



## Dear Shareholders of Biglari Holdings Inc.:

Biglari Holdings is a story of entrepreneurship. My journey began with a standing start of nearly zero (\$15,000 to be precise), morphing into a creation that now has about 22,000 employees and over \$1 billion in cash and investments. I believe we have the ideal vehicle to continue building an enterprise shaped by opportunity. Our structure affords us enormous flexibility in allocating capital, enabling us to enter into any industry, any company, any place. Our entrepreneurial odyssey has been grounded on a sound premise: maximizing long-term value by exploiting rich possibilities. The sophistication of our system lies in its simplicity.

Our style of operating is idiosyncratic. Much like a bespoke suit that a tailor creates from scratch to fit the person, your corporation has been designed to fit the skill set of the person behind it. As the architect of the corporate structure, my aim has been to build the enterprise in accordance with my own abilities as an entrepreneur and investor. Our model is not suitable for everyone — and conversely the methods of others may be unsuitable for us.

Although about 22,000 people are employed by Biglari Holdings, only 5 reside at headquarters. We centralize control of capital allocation but prefer to decentralize management at the business unit level. As the sole capital allocator, the decisions I make shape the company. In determining capital deployment decisions, I employ no staff in evaluating acquisitions or investments. We circumvent suffocating bureaucracy and thereby accelerate speed in decision-making. Our entrepreneurial flexibility is a competitive advantage in a corporate world awash with bureaucratic inflexibility.

Biglari Holdings grew from the amalgamation of two troubled restaurant chains: Western Sizzlin and Steak n Shake, both of which were failing in varying degrees at the time Phil Cooley, Vice Chairman of Biglari Holdings, and I took control of them. How were they going bankrupt? In Ernest Hemingway's words, "Two ways...Gradually and then suddenly." With each company — Western Sizzlin in 2006 and Steak n Shake in 2008 — we turned lemons into lemonade.

The shareholders we inherited at Western Sizzlin and Steak n Shake were at serious risk, particularly at Steak n Shake, which necessitated a transformation in all facets of the business. At the time of our takeover in August 2008, Steak n Shake was at the very edge of bankruptcy with \$1.6 million of cash, \$27 million in debt, and was losing about \$100,000 *per day in cash*. Turning setbacks into successes, both companies became prodigious cash generators, thus forming the base for the development of the parent company. By extracting a great deal of capital out of Steak n Shake — to the tune of \$344 million — we have transformed into a dynamic corporation, comprised of a growing collection of businesses and investments. In effect, we took a near-bankrupt company and used it to build a billion dollar enterprise. Here is the resultant effect on cash and investments, beginning with our assuming control:

(In Millions)

	2016*	2015*	2014	2013	2012	2011	2010	2009	2008
Cash and Cash-Equivalents...	\$ 75.8	\$ 56.5	\$ 124.3	\$ 94.6	\$ 60.4	\$ 99.0	\$ 47.6	\$ 51.4	\$ 1.6
Marketable Securities.....	26.8	23.8	21.5	85.5	269.9	115.3	32.5	3.0	–
The Lion Fund**.....	972.7	734.7	620.8	455.3	48.3	38.5	38.6	–	–
Total Investments.....	<b>\$1,075.3</b>	<b>\$ 815.0</b>	<b>\$ 766.6</b>	<b>\$ 635.4</b>	<b>\$ 378.6</b>	<b>\$ 252.8</b>	<b>\$ 118.7</b>	<b>\$ 54.4</b>	<b>\$ 1.6</b>

\* Data are for calendar years. The years 2009 through 2014 were fiscal years ending on the last Wednesday nearest September 30. The 2008 data is for the fiscal quarter ending on July 2, 2008, the nearest fiscal quarter prior to present management assuming control.

\*\* These sums are Biglari Holdings' investments in The Lion Fund, L.P. and The Lion Fund II, L.P. The interests of the other limited partners are not included. Both partnerships throughout this letter will be referenced as The Lion Fund.

Biglari Holdings' structure is designed to pursue and exploit valuable propositions. Over the last eight years Biglari Holdings' cumulative pre-tax earnings (including investment profits) have totaled approximately \$630 million.

Biglari Holdings is a constellation of disparate businesses fused together by a common purpose. Think of Biglari Holdings as a museum of businesses. Our preference is to collect masterpieces, such as First Guard Insurance Company, an entrepreneurial success story. We are able to provide a permanent home whereby the business, its headquarters, and its personnel remain in place. In other words, we seek the *absence* of change. With prototypical acquisitions, managerial autonomy is not only what we offer, but what we seek. For instance, First Guard's founder, Edmund B. Campbell, III, has run the insurance company after the transaction as he did before.

Undoubtedly, the blueprint for an ideal acquisition is First Guard: an exceptionally well-managed business with uncommonly strong economics and purchased at an appropriate price. In such an acquisition, we are gaining a successful company along with successful management. With the purchase of First Guard we have been building a reputational advantage. The commercial advantage inherent in that reputation is critical to potential acquisitions. The primary way for a seller to assess how we will function in the future is to review our dealings with First Guard.

We offer what most business buyers — strategic or financial — do not or cannot offer family-owned and -managed businesses: continuity and permanency. We will not resell a business even if we receive an offer in excess of what we think it is worth. Because we immobilize capital, we must discern the kind of businesses we would like to become part of Biglari Holdings' family of companies. Indeed, we are drawn to associating only with honorable people. Our philosophy may be old-fashioned, but it resonates with like-minded entrepreneurs. It may appear ill-advised and ill-conceived to maintain a holding period in perpetuity, but not to us. Any ill-effects are more than offset by the benefits of associating with high-quality businesses and first-class managers.

Along with pursuing our favorite type of purchase — exceptional businesses combined with exceptional owner-managers — we are also interested in buying inefficiently managed businesses with the potential for value creation. We may even acquire, on rare occasion, a business hemorrhaging cash, but one in which we think we could engineer a successful turnaround. In both of these situations — unlike our preferred arrangement — we would assume direct management responsibility.

But our options for effective capital utilization do not end there. Whereas our preference is to acquire businesses in their entirety, the stock market frequently offers us better value through purchasing fractional business ownership. To maximize the efficacy of capital allocation, we survey a broad range of investment opportunities.

The overarching economic objective of Biglari Holdings is to maximize per-share intrinsic value.<sup>1</sup> Our operating and capital deployment decisions are driven by their long-term economic consequences. The combination of cash generated by operating subsidiaries along with my capital allocation work will stoke our corporate performance, which according to our criterion must outdo our benchmark, the S&P 500 Index. Over the last eight years, namely, since present management has been in control, we believe Biglari Holdings' gain in per-share intrinsic value has *far* outstripped the S&P.

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<sup>1</sup> Intrinsic value is measured by taking all future cash flows into and out of the business and discounting the net figures at an appropriate interest rate.

Two components — investments and operating businesses — are critical in assessing the company’s progress. We now present the dual segments.

## Investments

By the end of 2016, total investments (cash, marketable securities, and Biglari Holdings’ investments in The Lion Fund) amounted to about \$1.1 billion, of which over half were derived from investment gains. Our investment activities are largely conducted through The Lion Fund, whose origin dates back to the turn of the century when I started it.

Here is a breakdown of how Biglari Holdings started with \$1.6 million and entered the Three Comma Club:

	<u>2008-2016</u>
Cash & Investments as of July 2, 2008.....	\$ 1,621,000
Investment Gains (net of losses).....	574,623,000
Operating Businesses.....	233,500,000
Acquisitions of Businesses.....	(68,111,000)
Net Increase in Subsidiary Debt.....	172,174,000
Equity Offerings.....	<u>161,468,000</u>
Cash & Investments as of December 31, 2016.....	<u><b>\$ 1,075,275,000</b></u>

Mark Twain maintained, “There are two times in a man’s life when he should not speculate: when he can’t afford it, and when he can.” We are owners of businesses, not speculators in stocks. When we purchase common stock, we view ourselves as part owners in a business. Moreover, Phil and I believe long-term investing is a competitive advantage in an age of short-termism. The world tends to overrate the one-year prospect and underrate the ten-year potential. When we can evaluate the long-term prospects of a business and buy it below intrinsic value, then we will achieve long-term prosperity.

Our approach — contrary to that of typical professional investors — is to make relatively few investments and concentrate holdings for the very long-term. Of course, with fewer transactions, knowledge per transaction must be exceptional. Over the last several years we have generated considerable investment profits from portfolio *inaction*. Activity is not correlated with achievement.

The Lion Fund’s largest common stock holding is 4,737,794 shares of Cracker Barrel Old Country Store, Inc., a 19.7% equity interest. We purchased stock in Cracker Barrel for \$241 million from May 2011 through December 2012, with a dollar-weighted purchase date of December 2011. Over five years of ownership, we have never sold a single share. At the end of the year, the market value of our stake was \$791 million. Along the way we have also collected \$106 million in dividends, or 44% of our cost.

At year-end 2016, Biglari Holdings had a \$973 million investment in The Lion Fund partnerships, with net unrealized appreciation from the securities in the partnerships of \$552 million. As is evident in Biglari Holdings’ financial statements, we would owe taxes of \$156 million if the

partnerships liquidated their holdings at year-end values. Therefore, Biglari Holdings' investment in the partnerships excludes accounting for the deferred income taxes on unrealized gains. The tax liability, we regard, is tantamount to an interest-free loan from the government for the company's benefit.

## Operating Businesses

We have four major controlled businesses, each 100%-owned: Steak n Shake, Western Sizzlin, First Guard, and Maxim. Biglari Holdings is a compounding cash machine, and its array of businesses generates considerable excess cash. Because cash production exceeds cash consumption, we redeploy surplus cash to diversify Biglari Holdings into a range of unrelated businesses. Our devotion to sensible acquisitions will fuel long-term cash flows.

Because we are driven by intrinsic value, not by an income statement, in our view our reported earnings do not properly represent a meaningful measure of our economic progress. Nevertheless, as a first step in evaluating Biglari Holdings' performance, the following table delineates an unconventional breakdown of our earnings in a form that Phil and I find more useful than the conventional one in our consolidated statements.

	<i>(In 000's)</i>	
	<u>2016</u>	<u>2015</u>
Operating Earnings:		
Steak n Shake .....	\$ 34,717	\$ 39,749
Western Sizzlin .....	2,506	1,849
First Guard.....	5,135	3,529
Maxim .....	(10,078)	(18,105)
Corporate and Other.....	<u>(10,147)</u>	<u>(13,167)</u>
Operating Earnings Before Interest and Taxes.....	22,133	13,855
Interest Expense .....	11,450	11,930
Income Taxes .....	<u>2,564</u>	<u>(400)</u>
Net Operating Earnings .....	8,119	2,325
The Lion Fund (net of taxes).....	<u>91,332</u>	<u>(18,168)</u>
Total Earnings .....	<u>\$ 99,451</u>	<u>\$ (15,843)</u>

Our reported earnings are materially affected by the volatility in the carrying value of The Lion Fund. We are indifferent about the variability in reported earnings triggered by the accounting of the investment partnerships. We simply separate changes in the partnerships' values from those in operating businesses when we report Biglari Holdings' earnings. In addition, Phil and I evaluate our equity holdings within The Lion Fund based on their underlying operating results, not on their short-term changes in market price.

The net operating earnings of \$8.1 million in 2016 versus \$2.3 million in 2015 provide an incomplete evaluation of our performance. We measure business progress not on this year's profits — or even on this year's cash flows — but rather on the present value of future cash flows. We avoid

businesses in which net income appears robust but cash flows are illusory. Our view on earnings is that they are not real until they end up as cash. One cannot spend net income. Besides, companies do not go broke because they run out of earnings but because they run out of cash.

## **Restaurant Operations**

Our restaurant operations consist of Steak n Shake and Western Sizzlin. The business models of each differ, with Steak n Shake primarily operating restaurants, totaling 590 locations, of which 417 are company operated. Western Sizzlin, on the other hand, is primarily engaged in franchising restaurants, with 67 units — all but 3 are franchisee run. Both chains generate substantial excess cash, which are dispatched to the parent company for higher and better use. Our owning and operating two cash-creating restaurant chains provides a solid foundation for Biglari Holdings.

My enthusiasm for our restaurant companies does not extend to the industry. The restaurant business too often resembles a cemetery. Investors' capital paying a visit can easily find itself inadvertently taking up permanent residence. The restaurant business is brutal, having had its share of distress, destruction, and disastrous bankruptcies. *Any* business with high operating risk and high leverage is certainly a risky enterprise, one wrong turn from the road to ruination.

Our introduction to the restaurant business was Western Sizzlin, a small, publicly-owned company with a market valuation of about \$10 million when The Lion Fund began purchasing shares in the summer of 2005. By March 2006, Phil and I took control of Western, our first publicly-owned company. We reallocated its capital into other unrelated but profitable investments: initially, with the purchase of Friendly Ice Cream Corp.'s common stock. However, in 2007 Friendly's was sold, netting Western about an 80% return, with the proceeds invested into the shares in then publicly-owned Steak n Shake, which were later distributed to Western shareholders. In March 2010 Biglari Holdings purchased Western for a net purchase price of \$21.7 million. Tracing the Western stock since Phil and I entered the scene, its shareholders have been richly rewarded.

Since Biglari Holdings' acquisition, Western's cash distributions to the parent company have totaled \$18.8 million, which we have gainfully redeployed into other opportunities. Western is a dependable money-earner.

\* \* \*

When we took control of Steak n Shake in August 2008, we completely overhauled the company with a new vision. No one decision resuscitated this dying restaurant chain from its agony of losses into an enterprise cascading cash, an accomplishment initiated in the midst of the Great Recession. While the details of the turnaround are too lengthy to be enumerated here, I will share a worthy example.

For several years, prior management pursued a strategy (naturally, with the assistance of consultants) of diversifying the chain's product line to feature items such as chicken sandwiches, yogurt shakes, and an assortment of salads, which culminated into an eight-page menu. We abolished that lethal strategy by replacing an eight-page menu with a bi-fold. We completely stripped down the menu to its essentials. In doing so, we placed 80% of the emphasis on products that were generating 80% of the revenue: burgers, fries, soda, and shakes. But we made certain that what we did serve — delicious Steakburgers and hand-dipped milkshakes — were absolutely the best of the best. Exceptional products and prices along with exceptional customer experience were necessary to inject verve into the chain and

begin to attract more customers on a same-store basis. In 2016, each company-operated unit had 70,000 *more* customer visits than in 2008. Such a success is a tribute to the efforts and dedication of our approximately 22,000 associates.

Here is a review of Steak n Shake’s results since 2008:

*(Dollars in 000’s)*

	<b>Net Revenue</b>	<b>Operating Earnings</b>	<b>Number of Customers</b>	<b>Same-Store Sales</b>	<b>Number of Company Stores at Year-End</b>	<b>Operating Earnings Per Store</b>
2008 .....	\$ 610,061	\$ (30,754)	85,000,000	(7.1%)	423	\$ (72.7)
2009 (53 weeks)...	628,726	11,473	91,000,000	4.1%	412	27.8
2010 .....	662,891	38,316	101,000,000	7.5%	412	93.0
2011 .....	689,325	41,247	105,000,000	4.2%	413	99.9
2012 .....	718,010	45,622	110,000,000	3.8%	414	110.2
2013 .....	737,090	28,376	112,000,000	2.2%	415	68.4
2014 .....	765,600	26,494	114,000,000	2.9%	416	63.7
2015 .....	805,771	39,749	118,000,000	3.6%	417	95.3
2016 .....	804,423	34,717	116,000,000	(0.4%)	417	83.3

*Notes: Customer count is only for company-operated units.*

*The 2016 and 2015 data are presented for calendar years. The years 2008 through 2014 were fiscal years ending on the last Wednesday nearest September 30.*

2016 represents a year in which overall sales and profits declined even though we had expected their advancement. Steak n Shake’s earnings before interest and taxes were \$34.7 million, down from \$39.7 million in the preceding year. In 2016, same-store sales declined by 0.4%. Our performance was not the result of poor economic or weather conditions — two industry favorites and frequently cited alibis — but the result of our own lack of execution. On the positive side, the franchise business progressed to our expectations. Despite the overall operating shortfall in 2016, Phil and I believe Steak n Shake’s intrinsic value increased moderately.

Our formula is exceedingly simple: Provide the highest quality burgers and shakes at the lowest possible profit per customer from an ever-increasing number of customers. What worked for Henry Ford with cars works for us with burgers. He wrote: “I hold that it is better to sell a large number of articles at a small profit than to sell a few at a large profit....We have had a small profit per article but a large aggregate profit.” By maximizing value for our customers, we maximize value for ourselves as owners.

We are an industrious organization steadfast on efficiency. By tightly controlling expenses, we pass most of the savings on to the customer. We thus build loyalty one customer at a time. Because of our customer-focused culture, we have achieved one of the most exceptional eight-year customer traffic gains in the industry, with a cumulative increase of 40%, notwithstanding the 1.2% decline in 2016.

To improve our operating performance henceforth we must outthink, outwork, and outexecute the competition. We have the drive and the determination to improve performance through the combination of our pricing philosophy, unwavering devotion to quality, plus expense control policies —



all necessary to provide excellent value to customers and thereby gain more of them on a same-store basis. We are guided by a straightforward credo: The more relevant we are to customers, the less relevant the competition becomes.

To become a very profitable enterprise, we are leveraging the Steak n Shake brand to capitalize on a franchise-based model, a noncapital-intensive strategy that generates high-return, annuity-like cash flows. Franchising is not only a business that can produce cash instead of consuming it, but can concomitantly reduce operating risk.

The first franchised unit opened in 1939, five years after Steak n Shake was founded. From 1939 to 2010, Steak n Shake grew at a snail’s pace — by an average of one franchised unit per year — the byproduct of an almost nonexistent franchise system. To fulfill our dream of becoming a global brand, we began developing a franchise system from scratch in 2010, allocating significant sums to build the infrastructure necessary to support franchise growth. For the period 2011 through 2015, the franchising business operated at a loss under accounting convention, but intrinsic value advanced. In 2016, we eked out a profit. We continue to allocate capital on the expectation of creating greater dollar value for each dollar spent. The impact of our investments is displayed below in the number of franchise units and the revenues derived from them:

*(Dollars in 000’s)*

	<b>Number of Franchise Units</b>	<b>Franchise Revenue</b>
2010.....	71	\$ 4,205
2016.....	173	16,057
Overall Gain	102	\$11,852

Over the last six years we have added 102 franchised units. System-wide sales, which include both company-operated and franchise-operated sales, now exceed \$1 billion, an increase of 50% over 2008.

Our prospects for domestic and international franchising remain bright. In 2016 we added 29 net units over the prior year and expect an even higher gain in 2017. As we continue to expand, franchise performance becomes paramount. After all, their success is our success.

Internationally, we have a counter-service model that has proven to be effective. After opening units in several countries, we concentrated our resources in France, a country in which no other competitor comes close to matching the combination of our quality, price, and productivity. We are teaming up with terrific franchisees who, like us, are dedicated to perfection. We are off to a solid start to seize the opportunity in France, to share the pleasure of the authentic Steakburger and milkshake. Thus far, we have locations in Cannes, Marseille, Toulon, Paris, Caen, Calais, Toulouse, and Bordeaux. *Vive la France! Vive le Steakburger!*



## First Guard Insurance Company

Three years ago next month, on March 19, 2014, we entered the insurance business by purchasing First Guard Insurance Company and its affiliated agency. We could not have chosen a better entry into the industry than by acquiring one of its finest. Phil and I had high expectations when we purchased First Guard — and they all have been exceeded.

As a direct underwriter of commercial trucking insurance — no agent between the insurer and the insured — First Guard is positioned as a low-cost operator, engendering a substantial, sustainable competitive advantage. Because of its highly efficient operation, First Guard produces unusually high profitability. The creator of this marvelous system is Ed Campbell, III, who along with his outstanding team has unfailingly achieved underwriting profitability for 20 consecutive years, which places them in a league of their own.

Shown below are the results for the last three years. Do note 2014 is presented as a full year, that is, as if we had owned the company throughout the year rather than from the date of acquisition:

*(Dollars in 000's)*

	<u>Net Written Premium</u>	<u>Underwriting Profit</u>	<u>Combined Ratio</u> <sup>*</sup>
2014.....	\$ 10,757	\$ 2,293	78.7
2015.....	16,719	3,357	79.9
2016.....	22,397	4,913	78.1

*\* The combined ratio represents losses incurred plus expenses as compared to revenue from premiums. A combined ratio beneath 100 percent denotes an underwriting profit whereas a ratio above 100 percent presents a loss.*

In 2016 First Guard achieved both a new volume and a new profit record. The company earned \$5.1 million pre-tax, an increase of 45.5% over the prior year. The two-year profit growth of 96.9% is the highest ever attained during any other two-year period in First Guard's 20-year history. First Guard is achieving superior results because it is a superior company. Ed has an A+ team that is highly seasoned, profit-minded, and destined in our view to continue producing A+ underwriting results.

I regard Ed's laser-like focus as central to creating his business masterpiece. He has shown mastery in the insurance business by designing a superior system, by occupying a special niche, and by displaying unwavering underwriting discipline. Phil and I admire not only Ed's abilities and performance but also the honorable manner in which he conducts his business.

Without question First Guard would have remained a first-class company had it remained independent, but, to be sure, it has become a far more valuable and substantial enterprise as a constituent company of Biglari Holdings. The parent company's ownership has created an environment that has unleashed management's potential by capitalizing on Biglari Holdings' financial strength. While we have the capacity to write more business, we are sufficiently disciplined to maintain high profitability. But, indeed, we do not mind bumps in annual performance if we expect long-term performance to be superior.

## **Maxim Inc.**

When we purchased Maxim, it was a dying magazine, operating at a significant loss, but we viewed the opportunity with realistic optimism. We pinpointed Maxim as an underexploited brand that we could transform into a cash-generating business, notably through licensing related to consumer products, services, and events.

To attain our goals, we addressed both the traditional side of the business, publishing, as well as the emerging side of the business, licensing. When we assumed control of Maxim nearly three years ago, we began to implement our plan: focus on the reader, assume a long-term perspective, and invest decisively to emerge as a radically different company. Unlike many of our competitors that are advertiser-focused, we are reader-focused. A fixation on the former, we believe, after a while will inevitably attract fewer of either. Resultantly, we repositioned the brand to become aspirational and inspirational, thereby projecting style and sophistication. Today, we publish a luxury lifestyle magazine that appeals to a more affluent audience. In the process we transformed Maxim's business model, operating with just one-seventh of the staff we inherited. We have significantly reduced the high operating costs seemingly inherent in the media business — both print and digital — yet amplified the quality of the paper, photography, and content.

Because of the tireless efforts of the Maxim team, we attained our previously set goal of becoming profitable during 2016, albeit at the very end of the year. We are now working to achieve a level of profit that in relation to our total investment of \$43.9 million (purchase price plus aggregate after-tax losses) will generate a satisfactory return. But do not expect smooth results. The nature of the licensing business is predicated on projects that materialize with irregularity, but whose eventual outcome we expect to be favorable.

## **Shareholder Communications**

My communications with shareholders are generally limited to the annual report and the annual meeting. We do not provide earnings guidance, nor do we hold quarterly conference calls because neither activity would be consistent with our ethos and style of managing the business. Because I am the controlling shareholder, we are under no pressure to conform to prevailing conventions. Moreover, we wish to provide all shareholders simultaneously with the same information. One-on-one meetings are neither productive nor practicable.

My intention in this report is to impart as much about our company as is reasonable. We readily acknowledge that we have many investors who have taken a simple approach by entrusting us with their capital because Phil and I have a track record of long-term wealth creation. Others are highly sophisticated investors who understand our approach but require highly detailed analysis, and we endeavor to provide the information they seek. Note that only like-minded shareholders in sync with our operating philosophy should own Biglari Holdings' stock.

Past Chairman's Letters are also essential to help you gain more knowledge of our business. These letters can be easily accessed on our website, [biglariholdings.com](http://biglariholdings.com).

To keep you abreast of the company, we will issue press releases concerning 2017 quarterly results after the market closes on May 5, August 4, and November 3. The 2017 annual report will be posted on our website on Saturday, February 24, 2018.

Our annual meeting will be held at 1:00 pm on Thursday, April 27, 2017 in New York City at the St. Regis Hotel. The meeting is just for our owners; to attend, you must own shares and show proof thereof. As an owner, you may bring up to two pre-registered guests with you. The bulk of the gathering is a question-and-answer session that usually lasts about five hours, covering myriad topics on shareholders' minds. Phil and I look forward to spending that time answering your questions. We find the annual meeting to be an effective channel to communicate with you.

\* \* \*

Biglari Holdings is a wealth-creating company. Phil and I derive immeasurable satisfaction from building and managing this multi-unit business. As owners and operators, we have the imagination and initiative to continue building a constructive, entrepreneurial enterprise.

We aim to make your journey with us a prosperous one.

Sardar Biglari  
Chairman of the Board

February 23, 2017

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

FORM 10-K

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

For the fiscal year ended December 31, 2016

or

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

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

Commission file number 0-8445

**BIGLARI HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

**INDIANA**

(State or other jurisdiction of incorporation)

**37-0684070**

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

**17802 IH 10 West, Suite 400  
San Antonio, Texas**

(Address of principal executive offices)

**78257**

(Zip Code)

**(210) 344-3400**

Registrant's telephone number, including area code

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

Title of each class	Name of each exchange on which registered
Common Stock, stated value \$.50 per share	New York Stock Exchange

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

NONE

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2016 was approximately \$405,919,763.

As of February 20, 2017, 2,067,547 shares of the registrant's Common Stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement to be filed for its 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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## Part I

### Item 1. Business

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, and restaurants. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and 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 Mr. Biglari. As of December 31, 2016, Mr. Biglari's beneficial ownership of the Company's outstanding common stock was approximately 51.3%.

In 2014, the Company's Board of Directors approved a change in the Company's fiscal year-end moving from a 52 or 53 week fiscal year ending on the last Wednesday in September to a calendar year ending on December 31 of each year. This form 10-K includes an audited statement of earnings, statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity for the years ended December 31, 2016 and 2015, transition period for September 25, 2014 to December 31, 2014 (the "2014 transition period") and fiscal year ended September 24, 2014, and an audited balance sheet as of December 31, 2016 and 2015. Fiscal year 2014 contained 52 weeks. For comparative purposes, an unaudited statement of earnings, statement of comprehensive income and statement of cash flows have been included for September 26, 2013 to December 31, 2013 (the "2013 transition period"). The comparative transition period has not been audited and is derived from the books and records of the Company. In the opinion of management, the comparative transition period reflects all adjustments necessary to present the financial position and results of operations of the Company in accordance with generally accepted accounting principles.

#### Restaurant Operations

The Company's restaurant operations' activities are conducted through two restaurant concepts operated by subsidiaries Steak n Shake Inc. ("Steak n Shake") and Western Sizzlin Corporation ("Western"). As of December 31, 2016, Steak n Shake operated 417 company-operated restaurants and 173 franchised units. Western operated 3 company-operated restaurants and 64 franchised units.

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

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

#### *Operations*

A typical restaurant's management team consists of a general manager, a restaurant manager and other managers depending on the operating complexity and sales volume of the restaurant. Each restaurant's general manager has primary responsibility for the day-to-day operations of his or her unit. Restaurant operations obtain food products and supplies from independent national distributors. Purchases are centrally negotiated to ensure uniformity in product quality.

#### *Franchising*

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

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

### *International*

We have a corporate office in Monaco to support expansion of Steak n Shake primarily in Europe. We have developed an international organization with personnel in various functions to support international efforts. As of December 31, 2016 we have two company-operated locations in Europe to promote the Steak n Shake brand to prospective franchisees. Similar to our domestic franchise agreements, a typical international franchise development agreement provides the vehicle for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. As of December 31, 2016, there were a total of 20 franchised units in Europe and the Middle East.

### *Competition*

The restaurant business is one of the most intensely competitive industries. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company's restaurant operations capabilities. Restaurant businesses compete on the basis of price, menu, food quality, location, and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, weather conditions, and competing restaurants.

### *Government regulations*

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

### *Trademark and licenses*

The name and reputation of Steak n Shake is a material asset and management protects it and other service marks through appropriate registrations.

### **Insurance Business**

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. First Guard is headquartered in Venice, Florida.

First Guard competes for truck insurance with other companies. The trucking insurance business is highly competitive in the areas of price and service. Vigorous competition is provided by large, well-capitalized companies and by small regional insurers. First Guard's insurance products are marketed primarily through direct response methods via the Internet or by telephone. First Guard's cost-efficient direct response marketing methods enable it to be a low-cost trucking insurer. First Guard uses its own claim staff to manage claims. Seasonal variations in First Guard's insurance business are not significant. However, extraordinary weather conditions or other factors may have a significant effect upon the frequency or severity of claims.

The insurance business is stringently regulated by state insurance departments. First Guard operates under licenses issued by various insurance authorities. Such supervision and regulation include matters relating to authorized lines of business, capital and surplus requirements, licensing of insurers, investments, the filing of annual and other financial reports prepared on the basis of Statutory Accounting Principles, the filing and form of actuarial reports, dividends, and a variety of other financial and non-financial matters.

### **Media Business**

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. Maxim is headquartered in New York City, New York.

Maxim competes for licensing business with other companies. The nature of the licensing business is predicated on projects that materialize with irregularity. In addition, publishing is a highly competitive business. The Company's magazines and related publishing products and services compete with other mass media, including the Internet and many other leisure-time activities. Competition for advertising dollars is based primarily on advertising rates, circulation levels, reader demographics, advertiser results, and sales team effectiveness.

Maxim products are marketed under various registered brand names, including, but not limited to, "MAXIM®" and "Maxim®".

## **Investments**

The Company and its subsidiaries have invested in The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, “the investment partnerships”). The investment partnerships operate as private investment funds. As of December 31, 2016, the fair value of the investments was \$972.7 million. These investments are subject to a rolling five-year lock-up period under the terms of the respective partnership agreements.

## **Employees**

The Company employs 21,519 persons.

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

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

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

## **Item 1A. Risk Factors**

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

### **Risks relating to Biglari Holdings**

#### ***We are dependent on our Chairman and CEO.***

Our success depends on the services of Sardar Biglari, Chairman and Chief Executive Officer. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari. If for any reason the services of Mr. Biglari were to become unavailable, a material adverse effect on our business could occur.

#### ***Sardar Biglari, our Chairman and CEO, beneficially owns over 50% of our outstanding shares of common stock, enabling Mr. Biglari to exert control over matters requiring shareholder approval.***

Mr. Biglari has the ability to control the outcome of matters submitted to our shareholders for approval, including the election or removal of directors, the amendment of our certificate of incorporation or bylaws, along with other significant transactions. In addition, Mr. Biglari has the ability to control the management and affairs of the Company. This control position may conflict with the interests of some or all of the Company’s other shareholders.

#### ***We are a “controlled company” within the meaning of the New York Stock Exchange rules and thus can rely on exemptions from certain corporate governance requirements.***

Because Mr. Biglari beneficially owns more than 50% of the Company’s outstanding voting stock, we are considered a “controlled company” pursuant to New York Stock Exchange rules. As a result, we are not required to comply with certain director independence and board committee requirements.

#### ***Our historical growth rate is not indicative of our future growth.***

When evaluating our historical growth and prospects for future growth, it is important to consider that while our business philosophy has remained constant our mix of business has changed and will continue to change. Our dynamic business model makes it difficult to assess our prospects for future growth. Restrictions on our access to capital described further below may also adversely affect our ability to execute our plans for future growth.

#### ***Biglari Holdings’ access to capital is subject to restrictions that may adversely affect its ability to satisfy its cash requirements or implement its growth strategy.***

We are a holding company and are largely dependent upon dividends and other sources of funds from our subsidiaries in order to meet our needs. Steak n Shake’s credit facility contains restrictions on its ability to pay dividends to Biglari Holdings. In

addition, the ability of our insurance subsidiaries to pay dividends to Biglari Holdings is regulated by state insurance laws, which limit the amount of, and in certain circumstances may prohibit the payment of, cash dividends. Furthermore, as a result of our substantial investments in The Lion Fund, L.P. and The Lion Fund II, L.P., investment partnerships controlled by Mr. Biglari, our access to capital is restricted by the terms of their respective partnership agreements, as described more fully below. There is also a high likelihood that we will make additional investments in these investment partnerships. Taken together, these restrictions may result in our having insufficient funds to satisfy our cash requirements. As a result, we may need to look to other sources of capital which may be more expensive or may not be available.

***Competition.***

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

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

To the extent that the recovery from the economic recession continues to be slow or the economy worsens for a prolonged period of time, one or more of our significant operations could be materially harmed. In addition, our restaurant operations depend on having access to borrowed funds through the capital markets at reasonable rates. To the extent that access to credit is restricted or the cost of funding increases, our business could be adversely affected.

***Our operating businesses face a variety of risks associated with doing business in foreign markets.***

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

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

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

The success of our business depends on the continued ability to use the existing trademarks, service marks, and other components of our brand to increase brand awareness and further develop branded products. While we take steps to protect our intellectual property, our rights to our trademarks could be challenged by third parties or our use of these trademarks may result in liability for trademark infringement, trademark dilution, or unfair competition, adversely affecting our profitability. We may also become subject to these risks in the international markets in which we operate and in which we plan to expand. Any impairment of our intellectual property or brands, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, could adversely impact our business, financial condition and results of operations.

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

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

***Certain agreements with our Chairman and CEO may have an adverse effect on our financial position.***

We have entered into a license agreement with Sardar Biglari, Chairman and Chief Executive Officer, under which Mr. Biglari has granted the Company an exclusive license to use his name when connected to the provision of certain products and services, as well as a sublicense agreement with Steak n Shake that, *inter alia*, grants Steak n Shake the right to use the trademark “Steak n Shake by Biglari.” In the event of a change of control of the Company or Mr. Biglari’s termination without cause or resignation following specified occurrences, including (1) his removal as Chairman of the Board or Chief Executive Officer or (2) his no longer maintaining sole capital allocation authority, Mr. Biglari would be entitled to receive revenue-based royalty payments related to the usage of his name under the terms of the license agreement for a defined period of no less than five years. In addition, we have an incentive agreement with Mr. Biglari, in which he is entitled to receive performance-based annual incentive payments contingent on the growth of the Company’s adjusted book value in each fiscal year.

**Risks Relating to Our Restaurant Operations**

***Our restaurant operations face intense competition from a wide range of industry participants.***

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

***Changes in economic conditions may have an adverse impact on our restaurant operations.***

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

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

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

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

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

The cost, availability and quality of ingredients restaurant operations use to prepare their food is subject to a range of factors, many of which are beyond their control. A significant component of our restaurant business’ costs is related to food commodities, including beef, fried products, poultry, and dairy products, which can be subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, changes in international commodity markets, and other factors. If there is a substantial increase in prices for these food commodities, our results of operations may be negatively affected. In addition, our restaurants are dependent upon frequent deliveries of perishable food products that meet certain specifications.



Shortages or interruptions in the supply of perishable food products caused by unanticipated demand, problems in production or distribution, disease or food-borne illnesses, inclement weather, or other conditions could adversely affect the availability, quality, and cost of ingredients, which would likely lower revenues, damage our reputation, or otherwise harm our business.

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

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

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

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

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

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

## **Risks Relating to Our Investment Activities**

***Our investment activities are conducted primarily through outside investment partnerships, The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, the "investment partnerships"), which are controlled by Mr. Biglari.***

Our investment activities are conducted mainly through these outside investment partnerships. Under the terms of their partnership agreements, each contribution made by the Company to the investment partnerships is subject to a five-year lock-up period, and any distribution upon our withdrawal of funds will be paid out over a two-year period (and may be paid in-kind rather than in cash, thus increasing the difficulty of liquidating these investments). As a result of these provisions and our consequent inability to access this capital for a defined period, our capital invested in the investment partnerships may be subject to an increased risk of loss of all or a significant portion of value, and we may become unable to meet our capital requirements. There is a high likelihood that we will make additional investments in these investment partnerships in the future.

We also have a Shared Services Agreement with Biglari Capital Corp. ("Biglari Capital"), general partner of the investment partnerships, pursuant to which we agreed to provide certain services to Biglari Capital (e.g., use of space at our corporate headquarters). There can be no assurance that we may realize any benefit from the Shared Services Agreement.

The incentive allocation to which Mr. Biglari, as Chairman and Chief Executive Officer of Biglari Capital, general partner of the investment partnerships, is entitled under the terms of the respective partnership agreements is equal to 25% of the net profits allocated to the limited partners in excess of their applicable hurdle rate over the previous high-water mark.

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

Our investments are predominantly held through the investment partnerships, which generally invest in common stocks. These investments are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc. A significant decline in the major values of these investments may produce a large decrease in our consolidated shareholders' equity and can have a material adverse effect on our consolidated book value per share and earnings.

***We are subject to the risk of possibly becoming an investment company under the Investment Company Act of 1940.***

We run the risk of inadvertently becoming an investment company, which would require us to register under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Registered investment companies are subject to extensive, restrictive and potentially adverse regulations relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid becoming and registering as an investment company under the Investment Company Act, we operate as an ongoing enterprise, operating with an asset base from which to pursue acquisitions. Furthermore, Section 3(c)(3) of the Investment Company Act excludes insurance companies from the definition of "investment company". Nonetheless, we monitor the value of our investments and structure transactions accordingly. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings or adverse developments with respect to our ownership of certain of our subsidiaries, could result in our inadvertently becoming an investment company. If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the Securities and Exchange Commission (the "SEC"), that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

### **Risks Relating to Our Insurance Business**

***Our success depends on our ability to underwrite risks accurately and to charge adequate rates to policyholders.***

Our results of operations depend on our ability to underwrite and set rates accurately for risks assumed. A primary role of the pricing function is to ensure that rates are adequate to generate sufficient premiums to pay losses, loss adjustment expenses, and underwriting expenses, and earning a profit.

***Our insurance business is vulnerable to significant catastrophic property loss, which could have an adverse effect on its financial condition and results of operations.***

Our insurance business faces a significant risk of loss in the ordinary course of its business for property damage resulting from natural disasters, man-made catastrophes and other catastrophic events. These events typically increase the frequency and severity of commercial property claims. Because catastrophic loss events are by their nature unpredictable, historical results of operations may not be indicative of future results of operations, and the occurrence of claims from catastrophic events may result in significant volatility in our insurance business' financial condition and results of operations from period to period. We attempt to manage our exposure to these events through reinsurance programs, although there is no assurance we will be successful in doing so.

***Inability to obtain reinsurance or to collect ceded losses and loss adjustment expenses could adversely affect our insurance business's ability to write new policies.***

Our insurance business purchases reinsurance to help manage its exposure to risk. Under these ceded reinsurance arrangements, another insurer assumes a specified portion of our exposure in exchange for a specified portion of policy premiums. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly. Thus, any decrease in the amount of this reinsurance will increase the risk of loss. If our insurance business is unable to obtain sufficient reinsurance at a cost it deems acceptable, it may be unwilling to bear the increased risk and may reduce the level of its underwriting commitments.

Ceded reinsurance does not discharge our insurance business' direct obligations under the policies it writes. Our insurance business remains liable to policyholders even if it is unable to obtain recoveries under which it believes it is entitled to receive under the reinsurance contracts. Losses may not be recovered from the reinsurers until claims are paid.



***Our insurance business is subject to extensive existing state, local and foreign governmental regulations that restrict its ability to do business and generate revenues.***

Our insurance business is subject to regulation in the jurisdictions in which it operates. These regulations may relate to, among other things, the types of business that can be written, the rates that can be charged for coverage, the level of capital and reserves that must be maintained, and restrictions on the types and size of investments that can be placed. Regulations may also restrict the timing and amount of dividend payments. Accordingly, existing or new regulations related to these or other matters or regulatory actions imposing restrictions on our insurance business may adversely impact its results of operations.

#### **Risks Relating to Our Media Business**

***Our media business faces significant competition from other magazine publishers and new forms of media, including digital media, and as a result our media business may not be able to improve its operating results.***

Our media business competes principally with other magazine publishers. The proliferation of choices available to consumers for information and entertainment has resulted in audience fragmentation and has negatively impacted overall consumer demand for print magazines and intensified competition with other magazine publishers for share of print magazine readership. Our media business also competes with digital publishers and other forms of media. This competition has intensified as a result of the growing popularity of mobile devices and the shift in preference of some consumers from print media to digital media for the delivery and consumption of content.

Our media business derives a significant percentage of its revenues from advertising. Competition among print magazine and digital publishers for advertising is primarily based on the circulation and readership of magazines and the number of visitors to websites, respectively, and the demographics of customers, advertising rates, plus the effectiveness of advertising sales teams. The proliferation of new platforms available to advertisers, combined with continuing competition from print platforms, has impacted both the amount of advertising our media business is able to sell as well as the rates advertisers are willing to pay. Our media business' ability to compete successfully for advertising also depends on its ability to prove the value of its advertising.

***Our pursuit of licensing opportunities for the Maxim brand may prove to be unsuccessful.***

Maxim's success depends to a significant degree upon its ability to develop new licensing agreements to expand its brand. However, these licensing efforts may be unsuccessful. We may be unable to secure favorable terms for future licensing arrangements, which could lead to, among other things, disputes with licensing partners that hinder our ability to grow the Maxim brand. Future licensing partners may also fail to honor their contractual obligations or take other actions that can diminish the value of the Maxim brand. Disputes could also arise that prevent or delay our ability to collect licensing revenues under these arrangements. If any of these developments occur or our licensing efforts are otherwise not successful, the value and recognition of the Maxim brand, as well as the prospects of our media business, could be materially, adversely affected.

***Our media business is exposed to risks associated with weak economic conditions.***

Because magazines are generally discretionary purchases for consumers, circulation revenues are sensitive to general economic conditions and economic cycles. Certain economic conditions such as general economic downturns, including periods of increased inflation, unemployment levels, interest rates, gasoline and other energy prices, or declining consumer confidence, may negatively impact consumer spending. Reduced consumer spending or a shift in consumer spending patterns away from discretionary items will likely result in reduced demand for our media business's magazines and may result in decreased revenues.

#### **Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

### Restaurant Properties

As of December 31, 2016, restaurant operations included 657 company-operated and franchised locations. Restaurant operations own the land and building for 154 restaurants. The following table lists the locations of the restaurants, as of December 31, 2016.

	Steak n Shake		Western Sizzlin		Total
	Company Operated	Franchised	Company Operated	Franchised	
<b>Domestic:</b>					
Alabama .....	2	7	-	6	15
Arizona .....	1	-	-	-	1
Arkansas .....	-	3	-	16	19
California .....	1	5	-	2	8
Colorado .....	2	2	-	-	4
Florida .....	80	3	-	-	83
Georgia .....	23	17	-	7	47
Illinois .....	62	7	-	-	69
Indiana .....	68	4	-	-	72
Iowa .....	3	-	-	-	3
Kansas .....	-	5	-	-	5
Kentucky .....	14	7	-	-	21
Louisiana .....	-	1	-	1	2
Maryland .....	-	1	-	1	2
Michigan .....	19	-	-	-	19
Mississippi .....	-	3	-	2	5
Missouri .....	39	25	-	-	64
Nevada .....	-	2	-	-	2
New Jersey .....	-	2	-	-	2
New York .....	1	-	-	-	1
North Carolina .....	6	7	-	7	20
Ohio .....	63	1	-	1	65
Oklahoma .....	-	5	-	9	14
Pennsylvania .....	7	4	-	-	11
South Carolina .....	1	5	-	3	9
Tennessee .....	9	13	-	4	26
Texas .....	14	13	-	1	28
Utah .....	-	1	-	-	1
Virginia .....	-	7	2	4	13
Washington .....	-	1	-	-	1
West Virginia .....	-	2	1	-	3
<b>International:</b>					
England .....	-	1	-	-	1
France .....	1	7	-	-	8
Kuwait .....	-	3	-	-	3
Italy .....	-	4	-	-	4
Portugal .....	-	2	-	-	2
Saudi Arabia .....	-	1	-	-	1
Spain .....	1	2	-	-	3
<b>Total</b> .....	<b>417</b>	<b>173</b>	<b>3</b>	<b>64</b>	<b>657</b>

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not applicable.

**Part II****Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Biglari Holdings’ common stock is listed for trading on the New York Stock Exchange (the “NYSE”), trading symbol: BH. The following table sets forth the high and low sales prices per share, as reported on the NYSE List:

	2016		2015	
	High	Low	High	Low
First Quarter .....	\$ 389.30	\$ 323.70	\$ 440.00	\$ 394.87
Second Quarter .....	425.69	359.46	425.79	344.99
Third Quarter .....	455.80	397.11	448.00	364.94
Fourth Quarter .....	485.62	415.60	385.96	325.82

**Shareholders**

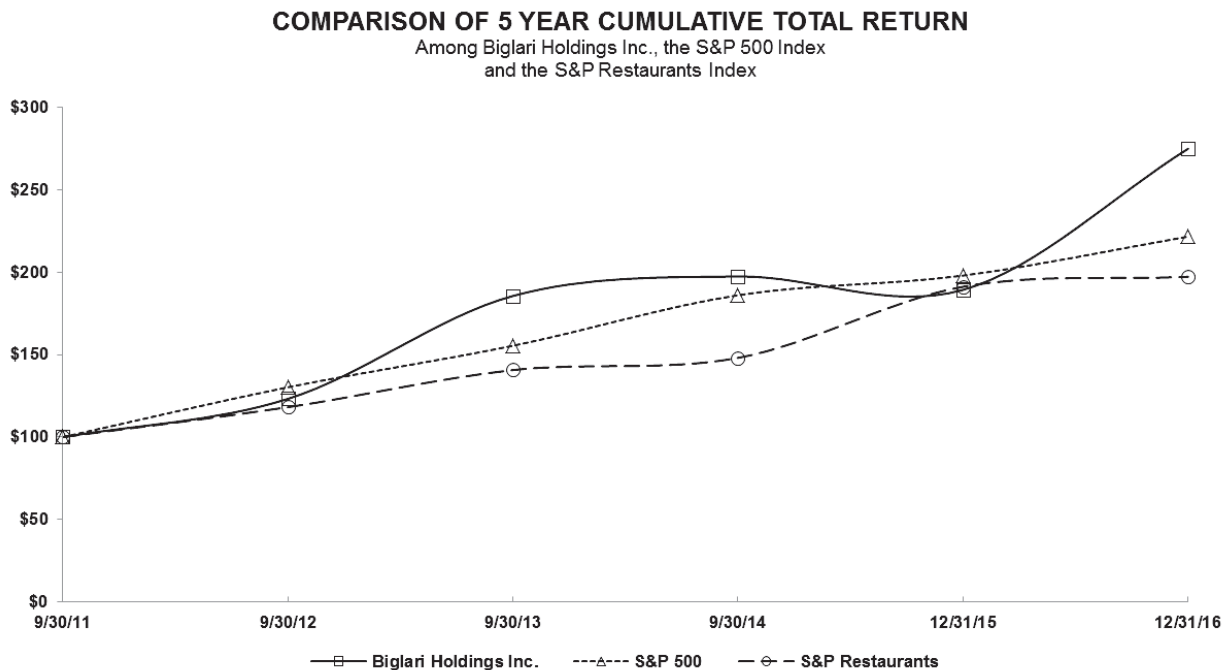
Biglari Holdings had 5,888 beneficial shareholders of its common stock at February 14, 2017.

**Dividends**

Biglari Holdings has never declared a dividend.

**Performance Graph**

The graph below matches Biglari Holdings Inc.'s cumulative 5-year total shareholder return on its common stock with the cumulative total returns of the S&P 500 Index and the S&P Restaurants Index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from September 30, 2011 to December 31, 2016.



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

**Securities Authorized for Issuance Under Equity Compensation Plans**

The “Equity Compensation Plan Information” required by Item 201(d) of Regulation S-K will be contained in our definitive Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

## Item 6. Selected Financial Data

(dollars in thousands except per share data)

	2016	2015	Transition Period	
			2014	2013
<b>Revenue:</b>				
Total revenues .....	\$ 850,076	\$ 861,452	\$ 224,450	\$ 204,442
<b>Earnings:</b>				
Net (loss) earnings .....	\$ 99,451	\$ (15,843)	\$ 91,050	\$ 18,949
Basic (loss) earnings per share .....	\$ 81.37	\$ (10.18)	\$ 48.49	\$ 11.05
Diluted (loss) earnings per share .....	\$ 81.28	\$ (10.18)	\$ 48.45	\$ 11.03
<b>Year-end data:</b>				
Total assets .....	\$ 1,096,967	\$ 987,079	\$ 1,298,509	\$ 1,009,111
Long-term notes payable and other borrowings .....	281,555	296,062	309,003	198,833
Biglari Holdings Inc. shareholders' equity .....	\$ 531,940	\$ 451,372	\$ 725,551	\$ 587,885

	52 Weeks Ended		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
<b>Revenue:</b>			
Total revenues .....	\$ 793,811	\$ 755,822	\$ 740,207
<b>Earnings:</b>			
Net earnings attributable to Biglari Holdings Inc. ....	\$ 28,804	\$ 140,271	\$ 21,593
Basic earnings per share attributable to Biglari Holdings Inc. ....	\$ 16.85	\$ 90.89	\$ 13.92
Diluted earnings per share attributable to Biglari Holdings Inc. ....	\$ 16.82	\$ 90.69	\$ 13.88
<b>Year-end data:</b>			
Total assets .....	\$ 1,156,310	\$ 987,167	\$ 771,830
Long-term notes payable and other borrowings .....	311,448	215,872	229,229
Biglari Holdings Inc. shareholders' equity .....	\$ 638,717	\$ 564,589	\$ 349,125

Earnings per share of common stock is based on the weighted average number of shares outstanding during the period.

For financial reporting purposes and for purposes of computing the weighted average common shares outstanding for periods after fiscal 2012, the shares of Company stock attributable to the unrelated limited partners of the investment partnerships - based on their proportional ownership during the period - are considered outstanding shares.

For financial reporting purposes all common shares of the Company held by the former consolidated affiliated partnerships during fiscal 2012 are recorded in treasury stock on the consolidated balance sheet. For purposes of computing the weighted average common shares outstanding during fiscal 2012, the shares of treasury stock attributable to the unrelated limited partners of the consolidated affiliated partnerships - based on their proportional ownership during the period - are considered outstanding shares.

In fiscal year 2014 and 2013 the Company completed rights offerings in which 344,261 and 286,767 new shares of common stock were issued, respectively. The theoretical earnings per share have been retroactively restated for all periods prior to fiscal 2014 to give effect to the rights offerings.

For total assets, periods prior to 2016 were adjusted for the reclassifications of debt issuance costs related to the adoption of ASU 2015-03 and deferred taxes related to the adoption of ASU 2015-17. For long-term notes payable and other borrowings, periods prior to 2016 were adjusted for the reclassification of debt issuance costs related to the adoption of ASU 2015-03. See note 1 to the consolidated financial statements for additional information.

2014, 2013, and 2012 were fiscal years ending on the last Wednesday nearest September 30.

## Item 7. 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, and restaurants. The Company’s largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and 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 Mr. Biglari.

In 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. We are comparing the year ended December 31, 2016 to the year ended December 31, 2015 and to the fiscal year ended September 24, 2014, and we are comparing the 2014 transition period to the 2013 transition period. The 2013 transition period is unaudited.

Net earnings attributable to Biglari Holdings shareholders are disaggregated in the table that follows. Amounts are recorded after deducting income taxes.

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
Operating businesses:					
Restaurant .....	\$ 24,834	\$ 26,985	\$ 6,857	\$ 6,537	\$ 17,965
Insurance .....	3,313	2,313	595	-	964
Media .....	(6,385)	(11,459)	(3,455)	-	(9,949)
Other .....	(157)	197	(58)	(27)	1,099
Total operating businesses .....	21,605	18,036	3,939	6,510	10,079
Corporate .....	(6,387)	(8,315)	(2,051)	(2,060)	(5,511)
Investment gains (losses) .....	(193)	-	-	-	18,305
Investment partnership gains (losses) .....	91,525	(18,168)	91,191	15,516	12,316
Interest expense on notes payable .....	(7,099)	(7,396)	(2,029)	(1,017)	(6,385)
	<u>\$ 99,451</u>	<u>\$ (15,843)</u>	<u>\$ 91,050</u>	<u>\$ 18,949</u>	<u>\$ 28,804</u>

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

### Restaurants

Our restaurant businesses, which include Steak n Shake and Western, comprise 657 company-operated and franchised restaurants as of December 31, 2016.

	Steak n Shake		Western Sizzlin		Total
	Company-operated	Franchised	Company-operated	Franchised	
Total stores as of September 25, 2013 .....	415	104	4	82	605
Net restaurants opened (closed) .....	1	20	-	(11)	10
Total stores as of September 24, 2014 .....	416	124	4	71	615
Net restaurants opened (closed) .....	1	4	-	(3)	2
Total stores as of December 31, 2014 .....	417	128	4	68	617
Net restaurants opened (closed) .....	-	16	-	(2)	14
Total stores as of December 31, 2015 .....	417	144	4	66	631
Net restaurants opened (closed) .....	-	29	(1)	(2)	26
<b>Total stores as of December 31, 2016 .....</b>	<b>417</b>	<b>173</b>	<b>3</b>	<b>64</b>	<b>657</b>

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.

## Management's Discussion and Analysis (continued)

### Restaurant operations 2016 compared to 2015 and fiscal year 2014

Restaurant operations for 2016, 2015 and fiscal year 2014 are summarized below.

	2016		2015		Fiscal Year 2014	
Revenue						
Net sales .....	\$ 795,322		\$ 799,660		\$ 759,889	
Franchise royalties and fees .....	18,794		16,428		15,032	
Other revenue .....	3,798		3,650		3,234	
Total revenue .....	<u>817,914</u>		<u>819,738</u>		<u>778,155</u>	
Restaurant cost of sales						
Cost of food .....	221,657	27.9%	232,271	29.0%	226,436	29.8%
Restaurant operating costs .....	395,262	49.7%	379,632	47.5%	358,998	47.2%
Rent .....	18,047	2.3%	17,384	2.2%	17,073	2.2%
Total cost of sales .....	<u>634,966</u>		<u>629,287</u>		<u>602,507</u>	
Selling, general and administrative						
General and administrative .....	59,446	7.3%	62,055	7.6%	64,872	8.3%
Marketing .....	51,324	6.3%	46,050	5.6%	43,324	5.6%
Other expenses .....	3,907	0.5%	7,590	0.9%	5,409	0.7%
Total selling, general and administrative	<u>114,677</u>	14.0%	<u>115,695</u>	14.1%	<u>113,605</u>	14.6%
Depreciation and amortization .....	21,573	2.6%	23,736	2.9%	24,064	3.1%
Interest on obligations under leases .....	<u>9,475</u>		<u>9,422</u>		<u>9,720</u>	
Earnings before income taxes .....	37,223		41,598		28,259	
Income tax expense .....	<u>12,389</u>		<u>14,613</u>		<u>10,294</u>	
Net earnings .....	<u>\$ 24,834</u>		<u>\$ 26,985</u>		<u>\$ 17,965</u>	

*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.*

Net sales during 2016 were \$795,322 representing a decrease of \$4,338 when compared to 2015. The decreased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales, which decreased 0.4% whereas customer traffic decreased by 1.2%. Net sales during 2015 were \$799,660 representing an increase of \$39,771 when compared to fiscal 2014. The increased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales. In 2015, Steak n Shake's same-store sales increased by 4.0% compared to fiscal 2014. Comparable periods of calendar year 2015 and fiscal year 2014 were used to approximate the same-store sales comparisons.

In 2016 franchise royalties and fees increased 14.4%. During 2016, Steak n Shake opened 34 franchised units and closed five. One Western franchise unit closed during 2016. The increase in franchise fees and royalties are primarily attributable to the opening of new Steak n Shake franchised units in 2016 and 2015. Franchise royalties and fees during 2015 increased 9.3% compared to fiscal 2014. During the period from September 24, 2014 through December 31, 2015, Steak n Shake opened 29 franchised units and closed nine. During the same period, five Western franchised units closed. The increase in franchise fees and royalties during 2015 are primarily attributable to new Steak n Shake franchised units, which opened in 2015 and fiscal 2014. The percentage increase over fiscal 2014 was partially offset by forfeited area development fees realized in fiscal 2014.

Cost of food in 2016 was \$221,657 or 27.9% of net sales, compared with \$232,271 or 29.0% of net sales in 2015 and \$226,436 or 29.8% of net sales in fiscal 2014. The decrease as a percent of sales during 2016 was primarily attributable to lower beef costs. The decrease as a percent of sales during 2015 compared to fiscal 2014 was primarily attributable to reduction in prices of beef and a change in menu mix.



## Management's Discussion and Analysis (continued)

Restaurant operating costs during 2016 were \$395,262 or 49.7% of net sales, compared to \$379,632 or 47.5% of net sales in 2015 and \$358,998 or 47.2% of net sales in fiscal 2014. Total costs, and as a percent of sales, during 2016, increased compared to 2015 principally due to higher wages and benefits. The increased costs during 2015 compared to fiscal 2014 were mainly based on higher sales. Costs as a percent of sales during 2015 remained relatively constant compared to fiscal 2014.

Selling, general and administrative expenses during 2016 were \$114,677 or 14.0% of total revenues. General and administrative expenses decreased by \$2,609 during 2016 compared to 2015 primarily due to decreased personnel expenses. Marketing expense increased by \$5,274 in 2016 compared to 2015 primarily due to an increase in promotional advertising. Selling, general and administrative expenses during 2015 were \$115,695 or 14.1% of total revenues. General and administrative expenses decreased by \$2,817 during 2015 compared to fiscal 2014. The decreased expenses were primarily attributable to decreased personnel expenses. Marketing expense increased by \$2,726 in 2015 compared to fiscal 2014 primarily related to commissions paid for third party gift card sales.

Interest on obligations under leases was \$9,475 during 2016, versus \$9,422 during 2015 and \$9,720 during fiscal 2014. The total obligations under leases outstanding at December 31, 2016 were \$89,498, compared to \$95,965 at December 31, 2015 and \$106,189 at September 24, 2014.

### Restaurant operations 2014 transition period compared to 2013 transition period

Earnings of our restaurant operations for the transition periods are summarized below.

	Transition Period				
	2014		2013		
Revenue					
Net sales .....	\$	210,256	\$	200,407	
Franchise royalties and fees .....		4,076		3,177	
Other revenue .....		1,316		858	
Total revenue .....		215,648		204,442	
Restaurant cost of sales					
Cost of food .....		64,614	30.7%	58,826	29.4%
Restaurant operating costs .....		98,939	47.1%	94,268	47.0%
Rent .....		4,554	2.2%	4,579	2.3%
Total cost of sales .....		168,107		157,673	
Selling, general and administrative					
General and administrative .....		16,570	7.7%	16,420	8.0%
Marketing .....		9,844	4.6%	10,807	5.3%
Other expenses .....		1,523	0.7%	706	0.3%
Total selling, general and administrative		27,937	13.0%	27,933	13.7%
Depreciation and amortization .....		6,461	3.0%	6,434	3.1%
Interest on obligations under leases .....		2,577		2,612	
Earnings before income taxes .....		10,566		9,790	
Income tax expense .....		3,709		3,253	
Net earnings .....	\$	6,857		\$	6,537

*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.*

## Management's Discussion and Analysis (continued)

Net sales during the 2014 transition period were \$210,256, an increase of \$9,849 over the 2013 transition period. 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 increased 4.8% during the 2014 transition period, whereas customer traffic increased by 2.7%.

Franchise royalties and fees increased 28.3% during the 2014 transition period. The franchised units numbered 196 at December 31, 2014, compared to 188 at December 31, 2013. The increase in franchise fees is primarily attributable to newly franchised Steak n Shake stores that opened in the 2014 transition period and 2014 fiscal year.

Cost of food in the 2014 transition period was \$64,614 or 30.7% of net sales, compared to \$58,826 or 29.4% of net sales in the 2013 transition period. The increase in costs as a percentage of net sales was primarily attributable to higher beef costs during the 2014 transition period.

Restaurant operating costs were \$98,939 or 47.1% of net sales compared to \$94,268 or 47.0% in the 2013 transition period. The increased costs were mainly based on higher sales.

Selling, general and administrative expense of \$27,937 or 13.0% of total revenues in the 2014 transition period remained relatively flat compared to \$27,933 or 13.7% of total revenues in the 2013 transition period.

Interest on obligations under leases was \$2,577 during the 2014 transition period, versus \$2,612 during the 2013 transition period. The total obligations under leases outstanding at December 31, 2014 were \$104,561.

## 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.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Premiums written .....	<u>\$ 22,397</u>	<u>\$ 16,719</u>	<u>\$ 8,719</u>
Insurance losses .....	<u>12,641</u>	<u>10,454</u>	<u>4,709</u>
Underwriting expenses .....	<u>4,843</u>	<u>2,908</u>	<u>2,213</u>
Pre-tax underwriting gain.....	<u>4,913</u>	<u>3,357</u>	<u>1,797</u>
Other income and expenses			
Investment income and commissions .....	<u>600</u>	<u>513</u>	<u>570</u>
Other income .....	<u>(378)</u>	<u>(341)</u>	<u>-</u>
Total other income .....	<u>222</u>	<u>172</u>	<u>570</u>
Earnings before income taxes .....	<u>5,135</u>	<u>3,529</u>	<u>2,367</u>
Income tax expense .....	<u>1,822</u>	<u>1,216</u>	<u>808</u>
Contribution to net earnings .....	<u>\$ 3,313</u>	<u>\$ 2,313</u>	<u>\$ 1,559</u>

On March 19, 2014, First Guard became a wholly-owned subsidiary of Biglari Holdings. The results of operations for First Guard are included in Biglari Holdings' consolidated results from the effective date of acquisition.

First Guard's cost-efficient direct response marketing methods enable it to be a low-cost trucking insurer.

Pre-tax underwriting gain was \$4,913 in 2016 compared to \$3,357 in 2015 and \$1,797 in 2014. The increase in pre-tax underwriting gain was mainly based on higher net premiums written.

Insurance premiums and other on the statement of earnings includes premiums written, investment income and commissions, which are included in other income in the above table.

## Management's Discussion and Analysis (continued)

### Media

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue .....	\$ 9,165	\$ 24,482	\$ 15,169
Media cost of sales .....	15,834	35,614	28,660
Selling, general and administrative expenses .....	3,000	6,677	7,626
Depreciation and amortization .....	409	296	362
Loss before income taxes .....	(10,078)	(18,105)	(21,479)
Income tax benefit .....	(3,693)	(6,646)	(8,075)
Contribution to net earnings .....	<u>\$ (6,385)</u>	<u>\$ (11,459)</u>	<u>\$ (13,404)</u>

On February 27, 2014, we acquired the assets of Maxim. The results of operations for Maxim are included in Biglari Holdings' consolidated results from the effective date of acquisition.

We have transformed Maxim's business model. We have significantly reduced the high operating costs in the media business, both in print and in digital. The magazine developed the Maxim brand, a franchise we are utilizing to build cash-generating businesses, namely licensing related to consumer products, services, and events. As a result, the net loss for 2016 declined significantly. In addition, Maxim generated a profit at the end of the fourth quarter, 2016.

We have taken the risk on the belief that the probability for gain in value more than justifies the risk of loss.

### Investment Gains

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

The Company recognized a pre-tax loss of \$306 (\$193 net of tax) on a contribution of \$5,682 in securities to investment partnerships during 2016. The Company recognized a pre-tax gain of \$29,524 (\$18,305 net of tax) on a contribution of \$74,418 in securities to investment partnerships during fiscal year 2014.

Biglari Holdings' management does not regard the gains and losses that were recorded, as required by generally accepted accounting principles, as meaningful. The gains and losses recognized for financial reporting purposes are deferred for income tax purposes. These transactions essentially had no effect on our consolidated shareholders' equity because the gains and losses included in earnings were accompanied by a corresponding reduction of unrealized investment gains and losses included in accumulated other comprehensive income.

### Investment Partnership Gains (Losses)

Earnings from our investments in partnerships are summarized below.

	<u>2016</u>	<u>2015</u>	<u>Transition Period</u>		<u>Fiscal Year</u>
			<u>2014</u>	<u>2013</u>	<u>2014</u>
Investment partnership gains (losses) .....	\$ 135,886	\$ (39,356)	\$ 144,702	\$ 23,493	\$ 14,055
Tax expense (benefit) .....	44,361	(21,188)	53,511	7,977	1,739
Contribution to net earnings .....	<u>\$ 91,525</u>	<u>\$ (18,168)</u>	<u>\$ 91,191</u>	<u>\$ 15,516</u>	<u>\$ 12,316</u>

The investment partnerships concentrate investments, which expose them to more market price fluctuations than might be the case were investments more diversified.

## Management's Discussion and Analysis (continued)

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 the partnerships are eliminated.

### Interest Expense

The Company's interest expense is summarized below.

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
Interest expense on notes payable .....	\$ (11,450)	\$ (11,930)	\$ (3,272)	\$ (1,641)	\$ (9,166)
Loss on debt extinguishment.....	-	-	-	-	(1,133)
Total interest expense.....	(11,450)	(11,930)	(3,272)	(1,641)	(10,299)
Tax benefit .....	(4,351)	(4,534)	(1,243)	(624)	(3,914)
Contribution to net earnings .....	\$ (7,099)	\$ (7,396)	\$ (2,029)	\$ (1,017)	\$ (6,385)

Interest expense during 2016 was \$11,450 compared to \$11,930 during 2015. The outstanding balance on Steak n Shake's credit facility on December 31, 2016 was \$203,098 compared to \$212,375 on December 31, 2015. The decrease in the outstanding balance was due to debt payments of \$9,277 during 2016. Steak n Shake entered into a new credit facility on March 19, 2014, which increased the outstanding balance by \$107,850. The Company recorded loss on extinguishment of debt during 2014 of \$1,133 due to the write-off of deferred loan costs associated with the former credit facility. The interest rate has remained constant at 4.75% since March 19, 2014.

Interest expense increased from \$1,641 in the 2013 transition period to \$3,272 in the 2014 transition period due to higher debt balances during the 2014 transition period.

### Corporate

Corporate expenses exclude the activities in the restaurant, insurance, media and other companies. Corporate net losses during 2016 were \$6,387 versus net losses of \$8,315 during 2015 and net losses of \$5,511 during fiscal 2014. The higher net losses during 2015 were primarily attributable to proxy costs and legal expenses.

Corporate net losses during the 2014 transition period were \$2,051 versus net losses of \$2,060 during the 2013 transition period.

### Income Tax Expense

Consolidated income tax was an expense of \$46,812 or 32.0% of pretax income in 2016 versus a benefit of \$21,588 or 57.7% of pretax income in 2015 and an expense of \$10,212 or 26.2% of pretax income in fiscal 2014. The changes in the tax expense and benefits during the three years are primarily due to deferred tax expenses and benefits associated with non-cash, pretax gains and losses from investment partnerships. The tax expense recorded during 2016 included a deferred tax expense of \$38,485, primarily due to non-cash, pretax gains from investment partnerships. The tax benefit recorded during 2015 included a deferred tax benefit of \$26,476, primarily due to non-cash, pretax losses from investment partnerships. The tax expense recorded during 2014 included a deferred tax expense of \$9,164, primarily due to non-cash, pretax gains from investment partnerships and non-cash, pretax gains on contributions to investment partnerships.

Consolidated income tax expense was 37.5% of pretax income in the 2014 transition period, versus 33.3% in the 2013 transition period. The increase in the Company's tax rate in the 2014 transition period as compared to the 2013 transition period was primarily attributable to increased income from investment partnerships.

### Financial Condition

Our consolidated shareholders' equity on December 31, 2016 was \$531,940, an increase of \$80,568 compared to the December 31, 2015 balance. The increase during 2016 was primarily attributable to net earnings of \$99,451 partially offset by an increase in treasury stock of \$9,031 and a decrease in additional paid-in capital of \$9,947. The increase in treasury stock was primarily a

## Management's Discussion and Analysis (continued)

result of recording our proportionate interest in 37,925 shares of the Company's stock purchased during 2016 by The Lion Fund II, L.P. under Rule 10b5-1 trading plans. The shares purchased by the investment partnership are legally outstanding but under accounting convention the Company's proportional ownership of the shares is reflected as treasury shares in the consolidated financial statements. The incentive reallocation at December 31, 2016 reduced our proportional ownership interest of the Company's stock in the investment partnerships and correspondingly resulted in a decrease to the additional paid-in capital account.

Consolidated cash and investments are summarized below.

	December 31,	
	2016	2015
Cash and cash equivalents .....	\$ 75,808	\$ 56,523
Investments .....	26,760	23,750
Fair value of interest in investment partnerships .....	972,707	734,668
Total cash and investments.....	<u>1,075,275</u>	<u>814,941</u>
Less: portion of Company stock held by investment partnerships .....	<u>(395,070)</u>	<u>(262,979)</u>
Carrying value of cash and investments on balance sheet .....	<u>\$ 680,205</u>	<u>\$ 551,962</u>

Unrealized gains/losses of Biglari Holdings' stock held by the investment partnerships are eliminated in the Company's consolidated financial results.

### Liquidity

Our balance sheet continues to maintain significant liquidity. Consolidated cash flow activities are summarized below.

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
Net cash provided by operating activities .....	\$ 63,349	\$ 52,497	\$ 5,643	\$ 5,346	\$ 27,575
Net cash (used in) provided by investing activities .....	(28,795)	(113,300)	2,484	(4,764)	(170,760)
Net cash (used in) provided by financing activities .....	(15,231)	(12,307)	(2,745)	(10,020)	172,865
Effect of exchange rate changes on cash .....	(38)	(36)	(3)	289	(16)
Increase (decrease) in cash and cash equivalents .....	<u>\$ 19,285</u>	<u>\$ (73,146)</u>	<u>\$ 5,379</u>	<u>\$ (9,149)</u>	<u>\$ 29,664</u>

Cash provided by operating activities increased by \$10,852 during 2016 compared to 2015. The increase during 2016 was primarily due to an increase in distributions from investment partnerships of \$6,490 and an increase in the net earnings adjusted for non-cash items of \$3,318. Cash provided by operating activities increased by \$24,922 during 2015 compared to fiscal 2014. The increase during 2015 was primarily due to an increase in distributions from investment partnerships of \$9,435 and an increase in working capital of \$13,495. The increase in working capital during 2015 compared to fiscal 2014 was primarily due to the collection of gift card sales from third parties. Cash provided by operating activities during the 2014 transition period was \$5,643 compared to \$5,346 during the 2013 transition period.

Net cash used in investing activities during 2016 of \$28,795 was primarily due to \$14,150 of contributions to investment partnerships and capital expenditures of \$12,030. Net cash used in investing activities during 2015 of \$113,300 was primarily due to \$88,500 of contributions to investment partnerships and capital expenditures of \$11,083. Net cash used in investing activities during fiscal 2014 was primarily because of contributions to investment partnerships of \$100,000, acquisitions of businesses of \$40,143 and capital expenditures of \$35,812. Net cash provided by investing activities during the 2014 transition period of \$2,484 was primarily because of maturities of bonds of \$11,748 offset by capital expenditures of \$8,816. Net cash used in investing activities of \$4,764 during the 2013 transition period primarily consisted of capital expenditures of \$5,283.

During 2016 and 2015 we incurred debt payments of \$15,295 and \$12,529, respectively. The increase in the debt payments during 2016 compared to 2015 was primarily due to additional principal payments on long-term debt. During fiscal 2014 we generated cash from financing activities which primarily resulted from an increase in Steak n Shake borrowings of \$101,411 and proceeds from an equity offering of \$85,873. \$50,000 of Steak n Shake's increased borrowings were 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. During the 2014 transition period we incurred debt payments of \$2,748. During the 2013 transition period we incurred

## **Management's Discussion and Analysis** *(continued)*

debt payments of \$17,020 and received \$7,000 from a revolving credit facility. The higher debt payments during the 2013 transition period as compared to the 2014 transition period were primarily due to additional principal payments on long-term debt.

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.

### *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 December 31, 2016, 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. As of December 31, 2016, we were in compliance with all covenants. Steak n Shake's credit facility contains restrictions on its ability to pay dividends to Biglari Holdings.

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 December 31, 2016, \$203,098 was outstanding under the term loan, and no amount was outstanding under the revolver.

We had \$10,893 and \$10,188 in standby letters of credit outstanding as of December 31, 2016 and 2015, respectively.

### *Western Revolver*

As of December 31, 2016, Western has \$377 due June 13, 2017.

### **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.



## Management's Discussion and Analysis *(continued)*

We believe the following critical accounting policies represent our more significant judgments and estimates used in preparation of our consolidated financial statements. Given the current composition of our business, we do not believe that any accounting policies related to our insurance or media businesses were critical to the preparation of our consolidated financial statements as of and for the year ended December 31, 2016.

### *Consolidation*

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

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

### *Impairment of Long-lived Assets*

We review company-operated restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. We test for impairment by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total estimated future cash flows are less than the carrying amount of the asset, the carrying value is written down to the estimated fair value, and a loss is recognized in earnings. The future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, fair market value if the asset were to be sold, and other financial and economic assumptions.

### *Insurance Reserves*

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

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

Our reserves for self-insured liabilities at December 31, 2016 and December 31, 2015 were \$10,024 and \$8,485, respectively.

### *Income Taxes*

We record deferred tax assets or liabilities based on differences between financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets would be unable to be utilized, we would record a valuation allowance against the unrealizable amount and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future. We must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded. As of December 31, 2016, a change of one percentage point in an enacted tax rate would have an impact of approximately \$4,000 on net earnings.

## **Management's Discussion and Analysis** *(continued)*

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

### *Goodwill and Other Intangible Assets*

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

### *Leases*

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

### *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.



## Management's Discussion and Analysis (continued)

### Contractual Obligations

Our significant contractual obligations and commitments as of December 31, 2016 are shown in the following table.

Contractual Obligations	Payments due by period				Total
	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	
Long-term debt <sup>(1)</sup> <sup>(2)</sup>	\$ 13,162	\$ 25,361	\$ 209,464	\$ —	\$ 247,987
Capital leases and finance obligations <sup>(1)</sup>	14,428	21,606	10,103	3,225	49,362
Operating leases <sup>(3)</sup>	16,438	30,660	26,749	51,283	125,130
Purchase commitments <sup>(4)</sup>	6,179	961	—	—	7,140
Other long-term liabilities <sup>(5)</sup>	—	—	—	2,872	2,872
Total	<u>\$ 50,207</u>	<u>\$ 78,588</u>	<u>\$ 246,316</u>	<u>\$ 57,380</u>	<u>\$ 432,491</u>

<sup>(1)</sup> Includes principal and interest and assumes payoff of indebtedness at maturity date.

<sup>(2)</sup> Includes outstanding borrowings under Steak n Shake's and Western's credit facilities.

<sup>(3)</sup> Excludes amounts to be paid for contingent rents. Includes amounts to be paid for subleased properties.

<sup>(4)</sup> Includes agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms. Excludes agreements that are cancelable without penalty.

<sup>(5)</sup> Includes liabilities for Non-Qualified Deferred Compensation Plan. Excludes our unrecognized tax benefits of \$396 as of December 31, 2016 because we cannot make a reliable estimate of the timing of cash payments.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than operating leases entered into in the normal course of business.

### Recently Issued Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our consolidated financial statements, see Note 1, "Summary of Significant Accounting Policies" in the accompanying notes to consolidated financial statements included in Part II, Item 8 of this report on form 10-K.

### 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 set forth above. We undertake no obligation to publicly update or revise them, except as may be required by law.

## **Item 7A. 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 \$60,440, along with a corresponding change in shareholders' equity of approximately 7%.

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 December 31, 2016, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$1,250 on our net earnings.

We have had minimal exposure to foreign currency exchange rate fluctuations in 2016, 2015, in the 2014 transition period and in fiscal year 2014.

## **Item 8. Financial Statements and Supplementary Data**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Biglari Holdings Inc.  
San Antonio, Texas

We have audited the accompanying consolidated balance sheets of Biglari Holdings Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2016 and December 31, 2015, for the period from September 25, 2014 to December 31, 2014 and year ended September 24, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Biglari Holdings Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years ended December 31, 2016, December 31, 2015, for the period from September 25, 2014 to December 31, 2014 and year ended September 24, 2014, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, during the years ended December 31, 2016, December 31, 2015 and September 24, 2014, the Company contributed cash and securities with an aggregate value of \$19.8 million, \$88.5 million and \$174.4 million, respectively to investment partnerships. The Company and its subsidiaries have invested in the investment partnerships in the form of limited partner interests. These investments are subject to a rolling five-year lock up period under the terms of the respective partnership agreements for the investment partnerships.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP  
Indianapolis, Indiana  
February 25, 2017

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Biglari Holdings Inc.  
San Antonio, Texas

We have audited the internal control over financial reporting of Biglari Holdings Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016 of the Company and our report dated February 25, 2017 expressed an unqualified opinion on those financial statements and included an emphasis of matter paragraph relating to the contribution of cash and securities to investment partnerships.

/s/ DELOITTE & TOUCHE LLP  
Indianapolis, Indiana  
February 25, 2017

## Management's Report on Internal Control Over Financial Reporting

The management of Biglari Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, and effected by the board of directors, management and other personnel, to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2016 based on the criteria set forth in a report entitled *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that, as of December 31, 2016, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on the Company's internal control over financial reporting as of December 31, 2016 and its report is included herein.

Biglari Holdings Inc.  
February 25, 2017

**BIGLARI HOLDINGS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(dollars in thousands)*

	<b>December 31,</b>	
	<b>2016</b>	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 75,808	\$ 56,523
Investments .....	22,297	23,750
Receivables .....	14,195	17,716
Inventories .....	6,773	7,593
Other current assets .....	8,716	7,255
Total current assets .....	127,789	112,837
Property and equipment .....	312,264	332,324
Goodwill .....	40,003	40,022
Other intangible assets .....	26,051	21,673
Investment partnerships .....	577,637	471,689
Other assets .....	13,223	8,534
<b>Total assets</b> .....	<b>\$ 1,096,967</b>	<b>\$ 987,079</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses .....	\$ 112,882	\$ 109,078
Current portion of notes payable and other borrowings .....	7,129	7,789
Total current liabilities .....	120,011	116,867
Long-term notes payable and other borrowings .....	281,555	296,062
Deferred taxes .....	152,315	111,867
Other liabilities .....	11,146	10,911
<b>Total liabilities</b> .....	<b>565,027</b>	<b>535,707</b>
<b>Shareholders' equity</b>		
Common stock - 2,067,193 and 2,066,691 shares outstanding .....	1,071	1,071
Additional paid-in capital .....	381,906	391,853
Retained earnings .....	515,433	415,982
Accumulated other comprehensive loss .....	(3,584)	(3,679)
Treasury stock, at cost .....	(362,886)	(353,855)
<b>Biglari Holdings Inc. shareholders' equity</b> .....	<b>531,940</b>	<b>451,372</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>\$ 1,096,967</b>	<b>\$ 987,079</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

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

	Year Ended December 31,		Transition Period Ended December 31,		Year Ended September 24,
	2016	2015	2014	2013	2014
				(unaudited)	
<b>Revenues</b>					
Restaurant operations .....	\$ 817,914	\$ 819,738	\$ 215,648	\$ 204,442	\$ 778,155
Insurance premiums and other .....	22,997	17,232	3,574	-	5,715
Media advertising and other .....	9,165	24,482	5,228	-	9,941
	<b>850,076</b>	<b>861,452</b>	<b>224,450</b>	<b>204,442</b>	<b>793,811</b>
<b>Cost and expenses</b>					
Restaurant cost of sales .....	634,966	629,287	168,107	157,673	602,507
Insurance losses and underwriting expenses .....	17,484	13,362	2,668	-	4,254
Media cost of sales .....	15,834	35,614	9,261	-	19,399
Selling, general and administrative .....	127,259	135,132	30,847	31,630	128,472
Depreciation and amortization .....	22,925	24,780	6,828	6,566	24,905
	<b>818,468</b>	<b>838,175</b>	<b>217,711</b>	<b>195,869</b>	<b>779,537</b>
<b>Other income (expenses)</b>					
Interest and dividends .....	-	-	8	586	1,182
Interest expense .....	(11,450)	(11,930)	(3,272)	(1,641)	(10,299)
Interest on obligations under leases .....	(9,475)	(9,422)	(2,577)	(2,612)	(9,720)
Investment gains (losses) on contributions .....	(306)	-	-	-	29,524
Investment partnership gains (losses) .....	135,886	(39,356)	144,702	23,493	14,055
Total other income (expenses) .....	<b>114,655</b>	<b>(60,708)</b>	<b>138,861</b>	<b>19,826</b>	<b>24,742</b>
<b>Earnings (loss) before income taxes</b> .....	<b>146,263</b>	<b>(37,431)</b>	<b>145,600</b>	<b>28,399</b>	<b>39,016</b>
Income tax expense (benefit) .....	46,812	(21,588)	54,550	9,450	10,212
<b>Net earnings (loss)</b> .....	<b>\$ 99,451</b>	<b>\$ (15,843)</b>	<b>\$ 91,050</b>	<b>\$ 18,949</b>	<b>\$ 28,804</b>
<b>Earnings per share</b>					
Basic earnings (loss) per common share .....	\$ 81.37	\$ (10.18)	\$ 48.49	\$ 11.05	\$ 16.85
Diluted earnings (loss) per common share .....	\$ 81.28	\$ (10.18)	\$ 48.45	\$ 11.03	\$ 16.82
<b>Weighted average shares and equivalents</b>					
Basic .....	1,222,261	1,556,039	1,877,723	1,714,727	1,709,621
Diluted .....	1,223,616	1,556,039	1,879,414	1,718,261	1,712,775

*See accompanying Notes to Consolidated Financial Statements.*



**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(dollars in thousands)*

	Year Ended		Transition Period Ended		Year Ended
	December 31,		December 31,		September 24,
	<b>2016</b>	2015	2014	2013	2014
				(unaudited)	
<b>Net earnings (loss) .....</b>	<b>\$ 99,451</b>	\$ (15,843)	\$ 91,050	\$ 18,949	\$ 28,804
Other comprehensive income:					
Reclassification of investment appreciation in net earnings .....	<b>306</b>	62	-	-	(29,578)
Applicable income taxes .....	<b>(113)</b>	(21)	-	-	11,237
Net change in unrealized gains and losses on investments .....	<b>568</b>	(892)	(341)	6,540	(4,930)
Applicable income taxes .....	<b>(211)</b>	327	126	(2,478)	1,874
Foreign currency translation .....	<b>(455)</b>	(2,372)	(46)	289	(582)
Other comprehensive income (loss), net .....	<b>95</b>	(2,896)	(261)	4,351	(21,979)
Total comprehensive income (loss) .....	<b>\$ 99,546</b>	\$ (18,739)	\$ 90,789	\$ 23,300	\$ 6,825

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(dollars in thousands)*

	Year Ended December 31,		Transition Period Ended December 31,		Year Ended September 24,
	2016	2015	2014	2013 (unaudited)	2014
<b>Operating activities</b>					
Net earnings (loss) .....	\$ 99,451	\$ (15,843)	\$ 91,050	\$ 18,949	\$ 28,804
Adjustments to reconcile net earnings to operating cash flows:					
Depreciation and amortization .....	22,925	24,780	6,828	6,566	24,905
Provision for deferred income taxes .....	38,485	(26,476)	52,909	6,623	9,164
Asset impairments and other non-cash expenses .....	1,693	2,232	84	162	3,253
Loss on disposal of assets .....	1,806	1,351	707	162	977
Investment (gains) losses (including contributions) .....	306	62	-	-	(29,578)
Investment partnership (gains) losses .....	(135,886)	39,356	(144,702)	(23,493)	(14,055)
Distributions from investment partnerships .....	26,265	19,775	-	1,469	10,340
Changes in receivables and inventories .....	4,280	686	(3,404)	(709)	(5,926)
Changes in other assets .....	116	2,299	(855)	(793)	(2,599)
Changes in accounts payable and accrued expenses .....	3,908	4,275	3,026	(3,590)	2,290
<b>Net cash provided by operating activities .....</b>	<b>63,349</b>	<b>52,497</b>	<b>5,643</b>	<b>5,346</b>	<b>27,575</b>
<b>Investing activities</b>					
Capital expenditures .....	(12,030)	(11,083)	(8,816)	(5,283)	(35,812)
Proceeds from property and equipment disposals .....	1,084	135	924	519	2,641
Acquisitions of businesses, net of cash acquired .....	-	-	-	-	(40,143)
Purchases of investments .....	(49,934)	(114,759)	(1,372)	-	(112,530)
Redemptions of fixed maturity securities .....	32,085	12,407	11,748	-	11,986
Changes in restricted assets .....	-	-	-	-	3,098
<b>Net cash (used in) provided by investing activities .....</b>	<b>(28,795)</b>	<b>(113,300)</b>	<b>2,484</b>	<b>(4,764)</b>	<b>(170,760)</b>
<b>Financing activities</b>					
Proceeds from revolving credit facility .....	-	-	-	7,000	11,700
Payments on revolving credit facility .....	(409)	(194)	(20)	-	(10,700)
Borrowings on long-term debt .....	-	-	-	-	217,800
Principal payments on long-term debt .....	(9,277)	(5,975)	(1,100)	(15,438)	(120,800)
Deferred financing charges .....	-	-	-	-	(4,754)
Principal payments on direct financing lease obligations .....	(5,609)	(6,360)	(1,628)	(1,582)	(6,278)
Proceeds from stock rights offering .....	-	-	-	-	85,873
Proceeds for exercise of stock options .....	64	222	3	-	24
<b>Net cash (used in) provided by financing activities .....</b>	<b>(15,231)</b>	<b>(12,307)</b>	<b>(2,745)</b>	<b>(10,020)</b>	<b>172,865</b>
<b>Effect of exchange rate changes on cash .....</b>	<b>(38)</b>	<b>(36)</b>	<b>(3)</b>	<b>289</b>	<b>(16)</b>
Increase (decrease) in cash and cash equivalents .....	19,285	(73,146)	5,379	(9,149)	29,664
Cash and cash equivalents at beginning of period .....	56,523	129,669	124,290	94,626	94,626
<b>Cash and cash equivalents at end of period .....</b>	<b>\$ 75,808</b>	<b>\$ 56,523</b>	<b>\$ 129,669</b>	<b>\$ 85,477</b>	<b>\$ 124,290</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

*(dollars in thousands)*

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance at September 25, 2013 .....	\$ 899	\$ 269,810	\$ 348,339	\$ 21,457	\$ (75,916)	\$ 564,589
Net earnings .....			28,804			28,804
Other comprehensive loss, net .....				(21,979)		(21,979)
Adjustment to treasury stock for holdings in investment partnerships .....					(18,594)	(18,594)
Issuance of stock for rights offering .....	172	122,069	(36,368)			85,873
Exercise of stock options .....		(1)			25	24
Balance at September 24, 2014 .....	\$ 1,071	\$ 391,878	\$ 340,775	\$ (522)	\$ (94,485)	\$ 638,717
Net earnings .....			91,050			91,050
Other comprehensive loss, net .....				(261)		(261)
Adjustment to treasury stock for holdings in investment partnerships .....					(3,958)	(3,958)
Exercise of stock options .....		(1)			4	3
Balance at December 31, 2014 .....	\$ 1,071	\$ 391,877	\$ 431,825	\$ (783)	\$ (98,439)	\$ 725,551
Net loss .....			(15,843)			(15,843)
Other comprehensive loss, net .....				(2,896)		(2,896)
Adjustment to treasury stock for holdings in investment partnerships .....					(255,662)	(255,662)
Exercise of stock options .....		(24)			246	222
Balance at December 31, 2015 .....	\$ 1,071	\$ 391,853	\$ 415,982	\$ (3,679)	\$ (353,855)	\$ 451,372
<b>Net earnings .....</b>			<b>99,451</b>			<b>99,451</b>
<b>Other comprehensive income, net .....</b>				<b>95</b>		<b>95</b>
<b>Adjustment to treasury stock for holdings in investment partnerships .....</b>		<b>(9,939)</b>			<b>(9,103)</b>	<b>(19,042)</b>
<b>Exercise of stock options .....</b>		<b>(8)</b>			<b>72</b>	<b>64</b>
<b>Balance at December 31, 2016 .....</b>	<b>\$ 1,071</b>	<b>\$ 381,906</b>	<b>\$ 515,433</b>	<b>\$ (3,584)</b>	<b>\$ (362,886)</b>	<b>\$ 531,940</b>

*See accompanying Notes to Consolidated Financial Statements.*

## **BIGLARI HOLDINGS INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Years Ended December 31, 2016 and 2015)*

*(Transition Periods Ended December 31, 2014 and 2013)*

*(Fiscal Year Ended September 24, 2014)*

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

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

##### ***Description of Business***

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, and restaurants. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and 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 Mr. Biglari. As of December 31, 2016, Mr. Biglari's beneficial ownership of the Company's outstanding common stock was approximately 51.3%.

##### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including Steak n Shake Inc. ("Steak n Shake") and Western Sizzlin Corporation ("Western"). The consolidated financial statements also include the accounts of Maxim Inc. ("Maxim") and First Guard Insurance Company and its agency, 1st Guard Corporation (collectively "First Guard") from the dates of their respective acquisitions during 2014. Intercompany accounts and transactions have been eliminated in consolidation.

##### ***Fiscal Year***

In 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. This form 10-K includes an audited statement of earnings, statement of comprehensive income, statement of cash flows and statement of shareholders' equity for the years ended December 31, 2016 and 2015, transition period for September 25, 2014 to December 31, 2014 (the "2014 transition period") and fiscal year ended September 24, 2014, and an audited balance sheet as of December 31, 2016 and 2015. Fiscal year 2014 contained 52 weeks. For comparative purposes, an unaudited statement of earnings, statement of comprehensive income and statement of cash flows have been included for September 26, 2013 to December 31, 2013 (the "2013 transition period"). The comparative transition period has not been audited and is derived from the books and records of the Company. In the opinion of management, the comparative transition period reflects all adjustments necessary to present the financial position and results of operations in accordance with accounting principles generally accepted in the United States ("GAAP").

##### ***Business Acquisitions***

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. On February 27, 2014 the Company acquired certain assets and liabilities of Maxim. Maxim's business lies principally in media and licensing. 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.

##### ***Cash and Cash Equivalents***

Cash equivalents primarily consist of U.S. Government securities and money market accounts, all of which have original maturities of three months or less. Cash equivalents are carried at fair value.

##### ***Investments***

Our investments consist of available-for-sale securities. Available-for-sale securities are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income in shareholders' equity. Realized gains and losses on disposals of investments are determined by specific identification of cost of investments sold and are included in investment gains/losses, a component of other income.

## Notes to Consolidated Financial Statements *(continued)*

### Note 1. Summary of Significant Accounting Policies *(continued)*

#### ***Investment Partnerships***

The Company holds a limited interest in The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively the “investment partnerships”). Biglari Capital Corp. (“Biglari Capital”), an entity solely owned by Mr. Biglari, is the general partner of the investment partnerships. Our interests in the investment partnerships are accounted as equity method investments because of our retained limited partner interests. The Company records investment partnership gains (inclusive of the investment partnerships’ unrealized gains and losses on their securities) as a component of other income based on our proportional ownership interest in the partnerships. The investment partnerships are for purposes of GAAP, investment companies under the AICPA Audit and Accounting Guide *Investment Companies*.

#### ***Concentration of Equity Price Risk***

The majority of our investments are conducted through investment partnerships which generally hold common stocks. We also hold marketable securities directly. Through 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 have a materially adverse effect on our earnings and on consolidated shareholders’ equity.

#### ***Receivables***

Our accounts receivable balance consists primarily of franchisee, customer, and other receivables. We carry our accounts receivable at cost less an allowance for doubtful accounts, which is based on a history of past write-offs and collections and current credit conditions. Allowance for doubtful accounts was \$1,734 at December 31, 2016 and \$2,378 at December 31, 2015. Amounts charged to expense and deductions from the allowance in 2016 and 2015, in the 2014 and 2013 transition periods and in fiscal year 2014 were insignificant.

#### ***Inventories***

Inventories are valued at the lower of cost (first-in, first-out method) or market, and consist primarily of restaurant food items and supply inventory.

#### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized on the straight-line method over the estimated useful lives of the assets (10 to 30 years for buildings and land improvements, and 3 to 10 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the term of the related leases. Interest costs associated with the construction of new restaurants are capitalized. Major improvements are also capitalized while repairs and maintenance are expensed as incurred. We review our long-lived assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For purposes of this assessment, assets are evaluated at the lowest level for which there are identifiable cash flows. If the future undiscounted cash flows of an asset are less than the recorded value, an impairment is recorded for the difference between the carrying value and the estimated fair value of the asset.

#### ***Goodwill and Other Intangible Assets***

Goodwill and indefinite life intangibles are not amortized, but are tested for potential impairment on an annual basis, or more often if events or circumstances change that could cause goodwill or indefinite life intangibles to become impaired. Other purchased intangible assets are amortized over their estimated useful lives, generally on a straight-line basis. We perform reviews for impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying value. When an impairment is identified, we reduce the carrying value of the asset to its estimated fair value. No impairments were recorded on goodwill or intangibles during 2016, 2015, the 2014 and 2013 transition periods, or during fiscal year 2014. Refer to Note 6 for information regarding our goodwill and other intangible assets.

Notes to Consolidated Financial Statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

**Operating Leases**

The Company leases certain property under operating leases. Many of these lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. Rent expense is recognized on a straight-line basis over the expected lease term, including cancellable option periods when failure to exercise such options would result in an economic penalty. In addition, the rent commencement date of the lease term is the earlier due date when we become legally obligated for the rent payments, the date when we take access to the property, or the grounds for build out.

**Common Stock and Treasury Stock**

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

	<b>December 31, 2016</b>	December 31, 2015	December 31, 2014	September 24, 2014
Common stock authorized .....	<b>2,500,000</b>	2,500,000	2,500,000	2,500,000
Common stock issued .....	<b>2,142,202</b>	2,142,202	2,142,202	2,142,202
Treasury stock held by the Company .....	<b>(75,009)</b>	(75,511)	(76,616)	(76,636)
Outstanding shares .....	<b>2,067,193</b>	2,066,691	2,065,586	2,065,566
Proportional ownership of the Company's common stock in the investment partnerships .....	<b>(834,889)</b>	(807,069)	(197,533)	(187,109)
Net outstanding shares for financial reporting purposes ...	<b>1,232,304</b>	1,259,622	1,868,053	1,878,457

**Purchases of Equity Securities**

Shares of the Company's common stock acquired by the investment partnerships are presented below.

	<b>2016</b>	2015	Transition Period 2014	Fiscal Year 2014
The Lion Fund, L.P. ....	-	45,305	16,695	53,539
The Lion Fund II, L.P. ....	<b>37,925</b>	616,312	-	-
	<b>37,925</b>	661,617	16,695	53,539

**Revenue Recognition**

*Restaurant operations*

We record revenue from restaurant sales at the time of sale, net of discounts. Revenue from the sale of gift cards is deferred at the time of sale and recognized either upon redemption by the customer or at expiration of the gift cards. Sales revenues are presented net of sales taxes. Unit franchise fees and area development fees are recorded as revenue when said-related restaurant begins operations. Royalty fees and administrative services fees based on franchise sales are recognized as revenue as earned. License revenue and rental revenues are recognized as revenue when earned.

Restaurant operations revenues were as follows.

	<b>2016</b>	2015	Transition Period		Fiscal Year
			2014	2013	2014
				(unaudited)	
Net sales .....	<b>\$ 795,322</b>	\$ 799,660	\$ 210,256	\$ 200,407	\$ 759,889
Franchise royalties and fees .....	<b>18,794</b>	16,428	4,076	3,177	15,032
Other .....	<b>3,798</b>	3,650	1,316	858	3,234
	<b>\$ 817,914</b>	\$ 819,738	\$ 215,648	\$ 204,442	\$ 778,155

*Insurance premiums and commissions*

Insurance premiums are earned over the terms of the related policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs, are charged to operations as incurred. Premiums earned are stated net of amounts ceded to reinsurer.

## Notes to Consolidated Financial Statements (continued)

### Note 1. Summary of Significant Accounting Policies (continued)

#### Media advertising and other

Magazine subscription and advertising revenues are recognized at the magazine cover date. The unearned portion of magazine subscriptions is deferred until the magazine's cover date, at which time a proportionate share of the gross subscription price is recognized as revenues, net of any commissions paid to subscription agents. Also included in subscription revenues are revenues generated from single-copy sales of magazines through retail outlets such as newsstands, supermarkets, convenience stores and drugstores and on certain digital devices, which may or may not result in future subscription sales. Revenues from retail outlet sales are recognized based on gross sales less a provision for estimated returns. License revenue is recognized when earned. We derive value and revenues from intellectual property assets through a range of licensing and business activities, including licensing and syndication of our trademarks and copyrights in the United States and internationally.

#### Restaurant Cost of Sales

Cost of sales includes the cost of food, restaurant operating costs and restaurant rent expense. Cost of sales excludes depreciation and amortization, which is presented as a separate line item on the consolidated statement of earnings.

#### Insurance Losses and Underwriting Expenses

Liabilities for estimated unpaid losses and loss adjustment expenses with respect to claims occurring on or before the balance sheet date are established under insurance contracts issued by our insurance subsidiaries. Such estimates include provisions for reported claims or case estimates, provisions for incurred-but-not-reported claims and legal and administrative costs to settle claims. The estimates of unpaid losses and amounts recoverable under reinsurance are established and continually reviewed by using a variety of actuarial, statistical and analytical techniques. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify policyholders with respect to the underlying insurance contracts. Liabilities for insurance losses of \$1,937 and \$2,796 are included in accrued expenses in the consolidated balance sheet as of December 31, 2016 and 2015, respectively.

#### Earnings Per Share

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. In fiscal year 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.

The shares of Company stock attributable to our limited partner interest in the investment partnerships — 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.

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

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
				(unaudited)	
Basic earnings per share:					
Weighted average common shares .....	<b>1,222,261</b>	1,556,039	1,877,723	1,714,727	1,709,621
Diluted earnings per share:					
Weighted average common shares .....	<b>1,222,261</b>	1,556,039	1,877,723	1,714,727	1,709,621
Dilutive effect of stock awards .....	<b>1,355</b>	-	1,691	3,534	3,154
Weighted average common and incremental shares .....	<b>1,223,616</b>	1,556,039	1,879,414	1,718,261	1,712,775
Anti-dilutive stock awards excluded from the calculation of earning per share .....	-	5,218	2,637	-	-

#### Marketing Expense

Advertising costs are charged to expense at the later of the date the expenditure is incurred or the date the promotional item is first communicated. Marketing expense is included in selling, general and administrative expenses in the consolidated statement of earnings.



## Notes to Consolidated Financial Statements (continued)

### Note 1. Summary of Significant Accounting Policies (continued)

#### **Insurance Reserves**

We self-insure a significant portion of expected losses under our workers' compensation, general liability, auto, directors' and officers' and medical liability insurance programs, and record a reserve for our estimated losses on all unresolved open claims and our estimated incurred but not reported claims at the anticipated cost to us. Insurance reserves are recorded in accrued expenses in the consolidated balance sheet.

#### **Savings Plans**

Several of our subsidiaries also sponsor deferred compensation and defined contribution retirement plans, such as 401(k) or profit sharing plans. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. Some of the plans allow for discretionary contributions as determined by management. Employer contributions expensed with respect to these plans were not material.

#### **Foreign Currency Translation**

The Company has certain subsidiaries located in foreign jurisdictions. For subsidiaries whose functional currency is other than the U.S. dollar, the translation of functional currency statements to U.S. dollar statements uses end-of-period exchange rates for assets and liabilities, weighted average exchange rates for revenue and expenses, and historical rates for equity. The resulting currency translation adjustment is recorded in accumulated other comprehensive income, as a component of equity.

#### **Use of Estimates**

Preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates.

#### **New Accounting Standards**

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 provides for the elimination of Step 2 from the goodwill impairment test. If impairment charges are recognized, the amount recorded will be the amount by which the carrying amount exceeds the reporting unit's fair value with certain limitations. The ASU is effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2020. The Company does not currently anticipate ASU 2017-04 to have a material impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, *Interests Held through Related Parties That Are under Common Control*. ASU 2016-17 amends the consolidation guidance in ASU 2015-02 regarding the treatment of indirect interests held through related parties that are under common control. We are currently assessing the impact of ASU 2016-17, but do not expect the adoption to have a material effect on our consolidated financial statements. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The objective of the update is to reduce diversity in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-15 will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and related disclosures.

## Notes to Consolidated Financial Statements (continued)

### Note 1. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02 *Leases*. ASU 2016-02 requires a lessee to recognize lease assets and lease liabilities on the balance sheet, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect this amended guidance will have on our results of operations. We anticipate the ASU will have a material impact on our balance sheet, but the ASU is non-cash in nature and will not affect our cash position.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent deferred tax asset or liability. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. The Company adopted ASU 2015-17 on January 1, 2016. As of December 31, 2015, the Company reclassified \$13,263 from current deferred tax asset to noncurrent deferred tax liability to conform to the current year classification.

In April 2015, the FASB issued 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 adopted ASU 2015-03 on January 1, 2016. As of December 31, 2015, the Company reclassified \$688 from other current assets to current portion of notes payable and other borrowings. The Company also reclassified \$2,888 from other assets to other borrowings and long-term notes payable to conform to the current year classification.

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. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The Company adopted the provisions of ASU 2015-02 on January 1, 2016. The adoption of this update had no material effect on the Company's 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 annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company adopted the provisions of ASU 2014-15 on December 31, 2016. The adoption of this update had no material effect on the Company's 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. We currently expect to adopt ASU 2014-09 as of January 1, 2018 under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued, and may issue in the future, interpretative guidance that may cause our evaluation to change. While we anticipate some changes to revenue recognition for certain transactions, we do not currently believe ASU 2014-09 will have a material effect on our consolidated financial statements.

## Notes to Consolidated Financial Statements (continued)

### Note 1. Summary of Significant Accounting Policies (continued)

#### Reclassifications

Reclassifications were made to our 2015 consolidated financial statements to conform with current period presentation. Such changes included the retrospective impact upon adoption of ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, and ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* as discussed in New Accounting Standards within note 1. Additionally, the Company consolidated accounts payable and accrued expenses into a single line item on the balance sheet at December 31, 2016 and changed the December 31, 2015 presentation to conform.

### Note 2. Investments

Investments consisted of the following.

	December 31,	
	2016	2015
Cost .....	\$ 22,508	\$ 24,842
Gross unrealized gains .....	24	10
Gross unrealized losses .....	(235)	(1,102)
Fair value .....	<u>\$ 22,297</u>	<u>\$ 23,750</u>

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.

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

### Note 3. Investment Partnerships

The Company reports on the limited partnership interests in 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.

Notes to Consolidated Financial Statements (continued)

Note 3. Investment Partnerships (continued)

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 September 25, 2013 .....	\$ 455,297	\$ 57,598	\$ 397,699
Investment partnership gains .....	1,436	(12,619)	14,055
Contributions (net of distributions of \$10,340) .....	164,078	-	164,078
Increase in proportionate share of Company stock held .....	-	18,594	(18,594)
Partnership interest at September 24, 2014 .....	\$ 620,811	\$ 63,573	\$ 557,238
Investment partnership gains .....	156,088	11,386	144,702
Increase in proportionate share of Company stock held .....	-	3,958	(3,958)
Partnership interest at December 31, 2014 .....	\$ 776,899	\$ 78,917	\$ 697,982
Investment partnership losses .....	(110,956)	(71,600)	(39,356)
Contributions (net of distributions of \$19,775) .....	68,725	-	68,725
Increase in proportionate share of Company stock held .....	-	255,662	(255,662)
Partnership interest at December 31, 2015 .....	\$ 734,668	\$ 262,979	\$ 471,689
<b>Investment partnership gains .....</b>	<b>248,935</b>	<b>113,049</b>	<b>135,886</b>
<b>Distributions (net of contributions of \$19,832).....</b>	<b>(10,896)</b>	<b>-</b>	<b>(10,896)</b>
<b>Increase in proportionate share of Company stock held .....</b>	<b>-</b>	<b>19,042</b>	<b>(19,042)</b>
<b>Partnership interest at December 31, 2016 .....</b>	<b>\$ 972,707</b>	<b>\$ 395,070</b>	<b>\$ 577,637</b>

The Company recognized a pre-tax loss of \$306 (\$193 net of tax) on a contribution of \$5,682 in securities to investment partnerships during 2016. The Company recognized a pre-tax gain of \$29,524 (\$18,305 net of tax) on a contribution of \$74,418 in securities to investment partnerships during fiscal year 2014. The gain had a material accounting effect on the Company's fiscal year 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 gains included as a component of accumulated other comprehensive income.

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

	<b>December 31,</b>	
	<b>2016</b>	2015
Carrying value of investment partnerships .....	\$ 577,637	\$ 471,689
Deferred tax liability related to investment partnerships .....	<b>(155,553)</b>	(115,952)
Carrying value of investment partnerships net of deferred taxes .....	<b>\$ 422,084</b>	\$ 355,737

The Company's proportionate share of Company stock held by investment partnerships at cost is \$341,930 and \$332,827 at December 31, 2016 and 2015, respectively, and is recorded as treasury stock.

The carrying value of the partnership interest approximates fair value adjusted by 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.

Gains/losses from investment partnerships recorded in the Company's consolidated statements of earnings are presented below.

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
				(unaudited)	
Investment partnership gains (losses) .....	\$ 135,886	\$ (39,356)	\$ 144,702	\$ 23,493	\$ 14,055
Tax expense (benefit) .....	44,361	(21,188)	53,511	7,977	1,739
Contribution to net earnings (loss) .....	<b>\$ 91,525</b>	<b>\$ (18,168)</b>	<b>\$ 91,191</b>	<b>\$ 15,516</b>	<b>\$ 12,316</b>

**Notes to Consolidated Financial Statements** (continued)

**Note 3. Investment Partnerships** (continued)

On December 31 of each year, the general partner of the investment partnerships, Biglari Capital, will earn an incentive reallocation fee for the Company's investments equal to 25% of the net profits above an annual hurdle rate of 6% over the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year. The total incentive reallocation from Biglari Holdings to Biglari Capital includes gains on the Company's common stock. Gains and losses on the Company's common stock and the related incentive reallocations are eliminated in our financial statements. Our investments in these partnerships are committed on a rolling 5-year basis.

The incentive reallocations from Biglari Holdings to Biglari Capital on December 31 are presented below.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Incentive reallocation for gains on investments other than Company common stock .....	\$ <b>20,114</b>	\$ -	\$ 34,406
Incentive reallocation for gains on Company common stock .....	<b>11,514</b>	23	-
Total incentive reallocation from Biglari Holdings to Biglari Capital .....	<u><b>\$ 31,628</b></u>	<u>\$ 23</u>	<u>\$ 34,406</u>

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

	<u>Equity in Investment Partnerships</u>	
	<u>Lion Fund</u>	<u>Lion Fund II</u>
<b>Total assets as of December 31, 2016</b> .....	\$ <b>221,676</b>	\$ <b>1,109,465</b>
<b>Total liabilities as of December 31, 2016</b> .....	\$ <b>2,694</b>	\$ <b>201,460</b>
<b>Revenue for the year ended December 31, 2016</b> .....	\$ <b>37,098</b>	\$ <b>282,242</b>
<b>Earnings for the year ended December 31, 2016</b> .....	\$ <b>36,933</b>	\$ <b>273,736</b>
<b>Biglari Holdings' ownership interest</b> .....	<b>63.6%</b>	<b>91.8%</b>
Total assets as of December 31, 2015 .....	\$ 165,996	\$ 819,323
Total liabilities as of December 31, 2015 .....	\$ 409	\$ 141,274
Revenue for the year ended December 31, 2015 .....	\$ (24,101)	\$ (100,357)
Earnings for the year ended December 31, 2015 .....	\$ (24,247)	\$ (103,096)
Biglari Holdings' ownership interest .....	60.9%	93.5%
Revenue for the three month period ended December 31, 2014 .....	\$ 24,082	\$ 182,923
Earnings for the three month period ended December 31, 2014 .....	\$ 24,037	\$ 182,902
Biglari Holdings' ownership interest .....	61.6%	92.7%
Revenue for the year ended September 30, 2014 .....	\$ (12,860)	\$ 19,832
Earnings for the year ended September 30, 2014 .....	\$ (12,950)	\$ 19,789
Biglari Holdings' ownership interest .....	61.6%	95.8%

Revenue in the above summarized financial information of the investment partnerships includes investment income and unrealized gains and losses on investments.

**Note 4. Other Current Assets**

Other current assets include the following.

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Prepaid contractual obligations .....	\$ <b>4,342</b>	\$ 4,131
Deferred commissions on gift cards sold by third parties .....	<b>3,374</b>	3,124
Assets held for sale .....	<b>1,000</b>	-
Other current assets .....	<u><b>\$ 8,716</b></u>	<u>\$ 7,255</u>

Notes to Consolidated Financial Statements (continued)

Note 5. Property and Equipment

Property and equipment is composed of the following.

	December 31,	
	2016	2015
Land .....	\$ 160,328	\$ 160,697
Buildings .....	156,723	156,909
Land and leasehold improvements .....	163,817	165,042
Equipment .....	200,214	199,934
Construction in progress .....	1,539	3,478
	<u>682,621</u>	<u>686,060</u>
Less accumulated depreciation and amortization .....	<u>(370,357)</u>	<u>(353,736)</u>
Property and equipment, net .....	<u>\$ 312,264</u>	<u>\$ 332,324</u>

Depreciation and amortization expense for property and equipment for 2016 and 2015 was \$21,635 and \$24,113, respectively. Depreciation and amortization expense for property and equipment for the 2014 and 2013 transition periods was \$6,380 and \$6,105, respectively. Depreciation and amortization expense for property and equipment for fiscal year 2014 was \$23,112.

Note 6. 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.

	Restaurants	Other	Total
Goodwill at September 25, 2013 .....	\$ 28,251	\$ -	\$ 28,251
Acquisitions during fiscal year 2014 .....	-	11,913	11,913
Goodwill at September 24, 2014 .....	28,251	11,913	40,164
Acquisitions during 2014 transition period .....	-	-	-
Goodwill at December 31, 2014 .....	28,251	11,913	40,164
Change in foreign exchange rates during 2015 .....	(142)	-	(142)
Goodwill at December 31, 2015 .....	28,109	11,913	40,022
<b>Change in foreign exchange rates during 2016 .....</b>	<b>(19)</b>	<b>-</b>	<b>(19)</b>
<b>Goodwill at December 31, 2016 .....</b>	<b>\$ 28,090</b>	<b>\$ 11,913</b>	<b>\$ 40,003</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. When evaluating goodwill for impairment, we may first perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. If we do not perform a qualitative assessment, or if we determine that it is not more likely than not that the fair value of the reporting unit exceeds its carrying amount, we test for potential impairment using 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.

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 2016, 2015, the 2014 or 2013 transition periods, or in fiscal year 2014.



Notes to Consolidated Financial Statements (continued)

Note 6. Goodwill and Other Intangibles (continued)

*Other Intangibles*

Other intangibles are composed of the following.

	December 31,					
	2016			2015		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Franchise agreement .....	\$ 5,310	\$ (3,585)	\$ 1,725	\$ 5,310	\$ (3,054)	\$ 2,256
Other .....	810	(707)	103	810	(667)	143
Total .....	<u>6,120</u>	<u>(4,292)</u>	<u>1,828</u>	6,120	(3,721)	2,399
Intangible assets with indefinite lives:						
Trade names .....	15,876	-	15,876	15,876	-	15,876
Other assets with indefinite lives.....	8,347	-	8,347	3,398	-	3,398
Total intangible assets .....	<u>\$ 30,343</u>	<u>\$ (4,292)</u>	<u>\$ 26,051</u>	<u>\$ 25,394</u>	<u>\$ (3,721)</u>	<u>\$ 21,673</u>

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 2016 and 2015 was \$571 and \$574, respectively. Amortization expense for the 2014 and 2013 transition periods was \$151 and \$169, respectively. Amortization expense for fiscal year 2014 was \$690. The Company's intangible assets with definite lives will fully amortize in 2020. Total annual amortization expense for each of the next four years will approximate \$500.

The Company purchased perpetual lease rights during 2016 totaling \$3,367 and recorded an additional \$1,657 indefinite life asset associated with the tax effect of the asset acquisition. The Company acquired Maxim and First Guard during fiscal year 2014. As a result of the acquisitions during fiscal year 2014, \$15,876 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 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	December 31,	
	2016	2015
Accounts payable .....	\$ 33,961	\$ 34,649
Gift card liability .....	25,321	22,358
Salaries, wages, and vacation .....	15,618	13,584
Taxes payable .....	12,254	12,413
Workers' compensation and other self-insurance accruals .....	9,960	8,485
Deferred revenue .....	7,407	8,514
Other .....	8,361	9,075
Accrued expenses .....	<u>\$ 112,882</u>	<u>\$ 109,078</u>



Notes to Consolidated Financial Statements (continued)

**Note 8. Other Liabilities**

Other liabilities include the following.

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Deferred rent expense .....	<b>\$ 6,632</b>	\$ 6,658
Other .....	<b>4,514</b>	4,253
Other liabilities .....	<b>\$ 11,146</b>	\$ 10,911

**Note 9. Income Taxes**

The components of the provision for income taxes consist of the following.

	<b>2016</b>	2015	<u>Transition Period</u>		Fiscal Year
			2014	2013	2014
				(unaudited)	
Current:					
Federal .....	<b>\$ 6,329</b>	\$ 2,866	\$ 752	\$ 2,352	\$ 571
State .....	<b>1,998</b>	2,022	889	475	477
Deferred .....	<b>38,485</b>	(26,476)	52,909	6,623	9,164
Total income taxes .....	<b>\$ 46,812</b>	\$ (21,588)	\$ 54,550	\$ 9,450	\$ 10,212
Reconciliation of effective income tax:					
Tax at U.S. statutory rates (35%) .....	<b>\$ 51,227</b>	\$ (13,100)	\$ 50,960	\$ 9,940	\$ 13,656
State income taxes, net of federal benefit .....	<b>3,332</b>	(1,973)	4,186	840	1,369
Federal income tax credits .....	<b>(4,692)</b>	(4,837)	(995)	(960)	(4,298)
Dividends received deduction .....	<b>(5,851)</b>	(6,142)	(341)	(880)	(3,650)
Valuation allowance .....	<b>905</b>	919	499	180	985
Foreign tax rate differences .....	<b>2,249</b>	3,180	606	371	1,993
Other .....	<b>(358)</b>	365	(365)	(41)	157
Total income taxes .....	<b>\$ 46,812</b>	\$ (21,588)	\$ 54,550	\$ 9,450	\$ 10,212

Income taxes paid during 2016 and 2015 was \$6,961 and \$2,063, respectively. Income taxes paid for the 2014 transition period was \$22. Income taxes paid totaled \$4,829 in fiscal year 2014. Income tax refunds totaled \$233 in 2016, \$16 in 2015 and \$17 in fiscal year 2014.

As of December 31, 2016, we had approximately \$396 of unrecognized tax benefits, including approximately \$20 of interest and penalties, which are included in other long-term liabilities in the consolidated balance sheet. As of December 31, 2015, we had approximately \$413 of unrecognized tax benefits, including approximately \$35 of interest and penalties, which are included in other long-term liabilities in the consolidated balance sheet. We recognized approximately \$20 and \$6 in potential interest and penalties associated with uncertain tax positions during 2015 and the 2014 transition period, respectively. Our continuing practice is to recognize interest expense and penalties related to income tax matters in income tax expense. The unrecognized tax benefits of \$396 would impact the effective income tax rate if recognized.

Adjustments to the Company's unrecognized tax benefit for gross increases for current period tax position, gross decreases for prior period tax positions and the lapse of statute of limitations during 2016, 2015, the 2014 transition period and fiscal 2014 were not significant.

We file income tax returns which are periodically audited by various foreign, federal, state, and local jurisdictions. With few exceptions, we are no longer subject to federal, state, and local tax examinations for fiscal years prior to 2013. We believe we have certain state income tax exposures related to fiscal years 2012 through 2015. Because of the expiration of the various state statutes of limitations for these fiscal years, it is possible that the total amount of unrecognized tax benefits will decrease by approximately \$47 within 12 months.

Notes to Consolidated Financial Statements (continued)

Note 9. Income Taxes (continued)

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Our deferred tax assets and liabilities consist of the following.

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Deferred tax assets:		
Insurance reserves .....	\$ 3,440	\$ 2,878
Compensation accruals .....	2,349	1,610
Gift card accruals .....	3,946	2,981
Net operating loss credit carry forward .....	4,292	3,444
Valuation allowance on net operating losses .....	(4,289)	(3,384)
Income tax credit carry forward .....	-	4,344
Other .....	947	1,642
Total deferred tax assets .....	<u>10,685</u>	<u>13,515</u>
Deferred tax liabilities:		
Investments .....	155,476	115,545
Fixed asset basis difference .....	1,965	6,311
Goodwill and intangibles .....	5,559	3,526
Total deferred tax liabilities .....	<u>163,000</u>	<u>125,382</u>
Net deferred tax liability .....	<u>\$ (152,315)</u>	<u>\$ (111,867)</u>

Accounts payable and accrued expenses on the consolidated balance sheet include income taxes payable of \$1,060 as of December 31, 2016. Receivables on the consolidated balance sheet include income tax receivables of \$559 as of December 31, 2015.

Note 10. Notes Payable and Other Borrowings

Notes payable and other borrowings include the following.

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Current portion of notes payable and other borrowings		
Notes payable .....	\$ 2,200	\$ 2,200
Unamortized original issue discount .....	(308)	(296)
Unamortized debt issuance costs .....	(711)	(688)
Obligations under leases .....	5,571	5,787
Western revolver .....	377	786
Total current portion of notes payable and other borrowings .....	<u>\$ 7,129</u>	<u>\$ 7,789</u>
Long-term notes payable and other borrowings		
Notes payable .....	\$ 200,898	\$ 210,175
Unamortized original issue discount .....	(1,093)	(1,403)
Unamortized debt issuance costs .....	(2,177)	(2,888)
Obligations under leases .....	83,927	90,178
Total long-term notes payable and other borrowings .....	<u>\$ 281,555</u>	<u>\$ 296,062</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.

**Notes to Consolidated Financial Statements** (continued)

**Note 10. Notes Payable and Other Borrowings** (continued)

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.

The interest rate on the term loan was 4.75% on December 31, 2016.

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. Steak n Shake's credit facility contains restrictions on its ability to pay dividends to Biglari Holdings.

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 December 31, 2016, \$203,098 was outstanding under the term loan, and no amount was outstanding under the revolver.

We recorded losses of \$1,133 in interest expense for the extinguishment of debt for fiscal year 2014 related to the write-off of deferred loan costs associated with former credit facilities. We capitalized \$4,754 in debt issuance costs in fiscal year 2014.

We had \$10,893 and \$10,188 in standby letters of credit outstanding as of December 31, 2016 and 2015, respectively.

**Western Revolver**

As of December 31, 2016, Western has \$377 due June 13, 2017.

Expected principal payments for notes payable and Western's revolver as of December 31, 2016, are as follows.

2017 .....	\$	2,577
2018 .....		2,200
2019 .....		2,200
2020 .....		2,200
2021 .....		194,298
Total .....	\$	<u>203,475</u>

The carrying amounts for debt reported in the consolidated balance sheet did not differ materially from the fair values at December 31, 2016 and 2015. The fair value was determined to be a Level 3 fair value measurement.

Notes to Consolidated Financial Statements (continued)

Note 10. Notes Payable and Other Borrowings (continued)

Interest

Interest paid on debt and obligations under leases are as follows.

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
			(unaudited)		
Interest paid on debt .....	<b>\$ 10,508</b>	\$ 10,186	\$ 2,841	\$ 1,956	\$ 8,158
Interest paid on obligations under leases .....	<b>\$ 9,475</b>	\$ 9,422	\$ 2,577	\$ 2,612	\$ 9,720

Note 11. Leased Assets and Lease Commitments

We lease certain physical facilities under non-cancelable lease agreements. These leases require the payment of real estate taxes, insurance and maintenance costs. Certain leased facilities, which are no longer operated but are subleased to third parties or franchisees, are classified below as non-operating properties. Minimum future rental payments for non-operating properties have not been reduced by minimum sublease rentals of \$9,518 related to operating leases receivable under non-cancelable subleases. The property and equipment cost related to finance obligations and capital leases as of December 31, 2016 is as follows: \$69,947 buildings, \$59,039 land, \$27,705 land and leasehold improvements, \$1,246 equipment and \$74,705 accumulated depreciation.

On December 31, 2016, obligations under non-cancelable finance obligations, capital leases, and operating leases (excluding real estate taxes, insurance and maintenance costs) require the following minimum future rental payments.

Year	Finance Obligations	Capital Leases	Total	Operating Leases	
				Operating Property	Non-Operating Property
2017 .....	\$ 14,052	\$ 376	\$ 14,428	\$ 15,553	\$ 708
2018 .....	12,043	121	12,164	15,170	714
2019 .....	9,387	55	9,442	14,076	700
2020 .....	6,054	55	6,109	12,568	771
2021 .....	3,939	55	3,994	12,611	799
After 2021 .....	3,220	5	3,225	46,133	5,150
Total minimum future rental payments .....	48,695	667	49,362	<u>\$ 116,111</u>	<u>\$ 8,842</u>
Less amount representing interest .....	29,059	141	29,200		
Total principal obligations under leases .....	19,636	526	20,162		
Less current portion .....	5,246	325	5,571		
Non-current principal obligations under leases .....	14,390	201	14,591		
Residual value at end of lease term .....	69,336	-	69,336		
Obligations under leases .....	<u>\$ 83,726</u>	<u>\$ 201</u>	<u>\$ 83,927</u>		

Rent expense is presented below.

	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
			(unaudited)		
Minimum rent .....	<b>\$ 17,906</b>	\$ 18,476	\$ 5,069	\$ 4,706	\$ 18,322
Contingent rent .....	<b>1,841</b>	2,022	356	295	1,549
Rent expense .....	<b>\$ 19,747</b>	\$ 20,498	\$ 5,425	\$ 5,001	\$ 19,871

Non-cancellable finance obligations were created when the Company, under prior management, entered into certain build-to-suit or sale leaseback arrangements. As a result of continuing involvement in the underlying leases (generally due to right of substitution or purchase option provisions of the leases), the Company accounts for the leases as financings.

Notes to Consolidated Financial Statements (continued)

**Note 12. Related Party Transactions**

*Shared Services Agreement*

During fiscal 2013, Biglari Holdings and Biglari Capital entered into the Shared Services Agreement pursuant to which Biglari Holdings provides certain services to Biglari Capital. Biglari Capital is solely owned by Mr. Biglari. 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. During 2016, 2015, 2014 transition period, and fiscal year 2014, the Company provided services for Biglari Capital under the Shared Services Agreement costing an aggregate of \$1,372, \$4,425, \$44, and \$1,590, respectively.

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

As of December 31, 2016, the Company's investments in The Lion Fund, L.P. and The Lion Fund II, L.P. had a fair value of \$972,707.

Contributions to and distributions from The Lion Fund, L.P. and The Lion Fund II, L.P. were as follows.

	<b>2016</b>	2015	Transition Period 2014	Fiscal Year 2014
Contributions of cash .....	<b>\$ 14,150</b>	\$ 88,500	\$ -	\$ 100,000
Contributions of securities.....	<b>5,682</b>	-	-	74,418
Distributions of cash.....	<b>(26,265)</b>	(19,775)	-	(10,340)
Distributions of securities.....	<b>(4,463)</b>	-	-	-
	<b><u>\$ (10,896)</u></b>	<u>\$ 68,725</u>	<u>\$ -</u>	<u>\$ 164,078</u>

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 above an annual hurdle rate of 6%. Our policy is to accrue an estimated incentive fee throughout the year. Gains on the Company's common stock and incentive reallocations on gains on Company common stock are eliminated in our financial statements. Based on Biglari Holdings' \$280,563 of earnings from the investment partnerships for 2016, the total incentive reallocation from Biglari Holdings to Biglari Capital was \$31,628, including \$11,514 associated with gains on the Company's common stock. For 2015, the incentive reallocation from Biglari Holdings to Biglari Capital was \$23, all of which was associated with gains on the Company's common stock. Based on Biglari Holdings' \$166,168 of earnings from the investment partnerships for calendar year 2014, the total incentive reallocation from Biglari Holdings to Biglari Capital was \$34,406.

*Incentive Agreement Amendment*

During 2013, Biglari Holdings and Mr. Biglari entered into an amendment to the Incentive Agreement to exclude earnings by the investment partnerships from the calculation of Mr. Biglari's incentive bonus. No incentive fees were paid for 2016, 2015, the 2014 transition period or fiscal year 2014. Under the Amended and Restated Incentive Agreement Mr. Biglari would receive a payment of approximately \$14,700 if an event occurred entitling him to a severance payment.

*License Agreement*

On January 11, 2013, the Company entered into a Trademark License Agreement (the "License Agreement") with Mr. Biglari. The License Agreement was unanimously approved by the Governance, Nominating and Compensation 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

## Notes to Consolidated Financial Statements (continued)

### Note 12. Related Party Transaction (continued)

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 Governance, Nominating and Compensation 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.

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.

The Company and its subsidiaries have paid no royalties to Mr. Biglari under the License Agreement since its execution.

The actual amount of royalties paid to Mr. Biglari following the occurrence of a Triggering Event (as defined in the License Agreement) would depend on the Company's revenues during the applicable period following the Triggering Event, and, therefore, depends on material assumptions and estimates regarding future operations and revenues. Assuming for purposes of



## Notes to Consolidated Financial Statements (continued)

### Note 12. Related Party Transaction (continued)

illustration a Triggering Event occurred on December 31, 2016, using revenue from 2016 as an estimate of future revenue and calculated according to terms of the License Agreement, Mr. Biglari would receive approximately \$20,300 in royalty payments annually. At a minimum, the royalties would be earned on revenue generated from January 1, 2017 through December 31, 2023. Royalty payments beyond the minimum period would be subject to the licensee's continued use of the licensed marks.

### Note 13. Common Stock Plans

On March 7, 2008, our shareholders approved the 2008 Equity Incentive Plan. During fiscal 2010, we resolved to suspend, indefinitely, the future issuance of stock-based awards under the 2008 plan. No shares have been granted under the 2008 plan since 2010.

The following table summarizes the options activity for 2016.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2015 .....	5,218	\$ 271.58		
Exercised .....	(1,995)	\$ 325.75		
Canceled or forfeited .....	(446)	\$ 315.58		
Outstanding and exercisable at December 31, 2016 .....	<u>2,777</u>	\$ 225.59	0.84	\$ 688

There was no unrecognized stock option compensation cost at December 31, 2016 or 2015. No amounts were charged to expense during 2016, 2015, the 2014 or 2013 transition periods, or during fiscal year 2014.

### Note 14. 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.

### Note 15. 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.



**Notes to Consolidated Financial Statements** (continued)

**Note 15. Fair Value of Financial Assets and Liabilities** (continued)

- 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.

*Derivative instruments:* Options related to equity securities are marked to market each reporting period and are classified within Level 2 of the fair value hierarchy.

As of December 31, 2016 and December 31, 2015 the fair values of financial assets and liabilities were as follows.

	<b>December 31,</b>							
	<b>2016</b>				<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>								
Cash equivalents .....	\$ 471	\$ -	\$ -	\$ 471	\$ 700	\$ -	\$ -	\$ 700
Equity securities:								
Insurance .....	-	-	-	-	5,046	-	-	5,046
Consumer goods .....	2,018	-	-	2,018	-	-	-	-
Bonds .....	-	24,904	-	24,904	-	21,304	-	21,304
Options on equity securities .....	-	2,445	-	2,445	-	-	-	-
Non-qualified deferred compensation plan investments .....	2,872	-	-	2,872	2,203	-	-	2,203
Total assets at fair value .....	<u>\$ 5,361</u>	<u>\$ 27,349</u>	<u>\$ -</u>	<u>\$ 32,710</u>	<u>\$ 7,949</u>	<u>\$ 21,304</u>	<u>\$ -</u>	<u>\$ 29,253</u>

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

The Company recorded an impairment to long-lived assets of \$695 and \$51 during 2016 and 2015, respectively. The Company did not record any impairment during the 2014 transition period. The Company recorded an impairment of \$41 during the 2013 transition period. During fiscal year 2014, the Company recorded an impairment to long-lived assets of \$1,433. The fair value of the long-lived assets was determined based on Level 2 inputs using quoted prices for similar properties and quoted prices for the properties from brokers. The fair value of the assets impaired was not material for any of the applicable periods.

Notes to Consolidated Financial Statements (continued)

Note 16. Accumulated Other Comprehensive Income

Changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, were as follows.

	2016			2015		
	Foreign Currency Translation Adjustments	Investment Gain	Accumulated Other Comprehensive Loss	Foreign Currency Translation Adjustments	Investment Gain	Accumulated Other Comprehensive Loss
Beginning Balance .....	\$ (2,992)	\$ (687)	\$ (3,679)	\$ (620)	\$ (163)	\$ (783)
Other comprehensive income (loss) before reclassifications .....	(455)	357	(98)	(2,372)	(565)	(2,937)
Reclassification to (earnings) loss ...	-	193	193	-	41	41
Ending Balance .....	<u>\$ (3,447)</u>	<u>\$ (137)</u>	<u>\$ (3,584)</u>	<u>\$ (2,992)</u>	<u>\$ (687)</u>	<u>\$ (3,679)</u>

	Transition Period 2014			Fiscal Year 2014		
	Foreign Currency Translation Adjustments	Investment Gain	Accumulated Other Comprehensive Loss	Foreign Currency Translation Adjustments	Investment Gain	Accumulated Other Comprehensive Income (Loss)
Beginning Balance .....	\$ (574)	\$ 52	\$ (522)	\$ 8	\$ 21,449	\$ 21,457
Other comprehensive income (loss) before reclassifications .....	(46)	(215)	(261)	(582)	(3,056)	(3,638)
Reclassification to (earnings) loss ...	-	-	-	-	(18,341)	(18,341)
Ending Balance .....	<u>\$ (620)</u>	<u>\$ (163)</u>	<u>\$ (783)</u>	<u>\$ (574)</u>	<u>\$ 52</u>	<u>\$ (522)</u>

The following reclassifications were made from accumulated other comprehensive income to the consolidated statement of earnings.

Reclassifications from Accumulated Other Comprehensive Income	2016	2015	Affected Line Item in the Consolidated Statement of Earnings
Investment (loss)	\$ (306)	\$ -	Investment (loss) on contribution
	-	(62)	Insurance premiums and other
	(113)	(21)	Income tax expense (benefit)
	<u>\$ (193)</u>	<u>\$ (41)</u>	Net of tax

Reclassifications from Accumulated Other Comprehensive Income	Transition Period 2014	Fiscal Year 2014	Affected Line Item in the Consolidated Statement of Earnings
Investment gain	\$ -	\$ 29,524	Investment gain on contribution
	-	54	Insurance premiums and other
	-	11,237	Income tax expense (benefit)
	<u>\$ -</u>	<u>\$ 18,341</u>	Net of tax

Notes to Consolidated Financial Statements (continued)

**Note 17. Business Segment Reporting**

Our reportable business segments are organized in a manner that reflects how management views those business activities.

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

We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are neither necessarily indicative of cash available to fund cash requirements, nor synonymous with cash flow from operations.

The tabular information that follows shows data of our reportable segments reconciled to amounts reflected in the consolidated financial statements.

Revenue and earnings (loss) before income taxes for 2016, 2015, transition periods 2014 and 2013, and fiscal year 2014 were as follows.

	<b>Revenue</b>				
	<b>2016</b>	2015	Transition Period		Fiscal Year
			2014	2013	2014
					(unaudited)
<b>Operating Businesses:</b>					
Restaurant Operations:					
Steak n Shake .....	\$ 804,423	\$ 805,771	\$ 212,369	\$ 201,483	\$ 765,600
Western .....	13,491	13,967	3,279	2,959	12,555
Total Restaurant Operations .....	<b>817,914</b>	819,738	215,648	204,442	778,155
First Guard .....	22,997	17,232	3,574	-	5,715
Maxim .....	9,165	24,482	5,228	-	9,941
	<b>\$ 850,076</b>	<b>\$ 861,452</b>	<b>\$ 224,450</b>	<b>\$ 204,442</b>	<b>\$ 793,811</b>
	<b>Earnings (Loss) Before Income Taxes</b>				
	<b>2016</b>	2015	Transition Period		Fiscal Year
			2014	2013	2014
					(unaudited)
<b>Operating Businesses:</b>					
Restaurant Operations:					
Steak n Shake .....	\$ 34,717	\$ 39,749	\$ 10,172	\$ 9,461	\$ 26,494
Western .....	2,506	1,849	394	329	1,765
Total Restaurant Operations .....	<b>37,223</b>	41,598	10,566	9,790	28,259
First Guard .....	5,135	3,529	906	-	1,461
Maxim .....	(10,078)	(18,105)	(5,498)	-	(15,981)
Other.....	94	564	3	21	500
Total Operating Businesses .....	<b>32,374</b>	27,586	5,977	9,811	14,239
<b>Corporate and investments:</b>					
Corporate .....	(10,241)	(13,731)	(1,807)	(3,264)	(8,503)
Gains (losses) on contributions to partnerships .....	(306)	-	-	-	29,524
Investment partnership gains (loss) .....	135,886	(39,356)	144,702	23,493	14,055
Total corporate .....	<b>125,339</b>	(53,087)	142,895	20,229	35,076
Interest expense on notes payable and other borrowings .....	(11,450)	(11,930)	(3,272)	(1,641)	(10,299)
	<b>\$ 146,263</b>	<b>\$ (37,431)</b>	<b>\$ 145,600</b>	<b>\$ 28,399</b>	<b>\$ 39,016</b>

Notes to Consolidated Financial Statements (continued)

Note 17. Business Segment Reporting (continued)

A disaggregation of our consolidated capital expenditure and depreciation and amortization captions for 2016, 2015, transition periods 2014 and 2013, and fiscal year 2014 is presented in the tables that follow.

	Capital Expenditures				
	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
				(unaudited)	
<b>Operating Businesses:</b>					
Restaurant Operations:					
Steak n Shake .....	\$ 11,624	\$ 8,434	\$ 8,733	\$ 4,997	\$ 25,398
Western .....	306	43	-	11	1,113
Total Restaurant Operations .....	11,930	8,477	8,733	5,008	26,511
First Guard .....	7	102	10	-	-
Maxim .....	42	16	57	-	312
Other .....	51	2,486	7	275	6,840
Total Operating Businesses .....	12,030	11,081	8,807	5,283	33,663
Corporate .....	-	2	9	-	2,149
Consolidated results .....	\$ 12,030	\$ 11,083	\$ 8,816	\$ 5,283	\$ 35,812

	Depreciation and Amortization				
	2016	2015	Transition Period		Fiscal Year
			2014	2013	2014
				(unaudited)	
<b>Operating Businesses:</b>					
Restaurant Operations:					
Steak n Shake .....	\$ 20,968	\$ 23,045	\$ 6,289	\$ 6,274	\$ 23,402
Western .....	605	691	172	160	662
Total Restaurant Operations .....	21,573	23,736	6,461	6,434	24,064
First Guard .....	64	36	30	-	38
Maxim .....	409	296	151	-	211
Other .....	431	412	116	34	279
Total Operating Businesses .....	22,477	24,480	6,758	6,468	24,592
Corporate .....	448	300	70	98	313
Consolidated results .....	\$ 22,925	\$ 24,780	\$ 6,828	\$ 6,566	\$ 24,905

A disaggregation of our consolidated asset captions is presented in the table that follows.

	Identifiable Assets	
	December 31,	
	2016	2015
<b>Reportable segments:</b>		
Restaurant Operations:		
Steak n Shake .....	\$ 395,809	\$ 393,853
Western .....	17,040	17,412
Total Restaurant Operations .....	412,849	411,265
First Guard .....	42,746	41,159
Maxim .....	19,100	23,545
Other .....	21,116	23,587
Corporate .....	23,519	15,834
Investment partnerships .....	577,637	471,689
<b>Total assets .....</b>	<b>\$ 1,096,967</b>	<b>\$ 987,079</b>

Notes to Consolidated Financial Statements (continued)

Note 18. Quarterly Financial Data (Unaudited)

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
<b>For the year ended December 31, 2016</b>				
Total revenues .....	\$ 208,242	\$ 219,113	\$ 216,732	\$ 205,989
Gross profit .....	43,328	49,645	46,718	42,101
Costs and expenses .....	201,271	207,655	207,135	202,407
Earnings (loss) before income taxes .....	80,741	57,079	(104,258)	112,701
Net earnings (loss) .....	51,163	37,517	(60,129)	70,900
Basic earnings (loss) per common share .....	\$ 41.20	\$ 30.60	\$ (49.48)	\$ 58.78
Diluted earnings (loss) per common share .....	\$ 41.16	\$ 30.57	\$ (49.48)	\$ 58.70
<b>For the year ended December 31, 2015</b>				
Total revenues .....	\$ 205,828	\$ 221,956	\$ 218,443	\$ 215,225
Gross profit .....	38,686	51,208	46,791	46,199
Costs and expenses .....	206,144	213,172	209,493	209,366
Earnings (loss) before income taxes .....	17,173	(2,177)	9,050	(61,477)
Net earnings (loss) attributable to Biglari Holdings Inc. ....	9,983	26	9,298	(35,150)
Basic earnings (loss) per common share .....	\$ 5.36	\$ 0.01	\$ 7.36	\$ (27.88)
Diluted earnings (loss) per common share .....	\$ 5.36	\$ 0.01	\$ 7.35	\$ (27.88)

We define gross profit as net revenue less restaurant cost of sales, media cost of sales, and insurance losses and underwriting expenses, which excludes depreciation and amortization.

Note 19. Supplemental Disclosures of Cash Flow Information

Capital expenditures in accounts payable at December 31, 2016, 2015, 2014 and 2013 were \$480, \$537, \$981 and \$409, respectively. Capital expenditures in accounts payable at September 24, 2014 was \$2,269.

During 2016, we had new capital lease obligations of \$258 and lease retirements of \$1,006. We did not have any new capital lease obligations or lease retirements during 2015, the 2014 transition period or fiscal year 2014.

During 2016, the Company made a non-cash contribution of securities of \$5,682 to the investment partnerships and received a non-cash distribution of securities of \$4,463 from the investment partnerships. During fiscal 2014, the company made a non-cash contribution of securities of \$74,418.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. 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 December 31, 2016.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

### Part III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be contained in the Company's definitive proxy statement for its 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

#### Item 11. Executive Compensation

The information required by this Item will be contained in the Company's definitive proxy statement for its 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be contained in the Company's definitive proxy statement for its 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be contained in the Company's definitive proxy statement for its 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

#### Item 14. Principal Accountant Fees and Services

The information required by this Item will be contained in the Company's definitive proxy statement for its 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

### Part IV

#### Item 15. Exhibits and Financial Statement Schedules

##### (a) 1. *Financial Statements*

The following Consolidated Financial Statements, as well as the Reports of Independent Registered Public Accounting Firm, are included in Part II, Item 8 of this report:

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##### 2. *Financial Statement Schedule*

Schedules have been omitted for the reason that they are not required, are not applicable, or the required information is set forth in the financial statements or notes thereto.

#### Item 16. Form 10-K Summary

Not applicable.



