

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 March 31, 2022**

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**

(State or other jurisdiction of incorporation)

**82-3784946**

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

**17802 IH 10 West, Suite 400**

**San Antonio, TX**

(Address of principal executive offices)

**78257**

(Zip Code)

**(210) 344-3400**

Registrant's telephone number, including area code

**Not Applicable**

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

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

<b>Title of each class</b>	<b>Trading Symbols</b>	<b>Name of each exchange on which registered</b>
Class A Common Stock, no par value	BH.A	New York Stock Exchange
Class B Common Stock, no par value	BH	New York Stock Exchange

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 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 an “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Number of shares of common stock outstanding as of May 3, 2022:

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

---

---

**BIGLARI HOLDINGS INC.**  
**INDEX**

**Page No.**

**Part I – Financial Information**

<b><u>Item 1.</u></b>	<b><u>Financial Statements</u></b>	1
	<u>Consolidated Balance Sheets — March 31, 2022 and December 31, 2021</u>	1
	<u>Consolidated Statements of Earnings — First Quarter 2022 and 2021</u>	2
	<u>Consolidated Statements of Comprehensive Income — First Quarter 2022 and 2021</u>	2
	<u>Consolidated Statements of Cash Flows — First Quarter 2022 and 2021</u>	3
	<u>Consolidated Statements of Changes in Shareholders' Equity — First Quarter 2022 and 2021</u>	4
	<u>Notes to Consolidated Financial Statements</u>	5
<b><u>Item 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	18
<b><u>Item 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>	25
<b><u>Item 4.</u></b>	<b><u>Controls and Procedures</u></b>	25

**Part II – Other Information**

<b><u>Item 1.</u></b>	<b><u>Legal Proceedings</u></b>	25
<b><u>Item 1A.</u></b>	<b><u>Risk Factors</u></b>	25
<b><u>Item 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	26
<b><u>Item 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b>	26
<b><u>Item 4.</u></b>	<b><u>Mine Safety Disclosures</u></b>	26
<b><u>Item 5.</u></b>	<b><u>Other Information</u></b>	26
<b><u>Item 6.</u></b>	<b><u>Exhibits</u></b>	26
	<b><u>Signatures</u></b>	27

**PART 1 – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED BALANCE SHEETS**

*(dollars in thousands)*

	March 31, 2022	December 31, 2021
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 45,777	\$ 42,349
Investments	87,150	83,061
Receivables	22,427	28,508
Inventories	4,376	3,803
Other current assets	8,067	7,088
Total current assets	167,797	164,809
Property and equipment	347,609	349,351
Operating lease assets	40,540	42,538
Goodwill and other intangible assets	76,854	77,010
Investment partnerships	242,368	250,399
Other assets	10,686	10,700
<b>Total assets</b>	<b>\$ 885,854</b>	<b>\$ 894,807</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 99,761	\$ 100,467
Loss and loss adjustment expenses	14,443	14,609
Unearned premiums	11,875	11,667
Current portion of lease obligations	17,057	16,898
Total current liabilities	143,136	143,641
Lease obligations	101,156	104,479
Deferred taxes	41,763	46,533
Asset retirement obligations	10,520	10,389
Other liabilities	1,982	2,069
<b>Total liabilities</b>	<b>298,557</b>	<b>307,111</b>
<b>Shareholders' equity</b>		
Common stock	1,138	1,138
Additional paid-in capital	381,788	381,788
Retained earnings	608,230	608,528
Accumulated other comprehensive loss	(2,138)	(1,907)
Treasury stock, at cost	(401,721)	(401,851)
<b>Biglari Holdings Inc. shareholders' equity</b>	<b>587,297</b>	<b>587,696</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 885,854</b>	<b>\$ 894,807</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

*(dollars in thousands except per share amounts)*

	First Quarter	
	2022	2021
	(Unaudited)	
<b>Revenues</b>		
Restaurant operations	\$ 59,847	\$ 69,954
Insurance premiums and other	15,079	14,619
Oil and gas	9,812	8,592
Licensing and media	634	1,123
	<u>85,372</u>	<u>94,288</u>
<b>Cost and expenses</b>		
Restaurant cost of sales	35,352	45,616
Insurance losses and underwriting expenses	13,774	11,146
Oil and gas production costs	3,819	2,413
Licensing and media costs	953	480
Selling, general and administrative	16,224	15,540
Impairments	—	298
Depreciation, depletion, and amortization	7,871	7,178
Interest expense	1,412	2,741
	<u>79,405</u>	<u>85,412</u>
<b>Other income</b>		
Investment gains	225	3,081
Investment partnership gains (losses)	(6,661)	81,766
Total other income (expenses)	<u>(6,436)</u>	<u>84,847</u>
<b>Earnings (loss) before income taxes</b>	(469)	93,723
Income tax expense (benefit)	(171)	22,016
<b>Net earnings (loss)</b>	<u>\$ (298)</u>	<u>\$ 71,707</u>
Net earnings (loss) per equivalent Class A share *	\$ (0.98)	\$ 223.29

\*Net earnings (loss) per equivalent Class B share outstanding are one-fifth of the equivalent Class A share or \$(0.20) for the first quarter of 2022 and \$44.66 for the first quarter of 2021.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(dollars in thousands)*

	First Quarter	
	2022	2021
	(Unaudited)	
<b>Net earnings (loss)</b>	\$ (298)	\$ 71,707
Foreign currency translation	(231)	(444)
<b>Total comprehensive income (loss)</b>	<u>\$ (529)</u>	<u>\$ 71,263</u>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(dollars in thousands)*

	First Quarter	
	2022	2021
	(Unaudited)	
<b>Operating activities</b>		
Net earnings (loss)	\$ (298)	\$ 71,707
Adjustments to reconcile net earnings (loss) to operating cash flows:		
Depreciation, depletion, and amortization	7,871	7,178
Provision for deferred income taxes	(4,750)	23,350
Asset impairments and other non-cash expenses	—	435
Gains on disposal of assets	(133)	(958)
Investment and investment partnership (gains) losses	6,436	(85,013)
Distributions from investment partnerships	4,500	150,570
Changes in receivables, inventories and other assets	4,633	1,924
Changes in accounts payable and accrued expenses	2,833	(3,895)
<b>Net cash provided by operating activities</b>	<b>21,092</b>	<b>165,298</b>
<b>Investing activities</b>		
Capital expenditures	(9,293)	(7,447)
Proceeds from property and equipment disposals	109	2,749
Purchases of limited partner interests	(3,000)	(3,000)
Purchases of investments	(50,086)	(16,724)
Sales of investments and redemptions of fixed maturity securities	46,193	15,642
<b>Net cash used in investing activities</b>	<b>(16,077)</b>	<b>(8,780)</b>
<b>Financing activities</b>		
Principal payments on long-term debt	—	(149,952)
Principal payments on direct financing lease obligations	(1,564)	(2,609)
<b>Net cash used in financing activities</b>	<b>(1,564)</b>	<b>(152,561)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(23)</b>	<b>(22)</b>
Increase in cash, cash equivalents and restricted cash	3,428	3,935
Cash, cash equivalents and restricted cash at beginning of year	43,687	29,666
<b>Cash, cash equivalents and restricted cash at end of first quarter</b>	<b>\$ 47,115</b>	<b>\$ 33,601</b>

	First Quarter	
	2022	2021
	(Unaudited)	
Cash and cash equivalents	\$ 45,777	\$ 28,438
Restricted cash in other long-term assets	1,338	5,163
<b>Cash, cash equivalents and restricted cash at end of first quarter</b>	<b>\$ 47,115</b>	<b>\$ 33,601</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2021	\$ 1,138	\$ 381,788	\$ 608,528	\$ (1,907)	\$ (401,851)	\$ 587,696
Net earnings (loss)			(298)			(298)
Other comprehensive loss				(231)		(231)
Adjustment to treasury stock for holdings in investment partnerships					130	130
Balance at March 31, 2022	<u>\$ 1,138</u>	<u>\$ 381,788</u>	<u>\$ 608,230</u>	<u>\$ (2,138)</u>	<u>\$ (401,721)</u>	<u>\$ 587,297</u>

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2020	\$ 1,138	\$ 381,788	\$ 573,050	\$ (1,531)	\$ (389,617)	\$ 564,828
Net earnings (loss)			71,707			71,707
Other comprehensive loss				(444)		(444)
Adjustment to treasury stock for holdings in investment partnerships					3,049	3,049
Balance at March 31, 2021	<u>\$ 1,138</u>	<u>\$ 381,788</u>	<u>\$ 644,757</u>	<u>\$ (1,975)</u>	<u>\$ (386,568)</u>	<u>\$ 639,140</u>

*See accompanying Notes to Consolidated Financial Statements.*

# BIGLARI HOLDINGS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022

(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. 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, 2021.

Biglari Holdings is a holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance, licensing and media, restaurants, and oil and gas. 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.

Biglari Holdings’ management system combines decentralized operations with centralized finance decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of March 31, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and approximately 70.4% of the voting interest.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including Steak n Shake Inc., Western Sizzlin Corporation, First Guard Insurance Company, Maxim Inc., Southern Pioneer Property & Casualty Insurance Company, and Southern Oil Company. Intercompany accounts and transactions have been eliminated in consolidation.

### Note 2. 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.

The following table presents shares authorized, issued and outstanding on March 31, 2022 and December 31, 2021.

	March 31, 2022		December 31, 2021	
	Class A	Class B	Class A	Class B
Common stock authorized	500,000	10,000,000	500,000	10,000,000
Common stock issued and outstanding	206,864	2,068,640	206,864	2,068,640

**Note 2. Earnings Per Share (continued)**

The Company has applied the “two-class method” of computing earnings per share as prescribed in Accounting Standards Codification (“ASC”) 260, “*Earnings Per Share*”. The equivalent Class A common stock applied for computing earnings per share excludes the proportional shares of Biglari Holdings’ stock held by the investment partnerships. In the tabulation below is the equivalent Class A common stock for earnings per share. There are no dilutive securities outstanding.

	March 31, 2022	March 31, 2021
Equivalent Class A common stock outstanding	620,592	620,592
Proportional ownership of Company stock held by investment partnerships	316,020	299,453
Equivalent Class A common stock for earnings per share	<u>304,572</u>	<u>321,139</u>

**Note 3. Investments**

Investments net of deferred taxes is presented below.

	March 31, 2022	December 31, 2021
Investments	\$ 87,150	\$ 83,061
Deferred tax liability related to investments	(607)	(845)
Investments net of deferred taxes	<u>\$ 86,543</u>	<u>\$ 82,216</u>

We classify investments in fixed maturity securities at the acquisition date as either available-for-sale or held-to-maturity and re-evaluate the classification at each balance sheet date. Securities classified as held-to-maturity are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. Realized gains and losses on disposals of investments are determined on a specific identification basis. Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating result. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

Investment gains for the first quarter of 2022 and 2021 were \$225 and \$3,081, respectively.

**Note 4. 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 these shares 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. 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 are presented below.

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2021	\$ 474,201	\$ 223,802	\$ 250,399
Investment partnership gains (losses)	(909)	5,752	(6,661)
Distributions (net of contributions)	(1,500)		(1,500)
Changes in proportionate share of Company stock held		(130)	130
Partnership interest at March 31, 2022	<u>\$ 471,792</u>	<u>\$ 229,424</u>	<u>\$ 242,368</u>

**Note 4. Investment Partnerships** *(continued)*

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2020	\$ 590,926	\$ 171,376	\$ 419,550
Investment partnership gains (losses)	110,918	29,152	81,766
Distributions (net of contributions)	(147,570)		(147,570)
Changes in proportionate share of Company stock held		(3,049)	3,049
Partnership interest at March 31, 2021	<u>\$ 554,274</u>	<u>\$ 197,479</u>	<u>\$ 356,795</u>

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

	March 31, 2022	December 31, 2021
Carrying value of investment partnerships	\$ 242,368	\$ 250,399
Deferred tax liability related to investment partnerships	(39,516)	(44,532)
Carrying value of investment partnerships net of deferred taxes	<u>\$ 202,852</u>	<u>\$ 205,867</u>

The Company's proportionate share of Company stock held by investment partnerships at cost was \$401,721 and \$401,851 at March 31, 2022 and December 31, 2021, respectively, and was recorded as treasury stock.

The carrying value of the partnership interest approximates fair value adjusted by the value of held Company stock. Fair value of our partnership interest is assessed according to our proportional ownership interest of the fair value of investments held by the investment partnerships. Unrealized gains and losses on marketable securities held by the investment partnerships affect our net earnings.

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

	First Quarter	
	2022	2021
Gains (losses) from investment partnerships	\$ (6,661)	\$ 81,766
Tax expense (benefit)	(1,860)	19,117
Contribution to net earnings	<u>\$ (4,801)</u>	<u>\$ 62,649</u>

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

There were no incentive reallocations from Biglari Holdings to Biglari Capital Corp. during the first quarters of 2022 and 2021.

**Note 4. Investment Partnerships** *(continued)*

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 March 31, 2022	\$ 123,634	\$ 533,454
Total liabilities as of March 31, 2022	\$ 20,162	\$ 101,230
Revenue for the first quarter of 2022	\$ 969	\$ (1,249)
Earnings for the first quarter of 2022	\$ 926	\$ (1,581)
Biglari Holdings' ownership interest as of March 31, 2022	62.5 %	93.9 %
Total assets as of December 31, 2021	\$ 114,749	\$ 564,022
Total liabilities as of December 31, 2021	\$ 7,763	\$ 130,417
Revenue for the first quarter of 2021	\$ 18,016	\$ 105,347
Earnings for the first quarter of 2021	\$ 17,998	\$ 105,274
Biglari Holdings' ownership interest as of March 31, 2021	61.3 %	94.0 %

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

**Note 5. Property and Equipment**

Property and equipment is composed of the following.

	March 31, 2022	December 31, 2021
Land	\$ 144,605	\$ 144,605
Buildings	149,162	148,605
Land and leasehold improvements	147,355	147,349
Equipment	225,955	224,581
Oil and gas properties	74,150	74,147
Construction in progress	4,180	2,815
	745,407	742,102
Less accumulated depreciation, depletion, and amortization	(397,798)	(392,751)
Property and equipment, net	\$ 347,609	\$ 349,351

Depletion expense related to oil and gas properties was \$1,380 and \$2,244 during the first quarter of 2022 and 2021, respectively.

The Company recorded an impairment to restaurant long-lived assets of \$298 in the first quarter of 2021 related to underperforming stores. The fair value of the long-lived assets was determined based on Level 3 inputs using a discounted cash flow model and quoted prices for the properties. There were no impairments in 2022.

**Note 6. Goodwill and Other Intangible Assets****Goodwill**

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

**Note 6. Goodwill and Other Intangible Assets (continued)**

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

	Goodwill
Goodwill at December 31, 2021	\$ 53,547
Change in foreign exchange rates during the first quarter of 2022	(12)
Goodwill at March 31, 2022	<u>\$ 53,535</u>

We evaluate 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. GAAP allows entities testing for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. We use both qualitative and quantitative assessments. The valuation methodology and underlying financial information included in our quantitative determination of fair value require significant management judgments. We use both market and income approaches to derive fair value of reporting units utilizing a quantitative assessment. 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 was recorded in the first quarter of 2022 or 2021. Western Sizzlin has experienced a decline in its franchised units for several years. If Western Sizzlin's franchised units continue to decline, an impairment of its goodwill may be necessary.

**Other Intangible Assets**

Intangible assets with indefinite lives are composed of the following.

	Trade Names	Lease Rights	Total
Balance at December 31, 2021	\$ 15,876	\$ 7,587	\$ 23,463
Change in foreign exchange rates during the first quarter of 2022	—	(144)	(144)
Balance at March 31, 2022	<u>\$ 15,876</u>	<u>\$ 7,443</u>	<u>\$ 23,319</u>

Intangible assets with indefinite lives consist of trade names and lease rights. Fair values were determined using Level 3 inputs and available market data.

**Note 7. Restaurant Operations Revenues**

Restaurant operations revenues were as follows.

	First Quarter	
	2022	2021
Net sales	\$ 38,216	\$ 54,950
Franchise partner fees	15,624	7,853
Franchise royalties and fees	5,146	5,135
Other	861	2,016
	<u>\$ 59,847</u>	<u>\$ 69,954</u>

**Net Sales**

Net sales are composed of retail sales of food through company-operated stores. Company-operated store revenues are recognized, net of discounts and sales taxes, when our obligation to perform is satisfied 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 earnings as revenue.

**Franchise Partner Fees**

Franchise partner fees are composed of up to 15% of sales as well as 50% of profits. We are therefore fully affected by the operating results of the business, unlike in a traditional franchising arrangement, where the franchisor obtains a royalty fee based on sales only. We generate most of our revenue from our share of the franchise partners' profits. An initial franchise fee of ten thousand dollars is recognized when the operator becomes a franchise partner. The Company recognizes franchise partner fees monthly as underlying restaurant sales occur.

**Note 7. Restaurant Operations Revenues (continued)**

The Company leases or subleases property and equipment to franchise partners under lease arrangements. Both real estate and equipment rental payments are charged to franchise partners and are recognized in accordance with ASC 842, "Leases". During the first quarter of 2022 and 2021, restaurant operations recognized \$4,774 and \$2,900, respectively, in franchise partner fees related to rental income.

**Franchise Royalties and Fees**

Franchise royalties and fees from Steak n Shake and Western Sizzlin franchisees are based upon a percentage of sales of the franchise restaurant and are recognized as earned. Franchise royalties are billed on a monthly basis. Initial franchise fees when a new restaurant opens or at the start of a new franchise term are recorded as deferred revenue when received and recognized as revenue over the term of the franchise agreement.

**Other Revenue**

Restaurant operations sells gift cards to customers which can be redeemed for retail food sales within our stores. Gift cards are recorded as a liability 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.

**Note 8. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses include the following.

	March 31, 2022	December 31, 2021
Accounts payable	\$ 34,946	\$ 36,684
Gift card and other marketing	17,548	19,244
Insurance accruals	5,108	6,428
Salaries, wages and vacation	6,570	5,905
Deferred revenue	8,194	6,683
Taxes payable	16,038	11,392
Professional fees	7,969	11,731
Other	3,388	2,400
Accounts payable and accrued expenses	<u>\$ 99,761</u>	<u>\$ 100,467</u>

**Note 9. Notes Payable****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. The term loan was scheduled to mature on March 19, 2021. The Company repaid the balance of Steak n Shake's term facility on February 19, 2021.

## Note 10. Lease Assets and Obligations

Lease obligations include the following.

	March 31, 2022	December 31, 2021
<b>Current portion of lease obligations</b>		
Finance lease liabilities	\$ 1,318	\$ 1,414
Finance obligations	5,029	4,944
Operating lease liabilities	10,710	10,540
Total current portion of lease obligations	<u>\$ 17,057</u>	<u>\$ 16,898</u>
<b>Long-term lease obligations</b>		
Finance lease liabilities	\$ 5,021	\$ 5,347
Finance obligations	62,327	63,119
Operating lease liabilities	33,808	36,013
Total long-term lease obligations	<u>\$ 101,156</u>	<u>\$ 104,479</u>

### *Nature of Leases*

Steak n Shake and Western Sizzlin operate restaurants that are located on sites owned by us and leased from third parties. In addition, they own sites and lease sites from third parties that are leased and/or subleased to franchise partners and franchisees.

### *Lease Costs*

A significant portion of our operating and finance lease portfolio includes restaurant locations. We recognize fixed lease expense for operating leases on a straight-line basis over the lease term. For finance leases, we recognize amortization expense on the right-of-use asset and interest expense on the lease liability over the lease term.

Total lease cost consists of the following.

	First Quarter	
	2022	2021
<b>Finance lease costs:</b>		
Amortization of right-of-use assets	\$ 363	\$ 419
Interest on lease liabilities	115	147
Operating and variable lease costs	3,612	3,765
Sublease income	(4,069)	(2,655)
Total lease costs	<u>\$ 21</u>	<u>\$ 1,676</u>

Supplemental cash flow information related to leases is as follows.

	First Quarter	
	2022	2021
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Financing cash flows from finance leases	\$ 421	\$ 529
Operating cash flows from finance leases	\$ 115	\$ 132
Operating cash flows from operating leases	\$ 3,067	\$ 4,186

**Note 10. Lease Assets and Obligations** *(continued)*

Supplemental balance sheet information related to leases is as follows.

	March 31, 2022	December 31, 2021
Finance leases:		
Property and equipment, net	\$ 5,271	\$ 5,634

Weighted-average lease terms and discount rates are as follows.

	March 31, 2022
Weighted-average remaining lease terms:	
Finance leases	4.91 years
Operating leases	4.99 years
Weighted-average discount rates:	
Finance leases	7.0 %
Operating leases	6.9 %

Maturities of lease liabilities as of March 31, 2022 are as follows.

Year	Operating Leases	Finance Leases
2022	\$ 10,298	\$ 1,298
2023	11,259	1,551
2024	9,433	1,534
2025	7,854	1,298
2026	5,203	959
After 2026	8,730	855
Total lease payments	52,777	7,495
Less interest	8,259	1,156
Total lease liabilities	\$ 44,518	\$ 6,339

**Lease Income**

The components of lease income are as follows.

	First Quarter	
	2022	2021
Operating lease income	\$ 4,724	\$ 2,363
Variable lease income	313	849
Total lease income	\$ 5,037	\$ 3,212

**Note 10. Lease Assets and Obligations (continued)**

The following table displays the Company's future minimum rental receipts for non-cancelable leases and subleases as of March 31, 2022. Franchise partner leases and subleases are short-term leases and have been excluded from the table.

Year	Operating Leases	
	Subleases	Owned Properties
2022	\$ 582	\$ 247
2023	371	247
2024	338	247
2025	273	255
2026	—	233
After 2026	—	753
Total future minimum receipts	<u>\$ 1,564</u>	<u>\$ 1,982</u>

**Note 11. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income decreased \$231 and \$444 during the first quarters of 2022 and 2021, respectively. There were no reclassifications from accumulated other comprehensive loss to earnings during the first quarters of 2022 and 2021. All changes in accumulated other comprehensive loss were due to foreign currency translation adjustments.

**Note 12. Income Taxes**

In determining the quarterly provision for income taxes, the Company used an estimated annual effective tax rate for the first quarter of 2022 and a discrete effective tax rate method based on statutory tax rates for the first quarter of 2021. Our periodic effective income tax rate is affected by the relative mix of pre-tax earnings or losses and underlying income tax rates applicable to the various taxing jurisdictions.

Income tax benefit for the first quarter of 2022 was \$171 compared to an income tax expense of \$22,016 for the first quarter of 2021. The variance in income taxes between 2022 and 2021 is attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax losses were \$6,661 during the first quarter of 2022 compared to pre-tax gains of \$81,766 during the first quarter of 2021.

**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 flow.

**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.

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

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 sheets:

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

*Equity securities:* The Company's investments in equity securities are classified as Levels 1 and 2 of the fair value hierarchy.

*Bonds:* The Company's investments in bonds consist of both corporate and government debt. Bonds are classified as Level 1 or Level 2 of the fair value hierarchy.

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

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

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

As of March 31, 2022 and December 31, 2021, the fair values of financial assets were as follows.

	March 31, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents	\$ 17,790	\$ —	\$ —	\$ 17,790	\$ 18,447	\$ —	\$ —	\$ 18,447
<b>Equity securities</b>								
Consumer goods	9,836	2,003	—	11,839	10,775	2,368	—	13,143
Insurance	134	—	—	134	6,513	—	—	6,513
Technology	2,878	—	—	2,878	2,887	—	—	2,887
<b>Bonds</b>								
Government	66,413	—	—	66,413	54,584	—	—	54,584
Corporate	4,100	—	—	4,100	4,512	—	—	4,512
Options on equity securities	—	2,461	—	2,461	—	2,095	—	2,095
<b>Non-qualified deferred compensation plan investments</b>								
	1,528	—	—	1,528	1,607	—	—	1,607
Total assets at fair value	<u>\$102,679</u>	<u>\$ 4,464</u>	<u>\$ —</u>	<u>\$107,143</u>	<u>\$ 99,325</u>	<u>\$ 4,463</u>	<u>\$ —</u>	<u>\$103,788</u>

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

**Note 15. Related Party Transactions****Service Agreement**

The Company is party to a service agreement with Biglari Enterprises LLC and Biglari Capital Corp. (collectively, the “Biglari Entities”) under which the Biglari Entities provide business and administrative related services to the Company. The Biglari Entities are owned by Mr. Biglari. The service agreement has a five-year term, effective on October 1, 2017.

The Company paid Biglari Enterprises \$2,100 in service fees during the first quarter of 2022 and 2021. The service agreement does not alter the hurdle rate connected with the incentive reallocation paid to Biglari Capital Corp.

**Incentive Agreement**

The Incentive Agreement establishes a performance-based annual incentive payment for Mr. Biglari contingent upon the growth in adjusted equity in each year attributable to our operating businesses. In order for Mr. Biglari to receive any incentive, our operating businesses must achieve an annual increase in shareholders’ equity in excess of 6% (the “Hurdle Rate”) above the previous highest level (the “High Water Mark”). Mr. Biglari will receive 25% of any incremental book value created above the High Water Mark plus the Hurdle Rate. In any year in which book value declines, our operating businesses must completely recover their deficit from the previous High Water Mark, along with attaining the Hurdle Rate, before Mr. Biglari becomes eligible to receive any further incentive payment.

**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 include Steak n Shake and Western Sizzlin. Our insurance operations include First Guard and Southern Pioneer. The Company also reports segment information for Maxim and Southern Oil. Other business activities not specifically identified with reportable business segments are presented in corporate. 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.

**Note 16. Business Segment Reporting** *(continued)*

A disaggregation of our consolidated data for the first quarters of 2022 and 2021 is presented in the tables which follow.

	Revenue	
	First Quarter	
	2022	2021
<b>Operating Businesses:</b>		
Restaurant Operations:		
Steak n Shake	\$ 57,753	\$ 68,301
Western Sizzlin	2,094	1,653
Total Restaurant Operations	<u>59,847</u>	<u>69,954</u>
Insurance Operations:		
Underwriting		
First Guard	8,731	8,077
Southern Pioneer	5,438	5,613
Investment income and other	910	929
Total Insurance Operations	<u>15,079</u>	<u>14,619</u>
Southern Oil	9,812	8,592
Maxim	634	1,123
	<u>\$ 85,372</u>	<u>\$ 94,288</u>

**Note 16. Business Segment Reporting** *(continued)*

	Earnings (Losses) Before Income Taxes	
	First Quarter	
	2022	2021
<b>Operating Businesses:</b>		
Restaurant Operations:		
Steak n Shake	\$ 4,198	\$ 5,456
Western Sizzlin	232	92
Total Restaurant Operations	<u>4,430</u>	<u>5,548</u>
Insurance Operations:		
Underwriting:		
First Guard	732	2,131
Southern Pioneer	(337)	413
Investment income and other	969	693
Total Insurance Operations	<u>1,364</u>	<u>3,237</u>
Southern Oil	3,921	3,039
Maxim	(336)	623
Interest expense not allocated to segments	—	(1,121)
Total Operating Businesses	<u>9,379</u>	<u>11,326</u>
Corporate and other	(3,412)	(2,450)
Investment gains	225	3,081
Investment partnership gains (losses)	<u>(6,661)</u>	<u>81,766</u>
	<u>\$ (469)</u>	<u>\$ 93,723</u>

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

(dollars in thousands except per share data)

### Overview

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance, licensing and media, restaurants, and oil and gas. 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.

Biglari Holdings’ management system combines decentralized operations with centralized finance decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of March 31, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and 70.4% of the voting interest.

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

	First Quarter	
	2022	2021
Operating businesses:		
Restaurant	\$ 3,262	\$ 4,118
Insurance	1,044	2,531
Oil and gas	2,924	2,355
Brand licensing	(251)	480
Interest expense	—	(841)
Corporate and other	(2,651)	(1,999)
Total operating businesses	4,328	6,644
Investment gains	175	2,414
Investment partnership gains (losses)	(4,801)	62,649
	<u>\$ (298)</u>	<u>\$ 71,707</u>

### Restaurants

Our restaurant businesses, which include Steak n Shake and Western Sizzlin, comprise 575 company-operated and franchise restaurants as of March 31, 2022.

	Steak n Shake			Western Sizzlin		
	Company-operated	Franchise Partner	Traditional Franchise	Company-operated	Franchise	Total
Total stores as of December 31, 2021	199	159	178	3	38	577
Corporate stores transitioned	(12)	12	—	—	—	—
Net restaurants opened (closed)	(3)	—	1	—	—	(2)
Total stores as of March 31, 2022	<u>184</u>	<u>171</u>	<u>179</u>	<u>3</u>	<u>38</u>	<u>575</u>
Total stores as of December 31, 2020	276	86	194	3	39	598
Corporate stores transitioned	(22)	22	—	—	—	—
Net restaurants opened (closed)	(1)	—	(5)	—	(1)	(7)
Total stores as of March 31, 2021	<u>253</u>	<u>108</u>	<u>189</u>	<u>3</u>	<u>38</u>	<u>591</u>

As of March 31, 2022, 40 of the 184 company-operated Steak n Shake stores were closed. We plan to rebrand a majority of our closed company-operated restaurants.

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

Restaurant operations are summarized below.

	First Quarter			
	2022		2021	
<b>Revenue</b>				
Net sales	\$ 38,216		\$ 54,950	
Franchise partner fees	15,624		7,853	
Franchise royalties and fees	5,146		5,135	
Other revenue	861		2,016	
<b>Total revenue</b>	<b>59,847</b>		<b>69,954</b>	
<b>Restaurant cost of sales</b>				
Cost of food	10,960	28.7 %	15,554	28.3 %
Restaurant operating costs	20,032	52.4 %	25,197	45.9 %
Occupancy costs	4,360	11.4 %	4,865	8.9 %
<b>Total cost of sales</b>	<b>35,352</b>		<b>45,616</b>	
<b>Selling, general and administrative</b>				
General and administrative	8,650	14.5 %	7,680	11.0 %
Marketing	3,744	6.3 %	4,623	6.6 %
Other expenses	45	0.1 %	(141)	(0.2)%
<b>Total selling, general and administrative</b>	<b>12,439</b>	<b>20.8 %</b>	<b>12,162</b>	<b>17.4 %</b>
<b>Impairments</b>	<b>—</b>		<b>(298)</b>	
<b>Depreciation and amortization</b>	<b>(6,214)</b>		<b>(4,710)</b>	
<b>Interest on finance leases and obligations</b>	<b>(1,412)</b>		<b>(1,620)</b>	
<b>Earnings (loss) before income taxes</b>	<b>4,430</b>		<b>5,548</b>	
<b>Income tax expense (benefit)</b>	<b>1,168</b>		<b>1,430</b>	
<b>Contribution to net earnings</b>	<b>\$ 3,262</b>		<b>\$ 4,118</b>	

*Cost of food, restaurant operating costs, and occupancy costs are expressed as a percentage of net sales.  
General and administrative, marketing and other expenses are expressed as a percentage of total revenue.*

The novel coronavirus (“COVID-19”), declared a pandemic by the World Health Organization in March 2020, caused governments to impose restrictive measures to contain its spread. The COVID-19 pandemic adversely affected our restaurant operations and financial results. Our restaurants were required to close their dining rooms during the first quarter of 2020. The majority of Steak n Shake’s dining rooms were reopened during 2021, and in doing so a self-service model has been implemented.

Net sales for 2022 were \$38,216, representing a decrease of \$16,734 or 30.5% compared to 2021. The decrease in revenue of company-owned restaurants is primarily due to the shift of company units to franchise partner units. For company-operated units, sales to the end customer are recorded as revenue generated by the Company, but for franchise partner units, only our share of the restaurant’s profits, along with certain fees, are recorded as revenue. Because we derive most of our revenue from our share of the profits, revenue will continue to decline as we transition from company-operated units to a franchise partner units.

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

Franchise partner fees were \$15,624 during 2022, as compared to \$7,853 during 2021. As of March 31, 2022, there were 171 franchise partner units, compared to 108 franchise partner units as of March 31, 2021. For a franchise partner to be awarded a restaurant, he or she must demonstrate the gold standard in service.

The franchise royalties and fees generated by the traditional franchising business were \$5,146 during 2022, as compared to \$5,135 during 2021.

The cost of food in 2022 was \$10,960 or 28.7% of net sales, as compared to \$15,554 or 28.3% of net sales in 2021. The decrease in cost was due to a reduction in the number of company-operated stores. Restaurant operating costs during 2022 were \$20,032 or 52.4% of net sales, as compared to \$25,197 or 45.9% of net sales in 2021.

General and administrative costs increased by \$970 in 2022 compared to 2021, primarily because of an increase in personnel costs. Marketing expenses were relatively flat as a percentage of total revenue in 2022 as compared to 2021.

The Company recorded impairment charges of \$298 in the first quarter of 2021 related to underperforming stores. There were no impairments in 2022.

### Insurance

We view our insurance businesses as possessing two activities: underwriting and investing. Underwriting decisions are the responsibility of the unit managers, whereas investing decisions are the responsibility of our Chairman and CEO, Sardar Biglari. Our business units are operated under separate local management. Biglari Holdings' insurance operations consist of First Guard and Southern Pioneer.

Underwriting results of our insurance operations are summarized below.

	First Quarter	
	2022	2021
Underwriting gain attributable to:		
First Guard	\$ 732	\$ 2,131
Southern Pioneer	(337)	413
Pre-tax underwriting gain	395	2,544
Income tax expense Net	83	534
underwriting gain	<u>\$ 312</u>	<u>\$ 2,010</u>

Earnings of our insurance operations are summarized below.

	First Quarter	
	2022	2021
Premiums earned	\$ 14,169	\$ 13,690
Insurance losses	9,588	7,021
Underwriting expenses	4,186	4,125
Pre-tax underwriting gain	395	2,544
Other income and expenses		
Investment income	213	166
Other income (expenses)	756	527
Total other income	969	693
Earnings before income taxes	1,364	3,237
Income tax expense	320	706
Contribution to net earnings	<u>\$ 1,044</u>	<u>\$ 2,531</u>

Insurance premiums and other on the consolidated statement of earnings includes premiums earned, investment income, other income, and commissions.

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

*First Guard*

First Guard is a direct underwriter of commercial truck insurance, selling physical damage and nontrucking liability insurance to truckers. 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 insurer. A summary of First Guard’s underwriting results follows.

	First Quarter			
	2022		2021	
	Amount	%	Amount	%
Premiums earned	\$ 8,731	100.0 %	\$ 8,077	100.0 %
Insurance losses	6,188	70.9 %	4,002	49.5 %
Underwriting expenses	1,811	20.7 %	1,944	24.1 %
Total losses and expenses	7,999	91.6 %	5,946	73.6 %
Pre-tax underwriting gain	\$ 732		\$ 2,131	

*Southern Pioneer*

Southern Pioneer underwrites garage liability and commercial property insurance, as well as homeowners and dwelling fire insurance. A summary of Southern Pioneer’s underwriting results follows.

	First Quarter			
	2022		2021	
	Amount	%	Amount	%
Premiums earned	\$ 5,438	100.0 %	\$ 5,613	100.0 %
Insurance losses	3,400	62.5 %	3,019	53.8 %
Underwriting expenses	2,375	43.7 %	2,181	38.9 %
Total losses and expenses	5,775	106.2 %	5,200	92.7 %
Pre-tax underwriting gain (loss)	\$ (337)		\$ 413	

*Insurance - Investment Income*

A summary of net investment income attributable to our insurance operations follows.

	First Quarter	
	2022	2021
Interest, dividends and other investment income:		
First Guard	\$ 74	\$ 17
Southern Pioneer	139	149
Pre-tax investment income	213	166
Income tax expense	45	35
Net investment income	\$ 168	\$ 131

We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

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

### Oil and Gas

Southern Oil primarily operates oil and natural gas properties offshore in the shallow waters of the Gulf of Mexico. Earnings for Southern Oil are summarized below.

	First Quarter	
	2022	2021
Oil and gas revenue	\$ 9,812	\$ 8,592
Oil and gas production costs	3,819	2,413
Depreciation, depletion and accretion	1,519	2,378
General and administrative expenses	553	762
Earnings before income taxes	3,921	3,039
Income tax expense	997	684
Contribution to net earnings	<u>\$ 2,924</u>	<u>\$ 2,355</u>

### Brand Licensing

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

	First Quarter	
	2022	2021
Licensing and media revenue	\$ 634	\$ 1,123
Licensing and media costs	953	480
General and administrative expenses	17	20
Earnings before income taxes	(336)	623
Income tax expense (benefit)	(85)	143
Contribution to net earnings	<u>\$ (251)</u>	<u>\$ 480</u>

We acquired Maxim 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.

### Investment Gains and Investment Partnership Gains

Investment gains net of tax for the first quarter of 2022 and 2021 were \$175 and \$2,414, respectively. Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

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

	First Quarter	
	2022	2021
Investment partnership gains (losses)	\$ (6,661)	\$ 81,766
Tax expense (benefit)	(1,860)	19,117
Contribution to net earnings	<u>\$ (4,801)</u>	<u>\$ 62,649</u>

Investment partnership gains include gains/losses from changes in market values of underlying investments and dividends earned by the partnerships. Dividend income has a lower effective tax rate than income from capital gains. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings.

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

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

### Interest Expense

The Company’s interest expense is summarized below.

	First Quarter	
	2022	2021
Interest expense on notes payable	\$ —	\$ 1,121
Tax benefit	—	280
Interest expense net of tax	<u>\$ —</u>	<u>\$ 841</u>

Steak n Shake’s term loan was scheduled to mature on March 19, 2021. The Company repaid Steak n Shake’s outstanding balance in full on February 19, 2021.

### Corporate and Other

Corporate expenses exclude the activities of the restaurant, insurance, brand licensing, and oil and gas businesses. Corporate and other net losses during the first quarter of 2022 were relatively flat compared to the same period during 2021.

### Income Taxes

Income tax benefit for the first quarter of 2022 was \$171 compared to an income tax expense of \$22,016 for the first quarter of 2021. The variance in income taxes between 2022 and 2021 is attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax losses were \$6,661 during the first quarter of 2022 compared to pre-tax gains of \$81,766 during the first quarter of 2021.

### Financial Condition

Consolidated cash and investments are summarized below.

	March 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 45,777	\$ 42,349
Investments	87,150	83,061
Fair value of interest in investment partnerships	471,792	474,201
Total cash and investments	604,719	599,611
Less: portion of Company stock held by investment partnerships	(229,424)	(223,802)
Carrying value of cash and investments on balance sheet	<u>\$ 375,295</u>	<u>\$ 375,809</u>

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

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

### Liquidity

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

	First Quarter	
	2022	2021
Net cash provided by operating activities	\$ 21,092	\$ 165,298
Net cash used in investing activities	(16,077)	(8,780)
Net cash used in financing activities	(1,564)	(152,561)
Effect of exchange rate changes on cash	(23)	(22)
Increase in cash, cash equivalents and restricted cash	<u>\$ 3,428</u>	<u>\$ 3,935</u>

Cash provided by operating activities was \$21,092 during 2022 compared to \$165,298 in 2021. The decrease in cash provided by operating activities is mainly attributable to distributions from investment partnerships of \$4,500 for 2022 and \$150,570 for 2021. The distributions during 2021 were primarily used to repay Steak n Shake's debt.

Cash used in investing activities during 2022 was \$16,077 compared to \$8,780 in 2021. Capital expenditures were \$1,846 higher in 2022 compared to 2021. The increase in capital expenditures relates to Steak n Shake's continued transformation to counter service. Proceeds from property disposals were \$2,640 higher during 2021 compared to 2022. Purchases of investments, net of maturities and sales, were \$2,811 higher during 2022 compared to 2021.

Cash used in financing activities was \$150,997 higher in 2021 compared to 2022. The Company repaid Steak n Shake's debt and made principal payments on direct financing lease obligations of \$152,561 during 2021.

We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations and cash on hand. 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. The term loan was scheduled to mature on March 19, 2021. The Company repaid the balance of Steak n Shake's term facility on February 19, 2021.

### 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, 2021.

### Recently Issued Accounting Pronouncements

No recently issued accounting pronouncements were applicable for this Quarterly Report on Form 10-Q.

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

### **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 and Item 1A of this report. 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 investment partnerships we hold concentrated positions. 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. 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 \$32,952 along with a corresponding change in shareholders’ equity of approximately 4%.

We have had minimal exposure to foreign currency exchange rate fluctuations in the first quarters of 2022 and 2021.

Southern Oil’s business is fundamentally a commodity business. This means Southern Oil’s operations and earnings may be significantly affected by changes in oil and gas prices. Such commodity prices depend on local, regional and global events or conditions that affect supply and demand for oil and gas. Any material decline in crude oil or natural gas prices could have a material adverse effect on Southern Oil’s operations.

### **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 March 31, 2022.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2022 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, 2021.

**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
<a href="#"><u>31.01</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>31.02</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>32.01*</u></a>	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101	Interactive Data Files.
104	Cover page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

---

\* 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.

Biglari Holdings Inc.

Date: May 6, 2022

By: /s/ BRUCE LEWIS  
Bruce Lewis  
Controller