WESTERN SIZZLIN CORP
Form 10-K
April 15, 2008

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 December 31, 2007

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 0-25366

WESTERN SIZZLIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**86-0723400**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
416 South Jefferson Street, Suite 600, Roanoke, Virginia	**24011**

(Address of principal executive offices)	(Zip Code)

(540) 345-3195

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**
None	None

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

Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

o Yes x No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 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 informational statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 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 o
Non-accelerated filer x (Do not check if a smaller reporting company)	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). o Yes x No

The aggregated market value of the Company s voting common stock held by non-affiliates, based upon the average bid and asked price as of June 30, 2007, was approximately $14,827,396. For purposes of this computation, the registrant assumed that its Directors and Executive Officers were affiliates.

As of March 31, 2008, there were 2,696,625 shares, $0.01 par value, of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for its Annual Meeting of the Stockholders are incorporated by reference in Part III, Items 10, 11, 12, 13, and 14.

WESTERN SIZZLIN CORPORATION
FORM 10-K
For the Fiscal Year Ended December 31, 2007

TABLE OF CONTENTS

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Our actual results could vary materially from those expressed in our forward-looking statements.

When we use the words expect, anticipate, estimate, may, will, should, intend, plan, or similar expressions, we intend to identify forward-looking statements. Forward-looking statements also include the assumptions that underlie such statements. We assume no obligation to update any of our forward-looking statements.

You should not place undue reliance on these forward-looking statements because they depend on assumptions, data or methodology that may be incorrect or imprecise and we may not be able to realize them.

Part I

Item 1. Business

Western Sizzlin Corporation is a holding company owning subsidiaries engaged in number of diverse business activities. Our primary business activities are conducted through Western Sizzlin Franchise Corporation and Western Sizzlin Stores, Inc., which franchise and operate 122 restaurants in 20 states, including five Company-owned, 116 franchise restaurants, and one joint venture restaurant. We currently operate and/or franchise the following concepts: Western Sizzlin, Western Sizzlin Wood Grill, Western Sizzlin Express, Great American Steak & Buffet, and Quincy Steakhouses.

Financial decisions are centralized at the holding company level, and management of operating businesses is decentralized at the business unit level. Investment and all other capital allocation decisions are made for us and our subsidiaries by Mr. Sardar Biglari, Chairman and Chief Executive Officer. Our primary objective centers on achieving above-average returns on capital in pursuit of maximizing the eventual net worth of our stockholders.

Effective January 1, 2007, we restructured our 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 our financial reporting as we will continue to report consolidated financial statements.

In April 2007, we formed Western Investments, Inc., a Delaware corporation and wholly-owned subsidiary to serve as the general partner of Western Acquisitions, L.P., a Delaware limited partnership that operates as a private investment fund. Through Western Investments, Mr. Biglari operates as the portfolio manager to the fund.

We seek to invest, at the holding company and through subsidiaries, including Western Acquisitions, L.P, in stocks of businesses at prices below their intrinsic business value. Our preferred strategy is to allocate a meaningful amount of capital in each investee, resulting in concentration. The carrying values of these investments 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 our net earnings and our stockholders equity (See Note 6).

Western Investments, Inc. is the majority investor in Western Acquisitions, L.P., at December 31, 2007. During the third quarter ended September 30, 2007, we contributed cash along with holdings in the common stock of The Steak n Shake Company to Western Investments, Inc., which in turn contributed these assets to Western Acquisitions, L.P.

Western Investments role as the general partner of Western Acquisitions, L.P. carries with it the obligation to manage the operations of the fund, and in this regard it will be assisted by a professional fund administrator. For serving as the fund s general partner, Western Investments may receive a monthly management fee equal to one-twelfth of 1% of the value of the capital account of each limited partner. It also may receive an annual incentive allocation equal to 20% of the portion of each limited partner s pro rata share of the fund s net profits for each fiscal year in excess of net losses allocated to each limited partner and carried forward from prior years. All or part of these fees may be waived by Western Investments. Limited partnership interests in the fund are either Class A or Class B. The classes are identical except that Class A interests must be held for two years, whereas Class B interests are locked-up for five years. Additionally, Western Investments will at the end of the five year period reimburse the holders of Class B interests for the first 30% of any cumulative net losses they may suffer. This commitment carries significant risk. See Item 1.A. Risk Factors. As of December 31, 2007, Western Acquisitions, L.P. did not have any limited partners holding Class B interests.

Restaurant and Franchise Operations Overview

Restaurant Operations and Support

Our aim is to deliver a dining experience that exceeds customer expectations. Consistently providing high quality, flavorful food products with both a full line of entree offerings and an enhanced buffet bar offering can be a challenge. Our goal is not only to meet this challenge, but to exceed the guest expectation of both quality and service, and to offer a price point that the guest will perceive as an exceptional value.

There are several factors necessary for achieving our goal:

- Food Quality:

- Our restaurants use high quality ingredients in all menu offerings. Additionally, all food preparation is done on premises, by either small batch or large batch cooking procedures. Guest flow determines which type will be used.

- We strive to ensure that each recipe is prepared and served promptly to guarantee maximum freshness, appeal and that proper serving temperatures are maintained. We believe that our food preparation and delivery system enables us to produce higher quality and more flavorful food than is possible in other steak and buffet or cafeteria style restaurants.

- Menu Selection:

Our restaurants emphasize two traditional American style offerings:

- The first is the traditional family style steakhouse, which became popular during the 1960 s. Since that time, the primary red meat offering has grown extensively and now includes a vast array of chicken, pork, seafood and many other protein dishes.

- The second is a full line of both hot & cold food buffet, which has become a very appealing option for our guests. Our rotating daily menu offerings, displayed on one of our many scatter bars in the buffet area, clearly demonstrate our home cooking flavor profile.

We believe that our extensive food offering provides the guest with delicious variety and a flavorful dining experience that will encourage them to visit our restaurants time after time.

- Price/Value Relationship:

We are committed to providing our guests with excellent price to value alternatives in the full-service casual dining restaurant sector and traditional steak and buffet restaurants. At our restaurants, the guests are provided with a choice of many different entree offerings and they can also choose to enjoy our all-you-care-to-eat unlimited food or buffet bar offerings. We believe the perceived price value is excellent, with lunch ranging between $5.00 and $9.75 and dinner ranging between $7.00 and $15.50. Additionally, our restaurants normally offer special reduced prices for senior citizens and children under 12 and other special promotions from time to time.

- Efficient Food Service and Delivery System:

The scatter bar format, food preparation methods and restaurant layout are all designed to efficiently serve a large number of guests, while enhancing the overall quality of the dining experience. In addition, preparing food in the proper amounts, serving it in several easily accessible areas (scatter bars) and closely monitoring consumption will shorten guest lines, increase frequency of table turns, improve over-all quality and reduce waste; thereby increasing guest satisfaction and restaurant level profitability. Our restaurants range in size from approximately 5,200 square feet to 12,000 square feet. A description of these properties is provided in Item 2.

Site Selection and Construction

In selecting new restaurant locations, we consider target population density, local competition, household income levels and trade area demographics, as well as specific characteristics, including visibility, accessibility, parking capacity and traffic volume. An important factor in site selection is the convenience of the potential location to both lunch and dinner guests and the occupancy cost of the proposed site. We also take into account the success of other chain restaurants operating in the area.

Potential site locations are identified by a potential franchisee and/or corporate personnel, consultants and independent real estate brokers. Our executive management team will approve or disapprove any proposed restaurant site. The majority of restaurants are free-standing but some restaurants are developed in other formats such as strip centers.

Historically when a restaurant has been built in an existing facility, renovation and construction has taken approximately 60 to 120 days after the required construction permits have been obtained. New construction of free-standing restaurants requires a longer period of time and can range from 120 to 180 days. Also, when obtaining a construction permit, we have generally experienced a waiting period ranging from approximately 20 to 90 days.

Restaurants are constructed by outside general contractors. We expect to continue this practice for the foreseeable future.

Restaurant Management and Employees

The management staff of a typical restaurant consists of one General Manager, one Assistant General Manager and one or two Associate Managers. Individual restaurants typically employ between 40 and 80 non-management hourly employees (a mix of both part-time and full-time workers), depending on restaurant size and sales volume.

The General Manager of a restaurant has responsibility for the day-to-day operation of a restaurant, acts independently to maximize restaurant performance, and follows company-established management policies. The General Manager makes personnel decisions and determines orders for produce and dairy products, as well as, centrally contracted food items and other supplies.

Recruiting

We attempt to attract and train high quality employees at all levels of restaurant operations. Generally, restaurant management is either recruited from outside the company and has had significant prior restaurant experience or has been promoted through the system as experience levels increased. As we continue to grow, our management will continue to recruit restaurant management personnel from among non-management employees within our system and supplement these resources through outside hiring.

Management Training

We have implemented strict operating standards. We maintain a strong standardized training process which plays a critical role in maintaining operational propriety. All management employees, including Assistant Managers, regardless of former experience, participate in a six to eight week formal course of training. Periodically, additional training is provided during each calendar year through a series of two to three day seminars, to provide the most current information on a variety of topics including sales building techniques, labor controls and food cost management. Non-management employees are generally trained at the local restaurant site.

Purchasing

In 2004, we negotiated a national, five-year contract with a broadline distributor and one to twelve month agreements with other vendors, as well. This allows us to maximize our buying power based on volume and also works towards our goals of system-wide consistency. We utilize velocity reports supplied by our various distributors to look for opportunities to consolidate our purchases resulting in cost of food savings. Our stores are divided into areas based on geographical location. While each store places their own orders with the various distributors, the most successful stores are the ones who support the areas and use the volume of the combined buying power to be as economically efficient as possible.

Hours of Operation

Our restaurants are open seven days a week, typically from 11:00 a.m. to 10:00 p.m.

Franchise Operations

Our standard franchise agreement has a 20-year term, with one ten-year renewal option. It generally provides for a one-time payment to us of an initial franchise fee and a continuing royalty fee based on gross sales. We collect weekly and monthly sales reports from our franchisees as well as periodic and annual financial statements.

Each franchisee is responsible for selecting the location for its restaurant, subject to our approval. We consider such factors as demographics, competition, traffic volume and patterns, parking, site layout, size and other physical characteristics in approving proposed sites.

Franchisees must operate their restaurants in compliance with our operating and recipe manuals. Franchisees are not required to purchase food products or other supplies through our suppliers, but are required to purchase proprietary products from us. Each franchised restaurant must have a designated General Manager and Assistant Manager who have completed our six-week manager training program or who have been otherwise approved by us. For the opening of a restaurant, we provide consultation and make our personnel generally available to a franchisee. In addition, we send a team of personnel to the restaurant for up to two weeks to assist the franchisee and its managers in the opening, the initial marketing and training effort, as well as the overall operation of the restaurant.

We may terminate a franchise agreement for a number of reasons, including a franchisee s failure to pay royalty fees when due, failure to comply with applicable laws, or repeated failure to comply with one or more requirements of the franchise agreement. Many state franchise laws limit our ability to terminate or refuse to renew a franchise. A franchisee may terminate a franchise agreement and continue to operate the restaurant as a competitive concept by paying liquidated damages to us. We do not anticipate that the termination of any single franchise agreement would have a materially adverse effect on our operations. Termination by a multiple-unit franchisee of several franchise agreements for various locations could, however, have a materially adverse effect on our operations.

Our franchise agreement contains provisions that prohibit franchisees from disclosing proprietary information about our restaurant operating system. Our standard franchise agreement also contains non-competition provisions that, for the duration of the agreement and for one or two years following termination, prohibit a franchisee from directly or indirectly competing with us or soliciting employees to leave us. There is no assurance that these contractual provisions will effectively prevent the appropriation by franchisees of business opportunities and proprietary information. More discussion is contained in the caption Government Regulation.

Marketing and Promotion

Marketing and operations work hand-in-hand for all of our company concepts where a shared mutual vision provides value to the guest through hard work, quality and high standards. We know that communication plays a strong role in the fulfillment of our goals.

The Advertising Development and Research Fund or ADRF, financed through vendor support and member dues, is our franchisee-controlled graphic art design/marketing agency. It is incorporated under the name WSI ADRF, Inc.

ADRF creates, designs and produces each marketing campaign for the company and our franchisees. Production includes several major marketing campaigns annually in addition to menus, table tents, posters, indoor and outdoor signage, gift certificates and other marketing tools.

The marketing effort is communicated through a vast system of printed materials such as a corporate newsletter, internet webpages, training manuals, tapes and videos.

The marketing department is primarily self-sufficient in production capabilities with some of the most sophisticated computer and graphic equipment available. ADRF is staffed by professionals experienced in all phases of marketing, graphics / design, and communications. Their efforts have produced and coordinated promotions that include national sweepstakes campaigns, television commercials, national convention materials and training videos.

The coordinated efforts of ADRF, area field consultants, training instructors, corporate personnel, franchise owners, managers and the entire system of operators share in the ongoing success of marketing programs. Our programs utilize virtually all types of media including billboards, newspapers, television and radio.

Restaurant Industry and Competition

The restaurant industry is extremely competitive. We compete on the basis of the quality and value of food products offered, price, service, ambiance and overall dining experience. Our competitors include a large and diverse group of restaurant chains and individually owned restaurants. The number of restaurants with operations generally similar to ours has grown considerably in the last several years. We believe competition among this style of restaurant is increasing.

In addition, our business is affected by changes in consumer tastes, national, regional and local economic conditions and market trends. The performance of individual restaurants may be affected by factors such as traffic patterns, demographic considerations and the type, number and location of competing restaurants. Our significant investment in, and long-term commitment to, each of our restaurant sites limits our ability to respond quickly or effectively to changes in local competitive conditions or other changes that could affect our operations. Our continued success is dependent to a substantial extent on our reputation for providing high quality and value and this reputation may be affected not only by the performance of company-owned restaurants but also by the performance of franchisee-owned restaurants over which we have limited control.

Government Regulation

Our business is subject to and affected by various federal, state and local laws. Each restaurant must comply with state, county and municipal licensing and regulation requirements relating to health, safety, sanitation, building construction and fire prevention. Difficulties in obtaining or failure to obtain required licenses or approvals could delay or prevent the development of additional restaurants. We have not experienced significant difficulties in obtaining such licenses and approvals to date.

We are subject to Federal Trade Commission (FTC) regulation and various state laws that regulate the offer and sale of franchises. The FTC requires us to provide prospective franchisees with a franchise offering circular containing prescribed information about us and our franchise operations. Some states in which we have existing franchises and a number of states in which we might consider franchising regulate the sale of franchises. Several states require the registration of franchise offering circulars. Beyond state registration requirements, several states regulate the substance of the franchisor-franchisee relationship and, from time to time, bills are introduced in Congress aimed at imposing federal registration on franchisors. Many of the state franchise laws limit, among other things, the duration and scope of noncompetition and termination provisions of franchise agreements.

Our restaurants are subject to federal and state laws governing wages, working conditions, citizenship requirements and overtime. From time-to-time, federal and state legislatures increase minimum wages or mandate other work-place changes that involve additional costs for our restaurants. There is no assurance that we will be able to pass such increased costs on to our guests or that, if we were able to do so, we could do so in a short period of time.

Trademarks

We believe our rights in our trademarks and service marks are important to our marketing efforts and a valuable part of our business. Following are marks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office: Western Sizzlin , Western Sizzlin Steak House , Western , Sizzlin , Western Sizzlin Cow , Western Sizzlin Steak & More , Western Sizzlin County Fair Buffet and Baker Flamekist , Marshall , Gun Smoke , Six Shooter , Big Tex , Dude , Trailblazer , Ranger , Cheyenne , Colt 45 , Cookin What Am American Steak and Buffet Company , Great American Buffet , Western Sizzlin Wood Grill and Buffet , and Western Sizzlin Wood Grill .

Employees

As of December 31, 2007, we employed approximately 260 persons, of whom approximately 227 were restaurant employees, 19 were restaurant management and supervisory personnel, and 14 were corporate personnel. Restaurant employees include both full-time and part-time workers and all are paid on an hourly basis. None of our employees is covered by a collective bargaining agreement and we consider our employee relations to be good.

Item 1A. **Risk Factors**

We are dependent on key personnel.

We believe that our success depends in part on the services of Sardar Biglari, our Chairman, President and Chief Executive Officer, and Robyn B. Mabe, Vice President and Chief Financial Officer. The loss of the services of Mr. Biglari or Mrs. Mabe could have a material adverse effect upon our business, financial condition and results of operations. Qualified replacements may not be available in a timely manner, if at all. Our continued growth will also depend on our ability to attract and retain additional skilled management personnel.

Our stock price could be volatile.

Fluctuations in our stock price may result from general market conditions, perceived changes in the underlying characteristics of our business, and the relative price of competing investments. The volume of trading in the market for our common stock is typically very limited. As a consequence, liquidating your investment could cause a decline in our stock price. Because of changes in the balance of buy and sell orders, notwithstanding other relevant factors, the price of our common stock can fluctuate for reasons unrelated to the performance of our business.

We are controlled by a few stockholders.

Two stockholders, Sardar Biglari, our Chairman and Chief Executive Officer, and Jonathan Dash, a director, beneficially own or exercise voting power over approximately 61% of our total common stock. In particular, Mr. Biglari controls approximately 35% and Mr. Dash approximately 26% of our outstanding common stock. Further details on their respective holdings are reflected in their Schedules 13D, as amended, which are filed with the SEC. Were these stockholders to agree to act in concert, they would have the ability to control or significantly influence all matters requiring the approval of our stockholders, including the election of its directors. Sale of a substantial number of shares of our common stock by these principal stockholders in the public market could substantially reduce the prevailing market price of the common stock.

Our Board of Directors has recently undergone significant change.

In November 2005, we added three new members to its Board of Directors, namely Sardar Biglari, Philip L. Cooley and Paul D. Sonkin. Subsequently, in March 2006, six of the incumbent directors, Paul C. Schorr, III (former Chairman), A. Jones Yorke, J. Alan Cowart, Jr., Pat Vezertzis, Jesse M. Harrington and Roger D. Sack, resigned from the Board. At that same time Mr. Sonkin indicated that he would not stand for reelection at the 2006 annual meeting of stockholders. He ultimately resigned prior to the annual meeting. Jonathan Dash was elected to the Board in March 2006. Thomas M. Hontzas resigned from the Board in August 2006. Kenneth R. Cooper was elected to the Board in February 2007 and Martin S. Fridson was elected to the Board in November 2007. While we believe that the Board of Directors as presently constituted with Sardar Biglari as Chairman, Philip L. Cooley as Vice Chairman and Directors Titus W. Greene, Jonathan Dash, Kenneth R. Cooper and Martin S. Fridson, will function at least as well as the Board had done previously, there is no guarantee this will be the case. The failure of the Board to function adequately together would have a material adverse effect on our business. This could result in an adverse impact on our financial condition, results of operations and stock price.

We recently formed a new wholly-owned subsidiary, Western Investments, Inc., to serve as the general partner of a private investment limited partnership, Western Acquisitions, L.P. Western Investments will bear the first 30% of any cumulative net losses otherwise allocable to the capital accounts of certain limited partners.

In April 2007, we formed Western Investments, Inc., a Delaware corporation, as a wholly-owned subsidiary. Western Investments, Inc. is the general partner of Western Acquisitions, L.P., a Delaware limited partnership also formed in April 2007. The purpose of Western Acquisitions, L.P. is to invest primarily in equity securities of U.S. publicly traded companies. Sardar Biglari, our Chairman, Chief Executive Officer and President, will manage the portfolio. Western

Investments, Inc. will bear the first 30% of any cumulative net losses otherwise allocable to the capital accounts of limited partners holding Class B interests of Western Acquisitions, L.P. In the event that Western Investments, Inc. has insufficient resources to fund this commitment, it may be necessary for us to make a capital contribution to keep that company from defaulting on its obligation. Such an event could potentially have a material adverse effect on our financial position and prevents us from using the funds provided to Western Investments, Inc. in other areas. As of the date of this filing, Western Acquisitions, L.P. did not have any limited partners holding Class B interests.

We recently formed a new wholly-owned subsidiary, Western Properties, Inc. to serve as the general partner of a private investment limited partnership, Western Real Estate, L.P., which had no limited partners in 2007 but intends to operate as a private real estate investment partnership.

In December 2007, we formed Western Properties, Inc., a Delaware corporation, as a wholly-owned subsidiary. Western Properties is the general partner of Western Real Estate, L.P., a Delaware limited partnership also formed in December 2007. There were no limited partners in the partnership at December 31, 2007 and the sole activity of these entities in 2007 was the purchase by the limited partnership of 23 acres of real property in Bexar County, Texas from an unaffiliated third party. It is the intention of Western Real Estate, L.P., to operate as a private limited partnership investing in real estate however this venture is in the formative stages and there is no guarantee that it will be successful.

We are dependent on one key person for investment and capital allocation decisions.

Investment decisions and all major capital allocation decisions are made for us and our subsidiaries, including Western Acquisitions, by Sardar Biglari, our Chairman of the Board of Directors, Chief Executive Officer and President. Although there are limitations on Mr. Biglari s authority at the parent company level and our Board of Directors monitors his investment and capital allocation decisions, there is risk in having concentrated decision-making authority. Mr. Biglari s decisions could either independently or in the aggregate involve amounts that are material to our business. Additionally, if for any reason the services of Mr. Biglari were to become unavailable, there could be a material adverse effect on our business, since he is singularly responsible for these decisions.

Our investments in marketable securities, including through Western Acquisitions L.P., are highly concentrated.

Our investments in marketable securities, including through Western Acquisitions, L.P., are highly concentrated. A decline in the market value of these investments may result in a decrease in our stock price.

Our investment activities, including through Western Acquisitions, L.P., 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. 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 would prefer not to sell them.

Our investment activities could require registration as an Investment Company.

While we have historically been principally engaged in franchising and operating restaurants, our recent investment activities 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. The Board of Directors has adopted a policy requiring management to restrict the Company s operations and investment activities to avoid becoming an investment company, until and unless the Board approves otherwise. We do not intend to change our principal business and the Board has not approved otherwise. Although we do not presently intend to change its principal business, and the Board has not approved any such change, we have expanded our investment activities, and may decide in the future to register as an investment company under the Investment Company Act. Also, under certain circumstances, if we are successful in investment activities, then we may inadvertently fall within the definition of an investment company, in which event we may be required to register as an investment company.

Notwithstanding our Board policy, if our investment activities inadvertently 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 SEC.

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.

We are experiencing a decline in our franchise base.

We have experienced steady declines in our existing franchise base for the past several years. Since January 1, 2005, we had a total of 35 closures and currently have a total of 116 franchised restaurants. Of the 35 closed restaurants the majority were Western Sizzlin brand restaurants. The average annual sales of our franchised restaurants are approximately $1.6 million. The average annual sales of the closed restaurants were $1.0 million or less. The closures of franchised restaurants were caused by their operating at a competitive disadvantage which stemmed from such factors as location, facility, lack of reinvestment and mismanagement, among others factors. There is no guarantee that these reasons will be eliminated. Moreover, these closures occurred during generally favorable economic conditions and it is possible that this trend could accelerate in the event of an economic downturn or recession. While we are striving to reverse this trend by revitalizing our franchise models, there is no assurance that we will be successful in doing so and as a result our franchise base may continue to decline regardless of the economic environment.

Our restaurants operate in a highly competitive environment.

Our restaurants, both franchised and Company-owned, operate in a highly competitive industry comprised of a large number of restaurants, including national and regional restaurant chains and franchised restaurant operations, as well as locally-owned, independent restaurants. Price, restaurant location, food quality, service and attractiveness of facilities are important aspects of competition. The competitive environment is often affected by factors beyond a particular restaurant management s control, including changes in the public s taste and eating habits, population and traffic patterns and economic conditions. New competitors may emerge at any time. We may not be able to compete successfully against our competitors in the future. Competition may have a material adverse effect on our operations or earnings.

We are highly dependent on attracting and retaining qualified employees while also controlling labor costs.

We are extremely dependent upon the availability of qualified restaurant personnel. Availability of staff varies widely from location to location. If restaurant management and staff turnover trends increase, we would suffer higher direct costs associated with recruiting and retaining replacement personnel. We could suffer from significant indirect costs, including restaurant disruptions due to management changeover and potential delays in new store openings due to staff shortages. Competition for qualified employees exerts upward pressure on wages paid to attract personnel, resulting in higher labor costs, together with greater expense to recruit and train them. Many of our employees are hourly workers whose wages are likely to be impacted by an increase in the federal or state minimum wage. An increase in the minimum wage may require an increase or create pressure to increase the pay scale for our employees. A shortage in the labor pool or other general inflationary pressures or changes could also increase our labor costs.

We are dependent upon the timely delivery of fresh ingredients.

Our restaurant operations are dependent on timely deliveries of fresh ingredients, including fresh produce, dairy products and meat. The cost, availability and quality of the ingredients we use to prepare our food are subject to a range of factors, many of which are beyond our control. Fluctuations in weather, supply and demand and economic and political conditions could adversely affect the cost, availability and quality of our ingredients. Historically, when operating expenses increased due to inflation or increases in food costs, we generally have been able to offset these higher costs by increasing our menu prices. We may not be able to recover increased costs in the future because competition may limit or even prohibit such future increases. If the variety or quality of our food products declines due to the lack or lower quality of our ingredients or due to interruptions in the flow of fresh ingredients and similar factors, customer traffic may decline and negatively affect our sales.

General economic factors may adversely affect our results of operations.

National, regional, and local economic conditions, such as recessionary economic cycles or a worsening economy, could adversely affect disposable consumer income and consumer confidence. Unfavorable changes in these factors or in other business and economic conditions affecting our customers could reduce customer traffic in some or all of our restaurants, impose practical limits on our pricing and increase our costs. Any of these factors could lower our profit margins and have a material adverse affect on our results of operations. The impact of inflation on food, beverages, labor, utilities and other aspects of our business can negatively affect our results of operations. Although we attempt to offset inflation through periodic menu price increases, cost controls and incremental improvement in operating margins, we may not be able to completely do so. This may negatively affect our results of operations.

We face the risk of adverse publicity and litigation relating to food-borne illness, employment and other matters that could have a material adverse affect on our business and financial performance.

We may be the subject of complaints or litigation from customers alleging illness, injury or other food quality, health or operational concerns. While the risk of food-borne illness is real, whether it results from improper operations, new diseases or from chemicals in certain food products, the risk would generally only affect a limited number of our restaurants. As soon as any food issues became known to us, those food items that were potentially at risk would be no longer served to customers.

While the risk of food-borne illness or injury would likely be localized, the risk of the adverse publicity that might result from such an incident is more generalized and accordingly much greater. The general public s response to adverse publicity relating to our restaurant brands could materially adversely affect a significant number of our restaurants. This could be true whether the allegations underlying the adverse publicity are valid or whether we are liable.

Furthermore, more generalized health concerns about the consumption of beef or chicken due to reported incidents of diseases such as Bovine Spongiform Encephalopathy (mad cow disease) or Avian Influenza (bird flu) could lead to changes in customer preferences, reduce consumption of our products and adversely affect our financial performance. These events could also reduce the available supply of beef or chicken or significantly raise the prices of beef or chicken.

In addition, we are subject to employee claims alleging injuries, wage and hour violations, discrimination, harassment or wrongful termination. In recent years, a number of restaurant companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace, employment and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Regardless of whether any claims against us are valid or whether we are ultimately determined to be liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our financial performance. A significant judgment for any claim(s) could materially adversely affect our financial condition or results of operations.

We are regulated by the federal and state government.

The restaurant industry is subject to extensive federal, state and local laws and regulations. The development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites. Those are subject to zoning, land use, environmental, traffic and other regulations and requirements. We are also subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards and building codes. Federal and state laws govern our relationships with employees, including the Fair Labor Standards Act and applicable minimum wage requirements, overtime, employment tax rates, family leave, tip credits, working conditions, safety standards and citizenship requirements. Federal and state laws prohibit discrimination and other laws regulating the design and operation of facilities, such as the American with Disabilities Act of 1990. In addition, we are subject to a variety of federal, state and local laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations could increase our compliance and other costs of doing business. These could adversely affect our results of operations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability.

Adverse weather conditions or losses due to casualties such as fire could negatively impact our financial performance.

Although we maintain, and require our franchisees to maintain, property and casualty insurance to protect against property damage caused by casualties and natural disasters, inclement weather, flooding, hurricanes, fire and other acts of God can adversely impact our sales in several ways. For example, severe weather typically discourages potential customers from dining out. In addition, a restaurant that is damaged by a natural disaster can be inoperable for a significant amount of time due to either physical damage or to a shortage of employees resulting from a relocation of the general population.

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

In September 2006, we were 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 us. 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 claimed in their lawsuit unspecified damages allegedly owing for certain repair and maintenance expenses on the premises, for the replacement of certain equipment, for diminution of property value, and for loss of rental income, as well as interest and costs. On February 12, 2008, this case came before the Court for trial. On February 20, 2008, a 12 member jury returned a plaintiffs verdict in the amount of $689,526. On February 29, 2008, the Circuit Court of Pulaski County Arkansas entered judgment in the case captioned *Parks Land Company, et al. v. Western Sizzlin Corporation, et al.* against the us in the amount of $689,666 plus plaintiff s legal costs. We have currently added to the reserve as a result of the verdict and as of December 31, 2007 have accrued $900,000. Of this amount, $275,000 had been accrued in 2006. We disagree with the result of the trial and have filed post-trial motions, seeking new trial or judgment notwithstanding the verdict. In the event the court denies the post-judgment relief, we will consider an appeal. There can be no assurance that ultimate settlement of this case will not be more than $900,000.

We are also from time to time a party to various other legal actions which are ordinary routine matters incidental to our business. While we believe that the ultimate outcome of these 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.

We are involved in an unsolicited tender offer to acquire approximately 2,700,000 of the outstanding shares of ITEX Corporation.

We are seeking to acquire up to 2,700,000 shares of ITEX common stock in the offer for investment purposes. Following the consummation of the offer, we intend to evaluate our investment in the ITEX common stock on a continual basis and may, from time to time, communicate with ITEX management, members of ITEX s board of directors and other stockholders of ITEX. Following the consummation of the offer, we may, from time to time, acquire additional shares of ITEX common stock, dispose of shares of ITEX common stock or formulate other purposes, plans or proposals regarding ITEX or the ITEX common stock, to the extent deemed advisable in light of its general investment policies, market conditions or other factors.

The market price of our common stock may decline as a result of the offer. In particular, we estimate that we will issue approximately 178,821 shares of our common stock in connection with the offer. The increase in the number of shares of our common stock issued may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, our common stock

Please refer to the Risk Factors section of the prospectus portion of the registration statement on Form S-4 (as amended), Registration No. 333-148349 filed with the Securities and Exchange Commission, for the details on the risks associated with this tender offer. The pertinent pages of the prospectus are filed as Exhibit 99.1 to this report.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2007, our five (5) Company-owned restaurants are located in leased space ranging from 8,000 square feet to 10,000 square feet. Leases are negotiated with initial terms of five to twenty years, with multiple renewal options. All of our leases provide for a minimum annual rent, with certain locations subject to additional rent based on sales volume at the particular locations over specified minimum levels. Generally, the leases are net leases which require us to pay the costs of insurance, taxes, and a pro rata portion of lessors common area costs.

We currently lease our executive office, approximately 4,800 square feet, which is located at 416 S. Jefferson St., Suite 600, Roanoke, Virginia 24011.

Item 3. Legal Proceedings

We accrue for an obligation in all known contingencies, including estimated legal costs, when a loss is probable and the amount is reasonably estimable. As facts concerning contingencies become known to us, we reassess our 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 claimed in their lawsuit unspecified damages allegedly owing for certain repair and maintenance expenses on the premises, for the replacement of certain equipment, for diminution of property value, and for loss of rental income, as well as interest and costs. On February 12, 2008, this case came before the Court for trial. On February 20, 2008, a 12 member jury returned a plaintiffs verdict in the amount of $689,526. On February 29, 2008, the Circuit Court of Pulaski County, Arkansas entered judgment in the case captioned *Parks Land Company, et al. v. Western Sizzlin Corporation, et al.* against the Company in the amount of $689,666 plus plaintiff s legal costs. As of December 31, 2007, the Company has accrued a loss contingency reserve of $900,000 as a result of the verdict. Of this amount, $275,000 had been accrued in 2006. The Company disagrees with the result of the trial and has filed post-trial motions, seeking new trial of Judgment Notwithstanding the Verdict. In the event the Court denies the post-judgment relief, the Company will consider an appeal. There can be no assurance that ultimate settlement of this case will not be more than $900,000.

Other

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

Part II

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

Common Stock Price and Dividend Data

Our common stock was previously quoted on the OTC Bulletin Board under the symbol WSZL until March 2008. We are currently listed under NASDAQ under the symbol WEST . The following table sets forth, for the periods indicated, the range of high and low bid prices for the common stock as reported. Please note that quotations reflect inter-dealer prices, without mark-up, mark-down or commission and may not necessarily represent actual transactions. The prices have been adjusted to reflect the 1 for 10 stock split in the third quarter of 2006, but have not been adjusted for the effect of the two rights offerings in the fourth quarters of 2007 and 2006.

Fiscal Years Ended December 31, 2007 and 2006		High		Low
Fourth Quarter 2007	$	18.75	$	12.35
Third Quarter 2007	$	17.50	$	15.05
Second Quarter 2007	$	16.43	$	12.10
First Quarter 2007	$	12.50	$	8.38
Fourth Quarter 2006	$	11.20	$	7.25
Third Quarter 2006	$	11.25	$	9.50
Second Quarter 2006	$	12.80	$	9.00
First Quarter 2006	$	13.50	$	12.10

As of March 31, 2008 there were approximately 618 stockholders of record of our common stock.

Our Board of Directors has not declared a dividend in either of the two most recent fiscal years. Our last dividend was paid in 2003 and we do not anticipate paying a dividend in the foreseeable future.

Purchases of Equity Securities by the Issuer

Marketable equity securities held by Western Sizzlin Corporation 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 Securities on the consolidated 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.

Following is a summary of marketable securities held by Western Sizzlin Corporation as of December 31, 2007 and 2006:

		Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
December 31, 2007	$	605,689	$	128,846	$		$	734,534
December 31, 2006:	$	4,543,768	$	1,964,877	$		$	6,508,645

We realized a net gain on sale of marketable securities held by Western Sizzlin Corporation of $1,923,379 in 2007.

We determined cost on marketable securities sold based on the specific identification method.

In April 2007, we formed Western Investments, Inc., a Delaware corporation and wholly-owned subsidiary to serve as the general partner of Western Acquisitions, L.P., a Delaware limited partnership that operates as a private investment fund. Through Western Investments, Inc., Mr. Biglari operates as the portfolio manager to the fund. During the third quarter of 2007, we contributed cash along with our holdings in the common stock of The Steak n Shake Company to Western Investments, Inc., which in turn contributed these assets to Western Acquisitions, L.P. Also during 2007, cash contributions from outside investors of $2,225,000 were made to the limited partnership.

As of December 31, 2007, Western Investments, Inc. owned 87.57% of Western Acquisitions, L.P. As such, Western Acquisitions, L.P. has been consolidated into the accompanying financial statements with the 12.43% ownership by minority limited partners presented as minority interest on the accompanying consolidated balance sheet as of December 31, 2007.

Western Acquisitions, L.P. is, for generally accepted accounting principles (GAAP) purposes, an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. We have retained the specialized accounting for Western Acquisitions, L.P. pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation.* As such, marketable equity securities held by Western Acquisitions, L.P. are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from the change in fair value reflected in the Statement of Operations.

Following is a summary of marketable securities held by Western Acquisitions, L.P. as of December 31, 2007:

	Cost	Fair Value
Steak n Shake Co.	$ 17,902,714	$ 15,046,851
Other	138,660	115,480
Total Marketable Securities	$ 18,041,374	$ 15,162,331

We realized a net gain on sale of marketable securities held by Western Acquisitions, L.P. of $48,873 in 2007.

As of March 31, 2008, the fair value of our investment in Steak n Shake has declined approximately 28%.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information on securities authorized for issuance under our equity compensation plans as of December 31, 2007:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	57,000	$ 7.10	36,000

We have 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. Both the 2005 and 1994 Plans were adopted with the approval of our stockholders. Under the 2004 Plan, our Non-Employee Directors are granted options to purchase 1,000 shares of common stock, priced at fair market value on the date of the option grant. Options are granted automatically each year on the date of the Annual Meeting of Stockholders, or in the case of new Directors, on the first business day following their election to the Board. All options are exercisable immediately upon grant. All options outstanding at December 31, 2007 are exercisable. At December 31, 2007, there were 36,000 shares available for future grants under the plans; however, on April 25, 2007, our Board of Directors elected to indefinitely suspend future grants under all plans.

Item 6. Selected Financial Data,

October 2003 Merger, Name Change and Format Restructuring

Item 6. Selected Financial Data,

Effective October 21, 2003, we merged our wholly-owned subsidiary, The Western Sizzlin Corporation, a Delaware corporation, into Austins Steak and Saloon, Inc., with Austins being the surviving entity. At the same time, we changed our name to Western Sizzlin Corporation by amending our Certificate of Incorporation. The amendment was approved by solicitation of written stockholder consents without a meeting pursuant to Section 288 of the General Corporation Law of Delaware. On September 30, 2003, the 60th day following the date of the first consent received, stockholders voting 6,495,149 shares or 53.4% of the outstanding common stock submitted written consents to the action.

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

Financial Data

The following selected historical consolidated financial information for each of the years ended December 31, 2003 through 2007 has been derived from our consolidated financial statements. For additional information see Item 7   Management   s Discussion and Analysis of Financial Condition and Results of Operations   , included in this report. The information set forth below is qualified by reference to, and should be read in conjunction with, the consolidated financial statements and related notes included in this report.

				In Thousands		
	2007	2006	2005	2004	2003
Statement of Operations Data:					
Total revenues	$ 17,257	$ 17,404	$ 19,372	$ 21,708	$ 21,060
Income from restaurant and franchise operations	508	572	1,405	1,174	783
Income (loss) from investment activities	(1,163)	(105)			
Net income (loss)	(244)	274	681	566	212
Basic and diluted earnings (loss) per share	$ (0.13)	$ 0.23	$ 0.57	$ 0.48	$ 0.17
Shares used in computing basic earnings (loss) per share	1,905	1,215	1,189	1,190	1,212
Shares used in computing diluted earnings (loss) per share	1,905	1,225	1,190	1,190	1,212
Balance Sheet Data:					
Working capital surplus (deficit)	(1,609)	3,238	2,001	1,480	141
Total assets	30,509	19,820	15,476	16,697	16,894
Long-term debt, excluding current maturities	566	685	848	2,698	3,549
Other long-term liabilities	89	464	42	15	50
Stockholders equity	23,502	17,398	11,760	10,093	10,527
Other Financial Data:					
Dividends declared					119

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

RESULTS OF OPERATIONS

The following tables set forth the percentage relationship to total revenues, unless otherwise indicated, of certain income statement data, and certain restaurant data for the years indicated:

Income Statement Data:	2007	2006	2005
Revenues:			
Company-operated restaurants	74.8%	74.6%	75.8%
Franchise operations	22.9	23.1	21.9
Other	2.3	2.3	2.3
Total revenues	100.0	100.0	100.0
Costs and expenses - restaurant and franchise operations:			
Company-operated restaurants food, beverage and labor costs	53.9	53.4	54.2
Restaurant occupancy and other	13.7	14.1	13.5
Franchise operations direct support	6.1	7.1	7.3
Subleased properties	.5	.4	.9
Corporate expenses	13.2	12.8	13.7
Depreciation and amortization expense	6.2	6.1	5.5
Closed restaurants expense			1.8
Impairment and other charges		.2	1.7
Gain on settlement of insurance claims			(6.0)
Claims settlement and legal fees associated with lawsuit	4.3	1.6	
Total costs and expenses restaurant and franchise operations	97.9	95.7	92.6
Equity in income (loss) of joint venture	.8	(.9)	(.1)
Income from restaurant and franchise operations	2.9	3.4	7.3
Loss from investment activities	(6.7)	(.6)	
Other income (expense)	.1	(.1)	(.9)
Income (loss) before income tax expense and minority interest	(3.7)	2.7	6.4
Income tax expense (benefit)	(.2)	1.1	2.8
Minority interest in net loss of limited partnership	2.0		
Net income (loss)	(1.5)%	1.6%	3.6%

	Years Ended December 31		
	2007	2006	2005
Restaurant Data			
Percentage increase (decrease) in average sales for Company-operated restaurants	(0.7)%	(2.5)%	11.6%
Number of Company-operated restaurants included in the average sales computation	5	5	5
Average sales for Company-operated restaurants	$2,582,000	$2,599,000	$2,665,000
Number of Company-operated Restaurants:			
Beginning of period	5	5	7
Opened			
Closed/Franchised			2
End of period	5	5	5
Number of U.S. Franchised Restaurants:			
Beginning of period	123	135	147
Opened	1		3
Closed	8	12	15
End of period	116	123	135
Number of Joint Venture Restaurants:			
Beginning of period	1		
Opened		1	
Closed			
End of period	1	1	

15

Overview

Please refer to the discussion under Item 1. Business on page 1 of this report for a detailed description of the different facets of our business.

While we have historically been principally engaged, and intend at this time to remain principally engaged, in franchising and operating restaurants, the recent investment activities 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. Our Board of Directors have adopted a policy requiring management to restrict the Company s operations and investment activities to avoid becoming an investment company, until and unless the Board approves otherwise. Although we do not presently intend to change its principal business, and the Board has not approved any such change, we have expanded our investment activities, and may decide in the future to register as an investment company under the Investment Company Act. Under certain circumstances, if we are successful in investment activities, then we may inadvertently fall within the definition of an investment company, in which event it may be required to register as an investment company. If we decide or we are required 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.

Western Acquisitions, L.P. has an ownership interest in The Steak n Shake Company and has filed a Schedule 13D (as amended) with the SEC as a member of a group that also includes us, Western Investments, Inc., The Lion Fund, L.P., Biglari Capital Corp., Mr. Biglari and Philip L. Cooley, our Vice Chairman of the Board. This group collectively beneficially owned approximately 8.5 % of Steak n Shake. We initially purchased Steak n Shake shares utilizing funds from working capital and, during the third quarter ended September 30, 2007, contributed those shares to Western Acquisitions, L.P., through Western Investments, Inc. Our Board of Directors determined that seeking two positions on the Board of Directors of Steak n Shake was in the best interests of our stockholders. We engaged in a proxy solicitation to get our nominees elected and agreed to share the expenses of this effort pro rata with Western Acquisitions, L.P. and The Lion Fund, L.P. At Steak n Shake s annual meeting of stockholders held on March 7, 2008, Steak n Shake s stockholders elected Mr. Biglari and Dr. Cooley to the Board of Directors.

Western Acquisitions, L.P. is, for generally accepted accounting principles (GAAP) purposes, an investment company under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide *Investment Companies*. We have retained the specialized accounting for Western Acquisitions, L.P. pursuant to FITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation.* As such, marketable equity securities held by Western Acquisitions, L.P. are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from the change in fair value reflected in the Statement of Operations.

On August 29, 2007, the stockholders of Friendly Ice Cream Corporation approved the previously announced agreement for that company s acquisition by an affiliate of Sun Capital Corp. We, along with Mr. Biglari, Dr. Cooley and The Lion Fund, L.P., voted in favor of the merger agreement. In accordance with the terms of the merger agreement, we received $15.50 per share for our Friendly stock held as of August 29, 2007. We had previously been engaged in a proxy solicitation for Mr. Biglari and Dr. Cooley to be elected to the Board of Directors of Friendly s.

On October 17, 2007, we commenced a rights offering, distributing to stockholders, at no charge, one transferable subscription right for each share of our common stock held on that date. Every two rights entitled a stockholder to purchase one share of our common stock for $8.50 in cash. A total of 1,797,750 rights were issued entitling stockholders to purchase an aggregate of 898,875 shares. The rights offering expired on November 16, 2007 with 898,875 shares being purchased through both basic and oversubscription rights, generating total proceeds to us of approximately $7.6 million.

On December 13, 2007, Western Real Estate, L.P., a newly formed Delaware limited partnership managed by Western Properties, Inc., a newly formed Delaware corporation and our wholly-owned subsidiary, purchased approximately 23 acres of real property located in Bexar County, Texas from unaffiliated third parties. Western Properties, Inc. serves as the general partner (and currently the sole partner) of Western Real Estate, L.P., which intends to operate as a private real estate investment fund. The land purchase was the only activity for 2007, and was funded solely by our investment in Western Real Estate, L.P.

We are seeking to acquire up to 2,700,000 shares of ITEX common stock in an unsolicited tender offer for investment purposes. Following the consummation of the offer, we intend to evaluate our investment in the ITEX common stock on a continual basis and may, from time to time, communicate with ITEX management, members of ITEX s Board of Directors and other stockholders of ITEX. Following the consummation of the offer, we may, from time to time, acquire additional shares of ITEX common stock, dispose of shares of ITEX common stock or formulate other purposes, plans or proposals regarding ITEX or the ITEX common stock, to the extent deemed advisable in light of its general investment policies, market conditions or other factors.

In September 2006, we were 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.* On February 12, 2008, this case came before the Court for trial. On February 29, 2008, the Circuit Court of Pulaski County, Arkansas entered judgment in the case captioned *Parks Land Company, et al. v. Western Sizzlin Corporation, et al.* against us in the amount of $689,666 plus plaintiff s legal costs. We have currently added to the reserve as a result of the verdict and as of December 31, 2007 have $900,000 accrued. Of this amount, $275,000 had been accrued in 2006. We disagree with the result of the trial and are evaluating our options. (See Note 16.) There can be no assurance that ultimate settlement of this case will not be more than $900,000.

Our common stock commenced trading on the Nasdaq Capital Market under the symbol WEST on February 25, 2008, and was previously quoted on the OTC Bulletin Board under the symbol WSZL.OB.

Recent Developments

Subsequent to December 31, 2007, we signed a term sheet to purchase a controlling interest in Mustang Capital Advisors, LP and Mustang Capital Management, LLC. Under the proposed transaction which we announced in a press release on March 28, 2008, we will purchase a 50.5% limited partnership interest in Mustang Capital Advisors and a 51% membership interest in Mustang Capital Management, which owns a 1% interest in Mustang Capital Advisors as its general partner. The total purchase price for these interests will be $1,173,000, consisting of $300,000 in cash and $873,000 in shares of our common stock. The transaction is subject to definitive documentation. As of March 28, 2008, Mustang, through its funds and managed accounts, holds a total of 7.4% of our common stock which will be distributed to its limited partners prior to the closing of the proposed transaction.

2007 COMPARED TO 2006

Revenues

Total revenues decreased 0.8% to $17.3 million in 2007, from $17.4 million in 2006. Company-operated restaurant sales decreased 0.6% to $12.9 million in 2007, from $13.0 million in 2006. Customer traffic decreased 2.2% over 2006. Price increases were implemented at certain Company-operated restaurants in 2007 and 2006.

Franchise and other revenues decreased 1.6% to $4.3 million in 2007, from $4.4 million in 2006. The decrease is primarily attributable to 8 less franchised restaurants during 2007. Same store sales for 2007 experienced an overall decrease of 0.87% over 2006.

Costs and Expenses Restaurant and Franchise Operations

Cost of Company-operated restaurants, consisting primarily of food, beverage, and labor costs increased $13,000 (0.1%) to $9.3 million for the year ended December 31, 2007 from $9.3 million for the year ended December 31, 2006. These costs for both years stayed the same as a percentage of Company-operated restaurants revenue of 72% in 2006 and 2007. The increase in the costs was largely attributable to increased costs in commodities in 2007 over 2006.

Restaurant occupancy and other, which include utilities, insurance, maintenance, rent and other such costs of the Company-operated restaurants, decreased by $92,500 (3.8%) for the year ended December 31, 2007 versus the prior year s comparable period. These costs for the year decreased slightly as a percentage of Company-operated restaurant revenues from 18.9% in 2006 to 18.3% in 2007.

Cost of franchise operations direct support expense decreased $184,000 (14.9%) to $1.1 million for the year ended December 31, 2007 from $1.2 million for the year ended December 31, 2006. The decreases are attributable to personnel reductions and targeted expense reductions during 2006.

Subleased restaurant expenses include net costs associated with subleasing former Company operations and maintenance of vacant premises. These expenses increased by $37,000 versus the prior year s comparable period, due to increased costs associated with vacant properties. All sublease arrangements expire during the fourth of 2008 and no further sublease expenses are anticipated.

Unallocated 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 activities. These expenses increased by $51,000 for the year ended December 31, 2007 versus the prior year s comparable period. The increases are attributable to additional accounting and legal expenses in 2007.

Depreciation and amortization for 2007 were comparable to 2006.

Impairment and other charges of $46,284 in 2006 included impairments associated with subleased properties related to an expiring lease as of June 30, 2006. No such charges were experienced in 2007.

Claims settlement and legal fees associated with a lawsuit, increased $452,000 versus the prior year s comparable period, due to increases in accrual of loss contingency associated with a lawsuit involving leased properties. (See Note 16)

Equity in income (loss) of Joint Venture

Equity in income (loss) of joint venture increased $318,000 versus the prior year s comparable period, due to losses incurred in 2006 of $161,000 associated with the cost of opening the restaurant on December 14, 2006. (See Note 17)

Income (Loss) from Investment Activities

Investment activities include net realized gains on sales of marketable securities of $2 million and net unrealized losses on marketable securities held by limited partnership, Western Acquisitions, L.P., of $2.8 million. Expenses associated with investment activities were $348,000 and $105,000 for the years ended December 31, 2007 and 2006, respectively. (See Note 6) The increase in expenses for 2007 versus the prior year s comparable period is attributable to expenses associated with Steak n Shake proxy during 2007. There were no management fees charged or collected by the limited partnership in 2007. Future management fees will depend on portfolio performance and the extent of outside investors.

Other Income (Expense)

Other income (expense) increased from ($7,000) in 2006 to $12,000 in 2007. Interest expense decreased $53,000 (33.4%) comparing 2007 to 2006. The decrease is due to a lower average principal outstanding balance. Loss on early extinguishment of long-term debt of $92,535 associated with payoff of certain loans was recorded in 2006. Interest income increased $37,000 comparing 2007 to 2006. Included in 2006 is termination fee income of $163,000 associated with a negotiated settlement of certain franchise agreements.

Income Tax Expense

Income tax expense is directly affected by levels of pretax income and changes in valuation allowances on deferred tax assets. The Company s effective tax rate was (7.62%) and 40.4% for the years ended December 31, 2007 and 2006, respectively. (See Note 9)

2006 COMPARED TO 2005

Revenues

Total revenues decreased 10.2% to $17.4 million in 2006, from $19.4 million in 2005. Company-operated restaurant sales decreased 11.6% to $13.0 million in 2006, from $14.7 million in 2005. This decrease was due to the closing of a Company-operated location in February 2005 and a closing of a Company-operated location in July 2005 due to a total loss by fire casualty. Same store sales for 2006 experienced an overall decrease of 2.45% over 2005. Customer traffic decreased 8.24% over 2005. Price increases were implemented at certain Company-operated restaurants in 2006.

Franchise and other revenues decreased 5.7% to $4.4 million in 2006, from $4.7 million in 2005. The decrease is primarily attributable to 12 less franchised restaurants during 2006. Same store sales for 2006 experienced an overall increase of 1.10% over 2005.

Costs and Expenses Restaurant and Franchise Operations

Cost of Company-operated restaurants, consisting primarily of food, beverage, and labor costs decreased $1.2 million (11.5%) to $9.3 million for the year ended December 31, 2006 from $10.5 million for the year ended December 31, 2005. These costs for both years stayed the same as a percentage of Company-operated restaurants revenue of 71.5% in 2005 and 2006. The decrease in the costs was largely attributable to the closing of a Company-operated location in February 2005 and the closing due to fire of a Company-operated location in July, 2005.

Restaurant occupancy and other, which include utilities, insurance, maintenance, rent and other such costs of the Company-operated restaurants, decreased by $155,100 (5.9%) for the year ended December 31, 2006 versus the prior year s comparable period. These costs for the year increased as a percentage of Company-operated restaurant revenues from 17.8% in 2005 to 18.9% in 2006. The decreases were attributable to the closings of two Company-operated locations in 2005.

Cost of franchise operations direct support expense decreased $175,000 (12.4%) to $1.2 million for the year ended December 31, 2006 from $1.4 million for the year ended December 31, 2005. The decreases are attributable to personnel reductions and targeted expense reductions during 2006 and additional spending in 2005 on consumer research and prototype plans.

Subleased restaurant expenses include net costs associated with subleasing former Company operations and maintenance of vacant premises. These expenses decreased by $120,000 versus the prior year s comparable period. The decreases were largely attributable to additional expenses incurred on repair and maintenance of the facilities and uncollectible rents during 2005.

Unallocated 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 activities. These expenses decreased by $433,000 for the year ended December 31, 2006 versus the prior year s comparable period. The decreases are attributable to certain reductions in general and administrative expenses during 2006.

Depreciation and amortization for 2006 were comparable to 2005.

Closed restaurants expense of $350,279 in 2005 included impairment of $128,000 associated with the end of a subleased property due to a buyout of the lease and impairments related to the closing of a company-operated restaurant of $222,000 in February, 2005. No such charges were experienced in 2006.

Impairment and other charges of $319,830 in 2005 included impairments associated with a subleased property consisting of a write down of assets deemed non-recoverable of $236,330 and $83,500 of related rent payments deemed non-collectible as of December 31, 2005. Impairment and other charges of $46,284 in 2006 included impairments associated with subleased properties related to an expiring lease as of June 30, 2006.

Gain on settlement of insurance claims of $1,166,683 in 2005 included a gain of $220,351 attributable to insurance proceeds received on the Lawrenceville, Georgia casualty and a gain of $946,332 attributable to insurance proceeds received on the Waldorf, Maryland casualty. No such items were recorded in 2006.

Claims settlement and legal fees associated with a lawsuit, increased $289,000 versus the prior year s comparable period, due to accruals of loss contingency associated with a lawsuit involving leased properties. (See Note 16)

Equity in income (loss) of Joint Venture

Equity in income (loss) of joint venture had increased losses of $139,000 versus the prior year s comparable period, due to losses associated with the cost of opening the restaurant on December 14, 2006. (See Note 17)

Income (Loss) from Investment Activities

Investment activities included expenses associated with investment activities of $105,000 and $0 for the years ended

December 31, 2006 and 2005, respectively. (See Note 6)

Other Income (Expense)

Other income (expense) decreased from ($178,000) in 2005 to ($7,000) in 2006. Interest expense decreased $120,000 (44.5%) comparing 2006 to 2005. The decrease is due to a lower average principal outstanding balance. Loss on early extinguishment of long term debt of $92,535 associated with payoff of certain loans was recorded in 2006. Included in 2006 is termination fee income of $163,000 associated with a negotiated settlement of certain franchise agreements.

Income Tax Expense

Income tax expense is directly affected by levels of pretax income. The Company s effective tax rate was 40.4% and 44.5% for the years ended December 31, 2006 and 2005, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

As of December 31, 2007, we had $727,000 of cash and cash equivalents as compared to $2.3 million as of December 31, 2006. The decrease in cash and cash equivalents was largely attributable to additional investments in marketable securities in 2007.

Investment of Available Capital

Our cash flows have exceeded working capital, financing and capital investment requirements. Management expects that our cash flows will continue to exceed our operating cash needs for the foreseeable future. We regularly evaluate how best to use available capital to increase stockholder value. We may pursue investments in the form of acquisitions, joint ventures and partnerships where we believe attractive returns can be obtained. Further, we may determine under certain market conditions that available capital is best utilized to fund investments that we believe offer attractive returns, whether or not related to our ongoing business activities.

As previously disclosed, our Board of Directors has delegated authority to direct investment of surplus cash to our Chairman and Chief Executive Officer, 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. We are using, and may in the future use, a portion of its available capital to invest in other securities. 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 our balance sheet may change depending on the extent of excess funds and the timing, magnitude and performance of such investments. Furthermore, such investments could be subject to volatility that may affect both the recorded value of the investments as well as our periodic earnings and liquidity. See Risk Factors, page 6.

Operating Activities and Cash Flows

We generated (used) approximately $(9.5) million, $1.8 million, and $1.1 million in operating cash flows for the years ended December 31, 2007, 2006 and 2005, respectively. Our primary source of operating cash flows is the operating profits generated from Company restaurant and franchise operations. Adjustments to reconcile net income (loss) to net cash provided by restaurant and franchise activities were approximately $2.6 million, $1.5 million and $400,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Adjustments to reconcile net income (loss) to net cash provided by (used in) investment activities were approximately $(11.9) for the year ended December 31, 2007, with no such activity in 2006 and 2005.

Investing Activities

Our investing activities on our statements of cash flows primarily represent cash received and paid related to our operating properties. Prior to 2007, we considered purchases and sales of marketable securities to be investing activities; however, during 2007 with the expanded investment activities of the Company, and more specifically the organization of Western Acquisitions L.P. and the investment of minority interests, we began to consider such activities to be operating activities of the Company. This presentation is consistent with the guidance in the AICPA s Audit and Accounting Guide, *Investment Companies*.

During the year ended December 31, 2007, we spent approximately $34,000 on capital expenditures on Company restaurants compared to $492,000 and $313,000 during the equivalent period in the year ended December 31, 2006 and 2005 respectively. Capital expenditures for 2006 of $425,000 included the remodel of two Company-operated stores in Northern Virginia. A total of $803,000 has been spent on these two remodels since 2005. Also during 2007, land was purchased for investment purposes for $3.7 million. Offsetting uses of cash for investing activities were proceeds from fire casualties of $785,000 and $695,000 for the years ended December 31, 2006 and 2005, respectively. Also included in investing activities for 2006 are proceeds of $300,000 from the sale of land in Lawrenceville, Georgia.

Financing Activities

We made payments of long-term debt of $163,000, $1.5 million and $1.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. Proceeds of $2 million were received from a line of credit in 2007. Also during 2007 and 2006, financing activities included cash received from rights offerings of $7.6 million and $4.2 million, respectively, offset by costs of the rights offerings of $97,000 and $123,000, respectively, and cash received from exercise of stock options of $85,000 and $28,000, respectively.

Liquidity

Our primary sources of liquidity are cash generated from operations and, if needed, borrowings under our existing line of credit. Subsequent to year end, in February 2008, the line of credit was paid down and has no borrowings as of the date of the filing. We continually review available financing alternatives. In addition, we may consider, on an opportunistic basis, strategic decisions to create value and improve operational performance.

Total capital expenditures for 2008 are presently expected to approximate $50,000, and will be primarily used for necessary replacement of certain restaurant equipment.

We believe that cash flows generated by operations will be adequate to fund our restaurant and franchise operations and required debt repayments for at least the next twelve months.

INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

We are 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 we guaranteed 50% of the loan obligation. We estimate the fair value of the guarantee to be approximately $30,000 and recorded the amount in other long-term liabilities and in investments in unconsolidated joint venture on the accompanying balance sheet at December 31, 2007. The term of the guarantee extends through July 1, 2026 and we would be required to perform under the guarantee should the joint venture not to 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. We are accounting for the investment using the equity method and the Company s share of the net income (loss) for the joint venture of $157,515, ($160,902) and ($21,679) for the years ended December 31, 2007, 2006 and 2005, 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 December 31, 2007 and 2006:

	Year Ended December 31, 2007 (unaudited)	Year Ended December 31, 2006 (unaudited)
Statement of Operations Data:		
Total revenues	$ 4,960,695	$ 272,511
Cost of food	2,110,602	131,891
Payroll expense	1,502,077	218,374
Marketing and smallware expense	204,374	90,005
General and administrative	404,106	86,001
Depreciation and amortization	200,869	17.954
Interest	223,574	73,897
Net Income (loss)	315,031	(321,805)
Balance Sheet Data:		
Cash	$ 332,740	$ 319,410
Current receivables	7,557	114,813
Prepaid expenses	3,171	6,274
Inventory	16,384	17,811
Land, leasehold improvements, and construction in progress, net	3,750,051	3,936,400
Loan costs, net	11,946	13,471
Total assets	4,122,050	4,408,378
Loan payable	3,138,580	3,300,000
Accounts payable and accrued expenses	433,479	873,418
Members equity	549,991	234,960

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The table below sets forth a summary of our contractual obligations and commitments that will impact our future liquidity:

	Years Ending December 31,						
Contractual Obligations and Commitments	**2008**	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Totals**
Long-term debt	$ 118,783	$ 109,803	$ 121,385	$ 134,189	$ 148,342	$ 52,553	$ 685,055
Operating leases, net (1)	705,339	634,425	623,880	367,611	399,171	1,171,994	3,902,420
Interest expense (2)	62,834	52,041	40,459	27,655	13,501	1,101	197,591
Tax obligations (3)	28,456						28,456
Totals	$ 915,412	$ 796,269	$ 785,724	$ 529,455	$ 561,014	$ 1,225,648	$ 4,813,522

(1) Operating lease commitments are presented net of sublease rentals. Gross operating lease commitments for the periods above aggregate to approximately $3.9 million, offset by sublease rentals for the same periods of approximately $40,500. (See Note 8)

(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) Reflects recognized liabilities for uncertain tax positions under the provisions of FIN 48. (See Note 9.)

Bank Line of Credit

At December 31, 2007 there was $2 million outstanding on a $2 million line of credit with a bank. The line is payable on demand, subject to annual renewal by the bank with an automatic renewal at May 31, 2008, interest rate of prime minus 0.5% and collateralized by accounts receivable and the assignment of franchise royalty contracts. Subsequent to year end, the line of credit borrowing was completely paid in February 2008 and remains available for future borrowings, and a note payable for $2,461,000 was issued, secured by land held for investment.

Operating Leases

Operating lease commitments are presented net of sublease rentals. Gross operating lease commitments for the periods above aggregate to approximately $3.9 million, offset by sublease rentals for the same periods of approximately $40,500.

Revenue Recognition

Revenue at Company-operated restaurants is recognized as customers pay for products at the time of sale. Franchise operations revenue consists of royalties and franchise fees. Royalties are recognized in the month earned at estimated realizable amounts. Franchise fees are recognized when the related services have been performed, which is generally upon opening of the store, and do not include significant contingencies. Other revenues consist of sales of seasonings and marinades to franchisees and are recognized when the products are shipped to the franchisee. In the future, the Company may earn management fees based on a percentage of assets managed and on the performance of assets under management, but no such fees were earned in 2007.

CRITICAL ACCOUNTING POLICIES

Our 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.

Note 1 to the consolidated financial statements provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: trade accounts and notes receivables and the allowance for doubtful accounts, investments, determination of useful lives and the evaluation of any impairment of long-lived assets (including franchise royalty contracts, goodwill and property and equipment), commitments and contingencies, and income taxes.

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. We are not currently aware of any reasonably likely events or circumstance that would result in materially different results. Our senior management has reviewed the critical accounting policies and estimates and the Management s Discussion and Analysis regarding them with the Audit and Finance Committee of the Board of Directors.

Trade Accounts and Notes Receivable and the Allowance for Doubtful Accounts

We collect royalties, and in some cases rent, from franchisees. We view 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, we consider the age of the receivable, the financial stability of the franchisee, discussions that may have occurred with the franchisee and our judgment as to the overall collectibility of the receivable from the franchisee. In addition, we establish 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, we might have to increase the allowance for doubtful accounts.

Investments

Marketable equity securities held by Western Sizzlin Corporation 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 Securities on the consolidated 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.

Western Acquisitions, L.P. is, for GAAP purposes, an investment company under the AICPA Audit and Accounting

Guide *Investment Companies*. The Company has retained the specialized accounting for Western Acquisitions, L.P. pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation.* As such, marketable equity securities held by Western Acquisitions, L.P. are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from the change in fair value reflected in the Statement of Operations.

Long-lived Assets, Franchise Royalty Contracts and Goodwill

We view the determination of the carrying value of long-lived assets, franchise royalty contracts and goodwill as critical accounting estimates since we must evaluate the estimated economic useful life in order to properly depreciate or amortize our long-lived assets and franchise royalty contracts and because we 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 lives of long-lived assets are monitored to determine if they continue to be appropriate in light of changes in business circumstances.

We must also consider whether long-lived assets (including property and equipment and intangible assets) have been impaired to the extent that we must recognize a loss on such impairment, including goodwill impairment. We evaluate our long-lived assets for impairment at the restaurant and franchise levels on an annual basis or whenever changes or events indicate that the carrying value may not be recoverable. We assess impairment of each level of assets based on the operating cash flows of the restaurant and franchise operations and our plans for each restaurant unit or franchisee contract. Generally, all units with negative cash flows from operations for the most recent twelve months at each quarter end are included in our assessment. In performing our assessment, we must make assumptions regarding estimated future cash flows, including estimated proceeds from similar asset sales, and other factors to determine both the recoverability and the estimated fair value of the respective assets. If the long-lived assets of a restaurant are not recoverable based upon estimated future, undiscounted cash flows, we write the assets down to their fair value. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges. In 2006 and 2005, we recorded impairment of $46,284 and $319,830, respectively, related to leasehold improvements for which no future cash flows are anticipated associated with subleased properties. In 2007 there were no such expenses (see Notes 13 and 14).

We evaluate goodwill for impairment on an annual basis during the fourth quarter of each year, or more frequently if an event occurs that triggers an interim impairment test. We determine the fair values of our reporting units using the discounted cash flow method. This method uses projections of cash flows from each of the reporting units. Several of the key assumptions in estimating future cash flows include periods of operations, projections of operating profits, and weighted average cost of capital. These assumptions are derived from our internal budgets and consideration of available market data. The factors which contribute the greatest variability in our estimates of fair values are the weighted average cost of capital and estimates of future operating profits. We currently have goodwill of $770,000 related to our franchising reporting unit and $3.5 million allocated to our restaurant reporting unit.

Commitments and Contingencies

We view 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. In considering estimates, we consult with legal counsel and consider precedent in similar cases. Actual results could differ from the expected results determined based on such estimates.

Income Taxes

We record valuation allowances against our deferred tax assets, when necessary, in accordance with SFAS No. 109, Accounting for Income Taxes. Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. We assess the likelihood that our deferred tax assets in each of the jurisdictions in which we operate will be recovered from future taxable income. Deferred tax assets do not include future tax benefits that we deem likely not to be realized.

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 9 of Notes to Consolidated Financial Statements in Part I, Item 1 of this Form 10-K.

IMPACT OF INFLATION

The impact of inflation on the costs of food and beverage products, labor and real estate can affect our operations. Over the past few years, inflation has had a lesser impact on our operations due to the lower rates of inflation in the nation s economy and economic conditions in our market areas. We believe that we have historically been able to pass on increased costs through certain selected menu price increases and have offset increased costs by increased productivity and purchasing efficiencies, but there can be no assurance that we will be able to do so in the future. We anticipate that the average cost of restaurant real estate leases and construction cost could increase in the future which could affect our ability to expand. In addition, mandated health care or additional increases in the federal or state minimum wages could significantly increase our costs of doing business.

RECENTLY ISSUED ACCOUNTING STANDARDS

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 was effective for the Company beginning January 1, 2007. The Company presents revenues net of sales taxes in its consolidated statements of operations.

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. We 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.* We adopted the provisions in this statement beginning in the first quarter of 2007, resulting in a charge to retained earnings upon adoption of $118,000. Refer to Note 9 for further discussion.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. The provisions of SFAS 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for the first fiscal period beginning after November 15, 2007. The provisions for nonfinancial assets and liabilities are effective for the first fiscal period beginning after November 15, 2008. We are required to adopt SFAS 157 for financial assets and liabilities in the first quarter of fiscal 2008 and do not expect adoption to have a material impact on our Consolidated Financial Statements.

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, which is consistent with the Board s long-term measurement objectives for accounting for financial in