Dear Shareholders of Biglari Holdings Inc.:

In August 2008 we took control of the predecessor company, a money-losing restaurant chain. We turned the business around, and it became the base company, a financial springboard for the enterprise we founded, Biglari Holdings. We assumed management of a company with $1.6 million in cash and investments. Through effective operational and financial management, Biglari Holdings ended fiscal 2013 with $635.4 million in cash and investments. True, $75.6 million of the increase came through a rights offering to existing shareholders. Yet most of the progress occurred by means of value creation.

When we founded Biglari Holdings, we crafted a multitude of advantages, though they often ran counter to convention. For instance, most companies reinvest within their industry; that is, they reinvest where they have earned their money. However, because we currently generate profits in the restaurant business, that does not obligate us — by tradition or otherwise — to reinvest the money there. The person who adheres to conventional wisdom is almost certain to achieve merely conventional results.

We have been building Biglari Holdings to become a mosaic of businesses, an amalgam that produces significant cash flow. The reallocation of that cash is based on *opportunity*. As the sole capital allocator — unrestrained by institutional limitations — I maintain maximum freedom when redeploying capital. As an entrepreneur, I believe in extreme flexibility to adapt and exploit opportunities wherever and whenever they arise. Our economic objective is to allocate capital based upon maximizing per-share intrinsic value.[1] Our subsidiaries are cash machines — generating cash beyond their capital requirements — with cash sent upstairs to fund the growth of Biglari Holdings, a dynamic value-building machine. Phil Cooley, Vice Chairman of BH, and I believe we have designed the ideal platform on which we plan to build a powerful business.

Preferably, BH seeks to collect entire businesses for permanency. For instance, we have demarcated Steak n Shake Operations, Inc. and Western Sizzlin Corp. as permanent holdings. Moreover, we plan to add to the collection without need of, or interest in, divesting controlled businesses. In contrast to our nontraditional philosophy, many buyers require an exit strategy. Because we are dealing with permanent capital, we are in a position to own businesses *permanently*. Naturally, this nearly infinite time horizon does not extend to all our holdings, especially to noncontrolled positions. Combining permanent capital along with owning controlled businesses indicates that as opportunities arrive, we can take advantage of them sensibly. Our liquidity will be replenished by the cash flows from our operating businesses. Our model enables us to possess one of the longest time horizons in both the investment and the business world. We find that a permanent capital-allocating vehicle, combined with a flexible, opportunistic framework, enables us to arrange and institute transactions in an effort to advance per-share intrinsic value.

Building an enterprise is messy — the last five years should attest to that. As an entrepreneurial company, we are constantly experimenting with and adjusting to situations. As a consequence of this approach, in July 2013 we adapted our structure in an important and vital way: BH transferred most of its marketable securities to The Lion Fund, L.P. and The Lion Fund II, L.P. (together referred to as The Lion Fund), managed by Biglari Capital Corp., the general partner. As part of the transaction, I once more became the sole shareholder of the general partner. For regulatory

[1] Intrinsic value is measured by taking all future cash flows into and out of the business and discounting the net figures at an appropriate interest rate.

and financial reasons, BH divested itself of the investment management business. However, under the new arrangement, BH continues to maintain its economic interest in the transferred marketable securities but without the burdens associated with owning an asset management firm within a public company. Moreover, I continue to hold full capital allocation responsibility for both entities, Biglari Holdings and The Lion Fund. As an entrepreneurial investor and operator, I will continue to adjust and manage the organization to fit the circumstances.

The machinery behind achieving our economic objective — which has remained stable and unwavering — was created to grow BH's ownership of businesses. Plainly, we are searching for businesses that are simply awash in cash. The businessmen within us seek to buy the entire enterprise whereas the investors within us seek to purchase a part of the enterprise through the stock market. While we prefer the former, the latter offers a far larger and a wider range of investment opportunities. Within a sizable investment universe, I simply review feasible opportunities and compare them with each other, aiming to apportion and thereby concentrate capital based on reward/risk ratios. We are not in the business of predicting markets; our expertise lies in taking advantage of mispriced securities. Our deep-seated intent is to allow capital to flow into our very best ideas, logically resulting in an extremely concentrated portfolio.

The combination of cash generated by operating subsidiaries along with my capital allocation work will stoke our corporate performance, which according to our criterion must outdo our benchmark, the S&P 500 Index. Over the last five years, BH's gain in per-share intrinsic value has far outstripped the S&P.

Phil and I evaluate BH's economic performance through a multiplicity of substantive dimensions. However, there are two components — investments and operating businesses — critical to assessing BH's progress. We will present the dual segments as if BH were split into two parts.

Investments

By the end of fiscal 2013, total investments (cash, stocks, and BH's investments in The Lion Fund) amounted to $635.4 million, increasing from $378.6 million. Although investments grew substantially, this upswing was aided by the $75.6 million of equity capital raised through the rights offering. Excluding the equity issuance, BH's investments increased by 47.9% last year.

Over the last five years, investments have climbed by $628.5 million. The following table displays BH's development of investments since fiscal 2008:

	Fiscal Year *(In Millions)*					
	2013	**2012**	**2011**	**2010**	**2009**	**2008**
Cash and Cash-Equivalents.......	$ 94.6	$ 60.4	$ 99.0	$ 47.6	$ 51.4	$ 6.9
Marketable Securities...............	85.5	269.9	115.3	32.5	3.0	–
The Lion Fund [2]	455.3	48.3	38.5	38.6	–	–
Total Investments.....................	**$ 635.4**	**$ 378.6**	**$ 252.8**	**$ 118.7**	**$ 54.4**	**$ 6.9**

[2] These sums are BH's investments in The Lion Fund, L.P. and The Lion Fund II, L.P. The interests of the other limited partners are not included.

A single year or even a multi-year performance is an imprecise gauge for predicting future outcomes. Assuredly, anyone who naively extrapolates from the preceding figures would be in error. Furthermore, this achievement was not a byproduct of a master plan; it was just a byproduct of seizing opportunities. We did not have a plan five years ago, and we do not have a plan for the next five years. Instead, we employ unusual flexibility in order to change our position as the facts change. You may be interested to know the major sources of capital contributing to our meteoric rise in total investments from the end of fiscal 2008 through fiscal 2013:

(In Millions)

Sources of Capital Contribution	**2008-2013**
Investment Gains (net of losses)	$ 269.0
Operating Businesses	194.3
Net Increase in Subsidiary Debt..............	89.6
Equity Offering	75.6
Total	**$ 628.5**

While cumulative investment gains in capital allocation outdid the cumulative cash production from operating businesses, without the latter, there would be no possibility for the former.

In regard to assessing capital allocation, Phil and I find it instructive to review portfolio securities by analyzing cumulative gains and losses. Since I began allocating BH's capital, our investment gains have exceeded our losses — both realized and unrealized — by a factor of over 200 to one.

Capital Structure

The financial architecture we have designed for BH allows us to take advantage of leverage without assuming the financial liability at the parent level. To achieve this desired outcome, we have separated the debt obligations of subsidiaries from BH. Furthermore, each subsidiary's capital structure risk will vary and will be inversely related to its business risk. BH has no debt at the parent level, for it maintains an exceedingly conservative financial policy.

Although debt is present on BH's consolidated balance sheet, it resides in our wholly-owned subsidiary, Steak n Shake. Yet the amount of debt at Steak n Shake is modest in relation to its assets and its earning power. At the end of fiscal 2013, Steak n Shake had $120.3 million in debt at a pre-tax rate of 3.9%. In addition, Steak n Shake's debt is *not* guaranteed by BH.

BH's balance sheet holds significant liquid assets, including an excellent cash position from a recently completed rights offering. Specifically, BH raised $76 million by issuing 286,767 shares at $265 per share. BH now has 1,720,834 total shares outstanding.

A rights offering involves the issuance of new common stock to existing shareholders on a pro rata basis — that is, in proportion to the magnitude of ownership. Unlike a typical equity offering, in which the new stock purchaser dilutes the ownership of current shareholders, a rights offering allows current shareholders the opportunity to maintain their proportional interest in the

company. In raising equity capital, we find the concept of the rights offering efficient and equitable, for it provides all shareholders with equal terms. Incidentally, our costs were exceptionally low relative to traditional financing, equaling ½ of 1% of the capital raised.

Phil and I have no desire to add mountainous obligations at BH to undertake acquisitions. Our conservative attitude towards BH's capital structure is old-fashioned. We have arranged BH's affairs to avoid depending on the capital markets, or alternatively relinquishing our financial strength even under a worst-case scenario.

Earning Power

Although Phil and I believe the evaluation of BH's economic progress should include earnings from both controlled and noncontrolled holdings, accounting conventions dictate otherwise. To share with you our views on how we weigh BH, we think it is first instructive to review with you the requirements under generally accepted accounting principles. In last year's report, we outlined the accounting rules concerning ownership by one company in the common stock of another.

The divestiture of the asset management business, Biglari Capital, triggered another accounting rule. BH is no longer required to consolidate The Lion Fund's financials. However, changes in the value of our investments in The Lion Fund will be recorded on BH's income statement.

Our most significant noncontrolled holding is Cracker Barrel Old Country Store, Inc. We own 4,737,794 shares, or 19.9% equity interest. BH holds Cracker Barrel shares through two entities: 775,190 shares directly through Steak n Shake Operations, Inc. and 3,962,604 shares indirectly through The Lion Fund II, L.P. Because Steak n Shake is a wholly-owned subsidiary, accounting rules require us to record only the dividends received as part of our reported earnings, but we must omit our pro-rata portion of Cracker Barrel's retained earnings. The changes in the market value of the Cracker Barrel shares owned through Steak n Shake affect our income statement when gains/losses are realized. In contrast, changes in the market value of shares owned through The Lion Fund II, L.P., affect the value of the partnership and therefore BH's reported quarterly earnings.

In assessing BH's progress, Phil and I fully credit our earnings of noncontrolled businesses which we add to the earnings of our controlled businesses in order to arrive at a reasonable estimate of "economic" earnings. Last year, Cracker Barrel paid us over $10 million in dividends; however, using year-end share count, our pro-rata stake of retained earnings was about $13 million.

We purchased the 20% stake in Cracker Barrel for $241 million. The market value at the end of our fiscal year 2013 was $485 million. Along the way, we have collected a total of $18.4 million in dividends.

Operating Businesses

The second driver of value for BH stems from operating businesses, that is, cash-producing enterprises. We wring surplus cash out of our subsidiary businesses in order to purchase other cash-rich businesses. Our devotion to sensible acquisitions should result in the magnification of long-term cash flow.

Currently, our controlled businesses — Steak n Shake and Western Sizzlin — are involved in restaurant operations. The following table delineating reported earnings is presented in a way we believe is most useful to shareholders:

	(In 000's)	
	2013	**2012**
Operating Earnings:		
Restaurant Operations:		
Steak n Shake	$ 28,376	$ 45,622
Western Sizzlin	511	2,157
Corporate and Other[1]	(10,592)	(13,823)
Operating Earnings Before Interest and Taxes	18,295	33,956
Interest Expense[2]	6,551	10,110
Income Taxes	(299)	4,857
Net Operating Earnings	12,043	18,989
BH Investment Gains (net of taxes)	1	2,604
The Lion Fund (net of taxes)	128,227	–
Total Earnings	$ 140,271	$ 21,593

(1) Includes earnings from consolidated affiliated partnerships
(2) Includes loss on debt extinguishment

We proceed with a preamble on accounting because the material change in net earnings did not stem from economic achievement. The moving of securities from BH to The Lion Fund necessitated our booking an accounting profit of $114.9 million net of income taxes. To explain, accounting standards call for the market value of shares within such a transfer to be recorded as the new cost basis on the date of the exchange, with the difference between the new basis and the prior historical cost recognized in the financial statements as an investment gain. For tax return purposes the interchange is recorded at the original cost of the securities. Thus, we did not harvest any gains, nor did we pay any taxes. Nevertheless, the recognition of the $114.9 million gain plus a $13.3 million after-tax increase in the carrying value of The Lion Fund affected BH's reported earnings by $128.2 million.

In 2013, performance of operating businesses was acceptable. The net operating earnings of $12 million versus the $19 million from the prior year provide an incomplete assessment because for several years we have been executing a strategy that has harmed near-term profits in order to heighten long-term cash flows. Value is not predicated on an annual figure but is predicated on the present value of future cash flows. Accordingly, we will review why we believe our underlying businesses increased in value despite the profit decline.

Restaurant Operations

Our two wholly-owned restaurant businesses are Steak n Shake and Western Sizzlin, though the business models of each currently differ. Steak n Shake is primarily involved in operating restaurants sporting a total of 524 locations, of which 418 are company-operated. However, Western is mainly involved in franchising restaurants, with 84 units — all but 3 are franchisee run.

In fiscal 2013, Western sent BH $2.4 million of cash. As I stated last year, for BH to have received $3.2 million — in line with prior years — operating performance had to improve, but it fell short. While the Western team works to stoke improvement, we continue to deploy the funds we receive from Western into other investments.

* * *

A little over five years ago, we assumed control of Steak n Shake, which then was a failing, nearly insolvent restaurant chain. In a matter of months — because of the dedication of over twenty thousand associates — the business was turned around during the depths of the recession.

After Steak n Shake underwent the turnaround in 2009, the company has been on an exceptional trajectory. Its performance has been even more impressive when one considers that it was achieved without the reinvestment of earnings. In fact, under BH's ownership, Steak n Shake has paid more in dividends than it has earned, i.e., a dividend ratio well beyond 100%. In contrast, most publicly-traded restaurant companies retain over four-fifths of their earnings, usually because they want to build more stores. Increasing overall earnings by means of mediocre returns on retained earnings is certainly not a managerial accomplishment. Steak n Shake's record has been achieved without the tailwinds of retained earnings. Notwithstanding, Steak n Shake's record stands out because it has been bettered primarily by profitably increasing customers through the existing stores rather than through opening new ones. By making stores far more productive, Steak n Shake has been able to upstream to BH over a quarter of a billion dollars of capital, which has been reallocated at the parent company towards other value-enhancing investments, thereby augmenting per-share wealth.

Here is a review of Steak n Shake's performance over the last six years:

(Dollars in 000's)

	Net Revenue	**Operating Earnings**	**Number of Customers**	**Number of Company Stores at Year-End**	**Operating Earnings Per Store**
2008	$ 610,061	$ (30,754)	85,000,000	423	$ (72.7)
2009 (53 weeks)	628,726	11,473	91,000,000	412	27.8
2010	662,891	38,316	101,000,000	412	93.0
2011	689,325	41,247	105,000,000	413	99.9
2012	718,010	45,622	110,000,000	414	110.2
2013	737,090	28,376	112,000,000	415	68.4

Notes Present management took control in the fourth quarter of fiscal 2008. Customer count is only for company-operated units.

Phil and I believe that in fiscal 2013, Steak n Shake's intrinsic value grew, even though its earnings declined substantially. Steak n Shake's earnings before interest and taxes decreased from $45.6 million to $28.4 million. We willingly traded near-term profits for higher long-term cash flows. In fact, we could have had record earnings in fiscal 2013. Instead, we chose to reinvest rather high sums in Steak n Shake to convey to our customers an extremely strong value proposition, to

achieve a low cost structure, and to grow through franchising. We will continue to allocate capital on the basis of creating significantly greater dollar value per dollar spent. In essence, we are building a formidable platform for superior future results.

We are fully focused on delivering excellent value for our customers. Our decisions are framed through the customer's perspective. Because we view ourselves as a fiduciary of the customer, we are desirous of offering premium products — namely flavorful burgers and shakes — at the lowest possible prices. For instance, our pricing strategy is not to discount only a portion of the menu for a limited time but rather to provide great value on the entire menu every day all the time. We are subscribing to Sam Walton's philosophy in which he stated, "[B]y cutting your price, you can boost your sales to a point where you earn far more at the cheaper retail price than you would have by selling the item at the higher price." Our idea is to provide the highest quality burgers and shakes at the lowest possible profit per customer from an ever-increasing number of customers. We are therefore operating on a basic principle: Great value for customers translates into great results for owners. Here is the outcome of our value-to-volume effect:

Customer Traffic

	Q1	Q2	Q3	Q4	Fiscal Year
2009	(0.9%)	7.8%	13.4%	20.0%	**10.1%**
2010	23.0%	7.4%	9.6%	8.6%	**10.6%**
2011	3.5%	5.2%	4.8%	5.4%	**4.8%**
2012	5.7%	5.2%	2.2%	1.7%	**3.7%**
2013	1.6%	(0.2%)	4.0%	3.4%	**2.1%**
Cumulative	35.5%	27.9%	38.4%	44.4%	**35.1%**

On a cumulative basis, we have had a 35% increase in customer traffic, all through the same stores.[3] Stated differently, this increment from fiscal 2008 to 2013 represents, in aggregate, over 90 million more visits by customers.

So long as we are enlarging customer traffic *profitably*, we are creating an enduring franchise. In 2013, however, gains in customer traffic did not offset the inflation of commodity costs as well as our significant expenditures in training, supply chain, information technology and franchising. Nevertheless, we believe these investments will maximize our eventual net worth.

Eradicating waste and conquering inefficiency are mandatory to creating premium products at the lowest possible prices. As we squeeze out costs, we pass most of the savings on to the customer. But we are far from maximizing operational efficiency. Our conquest of cost minimization calls out for consequential investments in technology and supply chain to leverage them in order to achieve expense ratios under those of our competitors. We plan to utilize technology not just to ameliorate costs, but even more important, we will use it to transform our business. We are applying technology to improve measuring, monitoring, and managing our chain of restaurants.

[3] Customer traffic is a performance metric that measures the number of patrons who walk through the same units. As we have warned in the past, a single metric used to measure results is incomplete and inconclusive.

Through better managerial visibility into our restaurants, we can maintain quality control and pursue an amalgamation of daily improvement, thus creating an efficient assembly line. Our paramount idea is the development of advanced technology to facilitate better management and training. We are sedulously attempting to create a superior organization with the infrastructure able to export our brand to the rest of the world.

To grow globally without major capital outlays, we are leveraging the Steak n Shake brand to capitalize on a franchise-based model, a noncapital-intensive strategy that generates high-return, annuity-like cash flow.

Because our franchising business is akin to a start-up, it does necessitate investment to build the infrastructure to amplify it properly. Our decision to invest heavily in franchising — the emerging side of the business — is rather easy, because we are concerned about advancing intrinsic value. Franchising can produce long-term cash flows that concomitantly reduce operating risks. In fiscal 2008, direct franchising costs represented 2% of Steak n Shake's general and administrative expenses (G&A). Although we have long believed that franchising represents Steak n Shake's future, we first made certain that we had a durable operating model. Thus, we began allocating sizable capital to franchising efforts in fiscal 2011 as direct franchising costs represented 10.4% of G&A. In fiscal 2012, these costs increased to 14.8% of G&A. We have steadily intensified our investment, upping it to 24.8% of G&A in fiscal 2013. The results of these expenditures are displayed below in the number of franchise units and the revenues derived from them:

(Dollars in 000's)

	Number of Franchise Units	**Franchise Revenue**	**Revenue Growth Rate**
2010	71	$ 4,205	N/A
2011	76	5,348	27.2
2012	83	6,499	21.5
2013	104	8,707	34.0
Overall Gain (2010-2013)	33	$ 4,502	107.1%

Steak n Shake started franchising in 1939, five years after the company began. However, from 1939 through 2010 the company added an average of only one franchised unit per year. Even for a long-term owner, 71 units in 71 years bring to mind John Maynard Keynes' warning, "*In the long run* we are all dead." While Phil and I are patient, we're not that patient — we want to become a global brand within *Phil's* lifetime. We are off to a good start: Over the last three years we have added 33 franchised units, compounding revenue at an average rate of 27.5% annually. We have signed agreements with franchisees who in the coming years have committed to opening 173 units. In fiscal 2014, we again should set a record with our franchise revenue exceeding $12 million.

For the brand to become ubiquitous, we have designed and developed our concepts in a modular way, not possessing a single, inflexible method, but adaptable to various real estate formats. Because of our modular approach, over the last year we have franchised locations in airports, gas stations, and shopping malls. As an agile and adaptable organization, we will go where the customers want or need to be.

Our flexible approach is a *sine qua non* to our international initiatives. We now have an office in Monaco to support our international expansion, starting in the Middle East and Europe. We are developing an international organization with personnel in various functions able to execute with conformity, consistency, and creativity. Our first international Steak n Shake opened in Dubai, United Arab Emirates in 2013, as part of a 40-unit agreement. The next opening is scheduled to be in Abu Dhabi, the capital city of UAE. Moreover, we expect to sign up additional franchisees in the region in 2014.

Furthermore, we are confident about our prospects in Europe. We believe it is essential first to open several company-operated locations because we want to introduce and promote the Steak n Shake brand. The first Steak n Shake opening will be in Ibiza, Spain, where we will stage a celebration in the spring of 2014. Underway are several additional company-operated units in Europe that will serve as models for prospective franchisees.

We are thrilled about growing both domestic and international franchising. Steak n Shake is our kind of business: a combination of old-favorites — burgers and shakes having no obsolescence risk — and a franchising model, a cash generator with high returns on incremental capital.

Shareholder Communications

We will continue with our policy of refraining from airing investment ideas. We leave public promotions of stocks to others. We do not see an upside to discussing specific, publicly-traded companies. In fact, we see a significant downside, inasmuch as blueprinting our methods and sharing our trade secrets can diminish the value of our business. As a consequence, outside of regulatory requirements, we will not telegraph our investments, our rationale, or our plans.

My aim in the Chairman's Letter is to impart our business philosophy, explain how the business has performed, and supply the information necessary to arrive at your own estimate of the intrinsic value of the company. Past Chairman's Letters are important in that they help you gain more knowledge of the business. These letters can be easily accessed on our website, biglariholdings.com. We are providing information we ourselves would want to know if our roles were reversed with yours.

We will issue press releases on fiscal 2014's quarterly results after the market closes on January 24, May 16, and August 8. The 2014 annual report will be posted on our website on Saturday, November 22, 2014.

Our annual meeting will be held at 1:00 pm on Thursday, April 24, 2014 in New York City at the St. Regis Hotel. The bulk of the meeting will center on answering your questions. If you have not attended our meeting, I encourage you to do so. But the meeting is just for our owners; thus, to attend, you must own shares and show proof thereof. Our meetings are highly unusual because they generally last over five hours. Each year we are adding knowledgeable owners while repelling those who do not understand our *modus operandi*. Most public companies do not engage in uncontrolled question-and-answer sessions for several hours. Irrespective of our deviation from business orthodoxy, we will do what makes sense. Phil and I look forward to spending the time necessary to answer your questions. We find the annual meeting to be an effective means for communication. You may find it refreshing that a public company can talk not in bureaucratese but straightforwardly with its owners.

If you need to rely on third parties — analysts or advisors — to make investment- or proxy-related decisions, you are not our kind of investor. We are seeking *owners* who are guided by logic, not by convention. Thus, you must be comfortable with placing confidence in an entrepreneur-led company and with the unpredictability of capital allocation that comes with it. Because we operate differently from most public companies, we require shareholders of a different bent. Those seeking a traditional company, requiring predictability, are going to be disappointed with BH. It is an entrepreneurial enterprise accepting bumpiness in pursuit of higher returns. If you think this system is not in sync with your expectations, it would be best for you to exit now, not after a market shock. Our stock, in effect, rules out bureaucrats, who will not understand our dynamic approach. As 18th century poet and man of letters Samuel Johnson said, "Sir, I have found you an argument; but I am not obliged to find you an understanding."

BH is no stock for dummies.

* * *

As a collector of businesses, Biglari Holdings is an ideal vehicle for assembling cash-producing, prosaic enterprises. We proceed fearlessly and industriously into activities often unconventional that we believe will maximize BH's per-share intrinsic value. We willingly go against the crowd when we find that doing so is beneficial. We are positioned for prosperity because we are prepared for adversity. We are honored to have owners who have placed their trust in us.

Sardar Biglari
Chairman of the Board

December 6, 2013