

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, 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**

(State or other jurisdiction of incorporation)

**82-3784946**

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

**19100 Ridgewood Parkway, Suite 1200**

**San Antonio, Texas**

(Address of principal executive offices)

**78259**

(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	<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, 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)*

	March 31, 2023	December 31, 2022
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 39,363	\$ 37,467
Investments	79,652	69,466
Receivables	27,044	29,375
Inventories	3,755	3,851
Other current assets	13,542	10,495
Total current assets	163,356	150,654
Property and equipment	392,904	400,725
Operating lease assets	33,532	34,739
Goodwill and other intangible assets	76,672	76,550
Investment partnerships	230,843	155,794
Other assets	9,911	10,012
<b>Total assets</b>	<b>\$ 907,218</b>	<b>\$ 828,474</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 79,244	\$ 78,616
Unpaid losses and loss adjustment expenses	15,514	16,805
Unearned premiums	13,445	12,495
Current portion of lease obligations	16,109	16,981
Line of credit	6,500	10,000
Total current liabilities	130,812	134,897
Lease obligations	90,135	91,844
Deferred taxes	49,809	31,343
Asset retirement obligations	14,240	14,068
Other liabilities	1,024	754
<b>Total liabilities</b>	<b>286,020</b>	<b>272,906</b>
<b>Shareholders' equity</b>		
Common stock	1,138	1,138
Additional paid-in capital	381,788	381,788
Retained earnings	641,396	576,510
Accumulated other comprehensive loss	(2,458)	(2,790)
Treasury stock, at cost	(409,919)	(409,680)
<b>Biglari Holdings Inc. shareholders' equity</b>	<b>611,945</b>	<b>546,966</b>
<b>Noncontrolling interests</b>	<b>9,253</b>	<b>8,602</b>
<b>Total shareholders' equity</b>	<b>621,198</b>	<b>555,568</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 907,218</b>	<b>\$ 828,474</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

*(dollars in thousands except per share amounts)*

	First Quarter	
	2023	2022
	(Unaudited)	
<b>Revenues</b>		
Restaurant operations	\$ 61,129	\$ 59,847
Insurance premiums and other	16,229	15,079
Oil and gas	12,223	9,812
Licensing and media	595	634
<b>Total revenues</b>	<b>90,176</b>	<b>85,372</b>
<b>Costs and expenses</b>		
Restaurant cost of sales	32,738	35,352
Insurance losses and underwriting expenses	13,013	13,774
Oil and gas production costs	5,471	3,819
Licensing and media costs	452	953
Selling, general and administrative	17,263	16,224
Impairments	776	—
Depreciation, depletion, and amortization	9,940	7,871
Interest expense on leases	1,307	1,412
Interest expense on borrowings	167	—
<b>Total costs and expenses</b>	<b>81,127</b>	<b>79,405</b>
<b>Other income</b>		
Investment gains	3,638	225
Investment partnership gains (losses)	72,588	(6,661)
<b>Total other income (expenses)</b>	<b>76,226</b>	<b>(6,436)</b>
<b>Earnings (loss) before income taxes</b>	<b>85,275</b>	<b>(469)</b>
Income tax expense (benefit)	19,738	(171)
<b>Net earnings (loss)</b>	<b>65,537</b>	<b>(298)</b>
Earnings attributable to noncontrolling interest	651	—
<b>Net earnings (loss) attributable to Biglari Holdings Inc. shareholders</b>	<b>\$ 64,886</b>	<b>\$ (298)</b>
Net earnings (loss) per average equivalent Class A share*	\$ 222.28	\$ (0.98)

\*Net earnings (loss) per average equivalent Class B share outstanding are one-fifth of the average equivalent Class A share or \$44.46 for the first quarter of 2023 and \$(0.20) for the first quarter of 2022.

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(dollars in thousands)*

	First Quarter	
	2023	2022
	(Unaudited)	
<b>Net earnings (loss)</b>	\$ 65,537	\$ (298)
Foreign currency translation	332	(231)
<b>Comprehensive income (loss)</b>	<b>65,869</b>	<b>(529)</b>
Comprehensive income attributable to noncontrolling interest	651	—
<b>Total comprehensive income (loss) attributable to Biglari Holdings Inc. shareholders</b>	<b>\$ 65,218</b>	<b>\$ (529)</b>

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

*(dollars in thousands)*

**(Unaudited)**

	Biglari Holdings Inc. Shareholders' Equity						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total
<u>For the first quarter of 2023</u>							
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	<u>\$ 1,138</u>	<u>\$ 381,788</u>	<u>\$ 641,396</u>	<u>\$ (2,458)</u>	<u>\$ (409,919)</u>	<u>\$ 9,253</u>	<u>\$ 621,198</u>
<u>For the first quarter of 2022</u>							
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	<u>\$ 1,138</u>	<u>\$ 381,788</u>	<u>\$ 608,230</u>	<u>\$ (2,138)</u>	<u>\$ (401,721)</u>	<u>\$ —</u>	<u>\$ 587,297</u>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(dollars in thousands)*

	First Quarter	
	2023	2022
	(Unaudited)	
<b>Operating activities</b>		
Net earnings (loss)	\$ 65,537	\$ (298)
Adjustments to reconcile net earnings (loss) to operating cash flows:		
Depreciation, depletion, and amortization	9,940	7,871
Provision for deferred income taxes	18,450	(4,750)
Asset impairments	776	—
Gains on sale of assets	(1,590)	(133)
Investment and investment partnerships (gains) losses	(76,226)	6,436
Distributions from investment partnerships	—	4,500
Changes in receivables, inventories and other assets	2,006	4,633
Changes in accounts payable and accrued expenses	1,030	2,833
<b>Net cash provided by operating activities</b>	<b>19,923</b>	<b>21,092</b>
<b>Investing activities</b>		
Capital expenditures	(5,929)	(9,293)
Proceeds from property and equipment disposals	2,140	109
Purchases of interests in limited partnerships	(2,700)	(3,000)
Purchases of investments	(27,255)	(50,086)
Sales of investments and redemptions of fixed maturity securities	21,009	46,193
<b>Net cash used in investing activities</b>	<b>(12,735)</b>	<b>(16,077)</b>
<b>Financing activities</b>		
Repayments of borrowings	(3,500)	—
Principal payments on direct financing lease obligations	(1,550)	(1,564)
<b>Net cash used in financing activities</b>	<b>(5,050)</b>	<b>(1,564)</b>
Effects of foreign currency exchange rate changes	8	(23)
Increase in cash, cash equivalents and restricted cash	2,146	3,428
Cash, cash equivalents and restricted cash at beginning of year	38,805	43,687
<b>Cash, cash equivalents and restricted cash at end of first quarter</b>	<b>\$ 40,951</b>	<b>\$ 47,115</b>

	First Quarter	
	2023	2022
	(Unaudited)	
Cash and cash equivalents	\$ 39,363	\$ 45,777
Restricted cash in other long-term assets	1,588	1,338
<b>Cash, cash equivalents and restricted cash at end of first quarter</b>	<b>\$ 40,951</b>	<b>\$ 47,115</b>

*See accompanying Notes to Consolidated Financial Statements.*

## BIGLARI HOLDINGS INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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 March 31, 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 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.

##### *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 Corporation. 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, 2023 and December 31, 2022.

	March 31, 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

**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*”. (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.

	March 31, 2023	March 31, 2022
Equivalent Class A common stock outstanding	620,592	620,592
Proportional ownership of Company stock held by investment partnerships	328,681	316,020
Equivalent Class A common stock for earnings per share	<u>291,911</u>	<u>304,572</u>

**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 first quarter of 2023 and 2022 were \$3,638 and \$225, 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.

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)	121,795	49,207	72,588
Contributions	2,700		2,700
Changes in proportionate share of Company stock held		239	(239)
Partnership interest at March 31, 2023	<u>\$ 507,499</u>	<u>\$ 276,656</u>	<u>\$ 230,843</u>

	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)*

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

	March 31, 2023	December 31, 2022
Carrying value of investment partnerships	\$ 230,843	\$ 155,794
Deferred tax liability related to investment partnerships	(40,410)	(23,643)
Carrying value of investment partnerships net of deferred taxes	<u>\$ 190,433</u>	<u>\$ 132,151</u>

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 \$40,410 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 \$409,919 and \$409,680 as of March 31, 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.

	First Quarter	
	2023	2022
Gains (losses) from investment partnerships	\$ 72,588	\$ (6,661)
Tax expense (benefit)	16,559	(1,860)
Contribution to net earnings	<u>\$ 56,029</u>	<u>\$ (4,801)</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 accrued during the first quarters of 2023 and 2022.

**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, 2023	\$ 348,606	\$ 415,057
Total liabilities as of March 31, 2023	\$ 10,373	\$ 173,731
Revenue for the first quarter of 2023	\$ 63,558	\$ 78,592
Earnings for the first quarter of 2023	\$ 63,404	\$ 76,341
Biglari Holdings' ownership interest as of March 31, 2023	88.6 %	86.1 %
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 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 %

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, 2023	December 31, 2022
Land	\$ 139,705	\$ 143,313
Buildings	149,081	151,627
Land and leasehold improvements	154,641	151,496
Equipment	215,715	222,661
Oil and gas properties	144,692	144,888
Construction in progress	900	2,238
	804,734	816,223
Less accumulated depreciation, depletion, and amortization	(411,830)	(415,498)
Property and equipment, net	\$ 392,904	\$ 400,725

Depletion expense related to oil and gas properties was \$2,648 and \$1,380 during the first quarter of 2023 and 2022, respectively.

The Company recorded an impairment to restaurant long-lived assets of \$776 in the first quarter of 2023 related to underperforming stores. There were no impairments in the first quarter of 2022.

Property and equipment held for sale of \$8,012 and \$4,700 are recorded in other current assets as of March 31, 2023 and December 31, 2022, respectively. The assets classified as held for sale include seven properties owned by Steak n Shake, which were previously operated restaurants, and Abraxas Petroleum's office building.

During the first quarter of 2023, Steak n Shake sold the property of a former company-operated restaurant for a gain of \$1,431.

## 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 quarter of 2023	9
Goodwill at March 31, 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 revenues 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 from 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 quarters of 2023 or 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
Change in foreign exchange rates during the first quarter of 2023	—	113	113
Balance at March 31, 2023	\$ 15,876	\$ 7,274	\$ 23,150

## Note 7. Restaurant Operations Revenues

Restaurant operations revenues were as follows.

	First Quarter	
	2023	2022
Net sales	\$ 36,894	\$ 38,216
Franchise partner fees	17,912	15,624
Franchise royalties and fees	4,258	5,146
Other	2,065	861
	\$ 61,129	\$ 59,847

### 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.

## Note 7. Restaurant Operations Revenues (continued)

### **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 first quarter of 2023 and 2022, restaurant operations recognized \$5,575 and \$4,774, 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 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.

	March 31, 2023	December 31, 2022
Accounts payable	\$ 30,932	\$ 28,431
Gift card and other marketing	10,640	12,028
Insurance accruals	2,479	6,012
Salaries and wages	6,602	4,400
Deferred revenue	5,835	4,445
Taxes payable	15,500	14,896
Oil and gas payable	4,641	3,877
Other	2,615	4,527
Accounts payable and accrued expenses	<u>\$ 79,244</u>	<u>\$ 78,616</u>

## Note 9. Line of Credit and Note Payable

### **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 was \$6,500 and \$10,000 on March 31, 2023 and December 31, 2022, respectively. Our interest rate was 7.3% on March 31, 2023. The line of credit was paid in full in April 2023.

### **Western Sizzlin Revolver**

Western Sizzlin's available line of credit is \$500. As of March 31, 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 three-month periods ending March 31, 2023 and 2022 follows.

	2023	2022
<b>Balances at beginning of year:</b>		
Gross liabilities	\$ 17,520	\$ 14,993
Reinsurance recoverable on unpaid losses	(715)	(1,892)
Net liabilities	16,805	13,101
<b>Incurred losses and loss adjustment expenses:</b>		
Current accident year	10,247	9,721
Prior accident years	(1,651)	(133)
Total	8,596	9,588
<b>Paid losses and loss adjustment expenses:</b>		
Current accident year	4,433	5,577
Prior accident years	5,454	3,977
Total	9,887	9,554
<b>Balances at March 31:</b>		
Net liabilities	15,514	13,135
Reinsurance recoverable on unpaid losses	2,207	890
Gross liabilities	\$ 17,721	\$ 14,025

Incurred loss and loss adjustment expenses of \$8,596 and \$9,588 in the first quarter 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 \$1,651 and \$133 in the first quarter 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 9.8% in 2023 and 1.0% in 2022.

## Note 11. Lease Assets and Obligations

Lease obligations include the following.

	March 31, 2023	December 31, 2022
<b>Current portion of lease obligations</b>		
Finance lease liabilities	\$ 1,242	\$ 1,237
Finance obligations	5,139	5,161
Operating lease liabilities	9,728	10,583
Total current portion of lease obligations	\$ 16,109	\$ 16,981
<b>Long-term lease obligations</b>		
Finance lease liabilities	\$ 3,779	\$ 4,129
Finance obligations	58,428	58,868
Operating lease liabilities	27,928	28,847
Total long-term lease obligations	\$ 90,135	\$ 91,844

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

	First Quarter	
	2023	2022
Finance lease costs:		
Amortization of right-of-use assets	\$ 242	\$ 363
Interest on lease liabilities	91	115
Operating and variable lease costs	3,167	3,612
Sublease income	(3,091)	(4,069)
Total lease costs	<u>\$ 409</u>	<u>\$ 21</u>

Supplemental cash flow information related to leases is as follows.

	First Quarter	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 344	\$ 421
Operating cash flows from finance leases	\$ 91	\$ 115
Operating cash flows from operating leases	\$ 3,355	\$ 3,067

Supplemental balance sheet information related to leases is as follows.

	March 31, 2023	December 31, 2022
Finance leases:		
Property and equipment, net	<u>\$ 3,656</u>	<u>\$ 4,352</u>

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

	March 31, 2023
Weighted-average remaining lease terms:	
Finance leases	4.11 years
Operating leases	4.68 years
Weighted-average discount rates:	
Finance leases	7.0 %
Operating leases	7.0 %

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

Maturities of lease liabilities as of March 31, 2023 are as follows.

Year	Operating Leases	Finance Leases
Remainder of 2023	\$ 9,210	\$ 1,134
2024	10,228	1,534
2025	8,437	1,298
2026	5,868	959
2027	3,503	623
After 2027	7,028	232
Total lease payments	44,274	5,780
Less interest	6,618	759
Total lease liabilities	<u>\$ 37,656</u>	<u>\$ 5,021</u>

**Lease Income**

The components of lease income are as follows.

	First Quarter	
	2023	2022
Operating lease income	\$ 4,085	\$ 4,724
Variable lease income	1,784	313
Total lease income	<u>\$ 5,869</u>	<u>\$ 5,037</u>

The following table displays the Company's future minimum rental receipts for non-cancelable leases and subleases as of March 31, 2023. Franchise partner leases and subleases are short-term leases and have been excluded from the table.

Year	Operating Leases	
	Subleases	Owned Properties
Remainder of 2023	\$ 520	\$ 119
2024	503	265
2025	454	265
2026	134	275
2027	116	275
After 2027	125	2,315
Total future minimum receipts	<u>\$ 1,852</u>	<u>\$ 3,514</u>

**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 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 first quarter of 2023 was \$19,738 compared to an income tax benefit of \$171 for the first quarter of 2022. The variance in income taxes between 2023 and 2022 is primarily attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax gains were \$72,588 during the first quarter of 2023 compared to pre-tax losses of \$6,661 during the first quarter 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.

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 Level 1 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 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.

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

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

	March 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents	\$ 25,209	\$ —	\$ —	\$ 25,209	\$ 17,608	\$ —	\$ —	\$ 17,608
Equity securities								
Consumer goods	22,337	—	—	22,337	17,274	—	—	17,274
Other	2,555	—	—	2,555	2,031	—	—	2,031
Bonds								
Government	53,663	—	—	53,663	48,456	—	—	48,456
Corporate	1,603	—	—	1,603	2,199	—	—	2,199
Non-qualified deferred compensation plan investments	684	—	—	684	699	—	—	699
Total assets at fair value	<u>\$106,051</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$106,051</u>	<u>\$ 88,267</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 88,267</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 (“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 \$2,100 in service fees during the first quarters 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 first quarters of 2023 and 2022 is presented in the tables which follow.

	Revenues	
	First Quarter	
	2023	2022
<b>Operating Businesses:</b>		
Restaurant Operations:		
Steak n Shake	\$ 58,487	\$ 57,753
Western Sizzlin	2,642	2,094
Total Restaurant Operations	<u>61,129</u>	<u>59,847</u>
Insurance Operations:		
Underwriting:		
First Guard	8,899	8,731
Southern Pioneer	5,865	5,438
Investment income and other	1,465	910
Total Insurance Operations	<u>16,229</u>	<u>15,079</u>
Oil and Gas Operations:		
Abraxas Petroleum	7,252	—
Southern Oil	4,971	9,812
Total Oil and Gas Operations	<u>12,223</u>	<u>9,812</u>
Maxim	595	634
	<u>\$ 90,176</u>	<u>\$ 85,372</u>

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

	Earnings (Losses) Before Income Taxes	
	First Quarter	
	2023	2022
<b>Operating Businesses:</b>		
Restaurant Operations:		
Steak n Shake	\$ 7,325	\$ 4,198
Western Sizzlin	472	232
Total Restaurant Operations	<u>7,797</u>	<u>4,430</u>
Insurance Operations:		
Underwriting:		
First Guard	1,862	732
Southern Pioneer	(111)	(337)
Investment income and other	1,036	969
Total Insurance Operations	<u>2,787</u>	<u>1,364</u>
Oil and Gas Operations:		
Abraxas Petroleum	1,209	—
Southern Oil	894	3,921
Total Oil and Gas Operations	<u>2,103</u>	<u>3,921</u>
Maxim	122	(336)
Interest expense not allocated to segments	(167)	—
Total Operating Businesses	<u>12,642</u>	<u>9,379</u>
Corporate and other	(3,593)	(3,412)
Investment gains	3,638	225
Investment partnership gains (losses)	<u>72,588</u>	<u>(6,661)</u>
	<u>\$ 85,275</u>	<u>\$ (469)</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. 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 March 31, 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.

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

	First Quarter	
	2023	2022
Operating businesses:		
Restaurant	\$ 5,840	\$ 3,262
Insurance	2,169	1,044
Oil and gas	1,670	2,924
Brand licensing	91	(251)
Interest expense	(129)	—
Corporate and other	(2,998)	(2,651)
Total operating businesses	6,643	4,328
Investment partnership gains (losses)	56,029	(4,801)
Investment gains	2,865	175
Net earnings (loss)	65,537	(298)
Earnings attributable to noncontrolling interest	651	—
Net earnings (loss) attributable to Biglari Holdings Inc. shareholders	\$ 64,886	\$ (298)

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

**Restaurants**

Our restaurant businesses, which include Steak n Shake and Western Sizzlin, comprise 532 company-operated and franchise restaurants as of March 31, 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	(3)	3	—	—	—	—
Net restaurants opened (closed)	(2)	—	(11)	—	—	(13)
Total stores as of March 31, 2023	<u>172</u>	<u>178</u>	<u>143</u>	<u>3</u>	<u>36</u>	<u>532</u>
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>

As of March 31, 2023, 36 of the 172 company-operated Steak n Shake stores were closed. Steak n Shake has contracted to sell seven of the 36 closed stores. An additional seventeen closed stores are listed with brokers for lease or sale. Steak n Shake plans to rebrand the remaining closed company-operated restaurants.

During the first quarter of 2023, Steak n Shake reopened two stores and sold one property; all were closed as of December 31, 2022.

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

Restaurant operations are summarized below.

	First Quarter			
	2023		2022	
<b>Revenue</b>				
Net sales	\$ 36,894		\$ 38,216	
Franchise partner fees	17,912		15,624	
Franchise royalties and fees	4,258		5,146	
Other revenue	2,065		861	
Total revenue	<u>61,129</u>		<u>59,847</u>	
<b>Restaurant cost of sales</b>				
Cost of food	10,448	28.3 %	10,960	28.7 %
Restaurant operating costs	18,457	50.0 %	20,032	52.4 %
Occupancy costs	3,833	10.4 %	4,360	11.4 %
Total cost of sales	<u>32,738</u>		<u>35,352</u>	
<b>Selling, general and administrative</b>				
General and administrative	10,463	17.1 %	8,650	14.5 %
Marketing	2,953	4.8 %	3,744	6.3 %
Other expenses (income)	(1,612)	(2.6)%	45	0.1 %
Total selling, general and administrative	<u>11,804</u>	19.3 %	<u>12,439</u>	20.8 %
<b>Impairments</b>	(776)		—	
<b>Depreciation and amortization</b>	(6,707)		(6,214)	
<b>Interest on finance leases and obligations</b>	<u>(1,307)</u>		<u>(1,412)</u>	
<b>Earnings (loss) before income taxes</b>	7,797		4,430	
<b>Income tax expense (benefit)</b>	<u>1,957</u>		<u>1,168</u>	
<b>Contribution to net earnings</b>	<u>\$ 5,840</u>		<u>\$ 3,262</u>	

*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 2023 were \$36,894, representing a decrease of \$1,322 or 3.5% compared to 2022. 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 franchise partner units.

Our franchise partner fees were \$17,912 during the first quarter of 2023, as compared to \$15,624 during the first quarter of 2022. As of March 31, 2023, there were 178 franchise partner units, compared to 171 franchise partner units as of March 31, 2022. Included in franchise partner fees were \$5,575 and \$4,774 of rental income during the first quarter of 2023 and 2022, respectively. Franchise partners rent buildings and equipment from Steak n Shake.

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

The franchise royalties and fees generated by the traditional franchising business were \$4,258 during the first quarter of 2023, as compared to \$5,146 during the first quarter of 2022. The decrease in franchise royalties and fees was primarily because of reduced marketing by franchisees. There were 143 Steak n Shake traditional units open on March 31, 2023, as compared to 179 units open on March 31, 2022.

The cost of food at company-operated units during the first quarter of 2023 was \$10,448 or 28.3% of net sales, as compared to \$10,960 or 28.7% of net sales during the first quarter of 2022. The cost of food expressed as a percentage of net sales remained relatively consistent.

The operating costs at company-operated restaurants during the first quarter of 2023 were \$18,457 or 50.0% of net sales, as compared to \$20,032 or 52.4% of net sales during the first quarter of 2022. The decrease in operating costs as a percentage of net sales was mainly attributable to lower labor costs.

General and administrative expenses during the first quarter of 2023 were \$10,463 or 17.1% of total revenue, as compared to \$8,650 or 14.5% of total revenue during the first quarter of 2022. The increase in general and administrative expenses was mainly attributable to increased support for franchise partnerships.

Marketing expense decreased by \$791 during the first quarter of 2023 compared to the first quarter of 2022. The decrease was primarily attributable to reduced marketing by traditional franchisees.

During the first quarter of 2023, Steak n Shake sold the property of a former company-operated restaurant for a gain of \$1,431.

The Company recorded impairment charges of \$776 in the first quarter of 2023 related to underperforming stores. There were no impairments in the first quarter of 2022.

Depreciation and amortization expense was \$6,707 during 2023 versus \$6,214 during 2022. The year-over-year increase is primarily attributable to higher capital expenditures incurred in 2022 and 2021.

Interest on obligations under leases was \$1,307 during 2023 versus \$1,412 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.

	First Quarter	
	2023	2022
Underwriting gain attributable to:		
First Guard	\$ 1,862	\$ 732
Southern Pioneer	(111)	(337)
Pre-tax underwriting gain	1,751	395
Income tax expense	368	83
Net underwriting gain	<u>\$ 1,383</u>	<u>\$ 312</u>

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

Earnings of our insurance operations are summarized below.

	First Quarter	
	2023	2022
Premiums earned	\$ 14,764	\$ 14,169
Insurance losses	8,596	9,588
Underwriting expenses	4,417	4,186
Pre-tax underwriting gain	1,751	395
Other income and expenses		
Investment income	585	213
Other income (expenses)	451	756
Total other income	1,036	969
Earnings before income taxes	2,787	1,364
Income tax expense	618	320
Contribution to net earnings	\$ 2,169	\$ 1,044

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.

	First Quarter			
	2023		2022	
	Amount	%	Amount	%
Premiums earned	\$ 8,899	100.0 %	\$ 8,731	100.0 %
Insurance losses	5,244	58.9 %	6,188	70.9 %
Underwriting expenses	1,793	20.1 %	1,811	20.7 %
Total losses and expenses	7,037	79.0 %	7,999	91.6 %
Pretax underwriting gain	\$ 1,862		\$ 732	

First Guard's ratio of losses and loss adjustment expenses to premiums earned was 58.9% during the first quarter of 2023 as compared to 70.9% during the first quarter 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.

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

### 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			
	2023		2022	
	Amount	%	Amount	%
Premiums earned	\$ 5,865	100.0 %	\$ 5,438	100.0 %
Insurance losses	3,352	57.2 %	3,400	62.5 %
Underwriting expenses	2,624	44.7 %	2,375	43.7 %
Total losses and expenses	5,976	101.9 %	5,775	106.2 %
Pretax underwriting gain (loss)	\$ (111)		\$ (337)	

Southern Pioneer's ratio of losses and loss adjustment expenses to premiums earned was 57.2% during the first quarter of 2023 as compared to 62.5% during the first quarter of 2022. Southern Pioneer's underwriting losses were primarily attributable to 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.

	First Quarter	
	2023	2022
Interest, dividends and other investment income:		
First Guard	\$ 387	\$ 74
Southern Pioneer	198	139
Pre-tax investment income	585	213
Income tax expense	123	45
Net investment income	\$ 462	\$ 168

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.

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

### Oil and Gas

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

	First Quarter	
	2023	2022
Oil and gas revenues	\$ 12,223	\$ 9,812
Oil and gas production costs	5,471	3,819
Depreciation, depletion and accretion	2,850	1,519
General and administrative expenses	1,799	553
Earnings before income taxes	2,103	3,921
Income tax expense	433	997
Contribution to net earnings	\$ 1,670	\$ 2,924

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 quarter of 2023 was approximately \$76.11 as compared to approximately \$94.82 in the first quarter 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.

	First Quarter	
	2023	2022
Oil and gas revenues	\$ 4,971	\$ 9,812
Oil and gas production costs	2,340	3,819
Depreciation, depletion and accretion	1,184	1,519
General and administrative expenses	553	553
Earnings before income taxes	894	3,921
Income tax expense	155	997
Contribution to net earnings	\$ 739	\$ 2,924

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

### Abraxas Petroleum

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

	First Quarter
	2023
Oil and gas revenues	\$ 7,252
Oil and gas production costs	3,131
Depreciation, depletion and accretion	1,666
General and administrative expenses	1,246
Earnings before income taxes	1,209
Income tax expense	278
Contribution to net earnings	\$ 931

### Brand Licensing

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

	First Quarter	
	2023	2022
Licensing and media revenues	\$ 595	\$ 634
Licensing and media costs	452	953
General and administrative expenses	21	17
Earnings before income taxes	122	(336)
Income tax expense (benefit)	31	(85)
Contribution to net earnings	\$ 91	\$ (251)

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 2023 and 2022 were \$2,865 and \$175, 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	
	2023	2022
Investment partnership gains (losses)	\$ 72,588	\$ (6,661)
Tax expense (benefit)	16,559	(1,860)
Contribution to net earnings	\$ 56,029	\$ (4,801)

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

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 reported quarterly and annual results.

### Interest Expense

The Company's interest expense is summarized below.

	First Quarter	
	2023	2022
Interest expense on line of credit	\$ 167	\$ —
Tax benefit	38	—
Interest expense net of tax	<u>\$ 129</u>	<u>\$ —</u>

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 \$6,500 and \$10,000 on March 31, 2023 and December 31, 2022, respectively. Our interest rate was 7.3% on March 31, 2023.

### 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 2023 were relatively consistent to the same period during 2022.

### Income Taxes

Income tax expense for the first quarter of 2023 was \$19,738 compared to an income tax benefit of \$171 for the first quarter of 2022. The variance in income taxes between 2023 and 2022 is attributable to taxes on income generated by the investment partnerships. Investment partnership pretax gains were \$72,588 during the first quarter of 2023 compared to pretax losses of \$6,661 during the first quarter of 2022.

### Financial Condition

Consolidated cash and investments are summarized below.

	March 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 39,363	\$ 37,467
Investments	79,652	69,466
Fair value of interest in investment partnerships	507,499	383,004
Total cash and investments	626,514	489,937
Less: portion of Company stock held by investment partnerships	(276,656)	(227,210)
Carrying value of cash and investments on balance sheet	<u>\$ 349,858</u>	<u>\$ 262,727</u>

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

## 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	
	2023	2022
Net cash provided by operating activities	\$ 19,923	\$ 21,092
Net cash used in investing activities	(12,735)	(16,077)
Net cash used in financing activities	(5,050)	(1,564)
Effect of exchange rate changes on cash	8	(23)
Increase in cash, cash equivalents and restricted cash	<u>\$ 2,146</u>	<u>\$ 3,428</u>

The increase in cash during 2023 was \$2,146 compared to \$3,428 during 2022. 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.

### *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 on the line of credit on March 31, 2023 was \$6,500. The line of credit was paid in full in April 2023.

### *Western Sizzlin Revolver*

Western Sizzlin's available line of credit is \$500. As of March 31, 2023, 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.

## **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**

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 March 31, 2023.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 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
<a href="#">31.01</a>	<a href="#">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.</a>
<a href="#">31.02</a>	<a href="#">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.</a>
<a href="#">32.01*</a>	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</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 5, 2023

By: /s/ BRUCE LEWIS  
Bruce Lewis  
Controller