

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 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

As of August 4, 2015, 2,065,626 shares of the registrant's Common Stock, \$.50 stated value, were outstanding.

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**PART 1 – FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED BALANCE SHEETS**  
*(dollars in thousands)*

	<b>June 30, 2015</b>	December 31, 2014
	<u>(Unaudited)</u>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 68,007	\$ 129,669
Investments .....	21,586	10,800
Receivables.....	14,611	19,003
Inventories .....	6,964	7,255
Deferred taxes .....	13,594	12,019
Other current assets .....	<u>10,615</u>	<u>7,707</u>
Total current assets .....	135,377	186,453
Property and equipment .....	345,537	353,875
Goodwill .....	40,164	40,164
Other intangible assets .....	22,469	22,756
Investment partnerships .....	769,580	697,982
Other assets .....	<u>12,038</u>	<u>13,561</u>
<b>Total assets .....</b>	<b><u>\$ 1,325,165</u></b>	<b><u>\$ 1,314,791</u></b>
 <b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable .....	\$ 44,855	\$ 39,996
Accrued expenses .....	72,581	65,476
Current portion of notes payable and other borrowings .....	<u>9,098</u>	<u>9,315</u>
Total current liabilities .....	126,534	114,787
Long-term notes payable and other borrowings .....	307,735	312,595
Deferred taxes .....	153,261	150,732
Other liabilities .....	<u>11,061</u>	<u>11,126</u>
<b>Total liabilities .....</b>	<b><u>598,591</u></b>	<b><u>589,240</u></b>
 <b>Shareholders' equity</b>		
Common stock - 2,065,608 and 2,065,586		
shares outstanding .....	1,071	1,071
Additional paid-in capital .....	391,876	391,877
Retained earnings .....	441,834	431,825
Accumulated other comprehensive loss .....	(962)	(783)
Treasury stock, at cost .....	<u>(107,245)</u>	<u>(98,439)</u>
<b>Biglari Holdings Inc. shareholders' equity .....</b>	<b><u>726,574</u></b>	<b><u>725,551</u></b>
<b>Total liabilities and shareholders' equity .....</b>	<b><u>\$ 1,325,165</u></b>	<b><u>\$ 1,314,791</u></b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

*(dollars in thousands except per-share amounts)*

	Second Quarter		First Six Months	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
<b>Revenues</b>				
Restaurant operations .....	\$ 211,631	\$ 200,889	\$ 408,367	\$ 386,435
Insurance premiums and other .....	3,717	2,586	7,371	2,881
Media advertising and other .....	6,608	4,703	12,046	6,199
	<b>221,956</b>	208,178	<b>427,784</b>	395,515
<b>Cost and expenses</b>				
Restaurant cost of sales .....	159,005	153,966	313,766	298,253
Insurance losses and underwriting expenses .....	2,560	1,736	5,523	1,984
Media cost of sales .....	9,183	9,447	18,601	11,855
Selling, general and administrative .....	36,198	32,829	68,656	62,226
Depreciation and amortization .....	6,226	6,374	12,770	12,506
	<b>213,172</b>	204,352	<b>419,316</b>	386,824
<b>Other income (expenses)</b>				
Interest and dividends .....	3	147	8	619
Interest expense .....	(2,997)	(3,000)	(6,003)	(5,877)
Interest on obligations under leases.....	(2,410)	(2,426)	(4,885)	(4,851)
Investment gains (including contributions).....	-	29,524	-	29,524
Investment partnership gains (losses) .....	(5,557)	15,305	17,408	(30,537)
Total other income (expenses) .....	<b>(10,961)</b>	39,550	<b>6,528</b>	(11,122)
<b>Earnings (loss) before income taxes .....</b>	<b>(2,177)</b>	43,376	<b>14,996</b>	(2,431)
Income tax expense (benefit) .....	(2,203)	14,613	4,987	(3,764)
<b>Net earnings .....</b>	<b>\$ 26</b>	\$ 28,763	<b>\$ 10,009</b>	\$ 1,333
<b>Earnings per share</b>				
Basic earnings per common share .....	\$ 0.01	\$ 17.00	\$ 5.40	\$ 0.78
Diluted earnings per common share .....	\$ 0.01	\$ 16.97	\$ 5.39	\$ 0.78
<b>Weighted average shares and equivalents</b>				
Basic .....	1,848,279	1,692,098	1,854,889	1,703,379
Diluted .....	1,850,427	1,695,279	1,857,243	1,706,747

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(dollars in thousands)*

	Second Quarter		First Six Months	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
<b>Net earnings</b> .....	<b>\$ 26</b>	\$ 28,763	<b>\$ 10,009</b>	\$ 1,333
Other comprehensive (loss) income:				
Net change in unrealized gains and losses on investments .....	<b>(126)</b>	(1,191)	<b>(543)</b>	(11,244)
Applicable income taxes .....	<b>46</b>	450	<b>200</b>	4,270
Reclassification of investment (appreciation) depreciation				
in net earnings .....	<b>55</b>	(57)	<b>55</b>	(57)
Applicable income taxes .....	<b>(19)</b>	19	<b>(19)</b>	19
Reclassification of investment appreciation on contribution				
to investment partnerships .....	-	(29,524)	-	(29,524)
Applicable income taxes .....	-	11,219	-	11,219
Foreign currency translation .....	<b>65</b>	158	<b>128</b>	(253)
Other comprehensive income (loss), net .....	<b>21</b>	(18,926)	<b>(179)</b>	(25,570)
Total comprehensive income (loss) .....	<b>\$ 47</b>	\$ 9,837	<b>\$ 9,830</b>	\$ (24,237)

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(dollars in thousands)*

	<b>First Six Months</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Unaudited)</b>	
<b>Operating activities</b>		
Net earnings .....	\$ 10,009	\$ 1,333
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization .....	12,770	12,506
Provision for deferred income taxes .....	1,185	(5,601)
Asset impairments and other non-cash expenses .....	337	1,687
Loss on disposal of assets .....	407	319
Realized investment (gains) losses .....	55	(57)
Investment partnership (gains) losses .....	(17,408)	30,537
Gain on contributions to investment partnerships .....	-	(29,524)
Distributions from investment partnerships .....	-	4,384
Changes in receivables and inventories .....	4,683	(1,032)
Changes in other assets .....	(1,193)	(4,487)
Changes in accounts payable and accrued expenses .....	12,514	3,450
<b>Net cash provided by operating activities .....</b>	<b>23,359</b>	<b>13,515</b>
<b>Investing activities</b>		
Additions of property and equipment .....	(6,102)	(21,075)
Proceeds from property and equipment disposals .....	137	2,024
Acquisitions of businesses, net of cash acquired .....	-	(40,143)
Purchases of investments .....	(85,985)	(40,000)
Sales of investments and redemptions of fixed maturity securities .....	11,657	11,736
Changes in restricted assets .....	-	3,100
<b>Net cash used in investing activities .....</b>	<b>(80,293)</b>	<b>(84,358)</b>
<b>Financing activities</b>		
Proceeds from revolving credit facility .....	-	4,700
Payments on revolving credit facility .....	(74)	(10,700)
Borrowings on long-term debt .....	-	217,800
Principal payments on long-term debt .....	(1,100)	(105,362)
Deferred financing costs .....	-	(4,754)
Principal payments on direct financing lease obligations .....	(3,554)	(3,626)
Proceeds from exercise of stock options .....	3	3
<b>Net cash (used in) provided by financing activities .....</b>	<b>(4,725)</b>	<b>98,061</b>
<b>Effect of exchange rate changes on cash .....</b>	<b>(3)</b>	<b>(179)</b>
(Decrease) increase in cash and cash equivalents .....	(61,662)	27,039
Cash and cash equivalents at beginning of year .....	129,669	85,477
<b>Cash and cash equivalents at end of second quarter .....</b>	<b>\$ 68,007</b>	<b>\$ 112,516</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
*(dollars in thousands)*

	Common Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2014 .....	\$ 1,071	\$ 391,877	\$ 431,825	\$ (783)	\$ (98,439)	\$ 725,551
Net earnings .....			10,009			10,009
Other comprehensive income, net .....				(179)		(179)
Adjustment to treasury stock for holdings in investment partnerships .....					(8,810)	(8,810)
Exercise of stock options .....		(1)			4	3
<b>Balance at June 30, 2015 .....</b>	<b>\$ 1,071</b>	<b>\$ 391,876</b>	<b>\$ 441,834</b>	<b>\$ (962)</b>	<b>\$ (107,245)</b>	<b>\$ 726,574</b>
Balance at December 31, 2013.....	\$ 899	\$ 269,810	\$ 367,287	\$ 25,805	\$ (75,916)	\$ 587,885
Net earnings .....			1,333			1,333
Other comprehensive income, net .....				(25,570)		(25,570)
Adjustment to treasury stock for holdings in investment partnerships .....					(10,190)	(10,190)
Exercise of stock options .....					2	2
<b>Balance at June 30, 2014.....</b>	<b>\$ 899</b>	<b>\$ 269,810</b>	<b>\$ 368,620</b>	<b>\$ 235</b>	<b>\$ (86,104)</b>	<b>\$ 553,460</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2015**

*(dollars in thousands, except share and per-share data)*

**Note 1. Summary of Significant Accounting Policies**

***Description of Business***

The accompanying unaudited consolidated financial statements of Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and with 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 our opinion, all adjustments considered necessary to present fairly the results of the interim periods have been included and consist only of normal recurring adjustments. The results for the interim periods shown are not necessarily indicative of results for the entire fiscal year. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in our transition report on form 10-K for the period September 25, 2014 to December 31, 2014.

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, as well as restaurants. The Company’s largest 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 and its major operating subsidiaries. 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.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including Steak n Shake Operations, Inc. (“Steak n Shake”), Western Sizzlin Corporation (“Western”), Maxim Inc. (“Maxim”) and First Guard Insurance Company and its agency, 1st Guard Corporation (collectively “First Guard”). Intercompany accounts and transactions have been eliminated in consolidation.

***Fiscal Year***

On October 16, 2014, the Company’s Board of Directors approved a change in the Company’s fiscal year end, moving from the last Wednesday in September to December 31 of each year. As a result of the change in year end, the second quarter for 2015 includes the period from April 1, 2015 to June 30, 2015. For comparative purposes, the second quarter for 2014 includes the period from April 1, 2014 to June 30, 2014. The comparative quarter is derived from the books and records of the Company. In the opinion of management, the comparative quarter reflects all adjustments necessary to present the financial position as well as the results of operations in accordance with generally accepted accounting principles (“GAAP”). After the year-end change, Steak n Shake continues to operate on a 52/53 week year, which ends on the last Wednesday of the calendar year. For the second quarters of 2015 and 2014, Steak n Shake’s financial information included the period from April 2, 2015 to July 1, 2015, and April 3, 2014 to July 2, 2014, respectively. For the first six months of 2015 and 2014, Steak n Shake’s financial information included the period from January 1, 2015 to July 1, 2015, and January 2, 2014 to July 2, 2014, respectively. There were no significant transactions in the intervening periods.

***Business Acquisitions***

On February 27, 2014 the Company acquired certain assets and liabilities of Maxim. Maxim is a brand management company whose business lies in media, both in print and in digital, and in licensing of products and services. On March 19, 2014, the Company acquired the stock of First Guard, a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. These acquisitions were not material, individually or in aggregate, to the Company. The fair value of the assets and liabilities acquired — other than investments, goodwill and intangibles — was not material.

***Subsequent Events***

On June 4, 2015, The Lion Fund II, L.P. commenced a tender offer to purchase shares of common stock of Biglari Holdings at a purchase price of \$420.00 per share in cash. The Lion Fund II, L.P. completed the tender offer on July 1, 2015 and thus purchased 616,312 shares of Biglari Holdings’ common stock. The 616,312 common shares purchased in the tender offer remain legally outstanding. As a result of the tender offer, Mr. Biglari beneficially owns approximately 49.5% of the outstanding common stock.



## **Note 2. New Accounting Standards**

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not believe the adoption of ASU 2015-03 will have a material effect on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidations Analysis*. The amendments in this update provide guidance under GAAP about limited partnerships, which will be variable interest entities, unless the limited partners have either substantive kick-out rights or participation rights. It also changes the effect that fees paid to a decision maker or service provider have on consolidation analysis and amends how variable interests held by related parties affect the consolidation conclusion. The amendments in this update are effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The Company is evaluating the effect, if any, on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern*. The amendments in this update provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The amendments in this update are effective for the annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is evaluating the effect, if any, on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In July 2015, the FASB voted to defer the effective date of this ASU by one year, which would make the guidance effective for our first quarter fiscal year 2018 financial statements using either of two acceptable adoption methods: (i) retrospective adoption to each prior reporting period presented with the option to elect certain practical expedients; or (ii) adoption with the cumulative effect of initially applying the guidance recognized at the date of initial application and providing certain additional disclosures. The Company has not yet selected a transition method nor determined the effect of this guidance on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Reporting of Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 provides a narrower definition of discontinued operations than under existing GAAP. ASU 2014-08 requires that only disposals of components of an entity (or groups of components) that represent a strategic shift that has or will have a major effect on the reporting entity's operations are reported in the financial statements as discontinued operations. ASU 2014-08 also provides guidance on the financial statement presentations and disclosures of discontinued operations. ASU 2014-08 is effective prospectively for disposals (or classifications of held-for-sale) of components of an entity that occur in annual or interim periods beginning after December 15, 2014. The adoption of ASU 2014-08 did not have a material effect on the Company's consolidated financial statements.

## **Note 3. Earnings Per Share**

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. During September 2014, Biglari Holdings completed an offering of transferable subscription rights. The offering was oversubscribed and 344,261 new shares of common stock were issued. The Company received net proceeds of \$85,873 from the offering. Earnings per share for the second quarter and first six months of 2014 have been retroactively restated to account for the rights offering.

The shares of Company stock attributable to our limited partner interest in The Lion Fund, L.P. — based on our proportional ownership during this period — are considered treasury stock on the consolidated balance sheet and thereby deemed not to be included in the calculation of weighted average common shares outstanding. However, these shares are legally outstanding.

### Note 3. Earnings Per Share (continued)

The following table presents a reconciliation of basic and diluted weighted average common shares.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Basic earnings per share:				
Weighted average common shares .....	<b>1,848,279</b>	1,692,098	<b>1,854,889</b>	1,703,379
Diluted earnings per share:				
Weighted average common shares .....	<b>1,848,279</b>	1,692,098	<b>1,854,889</b>	1,703,379
Dilutive effect of stock awards .....	<b>2,148</b>	3,181	<b>2,354</b>	3,368
Weighted average common and incremental shares .....	<b>1,850,427</b>	1,695,279	<b>1,857,243</b>	1,706,747
Number of share-based awards excluded from the calculation .....	-	-	-	-

The Company's common stock is \$0.50 stated value. The following table presents shares authorized, issued and outstanding.

	June 30, 2015	December 31, 2014
Common stock authorized .....	<b>2,500,000</b>	2,500,000
Common stock issued .....	<b>2,142,202</b>	2,142,202
Treasury stock held by the Company .....	<b>(76,594)</b>	(76,616)
Outstanding shares .....	<b>2,065,608</b>	2,065,586
Proportional ownership of the Company's common stock in The Lion Fund, L.P. ....	<b>(218,669)</b>	(197,533)
Net outstanding shares for financial reporting purposes .....	<b>1,846,939</b>	1,868,053

### Note 4. Investments

Investments consisted of the following.

	June 30, 2015	December 31, 2014
Cost .....	<b>\$ 22,330</b>	\$ 11,056
Gross unrealized gains .....	<b>4</b>	11
Gross unrealized losses .....	<b>(748)</b>	(267)
Fair value .....	<b>\$ 21,586</b>	\$ 10,800

Investment gains/losses are recognized when investments are sold (as determined on a specific identification basis) or as otherwise required by GAAP. The timing of realized gains and losses from sales can have a material effect on periodic earnings. However, such realized gains or losses usually have little, if any, impact on total shareholders' equity because the investments are carried at fair value with any unrealized gains/losses included as a component of accumulated other comprehensive income in shareholders' equity. We believe that realized investment gains/losses are often meaningless in terms of understanding reported results. Short-term investment gains/losses have caused and may continue to cause significant volatility in our results.

The Company recognized a pre-tax gain of \$29,524 (\$18,305 net of tax) on a contribution of \$74,418 in securities to the investment partnerships (as defined below) during the second quarter of 2014. The gain had a material accounting effect on the Company's 2014 earnings. However, the gain had no impact on total shareholders' equity because the investments were carried at fair value prior to the contribution, with the unrealized gain included as a component of accumulated other comprehensive income.

In connection with the acquisition of First Guard during 2014, we acquired \$15,043 of investments.

## Note 5. Investment Partnerships

The Company reports on the limited partnership interests in The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively the “investment partnerships”) under the equity method of accounting. We record our proportional share of equity in the investment partnerships but exclude Company common stock held by said partnerships. The Company’s pro-rata share of its common stock held by the investment partnerships is recorded as treasury stock even though they are legally outstanding. The Company records gains/losses from investment partnerships (inclusive of the investment partnerships’ unrealized gains and losses on their securities) in the consolidated statements of earnings based on our carrying value of these partnerships. The fair value is calculated net of the general partner’s accrued incentive fees. Gains and losses on Company common stock included in the earnings of these partnerships are eliminated because they are recorded as treasury stock.

The fair value and adjustment for Company common stock held by the investment partnerships to determine carrying value of our partnership interest is presented below.

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2014 .....	\$ 776,899	\$ 78,917	\$ 697,982
Investment partnership gains .....	20,155	2,747	17,408
Contributions of cash to investment partnerships .....	63,000	-	63,000
Increase in proportionate share of Company stock held .....	-	8,810	(8,810)
Partnership interest at June 30, 2015 .....	<u>\$ 860,054</u>	<u>\$ 90,474</u>	<u>\$ 769,580</u>

The carrying value of the investment partnerships net of deferred taxes is presented below.

	<b>June 30, 2015</b>	December 31, 2014
Carrying value of investment partnerships .....	<b>\$ 769,580</b>	\$ 697,982
Deferred tax liability related to investment partnerships .....	<b>(145,439)</b>	(141,836)
Carrying value of investment partnerships net of deferred taxes .....	<b><u>\$ 624,141</u></b>	<u>\$ 556,146</u>

The Company’s proportionate share of Company stock held by investment partnerships at cost is \$85,975 and \$77,165 at June 30, 2015 and December 31, 2014, respectively, and is recorded as treasury stock.

The carrying value of the partnership interest approximates fair value adjusted by changes in the value of held Company stock. Fair value is according to our proportional ownership interest of the fair value of investments held by the investment partnerships. The fair value measurement is classified as level 3 within the fair value hierarchy.

During the second quarters of 2015 and 2014, the Company recorded \$5,557 of losses and \$15,305 of gains, respectively, from investment partnerships. During the first six months of 2015 and 2014 we recorded \$17,408 of gains and \$30,537 of losses, respectively, from investment partnerships. As the general partner of the investment partnerships, Biglari Capital Corp. (“Biglari Capital”) on December 31 of each year will earn an incentive reallocation fee for the Company’s investments equal to 25% of the net profits over an annual hurdle rate of 6% above the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year; however, no fees are reallocated until the end of the calendar year. As of June 30, 2015, the Company’s accrued incentive fee for Biglari Capital was \$526. No amount was accrued as of June 30, 2014, because the net profits did not exceed the hurdle. Our investments in these partnerships are committed on a rolling 5-year basis.

**Note 5. Investment Partnerships (continued)**

Summarized financial information for The Lion Fund, L.P. and The Lion Fund II, L.P. is presented below.

	<b>Equity in Investment Partnerships</b>	
	<b>Lion Fund</b>	<b>Lion Fund II</b>
<b>Current and total assets as of June 30, 2015</b> .....	\$ 189,394	\$ 962,823
<b>Current and total liabilities as of June 30, 2015</b> .....	\$ 427	\$ 161,636
<b>Revenue for the first six months ending June 30, 2015</b> .....	\$ 5,112	\$ 20,171
<b>Earnings for the first six months ending June 30, 2015</b> .....	\$ 5,054	\$ 18,888
<b>Biglari Holdings' Ownership Interest</b> .....	<b>59.8%</b>	<b>93.3%</b>
Current and total assets as of June 30, 2014.....	\$ 170,369	\$ 471,755
Current and total liabilities as of June 30, 2014.....	\$ 59	\$ 22
Revenue for the first six months ending June 30, 2014.....	\$ (21,442)	\$ (32,315)
Earnings for the first six months ending June 30, 2014 .....	\$ (21,496)	\$ (32,333)
Biglari Holdings' Ownership Interest .....	61.5%	95.2%

The investments held by the investment partnerships are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc.

**Note 6. Property and Equipment**

Property and equipment is composed of the following.

	<b>June 30, 2015</b>	December 31, 2014
Land .....	\$ 162,382	\$ 162,731
Buildings .....	158,904	159,799
Land and leasehold improvements .....	162,935	162,887
Equipment .....	207,113	221,880
Construction in progress .....	7,040	5,307
	<b>698,374</b>	712,604
Less accumulated depreciation and amortization .....	<b>(352,837)</b>	(358,729)
Property and equipment, net .....	<b>\$ 345,537</b>	<b>\$ 353,875</b>

**Note 7. Goodwill and Other Intangibles**

**Goodwill**

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired in connection with business acquisitions.

A reconciliation of the change in the carrying value of goodwill is as follows.

	<b>Restaurants</b>	<b>Other</b>	<b>Total</b>
<b>Goodwill at December 31, 2014</b> .....	\$ 28,251	\$ 11,913	\$ 40,164
<b>Acquisitions during first six months 2015</b> .....	-	-	-
<b>Goodwill at June 30, 2015</b> .....	<b>\$ 28,251</b>	<b>\$ 11,913</b>	<b>\$ 40,164</b>

We are required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The analysis of potential impairment of goodwill requires a two-step approach. The first 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 occurs when the estimated fair value of goodwill is less than its carrying value.

**Note 7. Goodwill and Other Intangibles** (continued)

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. No impairment charges for goodwill were recorded in the first or second quarters of 2015 or 2014.

**Other Intangibles**

Other intangibles are composed of the following.

	June 30, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Franchise agreement .....	\$ 5,310	\$ (2,788)	\$ 2,522	\$ 5,310	\$ (2,523)	\$ 2,787
Other .....	810	(646)	164	810	(624)	186
Total .....	6,120	(3,434)	2,686	6,120	(3,147)	2,973
Intangible assets with indefinite lives:						
Trade names .....	15,876	-	15,876	15,876	-	15,876
Other assets with indefinite lives.....	3,907	-	3,907	3,907	-	3,907
Total intangible assets .....	\$ 25,903	\$ (3,434)	\$ 22,469	\$ 25,903	\$ (3,147)	\$ 22,756

Intangible assets subject to amortization consist of franchise agreements connected with the purchase of Western as well as rights to favorable leases related to prior acquisitions. These intangible assets are being amortized over their estimated weighted average of useful lives ranging from eight to twelve years.

Amortization expense for the first six months of 2015 and 2014 was \$286 and \$345, respectively. Total annual amortization expense for each of the next five years will approximate \$535.

The Company acquired Maxim and First Guard during the first quarter of 2014. Portions of the purchase prices were allocated to intangible assets with indefinite lives.

Intangible assets with indefinite lives consist of trade names, franchise rights as well as lease rights.

**Note 8. Restaurant Operations Revenues**

Restaurant operations revenues were as follows.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Net sales .....	\$ 206,278	\$ 196,214	\$ 398,448	\$ 376,654
Franchise royalties and fees .....	4,420	3,867	8,076	8,119
Other.....	933	808	1,843	1,662
	\$ 211,631	\$ 200,889	\$ 408,367	\$ 386,435

## Note 9. Borrowings

Notes payable and other borrowings include the following.

	<b>June 30, 2015</b>	December 31, 2014
<b>Current portion of notes payable and other borrowings</b>		
Notes payable .....	\$ 2,200	\$ 2,200
Unamortized original issue discount .....	(292)	(287)
Obligations under leases .....	6,284	6,422
Western revolver .....	906	980
Total current portion of notes payable and other borrowings .....	<u>\$ 9,098</u>	<u>\$ 9,315</u>
<b>Long-term notes payable and other borrowings</b>		
Notes payable .....	\$ 215,050	\$ 216,150
Unamortized original issue discount .....	(1,547)	(1,694)
Obligations under leases .....	94,232	98,139
Total long-term notes payable and other borrowings.....	<u>\$ 307,735</u>	<u>\$ 312,595</u>

### *Steak n Shake Credit Facility*

On March 19, 2014, Steak n Shake and its subsidiaries entered into a new credit agreement. This credit agreement provides for a senior secured term loan facility in an aggregate principal amount of \$220,000 and a senior secured revolving credit facility in an aggregate principal amount of up to \$30,000.

The term loan is scheduled to mature on March 19, 2021. It amortizes at an annual rate of 1.0% in equal quarterly installments, beginning June 30, 2014, at 0.25% of the original principal amount of the term loan, subject to mandatory prepayments from excess cash flow, asset sales and other events described in the credit agreement. The balance will be due at maturity. The revolver will be available on a revolving basis until March 19, 2019.

Steak n Shake has the right to request an incremental term loan facility from participating lenders and/or eligible assignees at any time, up to an aggregate total principal amount not to exceed \$70,000 if certain customary conditions within the credit agreement are met.

Borrowings bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. The applicable margins on revolver loans are contingent on Steak n Shake's total leverage ratio. The revolver also carries a commitment fee ranging from 0.40% to 0.50% per annum, depending on Steak n Shake's total leverage ratio, on the unused portion of the revolver.

The interest rate on the term loan was 4.75% on June 30, 2015.

The credit agreement includes customary affirmative and negative covenants and events of default, as well as a financial maintenance covenant, solely with respect to the revolver, relating to the maximum total leverage ratio.

Both the term loan and the revolver have been secured by first priority security interests in substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the credit facility. Approximately \$118,589 of the proceeds of the term loan were used to repay all outstanding amounts under Steak n Shake's former credit facility and to pay related fees and expenses, \$50,000 of such proceeds were used to pay a cash dividend to Biglari Holdings, and the remaining term loan proceeds of approximately \$51,411 are being used by Steak n Shake for working capital and general corporate purposes. As of June 30, 2015, \$217,250 was outstanding under the term loan, and no amount was outstanding under the revolver.

**Note 9. Borrowings** (continued)

**Interest Rate Swap**

During 2013, Steak n Shake entered into an interest rate swap for a notional amount of \$65,000 through September 30, 2015. The agreement hedges potential changes in the Eurodollar rate. The fair value of the interest rate swap was a liability of \$53 and \$132 on June 30, 2015 and December 31, 2014, respectively, and is included in accrued expenses on the consolidated balance sheet.

During 2011, Steak n Shake entered into an interest rate swap agreement for a notional amount of \$20,000, which effectively fixed the interest rate on a prior credit facility at 3.25% through February 15, 2016. The notional amount decreases \$1,000 quarterly through its maturity on February 15, 2016. The notional amount of the interest rate swap was \$3,000 on June 30, 2015. The fair value of the interest rate swap was a liability of \$16 and \$43 on June 30, 2015 and December 31, 2014, respectively, and is included in accrued expenses on the consolidated balance sheet.

The carrying amounts for debt reported in the consolidated balance sheet did not differ materially from their fair values at June 30, 2015 and December 31, 2014. The fair value was determined to be a Level 3 fair value measurement.

**Note 10. Accumulated Other Comprehensive Income**

During the first six months of 2015 and 2014, the changes in the balances of each component of accumulated other comprehensive income, net of tax, were as follows.

	2015			2014		
	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Income (Loss)	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Beginning Balance .....	\$ (620)	\$ (163)	\$ (783)	\$ 295	\$ 25,510	\$ 25,805
Other comprehensive income (loss) before reclassifications ....	128	(343)	(215)	(253)	(6,974)	(7,227)
Reclassification to (earnings) loss .....		36	36		(18,343)	(18,343)
Ending Balance .....	\$ (492)	\$ (470)	\$ (962)	\$ 42	\$ 193	\$ 235

During the first six months of 2015 and 2014, the following reclassifications were made from accumulated other comprehensive income to the consolidated statement of earnings.

Reclassifications from Accumulated Other Comprehensive Income	2015	2014	Affected Line Item in the Consolidated Statement of Earnings
Investment gain	\$ (55)	\$ 57	Insurance premiums and other
	-	29,524	Investment gains (including contributions)
	(19)	11,238	Income tax expense (benefit)
	\$ (36)	\$ 18,343	Net of tax

**Note 10. Accumulated Other Comprehensive Income (continued)**

During the second quarters of 2015 and 2014, the changes in the balances of each component of accumulated other comprehensive income, net of tax, were as follows.

	Second Quarter 2015			Second Quarter 2014		
	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Income (Loss)	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Beginning Balance .....	\$ (557)	\$ (426)	\$ (983)	\$ (116)	\$ 19,277	\$ 19,161
Other comprehensive income (loss) before reclassifications ....	65	(80)	(15)	158	(741)	(583)
Reclassification to (earnings) loss .....		36	36		(18,343)	(18,343)
Ending Balance .....	<u>\$ (492)</u>	<u>\$ (470)</u>	<u>\$ (962)</u>	<u>\$ 42</u>	<u>\$ 193</u>	<u>\$ 235</u>

During the second quarters of 2015 and 2014, the following reclassifications were made from accumulated other comprehensive income to the consolidated statement of earnings.

Reclassifications from Accumulated Other Comprehensive Income	Second Quarter 2015	Second Quarter 2014	Affected Line Item in the Consolidated Statement of Earnings
Investment gain	\$ (55)	\$ 57	Insurance premiums and other
	-	29,524	Investment gains (including contributions)
	(19)	11,238	Income tax expense (benefit)
	<u>\$ (36)</u>	<u>\$ 18,343</u>	Net of tax

**Note 11. Income Taxes**

In determining the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate based on expected annual income, statutory tax rates, and available tax planning opportunities in the various jurisdictions in which the Company operates. Unusual or infrequently occurring items are separately recognized during the quarter in which they occur.

Income tax for the second quarter of 2015 was a benefit of \$2,203 compared to an expense of \$14,613 for the second quarter of 2014. Income tax expense for the first six months of 2015 was \$4,987 compared to an income tax benefit of \$3,764 in 2014. The change in income tax is primarily attributable to the respective gains and losses from investment partnerships.

As of June 30, 2015 and December 31, 2014, we had approximately \$334 and \$453, respectively, of unrecognized tax benefits, which are included in other liabilities in the consolidated balance sheets.

**Note 12. Commitments and Contingencies**

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 actions were consolidated in the Southern District of Indiana in 2014. On March 18, 2015, the United States District Court for the Southern District of Indiana granted a motion to dismiss the derivative actions in favor of the Company. In addition, the Court issued judgment on all counts in favor of the Company and its directors. The two shareholders have appealed the Court's decision.



### **Note 13. Fair Value of Financial Assets and Liabilities**

The fair values of substantially all of our financial instruments were measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the fair values presented are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of alternative market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

- Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.
- Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that may be considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit ratings, estimated durations and yields for other instruments of the issuer or entities in the same industry sector.
- Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities and we may be unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the consolidated balance sheet:

*Cash equivalents:* Cash equivalents primarily consist of money market funds which are classified within Level 1 of the fair value hierarchy.

*Equity securities:* The Company's investments in equity securities are classified within Level 1 of the fair value hierarchy.

*Bonds:* The Company's investments in bonds are classified within Level 2 of the fair value hierarchy.

*Non-qualified deferred compensation plan investments:* The assets of the non-qualified plan are set up in a rabbi trust. They represent mutual funds and are classified within Level 1 of the fair value hierarchy.

*Interest rate swaps:* Interest rate swaps are marked to market each reporting period and are classified within Level 2 of the fair value hierarchy. Interest rate swaps at June 30, 2015 and December 31, 2014 represent the fair market value for Steak n Shake's two interest rate swaps.

### Note 13. Fair Value of Financial Assets and Liabilities (continued)

As of June 30, 2015 and December 31, 2014, the fair values of financial assets and liabilities were as follows.

	June 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents .....	\$ 1,709	\$ -	\$ -	\$ 1,709	\$ 11,227	\$ -	\$ -	\$ 11,227
Equity securities:								
Insurance .....	5,294	-	-	5,294	5,781	-	-	5,781
Bonds.....	-	18,917	-	18,917	-	7,644	-	7,644
Non-qualified deferred compensation plan investments...	2,239	-	-	2,239	1,958	-	-	1,958
Total assets at fair value .....	<u>\$ 9,242</u>	<u>\$ 18,917</u>	<u>\$ -</u>	<u>\$ 28,159</u>	<u>\$ 18,966</u>	<u>\$ 7,644</u>	<u>\$ -</u>	<u>\$ 26,610</u>
<b>Liabilities</b>								
Interest rate swaps .....	\$ -	\$ 69	\$ -	\$ 69	\$ -	\$ 175	\$ -	\$ 175
Total liabilities at fair value .....	<u>\$ -</u>	<u>\$ 69</u>	<u>\$ -</u>	<u>\$ 69</u>	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ 175</u>

There were no changes in our valuation techniques used to measure fair values on a recurring basis.

### Note 14. Related Party Transactions

In 2013 Biglari Holdings entered into the following agreements with Mr. Biglari, its Chairman and Chief Executive Officer: (i) a Stock Purchase Agreement for the sale of Biglari Capital to Mr. Biglari (the “Biglari Capital Transaction”); (ii) a Shared Services Agreement with Biglari Capital, and (iii) a First Amendment to the Amended and Restated Incentive Bonus Agreement with Mr. Biglari (the “Incentive Agreement Amendment”). The transactions contemplated thereby were unanimously approved by the independent Governance, Compensation and Nominating Committee of the Board of Directors of the Company (the “Committee”), which retained separate counsel, tax/accounting advisors, an independent compensation consultant, and a financial advisor to assist the Committee in the structuring, evaluation, and negotiation of such transactions.

#### *Shared Services Agreement*

Connected with the Biglari Capital Transaction, Biglari Holdings and Biglari Capital entered into the Shared Services Agreement pursuant to which Biglari Holdings provides certain services to Biglari Capital in exchange for a 6% hurdle rate for Biglari Holdings and its subsidiaries (as compared to a 5% hurdle rate for all other limited partners) in order to determine the incentive reallocation to Biglari Capital, as general partner of The Lion Fund, L.P. and The Lion Fund II, L.P., under their respective partnership agreements. The incentive reallocation to Biglari Capital is equal to 25% of the net profits allocated to the limited partners in excess of their applicable hurdle rate above the previous high-water mark. The Shared Services Agreement runs for an initial five-year term, and automatically renews for successive five-year periods, unless terminated by either party effective at the end of the initial or the renewed term, as applicable. The term of the Shared Services Agreement coincides with the lock-up period for the Company’s investments in The Lion Fund, L.P. and The Lion Fund II, L.P. under their respective partnership agreements. The Company provided services for Biglari Capital under the Shared Services Agreement costing an aggregate of \$3,706 and \$327 for the second quarters of 2015 and 2014, respectively, and \$3,791 and \$715 for the first six months of 2015 and 2014, respectively.

#### *Investments in The Lion Fund, L.P. and The Lion Fund II, L.P.*

As of June 30, 2015, the Company’s investments in The Lion Fund, L.P. and The Lion Fund II, L.P. had a fair value of \$860,054.

As the general partner of the investment partnerships, Biglari Capital on December 31 of each year will earn an incentive reallocation fee for the Company’s investments equal to 25% of the net profits over an annual hurdle rate of 6% above the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year; however, no fees are reallocated until the end of the calendar year. As of June 30, 2015, the Company’s accrued incentive fee for Biglari Capital was \$526. No amount was accrued as of June 30, 2014, because the net profits did not exceed the hurdle.

#### **Note 14. Related Party Transactions** *(continued)*

##### *Incentive Agreement Amendment*

Also in connection with the Biglari Capital Transaction, Biglari Holdings and Mr. Biglari entered into the Incentive Agreement Amendment which amends the Amended and Restated Incentive Bonus Agreement with Mr. Biglari to reflect and give effect to the Biglari Capital Transaction, which excludes earnings by the investment partnerships from the calculation of Mr. Biglari's incentive bonus.

##### *License Agreement*

In 2013 the Company entered into a Trademark License Agreement (the "License Agreement") with Mr. Biglari. The License Agreement was unanimously approved by the Committee. In addition, the license under the License Agreement is provided on a royalty-free basis in the absence of specified extraordinary events described below. Accordingly, the Company and its subsidiaries have paid no royalties to Mr. Biglari under the License Agreement since its inception.

Under the License Agreement, Mr. Biglari granted to the Company an exclusive license to use the Biglari and Biglari Holdings names (the "Licensed Marks") in association with various products and services (collectively the "Products and Services"). Upon (a) the expiration of twenty years from the date of the License Agreement (subject to extension as provided in the License Agreement), (b) Mr. Biglari's death, (c) the termination of Mr. Biglari's employment by the Company for Cause (as defined in the License Agreement), or (d) Mr. Biglari's resignation from his employment with the Company absent an Involuntary Termination Event (as defined in the License Agreement), the Licensed Marks for the Products and Services will transfer from Mr. Biglari to the Company, without any compensation, if the Company is continuing to use the Licensed Marks in the ordinary course of its business. Otherwise, the rights will revert to Mr. Biglari.

If (i) a Change of Control (as defined in the License Agreement) of the Company; (ii) the termination of Mr. Biglari's employment by the Company without Cause; or (iii) Mr. Biglari's resignation from his employment with the Company due to an Involuntary Termination Event (each, a "Triggering Event") were to occur, Mr. Biglari would be entitled to receive a 2.5% royalty on "Revenues" with respect to the "Royalty Period." The royalty payment to Mr. Biglari would not apply to all revenues received by Biglari Holdings and its subsidiaries nor would it apply retrospectively (*i.e.*, to revenues received with respect to the period prior to the Triggering Event). The royalty would apply to revenues recorded by the Company on an accrual basis under GAAP, solely with respect to the defined period of time after the Triggering Event equal to the Royalty Period, from a covered Product, Service or business that (1) has used the Biglari Holdings or Biglari name at any time during the term of the License Agreement, whether prior to or after a Triggering Event, or (2) the Company has specifically identified, prior to a Triggering Event, will use the name Biglari or Biglari Holdings.

"Revenues" means all revenues received, on an accrual basis under GAAP, by the Company, its subsidiaries and affiliates from the following: (1) all Products and Services covered by the License Agreement bearing or associated with the names Biglari and Biglari Holdings at any time (whether prior to or after a Triggering Event). This category would include, without limitation, the use of Biglari or Biglari Holdings in the public name of a business providing any covered Product or Service; and (2) all covered Products, Services and businesses that the Company has specifically identified, prior to a Triggering Event, will bear, use or be associated with the name Biglari or Biglari Holdings.

The Committee unanimously approved 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. On May 14, 2013, the Company, Steak n Shake, LLC and Steak n Shake Enterprises, Inc. entered into a Trademark Sublicense Agreement in connection therewith. Accordingly, revenues received by the Company, its subsidiaries and affiliates from Steak n Shake's restaurants, products and brands would come within the definition of Revenues for purposes of the License Agreement.

**Note 14. Related Party Transactions (continued)**

The “Royalty Period” is a defined period of time, after the Triggering Event, calculated as follows: (i) if, following three months after a Triggering Event, the Company or any of its subsidiaries or affiliates continues to use the Biglari or Biglari Holdings name in connection with any covered product or service, or continues to use Biglari as part of its corporate or public company name, then the “Royalty Period” will equal (a) the period of time during which the Company or any of its subsidiaries or affiliates continues any such use, plus (b) a period of time after the Company, its subsidiaries and affiliates have ceased all uses of the names Biglari and Biglari Holdings equal to the length of the term of the License Agreement prior to the Triggering Event, plus three years. As an example, if a Triggering Event occurs five years after the date of the License Agreement, and the Company ceases all uses of the Biglari and Biglari Holdings names two years after the Triggering Event, the Royalty Period will equal a total of ten years (the sum of two years after the Triggering Event during which the Biglari and Biglari Holdings names are being used, plus a period of time equal to the five years prior to the Triggering Event, plus three years); or (ii) if the Company, its subsidiaries and affiliates cease all uses of the Biglari and Biglari Holdings names within three months after a Triggering Event, then the “Royalty Period” will equal the length of the term of the License Agreement prior to the Triggering Event, plus three years. As an example, if a Triggering Event occurs five years after the date of the License Agreement, and the Company ceases all uses of the Biglari and Biglari Holdings names two months after the Triggering Event, the Royalty Period will equal a total of eight years (the sum of the period of time equal to the five years prior to the Triggering Event, plus three years). Notwithstanding the above methods of determining the Royalty Period, the minimum Royalty Period is five years after a Triggering Event.

**Note 15. Business Segment Reporting**

Our restaurant operations include Steak n Shake and Western. As a result of the acquisitions of Maxim and First Guard, the Company reports segment information for these businesses. Other business activities not specifically identified with reportable business segments are presented in corporate and other. We report our earnings from investment partnerships separate from corporate and other.

Revenue by segment for the second quarters and first six months of 2015 and 2014 were as follows.

	<u>Second Quarter</u>		<u>First Six Months</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Operating Businesses:</b>				
Restaurant Operations:				
Steak n Shake .....	\$ 207,848	\$ 197,549	\$ 401,301	\$ 380,218
Western .....	3,783	3,340	7,066	6,217
Total Restaurant Operations .....	211,631	200,889	408,367	386,435
First Guard .....	3,717	2,586	7,371	2,881
Maxim .....	6,608	4,703	12,046	6,199
	<u>\$ 221,956</u>	<u>\$ 208,178</u>	<u>\$ 427,784</u>	<u>\$ 395,515</u>

Earnings (losses) before income taxes by segment for the second quarters and first six months of 2015 and 2014 were as follows.

	<u>Second Quarter</u>		<u>First Six Months</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Operating Businesses:</b>				
Restaurant Operations:				
Steak n Shake .....	\$ 13,815	\$ 10,224	\$ 20,050	\$ 16,760
Western .....	688	682	1,098	1,153
Total Restaurant Operations .....	14,503	10,906	21,148	17,913
First Guard .....	1,139	832	1,799	835
Maxim .....	(4,173)	(7,334)	(10,059)	(9,012)
Total Operating Businesses .....	11,469	4,404	12,888	9,736
<b>Corporate and other:</b>				
Corporate and other .....	(5,092)	(2,857)	(9,297)	(5,277)
Investment gains (including contributions) .....	-	29,524	-	29,524
Investment partnership gains (losses) .....	(5,557)	15,305	17,408	(30,537)
Total corporate and other .....	(10,649)	41,972	8,111	(6,290)
Interest expense on notes payable and other borrowings .....	(2,997)	(3,000)	(6,003)	(5,877)
	<u>\$ (2,177)</u>	<u>\$ 43,376</u>	<u>\$ 14,996</u>	<u>\$ (2,431)</u>

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

(dollars in thousands except per share data)

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, as well as restaurants. The Company’s largest 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 and its major operating subsidiaries. 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.

On October 16, 2014, the Company’s Board of Directors approved a change in the Company’s fiscal year end, moving from the last Wednesday in September to December 31 of each year. As a result of the change in year end, the second quarter for 2015 includes the period from April 1, 2015 to June 30, 2015. For comparative purposes, the second quarter for 2014 includes the period from April 1, 2014 to June 30, 2014. The comparative quarter is derived from the books and records of the Company. In the opinion of management, the comparative quarter reflects all adjustments necessary to present the financial position as well as the results of operations in accordance with generally accepted accounting principles. After the year-end change, Steak n Shake continues to operate on a 52/53 week year, which ends on the last Wednesday of the calendar year. For the second quarters of 2015 and 2014, Steak n Shake’s financial information included the period from April 2, 2015 to July 1, 2015, and April 3, 2014 to July 2, 2014, respectively. For the first six months of 2015 and 2014, Steak n Shake’s financial information included the period from January 1, 2015 to July 1, 2015, and January 2, 2014 to July 2, 2014, respectively. There were no significant transactions in the intervening periods.

On June 4, 2015, The Lion Fund II, L.P. commenced a tender offer to purchase shares of common stock of Biglari Holdings at a purchase price of \$420.00 per share in cash. The Lion Fund II, L.P. completed the tender offer on July 1, 2015 and purchased 616,312 shares of common stock of Biglari Holdings. The 616,312 common shares purchased in the tender offer remain legally outstanding. As a result of the tender offer, Mr. Biglari, including through the investment partnerships, beneficially owns approximately 49.5% of the outstanding common stock.

Net earnings attributable to Biglari Holdings shareholders for the second quarter of 2015 and 2014 are disaggregated in the table that follows. Amounts are recorded after deducting income taxes.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Operating businesses:				
Restaurant .....	\$ 9,320	\$ 7,730	\$ 12,968	\$ 12,012
Insurance .....	742	549	1,178	551
Media .....	<u>(2,692)</u>	<u>(4,547)</u>	<u>(6,592)</u>	<u>(5,604)</u>
Total operating businesses .....	7,370	3,732	7,554	6,959
Corporate and other .....	(2,931)	(1,896)	(6,380)	(2,677)
Investment gains (including contributions) .....	-	18,305	-	18,305
Investment partnership gains (losses) .....	(2,555)	10,482	12,557	(17,610)
Interest expense on notes payable and other borrowings .....	<u>(1,858)</u>	<u>(1,860)</u>	<u>(3,722)</u>	<u>(3,644)</u>
	<u>\$ 26</u>	<u>\$ 28,763</u>	<u>\$ 10,009</u>	<u>\$ 1,333</u>

Our restaurant businesses include Steak n Shake and Western. As of June 30, 2015, Steak n Shake comprised 417 company-operated restaurants and 136 franchised units. Western comprised 4 company-operated restaurants and 66 franchised units.

Our insurance business is composed of First Guard Insurance Company and its agency, 1st Guard Corporation (collectively “First Guard”), which we acquired on March 19, 2014. First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers.

Our media business is composed of Maxim. We acquired certain assets and liabilities of Maxim on February 27, 2014. Maxim’s business lies principally in media and licensing.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

### Restaurants

Steak n Shake and Western comprise 623 company-operated and franchised restaurants as of June 30, 2015.

	Steak n Shake		Western Sizzlin		Total
	Company-operated	Franchised	Company-operated	Franchised	
Total stores as of December 31, 2013 .....	418	108	3	80	609
Net restaurants opened (closed) .....	(1)	10	1	(7)	3
Total stores as of June 30, 2014 .....	417	118	4	73	612
<b>Total stores as of December 31, 2014 .....</b>	<b>417</b>	<b>128</b>	<b>4</b>	<b>68</b>	<b>617</b>
<b>Net restaurants opened (closed) .....</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>(2)</b>	<b>6</b>
<b>Total stores as of June 30, 2015 .....</b>	<b>417</b>	<b>136</b>	<b>4</b>	<b>66</b>	<b>623</b>

Earnings of our restaurant operations are summarized below.

	Second Quarter				First Six Months			
	2015		2014		2015		2014	
Revenue								
Net sales .....	\$ 206,278		\$ 196,214		\$ 398,448		\$ 376,654	
Franchise royalties and fees .....	4,420		3,867		8,076		8,119	
Other revenue .....	933		808		1,843		1,662	
Total revenue .....	211,631		200,889		408,367		386,435	
Restaurant cost of sales								
Cost of food .....	59,743	29.0%	58,410	29.8%	116,854	29.3%	111,431	29.6%
Restaurant operating costs .....	94,885	46.0%	91,184	46.5%	188,212	47.2%	178,639	47.4%
Rent .....	4,377	2.1%	4,372	2.2%	8,700	2.2%	8,183	2.2%
Total cost of sales .....	159,005		153,966		313,766		298,253	
Selling, general and administrative								
General and administrative .....	16,444	7.8%	15,610	7.8%	32,852	8.0%	32,150	8.3%
Marketing .....	13,455	6.4%	12,307	6.1%	23,385	5.7%	21,121	5.5%
Other expenses (income) .....	(196)	-0.1%	(41)	0.0%	164	0.0%	499	0.1%
Total selling, general and administrative ...	29,703	14.0%	27,876	13.9%	56,401	13.8%	53,770	13.9%
Depreciation and amortization .....	6,010	2.8%	5,715	2.8%	12,167	3.0%	11,648	3.0%
Interest on obligations under leases .....	2,410		2,426		4,885		4,851	
Earnings before income taxes .....	14,503		10,906		21,148		17,913	
Income tax expense .....	5,183		3,176		8,180		5,901	
Net earnings .....	\$ 9,320		\$ 7,730		\$ 12,968		\$ 12,012	

*Cost of food, restaurant operating costs and rent expense are expressed as a percentage of net sales.*

*General and administrative, marketing, other expenses and depreciation and amortization are expressed as a percentage of total revenue.*

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** *(continued)*

Net sales during the second quarter and the first six months of 2015 were \$206,278 and \$398,448, respectively, representing increases of \$10,064 and \$21,794, respectively. The increased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales. Steak n Shake's same-store sales during the second quarter and the first six months of 2015 increased 4.8% and 5.3%, respectively, whereas customer traffic increased by 2.8% during the second quarter of 2015 and 3.4% during the first six months of 2015. The term "same-store sales" refers to the sales of company-operated units open at least 18 months at the beginning of the current period and have remained open through the end of the period. Same-store traffic measures the number of patrons who walk through the same units

Franchise royalties and fees during the second quarter of 2015 increased 14.3% and decreased 0.5% during the first six months of 2015. Steak n Shake opened 7 franchise units during the second quarter of 2015. The increase in franchise fees during the second quarter of 2015 is primarily attributable to the opening of new Steak n Shake units in 2014 and 2015. The decrease in franchise fees during the first six months of 2015 is primarily attributable to the timing of forfeited area development fees and thereby realized in the first quarter of 2014.

Cost of food in the second quarter and the first six months of 2015 was \$59,743 or 29.0% of net sales, and \$116,854 or 29.3% of net sales, respectively, compared to the second quarter and first six months in 2014 of \$58,410 or 29.8% of net sales, and \$111,431 or 29.6% of net sales, respectively. The augmented costs were primarily attributable to higher sales. However, as a percent of sales, the cost of food declined by 0.8%, primarily because of lower commodity costs and change in menu mix.

Restaurant operating costs during the second quarter of 2015 were \$94,885 or 46.0% of net sales, compared to \$91,184 or 46.5% of net sales in 2014. Restaurant operating costs during the first six months of 2015 were \$188,212 or 47.2% of net sales compared to \$178,639 or 47.4% of net sales in 2014. The increased costs were mainly based on higher sales. However, as a percent of sales, restaurant operating costs declined by 0.5%, principally because of operational efficiency, thereby leveraging fixed operating costs by means of higher sales volume.

Selling, general and administrative expense during the second quarter and first six months of 2015 were \$29,703 or 14.0% of total revenues and \$56,401 or 13.8% of total revenues, respectively. The expenses in 2015 remained relatively flat compared to the expenses in the second quarter and first six months of 2014 which were \$27,876 or 13.9% of total revenues and \$53,770 or 13.9% of total revenues, respectively. The increase is largely tied to higher marketing expenditure, namely the sponsorship of an Indy car.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

### Insurance

First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. Earnings of our insurance business are summarized below.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Premiums written .....	<b>\$ 3,641</b>	\$ 2,349	<b>\$ 7,139</b>	\$ 2,623
Insurance losses .....	<b>1,836</b>	1,044	<b>4,004</b>	1,236
Underwriting expenses .....	<b>724</b>	692	<b>1,519</b>	748
Pre-tax underwriting gain .....	<b>1,081</b>	613	<b>1,616</b>	639
Other income .....				
Commissions .....	<b>84</b>	100	<b>167</b>	111
Investment income .....	<b>47</b>	80	<b>120</b>	90
Investment gains (losses) .....	<b>(55)</b>	57	<b>(55)</b>	57
Other income (expense) .....	<b>(18)</b>	(18)	<b>(49)</b>	(62)
Total other income .....	<b>58</b>	219	<b>183</b>	196
Earnings before income taxes .....	<b>1,139</b>	832	<b>1,799</b>	835
Income tax expense .....	<b>397</b>	283	<b>621</b>	284
Contribution to net earnings .....	<b>\$ 742</b>	\$ 549	<b>\$ 1,178</b>	\$ 551

On March 19, 2014, First Guard became a wholly-owned subsidiary of Biglari Holdings; thus, First Guard’s inclusion is from the acquisition date for first quarter 2014.

Premiums written during the second quarter of 2015 was \$3,641, an increase of \$1,292 or 55% compared to 2014. Premiums written during the first six months of 2015 was \$7,139 compared to \$2,623 in 2014.

Insurance losses during the second quarter of 2015 were \$1,836 compared with \$1,044 in 2014. Insurance losses during the first six months of 2015 were \$4,004 compared to \$1,236 in 2014.

Underwriting expenses during the second quarter of 2015 were \$724 and remained relatively flat compared to \$692 in 2014. Underwriting expenses during the first six months of 2015 were \$1,519 compared to \$748 in 2014.

Pre-tax underwriting gain increased from \$613 in 2014 to \$1,081 in 2015. The increase in pre-tax underwriting gain was mainly based on higher premiums written.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

### Media

Maxim's business lies principally in media and licensing. Earnings of our media operations are summarized below.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Revenue .....	<u>\$ 6,608</u>	<u>\$ 4,703</u>	<u>\$ 12,046</u>	<u>\$ 6,199</u>
Media cost of sales .....	<u>9,183</u>	<u>9,447</u>	<u>18,601</u>	<u>11,855</u>
General and administrative expenses .....	<u>1,598</u>	<u>2,590</u>	<u>3,504</u>	<u>3,356</u>
Loss before income taxes .....	<u>(4,173)</u>	<u>(7,334)</u>	<u>(10,059)</u>	<u>(9,012)</u>
Income tax benefit .....	<u>(1,481)</u>	<u>(2,787)</u>	<u>(3,467)</u>	<u>(3,408)</u>
Contribution to net earnings .....	<u>\$ (2,692)</u>	<u>\$ (4,547)</u>	<u>\$ (6,592)</u>	<u>\$ (5,604)</u>

On February 27, 2014, Maxim became a wholly-owned subsidiary of Biglari Holdings; thus, Maxim's inclusion is from the acquisition date for first quarter 2014.

We continue to make investments into the brand, many of which are reflected in the reported expenses. We have recruited personnel to rebuild Maxim's media business, both in print and in digital, as well as to build a licensing business. Although expenses continued to exceed revenues in the second quarter of 2015, management continues to expect the narrowing of the two over time.

Revenue during the second quarter of 2015 was \$6,608, an increase of \$1,905 over 2014. Revenue during the first six months of 2015 was \$12,046 compared to \$6,199 in 2014.

Media cost of sales during the second quarter of 2015 was \$9,183 compared to \$9,447 in 2014. Media cost of sales during the first six months of 2015 was \$18,601 compared to \$11,855 in 2014.

General and administrative expenses during the second quarter of 2015 were \$1,598 compared to \$2,590 in 2014. General and administrative expenses during the first six months of 2015 were \$3,504 compared to \$3,356 in 2014.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

### Investment Partnership Gains (Losses)

Earnings (losses) from our investments in partnerships are summarized below.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Investment partnership gain (loss) .....	\$ (5,557)	\$ 15,305	\$ 17,408	\$ (30,537)
Tax expense (benefit) .....	(3,002)	4,823	4,851	(12,927)
Contribution to net earnings .....	\$ (2,555)	\$ 10,482	\$ 12,557	\$ (17,610)

The Company recorded after-tax losses from investment partnerships of \$2,555 during the second quarter of 2015 versus after-tax earnings of \$10,482 for the second quarter of 2014. During the first six months of 2015 the Company recorded after-tax earnings from investment partnerships of \$12,557 compared to after-tax losses of \$17,610 in 2014.

Certain of the investment partnerships hold the Company's common stock as investments. The Company's pro-rata share of its common stock held by the investment partnerships is recorded as treasury stock even though these shares are legally outstanding. Gains and losses on Company common stock included in the earnings of these partnerships are eliminated.

### Investment Gains

The Company recognized a pre-tax gain of \$29,524 (\$18,305 net of tax) on a contribution of \$74,418 in securities to the investment partnerships during the second quarter of 2014. The gain had a material accounting effect on the Company's 2014 earnings. However, the gain had no impact on total shareholders' equity because the investments were carried at fair value prior to the contribution, with the unrealized gain included as a component of accumulated other comprehensive income.

### Interest Expense

The Company's interest expense is summarized below.

	Second Quarter		First Six Months	
	2015	2014	2015	2014
Interest expense on notes payable and other borrowings .....	\$ 2,997	\$ 3,000	\$ 6,003	\$ 5,877
Tax benefit .....	1,139	1,140	2,281	2,233
Interest expense net of tax .....	\$ 1,858	\$ 1,860	\$ 3,722	\$ 3,644

Interest expense during the second quarter and first six months of 2015 was \$2,997 and \$6,003, respectively. The expense in 2015 remained relatively flat compared to the second quarter and first six months of 2014 which were \$3,000 and \$5,877, respectively. Included in the first six months of 2014 expense was \$1,133 of debt extinguishment expenses related to a refinancing of Steak n Shake's former credit facility in March 2014. Steak n Shake's current credit facility has higher debt balances and interest rates than the former credit facility. The outstanding balance on June 30, 2015 was \$217,250 with a 4.75% interest rate.

### Corporate and Other

Corporate and other exclude restaurant, insurance and media companies. During the second quarter and first six months of 2015 corporate and other registered net losses of \$2,931 and \$6,380, respectively, versus net losses of \$1,896 and \$2,677, respectively, during the same periods in 2014. The increase in net loss during 2015 was primarily attributable to proxy costs and legal expenses.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

### Income Tax Expense

Consolidated income tax benefit was \$2,203 in the second quarter of 2015, versus a tax expense of \$14,613 in 2014. During the second quarter of 2015 the Company recorded a tax benefit of \$3,002 on \$5,557 of investment partnership losses compared to a tax expense of \$4,823 on \$15,305 of investment partnership gains during the second quarter of 2014.

### Financial Condition

Our balance sheet continues to maintain significant liquidity. Our consolidated shareholders' equity on June 30, 2015 was \$726,574.

Consolidated cash and investments are summarized below.

	<b>June 30, 2015</b>	December 31, 2014
Cash and cash equivalents .....	<b>\$ 68,007</b>	\$ 129,669
Investments .....	<b>21,586</b>	10,800
Fair value of interest in investment partnerships .....	<b>860,054</b>	776,899
Total cash and investments.....	<b>949,647</b>	917,368
Less portion of Company stock held by investment partnerships .....	<b>(90,474)</b>	(78,917)
Carrying value of cash and investments on balance sheet .....	<b>\$ 859,173</b>	\$ 838,451

Certain investment partnerships hold the Company's common stock as investments. The Company's pro-rata share of its common stock held by the investment partnerships is recorded as treasury stock even though these shares are legally outstanding. Gains and losses concerning Company common stock are not included in the earnings of the Company.

### Liquidity

Cash provided by operating activities during the first six months of 2015 was \$23,359 compared to \$13,515 during 2014. The increase of cash provided by operating activities was primarily attributable to changes in working capital, specifically because of the timing of payments for certain accounts payable and accrued expenses during 2015.

Net cash used in investing activities during the first six months of 2015 of \$80,293 was primarily because of investments in investment partnerships of \$63,000, purchases of bonds (net of maturities) of \$11,328 and capital expenditures of \$6,102. Net cash used in investing activities of \$84,358 during the first six months of 2014 primarily consisted of acquisitions of businesses of \$40,143, investments in partnerships of \$40,000 and capital expenditures of \$21,075.

Net cash used in financing activities was \$4,725 during the first six months of 2015 as compared to net cash provided by financing activities of \$98,061 during 2014. During 2015 we incurred payments on long-term debt and lease obligations of \$4,654. During 2014 we generated cash from financing activities which primarily resulted from an increase in Steak n Shake borrowings as a result of a debt refinancing during that period. Of the total net proceeds, \$50,000 was used to pay a cash dividend to Biglari Holdings and the remaining loan proceeds are being used by Steak n Shake for working capital and general corporate purposes.

We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations, cash on hand, existing credit facilities, and the sale of excess properties and investments. We continually review available financing alternatives.

***Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***

*Steak n Shake Credit Facility*

On March 19, 2014, Steak n Shake and its subsidiaries entered into a new credit agreement. This credit agreement provides for a senior secured term loan facility in an aggregate principal amount of \$220,000 and a senior secured revolving credit facility in an aggregate principal amount of up to \$30,000.

The term loan is scheduled to mature on March 19, 2021. It amortizes at an annual rate of 1.0% in equal quarterly installments, beginning June 30, 2014, at 0.25% of the original principal amount of the term loan, subject to mandatory prepayments from excess cash flow, asset sales and other events described in the credit agreement. The balance will be due at maturity. The revolver will be available on a revolving basis until March 19, 2019.

Steak n Shake has the right to request an incremental term loan facility from participating lenders and/or eligible assignees at any time, up to an aggregate total principal amount not to exceed \$70,000 if certain customary conditions within the credit agreement are met.

Borrowings bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. The applicable margins on revolver loans are contingent on Steak n Shake's total leverage ratio. The revolver also carries a commitment fee ranging from 0.40% to 0.50% per annum, according to Steak n Shake's total leverage ratio, on the unused portion of the revolver.

As of June 30, 2015, the interest rate on the term loan was 4.75%.

The credit agreement includes customary affirmative and negative covenants and events of default, as well as a financial maintenance covenant, solely with respect to the revolver, relating to the maximum total leverage ratio.

Both the term loan and the revolver have been secured by first priority security interests on substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the credit facility. Approximately \$118,589 of the proceeds of the term loan were used to repay all outstanding amounts under Steak n Shake's former credit facility and to pay related fees and expenses, \$50,000 of such proceeds were used to pay a cash dividend to Biglari Holdings, and the remaining term loan proceeds of approximately \$51,411 are being used by Steak n Shake for working capital and general corporate purposes. At June 30, 2015 \$217,250 was outstanding under the term loan, and no amount is outstanding under the revolver.

Steak n Shake had \$10,188 in standby letters of credit outstanding as of June 30, 2015 and December 31, 2014.

*Western Revolver*

As of June 30, 2015, Western has \$906 due June 13, 2016.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations** *(continued)*

### ***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 consolidated 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 consolidated financial statements will likely increase or decrease in the future as additional information becomes available. There have been no material changes to critical accounting policies previously disclosed in our transition period report on form 10-K for the transition period September 25, 2014 to December 31, 2014.

### ***Effects of Governmental Regulations and Inflation***

Most Restaurant operations employees are paid hourly rates related to minimum wage laws. Any increase in the legal minimum wage would directly increase our operating costs. We are also subject to various laws related to zoning, land use, health and safety standards, working conditions, and accessibility standards. Any changes in these laws that require improvements to our restaurants would increase our operating costs.

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

The federal healthcare reform legislation that became law in March 2010 (known as the Patient Protection and Affordable Care Act [“PPACA”]) mandates menu labeling of certain nutritional aspects of restaurant menu items such as caloric, sugar, sodium, and fat content. Altering our recipes in response to such legislation could increase our costs and/or change the flavor profile of our menu offerings, which could have an adverse impact on our results of operations. Additionally, if our customers perceive our menu items to contain unhealthy caloric, sugar, sodium, or fat content, our results of operations could be further adversely affected.

Additionally, minimum employee health care coverage mandated by state or federal legislation, such as the PPACA, could significantly increase our employee health benefit costs or require us to alter the benefits we provide to our employees. While we are assessing the potential impact the PPACA will have on our business, certain of the mandates in the legislation are not yet effective. If our employee health benefit costs increase, we cannot provide assurance that we will be able to offset these costs through increased revenue or reductions in other costs, which could have an adverse effect on our results of operations and financial condition.

### ***Recently Issued Accounting Pronouncements***

For detailed information regarding recently issued accounting pronouncements and the expected impact on our consolidated financial statements, see Note 2, “New Accounting Standards” in the accompanying notes to consolidated financial statements included in Part I, Item 1 of this quarterly report on form 10-Q.

### ***Cautionary Note Regarding Forward-Looking Statements***

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items, and assumptions underlying any of the foregoing. Forward-looking statements reflect management’s current expectations regarding future events and use words such as “anticipate,” “believe,” “expect,” “may,” and other similar terminology. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. These forward-looking statements are all based on currently available operating, financial, and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, many beyond our control, including, but not limited to, the risks and uncertainties described in Item 1A, Risk Factors of our transition report on form 10-K. We undertake no obligation to publicly update or revise them, except as may be required by law.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The majority of our investments are conducted through investment partnerships which generally hold common stocks. We also hold marketable securities directly. Through investments in the investment partnerships we hold a concentrated position in the common stock of Cracker Barrel Old Country Store, Inc. A significant decline in the general stock market or in the prices of major investments may produce a large net loss and decrease in our consolidated shareholders' equity. Decreases in values of equity investments can have a materially adverse effect on our earnings and on consolidated shareholders' equity.

We prefer to hold equity investments for very long periods of time so we are not troubled by short-term price volatility with respect to our investments. Our interests in the investment partnerships are committed on a rolling 5-year basis, and any distributions upon our withdrawal of funds will be paid out over two years (and may be paid in kind rather than in cash). Market prices for equity securities are subject to fluctuation. Consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. A hypothetical 10% increase or decrease in the market price of our investments would result in a respective increase or decrease in the fair market value of our investments of \$88,164 along with a corresponding change in shareholders' equity of approximately 8%.

Borrowings on Steak n Shake's credit facility bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. At June 30, 2015, a hypothetical 100 basis point increase in short-term interest rates would not have a significant impact on our net earnings. Steak n Shake has entered into two interest rate swaps with current notional amounts of \$68,000. The fair values of the interest rate swaps was a liability of \$69 on June 30, 2015.

We have had minimal exposure to foreign currency exchange rate fluctuations in the first six months of 2015 and 2014.

### **ITEM 4. Controls and Procedures**

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of June 30, 2015.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2015 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1A. RISK FACTORS**

An investment in the common stock of any company involves a degree of risk. Investors should consider carefully the risks and uncertainties described in the Company's transition report on Form 10-K filed with the SEC, and those other risks described elsewhere in this report, before deciding whether to purchase our common stock. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm the Company's business, financial condition, and results of operations. The occurrence of risk factors could harm the Company's business, financial condition, and results of operations. The trading price of the Company's common stock could decline due to any of these risks and uncertainties, and stockholders may lose part or all of their investment.

The following material changes in the risk factors previously disclosed in the Company's transition report on form 10-K for the period September 25, 2014 to December 31, 2014.

*Sardar Biglari, our Chairman and CEO, exercises voting control over approximately 49.5% of our outstanding shares of common stock, enabling Mr. Biglari to exert significant influence over matters requiring shareholder approval.*

Sardar Biglari, Chairman and CEO, beneficially owns approximately 49.5% of our outstanding shares of common stock. Mr. Biglari thus has the ability to exert significant influence on the Company.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<u>Exhibit Number</u>	<u>Description</u>
31.01	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive Data Files.

\* Furnished herewith.

\*\* In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 7, 2015

BIGLARI HOLDINGS INC.

By: /s/ BRUCE LEWIS  
Bruce Lewis  
Controller

## EXHIBIT 31.01

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sardar Biglari, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biglari Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2015

/s/ Sardar Biglari  
Sardar Biglari  
*Chairman and Chief Executive Officer*

## EXHIBIT 31.02

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce Lewis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biglari Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2015

/s/ Bruce Lewis  
Bruce Lewis  
*Controller*

**EXHIBIT 32.01**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Biglari Holdings Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sardar Biglari  
Sardar Biglari  
Chairman and Chief Executive Officer  
August 7, 2015

/s/ Bruce Lewis  
Bruce Lewis  
Controller  
August 7, 2015