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

FORM 10-Q

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

For the quarterly period ended June 30, 2023

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.)
19100 Ridgewood Parkway, Suite 1200 San Antonio, Texas	78259
(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)

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

Title of each class	Trading Symbols	Name of each exchange on which registered
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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

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

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

Number of shares of common stock outstanding as of August 1, 2023:

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)

	June 30, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 30,881	$ 37,467
Investments	88,259	69,466
Receivables	22,582	29,375
Inventories	3,597	3,851
Other current assets	7,757	10,495
Total current assets	153,076	150,654
Property and equipment	388,777	400,725
Operating lease assets	33,678	34,739
Goodwill and other intangible assets	76,656	76,550
Investment partnerships	228,736	155,794
Other assets	9,073	10,012
Total assets	$ 889,996	$ 828,474
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 73,376	$ 78,616
Loss and loss adjustment expenses	14,680	16,805
Unearned premiums	14,320	12,495
Current portion of lease obligations	15,470	16,981
Line of credit	3,600	10,000
Total current liabilities	121,446	134,897
Lease obligations	89,599	91,844
Deferred taxes	48,201	31,343
Asset retirement obligations	14,297	14,068
Other liabilities	99	754
Total liabilities	273,642	272,906
Shareholders' equity		
Common stock	1,138	1,138
Additional paid-in capital	385,594	381,788
Retained earnings	643,332	576,510
Accumulated other comprehensive loss	(2,780)	(2,790)
Treasury stock, at cost	(410,930)	(409,680)
Biglari Holdings Inc. shareholders' equity	616,354	546,966
Noncontrolling interests	—	8,602
Total shareholders' equity	616,354	555,568
Total liabilities and shareholders' equity	$ 889,996	$ 828,474

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands except per share amounts)

	Second Quarter		First Six Months	
	2023	2022	2023	2022
	(Unaudited)		(Unaudited)	
Revenues				
Restaurant operations	$ 64,491	$ 60,324	$ 125,620	$ 120,171
Insurance premiums and other	17,547	16,354	33,776	31,433
Oil and gas	10,741	14,440	22,964	24,252
Licensing and media	761	1,249	1,356	1,883
Total revenues	93,540	92,367	183,716	177,739
Costs and expenses				
Restaurant cost of sales	34,928	35,955	67,666	71,307
Insurance losses and underwriting expenses	13,267	13,793	26,280	27,567
Oil and gas production costs	3,512	3,843	8,983	7,662
Licensing and media costs	499	677	951	1,630
Selling, general and administrative	19,009	16,582	36,272	32,806
Impairments	853	20	1,629	20
Depreciation, depletion, and amortization	10,094	7,800	20,034	15,671
Interest expense on leases	1,301	1,385	2,608	2,797
Interest expense on borrowings	40	—	207	—
Total costs and expenses	83,503	80,055	164,630	159,460
Other income				
Investment gains (losses)	353	(3,560)	3,991	(3,335)
Investment partnership gains (losses)	(7,496)	(105,241)	65,092	(111,902)
Total other income (expenses)	(7,143)	(108,801)	69,083	(115,237)
Earnings (loss) before income taxes	2,894	(96,489)	88,169	(96,958)
Income tax expense (benefit)	1,018	(22,709)	20,756	(22,880)
Net earnings (loss)	1,876	(73,780)	67,413	(74,078)
Earnings attributable to noncontrolling interest	(60)	—	591	—
Net earnings (loss) attributable to Biglari Holdings Inc. shareholders	$ 1,936	$ (73,780)	$ 66,822	$ (74,078)
Net earnings (loss) per average equivalent Class A share *	$ 6.64	$ (244.37)	$ 229.00	$ (244.29)

*Net earnings (loss) per average equivalent Class B share outstanding are one-fifth of the average equivalent Class A share or $1.33 and $45.80 for the second quarter and first six months of 2023, respectively, and $(48.87) and $(48.86) for the second quarter and first six months of 2022, respectively.

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	Second Quarter		First Six Months	
	2023	2022	2023	2022
	(Unaudited)		(Unaudited)	
Net earnings (loss)	$ 1,876	$ (73,780)	$ 67,413	$ (74,078)
Foreign currency translation	(322)	(1,021)	10	(1,252)
Comprehensive income (loss)	1,554	(74,801)	67,423	(75,330)
Comprehensive income (loss) attributable to noncontrolling interests	(60)	—	591	—
Total comprehensive income (loss) attributable to Biglari Holdings Inc. shareholders	$ 1,614	$ (74,801)	$ 66,832	$ (75,330)

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	Non-controlling Interests	Total
For the second quarter and first six months of 2023							
Balance at December 31, 2022	$ 1,138	$ 381,788	$576,510	$ (2,790)	$(409,680)	$ 8,602	$555,568
Net earnings (loss)			64,886			651	65,537
Other comprehensive income				332			332
Adjustment for holdings in investment partnerships					(239)		(239)
Balance at March 31, 2023	$ 1,138	$ 381,788	$641,396	$ (2,458)	$(409,919)	$ 9,253	$621,198
Net earnings (loss)			1,936			(60)	1,876
Other comprehensive loss				(322)			(322)
Adjustment for holdings in investment partnerships					(1,011)		(1,011)
Purchases of noncontrolling interests		3,806				(9,193)	(5,387)
Balance at June 30, 2023	$ 1,138	$ 385,594	$643,332	$ (2,780)	$(410,930)	$ —	$616,354
For the second quarter and first six months of 2022							
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 for holdings in investment partnerships					130		130
Balance at March 31, 2022	$ 1,138	$ 381,788	$608,230	$ (2,138)	$(401,721)	$ —	$587,297
Net earnings (loss)			(73,780)				(73,780)
Other comprehensive loss				(1,021)			(1,021)
Adjustment for holdings in investment partnerships					(6,760)		(6,760)
Balance at June 30, 2022	$ 1,138	$ 381,788	$534,450	$ (3,159)	$(408,481)	$ —	$505,736

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	First Six Months	
	2023	2022
	(Unaudited)	
Operating activities		
Net earnings (loss)	$ 67,413	$ (74,078)
Adjustments to reconcile net earnings (loss) to operating cash flows:		
Depreciation, depletion, and amortization	20,034	15,671
Provision for deferred income taxes	16,842	(28,688)
Asset impairments	1,629	20
Gains on sale of assets	(4,194)	(165)
Investment and investment partnership (gains) losses	(69,083)	115,237
Distributions from investment partnerships	—	4,500
Changes in receivables, inventories and other assets	4,989	1,290
Changes in accounts payable and accrued expenses	(6,112)	417
Net cash provided by operating activities	31,518	34,204
Investing activities		
Capital expenditures	(10,557)	(16,413)
Proceeds from property and equipment disposals	9,670	109
Purchases of noncontrolling interests	(5,387)	—
Purchases of interests in limited partnerships	(9,100)	(19,386)
Purchases of investments	(58,926)	(78,142)
Sales of investments and redemptions of fixed maturity securities	45,826	81,013
Net cash used in investing activities	(28,474)	(32,819)
Financing activities		
Proceeds from line of credit	5,000	—
Payments on line of credit	(11,400)	—
Principal payments on direct financing lease obligations	(3,078)	(3,134)
Net cash used in financing activities	(9,478)	(3,134)
Effect of exchange rate changes on cash	98	(88)
Decrease in cash, cash equivalents and restricted cash	(6,336)	(1,837)
Cash, cash equivalents and restricted cash at beginning of year	38,805	43,687
Cash, cash equivalents and restricted cash at end of second quarter	$ 32,469	$ 41,850

	June 30,	
	2023	2022
	(Unaudited)	
Cash and cash equivalents	$ 30,881	$ 40,512
Restricted cash in other long-term assets	1,588	1,338
Cash, cash equivalents and restricted cash at end of second quarter	$ 32,469	$ 41,850

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023
(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 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, 2022.

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 financial 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 June 30, 2023, 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.

Business Acquisition

On September 14, 2022, the Company purchased Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum Corporation ("Abraxas Petroleum") for a purchase price of $80 million. On October 26, 2022, the Company exchanged the Preferred Shares to 90% of the outstanding common stock of Abraxas Petroleum. On June 14, 2023, Biglari Holdings purchased the remaining 10% of the outstanding common stock of Abraxas Petroleum.

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, Southern Oil Company and Abraxas Petroleum. 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.

Note 2. Earnings Per Share *(continued)*

The following table presents shares authorized, issued and outstanding on June 30, 2023 and December 31, 2022.

	June 30, 2023		December 31, 2022	
	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

The Company has applied the "two-class method" of computing earnings per share as prescribed in Accounting Standards Codification ("ASC") 260, "*Earnings Per Share*". (Class B shares are economically equivalent to one-fifth of a Class A 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 weighted average equivalent Class A common stock for earnings per share.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Equivalent Class A common stock outstanding	620,592	620,592	620,592	620,592
Proportional ownership of Company stock held by investment partnerships	328,898	318,674	328,790	317,354
Equivalent Class A common stock for earnings per share	291,694	301,918	291,802	303,238

Note 3. Investments

We classify investments in fixed maturity securities at the acquisition date as available-for-sale. 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 second quarter and first six months of 2023 were $353 and $3,991, respectively. Investment losses in the second quarter and first six months of 2022 were $3,560 and $3,335, 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. Biglari Capital Corp. is solely owned by Mr. Biglari.

Note 4. Investment Partnerships *(continued)*

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, 2022	$ 383,004	$ 227,210	$ 155,794
Investment partnership gains (losses)	157,768	92,676	65,092
Contributions (net of distributions)	9,100		9,100
Changes in proportionate share of Company stock held		1,250	(1,250)
Partnership interest at June 30, 2023	$ 549,872	$ 321,136	$ 228,736

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2021	$ 474,201	$ 223,802	$ 250,399
Investment partnership gains (losses)	(144,748)	(32,846)	(111,902)
Contributions (net of distributions)	19,886		19,886
Changes in proportionate share of Company stock held		6,630	(6,630)
Partnership interest at June 30, 2022	$ 349,339	$ 197,586	$ 151,753

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

	June 30, 2023	December 31, 2022
Carrying value of investment partnerships	$ 228,736	$ 155,794
Deferred tax liability related to investment partnerships	(38,926)	(23,643)
Carrying value of investment partnerships net of deferred taxes	$ 189,810	$ 132,151

Because of a transaction that occurred between The Lion Fund, L.P., and The Lion Fund II, L.P., in 2022, we expect that a majority of the $38,926 deferred tax liability enumerated above will not become due until the dissolution of the investment partnerships. In effect, the tax-basis cost increased for the common stock of certain unaffiliated securities held by the investment partnerships.

The Company's proportionate share of Company stock held by investment partnerships at cost was $410,930 and $409,680 at June 30, 2023 and December 31, 2022, respectively.

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.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Gains (losses) from investment partnerships	$ (7,496)	$ (105,241)	$ 65,092	$ (111,902)
Tax expense (benefit)	(1,997)	(24,894)	14,562	(26,754)
Contribution to net earnings (loss)	$ (5,499)	$ (80,347)	$ 50,530	$ (85,148)

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.

Note 4. Investment Partnerships *(continued)*

There were no incentive reallocations accrued during the first six months of 2023 and 2022.

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 June 30, 2023	$ 423,880	$ 383,192
Total liabilities as of June 30, 2023	$ 19,939	$ 160,906
Revenue for the first six months of 2023	$ 117,282	$ 68,060
Earnings for the first six months of 2023	$ 116,952	$ 63,273
Biglari Holdings' ownership interest as of June 30, 2023	88.8 %	86.0 %
Total assets as of December 31, 2022	$ 285,071	$ 330,832
Total liabilities as of December 31, 2022	$ 10,517	$ 167,847
Revenue for the first six months of 2022	$ (43,115)	$ (119,441)
Earnings for the first six months of 2022	$ (43,237)	$ (120,132)
Biglari Holdings' ownership interest as of June 30, 2022	87.9 %	88.9 %

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.

	June 30, 2023	December 31, 2022
Land	$ 139,853	$ 143,313
Buildings	151,390	151,627
Land and leasehold improvements	153,788	151,496
Equipment	216,167	222,661
Oil and gas properties	145,012	144,888
Construction in progress	1,296	2,238
	807,506	816,223
Less accumulated depreciation, depletion, and amortization	(418,729)	(415,498)
Property and equipment, net	$ 388,777	$ 400,725

Depletion expense related to oil and gas properties was $5,386 and $2,772 during the first six months of 2023 and 2022, respectively.

The Company recorded an impairment to restaurant long-lived assets of $833 in the second quarter of 2023 and $1,609 in the first six months of 2023 related to underperforming stores. There were no impairments of property and equipment in the second quarter and first six months of 2022.

Property and equipment held for sale of $1,671 and $4,700 are recorded in other assets as of June 30, 2023 and December 31, 2022, respectively. The assets classified as held for sale at June 30, 2023 include five properties owned by Steak n Shake, which were previously company-operated restaurants. During the first six months of 2023, Steak n Shake sold four properties for a gain of $4,414. Abraxas Petroleum sold its office building with no gain or loss recorded.

Note 6. Goodwill and Other Intangible Assets

Goodwill

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

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

	Goodwill
Goodwill at December 31, 2022	
Goodwill	$ 53,813
Accumulated impairment losses	(300)
	$ 53,513
Change in foreign exchange rates during the first six months of 2023	9
Goodwill at June 30, 2023	$ 53,522

Goodwill and indefinite-lived intangible asset impairment reviews include determining the estimated fair values of our reporting units and indefinite-lived intangible assets. The key assumptions and inputs used in such determinations may include forecasting revenue and expenses, cash flows and capital expenditures, as well as an appropriate discount rate and other inputs. Significant judgment by management is required in estimating the fair value of a reporting unit and in performing impairment reviews. Due to the inherent subjectivity and uncertainty in forecasting future cash flows and earnings over long periods of time, actual results may differ materially for the forecasts. If the carrying value of the indefinite-lived intangible asset exceeds fair value, the excess is charged to earnings as an impairment loss. If the carrying value of a reporting unit exceeds the estimated fair value of the reporting unit, then the excess, limited to the carrying amount of goodwill, will be charged to earnings as an impairment loss. There was no impairment recorded for goodwill during the first six months of 2023 or 2022. There was a $20 impairment recorded for intangible assets during the first six months of 2023 and $20 impairment recorded in the first six months of 2022.

Other Intangible Assets

Intangible assets with indefinite lives are composed of the following.

	Trade Names	Lease Rights	Total
Balance at December 31, 2022			
Intangibles	$ 15,876	$ 10,889	$ 26,765
Accumulated impairment losses	—	(3,728)	(3,728)
	15,876	7,161	23,037
Impairment	—	(20)	(20)
Change in foreign exchange rates during the first six months of 2023	—	117	117
Balance at June 30, 2023	$ 15,876	$ 7,258	$ 23,134

Note 7. Restaurant Operations Revenues

Restaurant operations revenues were as follows.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Net sales	$ 39,524	$ 37,681	$ 76,418	$ 75,897
Franchise partner fees	19,070	16,425	36,982	32,049
Franchise royalties and fees	4,125	5,237	8,383	10,383
Other	1,772	981	3,837	1,842
	$ 64,491	$ 60,324	$ 125,620	$ 120,171

Note 7. Restaurant Operations Revenues *(continued)*

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.

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 second quarter of 2023 and 2022, restaurant operations recognized $5,763 and $5,057, respectively, in franchise partner fees related to rental income. During the first six months ended June 30, 2023 and June 30, 2022, restaurant operations recognized $11,338 and $9,831, 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 that 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.

Note 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	June 30, 2023	December 31, 2022
Accounts payable	$ 26,103	$ 28,431
Gift card and other marketing	9,287	12,028
Insurance accruals	4,223	6,012
Salaries, wages and vacation	7,020	4,400
Deferred revenue	4,323	4,445
Taxes payable	15,818	14,896
Oil and gas payable	4,467	3,877
Other	2,135	4,527
Accounts payable and accrued expenses	$ 73,376	$ 78,616

Note 9. Lines of Credit

Biglari Holdings Line of Credit

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to $30,000. The line of credit will be available on a revolving basis until September 12, 2024. The line of credit includes customary covenants, as well as financial maintenance covenants. The balance of the line of credit on June 30, 2023 was $3,600 and $10,000 on December 31, 2022. On June 30, 2023, the interest rate was 7.8%.

Note 9. Lines of Credit *(continued)*

Western Sizzlin Revolver

Western Sizzlin's available line of credit is $500. As of June 30, 2023 and December 31, 2022, Western Sizzlin had no debt outstanding under its revolver.

Note 10. Unpaid Losses and Loss Adjustment Expenses

Our liabilities for unpaid losses and loss adjustment expenses (also referred to as "claim liabilities") under insurance contracts are based upon estimates of the ultimate claim costs associated with claim occurrences as of the balance sheet date and include estimates for incurred-but-not-reported ("IBNR") claims. A reconciliation of the changes in claim liabilities, net of reinsurance, for each of the six month periods ended June 30, 2023 and 2022 follows.

	2023	2022
Balances at beginning of year:		
Gross liabilities	$ 17,520	$ 14,993
Reinsurance recoverable on unpaid losses	(715)	(1,892)
Net liabilities	16,805	13,101
Incurred losses and loss adjustment expenses:		
Current accident year	19,984	19,669
Prior accident years	(3,016)	(837)
Total	16,968	18,832
Paid losses and loss adjustment expenses:		
Current accident year	14,426	13,259
Prior accident years	4,667	5,200
Total	19,093	18,459
Balances at June 30:		
Net liabilities	14,680	13,474
Reinsurance recoverable on unpaid losses	1,150	751
Gross liabilities	$ 15,830	$ 14,225

Incurred loss and loss adjustment expenses of $16,968 and $18,832 in the first six months of 2023 and 2022, respectively, were recorded in earnings and related to insured events occurring in the current period and events occurring in all prior periods. Incurred and paid loss and loss adjustment expenses are net of reinsurance recoveries. We recorded net reductions of estimated ultimate liabilities for prior accident years of $3,016 and $837 in the first six months of 2023 and 2022, respectively, which produced corresponding reductions in incurred losses and loss adjustment expenses in those periods. These reductions as a percentage of the net liabilities at the beginning of each year were 17.9% in 2023 and 6.4% in 2022.

Note 11. Lease Assets and Obligations

Lease obligations include the following.

Current portion of lease obligations		June 30, 2023		December 31, 2022
Finance lease liabilities	$	1,264	$	1,237
Finance obligations		5,129		5,161
Operating lease liabilities		9,077		10,583
Total current portion of lease obligations	$	15,470	$	16,981
Long-term lease obligations				
Finance lease liabilities	$	3,465	$	4,129
Finance obligations		58,028		58,868
Operating lease liabilities		28,106		28,847
Total long-term lease obligations	$	89,599	$	91,844

Nature of Leases

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

	Second Quarter				First Six Months			
		2023		2022		2023		2022
Finance lease costs:								
Amortization of right-of-use assets	$	242	$	351	$	484	$	714
Interest on lease liabilities		86		108		177		223
Operating and variable lease costs		3,081		3,593		6,248		7,205
Sublease income		(3,054)		(2,906)		(6,145)		(5,592)
Total lease costs	$	355	$	1,146	$	764	$	2,550

Supplemental cash flow information related to leases is as follows.

	First Six Months			
		2023		2022
Cash paid for amounts included in the measurement of lease liabilities:				
Financing cash flows from finance leases	$	636	$	800
Operating cash flows from finance leases	$	177	$	223
Operating cash flows from operating leases	$	6,689	$	6,266

Note 11. Lease Assets and Obligations *(continued)*

Supplemental balance sheet information related to leases is as follows.

	June 30, 2023	December 31, 2022
Finance leases:		
Property and equipment, net	$ 3,337	$ 4,352

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

	June 30, 2023
Weighted-average remaining lease terms:	
Finance leases	3.89 years
Operating leases	5.27 years
Weighted-average discount rates:	
Finance leases	7.0 %
Operating leases	7.0 %

Maturities of lease liabilities as of June 30, 2023 are as follows.

Year	Operating Leases	Finance Leases
2023	$ 5,947	$ 756
2024	10,327	1,534
2025	8,654	1,298
2026	6,118	959
2027	3,820	623
After 2027	9,489	232
Total lease payments	44,355	5,402
Less interest	7,172	673
Total lease liabilities	$ 37,183	$ 4,729

Lease Income

The components of lease income recorded in restaurant operations are as follows.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Operating lease income	$ 4,044	$ 3,945	$ 8,129	$ 7,652
Variable lease income	1,921	1,426	3,705	2,756
Total lease income	$ 5,965	$ 5,371	$ 11,834	$ 10,408

Note 11. Lease Assets and Obligations *(continued)*

The following table displays the Company's future minimum rental receipts for non-cancelable leases and subleases as of June 30, 2023. Franchise partner leases and subleases are short-term leases and have been excluded from the table.

	Operating Leases	
Year	Subleases	Owned Properties
2023	$ 348	$ 159
2024	581	396
2025	454	404
2026	134	407
2027	116	407
After 2027	125	3,014
Total future minimum receipts	$ 1,758	$ 4,787

Note 12. Income Taxes

In determining the quarterly provision for income taxes, the Company used an estimated annual effective tax rate for the first six months of 2023 and 2022. 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 expense for the second quarter of 2023 was $1,018 compared to an income tax benefit of $22,709 for the second quarter of 2022. Income tax expense for the first six months of 2023 was $20,756 compared to an income tax benefit of $22,880 for the first six months of 2022. The variance in income taxes between 2023 and 2022 is attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax losses were $7,496 during the second quarter of 2023 compared to pre-tax losses of $105,241 during the second quarter of 2022. Investment partnership pre-tax gains were $65,092 during the first six months of 2023 compared to pre-tax losses of $111,902 during the first six months of 2022.

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 l 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.

As of June 30, 2023 and December 31, 2022, the fair values of financial assets were as follows.

	June 30, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	$ 16,563	$ —	$ —	$ 16,563	$ 17,608	$ —	$ —	$ 17,608
Equity securities								
Consumer goods	22,761	311	—	23,072	17,274	—	—	17,274
Other	2,927	—	—	2,927	2,031	—	—	2,031
Bonds								
Government	61,467	—	—	61,467	48,456	—	—	48,456
Corporate	1,193	—	—	1,193	2,199	—	—	2,199
Non-qualified deferred compensation plan investments	—	—	—	—	699	—	—	699
Total assets at fair value	$104,911	$ 311	$ —	$105,222	$ 88,267	$ —	$ —	$ 88,267

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 ("Biglari Enterprises") under which Biglari Enterprises provides business and administrative related services to the Company. Biglari Enterprises is owned by Mr. Biglari.

The Company paid Biglari Enterprises $4,200 in service fees during the first six months of 2023 and 2022. 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.

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. Our oil and gas operations include Southern Oil and Abraxas Petroleum. The Company also reports segment information for Maxim. 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 second quarters and first six months of 2023 and 2022 is presented in the tables which follow.

	Revenues			
	Second Quarter		First Six Months	
	2023	2022	2023	2022
Operating Businesses:				
Restaurant Operations:				
Steak n Shake	$ 61,577	$ 57,742	$ 120,064	$ 115,495
Western Sizzlin	2,914	2,582	5,556	4,676
Total Restaurant Operations	64,491	60,324	125,620	120,171
Insurance Operations:				
Underwriting				
First Guard	9,215	9,015	18,114	17,746
Southern Pioneer	6,756	6,211	12,621	11,649
Investment income and other	1,576	1,128	3,041	2,038
Total Insurance Operations	17,547	16,354	33,776	31,433
Oil and Gas Operations:				
Abraxas Petroleum	5,931	—	13,183	—
Southern Oil	4,810	14,440	9,781	24,252
Total Oil and Gas Operations	10,741	14,440	22,964	24,252
Maxim	761	1,249	1,356	1,883
	$ 93,540	$ 92,367	$ 183,716	$ 177,739

Note 16. Business Segment Reporting *(continued)*

	Earnings (Losses) Before Income Taxes			
	Second Quarter		First Six Months	
	2023	2022	2023	2022
Operating Businesses:				
Restaurant Operations:				
Steak n Shake	$ 8,634	$ 3,615	$ 15,959	$ 7,813
Western Sizzlin	593	396	1,065	628
Total Restaurant Operations	9,227	4,011	17,024	8,441
Insurance Operations:				
Underwriting:				
First Guard	3,154	1,714	5,016	2,446
Southern Pioneer	(451)	(281)	(562)	(618)
Investment income and other	1,265	998	2,301	1,967
Total Insurance Operations	3,968	2,431	6,755	3,795
Oil and Gas Operations:				
Abraxas Petroleum	1,845	—	3,054	—
Southern Oil	1,045	8,421	1,939	12,342
Total Oil and Gas Operations	2,890	8,421	4,993	12,342
Maxim	208	501	330	165
Interest expense not allocated to segments	(40)	—	(207)	—
Total Operating Businesses	16,253	15,364	28,895	24,743
Corporate and other	(6,216)	(3,052)	(9,809)	(6,464)
Investment gains (losses)	353	(3,560)	3,991	(3,335)
Investment partnership gains (losses)	(7,496)	(105,241)	65,092	(111,902)
	$ 2,894	$ (96,489)	$ 88,169	$ (96,958)

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. 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 financial 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 June 30, 2023, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and 70.4% of the voting interest.

On September 14, 2022, the Company purchased Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum Corporation for a purchase price of $80 million. On October 26, 2022, the Company exchanged the Preferred Shares for 90% of the outstanding common stock of Abraxas Petroleum. On June 14, 2023, Biglari Holdings purchased the remaining 10% of the outstanding common stock of Abraxas Petroleum.

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

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Operating businesses:				
Restaurant	$ 6,935	$ 3,006	$ 12,775	$ 6,268
Insurance	3,132	1,859	5,301	2,903
Oil and gas	2,150	6,369	3,820	9,293
Brand licensing	156	375	247	124
Interest expense	(31)	—	(160)	—
Corporate and other	(5,243)	(2,237)	(8,241)	(4,888)
Total operating businesses	7,099	9,372	13,742	13,700
Investment gains	276	(2,805)	3,141	(2,630)
Investment partnership gains (losses)	(5,499)	(80,347)	50,530	(85,148)
Net earnings (loss)	1,876	(73,780)	67,413	(74,078)
Earnings (loss) attributable to noncontrolling interest	(60)	—	591	—
Net earnings (loss) attributable to Biglari Holdings Inc. shareholders	$ 1,936	$ (73,780)	$ 66,822	$ (74,078)

Restaurants

Our restaurant businesses, which include Steak n Shake and Western Sizzlin, comprise 521 company-operated and franchise restaurants as of June 30, 2023.

	Steak n Shake			Western Sizzlin		
	Company-operated	Franchise Partner	Traditional Franchise	Company-operated	Franchise	Total
Total stores as of December 31, 2022	177	175	154	3	36	545
Corporate stores transitioned	(2)	2	—	—	—	—
Net restaurants opened (closed)	(8)	—	(16)	—	—	(24)
Total stores as of June 30, 2023	167	177	138	3	36	521
Total stores as of December 31, 2021	199	159	178	3	38	577
Corporate stores transitioned	(18)	18	—	—	—	—
Net restaurants opened (closed)	(5)	—	(12)	—	—	(17)
Total stores as of June 30, 2022	176	177	166	3	38	560

As of June 30, 2023, 30 of the 167 company-operated Steak n Shake stores were closed. Steak n Shake has contracted to sell five of the 30 closed stores. An additional fifteen closed stores are listed with brokers for lease or sale. Steak n Shake plans to refranchise the remaining closed company-operated restaurants.

During the first six months of 2023, Steak n Shake reopened five stores and sold four properties; all were closed as of December 31, 2022.

Restaurant operations are summarized below.

	Second Quarter				First Six Months			
	2023		2022		2023		2022	
Revenue								
Net sales	$ 39,524		$ 37,681		$ 76,418		$ 75,897	
Franchise partner fees	19,070		16,425		36,982		32,049	
Franchise royalties and fees	4,125		5,237		8,383		10,383	
Other revenue	1,772		981		3,837		1,842	
Total revenue	64,491		60,324		125,620		120,171	
Restaurant cost of sales								
Cost of food	11,702	29.6 %	11,365	30.2 %	22,150	29.0 %	22,325	29.4 %
Restaurant operating costs	19,295	48.8 %	20,350	54.0 %	37,752	49.4 %	40,382	53.2 %
Occupancy costs	3,931	9.9 %	4,240	11.3 %	7,764	10.2 %	8,600	11.3 %
Total cost of sales	34,928		35,955		67,666		71,307	
Selling, general and administrative								
General and administrative	10,790	16.7 %	10,121	16.8 %	21,253	16.9 %	18,771	15.6 %
Marketing	3,294	5.1 %	3,087	5.1 %	6,247	5.0 %	6,831	5.7 %
Other expenses	(2,689)	(4.2)%	(361)	(0.6)%	(4,301)	(3.4)%	(316)	(0.3)%
Total selling, general and administrative	11,395	17.7 %	12,847	21.3 %	23,199	18.5 %	25,286	21.0 %
Impairments	(853)		(20)		(1,629)		(20)	
Depreciation and amortization	(6,787)		(6,106)		(13,494)		(12,320)	
Interest on finance leases and obligations	(1,301)		(1,385)		(2,608)		(2,797)	
Earnings before income taxes	9,227		4,011		17,024		8,441	
Income tax expense	2,292		1,005		4,249		2,173	
Contribution to net earnings	$ 6,935		$ 3,006		$ 12,775		$ 6,268	

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.

Net sales for the second quarter and first six months of 2023 were $39,524 and $76,418, respectively, representing an increase of $1,843 or 4.9% and $521 or 0.7%, compared to the second quarter and first six months of 2022, respectively. The increase in revenue of company-owned restaurants is primarily due to higher same-store sales. 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 franchise partner units.

Our franchise partner fees were $19,070 during the second quarter of 2023, as compared to $16,425 during the second quarter of 2022. Franchise partner fees were $36,982 and $32,049 during the first six months of 2023 and 2022, respectively. As of June 30, 2023 and June 30, 2022, there were 177 franchise partner units. Included in franchise partner fees were $5,763 and $5,057 of rental income during the second quarter of 2023 and 2022, respectively, and $11,338 and $9,831 during the first six months of 2023 and 2022, respectively. Franchise partners rent buildings and equipment from Steak n Shake.

The franchise royalties and fees generated by the traditional franchising business were $4,125 during the second quarter of 2023, as compared to $5,237 during the second quarter of 2022. Franchise royalties and fees during the first six months of 2023 were $8,383 compared to $10,383 during the first six months of 2022. There were 138 Steak n Shake traditional units open on June 30, 2023, as compared to 166 units open on June 30, 2022. The decrease in franchise royalties and fees was primarily due to fewer traditional units open during 2023.

The cost of food at company-operated units during the second quarter of 2023 was $11,702 or 29.6% of net sales, as compared to $11,365 or 30.2% of net sales during the second quarter of 2022. The cost of food at company-operated units during the first six months of 2023 was $22,150 or 29.0% of net sales, as compared to $22,325 or 29.4% of net sales during the first six months of 2022. Cost of food expressed as a percentage of net sales remained relatively consistent.

The operating costs at company-operated restaurants during the second quarter of 2023 were $19,295 or 48.8% of net sales, as compared to $20,350 or 54.0% of net sales in the second quarter of 2022. The operating costs at company-operated restaurants during the first six months of 2023 were $37,752 or 49.4% of net sales, as compared to $40,382 or 53.2% of net sales in 2022. The decrease in operating costs as a percentage of net sales was mainly attributable to higher net sales.

General and administrative expenses during the second quarter of 2023 were $10,790 or 16.7% of total revenue, as compared to $10,121 or 16.8% of total revenue in the second quarter of 2022. General and administrative expenses during the first six months of 2023 were $21,253 or 16.9% of total revenue, as compared to $18,771 or 15.6% of total revenue in the first six months of 2022. The increase in general and administrative expenses was mainly attributable to increased support for franchise partnerships.

Marketing expense decreased by $584 during the first six months of 2023 compared to the first six months of 2022. The decrease was primarily attributable to reduced marketing by traditional franchisees.

During the first six months of 2023, Steak n Shake sold four properties for a gain of $4,414.

The Company recorded $853 of impairment charges in the second quarter and $1,629 in the first six months of 2023 related to underperforming stores. The Company recorded $20 of impairment charges in the second quarter and first six months of 2022.

Depreciation and amortization expense was $13,494 during 2023 versus $12,320 during 2022. The year-over-year increase was primarily attributable to higher capital expenditures incurred in 2022 and 2021.

Interest on obligations under leases was $2,608 during 2023 versus $2,797 during 2022. The year-over-year decrease in interest expense is primarily attributable to the maturity and retirement of lease obligations.

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.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Underwriting gain attributable to:				
First Guard	$ 3,155	$ 1,714	$ 5,017	$ 2,446
Southern Pioneer	(451)	(281)	(562)	(618)
Pre-tax underwriting gain	2,704	1,433	4,455	1,828
Income tax expense	568	301	936	384
Net underwriting gain	$ 2,136	$ 1,132	$ 3,519	$ 1,444

Earnings of our insurance operations are summarized below.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Premiums earned	$ 15,971	$ 15,226	$ 30,735	$ 29,395
Insurance losses	8,372	9,244	16,968	18,832
Underwriting expenses	4,895	4,549	9,312	8,735
Pre-tax underwriting gain	2,704	1,433	4,455	1,828
Other income and expenses				
Investment income	752	257	1,337	470
Other income (expenses)	512	741	963	1,497
Total other income	1,264	998	2,300	1,967
Earnings before income taxes	3,968	2,431	6,755	3,795
Income tax expense	836	572	1,454	892
Contribution to net earnings	$ 3,132	$ 1,859	$ 5,301	$ 2,903

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

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.

	Second Quarter				First Six Months			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums earned	$ 9,215	100.0 %	$ 9,015	100.0 %	$18,114	100.0 %	$17,746	100.0 %
Insurance losses	4,254	46.2 %	5,465	60.6 %	9,498	52.4 %	11,653	65.7 %
Underwriting expenses	1,806	19.6 %	1,836	20.4 %	3,599	19.9 %	3,647	20.6 %
Total losses and expenses	6,060	65.8 %	7,301	81.0 %	13,097	72.3 %	15,300	86.3 %
Pre-tax underwriting gain	$ 3,155		$ 1,714		$ 5,017		$ 2,446	

First Guard's ratio of losses and loss adjustment expenses to premiums earned was 46.2% during the second quarter of 2023 as compared to 60.6% during the second quarter of 2022 and 52.4% during the first six months of 2023 as compared to 65.7% during the first six months of 2022. First Guard's underwriting results in 2023 were in line with its historical performance despite cost inflation in property and physical damage claims, which began to accelerate in 2022.

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.

	Second Quarter				First Six Months			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums earned	$ 6,756	100.0 %	$ 6,211	100.0 %	$12,621	100.0 %	$11,649	100.0 %
Insurance losses	4,118	61.0 %	3,779	60.8 %	7,470	59.2 %	7,179	61.6 %
Underwriting expenses	3,089	45.7 %	2,713	43.7 %	5,713	45.3 %	5,088	43.7 %
Total losses and expenses	7,207	106.7 %	6,492	104.5 %	13,183	104.5 %	12,267	105.3 %
Pre-tax underwriting gain (loss)	$ (451)		$ (281)		$ (562)		$ (618)	

Southern Pioneer's ratio of losses and loss adjustment expenses to premiums earned was 61.0% during the second quarter of 2023 as compared to 60.8% during the second quarter of 2022 and 59.2% during the first six months of 2023 and 61.6% during the first six months of 2022. Southern Pioneer's underwriting losses were primarily attributable to weather-related losses in its personal lines as well as a higher expense ratio, an increase caused by information technology projects related to the implementation of a new policy administration system.

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

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Interest, dividends and other investment income:				
First Guard	$ 431	$ 122	$ 818	$ 196
Southern Pioneer	321	135	519	274
Pre-tax investment income	752	257	1,337	470
Income tax expense	158	54	281	99
Net investment income	$ 594	$ 203	$ 1,056	$ 371

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.

Oil and Gas

A summary of revenues and earnings of our oil and gas operations follows.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Oil and gas revenues	$ 10,741	$ 14,440	$ 22,964	$ 24,252
Oil and gas production costs	3,512	3,843	8,983	7,662
Depreciation, depletion and accretion	2,901	1,534	5,751	3,053
General and administrative expenses	1,438	642	3,237	1,195
Earnings before income taxes	2,890	8,421	4,993	12,342
Income tax expense	740	2,052	1,173	3,049
Contribution to net earnings	$ 2,150	$ 6,369	$ 3,820	$ 9,293

Our oil and gas business is highly dependent on oil and natural gas prices. The average West Texas Intermediate price per barrel for the first six months of 2023 was approximately $74.86 as compared to approximately $101.66 in the first six months of 2022. It is expected that the prices of oil and gas commodities will remain volatile, which will be reflected in our financial results.

Southern Oil

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.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Oil and gas revenues	$ 4,810	$ 14,440	$ 9,781	$ 24,252
Oil and gas production costs	1,868	3,843	4,208	7,662
Depreciation, depletion and accretion	1,168	1,534	2,352	3,053
General and administrative expenses	729	642	1,282	1,195
Earnings before income taxes	1,045	8,421	1,939	12,342
Income tax expense	316	2,052	471	3,049
Contribution to net earnings	$ 729	$ 6,369	$ 1,468	$ 9,293

Abraxas Petroleum

Abraxas Petroleum operates oil and gas properties in the Permian Basin of West Texas. Earnings for Abraxas Petroleum are summarized below.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Oil and gas revenues	$ 5,931	$ —	$ 13,183	$ —
Oil and gas production costs	1,644	—	4,775	—
Depreciation, depletion and accretion	1,733	—	3,399	—
General and administrative expenses	709	—	1,955	—
Earnings before income taxes	1,845	—	3,054	—
Income tax expense	424	—	702	—
Contribution to net earnings	$ 1,421	$ —	$ 2,352	$ —

Brand Licensing

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

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Licensing and media revenue	$ 761	$ 1,249	$ 1,356	$ 1,883
Licensing and media costs	499	677	951	1,630
General and administrative expenses	54	71	75	88
Earnings before income taxes	208	501	330	165
Income tax expense	52	126	83	41
Contribution to net earnings	$ 156	$ 375	$ 247	$ 124

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 second quarter of 2023 were $276 compared to investment losses net of tax for the second quarter of 2022 of $2,805. Investment gains net of tax for the first six months of 2023 were $3,141 compared to investment gains net of tax for the first six months of 2022 of $2,630. 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.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Investment partnership gains (losses)	$ (7,496)	$ (105,241)	$ 65,092	$ (111,902)
Tax expense (benefit)	(1,997)	(24,894)	14,562	(26,754)
Contribution to net earnings (loss)	$ (5,499)	$ (80,347)	$ 50,530	$ (85,148)

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.

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.

Investment gains and losses in 2023 and 2022 were mainly derived from our investments in equity securities and included unrealized gains and losses from market price changes during the period. We believe that investment and derivative gains/losses are generally meaningless for analytical purposes in understanding our quarterly and annual results.

Interest Expense

The Company's interest expense is summarized below.

	Second Quarter		First Six Months	
	2023	2022	2023	2022
Interest expense on notes payable	$ 40	$ —	$ 207	$ —
Tax benefit	9	—	47	—
Interest expense net of tax	$ 31	$ —	$ 160	$ —

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to $30,000. The balance of the line of credit was $3,600 as of June 30, 2023 and $10,000 as of December 31, 2022. On June 30, 2023, the interest rate was 7.8%.

Corporate and Other

Corporate expenses exclude the activities of the restaurant, insurance, brand licensing, and oil and gas businesses. Corporate and other net losses increased during the second quarter and first six months of 2023 compared to the same periods in 2022 primarily because of recording a non-cash write down of a receivable of $1,000 and accruing for incentive fees.

Income Taxes

Income tax expense for the second quarter of 2023 was $1,018 compared to an income tax benefit of $22,709 for the second quarter of 2022. Income tax expense for the first six months of 2023 was $20,756 compared to an income tax benefit of $22,880 for the first six months of 2022. The variance in income taxes between 2023 and 2022 is attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax losses were $7,496 during the second quarter of 2023 compared to pre-tax losses of $105,241 during the second quarter of 2022. Investment partnership pre-tax gains were $65,092 during the first six months of 2023 compared to pre-tax losses of $111,902 during the first six months of 2022.

Financial Condition

Consolidated cash and investments are summarized below.

	June 30, 2023	December 31, 2022
Cash and cash equivalents	$ 30,881	$ 37,467
Investments	88,259	69,466
Fair value of interest in investment partnerships	549,872	383,004
Total cash and investments	669,012	489,937
Less: portion of Company stock held by investment partnerships	(321,136)	(227,210)
Carrying value of cash and investments on balance sheet	$ 347,876	$ 262,727

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

Liquidity

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

	First Six Months	
	2023	2022
Net cash provided by operating activities	$ 31,518	$ 34,204
Net cash used in investing activities	(28,474)	(32,819)
Net cash used in financing activities	(9,478)	(3,134)
Effect of exchange rate changes on cash	98	(88)
Decrease in cash, cash equivalents and restricted cash	$ (6,336)	$ (1,837)

In 2023, cash from operating activities decreased by $2,686 as compared to 2022. The change was primarily attributable to distributions from investment partnerships that occurred in 2022.

Net cash used in investing activities decreased during 2023 by $4,345 as compared to 2022. Capital expenditures were $5,856 less in 2023 as compared to 2022; however, proceeds from sales of assets were $9,561 more in 2023 as compared to 2022. Offsetting these increases of cash were payments for purchases of noncontrolling interest of $5,387 in 2023 and increased investments, net of maturities and sales of $5,685 in 2023 as compared to 2022.

The change in cash used in financing activities was primarily due to net payments on the Company's line of credit of $6,400 during 2023.

Biglari Holdings Line of Credit

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to $30,000. The line of credit will be available on a revolving basis until September 12, 2024. The line of credit includes customary covenants, as well as financial maintenance covenants. As of June 30, 2023, we were in compliance with all covenants. The balance of the line of credit on June 30, 2023 was $3,600 and $10,000 on December 31, 2022. On June 30, 2023, the interest rate was 7.8%.

Western Sizzlin Revolver

Western Sizzlin's available line of credit is $500. As of June 30, 2023 and December 31, 2022, Western Sizzlin had no debt outstanding on its 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, 2022.

Recently Issued Accounting Pronouncements

No recently issued accounting pronouncements were applicable for 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 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

Not applicable.

Item 4. Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of June 30, 2023.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2023 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, 2022.

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.
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: August 4, 2023

By: /s/ BRUCE LEWIS

Bruce Lewis

Controller