	11,141
Total current liabilities	118,430	114,869
Deferred income taxes	10,086	6,664
Obligations under leases	112,769	116,066
Long-term debt	95,793	101,417
Other long-term liabilities	9,754	8,914
Total liabilities	346,832	347,930
Commitments and contingencies		
Redeemable noncontrolling interests of consolidated affiliated partnerships	54,822	45,252
Shareholders' equity		
	756	756

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Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,511,174 shares issued, 1,227,558 and 1,227,276 shares outstanding (net of treasury stock), respectively

Additional paid-in capital	138,735	144,569
Retained earnings	243,713	230,390
Accumulated other comprehensive income (loss)	17,057	(5,468 )
Treasury stock – at cost: 283,616 and 283,898 shares (includes 205,743 shares held by consolidated affiliated partnerships) at April 11, 2012 and September 28, 2011, respectively	(90,567 )	(90,569 )
Biglari Holdings Inc. shareholders' equity	309,694	279,678
Total liabilities and shareholders' equity	\$711,348	\$672,860

See accompanying Notes to Condensed Consolidated Financial Statements.

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## BIGLARI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(Sixteen and Twenty-Eight Weeks Ended April 11, 2012 and April 13, 2011)  
(amounts in \$000s, except share and per share data)

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Net revenues				
Restaurant Operations:				
Net sales	\$218,358	\$207,896	\$379,874	\$360,955
Franchise fees	2,603	2,305	4,747	4,350
Other revenue	790	711	1,320	1,222
Total	221,751	210,912	385,941	366,527
Investment Management Operations:				
Management fee income	—	114	—	224
Consolidated Affiliated Partnerships:				
Investment gains/losses	1,842	259	3,966	2,946
Other income/loss	91	(8 )	167	302
Total	1,933	365	4,133	3,472
Total net revenues	223,684	211,277	390,074	369,999
Costs and expenses				
Cost of sales	63,272	57,543	108,696	98,823
Restaurant operating costs	102,807	102,640	176,770	175,329
General and administrative	19,854	14,595	33,112	25,609
Depreciation and amortization	8,098	8,683	14,399	15,292
Marketing	11,390	10,780	20,277	19,731
Rent	5,445	5,124	9,492	9,020
Pre-opening costs	322	34	423	76
Asset impairments and provision for restaurant closings	320	(270 )	320	13
Loss on disposal of assets	153	153	369	257
Other operating (income) expense	(125 )	(57 )	(644 )	765
Total costs and expenses, net	211,536	199,225	363,214	344,915
Other income (expense)				
Interest, dividend and other investment income	776	118	1,402	153
Interest on obligations under leases	(3,102 )	(3,261 )	(5,427 )	(5,710 )
Interest expense	(2,533 )	(867 )	(4,388 )	(1,432 )
Realized investment gains/losses	378	366	3,973	3,244
Derivative and short sale gains/losses	—	32	—	207
Total other income (expense)	(4,481 )	(3,612 )	(4,440 )	(3,538 )
Earnings before income taxes	7,667	8,440	22,420	21,546

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Income taxes	2,136	2,687	6,896	7,028
Net earnings	5,531	5,753	15,524	14,518
Earnings attributable to redeemable noncontrolling interest:				
Income allocation	(1,003 )	(108 )	(2,237 )	(1,920 )
Incentive fee	—	—	36	2,510
Total earnings/loss attributable to redeemable noncontrolling interests	(1,003 )	(108 )	(2,201 )	590
Net earnings attributable to Biglari Holdings Inc.	\$4,528	\$5,645	\$13,323	\$15,108
Earnings per share attributable to Biglari Holdings Inc.				
Basic earnings per common and common equivalent share	\$3.39	\$4.25	\$9.99	\$11.38
Diluted earnings per common and common equivalent share	\$3.39	\$4.23	\$9.97	\$11.31
Weighted average shares and equivalents				
Basic	1,333,848	1,327,685	1,333,685	1,327,480
Diluted	1,337,446	1,334,653	1,336,904	1,335,878

See accompanying Notes to Condensed Consolidated Financial Statements.

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## BIGLARI HOLDINGS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Twenty-Eight Weeks Ended April 11, 2012 and April 13, 2011)

(amounts in \$000s)

	Twenty-Eight Weeks Ended	
	2012	2011
	(Unaudited)	
Operating activities		
Net earnings	\$ 15,524	\$ 14,518
Adjustments to reconcile net earnings to operating cash flows (excluding investment operations of consolidated affiliated partnerships):		
Depreciation and amortization	14,399	15,292
Provision for deferred income taxes	(204)	1,314
Asset impairments and provision for restaurant closings	320	13
Stock-based compensation and other non-cash expenses	638	572
Loss on disposal of assets	369	257
Realized investment gains/losses	(3,973)	(3,244)
Derivative and short sale gains/losses	—	(207)
Changes in receivables and inventories	(4,749)	(5,161)
Changes in other assets	(6,156)	1,261
Changes in accounts payable and accrued expenses	2,475	2,679
Investment operations of consolidated affiliated partnerships:		
Purchases of investments	(6,356)	(28,057)
Sales of investments	12,103	37,752
Realized investment gains, net	(1,585)	(2,567)
Unrealized gains on marketable securities held by consolidated affiliated partnerships	(2,381)	(379)
Changes in due to/from broker and cash equivalents held by consolidated affiliated partnerships	(6,598)	(1,858)
Net cash provided by operating activities	13,826	32,185
Investing activities		



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Additions of property and equipment	(4,702)	(7,556)
Proceeds from property and equipment disposals	1,595	1,988
Purchases of investments	(93,857)	(25,841)
Sales of investments	31,739	44,422
Changes in due to/from broker	(3,420)	(3,903)
Net cash (used in) provided by investing activities	(68,645)	9,110
Financing activities		
Proceeds from revolving credit facility	—	144,325
Payments on revolving credit facility	—	(149,281)
Borrowings on long-term debt	—	20,000
Principal payments on long-term debt	(5,585)	(15,289)
Principal payments on direct financing lease obligations	(3,009)	(4,301)
Proceeds from exercise of stock options and employees stock purchase plan	3	477
Excess tax benefits from stock-based awards	383	—
Repurchase of employee shares for tax withholding	—	(494)
Financing activities of consolidated affiliated partnerships:		
Contributions from noncontrolling interests	1,107	691
Distributions to noncontrolling interests	(25)	(15,772)
Net cash used in financing activities	(7,126)	(19,644)
(Decrease) increase in cash and cash equivalents	(61,945)	21,651
Cash and cash equivalents at beginning of period	98,987	47,563
Cash and cash equivalents at end of period	\$ 37,042	\$ 69,214

See accompanying Notes to Condensed Consolidated Financial Statements.

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## BIGLARI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Twenty-Eight Weeks Ended April 11, 2012 and April 13, 2011)  
(amounts in \$000s)

(Unaudited)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at September 28, 2011	\$756	\$144,569	\$230,390	\$ (5,468 )	\$(90,569 )	\$279,678
Net earnings attributable to Biglari Holdings Inc.			13,323			13,323
Reclassification of investment appreciation in net earnings, net of \$553 tax				(902 )		(902 )
Net change in unrealized gains and losses on investments, net of \$14,358 tax				23,427		23,427
Total comprehensive income						35,848
Exercise of stock options and other stock compensation transactions		453			2	455
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value		(6,287 )				(6,287 )
Balance at April 11, 2012	\$756	\$138,735	\$243,713	\$ 17,057	\$(90,567 )	\$309,694
Balance at September 29, 2010	\$756	\$143,521	\$195,825	\$ (1,152 )	\$(89,955 )	\$248,995
Net earnings attributable to Biglari Holdings Inc.			15,108			15,108
Reclassification of investment appreciation in net earnings, net of \$821 tax				1,285		1,285
Net change in unrealized gains and losses on investments, net of \$379 tax				592		592
Total comprehensive income						16,985
Exercise of stock options and other stock compensation transactions		741			(537 )	204
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value		(7,668 )				(7,668 )

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Balance at April 13, 2011	\$756	\$136,594	\$210,933	\$ 725	\$(90,492 )	\$258,516
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See accompanying Notes to Condensed Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

April 11, 2012

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

1. General

The accompanying unaudited condensed consolidated financial statements of Biglari Holdings Inc. (“we”, “us”, “our”, “Biglari Holdings”, or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments considered necessary to present fairly the condensed consolidated Balance Sheet, the condensed consolidated Statements of Earnings, the condensed consolidated Statements of Cash Flows and the condensed consolidated Statements of Changes in Shareholders’ Equity have been included, and consist only of normal recurring adjustments. The condensed consolidated Statements of Earnings for the sixteen and twenty-eight weeks ended April 11, 2012 and April 13, 2011 are not necessarily indicative of the condensed consolidated Statements of Earnings for the entire fiscal years. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 28, 2011.

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

Basis of Presentation and Consolidation

As of April 11, 2012, the condensed consolidated financial statements include the accounts of (i) the Company, (ii) its wholly-owned subsidiaries Steak n Shake Operations, Inc. (“Steak n Shake”), Western Sizzlin Corporation (“Western”), and Biglari Capital Corp. (“Biglari Capital”), and (iii) investment related subsidiaries and limited partnerships (the “consolidated affiliated partnerships”). As a result of the Company’s acquisitions of Western and Biglari Capital during fiscal year 2010, the Company acquired financial interests in The Lion Fund, L.P. (the “Lion Fund”), Western Acquisitions, L.P., Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P., investment limited partnerships (collectively referred to as consolidated affiliated partnerships), for which the Company has a substantive controlling interest. During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated and the funds distributed to the partners. During the third quarter of fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P.

We consolidate entities in which we have a wholly-owned or controlling interest in the general partner. The consolidated affiliated partnerships’ assets and liabilities are consolidated on the Company’s balance sheet even though outside limited partners have majority ownership in all of the investment partnerships. The Company does not guarantee any of the liabilities of its subsidiaries that are serving as general partners to these consolidated affiliated partnerships. All intercompany accounts and transactions have been eliminated in consolidation.

Western’s and Biglari Capital’s March 31 quarter end for financial reporting purposes differs from the end of the Company’s fiscal quarter of April 11, 2012. There were no significant transactions in the intervening period.

## 2. New Accounting Standards

In December 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2011–12, Comprehensive Income (“ASU 2011–12”). The amendments in ASU 2011–12 superseded certain pending paragraphs in ASU 2011–05, Presentation of Comprehensive Income (“ASU 2011–05”) to effectively defer only those changes in ASU 2011–05 that related to the presentation of reclassification adjustments out of accumulated other comprehensive income. The adoption of ASU 2011–12 will not impact the measurement of net earnings or other comprehensive income.

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

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

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

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

### 3. Earnings Per Share

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

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

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	April 11, 2012	April 13, 2011	April 11, 2012	April 13, 2011
Basic earnings per share:				
Weighted average common shares	1,333,848	1,327,685	1,333,685	1,327,480
Diluted earnings per share:				
Weighted average common shares	1,333,848	1,327,685	1,333,685	1,327,480
Dilutive effect of stock awards	3,598	6,968	3,219	8,398
Weighted average common and incremental shares	1,337,446	1,334,653	1,336,904	1,335,878
	705	—	705	1,030

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

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## 4. Investments

Investments consisted of the following:

	April 11, 2012	September 28, 2011
Cost	\$ 190,231	\$ 124,140
Gross unrealized gains	27,859	1,956
Gross unrealized losses	(347)	(10,775)
Fair value	\$ 217,743	\$ 115,321

Unrealized losses of marketable equity securities at April 11, 2012 relate to securities that have been in an unrealized loss position for less than 12 months. A majority of the gross unrealized losses at September 28, 2011 were due to one investment. Most of our investments at April 11, 2012 are concentrated in one security. We consider several factors in determining other-than-temporary impairment losses including the current and long-term business prospects of these issuers, the length of time and relative magnitude of the price decline and our ability and intent to hold the investment until the price recovers.

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

Realized investment gains/losses were as follows:

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	April 11, 2012	April 13, 2011	April 11, 2012	April 13, 2011
Gross realized gains on sales	\$378	\$366	\$4,357	\$3,250
Gross realized losses on sales	\$—	\$—	\$(384)	\$(6)

## 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 condensed consolidated financial statements, the Company classifies this common stock as Treasury stock despite the shares being legally outstanding. As of April 11, 2012 and September 28, 2011, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost).

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



been eliminated in consolidation.

In fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these investments in the Lion Fund totaled \$51,000 as of the end of the fiscal 2012 second quarter. No amounts were invested in the year-to-date period in fiscal year 2012 or in fiscal year 2011. These investments in the Lion Fund do not appear explicitly in the Company's condensed consolidated Balance Sheet because of the requirement to consolidate fully the Lion Fund (inclusive of third party interests) in the Company's financial statements. Further, the Lion Fund's portfolio holds significant interests in Biglari Holdings' common stock, which as described above is classified on the Company's condensed consolidated Balance Sheet as a reduction to Shareholders' equity. Biglari Holdings' pro-rata ownership of its Company common stock through the Lion Fund was 98,620 shares of stock (with a fair value of \$39,729) based on Biglari Holdings' ownership interest in the Lion Fund as of the end of the fiscal 2012 second quarter.

During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated and the funds distributed to the partners. The distribution of \$15,660, including \$1,421 of noncash distributions, is noted in the Distributions to noncontrolling interests line in the reconciliation below.

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During the third quarter of fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. As a result of the sale, the Company does not have involvement in the operations of Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. Although these entities meet the definition of “discontinued operations,” as defined in FASB ASC paragraph 205-20-45-1, Reporting Discontinued Operations (“ASC paragraph 205-20-45-1”), we have not separated the results of operations because the amounts are immaterial to our consolidated financial numbers. Net earnings after tax related to the entities were approximately \$13 and \$1,063 for the sixteen and twenty-eight weeks ended April 13, 2011, including \$0 and \$1,246, respectively, that were attributable to noncontrolling interests.

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

	April 11, 2012	September 28, 2011
Equity securities:		
Cost	\$14,811	\$19,122
Fair value	\$17,005	\$18,783

Investments held by consolidated affiliated partnerships on the condensed consolidated Balance Sheet includes \$6,598 and \$0 of cash that is only available for use by the consolidated affiliated partnerships at April 11, 2012 and September 28, 2011, respectively.

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

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	April 11, 2012	April 13, 2011	April 11, 2012	April 13, 2011
Net unrealized gains/losses	\$ 1,683	\$ 154	\$ 2,381	\$ 379
Net realized gains/losses from sale	\$ 159	\$ 105	\$ 1,585	\$ 2,567

The limited partners of each of the investment funds have the ability to redeem their capital upon certain occurrences; therefore, the ownership of the investment funds held by the limited partners is presented as Redeemable noncontrolling interests of consolidated affiliated partnerships and measured at the greater of carrying value or fair value on the accompanying condensed consolidated Balance Sheet. The maximum redemption amount of the redeemable noncontrolling interests as of April 11, 2012 is \$54,822.

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

Twenty-Eight Weeks Ended	
April 11,	April 13,

	2012	2011
Carrying value at beginning of period	\$45,252	\$62,245
Contributions from noncontrolling interests	1,107	691
Distributions to noncontrolling interests	(25 )	(17,193 )
Incentive fee	(36 )	(2,510 )
Income / loss allocation	2,237	1,920
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value	6,287	7,668
Carrying value at end of period	\$54,822	\$52,821

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 in which the fee is earned.

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

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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.

## 6. Assets Held for Sale

Assets held for sale are composed of the following:

	April 11, 2012	September 28, 2011
Land and buildings	\$5,740	\$6,262
Improvements	463	608
Total assets held for sale	\$6,203	\$6,870

The April 11, 2012 balance included the following assets: one office building, three restaurants, and nine parcels of land. The Company expects to sell these properties by fiscal year end. For any of these properties that are not sold by then, we expect to classify them as other long term assets.

## 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:

	April 11, 2012	September 28, 2011
Land	\$160,421	\$161,339
Buildings	149,927	149,444
Land and leasehold improvements	155,091	153,731
Equipment	203,679	202,933
Construction in progress	2,567	1,850
	671,685	669,297
Less accumulated depreciation and amortization	(309,606 )	(297,561 )
Property and equipment, net	\$362,079	\$371,736

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

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

Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

During the quarter ended September 28, 2011, we performed our annual assessment of the recoverability of our goodwill related to four reporting units related to our Steak n Shake operations. During the second quarter of fiscal year 2012, we performed our annual assessment of our recoverability of goodwill related to two reporting units related to our Western operations. 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.

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## Other Intangibles

Other intangibles are composed of the following:

	April 11, 2012			September 28, 2011		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Right to operate	\$1,480	\$ (1,181 )	\$299	\$1,480	\$ (1,117 )	\$363
Franchise agreement	5,310	(1,062 )	4,248	5,310	(797 )	4,513
Other	810	(514 )	296	810	(480 )	330
Total	7,600	(2,757 )	4,843	7,600	(2,394 )	5,206
Intangible assets with indefinite lives	1,744	—	1,744	1,744	—	1,744
Total intangible assets	\$9,344	\$ (2,757 )	\$6,587	\$9,344	\$ (2,394 )	\$6,950

Intangible assets subject to amortization consist of franchise agreements acquired in connection with the acquisition of Western, a right to operate and favorable leases acquired in connection with prior acquisitions and are being amortized over their estimated weighted average useful lives ranging from eight to twelve years.

Amortization expense for the sixteen weeks ended April 11, 2012 and April 13, 2011 was \$187 and \$200, respectively. Amortization expense for the twenty-eight weeks ended April 11, 2012 and April 13, 2011 was \$363 and \$392, 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. Borrowings

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

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

Steak n Shake was in compliance with all covenants under the Credit Facility as of April 11, 2012.

The carrying amounts for debt reported in the condensed consolidated Balance Sheet do not differ materially from their fair values at April 11, 2012.

## 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

Our effective income tax rate for the twenty-eight weeks ended April 11, 2012 was 30.8%, compared to our effective income tax rate of 32.6% in the same period in the prior year. The decrease in the tax rate is attributable to dividends received from equity investments which are taxed at lower rates than the income derived from wholly owned businesses.

As of April 11, 2012 and September 28, 2011, we had approximately \$1,913 and \$1,750, respectively, of unrecognized tax benefits, which are included in Other long-term liabilities in the condensed consolidated Balance Sheet.

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14. Commitments and Contingencies

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

15. Fair Value of Financial Assets and Liabilities

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

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

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

**Cash equivalents:** Cash equivalents primarily consist of money market funds. Money market funds that are carried at fair value, based on quoted market prices, are classified within Level 1 of the fair value hierarchy. All other cash equivalents carried at fair value based on observable inputs for which a quoted market price is not available are classified within Level 2 of the fair value hierarchy. Consolidated affiliated partnerships did not hold cash equivalents at April 11, 2012 and September 28, 2011.

**Equity securities:** The Company's investments in equity securities are carried at fair value, based on quoted market prices, and are classified within Level 1 of the fair value hierarchy.

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

**Investment held by consolidated affiliated partnership:** Investments of \$196 and \$193 as of April 11, 2012 and September 28, 2011, respectively, have been classified within Level 3 of the fair value hierarchy and represent a private security.

**Investment derivatives and interest rate swaps:** Investment derivatives and interest rate swaps are marked to market each reporting period with fair value based on readily available market quotes, and are classified within Level 2 of the fair value hierarchy. Interest rate swaps at April 11, 2012 and September 28, 2011 represent the mark to market adjustment for Steak n Shake's interest rate swap.

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

April 11, 2012

September 28, 2011



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	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents	\$—	\$21,131	\$—	\$21,131	\$—	\$88,022	\$—	\$88,022
<b>Equity securities:</b>								
Restaurant/Retail	211,721	—	—	211,721	89,971	—	—	89,971
Other	6,022	—	—	6,022	25,350	—	—	25,350
<b>Equity securities held by consolidated affiliated partnerships:</b>								
Restaurant/Retail	9,752	—	—	9,752	7,677	—	—	7,677
Other	7,057	—	—	7,057	10,913	—	—	10,913
<b>Non-qualified deferred compensation plan investments</b>								
	736	—	—	736	546	—	—	546
<b>Investment held by consolidated affiliated partnership</b>								
	—	—	196	196	—	—	193	193
<b>Total assets at fair value</b>	<b>\$235,288</b>	<b>\$21,131</b>	<b>\$196</b>	<b>\$256,615</b>	<b>\$134,457</b>	<b>\$88,022</b>	<b>\$193</b>	<b>\$222,672</b>
<b>Liabilities</b>								
Interest rate swaps	\$—	\$368	\$—	\$368	\$—	\$439	\$—	\$439

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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:

	Twenty-Eight Weeks Ended	
	April 11, 2012	April 13, 2011
Beginning of period balance	\$ 193	\$ 323
Gain included in earnings	3	13
End of period balance	\$ 196	\$ 336

For the year-to-date period in fiscal year 2012, the Company had no significant fair value adjustments applicable to items that are subject to non-recurring fair value measurement after the initial measurement date.

## 16. Related Party Transactions

Mr. Biglari, along with his affiliates, and certain directors of the Company make investments in the Lion Fund (other than the amounts invested by the Company), which are not subject to special profits, interest allocations, or incentive allocations. However, Mr. Biglari does not pay an incentive allocation fee as a limited partner in the Lion Fund. As of April 11, 2012 and September 28, 2011, the total fair value of these investments was approximately \$2,646 and \$1,997, respectively.

## 17. Business Segment Reporting

Net revenue and earnings before income taxes and noncontrolling interests for the sixteen and twenty-eight weeks ended April 11, 2012 and April 13, 2011 were as follows:

	Net Revenue			
	Sixteen Weeks		Twenty-Eight Weeks	
	2012	2011	2012	2011
Operating Business:				
Restaurant Operations:				
Steak n Shake	\$ 217,921	\$ 207,142	\$ 378,413	\$ 359,038
Western	3,830	3,770	7,528	7,489
Total Restaurant Operations	221,751	210,912	385,941	366,527
Investment Management:				
Management fees	—	114	—	224
	1,933	251	4,133	3,248

Consolidated affiliated partnerships				
Total Investment Management Operations	1,933	365	4,133	3,472
	\$223,684	\$211,277	\$390,074	\$369,999

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

	Earnings before income taxes				Net earnings attributable to Biglari Holdings Inc.			
	Sixteen Weeks		Twenty-Eight Weeks		Sixteen Weeks		Twenty-Eight Weeks	
	2012	2011	2012	2011	2012	2011	2012	2011
Operating Business:								
Restaurant Operations:								
Steak n Shake	\$13,070	\$9,475	\$26,719	\$19,031	\$8,738	\$6,778	\$17,697	\$13,367
Western	463	454	854	877	287	281	528	538
Total Restaurant Operations	13,533	9,929	27,573	19,908	9,025	7,059	18,225	13,905
Investment Management:								
Biglari Capital Corp. (Incentive Fee)	—	—	36	2,510	—	—	22	1,535
Management fees	—	114	—	224	—	71	—	139
Consolidated affiliated partnerships								
Total Investment Management Operations	1,476	50	3,574	1,841	191	2	467	(79 )
Corporate and Other:								
Corporate and other	(5,187 )	(1,184 )	(8,312 )	(2,446 )	(3,351 )	(737 )	(5,133 )	(1,555 )
Investment and derivative gains/losses	378	398	3,973	3,451	234	251	2,463	2,174
Total Corporate and Other	(4,809 )	(786 )	(4,339 )	1,005	(3,117 )	(486 )	(2,670 )	619
Reconciliation of segments to consolidated amount:								
Eliminations	—	—	(36 )	(2,510 )	—	(463 )	—	(123 )
Interest expense, excluding interest allocated to operating businesses	(2,533 )	(867 )	(4,388 )	(1,432 )	(1,571 )	(538 )	(2,721 )	(888 )
	\$7,667	\$8,440	\$22,420	\$21,546	\$4,528	\$5,645	\$13,323	\$15,108

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

partners of the Lion Fund. The incentive fee is assessed only once a year, on December 31, and no predictability of such earnings exists because the Lion Fund annual performance is unpredictable.

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## Item 2. 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.

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.

**Sixteen Weeks Ended April 11, 2012**

We recorded net earnings attributable to Biglari Holdings Inc. of \$4,528 for the second quarter of fiscal year 2012, as compared with net earnings attributable to Biglari Holdings Inc. of \$5,645 in the second quarter of fiscal year 2011.

**Twenty-Eight Weeks Ended April 11, 2012**

We recorded net earnings attributable to Biglari Holdings Inc. of \$13,323 for the current year-to-date period, as compared with net earnings attributable to Biglari Holdings Inc. of \$15,108 in the same period of fiscal year 2011.

As of April 11, 2012 the total number of company-operated and franchised restaurants was 586 as follows:

	Company-operated	Franchised	Total
Steak n Shake	414	79	493
Western	5	88	93
<b>Total</b>	<b>419</b>	<b>167</b>	<b>586</b>

Steak n Shake opened one franchised and one company-operated unit in the second fiscal quarter of 2012. During the current year-to-date period, Steak n Shake opened three franchised units and one company-operated unit. During the second quarter of fiscal year 2012, two Western Sizzlin franchised units were closed and three new franchised units were opened. For the current year-to-date period, four Western Sizzlin franchised units were closed and three franchised units were opened.

**Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized in our financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in our financial statements will

likely increase or decrease in the future as additional information becomes available. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2011.

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## Results of Operations

The following table sets forth the percentage relationship to total net revenues, unless otherwise noted, of items included in the condensed consolidated Statements of Earnings for the sixteen and twenty-eight weeks ended April 11, 2012 and April 13, 2011:

	Sixteen Weeks Ended		Twenty-Eight Weeks Ended	
	2012	2011	2012	2011
Net revenues				
Restaurant Operations:				
Net sales	97.6	% 98.4	% 97.4	% 97.6
Franchise fees	1.2	1.1	1.2	1.2
Other revenue	0.4	0.3	0.3	0.3
Total	99.1	99.8	98.9	99.1
Investment Management Operations:				
Management fee income	0.0	0.1	0.0	0.1
Consolidated Affiliated Partnerships:				
Investment gains/losses	0.8	0.1	1.0	0.8
Other income/loss	0.0	(0.0 )	0.0	0.1
Total	0.9	0.2	1.1	0.9
Total net revenues	100.0	100.0	100.0	100.0
Costs and expenses				
Cost of sales (1)	29.0	27.7	28.6	27.4
Restaurant operating costs (1)	47.1	49.4	46.5	48.6
General and administrative	8.9	6.9	8.5	6.9
Depreciation and amortization	3.6	4.1	3.7	4.1
Marketing	5.1	5.1	5.2	5.3
Rent	2.4	2.4	2.4	2.4
Pre-opening costs	0.1	0.0	0.1	0.0
Asset impairments and provision for restaurant closings	0.1	(0.1 )	0.1	0.0
Loss on disposal of assets	0.1	0.1	0.1	0.1
Other operating (income) expense	(0.1 )	(0.0 )	(0.2 )	0.2
Other income (expense)				
Interest, dividend and other investment income	0.3	0.1	0.4	0.0
Interest on obligations under leases	(1.4 )	(1.5 )	(1.4 )	(1.5 )
Interest expense	(1.1 )	(0.4 )	(1.1 )	(0.4 )
Realized investment gains/losses	0.2	0.2	1.0	0.9
Derivative and short sale gains/losses	0.0	0.0	0.0	0.1
Total other income (expense)	(2.0 )	(1.7 )	(1.1 )	(1.0 )
Earnings before income taxes	3.4	4.0	5.7	5.8
Income taxes	1.0	1.3	1.8	1.9
Net earnings	2.5	2.7	4.0	3.9
Earnings attributable to redeemable noncontrolling interest:				



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Income allocation	(0.4 )	(0.1 )	(0.6 )	(0.5 )
Incentive fee	0.0	0.0	0.0	0.7
Total earnings/loss attributable to redeemable noncontrolling interests	(0.4 )	(0.1 )	(0.6 )	0.2
Net earnings attributable to Biglari Holdings Inc.	2.0 %	2.7 %	3.4 %	4.1 %

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

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(Amounts in \$000s)

Comparison of Sixteen Weeks Ended April 11, 2012 to Sixteen Weeks Ended April 13, 2011

Net Earnings Attributable to Biglari Holdings Inc.

We recorded net earnings attributable to Biglari Holdings Inc. of \$4,528, or \$3.39 per diluted share, for the current quarter, as compared with net earnings attributable to Biglari Holdings Inc. of \$5,645, or \$4.23 per diluted share, for the second quarter of fiscal year 2011.

Net Sales

In the second quarter of fiscal year 2012, net sales increased 5.0% from \$207,896 to \$218,358 primarily because of the performance of our Restaurant Operations, mainly through the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 4.8% during the second quarter of fiscal year 2012. The increase in same-store sales resulted from an increment in customer traffic of 5.2%, partially offset by lower average selling prices.

Franchise fees increased 12.9% during the second quarter of fiscal year 2012. The number of franchised units was 167 on April 11, 2012 as compared to 165 on April 13, 2011. The increase in franchise fees is in part attributable to the openings of franchised units in the second quarter of fiscal year 2012 compared to the absence of openings in the second quarter of fiscal year 2011. Furthermore, franchisee sales were higher in the second quarter of fiscal year 2012 as compared with the second quarter of fiscal year 2011.

Cost and Expenses

Cost of sales was \$63,272 or 29.0% of net sales, compared with \$57,543 or 27.7% of net sales in the second quarter of fiscal year 2011. This increase in percentage of net sales was created primarily by inflationary pressures on commodities.

Restaurant operating costs were \$102,807 or 47.1% of net sales compared to \$102,640 or 49.4% of net sales in the second quarter of fiscal year 2011. Restaurant operating costs were higher because of by changes in the state unemployment tax rates as well as higher staffing in our stores. These increases in costs were offset by the implementation of several operating initiatives, which have induced higher productivity and labor efficiency.

General and administrative expenses increased from \$14,595 or 6.9% of total net revenues in the second quarter of fiscal year 2011 to \$19,854 or 8.9% of total net revenues because of our efforts to franchise the Steak n Shake concept, the accrual of the incentive compensation costs, and an increase in legal and professional services.

Depreciation and amortization expense was \$8,098 or 3.6% of total net revenues versus \$8,683 or 4.1% of total net revenues in the second quarter of fiscal year 2011.

Marketing expense was \$11,390 or 5.1% of total net revenues versus \$10,780 or 5.1% of total net revenues in the second quarter of fiscal year 2011.

Rent expense remained consistent at 2.4% as a percentage of total net revenues compared to the prior fiscal year quarter.

Pre-opening costs increased to \$322 as compared to \$34 in the second quarter of fiscal year 2011.

Asset impairments and provision for restaurant closings for the current quarter was \$320 or 0.1% of total net revenues versus a credit of \$270 or 0.1% of total net revenues in the second quarter of fiscal year 2011.

Loss on disposal of assets was \$153 or 0.1% of total net revenues in the second quarters of both fiscal years 2012 and 2011.

Other operating income increased slightly to \$125 compared to \$57 for the second quarter of fiscal year 2011.

Interest expense on obligations under leases was \$3,102 or 1.4% of total net revenues versus \$3,261 or 1.5% of total net revenues in the second quarter of fiscal year 2011.

Interest expense increased from \$867 for the second quarter of fiscal year 2011 to \$2,533 for the current fiscal quarter. The increase primarily pertained to the interest on Steak n Shake's credit facility. The outstanding borrowings at April 11, 2012 were \$119,500, which included the revolver, compared to \$32,894 at April 13, 2011. Additionally, the interest rate increased from 1.8% at April 13, 2011 to a blended rate of 5.4% at April 11, 2012.

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Our effective income tax rate for the sixteen weeks ending April 11, 2012 was 27.9%, compared with our effective income tax rate of 31.8% in the same period in the prior year. The decrease in the tax rate is attributable to dividends received from equity investments which are taxed at lower rates than the income derived from wholly owned businesses.

### Biglari Holdings Investment Gains

We recorded net realized investment gains of \$378 for the current quarter related to dispositions of marketable equity securities. We recorded \$366 of net realized gains on investments and \$32 of investment gains related to the change in fair value of derivatives and dispositions during the second quarter of fiscal year 2011. These investments are held directly by us and not by our consolidated affiliated partnerships.

### Consolidated Affiliated Partnerships Investment Gains

We recorded a net realized gain of \$159 for the current fiscal quarter related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of \$1,683 for a total of \$1,842. These amounts were offset by \$1,003 connected to earnings attributable to redeemable noncontrolling interests. During the second quarter of fiscal year 2011, we recorded a net realized gain of \$105 related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of \$154 for a total of \$259. These amounts were offset by \$108 related to earnings attributable to redeemable noncontrolling interests.

### Comparison of Twenty-Eight Weeks Ended April 11, 2012 to Twenty-Eight Weeks Ended April 13, 2011

#### Net Earnings Attributable to Biglari Holdings Inc.

We recorded net earnings attributable to Biglari Holdings Inc. of \$13,323, or \$9.97 per diluted share, for the current year-to-date period, as compared with net earnings attributable to Biglari Holdings Inc. of \$15,108, or \$11.31 per diluted share, for the same period of fiscal year 2011.

#### Net Sales

In the current year-to-date period, net sales increased 5.2% from \$360,955 to \$379,874 primarily because of the performance of our Restaurant Operations, mainly through the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 5.1% during the current year-to-date period. The increase in same-store sales resulted from an increment in customer traffic of 5.4%, partially offset by lower average selling prices.

Franchise fees increased 9.1% during the current year-to-date period primarily by means of higher franchisee sales. Restaurant Operations opened six franchised units and endured four franchise closures during the current year-to-date period while opening four franchise units during the prior year-to-date period.

#### Cost and Expenses

Cost of sales was \$108,696 or 28.6% of net sales, compared with \$98,823 or 27.4% of net sales in the same period of fiscal year 2011. This increase in percentage of net sales was created primarily by inflationary pressures on commodities.

Restaurant operating costs were \$176,770 or 46.5% of net sales compared to \$175,329 or 48.6% of net sales in the same period of fiscal year 2011. Restaurant operating costs were increased by changes in the state unemployment tax rates and higher staffing in our stores. These increases in costs were offset by the implementation of several operating initiatives, which have induced higher productivity and labor efficiency.

General and administrative expenses increased from \$25,609 or 6.9% of total net revenues in the prior year-to-date period of fiscal year 2011 to \$33,112 or 8.5% of total net revenues because of our efforts to franchise the Steak n Shake concept, the accrual of the incentive compensation costs, expenses related to a proxy contest, and an increase in

legal and professional services.

Depreciation and amortization expense for the current year-to-date period was \$14,399 or 3.7% of total net revenues versus \$15,292 or 4.1% of total net revenues in the same period of fiscal year 2011.

Marketing expense for the current year-to-date period was \$20,277 or 5.2% of total net revenues versus \$19,731 or 5.3% of total net revenues in the same period of fiscal year 2011.

Rent expense for the current year-to-date period remained consistent at 2.4% as a percentage of total net revenues compared to the same period of fiscal year 2011.

Pre-opening costs for the current year-to-date period increased to \$423 as compared to \$76 in the same period of fiscal year 2011.

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Asset impairments and provision for restaurant closings for the current year-to-date period was \$320 versus \$13 in the same period of fiscal year 2011.

Loss on disposal of assets for the current year-to-date period was \$369 or 0.1% of total net revenues as compared to \$257 or 0.1% of total net revenues in the same period of fiscal year 2011.

Other operating income for the current year-to-date period was \$644 compared to an expense of \$765 for the same period of fiscal year 2011. The \$765 of expenses for the prior year-to-date period included expenses related to the change in value of a purchase obligation which was relieved upon the sale of Mustang Capital Management, L.L.C and Mustang Capital Advisors, L.P. in the third quarter of fiscal year 2011.

Interest expense on obligations under leases for the current year-to-date period was \$5,427 or 1.4% of total net revenues versus \$5,710 or 1.5% of total net revenues in the same period of fiscal year 2011.

Interest expense increased from \$1,432 for the prior year-to-date period of fiscal year 2011 to \$4,388 for the current year-to-date period. The increase primarily pertained to the interest on Steak n Shake's credit facility. The outstanding borrowings at April 11, 2012 were \$119,500, which included the revolver, compared to \$32,894 at April 13, 2011. Additionally, the interest rate increased from 1.8% at April 13, 2011 to a blended rate of 5.4% at April 11, 2012.

Our effective income tax rate for the twenty-eight weeks ended April 11, 2012 was 30.8%, compared with our effective income tax rate of 32.6% in the same period in the prior year. The decrease in tax rate is attributable to dividends received from equity investments which are taxed at lower rates than the income derived from wholly owned businesses.

### Biglari Holdings Investment Gains

We recorded net realized investment gains of \$3,973 for the current year-to-date period related to dispositions of marketable equity securities. We recorded \$3,244 of net realized gains on investments and \$207 of investment gains related to the change in fair value of derivatives and dispositions during the same period of fiscal year 2011. These investments are held directly by us and not by our consolidated affiliated partnerships.

### Consolidated Affiliated Partnerships Investment Gains

We recorded a net realized gain of \$1,585 for the current year-to-date period related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of \$2,381 for a total of \$3,966. We also received an incentive fee of \$36. These amounts were offset by \$2,237 connected to earnings attributable to redeemable noncontrolling interests. During the same period of fiscal year 2011, we recorded a net realized gain of \$2,567 related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of \$379 for a total of \$2,946. We also received an incentive fee of \$2,510. These amounts were offset by \$1,920 related to earnings attributable to redeemable noncontrolling interests.

### Consolidated Affiliated Partnerships

Investments held directly by the consolidated affiliated partnerships usually consist of domestic equity securities. Certain of the consolidated affiliated partnerships hold the Company's common stock as investments. In our condensed consolidated financial statements, the Company classifies this common stock as Treasury stock despite the shares being legally outstanding. As of April 11, 2012 and September 28, 2011, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock (\$69,221 at cost).

In fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these purchases of the Lion Fund

totaled \$51,000 as of the end of the fiscal 2012 second quarter. These investments in the Lion Fund do not appear explicitly in the Company's condensed consolidated Balance Sheet because of the requirement to consolidate fully the Lion Fund (inclusive of third party interests) in the Company's financial statements. Further, the Lion Fund's portfolio holds a significant interest in Biglari Holdings' common stock, which is classified on the Company's condensed consolidated Balance Sheet as a reduction to Shareholders' equity. Biglari Holdings' pro-rata ownership of its Company common stock through the Lion Fund was 98,620 shares of stock (with a fair value of \$39,729) based on Biglari Holdings' ownership interest in the Lion Fund as of the end of the fiscal 2012 second quarter.

#### Liquidity and Capital Resources

We generated \$13,825 in cash flows from operations during the current year-to-date period as compared to \$32,185 during the same period of fiscal year 2011. The decrease is partly resultant from the investment activities of the consolidated affiliated partnerships. Net purchases and sales activities of the consolidated affiliated partnerships decreased to \$5,747 from \$9,695 during the same period of fiscal year 2011. Additionally, due to/from broker and cash equivalents held by consolidated affiliated partnerships decreased by \$4,740 during the current year-to-date period as compared to the same period of fiscal year 2011. During the current year-to-date period working capital decreased by \$8,430 primarily because of payments made for insurance collateral, an increase in prepaid assets, and the timing of tax payments.

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Net cash used in investing activities during the current year-to-date period was \$68,645 compared to net cash provided by investing activities of \$9,110 during the same period of fiscal year 2011. The change resulted primarily from the increased purchases of investments during the current year-to-date period of fiscal year 2012.

Net cash used in financing activities during the current year-to-date period was \$7,125 compared to net cash used in financing activities of \$19,644 during the same period of fiscal year 2011. Net cash used in financing activities during fiscal year 2011 resulted primarily from the consolidated affiliated partnerships' distributions to noncontrolling interests.

Our balance sheet continues to maintain significant liquidity. We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations, existing credit facilities, and the sale of excess properties and investments. We continually review available financing alternatives.

### Steak n Shake Credit Facility

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

Steak n Shake was in compliance with all financial covenants under the Credit Facility as of April 11, 2012.

The carrying amounts for debt reported in the condensed consolidated Balance Sheet do not differ materially from their fair market values at April 11, 2012.

### New Accounting Standards

See Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

### Effects of Governmental Regulations and Inflation

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

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

### Risks Associated with Forward-Looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items, and assumptions underlying any of the foregoing. Forward-looking statements reflect management's current expectations regarding future events and use words such as "anticipate," "believe," "expect," "may," and other similar terminology. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. These forward-looking statements are all based on currently available operating, financial, and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, many beyond our control, including, but not limited to:



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- the ability of the restaurant operations to increase store traffic on a profitable basis;
- competition in the restaurant industry for customers, staff, locations, and new products;
  - disruptions in the overall economy and the financial markets;
- the Company's ability to comply with the restrictions and covenants to its debt agreements;
- declines in the market price of our common stock, which could adversely affect our goodwill impairment analysis;
  - the potential to recognize additional impairment charges on our long-lived assets;
- fluctuations in food commodity and energy prices and the availability of food commodities;
  - the ability of our franchisees to operate profitable restaurants;
  - the poor performance or closing of even a small number of restaurants;

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- changes in customer preferences, tastes, and dietary habits;
- changes in minimum wage rates and the availability and cost of qualified personnel;
  - harsh weather conditions or losses due to casualties;
  - unfavorable publicity relating to food safety or food-borne illness;
- exposure to liabilities related to the ownership and leasing of significant amounts of real estate;
  - our ability to comply with existing and future governmental regulations;
- our ability to adequately protect our trademarks, service marks, and other components of our brand;
  - changes in market prices of our investments; and
- other risks identified in the periodic reports we file with the Securities and Exchange Commission.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our investments are generally concentrated in common stocks. At April 11, 2012, most of our investments are in the common stock of one entity. A significant decline in the general stock market or in the price of major investments may produce a large decrease in our consolidated Shareholders' equity and under certain circumstances may require the recognition of losses in the condensed consolidated Statement of Earnings. Decreases in values of equity investments can have a material adverse effect on our consolidated Shareholders' equity.

At April 11, 2012 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 April 11, 2012, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$740 on our annual net earnings. In February 2011, in connection with the issuance of the term loan under Steak n Shake's previous credit facility, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixed the interest rate on the term loan at 3.25% through its maturity. The fair value of the interest rate swap was a loss of \$368 at April 11, 2012.

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

Item 4. Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of April 11, 2012.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended April 11, 2012 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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Part II Other Information

Item 1A. Risk Factors

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

There have been no material changes in the risk factors described in the Company's Annual Report on Form 10-K for the year ended September 28, 2011.

Item 6. Exhibits

Exhibit

Number Description

31.01 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Executive Officer

31.02 Rule 13(a)-14(a)/15d-14(a) Certification of Controller

32.01 Section 1350 Certifications

101 The following financial information from Biglari Holdings Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended April 11, 2012, formatted in XBRL (Extensible Business Reporting Language), includes: (i) the Condensed Consolidated Balance Sheets as of April 11, 2012 and September 28, 2011, (ii) the Condensed Consolidated Statements of Earnings for the Sixteen and Twenty-Eight Weeks Ended April 11, 2012 and April 13, 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the Twenty-Eight Weeks Ended April 11, 2012 and April 13, 2011, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the Twenty-Eight Weeks Ended April 11, 2012 and April 13, 2011, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text

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SIGNATURES

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

Date: May 18, 2012

Biglari Holdings inc.

By: /s/ Bruce Lewis  
Bruce Lewis  
Controller