

BIGLARI HOLDINGS INC.  
Form 10-K  
December 09, 2013

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

FORM 10-K

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

For the fiscal year ended September 25, 2013

or

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

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

Commission file number 0-8445

BIGLARI HOLDINGS INC.  
(Exact name of registrant as specified in its charter)

INDIANA  
(State or other jurisdiction of incorporation)

37-0684070  
(I.R.S. Employer Identification No.)

17802 IH 10 West, Suite 400  
San Antonio, Texas  
(Address of principal executive offices)

78257  
(Zip Code)

(210) 344-3400  
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange on which registered
Common Stock, stated value \$.50 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	
NONE	

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of April 10, 2013 was approximately \$464,091,032 based on the closing stock price of \$383.52 per share on that day.

As of December 3, 2013, 1,720,834 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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## Table of Contents

	Page No.
<b>Part I</b>	
Item 1. Business	1
Item 1A. Risk Factors	5
Item 1B. Unresolved Staff Comments	10
Item 2. Properties	10
Item 3. Legal Proceedings	10
Item 4. Mine Safety Disclosures	10
<b>Part II</b>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	11
Item 6. Selected Financial Data	13
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	26
Item 8. Financial Statements and Supplementary Data	27
Consolidated Statements of Earnings— Years ended September 25, 2013, September 26, 2012, and September 28, 2011	30
Consolidated Statements of Comprehensive Income— Years ended September 25, 2013, September 26, 2012, and September 28, 2011	31
Consolidated Balance Sheets— As of September 25, 2013 and September 26, 2012	32
Consolidated Statements of Cash Flows— Years ended September 25, 2013, September 26, 2012, and September 28, 2011	33
Consolidated Statements of Changes in Shareholders' Equity— Years ended September 25, 2013, September 26, 2012, and September 28, 2011	34
Notes to Consolidated Financial Statements	35
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	62
Item 9A. Controls and Procedures	62
Item 9B. Other Information	62
<b>Part III</b>	
Item 10. Directors, Executive Officers and Corporate Governance	63
Item 11. Executive Compensation	63
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	63

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Item 13	Certain Relationships and Related Transactions, and Director Independence	63
Item 14	Principal Accountant Fees and Services	63
Part IV		
Item 15	Exhibits and Financial Statement Schedules	64
Signatures		65
Exhibit Index		73

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Part I

Item 1. Business

Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) is a diversified holding company engaged in a number of business activities. The Company’s most important operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, Steak n Shake Operations, Inc. (“Steak n Shake”), and Western Sizzlin Corporation (“Western”). The Company’s long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

Biglari Holdings’ fiscal year ends on the last Wednesday in September. Accordingly, every five or six years, our fiscal year contains 53 weeks. Fiscal years 2013, 2012, and 2011 contained 52 weeks. The Company’s first, third, and fourth quarters contain 12 weeks and our second quarter contains 16 weeks (except in fiscal years when there are 53 weeks, in which case the fourth quarter contains 13 weeks). Western’s financial reporting is on a calendar, not fiscal, year end.

Restaurant Operations

The Company’s Restaurant Operations’ activities are conducted through two restaurant concepts, Steak n Shake and Western Sizzlin. As of September 25, 2013, Steak n Shake operated 415 company-operated restaurants and 104 franchised units. Western operated 4 company-operated restaurants and 82 franchised units.

Steak n Shake is engaged in the ownership, operation, and franchising of Steak n Shake restaurants. Founded in 1934 in Normal, Illinois, Steak n Shake is a classic American brand serving premium burgers and milk shakes.

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

Restaurant Operations

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

Purchasing

Restaurant Operations obtain food products and supplies from independent national distributors. Purchases are centrally negotiated to ensure uniformity in product quality.

Franchising

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

Restaurant Operations typically seek franchisees with both the financial resources necessary to fund successful development and significant experience in the restaurant/retail business. Both restaurant chains assist franchisees with the development and ongoing operation of their restaurants. In addition, personnel assist franchisees with site selection, approve restaurant sites, and provide prototype plans, construction support and specifications. Restaurant Operations’ staff provides both on-site and off-site instruction to franchised restaurant management and associates. Moreover, Steak n Shake franchised restaurants are required to serve only approved menu items.



## International

Historically, we had no exposure to international markets. Starting in fiscal 2012, we began perusing activities to expand globally. During fiscal year 2013 the first Steak n Shake franchise restaurant opened in Dubai, United Arab Emirates, as part of a 40-unit agreement. We have opened a corporate office in Monaco to support expansion in the Middle East and Europe. We are developing an international organization with personnel in various functions to support international efforts. We plan to open several company-operated locations in Europe to introduce and promote the Steak n Shake brand to prospective franchisees. Similar to our domestic franchise agreements, a typical international franchise development agreement provides the vehicle for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. In fiscal 2013, 24.8% of Steak n Shake's general and administrative expenses were spent on direct franchising costs which included efforts to franchise internationally.

## Geographic Concentration and Restaurant Locations

The following table lists the locations of the 605 Steak n Shake and Western Sizzlin restaurants, including 186 franchised units, as of September 25, 2013:

	Steak n Shake		Western Sizzlin		Total
	Company-operated	Franchised	Company-operated	Franchised	
<b>Domestic:</b>					
Alabama	2	5	—	6	13
Arkansas	—	2	—	17	19
California	—	—	—	2	2
Colorado	—	1	—	—	1
Florida	80	2	—	1	83
Georgia	23	14	—	8	45
Illinois	63	7	—	1	71
Indiana	68	2	—	—	70
Iowa	3	—	—	—	3
Kansas	—	4	—	1	5
Kentucky	14	2	—	—	16
Louisiana	—	1	—	1	2
Maryland	—	—	—	2	2
Michigan	19	1	—	—	20
Mississippi	—	1	—	8	9
Missouri	39	23	—	1	63
Nevada	—	2	—	—	2
New Jersey	—	1	—	—	1
New York	1	—	—	—	1
<b>North</b>					
Carolina	6	6	—	10	22
Ohio	63	—	—	1	64
Oklahoma	—	5	—	11	16
Pennsylvania	6	3	—	—	9
<b>South</b>					
Carolina	1	4	1	3	9
Tennessee	9	8	—	4	21

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Texas	18	4	—	—	22
Virginia	—	3	3	4	10
West					
Virginia	—	2	—	1	3
International:					
United Arab					
Emirates	—	1	—	—	1
Total	415	104	4	82	605

2

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### Competition

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

### Government Regulation

The Company is subject to various global, federal, state and local laws affecting its Restaurant Operations. Each of the restaurants must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the jurisdiction in which the restaurant is located. In addition, each restaurant must comply with various laws that regulate the franchisor/franchisee relationship, employment and pay practices and child labor laws. To date, none of the Company Restaurant Operations have been materially adversely affected by such laws or been affected by any difficulty, delay or failure to obtain required licenses or approvals.

### Investment Management

On July 1, 2013, Biglari Holdings sold all of the outstanding shares of Biglari Capital Corp ("Biglari Capital") to Mr. Biglari. Biglari Capital is the general partner of The Lion Fund, L.P. and the newly-formed The Lion Fund II, L.P, limited partnerships that operate as private investment funds (collectively, the "investment partnerships"). On July 3, 2013, the Company liquidated the partners' interests in Western Acquisitions, L.P. by distributing assets of the partnership to the partners. Prior to the sale of Biglari Capital and the liquidation of Western Acquisitions, L.P., the Investment Management segment was composed of Biglari Capital and Western Investments, Inc., the general partner of Western Acquisitions, L.P. This segment provided investment advisory services to private investment funds.

The Company and its subsidiaries have invested in the investment partnerships in the form of limited partner interest. In 2013 the Company contributed cash and securities, with an aggregate value of \$377.6 million to the investment partnerships. These investments are subject to a rolling five-year lock-up period under the terms of the respective partnership agreements.

### Employees

The Company employs 21,686 persons.

#### Trademarks

Steak n Shake trademarks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office include, among others: “Steak n Shake®”, “Steak’n Shake Famous For Steakburgers®”, “Famous For Steakburgers®”, “Takhomasak®”, “Original Steakburgers®”, “In Sight It Must Be Right®”, “Steak n Shake It’s a Meal®”, “Original Steakburger®”, “Steak n Shake In Sight It Must be Right®”, “Original Double Steakburger®”, “Steak n Shake Signature®”, “Signature Steakburger®”, “California Double Steakburger®”, “Just No Equal®”, “3-D Grilled Cheese Steakburger®”, “Steak Franks®”, and “Steak n Shake by Biglari®”.

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

Biglari trademarks “Biglari”, “Biglari Design”, “Biglari Group”, among others have been filed with the Principal Register of the U.S. Patent and Trademark Office in association with one or more of the following categories: the provision of investment services, franchising services, financial services, restaurant franchising (including business management assistance in the establishment and/or operating of restaurants), hospitality services, hotel management services, insurance services, restaurant services, retail and retail related services, real estate services and apparel.

On January 11, 2013, the Company entered into a Trademark License Agreement with Mr. Biglari pursuant to which Mr. Biglari granted to the Company an exclusive license to use the Biglari and Biglari Holdings names and marks in association with various products and services. On May 14, 2013, the Company, Steak n Shake, LLC and Steak n Shake Enterprises, Inc. entered into a Trademark Sublicense Agreement providing for the association of the Biglari name and mark with all of Steak n Shake’s restaurants (including Company-operated and franchised locations), products and brands. See Note 17, “Related Party Transactions” in the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

#### Additional information with respect to Biglari Holdings’ businesses

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

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

## Item 1A. Risk Factors

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

We are dependent on our Chairman and CEO.

Our success depends on the services of Sardar Biglari, Chairman and Chief Executive Officer. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer. Moreover, certain counterparties have requested and obtained a provision in their agreements with the right to terminate in the event Mr. Biglari ceases to be our Chairman and Chief Executive Officer. If for any reason the services of Mr. Biglari were to become unavailable, there could be a material adverse effect on our business.

Competition.

Each of our operating businesses faces intense competitive pressure within the markets in which they operate. Competition may arise domestically as well as internationally. While we manage our businesses with the objective of achieving long-term sustainable growth by developing and strengthening competitive advantages, many factors, including market changes, may erode or prevent the strengthening of competitive advantages. Accordingly, future operating results will depend to some degree on whether our operating units are successful in protecting or enhancing their competitive advantages. If our operating businesses are unsuccessful in these efforts, our periodic operating results may decline from current levels in the future.

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

Unfavorable economic, societal and political conditions could hurt our operating businesses.

Our operating businesses are subject to normal economic cycles affecting the economy in general or the industries in which we operate. To the extent that the recovery from the economic recession continues to be slow or the economy worsens for a prolonged period of time, one or more of our significant operations could be materially harmed. In addition, we depend on having access to borrowed funds through the capital markets at reasonable rates. To the extent that access to the credit is restricted or the cost of funding increases, our business could be adversely affected.

As a result of our international expansion, we may become subject to increased risks from unstable political conditions and civil unrest. Further, terrorism activities deriving from unstable conditions or acts intended to compromise the integrity or security of our computer networks and information systems could produce losses to our international operations, as well as our operations based in the United States. Our business operations could be adversely affected directly through the loss of human resources or destruction of production facilities and information systems.

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

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

The Company's subsidiaries currently maintain debt instruments, including Steak n Shake's credit agreement, dated as of September 25, 2012, as amended, with the lenders party thereto (the "Credit Facility"). Covenants in the debt agreements impose operating and financial restrictions, including requiring operating subsidiaries to maintain certain financial ratios and thereby restricting, among other things, their ability to incur additional indebtedness and make distributions to the Company. Their failure to comply with these covenants and restrictions could constitute an event of default that, if not cured or waived, could result, among other things, in the acceleration of their indebtedness, which could negatively impact our operations and business and may also significantly affect our ability to obtain additional or alternative financing. In such event, our cash flows may not be sufficient to fully repay this indebtedness and we cannot assure you that we would be able to refinance or restructure this debt. In addition, the restrictions contained in these debt instruments could adversely affect our ability to finance our operations, acquisitions or investments.

Steak n Shake's ability to make payments on the Credit Facility and to fund operations depends on its ability to generate cash, which is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. Steak n Shake may not generate sufficient cash flow from operations to service this debt or to fund its other liquidity needs.

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

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

We periodically evaluate our goodwill to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to income may be necessary. Estimated fair values developed based on our assumptions and judgments might be significantly different if other reasonable assumptions and estimates were to be used. If estimated fair values are less than the carrying values of goodwill in future impairment tests, or if significant impairment indicators are noted relative to other intangible assets subject to amortization, we may be required to record impairment losses against future income. Any future evaluations requiring an impairment of our goodwill and other intangible assets could materially affect our results of operations and shareholders' equity in the period in which the impairment occurs.

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

impairment charges for these assets.

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

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

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

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

We face a variety of risks associated with doing business in foreign markets.

There is no assurance that our international operations will be profitable. Our international operations are subject to all of the risks associated with our domestic operations, as well as a number of additional risks, varying substantially country by country. These include, inter alia, international economic and political conditions, corruption, social and ethnic unrest, foreign currency fluctuations, differing cultures and consumer preferences. Our expansion into international markets could also create risks to our brands.

In addition, we may become subject to foreign governmental regulations that impact the way we do business with our international franchisees and vendors. These include antitrust and tax requirements, anti-boycott regulations, international trade regulations, the USA Patriot Act, the Foreign Corrupt Practices Act, and applicable local law. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business and our financial condition.

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

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

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

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

to a shortage of employees resulting from unsafe road conditions or an evacuation of the general population.

7

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

We are subject to various global, federal, state, and local laws and regulations affecting our business. Changes in existing laws, rules and regulations applicable to us, or increased enforcement by governmental authorities, may require us to incur additional costs and expenses necessary for compliance. If we fail to comply with any of these laws, we may be subject to governmental action or litigation, and our reputation could be accordingly harmed. Injury to our reputation would, in turn, likely reduce revenues and profits.

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

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

Our investment activities are now conducted primarily through outside investment partnerships: The Lion Fund, L.P. and The Lion Fund II, L.P.

As a result of our sale of Biglari Capital Corp. (“Biglari Capital”), general partner of The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, the “investment partnerships”), to Mr. Biglari, and the contribution of our investments to these funds in exchange for limited partner interests, our investment activities are now conducted mainly through these outside investment partnerships. Under the terms of their partnership agreements, each contribution made by the Company to the investment partnerships is subject to a five-year lock-up period, and any distribution upon our withdrawal of funds will be paid out over a two-year period. As a result of these provisions, our capital invested in the investment partnerships may be subject to an increased risk of loss of all or a significant portion of value, and may become unable to meet our capital requirements.

In connection with the sale of Biglari Capital, we also entered into a Shared Services Agreement with Biglari Capital pursuant to which we agreed to provide certain services to Biglari Capital (e.g., use of space at our corporate headquarters) in exchange for a 6% hurdle rate for the Company and its subsidiaries (as compared to a 5% hurdle rate for all other limited partners), above which Biglari Capital is entitled to receive an incentive reallocation in its capacity as general partner of the investment partnerships. There can be no assurance that the benefit, if any, we may realize from this increased hurdle rate will enable us to recoup our costs incurred in performing services for Biglari Capital under the Shared Services Agreement.

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

We may purchase securities on margin in connection with our investment activities. If we do so, a significant decrease in the value of the securities that collateralize the margin line of credit could result in a margin call. If we do not have sufficient cash available from other sources in the event of a margin call, we may be required to sell those

securities at a time when we prefer not to sell them, which could result in material losses.

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

Our investments are concentrated in outside limited partnerships, which generally invest in common stocks. A significant decline in the major values of these partnerships may produce a large decrease in our consolidated shareholders' equity and can have a material adverse effect on our consolidated book value per share and earnings.

We are subject to the risk of possibly becoming an investment company under the Investment Company Act of 1940. Because we are a holding company and a significant portion of our assets may, from time to time, consist of investments in entities in which we do not have a controlling interest, we run the risk of inadvertently becoming an investment company, which would require us to register under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Registered investment companies are subject to extensive, restrictive and potentially adverse regulations relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid becoming and registering as an investment company under the Investment Company Act, we monitor the value of our investments and structure transactions accordingly. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings or adverse developments with respect to our ownership of certain of our subsidiaries, could result in our inadvertently becoming an investment company. If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the SEC, that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

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

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

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

We are or may be from time to time a party to various legal actions, investigations and other proceedings brought by employees, consumers, suppliers, shareholders, government agencies or other third parties in connection with matters pertaining to our business, including related to our investment activities. The outcome of such matters is often difficult to assess or quantify and the cost to defend future proceedings may be significant. Even if a claim is unsuccessful or is not fully pursued, the negative publicity surrounding any negative allegation regarding our Company, our business or our products could adversely affect our reputation. While we believe that the ultimate outcome of routine legal proceedings individually and in the aggregate will not have a material impact on our financial position, we cannot assure that an adverse outcome on, or reputational damage from, any of these matters would not, in fact, materially impact our business and results of operations for the period when these matters are completed or otherwise resolved.

Certain agreements with our Chairman and CEO may deter a change of control.

We have entered into a license agreement with Sardar Biglari, Chairman and Chief Executive Officer, under which Mr. Biglari has granted the Company an exclusive license to use his name when connected to the provision of certain products and services, and a sublicense agreement with Steak n Shake that, among other things, grants Steak n Shake the right to use the trademark “Steak n Shake by Biglari.” In the event of a change of control of the Company, Mr. Biglari would be entitled to receive revenue-based royalty payments related to the usage of his name under the terms

of the license agreement for a defined period of no less than five years. Revenue-based royalties derived from Steak n Shake's restaurants (including Company operated and franchised locations), products and brands, would be included in calculating these royalty payments. A change of control would also enable franchisees to terminate their franchise agreement with us. In addition, we have an incentive agreement with Mr. Biglari, in which he is entitled to receive performance-based annual incentive payments contingent on the growth of the Company's adjusted book value in each fiscal year. In the event of a change in control after the third anniversary of the incentive agreement, Mr. Biglari would receive specified payments thereunder. The combination of these provisions along with others referenced (e.g., contracts cancellable if Mr. Biglari is no longer Chairman and CEO) altogether could have the effect of preventing a transaction involving a change of control of the Company or deterrence of a potential proxy contest.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Office and Warehouse Facilities

Use	Location	Own/Lease
Executive Office	San Antonio, TX	Lease
Executive Office	Indianapolis, IN	Lease
Executive Office	Roanoke, VA	Lease
Executive Office	Los Angeles, CA	Lease
Executive Office	Monte-Carlo, Monaco	Lease
Executive Office	Indianapolis, IN	Own

Restaurant Properties

As of September 25, 2013, Restaurant Operations included 605 company-operated and franchised. Restaurant Operations owns the land and building for 153 restaurants. See “Geographic Concentration and Restaurant Locations” under Part I, Item 1 for additional detail.

Item 3. Legal Proceedings

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

On June 3, 2013 and July 2, 2013, two shareholders of the Company filed derivative actions putatively on behalf of the Company against the members of our board of directors in the United States District Courts for the Southern District of Indiana and the Western District of Texas. The shareholders allege claims for breach of fiduciary duty, gross mismanagement, contribution and indemnification, abuse of control, waste, and unjust enrichment relating to certain Company transactions, including the Company’s acquisition of Biglari Capital, Mr. Biglari’s incentive agreement, the trademark license agreement between the Company and Mr. Biglari, and the Company’s rights offering. The shareholders seek to recover unspecified damages, various forms of injunctive relief, and an award of their attorneys’ fees. The Company believes these claims are without merit and intends to defend these cases vigorously.

Item 4. Mine Safety Disclosures

Not applicable.

## Part II

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

## Rights Offering

In fiscal year 2013, Biglari Holdings completed an offering of transferable subscription rights, distributing one transferable subscription right ("Rights") for each share of its common stock to shareholders of record on August 27, 2013. Every five Rights entitled a shareholder to subscribe for one share of common stock at a price of \$265.00. Shareholders on the record date who fully exercised the Rights distributed to them were also entitled to subscribe for and purchase additional shares of common stock not purchased by other Rights holders through their basic subscription privileges. The offering was oversubscribed and 286,767 new shares of common stock were issued. The Company received net proceeds of \$75.6 million from the offering. Including the issuance of the newly subscribed shares the Company had 1,720,782 shares outstanding as of September 25, 2013.

## Market Information

Biglari Holdings' common stock is listed for trading on the New York Stock Exchange (the "NYSE"), trading symbol: BH. The following table sets forth the high and low sales prices per share, as reported on the NYSE List and adjusted for the 2013 offering of transferable subscription rights during the periods indicated:

	2013		2012	
	High	Low	High	Low
First Quarter	\$354.06	\$305.00	\$363.86	\$266.26
Second Quarter	374.69	339.09	388.64	341.91
Third Quarter	385.32	345.84	384.04	339.13
Fourth Quarter	432.67	385.15	368.76	325.90

## Shareholders

Biglari Holdings had approximately 10,300 beneficial shareholders, of which approximately 1,200 were record holders of its common stock at December 3, 2013.

## Dividends

Biglari Holdings has not declared a cash dividend during the fiscal years ended September 25, 2013, September 26, 2012 and September 28, 2011.

Performance Graph

The following chart compares the subsequent value of \$100 invested in Biglari Holdings' common stock on September 30, 2008 with a similar investment in the Standard and Poor's 500 Stock Index and Standard and Poor's Restaurant Index.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The "Equity Compensation Plan Information" required by Item 201(d) of Regulation S-K will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

## Item 6. Selected Financial Data

## Selected Financial Data for the Past Five Years

(dollars in thousands except per share data)

	52 Weeks Ended			53 Weeks Ended	
	Fiscal 2013(2)(4)	Fiscal 2012(2)(3)	Fiscal 2011(2)(3)	Fiscal 2010 (2)(3)	Fiscal 2009 (2)
<b>Revenue:</b>					
Total net revenues	\$755,822	\$740,207	\$709,200	\$673,781	\$628,736
<b>Earnings:</b>					
Net earnings attributable to Biglari Holdings Inc.	\$140,271	\$21,593	\$34,565	\$28,094	\$5,998
Basic earnings per share attributable to Biglari Holdings Inc. (1)	\$98.11	\$15.02	\$24.13	\$18.67	\$3.91
Diluted earnings per share attributable to Biglari Holdings Inc. (1)	\$97.90	\$14.99	\$24.00	\$18.55	\$3.89
<b>Year-end data:</b>					
Total assets	\$988,543	\$773,787	\$672,860	\$563,839	\$514,496
<b>Long-term debt:</b>					
Obligations under leases	106,247	110,353	116,066	124,247	130,076
Other long-term debt	110,500	120,250	101,417	17,781	48
Biglari Holdings Inc. shareholders' equity	\$564,589	\$349,125	\$279,678	\$248,995	\$291,861

(1) Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. In fiscal year 2013 the Company completed a rights offering in which 286,767 new shares of common stock were issued. The theoretical earnings per share have been retroactively restated for all years to give effect to the rights offering.

(2) Fiscal years 2013, 2012, 2011, 2010, and 2009 ended on September 25, 2013, September 26, 2012, September 28, 2011, September 29, 2010 and September 30, 2009, respectively.

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

(4) For financial reporting purposes and for purposes of computing the weighted average common shares outstanding, the shares of Company stock attributable to the unrelated limited partners of The Lion Fund, L.P. — based on their proportional ownership during the period — are considered outstanding shares.

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

(dollars in thousands except per share data)

Biglari Holdings Inc. ("Biglari Holdings" or the "Company") is a diversified holding company engaged in a number of business activities. Our most important operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, Steak n Shake Operations, Inc. ("Steak n Shake"), and Western Sizzlin Corporation ("Western"). Our long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

On July 1, 2013, Biglari Holdings sold all of the outstanding shares of Biglari Capital Corp. ("Biglari Capital") to Mr. Biglari. Biglari Capital is the general partner of The Lion Fund, L.P. (the "Lion Fund") and the newly-formed The Lion Fund II, L.P. (the "Lion Fund II"). Lion Fund and Lion Fund II (collectively "investment partnerships") are limited partnerships that operate as private investment funds. In connection with the sale of Biglari Capital, the Company contributed cash and securities with an aggregate value of \$377,636 to the investment partnerships in exchange for a limited interest.

Biglari Holdings recognized a non-cash pre-tax gain of \$182,476 (\$114,931 net of tax) on the contribution of securities to investment partnerships in 2013. Biglari Holdings' management does not regard the gain that was recorded, as required by GAAP, as meaningful. The gain recognized for financial reporting purposes is deferred for income tax purposes. The transaction essentially had no effect on our consolidated shareholders' equity because the gain included in earnings in 2013 was accompanied by a corresponding reduction of unrealized investment gains included in Accumulated Other Comprehensive Income.

Our interests are accounted as equity method investments because of our retained limited partner interest in the investment partnerships. The Company records earnings from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Consolidated Statement of Earnings based on our proportional ownership interest in the investment partnerships' total earnings.

On July 3, 2013 the Company liquidated the partners' interest in Western Acquisitions, L.P. by distributing assets of the partnership to the partners.

In fiscal year 2013 the Company completed a rights offering in which 286,767 new shares of common stock were issued. The theoretical earnings per share have been retroactively restated for all years to give effect to the rights offering. The Company received net proceeds of \$75,595 from the offering.

In the following discussion, the term "same-store sales" refers to the sales of only those units open at least 18 months as of the beginning of the current period being discussed and which remained open through the end of the period.

We have a 52/53 week fiscal year ending on the last Wednesday in September. Fiscal years 2013, 2012, and 2011, which ended on September 25, September 26, and September 28, respectively, all contained 52 weeks.

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

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

Net earnings attributable to Biglari Holdings for each of the past three years are disaggregated in the table that follows:

	2013	2012	2011
<b>Operating Business:</b>			
<b>Restaurant Operations:</b>			
Steak n Shake	\$21,023	\$31,756	\$29,367
Western	338	1,354	1,610
<b>Total Restaurant Operations</b>	<b>21,361</b>	<b>33,110</b>	<b>30,977</b>
<b>Investment Management:</b>			
Biglari Capital Corp. (incentive fee)	13	22	1,535
Management fees	—	—	139
Consolidated affiliated partnerships	662	1,321	1,815
<b>Total Investment Management Operations</b>	<b>675</b>	<b>1,343</b>	<b>3,489</b>
<b>Corporate and Other:</b>			
Corporate and other	(5,578 )	(9,196 )	(3,099 )
Gains from investment partnerships	13,296	—	—
Investment and derivative gains	114,579	2,604	4,941
<b>Total Corporate and Other</b>	<b>122,297</b>	<b>(6,592 )</b>	<b>1,842</b>
<b>Reconciliation of segments to consolidated amount:</b>			
Interest expense and loss on debt extinguishment, excluding interest allocated to operating businesses	(4,062 )	(6,268 )	(1,743 )
	<b>\$ 140,271</b>	<b>\$ 21,593</b>	<b>\$ 34,565</b>

#### Fiscal Year 2013

We recorded net earnings attributable to Biglari Holdings Inc. of \$140,271 for the current year, as compared with net earnings attributable to Biglari Holdings Inc. of \$21,593 in 2012. The increase was primarily driven by a pre-tax gain of \$182,746 (\$114,931 net of tax) on contributions to investment partnerships and \$20,068 pre-tax Gains from changes in the carrying value of the partnerships.

As of September 25, 2013 the total number of company-operated and franchised restaurants was 605 as follows:

	Company-operated	Franchised	Total
Steak n Shake	415	104	519
Western	4	82	86
<b>Total</b>	<b>419</b>	<b>186</b>	<b>605</b>

During 2013, Steak n Shake did not close any company-operated restaurants, but two franchised units suffered closure. Steak n Shake opened one company-operated as well as twenty-three franchised units. Western closed one company-operated restaurant and seven franchised units. Western opened two franchised units.

### Critical Accounting Policies

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

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

### Consolidation

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

Before the sale of Biglari Capital and liquidation of Western Acquisitions, L.P., the Company consolidated its affiliated partnerships in its consolidated financial statements, which included the accounts of (i) the Company, (ii) its wholly-owned subsidiaries Biglari Capital, Steak n Shake, and Western, and (iii) the Lion Fund and Western Acquisitions, L.P. (the "consolidated affiliated partnerships"), in which the Company had a substantive controlling interest. As a result of the sale of Biglari Capital and the related liquidation of Western Acquisitions, L.P., the Company has ceased to have a controlling interest in the consolidated affiliated partnerships, which, accordingly, will no longer be consolidated in the Company's financial statements. Beginning July 1, 2013, the consolidated financial statements only include the accounts of (i) the Company and (ii) its wholly-owned subsidiaries Steak n Shake and Western. All intercompany accounts and transactions are eliminated in consolidation.

Prior to July 1, 2013 the consolidated affiliated partnerships' assets and liabilities were consolidated on the Consolidated Balance Sheet even though outside limited partners had majority ownership in the consolidated affiliated partnerships. The Company did not guarantee any of the liabilities of its subsidiaries that were serving as general partners to these consolidated affiliated partnerships.

Beginning July 1, 2013, our interests in the investment partnerships are accounted as equity method investments because of our retained limited partner interest in the investment partnerships. The Company records Gains from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Consolidated Statement of Earnings based on our proportional ownership interest in the investment partnerships.

### Long-lived Assets — Impairment and Classification as Held for Sale

We review company-operated restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. We test for impairment by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total estimated future cash flows are less than the carrying amount of the asset, the carrying value is written down to the estimated fair value, and a loss is

recognized in earnings. The future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, fair market value if the asset were to be sold, and other financial and economic assumptions.

We sell restaurants that have been closed due to underperformance. We classify an asset as held for sale in the period during which each of the following conditions is met: (a) management has committed to a plan to sell the asset; (b) the asset is available for immediate sale in its present condition; (c) an active search for a buyer has been initiated; (d) completion of the sale of the asset within one year is probable; (e) the asset is being marketed at a reasonable price; and (f) no significant changes to the plan of sale are expected. There is judgment involved in estimating the timing of completing the sale of an asset.

#### Insurance Reserves

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

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

Our reserves for self-insured liabilities at September 25, 2013 and September 26, 2012 were \$8,629 and \$7,971, respectively.

#### Income Taxes

We record deferred tax assets or liabilities based on differences between financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets would be unable to be utilized, we would record a valuation allowance against the unrealizable amount and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future. We must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded. Based on 2013 results, a change of one percentage point in the annual effective tax rate would have an impact of \$2,165 on net earnings.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

#### Goodwill and Other Intangible Assets

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

#### Leases

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

## Results of Operations

The following table sets forth the percentage relationship to total net revenues, unless otherwise noted, of items included in the Consolidated Statements of Earnings for the periods indicated:

	2013 (52 weeks)		2012 (52 weeks)		2011 (52 Weeks)	
Net revenues						
Restaurant Operations:						
Net sales	97.5	%	97.5	%	97.9	%
Franchise royalties and fees	1.6		1.3		1.2	
Other revenue	0.4		0.3		0.3	
Total	99.5		99.1		99.5	
Investment Management Operations:						
Management fee income	—		—		0.0	
Consolidated Affiliated Partnerships:						
Investment gains	0.5		0.8		0.4	
Other income	0.0		0.0		0.1	
Total	0.5		0.9		0.5	
Total net revenues	100.0		100.0		100.0	
Costs and expenses						
Cost of sales (1)	29.6		28.7		27.7	
Restaurant operating costs (1)	47.3		46.8		47.7	
General and administrative	10.2		8.7		6.8	
Depreciation and amortization	3.3		3.6		4.0	
Marketing	5.9		5.7		5.4	
Rent	2.4		2.4		2.4	
Pre-opening costs	0.0		0.1		0.0	
Provision for restaurant closings	0.2		0.1		0.1	
Impairment of intangible assets	0.2		—		—	
Loss on disposal of assets	0.1		0.1		0.1	
Other operating (income) expense	(0.1)	)	(0.1)	)	(0.2)	)
Other income (expenses)						
Interest, dividend and other investment income	1.1		0.5		0.1	
Interest on obligations under leases	(1.3)	)	(1.4)	)	(1.5)	)
Interest expense	(0.9)	)	(1.1)	)	(0.4)	)
Loss on debt extinguishment	—		(0.3)	)	—	
Gain on sale of Biglari Capital Corp.	0.2		—		—	
Gain on contributions to investment partnerships.	24.2		—		—	
Realized investment gains/losses	0.0		0.6		1.0	
Other than temporary impairment	(0.1)	)	—		—	
Derivative and short sale gains/losses	—		—		0.1	
Total other income (expenses)	23.2		(1.6)	)	(0.7)	)
Earnings before income taxes	26.0		4.2		6.7	
Income tax from operating earnings	8.9		0.9		2.0	

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Income tax on gains from investment partnerships	0.9	—	—
Total income taxes	9.8	0.9	2.0
Gains from investment partnerships	2.7	—	—
Consolidated net earnings	18.9	3.3	4.8
Earnings attributable to redeemable noncontrolling interest:			
Income allocation	(0.3 )	(0.4 )	(0.3 )
Incentive fee	0.0	0.0	0.4
Total earnings/loss attributable to redeemable noncontrolling interests	(0.3 )	(0.4 )	0.1
Net earnings attributable to Biglari Holdings Inc.	18.6 %	2.9 %	4.9 %

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

## Fiscal Year 2013 Compared with Fiscal Year 2012

### Net Earnings Attributable to Biglari Holdings Inc.

We recorded net earnings attributable to Biglari Holdings Inc. of \$140,271 or \$97.90 per diluted share, for the current year, as compared with net earnings attributable to Biglari Holdings Inc. of \$21,593, or \$14.99 per diluted share, in 2012. The increase was primarily driven by a pre-tax gain of \$182,746 (\$114,931 net of tax) on contributions to investment partnerships and a \$20,068 pre-tax gain from changes in the carrying value of the investment partnerships. Earnings per share have been retroactively restated for all years to account for the 2013 rights offering.

### Net Revenues

In 2013, net sales increased 2.1% from \$721,754 to \$736,968, primarily due to the performance of our Restaurant Operations, mainly through the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 2.2% during 2013. (Customer traffic increased by 2.1%.)

Franchise royalties and fees increased 21.9% during 2013. The number of franchised units increased from 170 at the end of 2012 to 186 at the end of 2013. Franchise fees in conjunction with the opening of the franchised stores alone accounted for a 4.7% increase. The remaining 17.2% increase is primarily attributable to royalties from new Steak n Shake franchised stores, opened in 2012 and 2013.