

BIGLARI HOLDINGS INC.

2017 ANNUAL REPORT

Dear Shareholders of Biglari Holdings Inc.:

Biglari Holdings is an entrepreneurial enterprise that possesses formidable strengths. In August 2008, we took control of a company on the brink of bankruptcy and then built Biglari Holdings into a collection of operating companies, plus investments of over \$1.0 billion. Our economic objective — the guiding principle underpinning Biglari Holdings — is to maximize per-share intrinsic value.¹

To achieve our economic objective, our preference is to amalgamate excellent businesses under the ownership of Biglari Holdings. We endeavor to add streams of cash by annexing unrelated businesses to the parent company. In union lies strength.

We think of Biglari Holdings as a museum — not of art but of businesses. As business collectors, distinct from art collectors, we depend on the flow of cash to determine the value of an investment and need not depend on the whims of future buyers. Therefore, our interest lies in owning cash-producing assets.

To achieve uncommon success we have fashioned an organization with uncommon advantages. Phil Cooley, Vice Chairman of Biglari Holdings, and I believe it necessary for all shareholders to gain an understanding of Biglari Holdings' substantial advantages, which afford us opportunities for commercial gain.

The solidity of Biglari Holdings is inherent in its corporate architecture. The adoption of capital allocation policies enabling maximum flexibility has accounted for much of our economic gain. Indeed, we constantly compare one opportunity against a multitude of others in determining capital utilization. We are, therefore, not constrained by structure, tradition, or convention. Much like an art museum that claims Monets as well as Rembrandts, our economic museum has no allegiance to any one industry.

Although about 21,000 people are employed by Biglari Holdings, only 5 reside at corporate headquarters. We centralize control of capital allocation but seek to decentralize management at the business unit level. As the sole deployer of capital, I employ neither analysts nor advisors in evaluating acquisitions or investments. Our method of operation — seizing remunerative business and investment opportunities — has led us to turn \$1.6 million into \$1.0 billion. Here is the year-by-year development in Biglari Holdings' meteoric rise in investments:

(In Millions)

	2017*	2016*	2015*	2014	2013	2012	2011	2010	2009	2008
Cash and Cash-Equivalents ...	\$ 58.6	\$ 75.8	\$ 56.5	\$ 124.3	\$ 94.6	\$ 60.4	\$ 99.0	\$ 47.6	\$ 51.4	\$ 1.6
Marketable Securities	27.7	26.8	23.8	21.5	85.5	269.9	115.3	32.5	3.0	—
The Lion Fund**	925.3	972.7	734.7	620.8	455.3	48.3	38.5	38.6	—	—
Total Investments	<u>\$1,011.6</u>	<u>\$1,075.3</u>	<u>\$ 815.0</u>	<u>\$ 766.6</u>	<u>\$ 635.4</u>	<u>\$ 378.6</u>	<u>\$ 252.8</u>	<u>\$ 118.7</u>	<u>\$ 54.4</u>	<u>\$ 1.6</u>

* Data are for calendar years. The years 2009 through 2014 were fiscal years that ended 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.

¹ 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.

With the upsurge in investments, we developed another advantage: financial strength. Regardless of the economic climate, we will plow ahead like a powerful ship in a stormy sea. We have no debt at the parent company level, and our financial strength provides a safety net to buffer against major shocks and managerial miscalculations. Unlike many public corporations ill-prepared to cope with extreme market and economic conditions, we are built to endure. We have arranged our affairs in order to maintain freedom from external capital markets.

Biglari Holdings' balance-sheet strength is a decided advantage in acquisitions. For instance, when we purchased First Guard Insurance Company, the epitome of an ideal acquisition, our financial strength and long-term perspective removed constraints on earnings by accepting volatility for higher expected profits over time. Following our acquisition, First Guard's large reduction in insurance premiums ceded to its reinsurer led to substantially higher earnings.

Furthermore, our edge over other acquisitive firms is most evident in our willingness and ability to provide a permanent corporate home. Biglari Holdings' commitment to sellers of permanent ownership is unassailable since I am the controlling shareholder of the corporation. Sellers can rest assured that Biglari Holdings will not experience a change of control.

Biglari Holdings is appealing to entrepreneurs who have an interest in monetizing their holdings — e.g., because of estate tax or diversification — and who are desirous of continuing to run their business. Our management system is adaptable; that is, we adapt to the realities of each business unit. Owner-managers can continue to run their own show as part of Biglari Holdings' group of companies. Continuity serves as a competitive advantage, one we intend to maximize. This philosophy was essential to the founder and CEO of First Guard, Edmund B. Campbell, III, who deeply cared about his creation and the people who helped build it. He found a new corporate home, and we found an admirable owner-operator who continues as CEO. His motivation is derived not from financial need but from the thrill of continued accomplishment.

To be sure, we can develop our enterprise significantly through acquisitions. However, for the last several years Biglari Holdings' economic domain has not grown through external expansion. We bide our time. Most potential acquisitions do not come close to passing our threshold of acceptability. For every hundred businesses we review for acquisition, only one or two may interest us. We readily acknowledge that acquisitions are an easy way to *lose* money — finding masterpieces *and* not overpaying for them is the trick of the trade. We will wait as long as necessary to unearth uncommon value. Biglari Holdings' ascendancy will depend on sidestepping folly yet seizing strong cash-flow generators.

When we began managing the enterprise in August 2008, Steak n Shake was suffering staggering *losses*, at a rate of \$100,000 *per day*. However, since 2009 Steak n Shake has generated substantial earnings and paid \$345.7 million in cash to its parent company, Biglari Holdings, to fund our growth. Over the last nine years, we have acquired three businesses in their entirety and made significant investments in securities.

Our corporate performance is the result of cash generated by the operating subsidiaries along with capital allocation work, which according to our criterion must outdo the S&P 500 Index. Over the past nine 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. Two components are critical in assessing the company's progress: investments and operating businesses.

Investments

By the end of 2017, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to about \$1.0 billion, of which over half were derived from investment gains through the stock market. Our investment activities are largely conducted through The Lion Fund, whose origin dates from the year 2000 when I founded it.

In 2008 we started with a little over a million dollars and ended 2017 with a little over a billion dollars. Here is how:

	<u>2008-2017</u>
Cash & Investments as of July 2, 2008	\$ 1,621,000
Investment Gains (net of losses)	533,179,000
Operating Businesses	227,473,000
Acquisitions of Businesses.....	(68,111,000)
Net Increase in Subsidiary Debt.....	155,978,000
Equity Offerings.....	<u>161,468,000</u>
Cash & Investments as of December 31, 2017.....	<u>\$ 1,011,608,000</u>

The cash production from our operating businesses supplied the capital for investments, which generated an even greater amount of profit. Our operating and capital allocation strategies are logical to us but unconventional in corporate America. Most firms do not even consider fractional ownership of businesses via the stock market, thereby restricting themselves to the purchase of entire businesses in negotiated transactions — and typically within the industry they occupy. We view stocks as ownership in a business. Within a wide universe of investment possibilities, our scope of activity is limited only by our scope of knowledge.

In selecting stocks of businesses, we are adherents of simplicity and concentration. We do not believe in the diversification of equities, an established canon of investment theory. We hold the view that the disadvantages of diversification exceed the disadvantages of concentration. Loss is caused not by inadequate diversification but by inadequate knowledge. We have the ability — operating as a permanently capitalized vehicle — along with the temperament to handle vicissitudes with equanimity. Because we command capital, we command a competitive advantage. We have adopted a strategy that is long-term, value-oriented, and extraordinarily concentrated. The art of concentrating in common stocks is the art of knowing what to ignore. We search for no-brainers. To put investing in poker parlance: When you hold a royal flush, go all in.

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 \$241.1 million from May 2011 through December 2012, with a dollar-weighted purchase date of December 2011. Over six years of ownership, we have not sold a single share. At the end of 2017, the market value of our stake was \$752.8 million. Along the way we have also collected \$144.6 million in dividends from Cracker Barrel, or 60% of our cost. In effect, adjusted for dividends, we paid about two times last year's earnings per share.

At year-end 2017, Biglari Holdings had a \$925.3 million investment in The Lion Fund partnerships, with net unrealized appreciation from the securities of \$510.3 million. Biglari Holdings' investment in the partnerships excludes deferred income taxes on unrealized gains. As is evident in Biglari Holdings' financial statements, we would owe taxes of \$95.3 million if the partnerships liquidated their holdings at year-end values. The tax liability, we regard, is tantamount to an interest-free loan from the government for the company's benefit. Because of the recent change in the corporate tax rate from 35% to 21%, our deferred tax liability related to unrealized gains on marketable securities was reduced by \$53.5 million, with a corresponding increase in shareholders' equity.

The decrease in the level of taxation translates into a double benefit. Our equity holdings' earnings power increases (subject to some qualifications) because these corporations pay lower taxes on their earnings. The earnings they retain, judiciously reinvested, eventually translate into market appreciation, resulting in another benefit: Our share of the capital gains is assessed at the new corporate tax rate. We note that the benefits of lower corporate taxes will be principally passed on to a corporation's owners and its customers — higher profits to owners versus lower prices to customers, depending on the economic dynamics of the business.

Operating Businesses

Biglari Holdings' collection of operating businesses comprises four constituent companies, each 100%-owned: Steak n Shake, Western Sizzlin, First Guard, and Maxim. The subsidiaries generate cash beyond their needs, forming a river of cash that flows to the parent — the faster it flows, the faster we grow as a multi-industry company. Whereas we pursue a concentrated approach in investments, the acquisition of controlled businesses will continue to diversify the parent company.

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>2017</u>	<u>2016</u>
Operating Earnings:		
Steak n Shake	\$ 431	\$ 34,717
Western Sizzlin	1,860	2,506
First Guard	4,770	5,135
Maxim	(439)	(10,078)
Corporate and Other	<u>(15,437)</u>	<u>(10,147)</u>
Operating Earnings Before Interest and Taxes	(8,815)	22,133
Interest Expense	11,040	11,450
Income Tax Expense (benefit)	<u>(58,846)¹</u>	<u>2,564</u>
Net Operating Earnings	38,991	8,119
The Lion Fund (net of taxes)	<u>11,080</u>	<u>91,332</u>
Total Earnings	<u>\$ 50,071</u>	<u>\$ 99,451</u>

(1) Includes \$53.5 million in income tax benefit derived from a reduction in deferred tax liability related to unrealized gains on marketable securities.

Our reported earnings are materially affected by the volatility in the carrying value of The Lion Fund. Yet we are indifferent to 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. As value-focused investors, not quotation-focused speculators, we evaluate our equity holdings within The Lion Fund based on their underlying operating results, not on their short-term changes in market price. Speculators make short-term bets whereas investors make long-term commitments on long-term outcomes.

The net operating earnings of \$39.0 million in 2017 versus \$8.1 million in 2016 provide an incomplete evaluation of our performance. We measure business progress on the present value of future cash flows. The logical approach for shareholders to appraise Biglari Holdings is through reviewing the performance of each operating subsidiary.

Restaurant Operations

Our restaurant operations consist of Steak n Shake and Western Sizzlin for a combined 677 restaurants. However, the business models of each differ. Steak n Shake primarily operates restaurants, totaling 615 locations, of which 415 are company operated. Western Sizzlin, on the other hand, is primarily engaged in franchising restaurants, with 62 units — all but 4 are franchisee run.

The Western Sizzlin team continues to produce commendable cash flows. In March 2010 Biglari Holdings purchased Western Sizzlin for a net purchase price of \$21.7 million. Since then, Western Sizzlin's cash distributions to the parent company have totaled \$20.8 million, which we have redeployed into more gainful opportunities. Western Sizzlin will continue to pile up cash for Biglari Holdings, consistent with our cash-generating philosophy.

* * *

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

(Dollars in 000's)

	Net Revenue	Operating Earnings	Number of Customers	Same-Store Sales	Number of Company Stores at Year-End	Operating Earnings Per Store
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
2017	792,827	431	111,000,000	(1.8%)	415	1.0

Notes: Customer count is only for company-operated units. The 2017, 2016, and 2015 data are presented for calendar years. The years 2008 through 2014 were fiscal years that ended on the Wednesday nearest September 30.

Last year can be summarized, in contrast to Sinatra's lyric: It was *not* a very good year. The company's earnings before interest and taxes were about breakeven, the lowest experienced under current management. Steak n Shake's lugubrious performance does not make us crestfallen but rather determined as an organization to unleash the potential in the brand.

For many years we bucked industry trends with an exceptional trajectory in customer traffic and same-store sales. In 2008 we overcame innumerable difficulties by repositioning the brand to one successfully competing in the burger category. For seven straight years we profitably gained market share, despite fierce rivalry among our competitors. In recent times, our lack of performance was caused by our own lack of execution.

Since 2008, the number of customer visits has grown by 26 million — from 85 million to 111 million — all through the same stores. However, over the past two years, we have lost 7 million in customer visits. Increasing customer traffic *profitably* through existing stores — and leveraging fixed restaurant-level costs — enhances value more than any other concept. The opposite is also true: Decreasing customer traffic diminishes value.

Despite recent lackluster results, our formula for success remains unchanged: Provide the highest quality burgers and shakes at the lowest possible profit per customer from an ever-increasing number of customers. We are subscribing to Henry Ford's motto: "To make money, make quantity." In 2017, because we lost quantity — that is, customer traffic — we made less money. We lost customers because we failed to execute on delivering a superior value proposition vis-à-vis our competition. When faced with a decision to improve short-term profits by reducing product quality and customer experience, we opted to do the opposite, which, in the near term, contracts profit margins.

We do not just sell burgers and shakes; we also sell an experience. The entire organization is therefore working assiduously to become exceptional in operations. We are injecting verve into the company by allotting significant resources to improve the customer experience. It is a truism that if a business does not evolve, it will eventually devolve.

Far too often, I have seen restaurant chains that experience declining customer traffic and earnings resort to raising menu prices as well as cutting the quality of products and service levels, with some even compounding the error by continuing to open new units rather than addressing the problems in existing ones. A solution centered on boosting short-term profits usually creates an even greater long-term problem. Following that erroneous pathway has led many great American success stories to become great American failures. With so many chains becoming members of the Restaurant Casualty Club, I am reminded of Groucho Marx's adage: "I don't want to belong to any club that will accept me as a member."

We persist as an industrious organization where cost control is imperative to achieving competitive superiority. We labor unremittingly to achieve cost efficiencies that are largely passed on to customers in the form of higher quality products and lower selling prices. Low operating costs facilitate low prices, which in turn draw in customers. An extremely strong value proposition benefits the masses. Steak n Shake is a brand for everyone, enriching the lives of millions.

While the performance of the traditional side of our business, company-operated units, was subpar, the emerging side of our business, franchising, continued to progress profitably. We leverage the Steak n Shake brand to capitalize on a franchise-based model, a non-capital-intensive strategy that generates high-return, annuity-like cash flows. Franchising is a business that not only produces cash instead of consuming it, but concomitantly reduces operating risk.

We have long believed that Steak n Shake is a brand that can become ubiquitous. To make this dream a reality, we have been investing significant sums to advance our franchising initiatives. The impact of our investments is displayed below in the number of franchise units and the revenue derived from them:

(Dollars in 000's)

	Number of Franchise Units	Franchise Revenue
2010	71	\$ 4,205
2017	200	18,226
	129	\$14,021

The first franchised unit opened in 1939, five years after Steak n Shake was founded. From 1939 to 2010, Steak n Shake grew by an average of one franchised unit per year. Phil and I are long-term thinkers, but a one-unit-per-year pace, even by our standards, is one to which we are unaccustomed. We built a franchise system from near scratch by allocating the capital necessary to support franchise growth. Over the last seven years we have added, net of closures, 129 franchised units, or an average of about 18 units per year. For the period 2011 through 2015, the franchising business operated at a loss, but intrinsic value advanced. In 2017, franchise operations generated a profit of \$4.0 million, despite net unit growth falling short of our expectations.

Our prospects in franchise operations — domestic and international — look bright. Moreover, the modularity of Steak n Shake’s design has permitted us to adapt to and thus expand into universities, casinos, airports, sports arenas, and gas stations, among other venues.

First Guard Insurance Company

First Guard has been a dream acquisition. Finding Ed Campbell was like discovering oil — only better, because my association with him has been enjoyable on a personal level.

First Guard is a direct underwriter of commercial trucking insurance — with no agent between the insurer and the insured — rendering the company a low-cost operator with a sustainable competitive advantage. A low-cost method of distributing trucking insurance makes for a sound insurance business. The Campbell family has gained an edge by honing their craft in trucking insurance for over half a century. Ed took an important concept — direct marketing to truckers — to fruition. Under his steady hand, he has guided the insurer with an unmatched track record: First Guard has achieved underwriting profitability for 21 consecutive years, a truly remarkable achievement.

We purchased First Guard and its affiliated agency on March 19, 2014. Shown below are the results for the last four years. Note that 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)

	Net Written Premium	Underwriting Profit	Combined Ratio*
2014	\$ 10,757	\$ 2,293	78.7
2015	16,719	3,357	79.9
2016	22,397	4,913	78.1
2017	24,242	4,518	81.4

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

First Guard has been an island of underwriting profit in a sea of industry losses. The First Guard team produces first-class profits because of its first-class operation. The company's four-year combined ratio is an impressive 79.7%. Since Biglari Holdings acquired ownership, an aggregate of \$15.8 million in pre-tax profits has been created. First Guard is an exemplar of what brains and hard work can produce: unusually high profitability that continually adds to its unusually high liquidity.

First Guard is proof that bigger is not better, but rather, better is better. Unequivocally, First Guard is the best in its line of business.

Maxim Inc.

Maxim was acquired when it was an unprofitable, moribund company. We prevented Maxim from becoming roadkill on the publishing highway by transforming its business model. We found safety in a bargain purchase price along with the opportunity to convert a dying magazine company into a profitable business. Thus, we bought Maxim *not* to be in the magazine business per se; rather, we purchased an underexploited brand with the intention of generating nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events.

As an initial step in implementing our underlying concept, we repositioned the brand to become aspirational and inspirational with a periodical depicting style and sophistication. The publication of a luxury lifestyle magazine is a springboard for developing high-margin lines of business built around the Maxim name.

Our operating philosophy is to view *all* expenses as variable. We assumed control of Maxim nearly four years ago. Between year-end 2014 and year-end 2017, productivity advanced by 253%; employee count dropped by 88%. In other words, revenue per employee increased from \$242,381 to \$856,449. True, we inherited a bloated cost structure centered on legacy print publishing. However, we emerged as a radically different company with a highly efficient system. Credit the creative, cost-conscious team for its ability to operate effectively with a fraction of the staff of its competitors.

Clearly, Maxim is no longer exclusively a magazine. In 2017, licensing generated \$3.2 million, up from \$2.1 million in the preceding year. In sum, for the year we operated at near breakeven and now expect to build profits throughout 2018. As licensing revenue increases, we expect profits to follow.

Proposed Recapitalization

We will be proposing to shareholders at a Special Meeting in the near future the approval of a recapitalization of Biglari Holdings to create a holding company with a dual class structure. If adopted, our common stock will be designated class “A” common stock and class “B” common stock. Each share of B common stock will have rights equivalent to one-fifth of a share of A common stock, except that class B shares will have no voting rights.

To effect the creation of two classes of stock, current shareholders will receive, for every ten shares of existing common stock they own, (i) ten shares of Class B common stock and (ii) one share of Class A common stock. We expect both shares to be listed on the New York Stock Exchange. A proxy statement will be mailed to all shareholders detailing the proposal.

The purpose of creating two classes of stock is to enable the issuance of stock in future acquisitions without risking a change of control. To maximize optionality for the benefit of all shareholders, we think it is necessary to create a dual class structure.

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. Moreover, we wish to provide all shareholders simultaneously with the same information. One-on-one meetings are neither productive nor practicable.

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.

To keep you abreast of the company, we will issue press releases concerning 2018 quarterly results after the market closes on May 4, August 3, and November 2. The 2018 annual report will be posted on our website on Saturday, February 23, 2019.

Our annual meeting will be held at 1:00 pm on Thursday, April 26, 2018 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.

* * *

At headquarters we operate with a modicum of personnel. I am grateful to my team of four at our corporate office, who demonstrate that a business can perform effectively without employing a battalion. Our organization is designed to permit the efficient administration of a much larger enterprise. Our structure is the antithesis of a paper-shuffling bureaucracy.

In business and investments we are often going against the views of the majority. We rely on our own reasoning and judgment, not on consensus or consultants. Facts steer us, not the tide of

prevailing opinion. Taking a contrary position often incites dissent and disdain to which we pay no attention. However, we are not contrarian for its own sake. Our decisions are aimed at building strength and value behind each share that you own.

Our entrepreneurial odyssey, tracing its roots to a concern founded in 1996 with \$15,000, has led to the creation of a billion-dollar, multifaceted enterprise. The story of Biglari Holdings — guided by logic and a farsighted perspective — is one of entrepreneurship. Phil and I look forward to continuing our prosperous journey with you, our long-term shareholders.

Sardar Biglari
Chairman of the Board

February 23, 2018

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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and an "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017 was approximately \$402,331,914.

As of February 19, 2018, 2,067,613 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 2018 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, 2017, Mr. Biglari's beneficial ownership of the Company's outstanding common stock was approximately 52.6%.

The Company plans to implement a dual class structure. A special meeting of the shareholders will be held in the near future to approve the recapitalization of Biglari Holdings. If adopted, our common stock will be designated "Class A" common stock and "Class B" common stock. To effect the creation of two classes of stock, current shareholders will receive, for every ten shares of existing common stock they own, (i) ten shares of Class B common stock and (ii) one share of Class A common stock. A share of Class B common stock has economic rights equivalent to 1/5th of a share of Class A common stock, however, Class B common stock has no voting rights. We expect both shares to trade on the New York Stock Exchange ("NYSE").

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, 2017, Steak n Shake operated 415 company-operated restaurants and 200 franchised units. Western operated 4 company-operated restaurants and 58 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, 2017 we have three 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, 2017, there were a total of 27 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, i.e., health, sanitation, safety and fire agencies in the jurisdiction in which the restaurant is located. Various federal and state labor laws govern our relationship with our employees, e.g., minimum wage, overtime pay, unemployment tax, and workers' compensation. Federal state and local government agencies have established or are in the process of establishing regulations requiring that we disclose nutritional information. 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, 2017, the fair value of the investments was \$925.3 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 20,732 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) 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.

Our proposed recapitalization of Biglari Holdings is subject to a number of risks.

Our proposed recapitalization to implement a dual class structure is subject to risks and uncertainties, including prolonging Mr. Biglari's ability to control the outcome of matters submitted for shareholder approval. In addition, the recapitalization may negatively affect the decision by certain institutional investors to purchase or hold shares of non-voting New BH Class B common stock. There can be no assurance that either class of New BH common stock would be listed in stock indices. A liquid trading market may not develop for either the Class A common stock or Class B common stock following the recapitalization.

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 include restrictions on, among other things, our operating subsidiaries’ 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 services agreement with Biglari Capital Corp., the general partner of the investment partnerships (“Biglari Capital”), and Biglari Enterprises LLC (collectively, the “Biglari Entities”), in which the Company will pay a fixed fee to the Biglari Entities for business and administrative-related services. The Biglari Entities are owned by Mr. Biglari. There can be no assurance that the fees paid will be commensurate with the benefits received.

The incentive allocation to which Mr. Biglari, as Chairman and Chief Executive Officer of Biglari Capital 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 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.

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 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.

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, 2017, restaurant operations included 677 company-operated and franchised locations. Restaurant operations own the land and building for 153 restaurants. The following table lists the locations of the restaurants, as of December 31, 2017.

	Steak n Shake		Western Sizzlin		Total
	Company Operated	Franchised	Company Operated	Franchised	
Domestic:					
Alabama	2	8	-	6	16
Arizona	1	1	-	-	2
Arkansas	-	3	-	15	18
California	1	10	-	2	13
Colorado	2	2	-	-	4
Florida	80	3	-	-	83
Georgia	23	17	-	5	45
Illinois	62	7	-	-	69
Indiana	68	4	-	-	72
Iowa	3	-	-	-	3
Kansas	-	4	-	-	4
Kentucky	14	8	-	-	22
Louisiana	-	1	-	-	1
Maryland	-	1	-	1	2
Michigan	19	-	-	-	19
Mississippi	-	4	-	1	5
Missouri	37	25	-	-	62
Nevada	-	4	-	-	4
New Jersey	-	1	-	-	1
North Carolina	6	9	-	7	22
Ohio	63	3	-	1	67
Oklahoma	-	5	-	8	13
Pennsylvania	7	4	-	-	11
South Carolina	1	5	-	3	9
Tennessee	9	15	-	4	28
Texas	14	15	-	1	30
Utah	-	1	-	-	1
Virginia	-	10	3	4	17
Washington	-	1	-	-	1
West Virginia	-	2	1	-	3
International:					
England	-	1	-	-	1
France	2	16	-	-	18
Italy	-	3	-	-	3
Portugal	-	4	-	-	4
Qatar	-	1	-	-	1
Saudi Arabia	-	1	-	-	1
Spain	1	1	-	-	2
Total	<u>415</u>	<u>200</u>	<u>4</u>	<u>58</u>	<u>677</u>

Item 3. Legal Proceedings

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

On January 29, 2018, a shareholder of the Company filed a purported class action complaint against the Company and the members of our Board of Directors in the Superior Court of Hamilton County, Indiana. The shareholder generally alleges claims for breach of fiduciary duty by the individual defendants and unjust enrichment to Mr. Biglari as a result of the reorganization and recapitalization. The shareholder seeks, for himself and on behalf of all other shareholders as a class (other than the individual defendants and those related to or affiliated with them), to enjoin the vote on the reorganization and recapitalization, to seek a declaration that the defendants breached their duty to the shareholder and the class and that Mr. Biglari would be unjustly enriched, and to recover unspecified damages, pre-judgment and post-judgment interest, and an award of their attorneys' fees and other costs. The Company believes these claims are without merit and intends to defend this case vigorously.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market Information

Biglari Holdings' common stock is listed for trading on the NYSE, trading symbol: BH. The following table sets forth the high and low sales prices per share, as reported on the NYSE List.

	2017		2016	
	High	Low	High	Low
First Quarter	\$ 483.00	\$ 407.58	\$ 389.30	\$ 323.70
Second Quarter	443.63	376.21	425.69	359.46
Third Quarter	401.30	291.66	455.80	397.11
Fourth Quarter	424.93	329.88	485.62	415.60

Shareholders

Biglari Holdings had 5,166 beneficial shareholders of its common stock at January 23, 2018.

Dividends

Biglari Holdings has never declared a dividend.

Issuer Purchases of Equity Securities

The following table presents information on purchases of our common stock during the quarterly period ended December 31, 2017 by The Lion Fund II, L.P. which may be deemed to be an "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended.

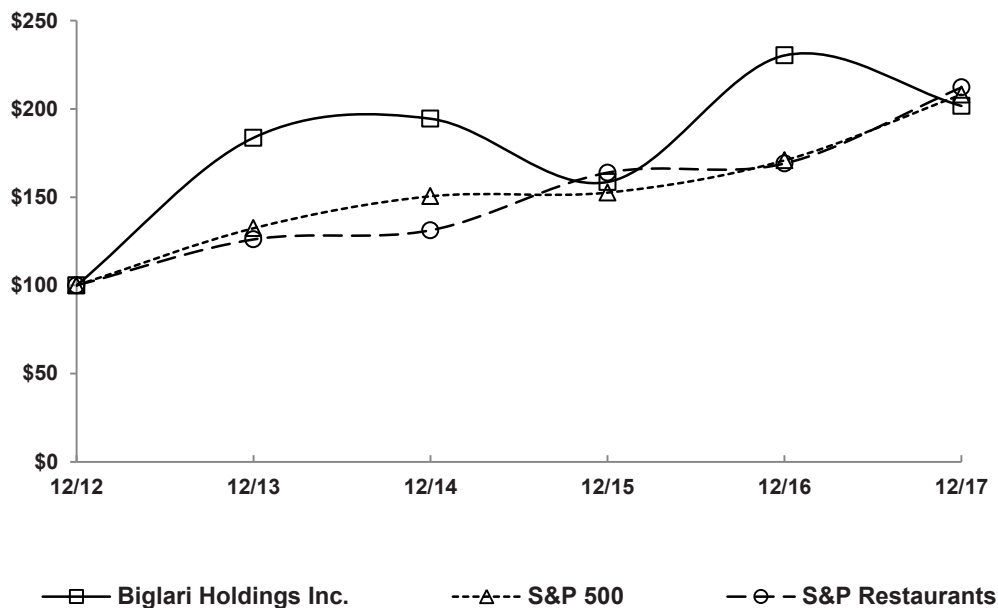
	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs
October 1, 2017 - October 31, 2017.....	1,996	\$ 334.71	1,996	108,004
November 1, 2017 - November 30, 2017.....	6,971	\$ 333.69	6,971	101,033
December 1, 2017 - December 31, 2017.....	17,712	\$ 407.15	17,712	83,321
Total	<u>26,679</u>		<u>26,679</u>	

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 December 31, 2012 to December 31, 2017.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Biglari Holdings Inc., the S&P 500 Index and the S&P Restaurants Index



*\$100 invested on 12/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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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 2018 Annual Meeting of Shareholders, to be filed on or before April 30, 2018, and such information is incorporated herein by reference.

Item 6. Selected Financial Data

(dollars in thousands except per share data)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue:			
Total revenues	<u>\$ 839,804</u>	<u>\$ 850,076</u>	<u>\$ 861,452</u>
Earnings:			
Net (loss) earnings	<u>\$ 50,071</u>	<u>\$ 99,451</u>	<u>\$ (15,843)</u>
Basic (loss) earnings per share	<u>\$ 40.80</u>	<u>\$ 81.37</u>	<u>\$ (10.18)</u>
Diluted (loss) earnings per share	<u>\$ 40.77</u>	<u>\$ 81.28</u>	<u>\$ (10.18)</u>
Year-end data:			
Total assets	<u>\$ 1,063,584</u>	<u>\$ 1,096,967</u>	<u>\$ 987,079</u>
Long-term notes payable and other borrowings	<u>256,994</u>	<u>281,555</u>	<u>296,062</u>
Biglari Holdings Inc. shareholders' equity	<u>\$ 571,328</u>	<u>\$ 531,940</u>	<u>\$ 451,372</u>

	<u>Transition Period</u>		<u>52 Weeks Ended</u>	
	<u>2014</u>	<u>2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
Revenue:				
Total revenues	<u>\$ 224,450</u>	<u>\$ 204,442</u>	<u>\$ 793,811</u>	<u>\$ 755,822</u>
Earnings:				
Net earnings attributable to Biglari Holdings Inc.	<u>\$ 91,050</u>	<u>\$ 18,949</u>	<u>\$ 28,804</u>	<u>\$ 140,271</u>
Basic earnings per share attributable to Biglari Holdings Inc. ...	<u>\$ 48.49</u>	<u>\$ 11.05</u>	<u>\$ 16.85</u>	<u>\$ 90.89</u>
Diluted earnings per share attributable to Biglari Holdings Inc.	<u>\$ 48.45</u>	<u>\$ 11.03</u>	<u>\$ 16.82</u>	<u>\$ 90.69</u>
Year-end data:				
Total assets	<u>\$ 1,298,509</u>	<u>\$ 1,009,111</u>	<u>\$ 1,156,310</u>	<u>\$ 987,167</u>
Long-term notes payable and other borrowings	<u>309,003</u>	<u>198,833</u>	<u>311,448</u>	<u>215,872</u>
Biglari Holdings Inc. shareholders' equity	<u>\$ 725,551</u>	<u>\$ 587,885</u>	<u>\$ 638,717</u>	<u>\$ 564,589</u>

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

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.

2017, 2016 and 2015 are for years ended December 31. 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. Transition periods are for September 25, 2014 to December 31, 2014 and September 26, 2013 to December 31, 2013. Fiscal years 2014 and 2013 ended 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.

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

	2017	2016	2015
Operating businesses:			
Restaurant	\$ 9,725	\$ 24,834	\$ 26,985
Insurance	3,097	3,313	2,313
Media	435	(6,385)	(11,459)
Other	506	(157)	197
Total operating businesses	13,763	21,605	18,036
Corporate	32,072	(6,387)	(8,315)
Investment partnership gains (losses)	11,080	91,332	(18,168)
Interest expense on notes payable	(6,844)	(7,099)	(7,396)
	<u>\$ 50,071</u>	<u>\$ 99,451</u>	<u>\$ (15,843)</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 677 company-operated and franchised restaurants as of December 31, 2017.

	Steak n Shake		Western Sizzlin		Total
	Company-operated	Franchised	Company-operated	Franchised	
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
Total stores as of December 31, 2016	417	173	3	64	657
Net restaurants opened (closed)	(2)	27	1	(6)	20
Total stores as of December 31, 2017	415	200	4	58	677

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 for 2017, 2016 and 2015 are summarized below.

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Revenue						
Net sales	\$ 781,856		\$ 795,322		\$ 799,660	
Franchise royalties and fees	20,773		18,794		16,428	
Other revenue	4,524		3,798		3,650	
Total revenue	807,153		817,914		819,738	
Restaurant cost of sales						
Cost of food	238,143	30.5%	221,657	27.9%	232,271	29.0%
Restaurant operating costs	404,373	51.7%	395,262	49.7%	379,632	47.5%
Rent	18,514	2.4%	18,047	2.3%	17,384	2.2%
Total cost of sales	661,030		634,966		629,287	
Selling, general and administrative						
General and administrative	60,527	7.5%	59,446	7.3%	62,055	7.6%
Marketing	49,589	6.1%	51,324	6.3%	46,050	5.6%
Other expenses	4,011	0.5%	3,907	0.5%	7,590	0.9%
Total selling, general and administrative	114,127	14.1%	114,677	14.0%	115,695	14.1%
Depreciation and amortization	20,623	2.6%	21,573	2.6%	23,736	2.9%
Interest on obligations under leases	9,082		9,475		9,422	
Earnings before income taxes	2,291		37,223		41,598	
Income tax expense (benefit)	(7,434)		12,389		14,613	
Net earnings	\$ 9,725		\$ 24,834		\$ 26,985	

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 2017 were \$781,856 representing a decrease of \$13,466 when compared to 2016. The decreased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales, which decreased 1.8% whereas customer traffic decreased by 4.4%. 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. In 2016, Steak n Shake's same-store sales decreased by 0.4% compared to 2015.

In 2017 franchise royalties and fees increased 10.5%. During 2017, Steak n Shake opened 40 franchised units and closed thirteen. Six Western franchise units closed during 2017. The increase in franchise fees and royalties are primarily attributable to the opening of new Steak n Shake franchised units in 2017 and 2016. Franchise royalties and fees during 2016 increased 14.4% compared to 2015. In 2016 Steak n Shake opened 34 franchised units and closed five. During the same period, three Western franchised units closed and one opened. The increase in franchise fees and royalties during 2016 are primarily attributable to new Steak n Shake franchised units, which opened in 2016 and 2015.

Cost of food in 2017 was \$238,143 or 30.5% of net sales, compared with \$221,657 or 27.9% of net sales in 2016 and \$232,271 or 29.0% of net sales in 2015. The increase as a percent of sales during 2017 was attributable to increased commodity costs along with higher costs associated with enhancing the quality of its products, which were initiated in the second and third quarters of 2017. The decrease as a percent of sales during 2016 compared to 2015 was primarily attributable to lower beef costs.

Restaurant operating costs during 2017 were \$404,373 or 51.7% of net sales, compared to \$395,262 or 49.7% of net sales in 2016 and \$379,632 or 47.5% of net sales in 2015. Total costs, and as a percent of sales, during 2017 and 2016 increased compared to the respective prior years principally due to higher wages.

Management's Discussion and Analysis (continued)

Selling, general and administrative expenses during 2017 were \$114,127 or 14.1% of total revenues. General and administrative expenses increased by \$1,081 during 2017 compared to 2016, primarily because of increased recruiting. Marketing expense decreased by \$1,735 in 2017 compared to 2016 because of a decrease in promotions. 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. The decreased expenses were primarily attributable to decreased personnel expenses. Marketing expense increased by \$5,274 in 2016 compared to 2015 primarily due to an increase in promotional advertising.

Interest on obligations under leases was \$9,082 during 2017, versus \$9,475 during 2016 and \$9,422 during 2015. The total obligations under leases outstanding at December 31, 2017 were \$80,752, compared to \$89,498 at December 31, 2016 and \$95,965 at December 31, 2015.

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.

	2017	2016	2015
Premiums written	\$ 24,242	\$ 22,397	\$ 16,719
Insurance losses	14,959	12,641	10,454
Underwriting expenses	4,765	4,843	2,908
Pre-tax underwriting gain	4,518	4,913	3,357
Other income and expenses			
Investment income and commissions	701	600	513
Other expense	(449)	(378)	(341)
Total other income	252	222	172
Earnings before income taxes	4,770	5,135	3,529
Income tax expense	1,673	1,822	1,216
Contribution to net earnings	\$ 3,097	\$ 3,313	\$ 2,313

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.

In 2017, premiums written increased \$1,845 or 8.2% compared to 2016. Premiums written during 2016 increased \$5,678 or 34.0% compared to 2015. Over the last two years, First Guard has retained most of its originated premiums written rather than ceding them to its reinsurer. Pre-tax underwriting gain during 2017 was \$4,518, a decrease of \$395 (8.0%) compared to 2016. Pre-tax underwriting gain during 2016 was \$4,913, an increase of \$1,556 (46.4%) compared to 2015.

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>2017</u>	<u>2016</u>	<u>2015</u>
Revenue	\$ 7,708	\$ 9,165	\$ 24,482
Media cost of sales	6,527	15,834	35,614
Selling, general and administrative expenses	1,570	3,000	6,677
Depreciation and amortization	50	409	296
Loss before income taxes	(439)	(10,078)	(18,105)
Income tax benefit	(874)	(3,693)	(6,646)
Contribution to net earnings	<u>\$ 435</u>	<u>\$ (6,385)</u>	<u>\$ (11,459)</u>

We acquired Maxim in 2014 with the idea of transforming its business model. The magazine developed the Maxim brand, a franchise we are utilizing to generate nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events.

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

Investment Partnership Gains (Losses)

Earnings from our investments in partnerships are summarized below.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Investment partnership gains (losses)	\$ 6,965	\$ 135,886	\$ (39,356)
Loss on contribution of securities to investment partnership	-	(306)	-
Investment partnership gains (losses)	6,965	135,580	(39,356)
Income tax expense (benefit)	(4,115)	44,248	(21,188)
Contribution to net earnings	<u>\$ 11,080</u>	<u>\$ 91,332</u>	<u>\$ (18,168)</u>

Investment partnership gains (losses) include gains and losses from changes in market values of investments held by the investment partnerships and dividends earned by the partnerships. The volatility of the gains and losses during the various years is attributable to changes in market values of investments. Dividend income has a lower effective tax rate than income from changes in market values.

The Company recorded after-tax gains from investment partnerships of \$11,080 during 2017 and \$91,332 during 2016. During 2017, an income tax benefit associated with gains and losses by the investment partnerships was offset by income tax expense from dividend income. During 2015, the Company recorded after-tax losses from investment partnerships of \$18,168.

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

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.

Management's Discussion and Analysis *(continued)*

Interest Expense

The Company's interest expense is summarized below.

	2017	2016	2015
Interest expense on notes payable and other borrowings	\$ (11,040)	\$ (11,450)	\$ (11,930)
Income tax benefit	(4,196)	(4,351)	(4,534)
Interest expense net of tax	<u>\$ (6,844)</u>	<u>\$ (7,099)</u>	<u>\$ (7,396)</u>

Interest expense during 2017 was \$11,040 compared to \$11,450 during 2016. The outstanding balance on Steak n Shake's credit facility on December 31, 2017 was \$185,898 compared to \$203,098 on December 31, 2016. The decrease in the outstanding balance was due to debt payments of \$17,200 during 2017. The interest rate was 5.32% as of December 31, 2017.

Income Taxes

Consolidated income tax was a benefit of \$62,961 in 2017 versus an expense of \$46,812 in 2016 and a benefit of \$21,588 in 2015. The 2017 Tax Cuts and Jobs Act reduces the U.S. statutory corporate tax rate from 35% to 21% for our tax years beginning in 2018, which resulted in the re-measurement of the federal portion of our deferred tax assets and liabilities as of December 31, 2017. The change in the tax rate resulted in a deferred tax benefit of \$51,707. The 2017 tax benefit includes a \$53,545 tax benefit attributable to deferred taxes for unrealized gains on marketable securities. The income tax benefit is derived from a re-measurement in deferred tax balances to the new statutory rate applicable to unrealized gains on marketable securities held by the Company and in the 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.

Corporate

Corporate expenses exclude the activities in the restaurant, insurance, media and other companies. Corporate net earnings during 2017 were \$32,072 versus net losses of \$6,387 during 2016 and net losses of \$8,315 during 2015. Pre-tax corporate expenses for 2017 include \$7,353 of accrued CEO incentive fees. Pre-tax corporate expenses during 2017 excluding CEO incentive fees were \$8,753. In 2017, an increase in shareholders' equity was derived from a re-measurement in deferred tax liability to the new statutory rate applicable to unrealized gains on marketable securities. The majority of the Company's deferred tax liabilities are held in the corporate account. Pre-tax corporate expenses during 2015 were higher than 2016, primarily because of higher legal expenses.

Financial Condition

Our consolidated shareholders' equity on December 31, 2017 was \$571,328, an increase of \$39,388 compared to the December 31, 2016 balance. The increase during 2017 was primarily attributable to net earnings of \$50,071 partially offset by an increase in treasury stock of \$12,971. Net earnings included an income tax benefit of \$53,545 derived from a reduction in deferred tax liability related to unrealized gains on marketable securities. The increase in treasury stock was primarily a result of recording our proportionate interest in 26,679 shares of the Company's stock purchased during 2017 by The Lion Fund II, L.P. under a Rule 10b5-1 trading plan. 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.

Management's Discussion and Analysis (continued)

Consolidated cash and investments are summarized below.

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 58,577	\$ 75,808
Investments	27,752	26,760
Fair value of interest in investment partnerships	925,279	972,707
Total cash and investments	1,011,608	1,075,275
Less: portion of Company stock held by investment partnerships	(359,258)	(395,070)
Carrying value of cash and investments on balance sheet	\$ 652,350	\$ 680,205

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.

	2017	2016	2015
Net cash provided by operating activities	\$ 25,780	\$ 63,349	\$ 52,497
Net cash used in investing activities	(11,548)	(28,795)	(113,300)
Net cash used in financing activities	(23,000)	(15,231)	(12,307)
Effect of exchange rate changes on cash	165	(38)	(36)
Increase (decrease) in cash, cash equivalents and restricted cash	\$ (8,603)	\$ 19,285	\$ (73,146)

In 2017, cash provided by operating activities decreased by \$37,569 compared to 2016. The reduction was primarily from a decrease in distributions from investment partnerships of \$16,870 and a decrease in net earnings (excluding non-cash items) of \$25,464. 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 net earnings adjusted for non-cash items of \$3,318.

Net cash used in investing activities during 2017 of \$11,548 was primarily tied to contributions to investment partnerships of \$3,707 and capital expenditures of \$8,034. 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.

During 2017, 2016 and 2015 we incurred debt payments of \$23,030, \$15,295 and \$12,529, respectively. Debt obligations were reduced because of 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 credit agreement which provided 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. On October 27, 2017, Steak n Shake determined to end the use of its senior secured revolving credit facility. In 2017, Steak n Shake deposited \$8,628 to satisfy required collateral for casualty insurance previously collateralized by letters of credit issued through the revolving credit facility.

Management's Discussion and Analysis *(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.

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%.

The interest rate on the term loan was 5.32% as of December 31, 2017.

The credit agreement includes customary affirmative and negative covenants and events of default. As of December 31, 2017, we were in compliance with all covenants. Steak n Shake's credit facility contains restrictions on its ability to pay dividends to Biglari Holdings.

The term loan is 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. As of December 31, 2017, \$185,898 was outstanding under the term loan.

Western Revolver

As of December 31, 2017, Western has \$175 due June 13, 2018.

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.

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, 2017.

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.

Management's Discussion and Analysis (continued)

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, 2017 and December 31, 2016 were \$9,018 and \$10,024, 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, 2017, a change of one percentage point in an enacted tax rate would have an impact of approximately \$3,900 on net earnings.

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

Goodwill and Other Intangible Assets

We are required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. 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.

Management's Discussion and Analysis (continued)

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.

Contractual Obligations

Our significant contractual obligations and commitments as of December 31, 2017 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 ⁽¹⁾ ⁽²⁾	\$ 12,169	\$ 23,785	\$ 181,703	\$ —	\$ 217,657
Capital leases and finance obligations ⁽¹⁾	13,356	18,065	7,478	1,882	40,781
Operating leases ⁽³⁾	17,270	30,983	28,874	45,040	122,167
Purchase commitments ⁽⁴⁾	7,478	7,401	3,400	—	18,279
Other long-term liabilities ⁽⁵⁾	—	—	—	3,459	3,459
Total	<u>\$ 50,273</u>	<u>\$ 80,234</u>	<u>\$ 221,455</u>	<u>\$ 50,381</u>	<u>\$ 402,343</u>

⁽¹⁾ Includes principal and interest and assumes payoff of indebtedness at maturity date.

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

⁽³⁾ Excludes amounts to be paid for contingent rents. Includes amounts to be paid for subleased properties.

⁽⁴⁾ 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.

⁽⁵⁾ Includes liabilities for Non-Qualified Deferred Compensation Plan. Excludes our unrecognized tax benefits of \$357 as of December 31, 2017 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 \$59,377, 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%. At December 31, 2017, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$1,200 on our net earnings.

We have had minimal exposure to foreign currency exchange rate fluctuations in 2017, 2016 and 2015.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of Biglari Holdings Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Biglari Holdings Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, during each of the three years in the period ended December 31, 2017, the Company contributed cash and securities in the aggregate amount of \$3.7 million, \$19.8 million, and \$88.5 million, respectively, to investment partnerships. The Company and its subsidiaries have invested in investment partnerships in the form of limited partnership 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.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
February 24, 2018

We have served as the Company's auditor since 2003.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Biglari Holdings Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Biglari Holdings Inc. and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company, and our report dated February 24, 2018, expressed an unqualified opinion on those financial statements and included an emphasis of a matter paragraph relating to the contribution of cash and securities to investment partnerships.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
February 24, 2018

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

	December 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,577	\$ 75,808
Investments	23,289	22,297
Receivables	16,284	14,195
Inventories	7,268	6,773
Other current assets	7,221	8,716
Total current assets	112,639	127,789
Property and equipment	295,800	312,264
Goodwill	40,081	40,003
Other intangible assets	26,564	26,051
Investment partnerships	566,021	577,637
Other assets	22,479	13,223
Total assets	\$ 1,063,584	\$ 1,096,967
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 128,744	\$ 112,882
Current portion of notes payable and other borrowings	6,748	7,129
Total current liabilities	135,492	120,011
Long-term notes payable and other borrowings	256,994	281,555
Deferred taxes	88,401	152,315
Other liabilities	11,369	11,146
Total liabilities	492,256	565,027
Shareholders' equity		
Common stock - 2,067,613 and 2,067,193 shares outstanding	1,071	1,071
Additional paid-in capital	382,014	381,906
Retained earnings	565,504	515,433
Accumulated other comprehensive loss	(1,404)	(3,584)
Treasury stock, at cost	(375,857)	(362,886)
Biglari Holdings Inc. shareholders' equity	571,328	531,940
Total liabilities and shareholders' equity	\$ 1,063,584	\$ 1,096,967

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,		
	2017	2016	2015
Revenues			
Restaurant operations	\$ 807,153	\$ 817,914	\$ 819,738
Insurance premiums and other	24,943	22,997	17,232
Media advertising and other	7,708	9,165	24,482
	839,804	850,076	861,452
Cost and expenses			
Restaurant cost of sales	661,030	634,966	629,287
Insurance losses and underwriting expenses	19,724	17,484	13,362
Media cost of sales	6,527	15,834	35,614
Selling, general and administrative	130,808	127,259	135,132
Depreciation and amortization	21,448	22,925	24,780
	839,537	818,468	838,175
Other income (expenses)			
Interest expense	(11,040)	(11,450)	(11,930)
Interest on obligations under leases	(9,082)	(9,475)	(9,422)
Investment partnership gains (losses)	6,965	135,580	(39,356)
Total other income (expenses)	(13,157)	114,655	(60,708)
Earnings (loss) before income taxes	(12,890)	146,263	(37,431)
Income tax expense (benefit)	(62,961)	46,812	(21,588)
Net earnings (loss)	\$ 50,071	\$ 99,451	\$ (15,843)
Earnings per share			
Basic earnings (loss) per common share	\$ 40.80	\$ 81.37	\$ (10.18)
Diluted earnings (loss) per common share	\$ 40.77	\$ 81.28	\$ (10.18)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended		
	December 31,		
	2017	2016	2015
Net earnings (loss)	\$ 50,071	\$ 99,451	\$ (15,843)
Other comprehensive income:			
Reclassification of investment appreciation in net earnings	-	306	62
Applicable income taxes	-	(113)	(21)
Net change in unrealized gains and losses on investments	284	568	(892)
Applicable income taxes	(89)	(211)	327
Foreign currency translation	1,985	(455)	(2,372)
Other comprehensive income (loss), net	2,180	95	(2,896)
Total comprehensive income (loss)	\$ 52,251	\$ 99,546	\$ (18,739)

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended		
	December 31,		
	2017	2016	2015
Operating activities			
Net earnings (loss)	\$ 50,071	\$ 99,451	\$ (15,843)
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	21,448	22,925	24,780
Provision for deferred income taxes	(64,321)	38,485	(26,476)
Asset impairments and other non-cash expenses	3,860	1,693	2,232
(Gain) loss on disposal of assets	(777)	1,806	1,351
Investment (gains) losses (including contributions)	-	306	62
Investment partnership (gains) losses	(6,965)	(135,886)	39,356
Distributions from investment partnerships	9,395	26,265	19,775
Changes in receivables and inventories	(2,235)	4,280	686
Changes in other assets	268	116	2,299
Changes in accounts payable and accrued expenses	15,036	3,908	4,275
Net cash provided by operating activities	25,780	63,349	52,497
Investing activities			
Capital expenditures	(8,034)	(12,030)	(11,083)
Proceeds from property and equipment disposals	1,004	1,084	135
Purchases of investments	(46,355)	(49,934)	(114,759)
Redemptions of fixed maturity securities	41,837	32,085	12,407
Net cash used in investing activities	(11,548)	(28,795)	(113,300)
Financing activities			
Payments on revolving credit facility	(202)	(409)	(194)
Principal payments on long-term debt	(17,200)	(9,277)	(5,975)
Principal payments on direct financing lease obligations	(5,628)	(5,609)	(6,360)
Proceeds for exercise of stock options	30	64	222
Net cash used in financing activities	(23,000)	(15,231)	(12,307)
Effect of exchange rate changes on cash	165	(38)	(36)
Increase (decrease) in cash, cash equivalents and restricted cash	(8,603)	19,285	(73,146)
Cash, cash equivalents and restricted cash at beginning of period	75,833	56,548	129,694
Cash, cash equivalents and restricted cash at end of period	\$ 67,230	\$ 75,833	\$ 56,548

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2014	\$ 1,071	\$ 391,877	\$ 431,825	\$ (783)	\$ (98,439)	\$ 725,551
Net 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
Net earnings			99,451			99,451
Other comprehensive income, net				95		95
Adjustment to treasury stock for holdings in investment partnerships		(9,939)			(9,103)	(19,042)
Exercise of stock options		(8)			72	64
Balance at December 31, 2016	\$ 1,071	\$ 381,906	\$ 515,433	\$ (3,584)	\$ (362,886)	\$ 531,940
Net earnings			50,071			50,071
Other comprehensive income, net				2,180		2,180
Adjustment to treasury stock for holdings in investment partnerships		116			(13,009)	(12,893)
Exercise of stock options		(8)			38	30
Balance at December 31, 2017	\$ 1,071	\$ 382,014	\$ 565,504	\$ (1,404)	\$ (375,857)	\$ 571,328

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years Ended December 31, 2017, 2016 and 2015)

(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, 2017, Mr. Biglari’s beneficial ownership of the Company’s outstanding common stock was approximately 52.6%.

The Company plans to implement a dual class structure. A special meeting of the shareholders will be held in the near future to approve the recapitalization of Biglari Holdings. If adopted, our common stock will be designated “Class A” common stock and “Class B” common stock. To effect the creation of two classes of stock, current shareholders will receive, for every ten shares of existing common stock they own, (i) ten shares of Class B common stock and (ii) one share of Class A common stock. A share of Class B common stock has economic rights equivalent to 1/5th of a share of Class A common stock, however, Class B common stock has no voting rights. We expect both shares to trade on the New York Stock Exchange (“NYSE”).

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”). Intercompany accounts and transactions have been eliminated in consolidation.

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, 2017, 2016 and 2015 and an audited balance sheet as of December 31, 2017 and 2016.

Cash, Cash Equivalents and Restricted Cash

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. In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows: Restricted Cash*. ASU 2016-18 requires that the statement of cash flows include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on statements of cash flows. In 2017, the Company deposited \$8,628 to satisfy required collateral for casualty insurance.

Cash as reported on the statements of cash flows consists of the following.

	December 31,		
	2017	2016	2015
Cash and cash equivalents	\$ 58,577	\$ 75,808	\$ 56,523
Restricted cash included in other long-term assets	8,653	25	25
Cash, cash equivalents and restricted cash	<u>\$ 67,230</u>	<u>\$ 75,833</u>	<u>\$ 56,548</u>

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 generally accepted accounting principles (“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 \$2,298 and \$1,734 at December 31, 2017 and 2016, respectively.

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 intangible assets 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 intangible assets 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 intangible assets during 2017, 2016 or 2015. Refer to Note 6 for information regarding our goodwill and other intangible assets.

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.

Notes to Consolidated Financial Statements *(continued)*

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

Common Stock and Treasury Stock

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

	December 31, 2017	December 31, 2016	December 31, 2015
Common stock authorized	2,500,000	2,500,000	2,500,000
Common stock issued	2,142,202	2,142,202	2,142,202
Treasury stock held by the Company	(74,589)	(75,009)	(75,511)
Outstanding shares	2,067,613	2,067,193	2,066,691
Proportional ownership of the Company's common stock in the investment partnerships	(866,935)	(834,889)	(807,069)
Net outstanding shares for financial reporting purposes	1,200,678	1,232,304	1,259,622

Purchases of Equity Securities

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

	2017	2016	2015
The Lion Fund, L.P.	-	-	45,305
The Lion Fund II, L.P.	26,679	37,925	616,312
	26,679	37,925	661,617

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.

	2017	2016	2015
Net sales	\$ 781,856	\$ 795,322	\$ 799,660
Franchise royalties and fees	20,773	18,794	16,428
Other	4,524	3,798	3,650
	\$ 807,153	\$ 817,914	\$ 819,738

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.

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.

Notes to Consolidated Financial Statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

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 \$1,907 and \$1,937 are included in accrued expenses in the consolidated balance sheet as of December 31, 2017 and 2016, respectively.

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.

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.

Earnings Per Share

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Basic earnings per share:			
Weighted average common shares	<u>1,227,166</u>	<u>1,222,261</u>	<u>1,556,039</u>
Diluted earnings per share:			
Weighted average common shares	<u>1,227,166</u>	<u>1,222,261</u>	<u>1,556,039</u>
Dilutive effect of stock awards	<u>937</u>	<u>1,355</u>	<u>-</u>
Weighted average common and incremental shares	<u>1,228,103</u>	<u>1,223,616</u>	<u>1,556,039</u>
Anti-dilutive stock awards excluded from the calculation of earning per share	<u>-</u>	<u>-</u>	<u>5,218</u>

Notes to Consolidated Financial Statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

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, FASB issued 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 November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. ASU 2016-18 requires that the statement of cash flows include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on statements of cash flows. For public entities, this standard is effective for fiscal years beginning after December 15, 2017. This standard should be applied retrospectively and early adoption is permitted, including adoption in an interim period. We adopted this standard in 2017 and have retroactively adjusted the consolidated statements of cash flows for all periods presented.

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. The adoption of ASU 2016-17 did not have a material effect on our consolidated financial statements.

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.

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.

Notes to Consolidated Financial Statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

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. We have evaluated the impact that this pronouncement will have on the recognition of certain transactions on our consolidated financial statements, including the initial franchise fees currently recognized upon the opening of a franchise restaurant and our advertising arrangements with franchisees currently reported on a net versus gross basis in our consolidated statements of earnings, and the effect it will have on our disclosures. We do not currently believe ASU 2014-09 will have a material effect on our consolidated financial statements.

Note 2. Investments

Investments consisted of the following.

	December 31,	
	2017	2016
Cost	\$ 23,216	\$ 22,508
Gross unrealized gains	73	24
Gross unrealized losses	-	(235)
Fair value	<u>\$ 23,289</u>	<u>\$ 22,297</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.

Investment in an equity security along with an associated put option totaling \$4,463 are included in other assets and recorded at fair value.

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 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
Investment partnership gains	248,935	113,049	135,886
Distributions (net of contributions of \$19,832)	(10,896)		(10,896)
Increase in proportionate share of Company stock held		19,042	(19,042)
Partnership interest at December 31, 2016	\$ 972,707	\$ 395,070	\$ 577,637
Investment partnership gains (losses)	(41,740)	(48,705)	6,965
Distributions (net of contributions of \$3,707)	(5,688)		(5,688)
Increase in proportionate share of Company stock held		12,893	(12,893)
Partnership interest at December 31, 2017	\$ 925,279	\$ 359,258	\$ 566,021

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

	December 31,	
	2017	2016
Carrying value of investment partnerships	\$ 566,021	\$ 577,637
Deferred tax liability related to investment partnerships	(95,309)	(155,553)
Carrying value of investment partnerships net of deferred taxes	\$ 470,712	\$ 422,084

The Company's proportionate share of Company stock held by investment partnerships at cost is \$354,939 and \$341,930 at December 31, 2017 and 2016, 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.

	2017	2016	2015
Gains (losses) from investment partnerships	\$ 6,965	\$ 135,886	\$ (39,356)
Loss on contribution of securities to investment partnerships	-	(306)	-
Investment partnership gains (losses)	6,965	135,580	(39,356)
Tax expense (benefit)	(4,115)	44,248	(21,188)
Contribution to net earnings (loss)	\$ 11,080	\$ 91,332	\$ (18,168)

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.

Notes to Consolidated Financial Statements (continued)

Note 3. Investment Partnerships (continued)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Incentive reallocation for gains on investments other than Company common stock	\$ -	\$ 20,114	\$ -
Incentive reallocation for gains on Company common stock	-	11,514	23
Total incentive reallocation from Biglari Holdings to Biglari Capital	<u>\$ -</u>	<u>\$ 31,628</u>	<u>\$ 23</u>

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

	Equity in Investment Partnerships	
	<u>Lion Fund</u>	<u>Lion Fund II</u>
Total assets as of December 31, 2017	\$ 203,560	\$ 1,060,737
Total liabilities as of December 31, 2017	\$ 157	\$ 199,974
Revenue for the year ended December 31, 2017	\$ (13,322)	\$ (25,283)
Earnings for the year ended December 31, 2017	\$ (13,383)	\$ (35,740)
Biglari Holdings' ownership interest	64.3%	92.3%
Total assets as of December 31, 2016	\$ 221,676	\$ 1,109,465
Total liabilities as of December 31, 2016	\$ 2,694	\$ 201,460
Revenue for the year ended December 31, 2016	\$ 37,098	\$ 282,242
Earnings for the year ended December 31, 2016	\$ 36,933	\$ 273,736
Biglari Holdings' ownership interest	63.6%	91.8%
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 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.

	December 31,	
	<u>2017</u>	<u>2016</u>
Prepaid contractual obligations	\$ 3,068	\$ 4,342
Deferred commissions on gift cards sold by third parties	3,946	3,374
Assets held for sale	207	1,000
Other current assets	<u>\$ 7,221</u>	<u>\$ 8,716</u>

Notes to Consolidated Financial Statements *(continued)*

Note 5. Property and Equipment

Property and equipment is composed of the following.

	December 31,	
	2017	2016
Land	\$ 156,506	\$ 160,328
Buildings	152,610	156,723
Land and leasehold improvements	162,652	163,817
Equipment	203,145	200,214
Construction in progress	1,782	1,539
	676,695	682,621
Less accumulated depreciation and amortization	(380,895)	(370,357)
Property and equipment, net	\$ 295,800	\$ 312,264

Depreciation and amortization expense for property and equipment for 2017, 2016 and 2015 was \$20,706, \$21,635 and \$24,113, respectively.

Note 6. Goodwill and Other Intangible Assets

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 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
Change in foreign exchange rates during 2016	(19)	-	(19)
Goodwill at December 31, 2016	\$ 28,090	\$ 11,913	\$ 40,003
Change in foreign exchange rates during 2017	78	-	78
Goodwill at December 31, 2017	\$ 28,168	\$ 11,913	\$ 40,081

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 2017, 2016 or 2015.

Notes to Consolidated Financial Statements (continued)

Note 6. Goodwill and Other Intangible Assets (continued)

Other Intangible Assets

Other intangible assets are composed of the following.

	December 31,					
	2017			2016		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Franchise agreement	\$ 5,310	\$ (4,116)	\$ 1,194	\$ 5,310	\$ (3,585)	\$ 1,725
Other	810	(743)	67	810	(707)	103
Total	<u>6,120</u>	<u>(4,859)</u>	<u>1,261</u>	<u>6,120</u>	<u>(4,292)</u>	<u>1,828</u>
Intangible assets with indefinite lives:						
Trade names	15,876	-	15,876	15,876	-	15,876
Other assets with indefinite lives	9,427	-	9,427	8,347	-	8,347
Total intangible assets	<u>\$ 31,423</u>	<u>\$ (4,859)</u>	<u>\$ 26,564</u>	<u>\$ 30,343</u>	<u>\$ (4,292)</u>	<u>\$ 26,051</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 2017, 2016 and 2015 was \$567, \$571 and \$574, respectively. The Company's intangible assets with definite lives will fully amortize in 2020. Total annual amortization expense for each of the next two 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.

Note 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	December 31,	
	2017	2016
Accounts payable	\$ 40,616	\$ 33,961
Gift card liability	27,436	25,321
Salaries, wages, and vacation	22,875	15,618
Taxes payable	10,571	12,254
Workers' compensation and other self-insurance accruals	9,047	9,960
Deferred revenue	9,522	7,407
Other	8,677	8,361
Accounts payable and accrued expenses	<u>\$ 128,744</u>	<u>\$ 112,882</u>

Note 8. Other Liabilities

Other liabilities include the following.

	December 31,	
	2017	2016
Deferred rent expense	\$ 6,726	\$ 6,632
Other	4,643	4,514
Other liabilities	<u>\$ 11,369</u>	<u>\$ 11,146</u>

Notes to Consolidated Financial Statements (continued)

Note 9. Income Taxes

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

	2017	2016	2015
Current:			
Federal	\$ 544	\$ 6,329	\$ 2,866
State	816	1,998	2,022
Deferred	<u>(64,321)</u>	38,485	<u>(26,476)</u>
Total income taxes	<u>\$ (62,961)</u>	<u>\$ 46,812</u>	<u>\$ (21,588)</u>
Reconciliation of effective income tax:			
Tax at U.S. statutory rates (35%)	\$ (4,512)	\$ 51,227	\$ (13,100)
State income taxes, net of federal benefit	259	3,332	(1,973)
Tax rate changes	<u>(51,707)</u>	-	-
Federal income tax credits	<u>(3,158)</u>	(4,692)	(4,837)
Dividends received deduction	<u>(6,304)</u>	(5,851)	(6,142)
Valuation allowance	742	905	919
Foreign tax rate differences	1,598	2,249	3,180
Other	121	(358)	365
Total income taxes	<u>\$ (62,961)</u>	<u>\$ 46,812</u>	<u>\$ (21,588)</u>

On December 22, 2017, new federal income tax legislation, the Tax Cuts and Jobs Act (“Act”), was signed into law. Effective January 1, 2018, the U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0% and required re-measurement of deferred balances to the new statutory rates as of December 31, 2017. The re-measurement of the Company’s deferred taxes created a tax benefit of \$51,707, including a \$53,545 benefit associated with unrealized gains on marketable securities.

The Act also imposed a mandatory one-time transition tax on undistributed international earnings. We do not expect to have any additional tax liability related to a transition tax. The Company did not have a net tax expense or benefit on income from international operations. Losses before income taxes during 2017 were \$12,890, of which \$6,660 derived from international operations.

As of December 31, 2017, we had approximately \$357 of unrecognized tax benefits, including approximately \$29 of interest and penalties, which are included in other long-term liabilities in the consolidated balance sheet. 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. Our continuing practice is to recognize interest expense and penalties related to income tax matters in income tax expense. The unrecognized tax benefits of \$357 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 2017, 2016 and 2015 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 2014. We believe we have certain state income tax exposures related to fiscal years 2014 through 2016. 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 \$36 within 12 months.

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.

Notes to Consolidated Financial Statements (continued)

Note 9. Income Taxes (continued)

Our deferred tax assets and liabilities consist of the following.

	December 31,	
	2017	2016
Deferred tax assets:		
Insurance reserves	\$ 2,011	\$ 3,440
Compensation accruals	729	2,349
Gift card accruals	3,149	3,946
Net operating loss credit carry forward	5,273	4,292
Valuation allowance on net operating losses	(5,031)	(4,289)
Income tax credit carry forward	5,707	-
Other	629	947
Total deferred tax assets	<u>12,467</u>	<u>10,685</u>
Deferred tax liabilities:		
Investments	95,324	155,476
Fixed asset basis difference	554	1,965
Goodwill and intangibles	4,990	5,559
Total deferred tax liabilities	<u>100,868</u>	<u>163,000</u>
Net deferred tax liability	<u>\$ (88,401)</u>	<u>\$ (152,315)</u>

Receivables on the balance sheet include income taxes receivable of \$751 as of December 31, 2017. Accounts payable and accrued expenses on the consolidated balance sheet include income taxes payable of \$1,060 as of December 31, 2016. Income taxes paid during 2017, 2016 and 2015 were \$3,211, \$6,961 and \$2,063, respectively. Income tax refunds totaled \$233 and \$16 in 2016 and 2015, respectively.

Note 10. Notes Payable and Other Borrowings

Notes payable and other borrowings include the following.

	December 31,	
	2017	2016
Current portion of notes payable and other borrowings		
Notes payable	\$ 2,200	\$ 2,200
Unamortized original issue discount	(321)	(308)
Unamortized debt issuance costs	(585)	(711)
Obligations under leases	5,279	5,571
Western revolver	175	377
Total current portion of notes payable and other borrowings	<u>\$ 6,748</u>	<u>\$ 7,129</u>
Long-term notes payable and other borrowings		
Notes payable	\$ 183,698	\$ 200,898
Unamortized original issue discount	(772)	(1,093)
Unamortized debt issuance costs	(1,405)	(2,177)
Obligations under leases	75,473	83,927
Total long-term notes payable and other borrowings	<u>\$ 256,994</u>	<u>\$ 281,555</u>

Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into a credit agreement which provided 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. On October 27, 2017, Steak n Shake determined to end the use of its senior secured revolving credit facility. In 2017, Steak n Shake deposited \$8,628 to satisfy required collateral for casualty insurance previously collateralized by letters of credit issued through the revolving credit facility.

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.

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%.

The interest rate on the term loan was 5.32% as of December 31, 2017.

The credit agreement includes customary affirmative and negative covenants and events of default. Steak n Shake's credit facility contains restrictions on its ability to pay dividends to Biglari Holdings.

The term loan is 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. As of December 31, 2017, \$185,898 was outstanding under the term loan.

Western Revolver

As of December 31, 2017, Western has \$175 due June 13, 2018.

Expected principal payments for notes payable and Western's revolver as of December 31, 2017, are as follows.

2018	2,375
2019	2,200
2020	2,200
2021	179,298
Total	<u>\$ 186,073</u>

The fair value of long-term debt, excluding capitalized lease obligations, was approximately \$165,000 at December 31, 2017. The fair value of our debt was estimated based on quoted market prices. The carrying amounts for debt reported in the consolidated balance sheet did not differ materially from the fair values at December 31, 2016. The fair value was determined to be a Level 3 fair value measurement.

Interest

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest paid on debt	<u>\$ 9,969</u>	<u>\$ 10,508</u>	<u>\$ 10,186</u>
Interest paid on obligations under leases	<u>\$ 9,132</u>	<u>\$ 9,475</u>	<u>\$ 9,422</u>

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 \$8,521 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, 2017 is as follows: \$66,044 buildings, \$55,050 land, \$26,355 land and leasehold improvements, \$2,792 equipment and \$74,160 accumulated depreciation.

Notes to Consolidated Financial Statements *(continued)*

Note 11. Leased Assets and Lease Commitments *(continued)*

On December 31, 2017, 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
2018	\$ 13,235	\$ 121	\$ 13,356	\$ 16,614	\$ 476
2019	10,644	55	10,699	15,689	462
2020	7,311	55	7,366	14,154	533
2021	5,196	55	5,251	14,298	557
2022	2,222	5	2,227	13,316	578
After 2022	1,882	-	1,882	42,228	2,812
Total minimum future rental payments	40,490	291	40,781	<u>\$ 116,299</u>	<u>\$ 5,418</u>
Less amount representing interest	23,340	91	23,431		
Total principal obligations under leases	17,150	200	17,350		
Less current portion	5,189	90	5,279		
Non-current principal obligations under leases	11,961	110	12,071		
Residual value at end of lease term	63,402	-	63,402		
Obligations under leases	<u>\$ 75,363</u>	<u>\$ 110</u>	<u>\$ 75,473</u>		

Rent expense is presented below.

	2017	2016	2015
Minimum rent	\$ 18,157	\$ 17,906	\$ 18,476
Contingent rent	1,839	1,841	2,022
Rent expense	<u>\$ 19,996</u>	<u>\$ 19,747</u>	<u>\$ 20,498</u>

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.

Note 12. Related Party Transactions

On September 15, 2017, the Company entered into a services agreement with Biglari Enterprises LLC and Biglari Capital (collectively, the “Biglari Entities”). The Biglari Entities are owned by Mr. Biglari. The services agreement replaces the shared services agreement between the Company and Biglari Capital dated July 1, 2013. The services agreement was executed in connection with a review of the relationships and transactions between the Company and Biglari Capital. After careful consideration, including an assessment by a public accounting firm of administrative-related costs incurred by the Company in connection with its investments, the Company’s Governance, Compensation and Nominating Committee, comprised solely of independent board members, approved the services agreement. Under the terms of the services agreement, the Company will no longer provide business and administrative-related services to Biglari Capital. Instead, the Biglari Entities will assume the responsibility to provide the services and the Company will pay a fixed fee to the Biglari Entities.

The services agreement has a five-year term, effective on October 1, 2017. The fixed fee is \$700 per month for the first year with adjustments in years two through five. The services agreement does not alter the hurdle rate connected with the incentive reallocation paid to Biglari Capital by the Company.

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

As of December 31, 2017, the Company’s investments in The Lion Fund, L.P. and The Lion Fund II, L.P. had a fair value of \$925,279.

Notes to Consolidated Financial Statements *(continued)*

Note 12. Related Party Transactions *(continued)*

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contributions of cash	\$ 3,707	\$ 14,150	\$ 88,500
Contributions of securities	-	5,682	-
Distributions of cash	(9,395)	(26,265)	(19,775)
Distributions of securities	-	(4,463)	-
	<u>\$ (5,688)</u>	<u>\$ (10,896)</u>	<u>\$ 68,725</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 a hurdle rate of 6% over the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year. In 2017, no incentive reallocation was earned. 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.

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 fee. In 2017, Mr. Biglari earned an incentive fee of \$7,353. No incentive fees were paid for 2016 or 2015. Under the Amended and Restated Incentive Agreement Mr. Biglari would receive a payment of approximately \$13,000 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 (comprised of independent members of the Company's Board of Directors). In addition, the license under the License Agreement is provided on a royalty-free basis in the absence of specified extraordinary events described below. Accordingly, the Company and its subsidiaries have paid no royalties to Mr. Biglari under the License Agreement since its inception.

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

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

Notes to Consolidated Financial Statements (continued)

Note 12. Related Party Transactions (continued)

“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 illustration a Triggering Event occurred on December 31, 2017, using revenue from 2017 as an estimate of future revenue and calculated according to terms of the License Agreement, Mr. Biglari would receive approximately \$20,000 in royalty payments annually. At a minimum, the royalties would be earned on revenue generated from January 1, 2018 through December 31, 2024. Royalty payments beyond the minimum period would be subject to the licensee's continued use of the licensed marks.

Note 13. Common Stock Plans

The following table summarizes the options activity for 2017.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2016	2,777	\$ 225.59		
Exercised	(1,155)	\$ 310.07		
Canceled or forfeited	(142)	\$ 329.88		
Outstanding and exercisable at December 31, 2017	<u>1,480</u>	\$ 149.65	0.28	\$ 392

Notes to Consolidated Financial Statements *(continued)*

Note 13. Common Stock Plans *(continued)*

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.

There was no unrecognized stock option compensation cost at December 31, 2017 or 2016. No amounts were charged to expense during 2017, 2016 or 2015.

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.

On January 29, 2018, a shareholder of the Company filed a purported class action complaint against the Company and the members of our Board of Directors in the Superior Court of Hamilton County, Indiana. The shareholder generally alleges claims for breach of fiduciary duty by the individual defendants and unjust enrichment to Mr. Biglari as a result of the reorganization and recapitalization. The shareholder seeks, for himself and on behalf of all other shareholders as a class (other than the individual defendants and those related to or affiliated with them), to enjoin the vote on the reorganization and recapitalization, to seek a declaration that the defendants breached their duty to the shareholder and the class and that Mr. Biglari would be unjustly enriched, and to recover unspecified damages, pre-judgment and post-judgment interest, and an award of their attorneys' fees and other costs. The Company believes these claims are without merit and intends to defend this case vigorously.

Note 15. Fair Value of Financial Assets

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

The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

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

Notes to Consolidated Financial Statements (continued)

Note 15. Fair Value of Financial Assets (continued)

The following methods and assumptions were used to determine the fair value of each class of the following assets 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 publicly traded securities, each of which 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, 2017 and 2016 the fair values of financial assets were as follows.

	December 31,							
	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	\$ 5,785	\$ -	\$ -	\$ 5,785	\$ 471	\$ -	\$ -	\$ 471
Equity securities:								
Consumer goods	2,445	-	-	2,445	2,018	-	-	2,018
Bonds	-	25,901	-	25,901	-	24,904	-	24,904
Options on equity securities	-	2,018	-	2,018	-	2,445	-	2,445
Non-qualified deferred compensation plan investments ..	3,459	-	-	3,459	2,872	-	-	2,872
Total assets at fair value	<u>\$ 11,689</u>	<u>\$ 27,919</u>	<u>\$ -</u>	<u>\$ 39,608</u>	<u>\$ 5,361</u>	<u>\$ 27,349</u>	<u>\$ -</u>	<u>\$ 32,710</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 \$1,789 and \$695 during 2017 and 2016, respectively. 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.

	2017			2016		
	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Loss	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Loss
Beginning Balance	\$ (3,447)	\$ (137)	\$ (3,584)	\$ (2,992)	\$ (687)	\$ (3,679)
Other comprehensive income (loss)						
before reclassifications		195	195		357	357
Reclassification to (earnings) loss ...					193	193
Foreign currency translation	1,985		1,985	(455)		(455)
Ending Balance	<u>\$ (1,462)</u>	<u>\$ 58</u>	<u>\$ (1,404)</u>	<u>\$ (3,447)</u>	<u>\$ (137)</u>	<u>\$ (3,584)</u>

	2015		
	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Loss
Beginning Balance	\$ (620)	\$ (163)	\$ (783)
Other comprehensive income (loss)			
before reclassifications		(565)	(565)
Reclassification to (earnings) loss		41	41
Foreign currency translation	(2,372)		(2,372)
Ending Balance	<u>\$ (2,992)</u>	<u>\$ (687)</u>	<u>\$ (3,679)</u>

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

Reclassifications from Accumulated Other Comprehensive Income	2017	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>\$ -</u>	<u>\$ (193)</u>	<u>\$ (41)</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. The Company also reports segment information for First Guard and Maxim. 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 2017, 2016 and 2015 were as follows.

	Revenue		
	2017	2016	2015
Operating Businesses:			
Restaurant Operations:			
Steak n Shake	\$ 792,827	\$ 804,423	\$ 805,771
Western	14,326	13,491	13,967
Total Restaurant Operations	807,153	817,914	819,738
First Guard	24,943	22,997	17,232
Maxim	7,708	9,165	24,482
	\$ 839,804	\$ 850,076	\$ 861,452

	Earnings (Loss) Before Income Taxes		
	2017	2016	2015
Operating Businesses:			
Restaurant Operations:			
Steak n Shake	\$ 431	\$ 34,717	\$ 39,749
Western	1,860	2,506	1,849
Total Restaurant Operations	2,291	37,223	41,598
First Guard	4,770	5,135	3,529
Maxim	(439)	(10,078)	(18,105)
Other	669	94	564
Total Operating Businesses	7,291	32,374	27,586
Corporate and investments:			
Corporate	(16,106)	(10,241)	(13,731)
Investment partnership gains (loss)	6,965	135,580	(39,356)
Total corporate	(9,141)	125,339	(53,087)
Interest expense on notes payable and other borrowings	(11,040)	(11,450)	(11,930)
	\$ (12,890)	\$ 146,263	\$ (37,431)

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 2017, 2016 and 2015 is presented in the tables that follow.

	Capital Expenditures		
	2017	2016	2015
Operating Businesses:			
Restaurant Operations:			
Steak n Shake	\$ 7,565	\$ 11,624	\$ 8,434
Western	410	306	43
Total Restaurant Operations	<u>7,975</u>	<u>11,930</u>	<u>8,477</u>
First Guard	43	7	102
Maxim	-	42	16
Other	16	51	2,486
Total Operating Businesses	<u>8,034</u>	<u>12,030</u>	<u>11,081</u>
Corporate	-	-	2
Consolidated results	<u>\$ 8,034</u>	<u>\$ 12,030</u>	<u>\$ 11,083</u>

	Depreciation and Amortization		
	2017	2016	2015
Operating Businesses:			
Restaurant Operations:			
Steak n Shake	\$ 19,987	\$ 20,968	\$ 23,045
Western	636	605	691
Total Restaurant Operations	<u>20,623</u>	<u>21,573</u>	<u>23,736</u>
First Guard	56	64	36
Maxim	50	409	296
Other	287	431	412
Total Operating Businesses	<u>21,016</u>	<u>22,477</u>	<u>24,480</u>
Corporate	432	448	300
Consolidated results	<u>\$ 21,448</u>	<u>\$ 22,925</u>	<u>\$ 24,780</u>

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

	Identifiable Assets	
	December 31,	
	2017	2016
Reportable segments:		
Restaurant Operations:		
Steak n Shake	\$ 373,654	\$ 395,809
Western	17,027	17,040
Total Restaurant Operations	<u>390,681</u>	<u>412,849</u>
First Guard	46,693	42,746
Maxim	19,155	19,100
Other	20,514	21,116
Corporate	20,520	23,519
Investment partnerships	566,021	577,637
Total assets	<u>\$ 1,063,584</u>	<u>\$ 1,096,967</u>

Notes to Consolidated Financial Statements (continued)

Note 18. Quarterly Financial Data (Unaudited)

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
For the year ended December 31, 2017				
Total revenues	\$ 203,393	\$ 212,954	\$ 214,234	\$ 209,223
Gross profit	39,582	39,992	36,664	36,285
Costs and expenses	198,918	210,050	215,327	215,242
Earnings (loss) before income taxes	(25,597)	35,043	(49,926)	27,590
Net earnings (loss)	(15,821)	21,126	(24,700)	69,466
Basic earnings (loss) per common share	\$ (12.82)	\$ 17.18	\$ (20.09)	\$ 57.01
Diluted earnings (loss) per common share	\$ (12.82)	\$ 17.17	\$ (20.09)	\$ 56.97
For the year ended December 31, 2016				
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

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, 2017, 2016 and 2015 were \$1,036, \$480 and \$537, respectively.

In 2017, we had new capital lease obligations of \$1,952 and lease retirements of \$5,030. 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.

In 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.

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, 2017.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Biglari Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision of our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, we used the criteria set forth in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Biglari Holdings Inc.
February 24, 2018

Item 9B. Other Information

None.

Part III

- Item 10. Directors, Executive Officers and Corporate Governance**
- Item 11. Executive Compensation**
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**
- Item 13. Certain Relationships and Related Transactions, and Director Independence**
- Item 14. Principal Accountant Fees and Services**

The information required by Part III Items 10, 11, 12, 13 and 14 will be contained in the Company's definitive proxy statement for its 2018 Annual Meeting of Shareholders, to be filed on or before April 30, 2018, and such information is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2018.

BIGLARI HOLDINGS INC.

By: /s/ BRUCE LEWIS
Bruce Lewis
Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on February 24, 2018.

Signature	Title
/s/ SARDAR BIGLARI Sardar Biglari	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ BRUCE LEWIS Bruce Lewis	Controller (Principal Financial and Accounting Officer)
/s/ PHILIP COOLEY Philip Cooley	Director
/s/ RUTH J. PERSON Ruth J. Person	Director
/s/ KENNETH R. COOPER Kenneth R. Cooper	Director
/s/ JAMES P. MASTRIAN James P. Mastrian	Director