WESTERN SIZZLIN CORP
Form 10-Q
May 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008, 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)

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

Indicate by check mark whether the registrant 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

As of May 15, 2008, there were 2,696,625 shares of common stock outstanding.

Western Sizzlin Corporation

Form 10-Q
Three Months Ended March 31, 2008
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PART I. FINANCIAL INFORMATION
WESTERN SIZZLIN CORPORATION

Consolidated Balance Sheets

March 31, 2008 and December 31, 2007

	March 31, 2008 (unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 765,929	$ 727,378
Trade accounts receivable, net of allowance for doubtful accounts of $224,957 in 2008 and $198,425 in 2007	940,826	994,085
Current installments of notes receivable, less allowance for impaired notes of $58,622 in 2008 and $50,904 in 2007	212,246	219,501
Other receivables	70,250	132,283
Income taxes receivable	126,089	90,161
Inventories	85,424	73,017
Prepaid expenses	231,486	228,396
Deferred income taxes	409,620	404,334
Total current assets	2,841,870	2,869,155
Notes receivable, less allowance for impaired notes receivable of $11,283 in 2008 and $15,501 in 2007, excluding current installments	588,235	625,231
Property and equipment, net	1,776,430	1,877,694
Investment in real estate	3,745,152	3,745,152
Investments in marketable securities	12,351,542	15,896,865
Franchise royalty contracts, net of accumulated amortization of $8,981,709 in 2008 and $8,824,135 in 2007	472,722	630,296
Goodwill	4,310,200	4,310,200
Financing costs, net of accumulated amortization of $193,637 in 2008 and $192,832 in 2007	6,574	7,378
Investment in unconsolidated joint venture	350,988	304,996
Deferred income taxes	401,379	235,655
Other assets	6,105	6,450
	$ 26,851,197	$ 30,509,072
Liabilities and Stockholders Equity		
Current liabilities:		
Note payable line of credit	$	$ 2,000,000
Due to broker		342,022
Current installments of long-term debt	101,848	118,783
Current installment of long-term debt, secured by land held for investment	264,122	
Accounts payable	830,474	733,983
Accrued expenses and other	1,217,317	1,283,237
Total current liabilities	2,413,761	4,478,025
Long-term debt, excluding current installments	539,895	566,272
Long-term debt, secured by land held for investment, excluding current installments	2,377,098	
Other long-term liabilities	93,318	89,039
	5,424,072	5,133,336
Minority interest	1,822,533	1,873,748
Commitments and contingencies		
Stockholders equity:		
Convertible preferred stock, series A, $10 par value (involuntary liquidation preference of $10 per share). Authorized 25,000 shares; none issued and outstanding		
Convertible preferred stock, series B, $1 par value (involuntary liquidation preference of $1 per share). Authorized 875,000 shares; none issued and outstanding		
Common stock, $0.01 par value. Authorized 4,000,000 shares; issued and outstanding 2,696,625 in 2008 and 2007	26,967	26,967
Additional paid-in capital	20,415,785	20,415,785
Retained earnings (accumulated deficit)	(872,806)	2,978,189
Accumulated other comprehensive income unrealized holding gains, net of taxes	34,646	81,047
Total stockholders equity	19,604,592	23,501,988
	$ 26,851,197	$ 30,509,072

See accompanying notes to consolidated financial statements.

WESTERN SIZZLIN CORPORATION

Consolidated Statements of Operations

Three Months Ended March 31, 2008 and 2007

(Unaudited)

	Three Months Ended March 31, 2008	2007
Revenues:		
Company-operated restaurants	$ 3,126,110	$ 3,048,300
Franchise operations	1,049,141	1,081,390
Total revenues	4,175,251	4,129,690
Costs and expenses restaurant and franchise operations:		
Company-operated restaurants food, beverage and labor costs	2,310,888	2,263,659
Restaurant occupancy and other	559,938	602,966
Franchise operations direct support	304,535	274,450
Subleased restaurant property expenses	27,303	19,644
Corporate expenses	484,250	388,603
Depreciation and amortization expense	265,002	265,934
Claims settlement and legal fees associated with lawsuit	137,784	14,459
Total costs and expenses restaurant and franchise operations	4,089,700	3,829,715
Equity in income of joint venture	45,992	13,702
Income from restaurant and franchise operations	131,543	313,677
Net realized loss on sales of marketable securities	(40,606)	
Net unrealized losses on marketable securities held by limited partnership	(4,162,663)	
Expenses of investment activities, including interest of $23,808 in 2008	(500,267)	(61,897)
Loss from investment activities	(4,703,536)	(61,897)
Other income (expense):		
Interest expense	(38,447)	(20,324)
Interest income	20,864	16,578
Other, net	602	3,697
Total other income (expense), net	(16,981)	(49)
Income (loss) before income tax expense and minority interest	(4,588,974)	251,731
Income tax expense (benefit):		
Current	(4,194)	9,927
Deferred	(142,571)	91,847
Total income tax expense (benefit)	(146,765)	101,774
Minority interest in net loss of limited partnership	591,214	
Net income (loss)	$ (3,850,995)	$ 149,957
Earnings (loss) per share (basic and diluted):		
Net income (loss)	$ (1.43)	$ .08

See accompanying notes to consolidated financial statements.

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WESTERN SIZZLIN CORPORATION

Consolidated Statement of Changes in Stockholders Equity
Three Months Ended March 31, 2008
(Unaudited)

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	
	Shares	**Dollars**	**Capital**	**Deficit)**	**Income**	**Total**
Balances, December 31, 2007	2,696,625	$ 26,967	$ 20,415,785	$ 2,978,189	$ 81,047	$ 23,501,988
Net loss				(3,850,995)		(3,850,995)
Change in unrealized holding gains, net of taxes of $28,439					(46,401)	(46,401)
Comprehensive loss						(3,897,396)
Balances, March 31, 2008	2,696,625	$ 26,967	$ 20,415,785	$ (872,806)	$ 34,646	$ 19,604,592

See accompanying notes to consolidated financial statements.

WESTERN SIZZLIN CORPORATION

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2008 and 2007

(Unaudited)

	Three Months Ended March 31 2008	2007
Cash flows from operating activities:		
Net income (loss)	$ (3,850,995)	$ 149,957
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Restaurant and franchise activities:		
Depreciation and amortization of property and equipment	106,278	107,317
Amortization of franchise royalty contracts and other assets	157,574	157,574
Amortization of finance costs	805	1,041
Provision for doubtful accounts	30,000	30,000
Equity in income of unconsolidated joint venture	(45,992)	(13,702)
Share-based compensation		5,920
Provision for deferred income taxes (benefit)	(173,000)	91,847
(Increase) decrease in current assets and other assets	78,461	(219,200)
Increase in current liabilities and other liabilities	110,533	6,462
	264,659	167,259
Investment activities:		
Realized losses on sales of marketable securities, net	40,606	
Unrealized losses on marketable securities, net	4,162,663	
Minority interest in net loss of limited partnership	(591,214)	
Proceeds from sales of marketable securities	70,809	
Purchase of marketable securities	(803,595)	(384,244)
Decrease in due to broker	(342,022)	
Provision for deferred income taxes	30,429	
Decrease in current liabilities	(75,683)	
	2,491,993	(384,244)
Net cash used in operating activities	(1,094,343)	(67,028)
Cash flows from investing activities:		
Repayments on advances to joint venture		25,400
Additions to property and equipment	(5,014)	(1,433)
Net cash provided by (used in) investing activities	(5,014)	23,967
Cash flows from financing activities:		
Cash received from exercise of stock options		17,000
Proceeds from issuance of long-term debt	2,641,220	
Payments on long-term debt	(43,312)	(39,264)
Payments on line of credit borrowings	(2,000,000)	
Capital contributions from minority interests in limited partnership	540,000	
Net cash provided by (used in) financing activities	1,137,908	(22,264)
Net increase (decrease) in cash and cash equivalents	38,551	(65,325)
Cash and cash equivalents at beginning of the period	727,378	2,344,644
Cash and cash equivalents at end of the period	$ 765,929	$ 2,279,320
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 62,615	$ 20,651
Adoption of FIN-48 (non-cash)	$	$ 118,675
Income taxes paid, net of refunds	$ 31,734	$ 2,485

See accompanying notes to consolidated financial statements.

WESTERN SIZZLIN CORPORATION

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2008 and 2007

(Unaudited)

(1) Introduction and Basis of Presentation

Western Sizzlin Corporation is a holding company which owns a number of subsidiaries, with its primary business activities conducted through Western Sizzlin Franchise Corporation and Western Sizzlin Stores, Inc, which franchise and operate restaurants. Financial decisions are centralized at the holding company level, and management of operating businesses is decentralized at the business unit level. The Company s prime objective centers on achieving above-average returns on capital in pursuit of maximizing the eventual net worth of its stockholders. While the Company has historically been principally engaged, and intends at this time to remain principally engaged, in franchising and operating restaurants, it has recently made selective investments in other companies. At March 31, 2008, the Company had 115 franchised, 5 Company-operated and 1 joint venture restaurant operating in 20 states.

The consolidated financial statements include the accounts of Western Sizzlin Corporation and its wholly-owned subsidiaries, Western Sizzlin Franchise Corporation, The Western Sizzlin Stores, Inc., Western Sizzlin Stores of Little Rock, Inc., Austins of Omaha, Inc., Western Investments, Inc., Western Properties, Inc., a majority-owned limited partnership, Western Acquisitions, L.P., and a solely-owned limited partnership, Western Real Estate, L.P. (collectively the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements of Western Sizzlin Corporation, (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all material reclassifications and adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results of operations, financial position and cash flows for each period shown have been included. The unaudited consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company s annual consolidated financial statements and notes. For further information, refer to the consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2007.

Certain reclassifications have been made to the 2007 consolidated statements of operations to place it on a basis comparable with 2008 information.

(2) Summary of Significant Accounting Policies

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value reporting option for any assets and liabilities not previously recorded at fair value.

Effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measures,* applicable to all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted market prices in active markets for identical assets or liabilities.
Level 2	Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3	Unobservable inputs that are not corroborated by market data.

At March 31, 2008, the Company s investments in marketable securities are carried at fair value, based on quoted market prices, in the consolidated balance sheets and classified within Level 1 of the fair value hierarchy.

There have been no other material changes to the Company s significant accounting policies and estimates from the information provided in Form 10-K for the fiscal year ended December 31, 2007.

(3) Stock Options

The Company has three stock option plans: the 2005 Stock Option Plan, the 2004 Non-Employee Directors Stock Option Plan, and the 1994 Incentive and Non-qualified Stock Option Plan. Options are no longer granted under the 1994 Plan and only 7,500 options granted to James C. Verney remain outstanding under that plan. Under the 2005 and 2004 Plans, employees and directors may be granted options to purchase shares of common stock at the fair market value on the date of the grant. During the year ended December 31, 2006, under the provisions of the plans, the contract terms of stock options for resigning directors were reduced and have been reflected in the computations of the weighted average contractual term of the outstanding options. Since this modification did not increase the value of the awards, the modification had no impact on compensation expense. On February 10, 2007, the Company received a letter from Sardar Biglari, Chairman and Chief Executive Officer, stating his desire not to receive future stock option grants under the 2004 Non-Employee Directors Stock Option Plan and to cancel all stock options previously granted to him. The Company has complied with the request. There was no material financial statement impact in canceling previously granted stock options.

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

Prior to the adoption of SFAS No. 123R, the benefit of tax deductions in excess of recognized stock compensation expense was reported as a reduction of taxes paid within operating cash flows. SFAS No. 123R requires that such benefits be recognized as a financing cash flow. The benefits of tax deductions in excess of recognized stock compensation expense for the three months ended March 31, 2008 and 2007 were immaterial.

There were 1,000 stock options granted during the three month period ended March 31, 2007, all at an estimated fair value of $5.92. There were no stock options granted during the three month period ended March 31, 2008.

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

Expected term (years)	5
Risk-free interest rate	4.50%
Volatility	78.83%
Dividend yield	

The following table summarizes stock options outstanding as of March 31, 2008, as well as activity during the three month period then ended:

	Options Outstanding	Exercise Price Per Share Weighted Average	Contractual Term Weighted Average	Aggregate Intrinsic Value
Balance, December 31, 2007	36,000	$ 7.10	5.85	$ 374,264
Granted				
Exercised				
Expired/Forfeited				
Balance, March 31, 2008	36,000	$ 7.10	5.60	$ 313,064

All options outstanding at March 31, 2008 are fully vested and exercisable. At March 31, 2008, there were 40,000 shares available for future grants under the plans, however, on April 25, 2007, the Company s Board of Directors elected to suspend future grants under all plans indefinitely.

(4) Investments in Marketable Securities

All investment and capital allocation decisions are made by Mr. Sardar Biglari, the Company s Chairman and Chief Executive Officer, under limited authority delegated by the Board of Directors. The delegated authority includes the authority to borrow funds in connection with making investments in marketable securities or derivative securities, subject to Board reporting requirements and various limitations. As of the date of this filing, Mr. Biglari has authority to manage surplus cash up to $10 million, and in addition, has authority to borrow a maximum of $5 million. The Company has a margin securities account with a brokerage firm. The margin account bears interest at the Federal Funds Target Rate quoted by the Wall Street Journal, plus .5%, or approximately 2.50% as of the date of this report, with the minimum and maximum amount of any particular loan to be determined by the brokerage firm, in its discretion, from time to time. The collateral securing the margin loans would be the Company s holdings in marketable securities. The minimum and maximum amount of any particular margin may be established by the brokerage firm, in its discretion, regardless of the amount of collateral delivered to the brokerage firm, and the brokerage firm may change such minimum and maximum amounts from time to time.

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 equity securities held by Western Sizzlin Corporation as of March 31, 2008 and December 31, 2007:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2008:	$			