

WESTERN SIZZLIN CORP  
Form 10-Q  
May 15, 2007

# 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 March 31, 2007, 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 0-25366

## Western Sizzlin Corporation

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**86-0723400**

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

**1338 Plantation Road Roanoke, Virginia**

(Address of Principal Executive Offices)

**24012**

(Zip Code)

**(540) 345-3195**

(Registrant's Telephone Number Including Area Code)

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.) (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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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 15, 2007, there were 1,789,750 shares of common stock outstanding.

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Western Sizzlin Corporation

Form 10-Q

Three Months Ended March 31, 2007

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**PART I. FINANCIAL INFORMATION**  
**WESTERN SIZZLIN CORPORATION**

**Consolidated Balance Sheets**  
**March 31, 2007 and December 31, 2006**

	<b>March 31, 2007 (unaudited)</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,279,320	\$ 2,344,644
Trade accounts receivable, net of allowance for doubtful accounts of \$500,758 in 2007 and \$470,758 in 2006	915,986	866,565
Current installments of notes receivable, less allowance for impaired notes of \$18,365 in 2007 and \$17,409 in 2006	234,672	205,624
Other receivables	256,355	239,531
Income taxes receivable	194,472	248,559
Inventories	76,317	55,207
Prepaid expenses	256,772	253,556
Deferred income taxes	312,751	296,671
Total current assets	4,526,645	4,510,357
Notes receivable, less allowance for impaired notes receivable of \$163,440 and \$164,396 in 2006, excluding current installments	737,087	800,841
Property and equipment, net	2,164,416	2,270,300
Investments in marketable securities (Note 3)	8,285,486	6,508,645
Cash held by broker	107,935	
Franchise royalty contracts, net of accumulated amortization of \$8,351,414 in 2007 and \$8,193,840 in 2006	1,103,017	1,260,592
Goodwill	4,310,200	4,310,200
Financing costs, net of accumulated amortization of \$189,711 in 2007 and \$188,670 in 2006	10,499	11,540
Investment in unconsolidated joint venture	161,181	147,479
	\$ 21,406,466	\$ 19,819,954
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current installments of long-term debt	\$ 123,826	\$ 163,089
Accounts payable	576,364	555,110
Accrued expenses and other	526,658	554,443
Income taxes payable	71,740	
Total current liabilities	1,298,588	1,272,642
Long-term debt, excluding current installments	685,035	685,036
Other long-term liabilities	74,925	69,370
Deferred income taxes	1,011,672	394,885
	3,070,220	2,421,933
Commitments and contingencies (Note 8)		
Stockholders equity:		
Common stock, \$.01 par value. Authorized 2,000,000 shares; 1,789,750 issued and outstanding shares in 2007 and 1,787,750 in 2006 (Note 2)	17,898	17,878
Additional paid-in capital	12,813,581	12,790,681
Retained earnings	3,371,775	3,340,193
Accumulated other comprehensive income unrealized holding gains, net of taxes	2,132,992	1,249,269
Total stockholders equity	18,336,246	17,398,021
	\$ 21,406,466	\$ 19,819,954

See accompanying notes to consolidated financial statements.



## WESTERN SIZZLIN CORPORATION

**Consolidated Statements of Income**  
**Three Months Ended March 31, 2007 and 2006**  
(Unaudited)

	<b>Three Months Ended March 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Company-operated restaurants	\$ 3,048,300	\$ 2,997,673
Franchise operations	1,081,390	1,147,977
<b>Total revenues</b>	<b>4,129,690</b>	<b>4,145,650</b>
<b>Costs and expenses:</b>		
Company-operated restaurants food, beverage and labor costs	2,245,986	2,283,199
Restaurant occupancy and other	602,966	585,914
Subleased properties	34,103	(40,562 )
Franchise operations direct support	228,948	304,289
Corporate expenses	513,675	625,327
Depreciation and amortization	265,934	260,041
<b>Total costs and expenses</b>	<b>3,891,612</b>	<b>4,018,208</b>
<b>Income from operations</b>	<b>238,078</b>	<b>127,442</b>
<b>Other income (expense):</b>		
Interest expense	(20,324 )	(46,092 )
Loss on early extinguishment of long term debt		(92,535 )
Interest income	16,578	20,566
Equity in joint venture	13,702	(4,034 )
Other	3,697	7,790
	13,653	(114,305 )
<b>Income before income tax expense</b>	<b>251,731</b>	<b>13,137</b>
<b>Income tax expense:</b>		
Current	9,927	
Deferred	91,847	6,839
<b>Total income tax expense</b>	<b>101,774</b>	<b>6,839</b>
<b>Net income</b>	<b>\$ 149,957</b>	<b>\$ 6,298</b>
<b>Earnings per share (Note 4):</b>		
Basic	\$ .08	\$ .01
Diluted	\$ .08	\$ .01

See accompanying notes to consolidated financial statements.

## WESTERN SIZZLIN CORPORATION

**Consolidated Statement of Changes in Stockholders' Equity**  
**Three Months Ended March 31, 2007**  
**(Unaudited)**

	Common Stock Shares	Dollars	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2006	1,787,750	\$ 17,878	\$ 12,790,681	\$ 3,340,193	\$ 1,249,269	\$ 17,398,021
Net income				149,957		149,957
Change in unrealized holding gains, net of taxes					883,723	883,723
Comprehensive income						1,033,680
Share based compensation			5,920			5,920
Cumulative effect of adopting FIN 48				(118,375)		(118,375)
Stock options exercised	2,000	20	16,980			17,000
Balances, March 31, 2007	1,789,750	\$ 17,898	\$ 12,813,581	\$ 3,371,775	\$ 2,132,992	\$ 18,336,246

See accompanying notes to consolidated financial statements.

## WESTERN SIZZLIN CORPORATION

**Consolidated Statements of Cash Flows**  
**Three Months Ended March 31, 2007 and 2006**  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 149,957	\$ 6,298
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of property and equipment	107,317	102,467
Amortization of franchise royalty contracts	157,574	157,574
Amortization of financing costs	1,041	4,977
Write off of financing costs related to early extinguishment of long term debt		29,699
Provision for doubtful accounts	30,000	30,000
Share-based compensation	5,920	5,100
Equity in (income) loss of unconsolidated joint venture	(13,702 )	4,034
Provision for deferred income taxes	91,847	6,838
<b>(Increase) decrease in:</b>		
Trade accounts receivable	(79,421 )	(7,850 )
Notes receivable	34,706	40,924
Other receivables	(42,224 )	87,704
Income taxes receivable		(6,310 )
Insurance receivable - business interruption		244,961
Inventories	(21,110 )	(12,167 )
Prepaid expenses	(3,216 )	(30,911 )
Other assets		(17,812 )
Cash held by broker	(107,935 )	
<b>Increase (decrease) in:</b>		
Accounts payable	21,255	67,327
Accrued expenses	(27,785 )	(245,375 )
Income taxes payable	7,437	
Other long-term liabilities	5,555	7,543
Net cash provided by operating activities	317,216	475,021
<b>Cash flows from investing activities:</b>		
Change in short-term investments		260,069
Payments on advances to joint venture	25,400	
Additions to property and equipment	(1,433 )	(295,177 )
Purchases of marketable securities	(384,244 )	
Proceeds from fire casualties		784,993
Net cash (used in) provided by investing activities	(360,277 )	749,885
<b>Cash flows from financing activities:</b>		
Cash received from exercise of stock options	17,000	
Payments on long-term debt	(39,264 )	(1,227,469 )
Net cash used in financing activities	(22,264 )	(1,227,469 )
<b>Net decrease in cash and cash equivalents</b>		
	(65,325 )	(2,563 )
Cash and cash equivalents at beginning of period	2,344,644	1,664,848
Cash and cash equivalents at end of period	\$ 2,279,320	\$ 1,662,285
<b>Supplemental disclosure of cash flow information:</b>		
Cash payments for interest	\$ 20,651	\$ 114,233
Income taxes paid	\$ 2,485	\$ 16,341



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Adoption of FIN 48 (non-cash)	\$	118,375	\$
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See accompanying notes to consolidated financial statements.

**WESTERN SIZZLIN CORPORATION**

Notes to Consolidated Financial Statements  
Three Months Ended March 31, 2007 and 2006  
(Unaudited)

**(1) General**

The accompanying unaudited consolidated financial statements of Western Sizzlin Corporation, (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting information and 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 the opinion of management, all material reclassifications and adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of operations, financial position and cash flows for each period shown have been included. The unaudited consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2006.

**(2) Stock Options**

The Company has three stock option plans: the 2005 Stock Option Plan, the 2004 Non-Employee Directors' Stock Option Plan, and the 1994 Incentive and Non-qualified Stock Option Plan. Options are no longer granted under the 1994 Plan and only 7,500 options granted to James C. Verney remain outstanding under that plan. Under the 2005 and 2004 Plans, employees and directors may be granted options to purchase shares of common stock at the fair market value on the date of the grant. During the three months ended March 31, 2007, under the provisions of the plans, the contract terms of stock options for resigning directors were reduced and have been reflected in the computations of the weighted average contractual term of the outstanding options. In February 2007, Mr. Biglari informed the Board that he did not wish to receive future grants of stock options and that he relinquished all stock options previously granted to him. Since these modifications did not increase the value of the awards, the modification had no impact on compensation expense.

Effective January 1, 2006, the Company began recording compensation expense associated with the stock options in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment as interpreted by SEC Staff Accounting Bulletin No. 107. The Company adopted the modified prospective transition method provided for under SFAS No. 123R.

The Company recorded \$5,920 and \$5,100 of compensation expense for stock options for the three months ended March 31, 2007 and 2006, respectively.

Options granted under the 2005 and 2004 Plans vest at the date of the grant, with the exception of options granted to James C. Verney, which vested according to a schedule in his Employment Agreement and are currently all vested. The fair value of each option award was estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions utilized in the model were evaluated and revised, as necessary, to reflect market conditions and experience. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatilities are based on the historical volatility of the Company's stock for a period equal to the expected term of the options. The expected term of the options represents the period of time that options granted are outstanding and is estimated using historical exercise and termination experience.

The fair values of options granted during the three months ended March 31, 2007 and 2006 were estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions in the table below:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Expected term (years)	5	5
Risk-free interest rate	4.50 %	4.82 %
Volatility	78.83 %	35.87 %
Dividend yield		

There were 1,000 stock options granted during the three month period ended March 31, 2007, all at an estimated fair value of \$5.92. There were 1,000 stock options granted during the three month period ended March 31, 2006, all at an estimated fair value of \$5.10.

The following table summarizes stock options outstanding as of March 31, 2007, as well as activity during the three month period then ended:

	<b>Options Outstanding</b>	<b>Exercise Price Per Share Weighted Average</b>	<b>Contractual Term Weighted Average</b>	<b>Aggregate Intrinsic Value</b>
Balance, December 31, 2006	58,000	\$ 9.00		
Granted	1,000	9.15		
Exercised	(2,000 )	8.50		
Expired/Forfeited	(12,000 )	8.71		
Balance, March 31, 2007	45,000	\$ 8.21	5.7	\$ 172,635

All options outstanding at March 31, 2007 are exercisable. At March 31, 2007, there were 52,000 shares available for future grants under the plans, however, on April 25, 2007, the Company's Board of Directors elected to suspend future grants under all plans indefinitely.

### (3) Investments in Marketable Securities

The Company has purchased a significant percentage of common stock of Friendly Ice Cream Corporation and insignificant amounts in other securities. All investments and other capital allocation decisions are made by Mr. Biglari, the Company's Chairman, under the limited authority delegated by the Board of Directors. The delegated authority includes the authority to borrow funds in connection with making investments in marketable securities or derivative securities, subject to Board reporting requirements and various limitations. As of the date of this filing, Mr. Biglari has authority to manage surplus cash up to \$5.5 million, and in addition, has authority to borrow a maximum of \$2 million. The Company has a margin securities account with Jefferies & Company, Inc. (Jefferies). The margin account bears interest at the Federal Funds Target Rate quoted by the Wall Street Journal, plus .5%, or approximately 5.75% as of the date of this report, with the minimum and maximum amount of any particular loan to be determined by Jefferies, in its discretion, from time to time. The collateral securing the margin loans are the Company's holdings in the marketable security. The minimum and maximum amount of any particular margin may be established by Jefferies, in its discretion, regardless of the amount of collateral delivered to Jefferies, and Jefferies may change such minimum and maximum amounts from time to time. The Company's balance of margin debt was \$0 as of March 31, 2007. As of March 31, 2007, the Company had \$107,935 held by a broker in a margin account. The Company intends to invest these funds in additional marketable equity securities.

The Company's investments in marketable equity securities are held for an indefinite period and thus are classified as available-for-sale. Available-for-sale securities are recorded at fair value in Investments in Marketable Security on the balance sheet, with the change in fair value during the period excluded from earnings and recorded net of tax as a component of other comprehensive income. Investments in derivative securities are classified as trading securities, with both realized and unrealized gains and losses on those derivative instruments included in the statement of income. The Company realized a gain of \$4,613 during the first quarter ended March 31, 2007 from expired put options previously written by the Company.

Following is a summary of marketable equity securities as of March 31, 2007 and December 31, 2006:

	March 31, 2007		
	Cost	Fair Value	Gross Unrealized Gains
Friendly Ice Cream Corp	\$ 4,543,768	\$ 7,900,699	\$ 3,356,931
Other Investments	\$ 384,244	\$ 384,787	\$ 544
	\$ 4,928,012	\$ 8,285,486	\$ 3,357,475

	December 31, 2006		
	Cost	Fair Value	Gross Unrealized Gains
Friendly Ice Cream Corp	\$ 4,543,768	\$ 6,508,645	\$ 1,964,877

#### (4) Goodwill and Other Intangible Assets

The Company conforms to the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are reviewed for impairment and written down and charged to results of operations when their carrying amount exceeds their estimated fair value. The Company is required to perform impairment tests each year, or between yearly tests in certain circumstances, for goodwill. There can be no assurance that future impairment tests will not result in a charge to earnings.

There were no changes in the net carrying amount of goodwill for the three months ended March 31, 2007 and 2006.

##### *Amortizing Intangible Assets*

Franchise royalty contracts are amortized on a straight-line basis over fifteen years, the estimated average life of the franchise agreements. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the franchise royalty contracts balance over their remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

	As of March 31, 2007 Gross carrying amount	Weighted average amortization period	Accumulated amortization
Amortizing intangible assets:			
Franchise Royalty Contracts	\$ 9,454,431	15.0 yrs.	\$ 8,351,414

Aggregate amortization expense for amortizing intangible assets for the three month period ended March 31, 2007 was \$157,574. Estimated amortization expense is \$630,300 per year through December 31, 2008.

#### (5) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a liability for uncertain tax positions in the amount of \$118,375, including interest of \$25,595, which was accounted for as an adjustment to the beginning balance of retained earnings. As of March 31, 2007, the Company has a recorded liability of \$128,307, including interest of \$28,854, for such uncertain tax positions.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the quarter ended March 31, 2007, the Company recognized approximately \$3,259 of accrued interest associated with uncertain tax positions.

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The Company anticipates that the accrued liability for uncertain tax positions will significantly decrease in the next twelve months as the Company files tax returns and remits any taxes due. As of March 31, 2007, the earliest tax year open to examination by a major taxing jurisdiction is 2003.

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**(6) Earnings Per Share**

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Stock options for 30,000 shares of common stock were not included in computing diluted earnings for the three months ended March 31, 2006 because the effects of these options were anti-dilutive.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods indicated:

	<b>Income (Numerator)</b>	<b>Weighted Average Shares (Denominator)</b>	<b>Earnings Per Share Amount</b>
<b>Three months ended March 31, 2007</b>			
Net income basic	\$ 149,957	1,788,039	\$ .08
Net income diluted	\$ 149,957	1,792,182	\$ .08
<b>Three months ended March 31, 2006</b>			
Net income basic	\$ 6,298	1,188,857	\$ .01
Net income diluted	\$ 6,298	1,203,507	\$ .01

All share and earnings per share data for the period ended March 31, 2006 have been adjusted to reflect the reverse stock split recorded in August 2006.

**(7) Reportable Segments**

The Company has organized segment reporting to reflect how the Company views its business activities. During the third quarter of 2006, the Company identified operating segments based on separate financial information that is evaluated regularly in deciding how to allocate resources and in assessing performance. As a result, certain reclassifications have been made to the accompanying 2006 information to conform to the 2007 information. The Company-operated Restaurant segment consists of the operations of all Company-operated restaurants and derives its revenues from restaurant operations. This segment also includes net costs incurred from subleases of previously operated locations, which is presented separately. The Franchising segment consists primarily of franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from franchisees. The Corporation does not allocate certain expenses to any business segment. These costs include expenses of the following functions: legal, accounting, stockholder relations, personnel not directly related to a segment, information systems and other headquarter activities. These unallocated expenses are designated as unallocated corporate expenses.

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The following table summarizes reportable segment information:

	Three Months Ended March 31, 2007	2006
Revenues from reportable segments:		
Restaurants	\$ 3,048,300	\$ 2,997,673
Franchising	1,081,390	1,147,977
Total revenues	\$ 4,129,690	\$ 4,145,650
Depreciation and amortization:		
Restaurants	\$ 100,495	\$ 90,735
Franchising	165,439	166,421
Corporate		2,885
Total depreciation and amortization	\$ 265,934	\$ 260,041
Interest Expense:		
Restaurants	\$ 20,324	\$ 46,031
Corporate		61
Total interest expense	\$ 20,324	\$ 46,092
Interest Income:		
Corporate	\$ 16,578	\$ 20,566
Total interest income	\$ 16,578	\$ 20,566
Equity in joint venture:		
Franchising	\$ 13,702	\$ (4,032 )
Total equity in joint venture	\$ 13,702	\$ (4,032 )
Income (loss) from operations:		
Restaurants	\$ 98,853	\$ 37,825
Subleased properties	(34,103 )	40,562
Franchising	697,003	674,382
Corporate	(513,675 )	(625,327 )
Total income from operations:	\$ 238,078	\$ 127,442

	March 31, 2007	December 31, 2006
Total assets:		
Restaurants	\$ 6,914,653	\$ 6,615,074
Franchising	5,270,082	5,605,981
Corporate	940,858	1,090,254
Investments in marketable securities	8,285,486	6,508,645
Total assets	\$ 21,411,079	\$ 19,819,954

## (8) Contingencies

In the case of all known contingencies, the Company accrues for an obligation, including estimated legal costs, when a loss is probable and the amount is reasonably estimable. As facts concerning contingencies become known to the Company, the Company reassesses its position with respect to accrued liabilities and other expenses. These estimates are subject to change as events evolve and as additional information becomes available during the litigation process.

### Little Rock, Arkansas Lease

In September 2006, the Company was served with a lawsuit filed in the Circuit Court of Pulaski County, Arkansas, captioned *Parks Land Company, LLLP, et al. v. Western Sizzlin Corporation, et al.* The plaintiffs are owners/landlords of four restaurant premises located in the Little Rock, Arkansas metropolitan area which had been leased pursuant to a single lease agreement and previously occupied by the Company. Most recently, each of these premises has been subleased to various operators. The lease agreement expired pursuant to its terms on June 30, 2006. The plaintiffs have claimed in their lawsuit unspecified damages allegedly owing for certain repair and maintenance expenses on the premises,

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for the replacement of certain equipment, for diminution of property value, and for loss of rental income, as well as interest and costs. At this time the likelihood of an unfavorable court outcome, or any potential loss, cannot be made with certainty. However, the Company is prepared to vigorously contest the plaintiff's claims and will pursue applicable cross claims and counterclaims.

### **FFCA**

FFCA Acquisition Corporation, an entity related to Franchise Finance Corporation of America, now known as General Electric Franchise Finance Corporation (FFCA) is or was the owner of 43 former Quincy's restaurant locations (Former Quincy's Units). Western Sizzlin Stores of Virginia, Inc. (WSSVA) executed certain Master Leases (the Leases) dated as of January 1, 2001, covering the Former Quincy's Units. However, pursuant to Paragraph 47 of the Leases, the Leases never became effective as FFCA did not execute and/or deliver the Leases.

In 2001 and 2002, several Former Quincy's Units were properly turned back to FFCA. Certain franchisees who continued to operate Former Quincy's Units owned by FFCA remitted all rental payments directly to FFCA, and

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FFCA accepted these payments. Based on these developments, and the lack of any binding Master Lease Agreement with FFCA, on May 15, 2003, the Company sent a letter to the Lessor, providing notice of the Company's termination of any tenancies at-will on any remaining Former Quincy's units effective May 31, 2003. In accordance with the Company's position, the Company has returned to FFCA every invoice for rent expense, or tax statement, received after May 15, 2003, with a cover letter explaining that the Company is not responsible for any such amounts. FFCA has not disputed the Company's position.

#### Other

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of the management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

#### (9) Investment in Unconsolidated Joint Venture

The Company is a partner in a 50/50 joint venture with a franchisee for a new restaurant in Harrisonburg, Virginia. During October 2005, the joint venture entered into a loan agreement for \$3.05 million and the Company guaranteed 50% of the loan obligation. The estimated fair value of the guarantee of approximately \$30,000 is recorded in other long-term liabilities and in investments in unconsolidated joint venture on the accompanying consolidated balance sheet at March 31, 2007. The term of the guarantee extends through July 1, 2026 and the Company would be required to perform under the guarantee should the joint venture not be able to meet its scheduled principal and interest payments. Pursuant to the joint venture agreement, a cash contribution of \$300,000 from each 50/50 partner was also made at the closing of this financing. The Company is accounting for the investment using the equity method and the Company's share of the net income (loss) of the joint venture of \$13,702 and (\$4,034) for the three months ended March 31, 2007 and 2006, respectively, is included in equity in earnings of unconsolidated joint venture. The restaurant opened for business on December 14, 2006.

#### Financial Data

The following is selected financial information for the joint venture at March 31, 2007:

	Three Months Ended March 31, 2007 (unaudited)
<b>Statement of Operations Data:</b>	
Total revenues	\$ 1,329,125
Cost of food	595,493
Payroll expense	420,819
Marketing and smallware expense	8,487
General and administrative	171,728
Interest	55,496
Depreciation and amortization	49,699
Net income	27,403
<b>Balance Sheet Data:</b>	
Cash	\$ 183,820
Prepaid insurance	14,663
Inventory	21,331
Land, leasehold improvements, and construction in progress	3,897,437
Loan costs, net	13,090
Total assets	4,153,839
Loan payable	3,270,327
Accounts payable and accrued expenses	342,313
Members' equity	262,363

#### (10) Impact of Recently Issued Accounting Standards

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, (FIN 48). FIN 48 prescribes a recognition threshold and measurement



attributes for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, *Accounting for Income Taxes*. The requirements of FIN 48 were adopted during the first quarter of 2007. Refer to Note 5 for further discussion.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has not yet determined the impact, if any, that the implementation of SFAS No. 157 will have on our results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115*, ( SFAS 159 ), which is effective January 1, 2008. This Standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, with is consistent with the Board s long-term measurement objectives for accounting for financial instruments. The Company is currently evaluating the effect, if any, that the adoption of SFAS 159 will have on our consolidated financial statements on the adoption date of January 1, 2008.

In March 2006, the FASB Emerging Issues Task Force issued Issue 06-3 ( EITF 06-3 ), *How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. This standard requires that a company disclose its accounting policy (i.e., gross or net presentation) regarding presentation of taxes within the scope of EITF 06-3. If taxes are significant and reported on a gross basis, a company should disclose the amount of such taxes for each period for which an income statement is presented. The guidance is effective for the Company beginning January 1, 2007. The Company presents revenues net of sales taxes in its consolidated statements of income.

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

### **Overview**

The following discussion may include forward-looking statements including anticipated financial performance, business prospects, the future opening of Company-operated and franchised restaurants, anticipated capital expenditures, and other matters. All statements other than statements of historical fact are forward-looking statements. Section 27A of the Securities Act of 1933 (as amended) and Section 21E of the Securities Exchange Act of 1934 (as amended) provide safe harbors for forward-looking statements. In order to comply with the terms of these safe harbors, the Company notes that a variety of factors, individually or in the aggregate, could cause the Company s actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company s forward-looking statements including, without limitation, the following: the ability of the Company or its franchises to obtain suitable locations for restaurant development; consumer spending trends and habits; competition in the restaurant segment with respect to price, service, location, food quality and personnel resources; weather conditions in the Company s operating regions; laws and government regulations; general business and economic conditions; availability of capital; success of operating initiatives and marketing and promotional efforts; and changes in accounting policies. In addition, the Company disclaims any intent or obligation to update those forward-looking statements.

Effective January 1, 2007, the Company restructured the operations into a holding company/subsidiary format whereby all operations are now conducted through wholly-owned subsidiaries. This restructuring is not anticipated to have any tax impact and will have no impact on the financial reporting as the Company will continue to report consolidated financial statements.

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The Company operated and franchised a total of 127 restaurants located in 19 states, including 5 Company-owned and 121 franchise restaurants and one joint venture as of March 31, 2007. The restaurants include a family steakhouse concept and a steak and buffet concept.

The Company's objective is to maximize its intrinsic business value per share over the long term. In meeting this objective, the Company will evaluate all investment alternatives to achieve above-average returns on capital. The Company will continue to franchise restaurants and maximize operating results of the five Company-operated restaurants.

The Company seeks to invest in stocks of businesses at prices below their intrinsic business value. The Company's preferred strategy is to allocate a meaningful amount of capital in each investee, resulting in concentration. The carrying values of the Company's equity securities are exposed to market price fluctuations, which may be accentuated by a concentrated equity portfolio. A significant decline in the price of major investments may produce a large decrease in the Company's stockholder's equity. (See Note 3) Operating decisions for the Company are made by management. As described above, investment and all other capital allocation decisions are made for the Company by Mr. Biglari, Chairman of the Board of Directors.

### Results of Operations

Net income for the three months ended March 31, 2007 was \$149,957 compared to net income of \$6,298 for the three months ended March 31, 2006.

The following table sets forth for the periods presented the percentage relationship to total revenues of certain items included in the consolidated statements of income and certain restaurant data for the periods presented:

	<b>Three Months Ended March 31,</b>			
	<b>2007</b>		<b>2006</b>	
<b>Revenues:</b>				
Company-operated restaurants	73.8	%	72.3	%
Franchise operations	26.2		27.7	
Total revenues	100.0		100.0	
<b>Costs and Expenses:</b>				
Company-operated restaurants food, beverage and labor costs	54.4		55.1	
Restaurant occupancy and other	14.6		14.1	
Subleased properties	1.0		(1.0)	( )
Franchise operations direct support	5.5		7.3	
Corporate expenses	12.4		15.1	
Depreciation and amortization	6.4		6.3	
Total costs and expenses	94.3		96.9	
Income from operations	5.7		3.1	
Other income (expense)	.3		(2.8)	( )
Income before income tax expense	6.0		0.3	
Income tax expense	2.4		0.2	
Net income	3.6	%	0.1	%

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Restaurant Data</b>		
Number of Company-Operated Restaurants:		
Beginning of period	5	5
Opened		
Closed		
Franchised		
End of period	5	5
Number of U.S. Franchised Restaurants:		
Beginning of period	123	135

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Opened		
Closed	(2 )	(3 )
End of period	121	132
<b>Number of Joint Venture Restuarants:</b>		
Beginning of period	1	
Opened		
Closed		
End of period	1	

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## Revenues

Total revenues decreased 0.4% to \$4.13 million for the three months ended March 31, 2007 from \$4.15 million for the comparable three months ended March 31, 2006. Company-operated restaurant revenues increased 1.7% to \$3.05 million for the three months ended March 31, 2007 as compared to \$3.0 million for the comparable three months ended March 31, 2006. The increase is largely attributable to the temporary closing of a Company-operated location for remodeling during the first quarter of 2006. Same store sales for the three months ended March 31, 2007, experienced an overall decrease of 3.2%, taking out the effect of the remodel. Franchise revenues decreased 5.8% to \$1.08 million for the three months ended March 31, 2007 as compared to \$1.15 million for the comparable three months ended March 31, 2006. The decrease is attributable to fewer franchised units in the system at March 31, 2007 as compared to March 31, 2006. Same store sales for the three months ended March 31, 2007, experienced an overall decrease of 1.7%.

## Costs and Expenses

Cost of Company-operated restaurants, consisting primarily of food, beverage, and labor costs decreased \$37,200 (1.6%) to \$2.2 million for the three months ended March 31, 2007 from \$2.3 million for the three months ended March 31, 2006. These costs for the three month period as a percentage of Company-operated restaurants revenue were 73.7% and 76.2% for the three months ended March 31, 2007 and 2006, respectively. The decrease in the costs was largely attributable to the temporary closing of a Company-operated location during the first quarter of 2006 for remodel.

Restaurant occupancy and other, which include utilities, insurance, maintenance, rent and other such costs of the Company-operated restaurants, increased by \$17,100 (2.9%) for the three months ended March 31, 2007 versus the prior year's comparable period. These costs for the three month period increased slightly as a percentage of Company-operated restaurant revenues from 19.5% in 2006 to 19.8% in 2007. The increase for the three months ended March 31, 2007 was largely attributable to a \$45,000 settlement of a lease in Chantilly, Virginia offset by a reduction in the cost structure during the first quarter of 2007.

Subleased properties include net costs associated with subleasing former Company operations and maintenance of vacant premises. These expenses increased by \$75,000 (184.8%) for the three months ended March 31, 2007 versus the prior year's comparable period. The increase was largely attributable to additional expenses incurred due to the termination of certain subleased properties by subtenants and lack of sub rental income.

Cost of franchise operations direct support expense decreased by \$75,000 (24.8%) for the three months ended March 31, 2007 versus the prior year's comparable period. The decrease was largely attributable to personnel reductions and targeted expense reduction during the third and fourth quarters of 2006.

Corporate expenses consist of certain expenses not allocated to any business segment. These expenses include legal, accounting, stockholder relations, personnel not directly related to a segment, information systems, and other headquarter's activities. These expenses decreased by \$112,000 (17.9%) for the three months ended March 31, 2007 versus the prior year's comparable period. The decrease was attributable to personnel reductions and targeted expense reductions during the third and fourth quarters of 2006.

Depreciation and amortization expense increased by \$6,000 (2.3%) for the three months ended March 31, 2007 versus the three months ended March 31, 2006. The increase was attributable to an increase in capital expenditures placed in service due to remodels of two Company-operated locations during 2006.

### **Other Income (Expense)**

Interest expense decreased \$26,000 for the three months ended March 31, 2007 over the comparable period in 2006 due to a lower average principal outstanding balance. Interest income fluctuates according to the levels of available cash balances. The Company employs a cash management system whereby available balances are invested on an overnight basis.

Other income decreased \$4,093 for the three months ended March 31, 2007 over the comparable period in 2006. Other income for 2007 included a realized gain on investments in put options of \$4,613 during the first quarter ended March 31, 2007.

Income tax expense is directly affected by the levels of pretax income. The Company's effective tax rate was 40.4% and 52.1% for the three months ended March 31, 2007 and 2006, respectively.

### **Cash and Cash Equivalents**

As of March 31, 2007, the Company had \$2.28 million of cash and cash equivalents as compared to \$2.34 million as of March 31, 2006.

### **Investment of Available Capital**

The Company's cash flows have exceeded its working capital, financing and capital investment needs, and management expects that the Company's cash flows will continue to exceed its operating cash needs for the foreseeable future. The Company regularly evaluates how best to use available capital to increase stockholder value. The Company may pursue investments in the form of acquisitions, joint ventures and partnerships where the Company believes attractive returns can be obtained. Further, the Company may determine under certain market conditions that available capital is best utilized to fund investments that it believes offer the Company attractive return opportunities, whether or not related to its ongoing business activities.

As previously discussed in Note 3 of Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q, the Company's Board of Directors has delegated authority to direct investment of the Company's surplus cash to its Chairman, Sardar Biglari, subject to Board reporting requirements and various limitations that have been or may be from time to time adopted by the Board of Directors. These investments may include significant and highly concentrated direct investments with respect to the equity securities of public companies. Any such investments will involve risks, and stockholders should recognize that the Company's balance sheet may change depending on the performance of investments. Furthermore, such investments could be subject to volatility that may affect both the recorded value of the investments as well as the Company's periodic earnings.

### **Operating Activities and Cash Flows**

The Company generated approximately \$317,000 in operating cash flows for the three months ended March 31, 2007 and \$475,000 for the three months ended March 31, 2006. The Company's primary source of operating cash flows is the operating profits generated from Company operations and franchise operations.

### **Investing Activities**

During the three months ended March 31, 2007, the Company spent \$1,400 on capital expenditures compared to \$295,000 spent during the equivalent period in the prior year. Capital expenditures for 2006 included amounts attributable to the remodel of the Company-operated store in Northern Virginia. The balance of the capital expenditures was for necessary replacement of equipment and leasehold improvements in the other Company-operated locations. Also included in investing activities for 2007 is \$384,000 investment in marketable securities, offset by payments made on advances to unconsolidated joint venture of \$25,400.

### **Financing Activities**

The Company made payments of long-term debt of \$39,000 and \$1.2 million for the three months ended March 31, 2007 and 2006, respectively. Also, during the three months ended March 31, 2007, the Company received \$17,000 from the exercise of stock options.

## Liquidity

The Company's primary sources of liquidity are cash generated from operations and, if needed, borrowings under its existing line of credit. The Company continually reviews available financing alternatives. In addition, the Company may consider, on an opportunistic basis, strategic decisions to create value and improve operational performance.

## CONTRACTUAL OBLIGATIONS

The table below sets forth a summary of contractual obligations that will impact future liquidity as of March 31, 2007:

Contractual Obligations	Payment due by period						Totals
	2007	2008	2009	2010	2011	Thereafter	
Long-term debt	\$ 123,826	\$ 118,783	\$ 109,803	\$ 121,385	\$ 134,189	\$ 200,875	\$ 808,861
Operating leases, net (1)	565,930	657,776	615,467	623,880	367,611	1,571,165	4,401,829
Interest expense (2)	56,881	62,834	52,041	40,459	27,655	14,603	254,473
Tax obligations (3)	128,307	0	0	0	0	0	128,307
<b>Totals</b>	<b>\$ 874,944</b>	<b>\$ 839,393</b>	<b>\$ 777,311</b>	<b>\$ 785,724</b>	<b>\$ 529,455</b>	<b>\$ 1,786,643</b>	<b>\$ 5,593,470</b>

(1) Operating lease commitments are presented net of sublease rentals. Gross operating lease commitments for the periods above aggregate to approximately \$4.4 million, offset by sublease rentals for the same periods of approximately \$95,000.

(2) Reflects future interest payments through scheduled maturity dates based upon average borrowing rates, outstanding debt balances and scheduled principal payments on long-term debt.

(3) Reflect recognized liabilities for uncertain tax positions under the provision FIN 48. (See Note 5.)

## CRITICAL ACCOUNTING POLICIES

The discussion and analysis of financial condition and results of operations is based on the consolidated financial statements and accompanying notes that have been prepared in accordance with United States generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Application of the critical accounting policies discussed below requires significant judgments by management, often as a result of the need to make estimates of matters that are inherently uncertain. If actual results were to differ materially from the estimates made, the reported results could be materially affected. The Company is not currently aware of any reasonably likely events or circumstance that would result in materially different results. Senior management has reviewed the critical accounting policies and estimates and the Management's Discussion and Analysis regarding them with the Audit Committee of the Board of Directors.

For additional information regarding the impact of recently issued accounting standards, see Note 10 of Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

### *Trade Accounts and Notes Receivable and the Allowance for Doubtful Accounts*

The Company collects royalties, and in some cases rent, from franchisees. The Company views trade accounts and notes receivable and the related allowance for doubtful accounts as a critical accounting estimate since the allowance for doubtful accounts is based on judgments and estimates concerning the likelihood that individual franchisees will pay the amounts included as receivables from them. In determining the amount of allowance for doubtful accounts to be recorded for individual franchisees, the Company considers the age of the receivable, the financial stability of the franchisee, discussions that may have occurred with the franchisee and a judgment as to the overall collectibility of the receivable from the franchisee. In addition, the Company establishes an allowance for all other receivables for which no specific allowances are deemed necessary. If average sales or the financial health of franchisees were to deteriorate, the Company might have to increase the allowance for doubtful accounts.





### *Investments*

The Company classifies our marketable equity securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income and are determined using the specific identification method for ascertaining the cost of securities sold. All investments are marked-to-market based on quoted market prices and recorded at their fair value. Investments in derivative securities are classified as trading securities, with both realized and unrealized gains and losses on those derivative instruments included in the statement of income.

### *Long-lived Assets, Franchise Royalty Contracts and Goodwill*

The Company views the determination of the carrying value of long-lived assets, franchise royalty contracts and goodwill as critical accounting estimates since it must evaluate the estimated economic useful life in order to properly depreciate or amortize our long-lived assets and franchise royalty contracts and because it must consider if the value of any of our long-lived assets have been impaired, requiring adjustments to the carrying value. Goodwill is not subject to amortization but is subject to at least an annual impairment test to determine if the carrying amount exceeds its fair value.

Economic useful life is the duration of time the asset is expected to be productively employed, which may be less than its physical life. The estimated economic useful life of an asset is monitored to determine if it continues to be appropriate in light of changes in business circumstances.

### *Commitments and Contingencies*

The Company views accounting for contingencies as a critical accounting estimate since loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources require judgment as to any probable liabilities incurred. Actual results could differ from the expected results determined based on such estimates.

### *Income Taxes*

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, ( FIN 48 ). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, *Accounting for Income Taxes*. The requirements of FIN 48 were adopted during the first quarter of 2007.

For additional information regarding the adoption of FIN 48, see Note 5 of Notes to Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

## **OTHER**

### **Impact of Inflation**

The impact of inflation on the costs of food and beverage products, labor and real estate can affect the Company's operations. Management believes the Company has historically been able to pass on increased costs through certain selected menu price increases and has offset increased costs by increased productivity and purchasing efficiencies, but there can be no assurance that the Company will be able to do so in the future. Management anticipates that the average cost of restaurant real estate leases and construction cost could increase in the future which could affect the Company's ability to expand. In addition, mandated health care or additional increases in the federal or state minimum wages could significantly increase the Company's costs of doing business.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

As of March 31, 2007, the Company's financial instruments are not exposed to significant market risk due to foreign currency exchange risk or commodity price risk. However, the Company is exposed to market risk related to changes in market prices of marketable securities and to interest rates related to debt obligations. The Company's marketable securities are currently concentrated in a single investment, common stock of Friendly Ice Cream Corporation. A change in market prices also exposes the Company to market risk related to the investments in marketable securities. As of March 31, 2007, the Company held \$8.3 million in available-for-sale marketable securities. A hypothetical 10% decline in the market value would result in \$830,000 of unrealized losses and a corresponding decline would not affect cash flows unless the security was disposed of.

The table below provides information about debt obligations that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

Debt obligations held for other than trading purposes at March 31, 2007 (dollars in thousands):

**EXPECTED MATURITY DATE**

	2007	2008	2009	2010	2011	Thereafter	Total	Estimated Fair Value
Long-term debt								
Fixed Rate	\$ 124	\$ 119	\$ 110	\$ 121	\$ 134	\$ 201	\$ 809	\$ 848
Average Interest Rate	9.96	% 10.03	% 10.07	% 10.07	% 10.07	% 10.07	% 10.00	%

**Item 4. Controls and Procedures**

The Company's senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2007. Based on its evaluation as of December 31, 2006, the Company concluded that the disclosure controls and procedures were ineffective in providing reasonable assurance that the information required to be disclosed in the Annual Report on Form 10-K was summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and Form 10-K due to the material weaknesses discussed below. These weaknesses still exist as of March 31, 2007.

A material weakness is a control deficiency (as defined by the PCAOB), or a combination of control deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based on the evaluation as of December 31, 2006, the review of the system of controls surrounding the information technology system revealed that the Chief Financial Officer has access to the journal entry module within the Company's accounting system, leading to a segregation of duties issue. The Company is currently evaluating how to restrict access to that particular module from the Chief Financial Officer, as well as additional procedures necessary to fully remediate the material weakness. The Company anticipates the steps necessary to remediate this deficiency will be implemented by June 30, 2007.

In addition, in connection with the audit of the Company's 2006 financial results, Grant Thornton LLP, (independent registered public accounting firm), detected an error related to expenses associated with the rights offering that expired December 8, 2006. A correcting adjustment was made prior to finalization of the 2006 financial statements, with the direct costs of \$123,280 associated with the rights offering properly recorded as a reduction of equity instead of an expense. The Company is evaluating initiatives needed to remediate this material weakness in internal controls, and thus lower the risk level to remote of other potential material errors or omissions. The Company plans to expand the use of independent reviews by outside financial reporting experts and implement this review by June 30, 2007.

There were no other changes in the Company's internal controls or in other factors that could significantly affect these controls since the evaluation process was completed as of March 31, 2007.

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings

In addition to those proceedings discussed in the Company's consolidated financial statements included in Item 1, Part 1, the Company is involved in various other claims and legal actions which are routine litigation matters incidental to the business. In the opinion of the management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

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 for company operations, as well as franchised 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.

Item 6. Exhibits :

See Exhibit Index on page 22.

**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 hereunto duly authorized.

**Western Sizzlin Corporation**

By: */s/ James C. Verney*  
James C. Verney  
President and Chief Executive Officer

By: */s/ Robyn B. Mabe*  
Robyn B. Mabe  
Vice President and Chief Financial Officer

Date: May 15, 2007

**EXHIBIT INDEX**

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

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