BIGLARI HOLDINGS INC.
Form 10-K
December 13, 2010

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

FORM 10-K

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

For the fiscal year ended September 29, 2010

OR

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

For the transition period from to

Commission file number 0-8445

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA (State or other jurisdiction of incorporation)	37-0684070 (I.R.S. Employer Identification No.)
175 East Houston Street, Suite 1300 San Antonio, Texas (Address of principal executive offices)	78205 (Zip Code)

(210) 344-3400

Registrant s telephone number, including area code

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

Title of each class	Name of each exchange on which registered
Common Stock, stated value $.50 per share	New York Stock Exchange
14% Redeemable Subordinated Debentures Due 2015	New York Stock Exchange

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

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

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

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 x No o

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

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

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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of April 14, 2010 was approximately $539,722,712 based on the closing stock price of $405.74 per share on that day.

As of December 8, 2010, 1,433,595 shares of the registrant s Common Stock, $0.50 stated value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement to be filed for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

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

Biglari Holdings fiscal year ends on the last Wednesday in September. Accordingly, every five or six years, our fiscal year contains 53 weeks. Fiscal years 2010 and 2008 contained 52 weeks, while fiscal year 2009 contained 53. The Company s first, third, and fourth quarters contain 12 weeks and our second quarter contains 16 weeks (except in fiscal years when there are 53 weeks, in which case the fourth quarter contains 13 weeks). Western and Biglari Capital s September 30 year end for financial reporting purposes differs from the end of the Company s fiscal year, the last Wednesday in September.

Biglari Holdings common stock is listed for trading on the New York Stock Exchange (NYSE). As a result, the Company is subject to certain corporate governance standards as required by the NYSE and/or the SEC. Among other requirements, the Company s Chief Executive Officer, as required by Section 303A.12(a) of the NYSE Listing Company Manual, must certify to the NYSE each year whether or not he is aware of any violations by the Company of NYSE corporate governance listing standards as of the date of the certification. On May 10, 2010, Mr. Biglari certified to the NYSE that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

In addition, the Company is filing certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to this annual report on Form 10-K.

Fiscal Year 2010 Developments

Biglari Capital Corp.

On April 30, 2010, the Company acquired Biglari Capital pursuant to a Stock Purchase Agreement, dated April 30, 2010 (the Stock Purchase Agreement), between the Company and our CEO, who was the sole shareholder of Biglari Capital. Biglari Capital is the general partner of The Lion Fund, L.P. (the Lion Fund), a Delaware limited partnership that operates as a private investment fund with the objective of achieving above-average, long-term growth of capital from investments in stocks of simple, predictable businesses that generate substantial cash flow, yet trade at a significant discount to intrinsic value. The Lion Fund functions as an investment arm for Biglari Holdings to assist, principally in facilitating the partial ownership of other publicly traded companies.

Western Sizzlin Corporation

On March 30, 2010, the Company, through its wholly-owned subsidiary, Grill Acquisition Corporation (Merger Sub), acquired 100% of the outstanding equity interests of Western, pursuant to an Agreement and Plan of Merger among the Company, Merger Sub and Western, dated October 22, 2009 (the Merger Agreement). Upon the consummation of the merger following the Merger Agreement, Merger Sub merged with and into Western, with Western continuing as the surviving corporation and as a wholly-owned subsidiary of the Company. Western s primary business activities are conducted through Western Sizzlin Franchise Corporation and Western Sizzlin Stores, Inc. (Western Sizzlin). Western also conducts investment management operations through Western Mustang Holdings, L.L.C. (Western Mustang) and Western Investments, Inc. (Western Investments).

Stock Split

During the first quarter of fiscal 2010, the Board of Directors approved a 1-for-20 reverse stock split. The split was effective on December 18, 2009. The Company s stock began trading on a post-split basis on December 21, 2009. No fractional shares were issued in connection with the reverse stock split. The Company made cash payments totaling $711 thousand to shareholders in lieu of fractional shares. All per share information included in this Form 10-K has been retrospectively adjusted to reflect the reverse split.

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Restaurant Operations

The Company s Restaurant Operations activities are conducted through two restaurant concepts, Steak n Shake and Western Sizzlin. As of September 29, 2010, Steak n Shake operated 412 company-owned restaurants and 71 franchised units in 20 states and Western operated 5 company-owned restaurants and 91 franchised units in 17 states.

Steak n Shake is engaged in the ownership, operation, and franchising of Steak n Shake restaurants. Steak n Shake is a classic American brand serving premium burgers and milk shakes. Founded in 1934 in Normal, Illinois, Steak n Shake offers its patrons full-service dining with counter and dining room seating, as well as drive-thru and carry-out service. Counter and dining room sales represent approximately 60% of the sales mix, while sales for off-premises dining represent approximately 40% of the sales mix.

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

Geographic Concentration and Restaurant Locations

The following table lists the locations of the 579 Steak n Shake and Western Sizzlin restaurants, including 162 franchised units, as of September 29, 2010:

	Steak n Shake		Western Sizzlin		
	Company-owned	Franchised	Company-owned	Franchised	Total
Alabama	2	3		5	10
Arkansas		2		17	19
California				2	2
Florida	80	1			81
Georgia	23	8		9	40
Illinois	63	6		1	70
Indiana	68	2			70
Iowa	3				3
Kansas		4		1	5
Kentucky	14	1			15
Louisiana				3	3
Maryland				2	2
Michigan	19				19
Mississippi		1		13	14
Missouri	39	21		2	62
North Carolina	6	5		12	23
Ohio	63			1	64
Oklahoma		4		12	16
Pennsylvania	6	1			7
South Carolina	1	2	1	3	7
Tennessee	9	8	1	3	21

Texas	16	1			17
Virginia			3	4	7
West Virginia		1		1	2
Total	**412**	**71**	**5**	**91**	**579**

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Restaurant Operations

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

Purchasing

Restaurant Operations obtain food products and supplies from independent national distributors. Purchases are negotiated centrally for most food and beverage products and supplies to ensure uniform quality, adequate quantities, and competitive prices.

Franchising

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

Restaurant Operations typically seek franchisees with both the financial resources necessary to fund successful development and significant experience in the restaurant/retail business. Both restaurant chains assist franchisees with the development and ongoing operation of their restaurants. Management personnel assist franchisees with site selection, approve all restaurant sites, and provide prototype plans, construction support and specifications. Restaurant Operations staff provides both on-site and off-site instruction to franchised restaurant management and associates.

All franchised restaurants are required to serve only approved menu items. Access to services such as the distribution center and Point-of-Sale system enables franchisees to benefit from Restaurant Operations collective purchasing power.

Competition

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

Government Regulation

The Company is subject to various federal, state and local laws affecting its restaurant business. Each of the restaurants must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the state and/or municipality in which the restaurant is located. In addition, each restaurant must comply with various state and federal laws that regulate the franchisor/franchisee relationship, employment and pay practices and child labor laws. To date, neither the Company nor any restaurant has been materially adversely affected by such laws or been affected by any difficulty, delay or failure to obtain required licenses or approvals.

Investment Management

The Investment Management segment is composed of Biglari Capital, Western Mustang, and Western Investments. This segment provides investment advisory services to its clients through separate accounts and private investment funds. For separate accounts the principal source of revenue is primarily based upon assets under management. For private investment funds, which include The Lion Fund, L.P., Western Acquisitions, L.P., Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. (collectively the consolidated affiliated partnerships), the principal source of revenue is based upon: (1) incentive allocations and (2) gains and losses from our investments.

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For the Lion Fund, incentive allocations are 25% of the net profits (both realized and unrealized) subject to a 5% hurdle rate and high water mark (whereby the General Partner does not earn incentive allocations during a particular year even though the fund had a positive return in such year until losses in prior periods are recovered). These allocations are calculated and distributed to the General Partner annually other than incentive allocations earned as a result of investor redemption events during interim periods.

The Company and its affiliates may also earn income through their investments in the consolidated affiliated partnerships. In these cases, the income consists of realized and unrealized gains and losses on investment activities along with interest, dividends and other income.

Employees

The Company employs approximately 20,000 persons.

Trademarks

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

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

Additional information with respect to Biglari Holdings businesses

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

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

ITEM 1A. RISK FACTORS

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

We are dependent on our Chairman and CEO.

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

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

The restaurant business is one of the most intensely competitive industries in the United States. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company s Restaurant Operations capabilities. Restaurant businesses compete on the basis of price, menu,

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food quality, location, personnel and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, severe weather conditions, and competing restaurants. Additional factors that may adversely affect the restaurant industry include, but are not limited, to food and wage inflation, safety, and food-borne illness.

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

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

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

The Company and its subsidiaries currently maintain debt instruments, including the indenture governing the 14% redeemable subordinated debentures due 2015 issued by the Company, Steak n Shake s Revolving Credit Facility and the promissory note issued by Western s wholly-owned subsidiary, Western Real Estate, L.P. Covenants in the debt agreements impose operating and financial restrictions, including requiring operating subsidiaries to maintain certain financial ratios and restricting, among other things, their ability to incur additional indebtedness, prepay certain indebtedness and make distributions to the Company. Their failure to comply with these covenants and restrictions could constitute an event of default that, if not cured or waived, could result, among other things, in the acceleration of their indebtedness, which could negatively impact our operations and business and may also significantly affect our ability to obtain additional or alternative financing. In addition, the restrictions contained in these debt instruments could adversely affect our ability to finance our operations, make strategic acquisition or investments, engage in business activities, including future opportunities that may be in our interest, and plan for or react to market conditions or otherwise execute our business strategies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our investment activities could require registration as an Investment Company.

While most of our assets continue to be dedicated in controlled companies, there is a risk that if we fail to maintain this threshold of investments in controlled companies, it could bring us within the definition of an investment company and require us to register as an investment company under the Investment Company Act of 1940, as amended (the Investment Company Act). Also, under certain circumstances, we may inadvertently fall within the definition of an investment company, which would require us to register as an investment company.

If our investment activities result in our being determined to be an investment company and we fail to register as an investment company, we might be unable to enforce contracts with third parties, and third parties could seek rescission of transactions with us undertaken during the period that we were an unregistered investment company, subject to equitable considerations set forth in the Investment Company Act. In addition, we might be subject to monetary penalties or injunctive relief, or both, in an action brought against us by the Securities and Exchange Commission.

If we decide to register as an investment company, then we would become subject to various provisions of the Investment Company Act and the regulations adopted under such act, which are very extensive and could adversely affect our operations. For example, we might be prohibited from entering into or continuing transactions with certain of our affiliates.

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

Our investments are generally concentrated in common stocks. A significant decline in the general stock market or in the price of major investments may produce a large decrease in our consolidated shareholders equity and under certain circumstances may require the recognition of losses in the statement of earnings. Decreases in values of equity investments can have a material adverse effect on our consolidated book value.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Office and Warehouse Facilities

Use	Location	Own/Lease
Warehouse	Bloomington, IL	Own
Executive Office	Indianapolis, IN	Lease
Executive Office	San Antonio, TX	Lease
Executive Office	Roanoke, VA	Lease

Restaurant Properties

As of September 29, 2010, Restaurant Operations included 579 company-owned and franchised restaurants located in 24 states. Restaurant Operations owns the land and building for 151 restaurants. Geographic Concentration and Restaurant Locations under Part I, Item 1 for additional detail.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are engaged in various legal proceedings and have certain unresolved claims pending. The ultimate liability, if any, for the aggregate amounts claimed cannot be determined at this time. However, management believes, based on examination of these matters and experiences to date, that the ultimate liability, if any, in excess of amounts already provided in our consolidated financial statements is not likely to have a material adverse effect on our results of operations, financial position, or cash flows.

ITEM 4. REMOVED AND RESERVED

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Market Information

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

	2010		2009*	
	High	Low	High	Low
First Quarter	**$ 327.08**	**$ 222.20**	$ 177.80	$ 58.60
Second Quarter	**411.25**	**289.74**	168.80	98.80
Third Quarter	**413.92**	**266.29**	234.60	153.60
Fourth Quarter	**333.42**	**264.00**	242.00	162.20

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

Shareholders

Biglari Holdings had approximately 12,800 record holders of its common stock at October 8, 2010.

Dividends

Biglari Holdings has not declared a cash dividend during the fiscal years ended September 29, 2010 and September 30, 2009.

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Performance Graph

The following chart compares the subsequent value of $100 invested in Biglari Holdings common stock on September 30, 2005 with a similar investment in the Standard and Poor s 500 Stock Index, Standard and Poor s Smallcap 600 Index, and Standard and Poor s Restaurant Index.

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

The Equity Compensation Plan Information required by Item 201(d) of Regulation S-K will be contained in our definitive Proxy Statement for the 2011 Annual Meeting of Shareholders, to be filed on or before January 27, 2011, and such information is incorporated herein by reference.

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA FOR THE PAST FIVE YEARS (dollars in thousands except per share data)

	52 Weeks Ended Fiscal 2010[4]	53 Weeks Ended Fiscal 2009[4]	52 Weeks Ended Fiscal 2008[4]	Fiscal 2007[4]	Fiscal 2006[4]
Revenue:[1]					
Total net revenues	**$673,781**	$628,736	$611,278	$654,867	$640,013
Earnings:					
Net earnings (loss) attributable to Biglari Holdings Inc.	**$28,094**	$5,998	$(22,979)	$11,808	$28,001
Basic earnings (loss) per share attributable to Biglari Holdings Inc.[2][3]	**$20.11**	$4.21	$(16.27)	$8.43	$20.20
Diluted earnings (loss) per share attributable to Biglari Holdings Inc.[2][3]	**$19.99**	$4.20	$(16.27)	$8.37	$19.97
Year-end data:					
Total assets	**$563,839**	$514,496	$520,136	$565,214	$542,521
Long-term debt:					
Obligations under leases	**124,247**	130,076	134,809	139,493	143,996
Other long-term debt	**17,781**	48	15,783	16,522	18,802
Biglari Holdings Inc. shareholders equity	**$248,995**	$291,861	$283,579	$303,864	$287,035

(1) Rental income in fiscal years prior to 2010 has been reclassified to total net revenues to conform to the current year presentation.

(2) During the first quarter of fiscal year 2010 the Company s Board of Directors authorized and approved a 1-for-20 reverse stock split. The record date with regard to such stock split was December 18, 2009. All per share information has accordingly been retrospectively adjusted.

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

(4) Fiscal years 2010, 2009, 2008, 2007 and 2006 ended on September 29, 2010, September 30, 2009, September 24, 2008, September 26, 2007 and September 27, 2006, respectively.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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. Additionally, all prior year per share data has been adjusted for the 1-for-20 reverse stock split effective December 18, 2009.

We have a 52/53 week fiscal year ending on the last Wednesday in September. Fiscal year 2010, which ended on September 29, 2010, and fiscal year 2008, which ended on September 24, 2008, both contained 52 weeks, while fiscal year 2009, which ended on September 30, 2009, contained 53 weeks.

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

Investment gains/losses in any given period will vary; therefore, for analytical purposes, management measures operating performance by analyzing earnings before realized and unrealized investment gains/losses.

Fiscal Year 2010

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

As of September 29, 2010 the total number of company-owned and franchised restaurants was 579 as follows:

	Company-owned	Franchised	Total
Steak n Shake	412	71	483
Western	5	91	96
Total	417	162	579

During fiscal year 2010, Restaurant Operations had no closings of underperforming company-owned restaurants or transfers to franchisees. Also during fiscal year 2010, Steak n Shake had three franchise closures while opening one new franchise unit.

Critical Accounting Policies

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

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

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Consolidation

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

Long-lived Assets Impairment and Classification as Held for Sale

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

We sell restaurants that have been closed due to underperformance and land parcels that we do not intend to develop in the future. We classify an asset as held for sale in the period during which each of the following conditions is met: (a) management has committed to a plan to sell the asset; (b) the asset is available for immediate sale in its present condition; (c) an active search for a buyer has been initiated; (d) completion of the sale of the asset within one year is probable; (e) the asset is being marketed at a reasonable price; and (f) no significant changes to the plan of sale are expected. There is judgment involved in estimating the timing of completing the sale of an asset.

Insurance Reserves

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

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

Our reserve for self-insured liabilities at September 29, 2010 and September 30, 2009 were $5,908 and $5,455, respectively.

Income Taxes

We record deferred tax assets or liabilities based on differences between financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets would be unable to be utilized, we would record a valuation allowance against the unrealizable amount and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future. We must also make estimates about the sufficiency of taxable income in future periods to

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offset any deductions related to deferred tax assets currently recorded. Based on fiscal year 2010 results, a change of one percentage point in the annual effective tax rate would have an impact of $414 on net earnings.

In June 2006, the Financial Accounting Standards Board (FASB) issued guidance for determining how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

Goodwill and Other Intangible Assets

Under FASB guidance, we are required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The analysis of potential impairment of goodwill requires a two-step approach. The first step is the estimation of fair value of each reporting unit. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. We use both market and income approaches to derive fair value. The valuation methodology and underlying financial information included in our determination of fair value require significant judgments to be made by management. The judgments in these two approaches include, but are not limited to, comparable market multiples, long-term projections of future financial performance, and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

Leases

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

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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 Consolidated Statements of Operations for the periods indicated:

	2010 (52 Weeks)	2009 (53 Weeks)	2008 (52 Weeks)
Net revenues			
Restaurant Operations:			
Net sales	**98.5%**	99.1 %	99.1 %
Franchise fees	**0.9**	0.7	0.7
Other revenue	**0.3**	0.3	0.2
Total	**99.7**	100.0	100.0
Investment Management Operations:			
Management fee income	**0.0**	0.0	0.0
Consolidated Affiliated Partnerships:			
Investment gains/losses	**0.3**	0.0	0.0
Other income	**0.0**	0.0	0.0
Total	**0.3**	0.0	0.0
Total net revenues	**100.0**	100.0	100.0
Costs and expenses			
Cost of sales(1)	**27.1**	26.6	27.4
Restaurant operating costs(1)	**48.5**	51.8	53.3
General and administrative	**6.2**	5.8	7.7
Depreciation and amortization	**4.3**	5.0	5.5
Marketing	**5.2**	5.3	4.7
Rent	**2.5**	2.5	2.4
Pre-opening costs	**0.0**	0.0	0.2
Asset impairments and provision for restaurant closings	**0.1**	0.4	2.4
Loss on disposal of assets	**0.0**	0.0	0.5
Other operating income	**(0.1)**	(0.1)	(0.1)
Other income (expense)			
Interest, dividend and other investment income	**0.1**	0.0	0.0
Interest on obligations under leases	**(1.7)**	(1.8)	(1.9)
Interest expense	**(0.3)**	(0.4)	(0.4)
Realized investment gains/losses	**0.6**	0.0	0.0
Derivative gains/losses	**0.0**	0.0	0.0
Total other income (expense)	**(1.3)**	(2.2)	(2.3)
Earnings (loss) before income taxes	**6.2**	1.1	(5.7)
Income taxes	**1.8**	0.2	(1.9)
Net earnings (loss)	**4.4**	1.0	(3.8)
Less: Earnings attributable to noncontrolling interest	**0.0**	0.0	0.0
Less: Earnings attributable to redeemable noncontrolling interest	**0.2**	0.0	0.0
Net earnings (loss) attributable to Biglari Holdings Inc.	**4.2%**	1.0 %	(3.8)%

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

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(Amounts in $000s)

Fiscal Year 2010 Compared with Fiscal Year 2009

Net Earnings

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

Net Sales

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

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

Cost and Expenses

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

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

General and administrative expenses increased as a percentage of total net revenues from 5.8% to 6.2% because of the inclusion of Western s general and administrative expenses, costs associated with investment activities, and the integration of certain business functions such as supply chain management. For strategic purposes, the Company over the past year transitioned to and centralized selected business functions to the Company s headquarters in San Antonio, namely, supply chain management, franchise development, human resources, and training.

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

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

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

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

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

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

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

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Biglari Holdings Investment Gains

We recorded net realized investment gains of $3,802 for the current fiscal year related to dispositions of marketable equity securities and unrealized investment gains of $222 related to the change in fair value of derivatives that we purchased during the fiscal year and held as of the end of the year. We recorded $9 of realized gains on investments last fiscal year. These investments are held directly by us and not by our consolidated affiliated partnerships.

Consolidated Affiliated Partnerships Investment Gains

We recorded a net realized gain of $831 for the current fiscal year related to dispositions of investments held by our consolidated affiliated partnerships and an unrealized net investment gain of $1,006. These amounts were offset by $1,317 related to earnings attributable to redeemable noncontrolling interests.

Fiscal Year 2009 Compared with Fiscal Year 2008

Net Earnings

We recorded net earnings of $5,998 for fiscal year 2009, as compared with a net loss of ($22,979) in fiscal year 2008. The increase was primarily driven by the increase in same-store sales, decreases in cost of sales and restaurant operating costs, and $2,645 ($1,613, net of tax) of non-cash impairment and restaurant closing charges in fiscal year 2009. Comparatively, fiscal year 2008 net loss included $14,858 ($9,212, net of tax) of non-cash impairment and store closing costs.

Net Sales

In fiscal year 2009, net sales increased 2.8% from $606,076 to $622,944 primarily due to the increase in Steak n Shake s same-store sales. The inclusion of the fifty-third week in 2009 contributed $10,635 in net sales, on a same-store basis. Adjusting for this extra week, same-store sales increased 4.1% during fiscal year 2009. The increase in same-store sales resulted from an increase in guest traffic of 10.1%, which was partially offset by a 6.0% decrease in average guest expenditure.

Franchise fees increased 2.8% during fiscal year 2009. Steak n Shake s number of franchised units increased from 68 at the end of fiscal year 2008 to 73 at the end of fiscal year 2009. The additional fees received from the increase in franchised units were offset by a program by which certain franchisees were forgiven royalty payment to increase their marketing expenditures by the same amount. To participate in the program, Steak n Shake required the franchisee to conform to the Company s marketing plan. This program was initiated during the second quarter of fiscal 2009.

Cost and Expenses

Cost of sales was $165,853 or 26.6% of net sales, compared with $165,984 or 27.4% of net sales in fiscal year 2008. The decrease as a percentage of net sales reflected a favorable product mix shift, lower commodity costs (primarily beef and dairy products), and a focus on store-level efficiency. Additionally, for 2009 and 2008, we reclassified other meal costs from restaurant operations into cost of sales because management internally evaluates theses costs under one line item.

Restaurant operating costs were $322,738 or 51.8% of net sales compared to $322,990 or 53.3% of net sales in fiscal year 2008. Total labor and fringes as a percentage of net sales decreased from 39.1% in 2008 to 38.1% in 2009 because of several initiatives that were implemented to increase productivity and labor efficiency.

General and administrative expenses decreased $10,616 (22.5%) to $36,671 for fiscal year 2009. Of the decrease, $3,906 resulted from lower salaries, wages, and fringes due to reductions in staffing made late in fiscal year 2008 and $1,629 resulted from a reduction of travel and relocation costs. Lower legal and professional costs also contributed an additional $1,648 of cost savings, partially offset by approximately $632 related to acquisition costs resulting from our merger with Western.

Depreciation and amortization expense was $31,369 or 5.0% of total net revenues, versus $33,659 or 5.5% of total net revenues in fiscal year 2008. The decrease relates primarily to units closed in the fourth quarter of 2008.

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Marketing expense was $33,304, or 5.3% of total net revenues, versus $28,700 or 4.7% of total net revenues in fiscal year 2008.

Rent expense increased slightly as a percentage of total net revenues primarily as a result of entering into sale-lease back contracts during the fourth quarter of 2008.

During fiscal year 2009, Steak n Shake opened no new restaurants as compared to opening nine new restaurants during fiscal year 2008, incurring $1,272 of pre-opening costs.

Asset impairments and provision for restaurant closings for fiscal year 2009 was $2,645 or 0.4% of total net revenues, versus $14,858 or 2.4% of total net revenues in fiscal year 2008. Of the fiscal year 2009 total charge, $1,274 represented an adjustment to record the related assets for previously closed units at the lower of their carrying values or fair values less cost. The fiscal year 2008 charge included $8,858 related to restaurants for which operating performance was significantly below our expectations, and the carrying values of these properties exceeded the expected future undiscounted cash flows to be generated by the underlying assets; $5,009 related to stores Steak n Shake closed during the fourth fiscal quarter of 2008; $514 related to a fee for early termination of a lease for a store that was closed during fiscal year 2009; and $477 related to stores involved in a sale-leaseback transaction whose net book values exceeded their fair values.

Loss on sale or abandonment of assets decreased $2,987 from fiscal year 2008 to $151. Fiscal year 2008 loss included significant property write offs.

Interest expense on obligations under leases was $11,010 or 1.8% of total net revenues, versus $11,445 or 1.9% of total net revenues in fiscal year 2008. During fiscal year 2009, we repaid and terminated our Senior Note Agreement.

Our fiscal year 2009 effective income tax rate decreased to 16.2% from 33.9% in 2008. The effective tax rate for fiscal year 2008 was higher primarily due to the proportionate effect of increased federal income tax credits when compared to annual pre-tax earnings (loss).

Restaurant Closings

Steak n Shake did not close any company-owned restaurants in the current fiscal year compared to four permanent closures in fiscal year 2009. During fiscal year 2008, thirteen restaurants were closed. All of the restaurants closed in fiscal year 2009 and ten of the restaurants closed in fiscal year 2008 were located near other company-owned stores that continue to operate. Therefore, the results of operations of these restaurants are not presented as discontinued operations and continue to be included in continuing operations in the Consolidated Statement of Operations.

Three restaurants closed in fiscal year 2008 were not located near other company-owned stores, and we do not expect to have significant continuing involvement in the operations after disposal. Although these restaurants 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 segregated the results of operations as the amounts are immaterial. Net loss after tax related to the restaurants was approximately $16, $20, and $845 for fiscal years 2010, 2009, and 2008, respectively. The after-tax loss in fiscal year 2008 includes $583 of asset impairment charges, net of tax.

Seven of the total thirteen restaurants that closed during fiscal year 2008 were owned properties, and the net book value of the assets of these properties was transferred to assets held for sale in the Consolidated Balance Sheet during the quarter ended September 24, 2008.

Effects of Governmental Regulations and Inflation

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

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

Liquidity and Capital Resources

We generated $68,618, $52,300, and $24,430 in cash flows from operations during fiscal years 2010, 2009, and 2008, respectively, based primarily from net earnings in fiscal year 2010 and due to timing of receipts and payment of disbursements related to operating activities in each of the fiscal years.

Net cash used in investing activities of $31,424 during fiscal year 2010 was primarily a result of net purchases of investments. Net cash used in financing activities of $41,026 during fiscal year 2010 resulted primarily from the purchase of shares of Company stock by consolidated affiliated partnerships.

Net cash provided by investing activities of $4,958 during fiscal year 2009 was primarily a result of proceeds from disposal of property and equipment of $13,517. Steak n Shake transferred seven restaurants to an existing franchisee during fiscal year 2009. Net cash used in financing activities of $12,718 during fiscal year 2009 resulted primarily from principal payments on long-term debt of $16,448 as described below under Senior Note Agreement .

Net cash used in investing activities of $16,592 during fiscal year 2008 resulted primarily from capital expenditures of $31,443. We opened nine new restaurants during fiscal year 2008 and transferred eight restaurants to franchisees. In addition, in fiscal year 2008, we received proceeds of $14,851 from the sale of one restaurant and 11 parcels of land classified as held for sale, and from the transfer of three company-owned buildings and various equipment to franchisees. Net cash used in financing activities of $2,480 during fiscal year 2008 included net payments on the Facility (as defined below) of $13,005. During fiscal yea