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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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 001-38477

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA	**82-3784946**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
17802 IH 10 West, Suite 400 **San Antonio, Texas**	**78257**
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes☒ No☐

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 "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 Act). Yes ☐ No ☒

Number of shares of common stock outstanding as of October 31, 2018:

Class A common stock –	206,864
Class B common stock –	2,068,640

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PART 1 – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 48,345**	$ 58,577
Investments	**27,790**	23,289
Receivables	**13,486**	16,284
Inventories	**6,558**	7,268
Other current assets	**8,985**	7,221
Total current assets	**105,164**	112,639
Property and equipment	**281,605**	295,800
Goodwill and other intangible assets	**68,304**	66,645
Investment partnerships	**496,655**	566,021
Other assets	**22,287**	22,479
Total assets	**$ 974,015**	$ 1,063,584
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	**$ 107,423**	$ 128,744
Current portion of notes payable and other borrowings	**6,058**	6,748
Total current liabilities	**113,481**	135,492
Long-term notes payable and other borrowings	**245,383**	256,994
Deferred taxes	**76,568**	88,401
Other liabilities	**10,165**	11,369
Total liabilities	**445,597**	492,256
Shareholders' equity		
Common stock	**1,138**	1,071
Additional paid-in capital	**381,904**	382,014
Retained earnings	**521,712**	565,504
Accumulated other comprehensive loss	**(2,245)**	(1,404)
Treasury stock, at cost	**(374,091)**	(375,857)
Biglari Holdings Inc. shareholders' equity	**528,418**	571,328
Total liabilities and shareholders' equity	**$ 974,015**	$ 1,063,584

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands except per share amounts)

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
	(Unaudited)		(Unaudited)	
Revenues				
Restaurant operations	**$ 195,041**	$ 206,072	**$ 589,569**	$ 606,633
Insurance premiums and other	**7,038**	6,285	**20,330**	18,548
Media advertising and other	**1,503**	1,877	**4,647**	5,400
	203,582	214,234	**614,546**	630,581
Cost and expenses				
Restaurant cost of sales	**161,218**	170,726	**480,127**	494,502
Insurance losses and underwriting expenses	**5,146**	5,379	**15,547**	15,142
Media cost of sales	**1,065**	1,465	**3,562**	4,699
Selling, general and administrative	**32,311**	32,480	**97,911**	93,621
Depreciation and amortization	**4,778**	5,277	**14,540**	16,331
	204,518	215,327	**611,687**	624,295
Other income (expenses)				
Interest expense	**(2,967)**	(2,716)	**(8,619)**	(8,321)
Interest on obligations under leases	**(1,991)**	(2,258)	**(6,328)**	(6,856)
Investment partnership gains (losses)	**(19,008)**	(43,859)	**(23,854)**	(31,589)
Total other income (expenses)	**(23,966)**	(48,833)	**(38,801)**	(46,766)
Earnings (loss) before income taxes	**(24,902)**	(49,926)	**(35,942)**	(40,480)
Income tax expense (benefit)	**(11,199)**	(25,226)	**(12,886)**	(21,085)
Net earnings (loss)	**$ (13,703)**	$ (24,700)	**$ (23,056)**	$ (19,395)
Earnings per share				
Net earnings (loss) per equivalent Class A share *	**$ (39.50)**	$ (66.96)	**$ (66.12)**	$ (52.51)

* Net earnings (loss) per equivalent Class B share outstanding are one-fifth of the equivalent Class A share or $(7.90) and $(13.22) for the third quarter and first nine months of 2018, respectively, and $(13.39) and $(10.50) for the third quarter and first nine months of 2017, respectively.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
	(Unaudited)		(Unaudited)	
Net earnings (loss)	**$ (13,703)**	$ (24,700)	**$ (23,056)**	$ (19,395)
Other comprehensive income:				
Net change in unrealized gains and losses on investments	-	71	-	261
Applicable income taxes	-	(25)	-	(92)
Reclassification to earnings	-	-	**(73)**	-
Applicable income taxes	-	-	**15**	-
Foreign currency translation	**(138)**	562	**(783)**	1,750
Other comprehensive income, net	**(138)**	608	**(841)**	1,919
Total comprehensive loss	**$ (13,841)**	$ (24,092)	**$ (23,897)**	$ (17,476)

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	First Nine Months	
	2018	2017
	(Unaudited)	
Operating activities		
Net earnings (loss)	**$ (23,056)**	$ (19,395)
Adjustments to reconcile net earnings (loss) to operating cash flows:		
Depreciation and amortization	**14,540**	16,331
Provision for deferred income taxes	**(12,327)**	(25,008)
Asset impairments and other non-cash expenses	**1,246**	3,311
(Gains) losses on disposal of assets	**434**	(454)
Investment partnership (gains) losses	**23,854**	31,589
Distributions from investment partnerships	**7,700**	9,395
Changes in receivables and inventories	**3,008**	2,800
Changes in other assets	**583**	376
Changes in accounts payable and accrued expenses	**(21,566)**	(2,001)
Net cash provided by (used in) operating activities	**(5,584)**	16,944
Investing activities		
Capital expenditures	**(10,400)**	(6,244)
Proceeds from property and equipment disposals	**2,510**	1,004
Return of capital from investment partnerships	**26,000**	-
Investments in investment partnerships	**(7,340)**	(3,707)
Purchases of investments	**(50,140)**	(36,889)
Redemptions of fixed maturity securities	**41,591**	36,122
Net cash provided by (used in) investing activities	**2,221**	(9,714)
Financing activities		
Payments on revolving credit facility	**(175)**	(162)
Principal payments on long-term debt	**(1,650)**	(16,650)
Principal payments on direct financing lease obligations	**(4,021)**	(4,103)
Proceeds from exercise of stock options	**49**	30
Net cash used in financing activities	**(5,797)**	(20,885)
Effect of exchange rate changes on cash	**(63)**	145
Decrease in cash, cash equivalents and restricted cash	**(9,223)**	(13,510)
Cash, cash equivalents and restricted cash at beginning of year	**67,230**	75,833
Cash, cash equivalents and restricted cash at end of third quarter	**$ 58,007**	$ 62,323

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2017	$ 1,071	$ 382,014	$ 565,504	$ (1,404)	$ (375,857)	$ 571,328
Net earnings (loss)			**(23,056)**			**(23,056)**
Adoption of accounting standards			**90**			**90**
Other comprehensive income, net				**(841)**		**(841)**
Conversion of common stock	**67**	**(67)**	**(20,826)**		**20,826**	**-**
Adjustment to treasury stock for holdings in investment partnerships ..					**(19,152)**	**(19,152)**
Exercise of stock options		**(43)**			**92**	**49**
Balance at September 30, 2018	**$ 1,138**	**$ 381,904**	**$ 521,712**	**$ (2,245)**	**$ (374,091)**	**$ 528,418**
Balance at December 31, 2016	$ 1,071	$ 381,906	$ 515,433	$ (3,584)	$ (362,886)	$ 531,940
Net earnings (loss)			(19,395)			(19,395)
Other comprehensive income, net				1,919		1,919
Adjustment to treasury stock for holdings in investment partnerships		116			(3,292)	(3,176)
Exercise of stock options		(8)			38	30
Balance at September 30, 2017	$ 1,071	$ 382,014	$ 496,038	$ (1,665)	$ (366,140)	$ 511,318

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(dollars in thousands, except share and per share data)

Note 1. Summary of Significant Accounting Policies

Description of Business

The accompanying unaudited consolidated financial statements of Biglari Holdings Inc. ("Biglari Holdings" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In our opinion, all adjustments considered necessary to present fairly the results of the interim periods have been included and consist only of normal recurring adjustments. The results for the interim periods shown are not necessarily indicative of results for the entire fiscal year. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

Biglari Holdings 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 the Company. 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 September 30, 2018, Mr. Biglari's beneficial ownership was approximately 56.3% of the Company's outstanding Class A common stock and 54.3% of the Company's outstanding Class B common stock.

Issuance of Dual Class Common Stock

On March 5, 2018, the Company entered into an agreement with its predecessor registrant, now known as OBH Inc. (the "Predecessor"), and BH Merger Company, a wholly owned subsidiary of the Company. Pursuant to the agreement, on April 30, 2018, BH Merger Company merged with and into the Predecessor, with the Predecessor continuing as the surviving corporation and a wholly owned subsidiary of the Company.

As a result of the April 30, 2018 transaction, the Company has two classes of common stock designated Class A common stock and Class B 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. Upon completion of the transaction, every ten (10) shares of common stock outstanding on April 30, 2018 converted into (i) ten (10) shares of Class B common stock and (ii) one (1) share of Class A common stock.

Since May 1, 2018, the shares of the Company's Class A common stock have traded on the New York Stock Exchange ("NYSE") under the ticker symbol "BH.A," whereas the Class B common stock trades on the NYSE under the ticker symbol "BH," which is the former ticker symbol for the Predecessor's common stock.

For accounting purposes, the April 30, 2018 transaction will be treated as a merger of entities under common control. Accordingly, the consolidated financial position and results of operations of the Predecessor will be included in the consolidated financial statements on the same basis as currently presented, except for earnings per share which is impacted by the issuance of the new common shares. The Company has applied the "two-class method" of computing earnings per share as prescribed in ASC 260, "Earnings Per Share."

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"), Western Sizzlin Corporation ("Western"), Maxim Inc. ("Maxim") and First Guard Insurance Company and its agency, 1st Guard Corporation (collectively "First Guard"). Intercompany accounts and transactions have been eliminated in consolidation.

Note 2. New Accounting Standards

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, *Intangibles - Goodwill and Other: 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 has adopted ASU 2017-04 early and will apply the new guidance in the event of any potential goodwill impairment.

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 adoption of ASU 2016-15 did not have a material effect on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 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 ASU 2016-13 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. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* which provides an additional transition method with which to adopt the new leases standard. We are currently evaluating the effect this amended guidance will have on our consolidated balance sheet and results of operations. We anticipate the ASU will have a material impact on our balance sheet, but the ASU is non-cash in nature and will not affect our cash position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. On January 1, 2018, we adopted FASB accounting standards codification Topic 606 ("ASC 606"). In accordance with ASC 606, we changed certain characteristics of our revenue recognition accounting policy as described below. ASC 606 was applied using the modified retrospective method, where the cumulative effect of the initial application is recognized as an adjustment to opening retained earnings at January 1, 2018. Comparative prior periods have not been adjusted.

The following table summarizes the impact of the adoption of ASC 606 on revenues, operating expenses and net earnings for the third quarter of 2018.

	As Reported	Adjustments for the Adoption of ASC 606	Amounts without Adoption of ASC 606
Statements of Earnings			
Revenues			
Restaurant operations			
Net sales	$ 186,368	$ -	$ 186,368
Franchise royalties and fees	7,762	2,157	5,605
Other	911	63	848
Selling, general and administrative	32,311	2,425	29,886
Earnings (loss) before income taxes	(24,902)	(205)	(24,697)
Income tax expense (benefit)	(11,199)	(51)	(11,148)
Net earnings (loss)	(13,703)	(154)	(13,549)

Note 2. New Accounting Standards *(continued)*

The following table summarizes the impact of the adoption of ASC 606 on revenues, operating expenses and net earnings for the first nine months of 2018.

	As Reported	Adjustments for the Adoption of ASC 606	Amounts without Adoption of ASC 606
Statements of Earnings			
Revenues			
Restaurant operations			
Net sales	$ 563,736	$ -	$ 563,736
Franchise royalties and fees	22,637	6,859	15,778
Other	3,196	357	2,839
Selling, general and administrative	97,911	7,388	90,523
Earnings (loss) before income taxes	(35,942)	(172)	(35,770)
Income tax expense (benefit)	(12,886)	(43)	(12,843)
Net earnings (loss)	(23,056)	(129)	(22,927)

The impact of ASC 606 on the Company's balance sheet as of September 30, 2018 was not material. The cumulative change in retained earnings as of January 1, 2018 was $90. Upon adoption of ASC 606, the Company changed its restaurant operations accounting policies for the recognition of franchise fees, recording of advertising arrangements, and recognition of gift card revenue. See additional revenue disclosures in Note 8 Restaurant Operations Revenues. The adoption of ASC 606 did not have any significant impact on our insurance or media businesses.

Note 3. 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 Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, 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.

As a result of the transaction on April 30, 2018, the Predecessor's common stock converted into the right to receive shares of Class A common stock and Class B common stock. The treasury shares outstanding on April 30, 2018, were retired and not converted into Class A and Class B common stock. The following table presents shares authorized, issued and outstanding on September 30, 2018 and December 31, 2017.

	September 30, 2018		December 31,
	Class A	**Class B**	2017
Common stock authorized	**500,000**	**10,000,000**	2,500,000
Common stock issued	**206,864**	**2,068,640**	2,142,202
Treasury stock held by the Company	**-**	**-**	(74,589)
Outstanding shares	**206,864**	**2,068,640**	2,067,613

The issuance of dual class common stock on April 30, 2018 is applied on a retrospective basis for the calculation of earnings per share. Accordingly, earnings per share for the first nine months of 2018 and 2017 are impacted by the issuance of the new common shares. The Company has applied the "two-class method" of computing earnings per share as prescribed in ASC 260, "Earnings Per Share."

On an equivalent Class A common stock basis, there were 620,592 shares outstanding as of September 30, 2018 and 620,284 shares outstanding as of December 31, 2017.

Note 3. Earnings Per Share *(continued)*

For financial reporting purposes, the proportional ownership of the Company's common stock owned by the investment partnerships is excluded in the earnings per share calculation. After giving effect for the investment partnerships' proportional ownership of common stock, the equivalent Class A weighted average common shares during the third quarters of 2018 and 2017 were 346,912 and 368,880, respectively. The equivalent Class A weighted average common shares during the first nine months of 2018 and 2017 were 348,678 and 369,363, respectively.

Each Class A common share is entitled to one vote. Class B common stock possesses economic rights equal to one-fifth ($1/5^{th}$) of such rights of Class A common stock; however, Class B common stock has no voting rights.

Note 4. Investments

Investments consisted of the following.

	September 30, 2018	December 31, 2017
Cost	**$ 27,700**	$ 23,216
Gross unrealized gains	**90**	73
Fair value	**$ 27,790**	$ 23,289

Investments in equity securities and a related put option of $4,463 are included in other current assets as of September 30, 2018 and in other assets as of December 31, 2017. An investment in equity securities of $4,100 is included in other assets as of September 30, 2018. The investments are recorded at fair value.

Note 5. 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.

Biglari Capital Corp. ("Biglari Capital") is the general partner of the investment partnerships and is an entity solely owned by Mr. Biglari.

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

	Fair Value	**Company Common Stock**	**Carrying Value**
Partnership interest at December 31, 2017	$ 925,279	$ 359,258	$ 566,021
Investment partnership gains (losses)	**(152,261)**	**(128,407)**	**(23,854)**
Contributions (net of distributions) to investment partnerships	**(26,360)**		**(26,360)**
Increase in proportionate share of Company stock held		**19,152**	**(19,152)**
Partnership interest at September 30, 2018	**$ 746,658**	**$ 250,003**	**$ 496,655**

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2016	$ 972,707	$ 395,070	$ 577,637
Investment partnership gains (losses)	(149,171)	(117,582)	(31,589)
Contributions (net of distributions) to investment partnerships	(5,688)		(5,688)
Increase in proportionate share of Company stock held		3,176	(3,176)
Partnership interest at September 30, 2017	$ 817,848	$ 280,664	$ 537,184

Note 5. Investment Partnerships *(continued)*

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

		September 30, 2018		December 31, 2017
Carrying value of investment partnerships	**$**	**496,655**	$	566,021
Deferred tax liability related to investment partnerships		**(84,370)**		(95,309)
Carrying value of investment partnerships net of deferred taxes	**$**	**412,285**	$	470,712

The Company's proportionate share of Company stock held by investment partnerships at cost is $374,091 and $354,939 at September 30, 2018 and December 31, 2017, 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.

	Third Quarter				**First Nine Months**			
		2018		2017		**2018**		2017
Gains (losses) on investment partnership	**$**	**(19,008)**	$	(43,859)	**$**	**(23,854)**	$	(31,589)
Tax expense (benefit)		**(6,119)**		(20,733)		**(8,163)**		(16,951)
Contribution to net earnings (loss)	**$**	**(12,889)**	$	(23,126)	**$**	**(15,691)**	$	(14,638)

On December 31 of each year, the general partner of the investment partnerships 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. The Company did not accrue an incentive fee during the first nine months of 2018 or 2017. Our investments in these partnerships are committed on a rolling 5-year basis.

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

	Equity in Investment Partnerships			
		Lion Fund		**Lion Fund II**
Total assets as of September 30, 2018	**$**	**149,516**	**$**	**903,889**
Total liabilities as of September 30, 2018	**$**	**208**	**$**	**200,832**
Revenue for the first nine months of 2018	**$**	**(49,895)**	**$**	**(122,622)**
Earnings (loss) for the first nine months of 2018	**$**	**(49,944)**	**$**	**(129,691)**
Biglari Holdings' ownership interest as of September 30, 2018		**65.8%**		**92.2%**
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 first nine months of 2017	$	(47,656)	$	(89,110)
Earnings (loss) for the first nine months of 2017	$	(47,703)	$	(127,970)
Biglari Holdings' ownership interest as of September 30, 2017		63.9%		93.0%

Revenue in the above summarized financial information of the investment partnerships includes investment income and unrealized gains and losses on investments. The investments held by the investment partnerships are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc.

Note 5. Investment Partnerships *(continued)*

Transactions with The Lion Fund II, L.P. were as follows.

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Contributions	**$ 7,340**	$ -	**$ 7,340**	$ 3,707
Return of capital	**(26,000)**	-	**(26,000)**	-
Distributions	**-**	(4,380)	**(7,700)**	(9,395)
	$ (18,660)	$ (4,380)	**$ (26,360)**	$ (5,688)

Note 6. Property and Equipment

Property and equipment is composed of the following.

	September 30, 2018	December 31, 2017
Land	**$ 150,222**	$ 156,506
Buildings	**146,675**	152,610
Land and leasehold improvements	**161,105**	162,652
Equipment	**201,471**	203,145
Construction in progress	**1,863**	1,782
	661,336	676,695
Less accumulated depreciation and amortization	**(379,731)**	(380,895)
Property and equipment, net	**$ 281,605**	$ 295,800

Note 7. 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, 2017	$ 28,168	$ 11,913	$ 40,081
Change in foreign exchange rates during the first nine months 2018	**(20)**	**-**	**(20)**
Goodwill at September 30, 2018	**$ 28,148**	**$ 11,913**	**$ 40,061**

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. 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 the first nine months of 2018 or 2017.

Note 7. Goodwill and Other Intangible Assets *(continued)*

Other Intangible Assets

Other intangible assets are composed of the following.

	September 30, 2018			December 31, 2017		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Franchise agreement	$ 5,310	$ (4,514)	$ 796	$ 5,310	$ (4,116)	$ 1,194
Other	810	(767)	43	810	(743)	67
Total	6,120	(5,281)	839	6,120	(4,859)	1,261
Intangible assets with indefinite lives:						
Trade names	15,876	-	15,876	15,876	-	15,876
Other assets with indefinite lives	11,528	-	11,528	9,427	-	9,427
Total intangible assets	$ 33,524	$ (5,281)	$ 28,243	$ 31,423	$ (4,859)	$ 26,564

Intangible assets subject to amortization consist of franchise agreements connected with the purchase of Western as well as rights to favorable leases related to prior acquisitions. These intangible assets are being amortized over their estimated weighted average of useful lives ranging from eight to twelve years. Amortization expense for the first nine months of 2018 and 2017 was $422 and $426, respectively. The Company's intangible assets with definite lives will fully amortize in 2020. Total annual amortization expense for 2019 is expected to be approximately $500. Intangible assets with indefinite lives consist of trade names, franchise rights as well as lease rights. During the first nine months of 2018, the Company purchased lease rights totaling $2,556.

Note 8. Restaurant Operations Revenues

Restaurant operations revenues were as follows.

	Third Quarter		First Nine Months	
	2018	2017	2018	2017
Net sales	$ 186,368	$ 199,980	$ 563,736	$ 587,532
Franchise royalties and fees	7,762	5,125	22,637	16,030
Other	911	967	3,196	3,071
	$ 195,041	$ 206,072	$ 589,569	$ 606,633

In accordance with ASC 606-10-50, the Company disaggregates revenue from contracts with customers. The only Company segment that was affected significantly by ASC 606 was restaurants. The Company's accounting policies and practices related to restaurant operations revenues consist of the following under ASC 606.

Net sales

Net sales were composed of retail sales of food through Company-owned stores. Company-owned store revenues are recognized when control of the food items are transferred to our customers at the point of sale. Sales taxes related to these sales are collected from customers and remitted to the appropriate taxing authority and are not reflected in the Company's consolidated statements of income as revenue.

Franchise royalties and fees

Franchise royalties and fees are composed of royalties and fees from Steak n Shake and Western Sizzlin franchisees. Royalty revenues are based on a percentage of franchise sales and are recognized when the retail food items are purchased by franchise customers. Initial franchise fees received are deferred when amounts are received and recognized as revenue on a straight-line basis over the term of each respective franchise agreement, which is typically 20 years. This represents a change in methodology under the adoption of ASC 606 for we have historically recognized initial franchise fees upon the opening of a franchise restaurant.

During the quarter ended September 30, 2018 and the first nine months of 2018, restaurant operations recognized $632 and $1,719, respectively, in revenue related to initial franchise fees. As of September 30, 2018 and January 1, 2018, restaurant operations had deferred revenue related to franchise fees of $10,075 and $10,581, respectively. Restaurant operations expects to recognize approximately $134 of deferred revenue during the remainder of 2018, approximately $579 in 2019 and the balance in the years 2020 through 2038.

Note 8. Restaurant Operations Revenues *(continued)*

Our advertising arrangements with franchisees are reported in franchise royalties and fees. This represents a change in methodology under the adoption of ASC 606 as we have historically reported advertising funds from the franchisees as an offset to marketing expense in our consolidated statement of earnings.

During the quarter ended September 30, 2018 and the first nine months of 2018, restaurant operations recognized $2,389 and $7,235, respectively, in revenue related to franchisee advertising fees. As of September 30, 2018 and January 1, 2018, restaurant operations had deferred revenue related to franchisee advertising fees of $2,511 and $2,064, respectively. Restaurant operations expects to recognize approximately $502 of deferred revenue during the remainder of 2018 and the balance in 2019.

Gift card revenue

Restaurant operations sells gift cards to customers which can be redeemed for retail food sales within our stores. Gift cards are recorded as deferred revenue when issued and are subsequently recorded as net sales upon redemption. Restaurant operations estimates breakage related to gift cards when the likelihood of redemption is remote. This estimate utilizes historical trends based on the vintage of the gift card. Breakage on gift cards is recorded as other revenue in proportion to the rate of gift card redemptions by vintage. This represents a change in the methodology under the adoption of ASC 606 used to estimate breakage as we have historically recognized breakage for the portion of the gift card balances that remained outstanding following 48 months of issuance.

For the quarter ended September 30, 2018 and the first nine months of 2018, restaurant operations recognized $5,747 and $21,405, respectively, of revenue from gift card redemptions. As of September 30, 2018 and January 1, 2018, restaurant operations had deferred revenue related to unredeemed gift cards of $15,111 and $20,968, respectively. The Company expects to recognize approximately $3,597 of deferred revenue during the remainder of 2018, approximately $8,246 in 2019, and the balance in the years 2020 through 2022.

Note 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	September 30, 2018	December 31, 2017
Accounts payable	**$ 35,597**	$ 40,616
Gift card liability	**15,112**	27,436
Salaries, wages, and vacation	**10,829**	22,875
Taxes payable	**11,756**	10,571
Workers' compensation and other self-insurance accruals	**10,074**	9,047
Deferred revenue	**14,463**	9,522
Other	**9,592**	8,677
Accounts payable and accrued expenses	**$ 107,423**	$ 128,744

Note 10. Notes Payable and Other Borrowings

Notes payable and other borrowings include the following.

Current portion of notes payable and other borrowings	**September 30, 2018**	December 31, 2017
Notes payable	**$ 2,200**	$ 2,200
Unamortized original issue discount	**(331)**	(321)
Unamortized debt issuance costs	**(603)**	(585)
Obligations under leases	**4,792**	5,279
Western revolver	**-**	175
Total current portion of notes payable and other borrowings	**$ 6,058**	$ 6,748
Long-term notes payable and other borrowings		
Notes payable	**$ 182,048**	$ 183,698
Unamortized original issue discount	**(522)**	(772)
Unamortized debt issuance costs	**(951)**	(1,405)
Obligations under leases	**64,808**	75,473
Total long-term notes payable and other borrowings	**$ 245,383**	$ 256,994

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

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. Steak n Shake has used cash deposits to satisfy required collateral for casualty insurance previously collateralized by letters of credit issued through the revolving credit facility. The deposits are recorded in other assets as restricted cash in the consolidated balance sheets.

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.

The interest rate on the term loan was 6.00% as of September 30, 2018.

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 September 30, 2018, $184,248 was outstanding under the term loan.

Western Revolver

As of September 30, 2018, no amount was outstanding under the Western revolver.

Note 11. Accumulated Other Comprehensive Income

During the first nine months of 2018 and 2017, the changes in the balances of each component of accumulated other comprehensive income, net of tax, were as follows.

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Foreign currency translation adjustments	**Investment gain (loss)**	**Accumulated other comprehensive income (loss)**	Foreign currency translation adjustments	Investment gain (loss)	Accumulated other comprehensive income (loss)
Beginning Balance	**$ (1,462)**	**$ 58**	**$ (1,404)**	$ (3,447)	$ (137)	$ (3,584)
Other comprehensive income (loss) before reclassifications ..	**-**	**-**	**-**	-	169	169
Reclassification to (earnings) loss	**-**	**(58)**	**(58)**	-	-	-
Foreign currency translation	**(783)**		**(783)**	1,750		1,750
Ending Balance	**$ (2,245)**	**$ -**	**$ (2,245)**	$ (1,697)	$ 32	$ (1,665)

Note 11. Accumulated Other Comprehensive Income *(continued)*

During the third quarters of 2018 and 2017, the changes in the balances of each component of accumulated other comprehensive income, net of tax, were as follows.

	Third Quarter 2018			Third Quarter 2017		
	Foreign currency translation adjustments	**Investment gain (loss)**	**Accumulated other comprehensive income (loss)**	Foreign currency translation adjustments	Investment gain (loss)	Accumulated other comprehensive income (loss)
Beginning Balance	**$ (2,107)**	**$ -**	**$ (2,107)**	$ (2,259)	$ (14)	$ (2,273)
Other comprehensive income (loss) before reclassifications	-	-	-	-	46	46
Reclassification to (earnings) loss	-	-	-	-	-	-
Foreign currency translation	**(138)**		**(138)**	562		562
Ending Balance	**$ (2,245)**	**$ -**	**$ (2,245)**	$ (1,697)	$ 32	$ (1,665)

Reclassifications made from accumulated other comprehensive income to the consolidated statement of earnings during the first nine months of 2018 was $58; there were no reclassifications from accumulated other comprehensive income to earnings during the third quarters of 2018 and 2017, and first nine months of 2017.

Note 12. Income Taxes

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

Income tax benefit for the third quarter of 2018 was $11,199 compared to $25,226 for the third quarter of 2017. Income tax benefit for the first nine months of 2018 was $12,886 compared to $21,085 for the first nine months of 2017. The Tax Cuts and Jobs Act was signed into law on December 22, 2017. The U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0% for tax years beginning in 2018. The variance in income taxes between 2018 and 2017 is attributable to the reduced corporate tax rate and taxes on income and losses generated by the investment partnerships.

As of September 30, 2018 and December 31, 2017, we had approximately $336 and $357, respectively, of unrecognized tax benefits, which are included in other liabilities in the consolidated balance sheets.

Note 13. 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 of breach of fiduciary duty by the members of our Board of Directors and unjust enrichment to Mr. Biglari as a result of the issuance of dual class common stock.

On March 26, 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. This shareholder generally alleges claims of breach of fiduciary duty by the members of our Board of Directors. This shareholder sought to enjoin the shareholder vote on April 26, 2018 to approve the issuance of dual class common stock.

On April 16, 2018, the shareholders withdrew their motions to enjoin the shareholder vote on April 26, 2018.

Note 13. Commitments and Contingencies *(continued)*

On May 17, 2018, the shareholders who filed the January 29, 2018 complaint and the March 26, 2018 complaint filed a new, consolidated complaint against the Company and the members of our Board of Directors in the Superior Court of Hamilton County, Indiana. The shareholders generally allege claims of breach of fiduciary duty by the members of our Board of Directors and unjust enrichment to Mr. Biglari arising out of the recent recapitalization of Biglari Holdings Inc. and the related issuance of dual class common stock. The shareholders seek, for themselves and on behalf of all other shareholders as a class (other than the individual defendants and those related to or affiliated with them), to seek a declaration that the defendants breached their duty to the shareholders and the class, and to recover unspecified damages, pre-judgment and post-judgment interest, and an award of their attorneys' fees and other costs.

The Company believes the claims in each case are without merit and intends to defend these cases vigorously.

Note 14. 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.

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 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.

Note 14. Fair Value of Financial Assets *(continued)*

As of September 30, 2018 and December 31, 2017, the fair values of financial assets were as follows.

	September 30, 2018				December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	**$ 5,592**	**$ -**	**$ -**	**$ 5,592**	$ 5,785	$ -	$ -	$ 5,785
Equity securities:								
Consumer goods	**6,351**	**-**	**-**	**6,351**	2,445	-	-	2,445
Bonds	**-**	**30,420**	**-**	**30,420**	-	25,901	-	25,901
Options on equity securities	**-**	**2,212**	**-**	**2,212**	-	2,018	-	2,018
Non-qualified deferred compensation plan investments	**2,901**	**-**	**-**	**2,901**	3,459	-	-	3,459
Total assets at fair value	**$ 14,844**	**$ 32,632**	**$ -**	**$ 47,476**	$ 11,689	$ 27,919	$ -	$ 39,608

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

Note 15. Related Party Transactions

Services Agreement

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.

Incentive Agreement Amendment

During 2013, Biglari Holdings and Mr. Biglari entered into an amendment to the Incentive Agreement to exclude earnings by the investment partnerships from the calculation of Mr. Biglari’s incentive bonus. 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.

Note 15. Related Party Transactions *(continued)*

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

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

The Governance, Nominating and Compensation Committee unanimously approved the association of the Biglari name and mark with all of Steak n Shake's restaurants (including Company operated and franchised locations), products and brands. On May 14, 2013, the Company, Steak n Shake, LLC and Steak n Shake Enterprises, Inc. entered into a Trademark Sublicense Agreement in connection therewith. Accordingly, revenues received by the Company, its subsidiaries and affiliates from Steak n Shake's restaurants, products and brands would come within the definition of Revenues for purposes of the License Agreement.

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

The 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 21, 2024. Royalty payments beyond the minimum period would be subject to the licensee's continued use of the licensed marks.

Note 16. 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 for the third quarters and first nine months of 2018 and 2017 were as follows.

	Revenue			
	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Operating Businesses:				
Restaurant Operations:				
Steak n Shake	**$ 191,240**	$ 202,001	**$ 578,111**	$ 596,026
Western	**3,801**	4,071	**11,458**	10,607
Total Restaurant Operations	**195,041**	206,072	**589,569**	606,633
First Guard	**7,038**	6,285	**20,330**	18,548
Maxim	**1,503**	1,877	**4,647**	5,400
	$ 203,582	$ 214,234	**$ 614,546**	$ 630,581

Earnings (losses) before income taxes for the third quarters and first nine months of 2018 and 2017 were as follows.

	Earnings (Losses) Before Income Taxes			
	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Operating Businesses:				
Restaurant Operations:				
Steak n Shake	**$ (3,172)**	$ (3,283)	**$ (1,505)**	$ 1,038
Western	**516**	479	**1,564**	1,514
Total Restaurant Operations	**(2,656)**	(2,804)	**59**	2,552
First Guard	**1,813**	834	**4,624**	3,135
Maxim	**111**	45	**(90)**	(487)
Other	**171**	174	**474**	515
Total Operating Businesses	**(561)**	(1,751)	**5,067**	5,715
Corporate and Investments:				
Corporate	**(2,366)**	(1,600)	**(8,536)**	(6,285)
Investment partnership gains (losses)	**(19,008)**	(43,859)	**(23,854)**	(31,589)
Total Corporate and Investments	**(21,374)**	(45,459)	**(32,390)**	(37,874)
Interest expense on notes payable and other borrowings	**(2,967)**	(2,716)	**(8,619)**	(8,321)
	$ (24,902)	$ (49,926)	**$ (35,942)**	$ (40,480)

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

(dollars in thousands except per share data)

Overview

Biglari Holdings 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 the Company. 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 September 30, 2018, Mr. Biglari's beneficial ownership was approximately 56.3% of the Company's outstanding Class A common stock and 54.3% of the Company's outstanding Class B common stock.

Issuance of Dual Class Common Stock

On March 5, 2018, the Company entered into an agreement with its predecessor registrant, now known as OBH Inc. (the "Predecessor"), and BH Merger Company, a wholly owned subsidiary of the Company. Pursuant to the agreement, on April 30, 2018, BH Merger Company merged with and into the Predecessor, with the Predecessor continuing as the surviving corporation and a wholly owned subsidiary of the Company.

As a result of the April 30, 2018 transaction, the Company has two classes of common stock designated Class A common stock and Class B 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. Upon completion of the transaction, every ten (10) shares of common stock outstanding on April 30, 2018 converted into (i) ten (10) shares of Class B common stock and (ii) one (1) share of Class A common stock.

Since May 1, 2018, the shares of the Company's Class A common stock have traded on the New York Stock Exchange ("NYSE") under the ticker symbol "BH.A," whereas the Class B common stock trades on the NYSE under the ticker symbol "BH," which is the former ticker symbol for the Predecessor's common stock.

For accounting purposes, the April 30, 2018 transaction will be treated as a merger of entities under common control. Accordingly, the consolidated financial position and results of operations of the Predecessor will be included in the consolidated financial statements on the same basis as currently presented, except for earnings per share which is impacted by the issuance of the new common shares. The Company has applied the "two-class method" of computing earnings per share as prescribed in ASC 260, "Earnings Per Share."

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

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Operating businesses:				
Restaurant	**$ 354**	$ 2,309	**$ 1,914**	$ 5,500
Insurance	**1,425**	545	**3,629**	2,037
Media	**86**	28	**(69)**	(314)
Other	**127**	106	**351**	315
Total operating businesses	**1,992**	2,988	**5,825**	7,538
Corporate	**(581)**	(2,879)	**(6,726)**	(7,137)
Investment partnership gains (losses)	**(12,889)**	(23,126)	**(15,691)**	(14,638)
Interest expense on notes payable and other borrowings	**(2,225)**	(1,683)	**(6,464)**	(5,158)
	$ (13,703)	$ (24,700)	**$ (23,056)**	$ (19,395)

Our restaurant businesses include Steak n Shake Inc. ("Steak n Shake") and Western Sizzlin Corporation ("Western"). As of September 30, 2018, Steak n Shake comprised 414 company-operated restaurants and 214 franchised units. Western comprised 4 company-operated restaurants and 58 franchised units.

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

Our insurance business is composed of First Guard Insurance Company and its agency, 1st Guard Corporation (collectively "First Guard"). First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers.

Our media business is composed of Maxim Inc. ("Maxim"). Maxim's business lies principally in media and licensing.

Restaurants

Steak n Shake and Western comprise 690 company-operated and franchised restaurants as of September 30, 2018.

	Steak n Shake		Western Sizzlin		
	Company-operated	Franchised	Company-operated	Franchised	Total
Total stores as of December 31, 2017	**415**	**200**	**4**	**58**	**677**
Net restaurants opened (closed)	**(1)**	**14**	**-**	**-**	**13**
Total stores as of September 30, 2018	**414**	**214**	**4**	**58**	**690**
Total stores as of December 31, 2016	417	173	3	64	657
Net restaurants opened (closed)	-	26	1	(4)	23
Total stores as of September 30, 2017	417	199	4	60	680

Earnings of our restaurant operations are summarized below.

	Third Quarter				First Nine Months			
	2018		2017		**2018**		2017	
Revenue								
Net sales	**$ 186,368**		$ 199,980		**$ 563,736**		$ 587,532	
Franchise royalties and fees	**7,762**		5,125		**22,637**		16,030	
Other revenue	**911**		967		**3,196**		3,071	
Total revenue	**195,041**		206,072		**589,569**		606,633	
Restaurant cost of sales								
Cost of food	**55,977**	**30.0%**	63,388	31.7%	**169,022**	**30.0%**	179,191	30.5%
Restaurant operating costs	**100,393**	**53.9%**	102,620	51.3%	**297,061**	**52.7%**	301,431	51.3%
Rent	**4,848**	**2.6%**	4,718	2.4%	**14,044**	**2.5%**	13,880	2.4%
Total cost of sales	**161,218**		170,726		**480,127**		494,502	
Selling, general and administrative								
General and administrative	**14,985**	**7.7%**	16,167	7.8%	**46,949**	**8.0%**	44,746	7.4%
Marketing	**13,757**	**7.1%**	12,926	6.3%	**39,436**	**6.7%**	38,637	6.4%
Other expenses	**1,067**	**0.5%**	1,554	0.8%	**2,490**	**0.4%**	3,639	0.6%
Total selling, general and administrative	**29,809**	**15.3%**	30,647	14.9%	**88,875**	**15.1%**	87,022	14.3%
Depreciation and amortization	**4,679**	**2.4%**	5,245	2.5%	**14,180**	**2.4%**	15,701	2.6%
Interest on obligations under leases	**1,991**		2,258		**6,328**		6,856	
Earnings (loss) before income taxes	**(2,656)**		(2,804)		**59**		2,552	
Income tax expense (benefit)	**(3,010)**		(5,113)		**(1,855)**		(2,948)	
Contribution to net earnings	**$ 354**		$ 2,309		**$ 1,914**		$ 5,500	

Cost of food, restaurant operating costs and rent expense are expressed as a percentage of net sales.
General and administrative, marketing, other expenses and depreciation and amortization are expressed as a percentage of total revenue.

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

Net sales during the third quarter and first nine months of 2018 were $186,368 and $563,736, respectively, representing a decrease of $13,612 over the third quarter and $23,796 over the first nine months of 2017. The decreased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales, which decreased 6.9% whereas customer traffic decreased 6.6% during the third quarter. Steak n Shake's same-store sales decreased 4.0% whereas customer traffic decreased 6.8% during the first nine months. 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.

In the third quarter and first nine months of 2018 franchise royalties and fees increased $2,637 and $6,607, respectively, compared to those in 2017. The increase was primarily due to the adoption of new accounting guidance. The new guidance increased franchise revenue by $2,157 and $6,859 for the third quarter and first nine months of 2018, respectively. Steak n Shake opened 14 franchise units and closed three franchise units during the third quarter of 2018. There were 214 Steak n Shake franchise units as of September 30, 2018 compared to 199 franchise units as of September 30, 2017.

Cost of food in the third quarter and first nine months of 2018 was $55,977 or 30.0% of net sales and $169,022 or 30.0% of net sales, respectively, compared to the third quarter and first nine months in 2017 of $63,388 or 31.7% of net sales and $179,191 or 30.5% of net sales, respectively. The decrease as a percentage of net sales during the third quarter of 2018 was attributable to decreased commodities costs.

Restaurant operating costs during the third quarter of 2018 were $100,393 or 53.9% of net sales compared to $102,620 or 51.3% of net sales in 2017. Restaurant operating costs during the first nine months of 2018 were $297,061 or 52.7% of net sales compared to $301,431 or 51.3% of net sales in 2017. Costs as a percentage of net sales increased during the third quarter of 2018 by 2.6% and during the first nine months by 1.4% compared to 2017. The increase as a percentage of net sales was principally due to higher wages and benefits.

General and administrative expenses during the third quarter and first nine months of 2018 were $14,985 or 7.7% of total revenues and $46,949 or 8.0% of total revenues, respectively, compared to expenses in the third quarter and first nine months of 2017, which were $16,167 or 7.8% of total revenues and $44,746 or 7.4% of total revenues, respectively. General and administrative expenses during the first nine months of 2018 compared to 2017 were primarily due to higher legal and professional fees.

Marketing expenses during the third quarter and first nine months of 2018 were $13,757 or 7.1% of total revenues and $39,436 or 6.7% of total revenues, respectively, compared to expenses in the third quarter and first nine months of 2017, which were $12,926 or 6.3% of total revenues and $38,637 or 6.4% of total revenues, respectively. Marketing expenses decreased during the third quarter and the first nine months principally by discontinued sponsorships of $686 and $2,273, respectively, and a reduction to outdoor marketing of $1,023 and $2,197, respectfully. The decrease in marketing expenses was offset by the adoption of new accounting guidance. New ASC 606 accounting guidance requires the Company to recognize franchise fees as revenue instead of recording an offset to marketing expense. The new guidance increased marketing expenses by $2,425 and $7,388 for the third quarter and first nine months of 2018, respectively.

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

Insurance

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

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Premiums written	**$ 6,743**	$ 6,125	**$ 19,576**	$ 18,063
Insurance losses	**3,824**	4,213	**11,238**	11,506
Underwriting expenses	**1,322**	1,166	**4,309**	3,636
Pre-tax underwriting gain	**1,597**	746	**4,029**	2,921
Other income and expenses				
Investment income and commissions	**295**	160	**754**	485
Other income (expense)	**(79)**	(72)	**(159)**	(271)
Total other income	**216**	88	**595**	214
Earnings before income taxes	**1,813**	834	**4,624**	3,135
Income tax expense	**388**	289	**995**	1,098
Contribution to net earnings	**$ 1,425**	$ 545	**$ 3,629**	$ 2,037

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.

Premiums written during the third quarter of 2018 were $6,743, an increase of $618 or 10.1% compared to 2017. Premiums written during the first nine months of 2018 were $19,576, an increase of $1,513 or 8.4% compared to 2017. Pre-tax underwriting gain was $1,597 and $4,029 in the third quarter and first nine months of 2018, respectively, compared to $746 and $2,921 in the third quarter and first nine months of 2017, respectively.

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

Media

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

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Revenue	**$ 1,503**	$ 1,877	**$ 4,647**	$ 5,400
Media cost of sales	**1,065**	1,465	**3,562**	4,699
General and administrative expenses	**321**	355	**1,155**	1,150
Depreciation and amortization	**6**	12	**20**	38
Earnings (loss) before income taxes	**111**	45	**(90)**	(487)
Income tax expense (benefit)	**25**	17	**(21)**	(173)
Contribution to net earnings	**$ 86**	$ 28	**$ (69)**	$ (314)

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

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 (loss) from our investments in partnerships are summarized below.

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Investment partnership gains (losses)	**$ (19,008)**	$ (43,859)	**$ (23,854)**	$ (31,589)
Tax expense (benefit)	**(6,119)**	(20,733)	**(8,163)**	(16,951)
Contribution to net earnings	**$ (12,889)**	$ (23,126)	**$ (15,691)**	$ (14,638)

The volatility of the gains and losses during the various periods is attributable to changes in market values of investments held by the investment partnerships. 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.

Interest Expense

The Company's interest expense is summarized below.

	Third Quarter		First Nine Months	
	2018	2017	**2018**	2017
Interest expense on notes payable and other borrowings	**$ 2,967**	$ 2,716	**$ 8,619**	$ 8,321
Tax benefit	**742**	1,033	**2,155**	3,163
Interest expense net of tax	**$ 2,225**	$ 1,683	**$ 6,464**	$ 5,158

The outstanding balance on Steak n Shake's credit facility on September 30, 2018 was $184,248 compared to $186,448 on September 30, 2017. The interest rate was 6.00% as of September 30, 2018 and 4.99% as of September 30, 2017.

Corporate

Corporate expenses exclude the activities in the restaurant, insurance, media and other companies. Corporate net losses during the third quarter and first nine months of 2018 were $581 and $6,726 respectively, versus net losses of $2,879 and $7,137 during the third quarter and first nine months of 2017, respectively.

Income Tax Expense

Income tax benefit for the third quarter of 2018 was $11,199 compared to $25,226 for the third quarter of 2017. Income tax benefit for the first nine months of 2018 was $12,886 compared to $21,085 for the first nine months of 2017. The Tax Cuts and Jobs Act was signed into law on December 22, 2017. The U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0% for tax years beginning in 2018. The variance in income taxes between 2018 and 2017 is attributable to the reduced corporate tax rate and taxes on income and losses generated by the investment partnerships.

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

Financial Condition

Our consolidated shareholders' equity on September 30, 2018 was $528,418, a decrease of $42,910 compared to the December 31, 2017 balance. The decrease during the first nine months of 2018 was primarily attributable to net losses of $23,056 and an increase in treasury stock of $19,152. The increase in treasury stock was primarily for our proportionate interest in shares of the Company's stock purchased during 2018 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.

Consolidated cash and investments are summarized below.

	September 30, 2018	December 31, 2017
Cash and cash equivalents	**$ 48,345**	$ 58,577
Investments	**36,353**	27,752
Fair value of interest in investment partnerships	**746,658**	925,279
Total cash and investments	**831,356**	1,011,608
Less portion of Company stock held by investment partnerships	**(250,003)**	(359,258)
Carrying value of cash and investments on balance sheet	**$ 581,353**	$ 652,350

Liquidity

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

	First Nine Months	
	2018	2017
Net cash provided by (used in) operating activities	**$ (5,584)**	$ 16,944
Net cash provided by (used in) investing activities	**2,221**	(9,714)
Net cash used in financing activities	**(5,797)**	(20,885)
Effect of exchange rate changes on cash	**(63)**	145
Decrease in cash, cash equivalents and restricted cash	**$ (9,223)**	$ (13,510)

Cash used in operating activities was $5,584 during the first nine months of 2018 compared to cash provided by operating activities of $16,944 during the first nine months of 2017. The decrease in cash from operating activities was primarily due to a use of cash in working capital accounts of $17,975 during 2018. The changes in the 2018 working capital accounts was primarily due to the payment for the accrued 2017 incentive fee of $7,353 and $5,479 of gift cards redeemed net of gift cards sold.

Net cash provided by investing activities during the first nine months of 2018 was $2,221 compared to net cash used in investing activities of $9,714 during the first nine months of 2017. The increase in net cash for investing activities was primarily due to a return of capital from the investment partnerships of $26,000 during 2018.

During the first nine months of 2018 and 2017 we incurred debt payments of $5,846 and $20,915, respectively. Debt obligations were reduced during 2017 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 cash to satisfy required collateral for casualty insurance previously collateralized by letters of credit issued through the revolving credit facility. The deposits are recorded in other assets as restricted cash in the consolidated balance sheets.

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.

The interest rate on the term loan was 6.00% as of September 30, 2018.

The credit agreement includes customary affirmative and negative covenants and events of default. As of September 30, 2018, 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 September 30, 2018, $184,248 was outstanding under the term loan.

Western Revolver

As of September 30, 2018, no amount was outstanding under the Western revolver.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized in our consolidated financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in our consolidated financial statements will likely increase or decrease in the future as additional information becomes available. There have been no material changes to critical accounting policies previously disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

Recently Issued Accounting Pronouncements

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

Cautionary Note Regarding Forward-Looking Statements

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

We prefer to hold equity investments for very long periods of time so we are not troubled by short-term price volatility with respect to our investments. Our interests in the investment partnerships are committed on a rolling 5-year basis, and any distributions upon our withdrawal of funds will be paid out over two years (and may be paid in kind rather than in cash). Market prices for equity securities are subject to fluctuation. Consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. A hypothetical 10% increase or decrease in the market price of our investments would result in a respective increase or decrease in the carrying value of our investments of $53,301 along with a corresponding change in shareholders' equity of approximately 8%.

Borrowings on Steak n Shake's credit facility bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. At September 30, 2018, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately $1,400 on our net earnings.

We have had minimal exposure to foreign currency exchange rate fluctuations in the first nine months of 2018 and 2017.

ITEM 4. Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of September 30, 2018.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information in response to this Item is included in Note 13 to the Consolidated Financial Statements included in Part 1 Item 1 of this Form 10-Q and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in Item 1A to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 or otherwise subsequently disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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* Furnished herewith.

SIGNATURES

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

Date: November 2, 2018

BIGLARI HOLDINGS INC.

By: /s/ BRUCE LEWIS

Bruce Lewis

Controller

EXHIBIT 31.01

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

I, Sardar Biglari, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biglari Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

> (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
>
> (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 2, 2018

/s/ Sardar Biglari

Sardar Biglari

Chairman and Chief Executive Officer

EXHIBIT 31.02

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

I, Bruce Lewis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biglari Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2018

/s/ Bruce Lewis
Bruce Lewis
Controller

EXHIBIT 32.01

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Biglari Holdings Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sardar Biglari
Sardar Biglari
Chairman and Chief Executive Officer
November 2, 2018

/s/ Bruce Lewis
Bruce Lewis
Controller
November 2, 2018