

BIGLARI HOLDINGS INC.

2013 ANNUAL REPORT

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	<u>75.6</u>
Total	<u><u>\$ 628.5</u></u>

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:

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

(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)

	<u>Net Revenue</u>	<u>Operating Earnings</u>	<u>Number of Customers</u>	<u>Number of Company Stores at Year-End</u>	<u>Operating Earnings Per Store</u>
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, biglarholdings.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

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

FORM 10-K

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

For the fiscal year ended September 25, 2013

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 0-8445

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation)

37-0684070

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

**17802 IH 10 West, Suite 400
San Antonio, Texas**

(Address of principal executive offices)

78257

(Zip Code)

(210) 344-3400

Registrant's telephone number, including area code

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

Title of each class	Name of each exchange on which registered
Common Stock, stated value \$.50 per share	New York Stock Exchange

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of April 10, 2013 was approximately \$464,091,032 based on the closing stock price of \$383.52 per share on that day.

As of December 3, 2013, 1,720,834 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. Business

Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) is a diversified holding company engaged in a number of business activities. The Company’s most important operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, Steak n Shake Operations, Inc. (“Steak n Shake”), and Western Sizzlin Corporation (“Western”). The Company’s long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

Biglari Holdings’ fiscal year ends on the last Wednesday in September. Accordingly, every five or six years, our fiscal year contains 53 weeks. Fiscal years 2013, 2012, and 2011 contained 52 weeks. The Company’s first, third, and fourth quarters contain 12 weeks and our second quarter contains 16 weeks (except in fiscal years when there are 53 weeks, in which case the fourth quarter contains 13 weeks). Western’s financial reporting is on a calendar, not fiscal, year end.

Restaurant Operations

The Company’s Restaurant Operations’ activities are conducted through two restaurant concepts, Steak n Shake and Western Sizzlin. As of September 25, 2013, Steak n Shake operated 415 company-operated restaurants and 104 franchised units. Western operated 4 company-operated restaurants and 82 franchised units.

Steak n Shake is engaged in the ownership, operation, and franchising of Steak n Shake restaurants. Founded in 1934 in Normal, Illinois, Steak n Shake is a classic American brand serving premium burgers and milk shakes.

Western Sizzlin is engaged primarily in the franchising of restaurants. Founded in 1962 in Augusta, Georgia, Western Sizzlin offers signature steak dishes as well as other classic American menu items. Western Sizzlin also operates other concepts, Great American Steak & Buffet, and Wood Grill Buffet consisting of hot and cold food buffet style dining.

Restaurant Operations

A typical restaurant’s management team consists of a general manager, a restaurant manager and other managers depending on the operating complexity and sales volume of the restaurant. Each restaurant’s general manager has primary responsibility for the day-to-day operations of his or her unit.

Purchasing

Restaurant Operations obtain food products and supplies from independent national distributors. Purchases are centrally negotiated to ensure uniformity in product quality.

Franchising

Restaurant Operations’ franchising program extends the brands to areas in which there are no current development plans for Company stores. The expansion plans include seeking qualified new franchisees and expanding relationships with current franchisees.

Restaurant Operations typically seek franchisees with both the financial resources necessary to fund successful development and significant experience in the restaurant/retail business. Both restaurant chains assist franchisees with the development and ongoing operation of their restaurants. In addition, personnel assist franchisees with site selection, approve restaurant sites, and provide prototype plans, construction support and specifications. Restaurant Operations’ staff provides both on-site and off-site instruction to franchised restaurant management and associates. Moreover, Steak n Shake franchised restaurants are required to serve only approved menu items.

International

Historically, we had no exposure to international markets. Starting in fiscal 2012, we began perusing activities to expand globally. During fiscal year 2013 the first Steak n Shake franchise restaurant opened in Dubai, United Arab Emirates, as part of a 40-unit agreement. We have opened a corporate office in Monaco to support expansion in the Middle East and Europe. We are developing an international organization with personnel in various functions to support international efforts. We plan to open several company-operated locations in Europe to introduce and promote the Steak n Shake brand to prospective franchisees. Similar to our domestic franchise agreements, a typical international franchise development agreement provides the vehicle for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. In fiscal 2013, 24.8% of Steak n Shake’s general and administrative expenses were spent on direct franchising costs which included efforts to franchise internationally.

Geographic Concentration and Restaurant Locations

The following table lists the locations of the 605 Steak n Shake and Western Sizzlin restaurants, including 186 franchised units, as of September 25, 2013:

	<u>Steak n Shake</u>		<u>Western Sizzlin</u>		<u>Total</u>
	<u>Company-operated</u>	<u>Franchised</u>	<u>Company-operated</u>	<u>Franchised</u>	
Domestic:					
Alabama	2	5	—	6	13
Arkansas	—	2	—	17	19
California	—	—	—	2	2
Colorado	—	1	—	—	1
Florida	80	2	—	1	83
Georgia	23	14	—	8	45
Illinois	63	7	—	1	71
Indiana	68	2	—	—	70
Iowa	3	—	—	—	3
Kansas	—	4	—	1	5
Kentucky	14	2	—	—	16
Louisiana	—	1	—	1	2
Maryland	—	—	—	2	2
Michigan	19	1	—	—	20
Mississippi	—	1	—	8	9
Missouri	39	23	—	1	63
Nevada	—	2	—	—	2
New Jersey	—	1	—	—	1
New York	1	—	—	—	1
North Carolina	6	6	—	10	22
Ohio	63	—	—	1	64
Oklahoma	—	5	—	11	16
Pennsylvania	6	3	—	—	9
South Carolina	1	4	1	3	9
Tennessee	9	8	—	4	21
Texas	18	4	—	—	22
Virginia	—	3	3	4	10
West Virginia	—	2	—	1	3
International:					
United Arab Emirates	—	1	—	—	1
Total	<u>415</u>	<u>104</u>	<u>4</u>	<u>82</u>	<u>605</u>

Competition

The restaurant business is one of the most intensely competitive industries. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company's Restaurant Operations capabilities. Restaurant businesses compete on the basis of price, menu, food quality, location, personnel and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, severe weather conditions, and competing restaurants. Additional factors that may adversely affect the restaurant industry include, but are not limited to, food and wage inflation, safety, and food-borne illness.

Government Regulation

The Company is subject to various global, federal, state and local laws affecting its Restaurant Operations. Each of the restaurants must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the jurisdiction in which the restaurant is located. In addition, each restaurant must comply with various laws that regulate the franchisor/franchisee relationship, employment and pay practices and child labor laws. To date, none of the Company Restaurant Operations have been materially adversely affected by such laws or been affected by any difficulty, delay or failure to obtain required licenses or approvals.

Investment Management

On July 1, 2013, Biglari Holdings sold all of the outstanding shares of Biglari Capital Corp ("Biglari Capital") to Mr. Biglari. Biglari Capital is the general partner of The Lion Fund, L.P. and the newly-formed The Lion Fund II, L.P, limited partnerships that operate as private investment funds (collectively, the "investment partnerships"). On July 3, 2013, the Company liquidated the partners' interests in Western Acquisitions, L.P. by distributing assets of the partnership to the partners. Prior to the sale of Biglari Capital and the liquidation of Western Acquisitions, L.P., the Investment Management segment was composed of Biglari Capital and Western Investments, Inc., the general partner of Western Acquisitions, L.P. This segment provided investment advisory services to private investment funds.

The Company and its subsidiaries have invested in the investment partnerships in the form of limited partner interest. In 2013 the Company contributed cash and securities, with an aggregate value of \$377.6 million to the investment partnerships. These investments are subject to a rolling five-year lock-up period under the terms of the respective partnership agreements.

Employees

The Company employs 21,686 persons.

Trademarks

Steak n Shake trademarks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office include, among others: “Steak n Shake®”, “Steak’n Shake Famous For Steakburgers®”, “Famous For Steakburgers®”, “Tahomasak®”, “Original Steakburgers®”, “In Sight It Must Be Right®”, “Steak n Shake It’s a Meal®”, “The Original Steakburger®”, “Steak n Shake In Sight It Must be Right®”, “Original Double Steakburger®”, “Steak n Shake Signature®”, “Signature Steakburger®”, “California Double Steakburger®”, “Just No Equal®”, “3-D Grilled Cheese Steakburger®”, “Steak Franks®”, and “Steak n Shake by Biglari®”.

Western trademarks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office include, among others: “Western Sizzlin®”, “Western Sizzlin Steak House®”, “Western®”, “Sizzlin®”, “Western Sizzlin Wood Grill and Buffet®”, and “Western Sizzlin Wood Grill®”.

Biglari trademarks “Biglari”, “Biglari Design”, “Biglari Group”, among others have been filed with the Principal Register of the U.S. Patent and Trademark Office in association with one or more of the following categories: the provision of investment services, franchising services, financial services, restaurant franchising (including business management assistance in the establishment and/or operating of restaurants), hospitality services, hotel management services, insurance services, restaurant services, retail and retail related services, real estate services and apparel.

On January 11, 2013, the Company entered into a Trademark License Agreement with Mr. Biglari pursuant to which Mr. Biglari granted to the Company an exclusive license to use the Biglari and Biglari Holdings names and marks in association with various products and services. On May 14, 2013, the Company, Steak n Shake, LLC and Steak n Shake Enterprises, Inc. entered into a Trademark Sublicense Agreement providing for the association of the Biglari name and mark with all of Steak n Shake’s restaurants (including Company-operated and franchised locations), products and brands. See Note 17, “Related Party Transactions” in the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Additional information with respect to Biglari Holdings’ businesses

Information related to our reportable segments may be found in Part II, Item 8 of this Form 10-K.

Biglari Holdings maintains a website (www.biglariholdings.com) where its annual reports, press releases, interim shareholder reports and links to its subsidiaries’ websites can be found. Biglari Holdings’ periodic reports filed with the Securities and Exchange Commission (the “SEC”), which include Form 10-K, Form 10-Q, Form 8-K and amendments thereto, may be accessed by the public free of charge from the SEC and through Biglari Holdings’ website. In addition, corporate governance documents such as Corporate Governance Guidelines, Code of Conduct, Governance, Compensation and Nominating Committee Charter and Audit Committee Charter are posted on the Company’s website and are available without charge upon written request. The Company’s website and the information contained therein or connected thereto are not intended to be incorporated into this report on Form 10-K.

Item 1A. Risk Factors

Biglari Holdings and its subsidiaries (referred to herein as “we,” us,” “our,” or similar expressions) are subject to certain risks and uncertainties in our business operations which are described below. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair our business operations.

We are dependent on our Chairman and CEO.

Our success depends on the services of Sardar Biglari, Chairman and Chief Executive Officer. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer. Moreover, certain counterparties have requested and obtained a provision in their agreements with the right to terminate in the event Mr. Biglari ceases to be our Chairman and Chief Executive Officer. If for any reason the services of Mr. Biglari were to become unavailable, there could be a material adverse effect on our business.

Competition.

Each of our operating businesses faces intense competitive pressure within the markets in which they operate. Competition may arise domestically as well as internationally. While we manage our businesses with the objective of achieving long-term sustainable growth by developing and strengthening competitive advantages, many factors, including market changes, may erode or prevent the strengthening of competitive advantages. Accordingly, future operating results will depend to some degree on whether our operating units are successful in protecting or enhancing their competitive advantages. If our operating businesses are unsuccessful in these efforts, our periodic operating results may decline from current levels in the future.

The restaurant business is one of the most competitive industries. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company’s Restaurant Operations capabilities. Restaurant businesses compete on the basis of price, menu, food quality, location, personnel and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, severe weather conditions, and competing restaurants. Additional factors that may adversely affect the restaurant industry include, but are not limited to, food and wage inflation, safety, and food-borne illness.

Unfavorable economic, societal and political conditions could hurt our operating businesses.

Our operating businesses are subject to normal economic cycles affecting the economy in general or the industries in which we operate. To the extent that the recovery from the economic recession continues to be slow or the economy worsens for a prolonged period of time, one or more of our significant operations could be materially harmed. In addition, we depend on having access to borrowed funds through the capital markets at reasonable rates. To the extent that access to the credit is restricted or the cost of funding increases, our business could be adversely affected.

As a result of our international expansion, we may become subject to increased risks from unstable political conditions and civil unrest. Further, terrorism activities deriving from unstable conditions or acts intended to compromise the integrity or security of our computer networks and information systems could produce losses to our international operations, as well as our operations based in the United States. Our business operations could be adversely affected directly through the loss of human resources or destruction of production facilities and information systems.

The restaurant industry has been affected by economic factors, including the deterioration of global, national, regional and local economic conditions, declines in employment levels, and shifts in consumer spending patterns. The disruptions experienced in the global economy and volatility in the financial markets have reduced, and may continue to reduce, consumer confidence in the economy, negatively affecting consumer restaurant spending, which could be harmful to our financial position and results of operations. As a result, decreased cash flow generated from our business may adversely affect our financial position and our ability to fund our operations. In addition, macroeconomic disruptions could adversely impact the availability of financing for our franchisees’ expansions and operations.

Our cash flows and financial position could be negatively impacted if we are unable to comply with the restrictions and covenants in Steak n Shake's debt agreements.

The Company's subsidiaries currently maintain debt instruments, including Steak n Shake's credit agreement, dated as of September 25, 2012, as amended, with the lenders party thereto (the "Credit Facility"). Covenants in the debt agreements impose operating and financial restrictions, including requiring operating subsidiaries to maintain certain financial ratios and thereby restricting, among other things, their ability to incur additional indebtedness and make distributions to the Company. Their failure to comply with these covenants and restrictions could constitute an event of default that, if not cured or waived, could result, among other things, in the acceleration of their indebtedness, which could negatively impact our operations and business and may also significantly affect our ability to obtain additional or alternative financing. In such event, our cash flows may not be sufficient to fully repay this indebtedness and we cannot assure you that we would be able to refinance or restructure this debt. In addition, the restrictions contained in these debt instruments could adversely affect our ability to finance our operations, acquisitions or investments.

Steak n Shake's ability to make payments on the Credit Facility and to fund operations depends on its ability to generate cash, which is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. Steak n Shake may not generate sufficient cash flow from operations to service this debt or to fund its other liquidity needs.

We may be required to recognize additional impairment charges on our long-lived assets and goodwill, which would adversely affect our results of operations and financial position.

Long-lived assets, including restaurant sites, leasehold improvements, other fixed assets, and amortized intangible assets are reviewed for impairment annually or more frequently if circumstances indicate impairment may have occurred. Expected cash flows associated with an asset over its estimated useful life are the key factor in determining the recoverability of the carrying value of the asset. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance. Management's estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, changes in economic conditions, changes to our business model or changes in operating performance. If the sum of the estimated undiscounted cash flows over an asset's estimated useful life is less than the carrying value of the asset, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

We periodically evaluate our goodwill to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to income may be necessary. Estimated fair values developed based on our assumptions and judgments might be significantly different if other reasonable assumptions and estimates were to be used. If estimated fair values are less than the carrying values of goodwill in future impairment tests, or if significant impairment indicators are noted relative to other intangible assets subject to amortization, we may be required to record impairment losses against future income. Any future evaluations requiring an impairment of our goodwill and other intangible assets could materially affect our results of operations and shareholders' equity in the period in which the impairment occurs.

Judgments made by management related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions and changes in operating performance. As the ongoing expected cash flows and carrying amounts of long-lived assets are assessed, these factors could cause us to realize a material impairment charge. If assets are determined to be impaired, the determination of an asset's fair value, which is generally measured by discounting estimated future cash flows, is also subject to significant judgment, including the determination of a discount rate that is commensurate with the risk inherent in the projected cash flows. If the assumptions underlying these judgments change in the future, we may be required to realize further impairment charges for these assets.

Our historical growth rate and performance are not indicative of our future growth or financial results.

Our historical growth must be viewed in the context of the recent opportunities available to us as a result of our access to capital at a time when market conditions resulted in unprecedented asset acquisition opportunities. When evaluating our historical growth and prospects for future growth, it is also important to consider that while our business philosophy has remained relatively constant, our mix of business, distribution channels and areas of focus have changed and will continue to change. Our dynamic business model makes it difficult to assess our prospects for future growth.

Fluctuations in commodity and energy prices and the availability of commodities, including beef, fried products, poultry, and dairy, could affect our restaurant business.

The cost, availability and quality of ingredients Restaurant Operations use to prepare their food is subject to a range of factors, many of which are beyond their control. A significant component of our restaurant business' costs is related to food commodities, including beef, fried products, poultry, and dairy products, which can be subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, changes in international commodity markets, and other factors. If there is a substantial increase in prices for these food commodities, our results of operations may be negatively affected. In addition, our restaurants are dependent upon frequent deliveries of perishable food products that meet certain specifications. Shortages or interruptions in the supply of perishable food products caused by unanticipated demand, problems in production or distribution, disease or food-borne illnesses, inclement weather, or other conditions could adversely affect the availability, quality, and cost of ingredients, which would likely lower revenues, damage our reputation, or otherwise harm our business.

We face a variety of risks associated with doing business in foreign markets.

There is no assurance that our international operations will be profitable. Our international operations are subject to all of the risks associated with our domestic operations, as well as a number of additional risks, varying substantially country by country. These include, *inter alia*, international economic and political conditions, corruption, social and ethnic unrest, foreign currency fluctuations, differing cultures and consumer preferences. Our expansion into international markets could also create risks to our brands.

In addition, we may become subject to foreign governmental regulations that impact the way we do business with our international franchisees and vendors. These include antitrust and tax requirements, anti-boycott regulations, international trade regulations, the USA Patriot Act, the Foreign Corrupt Practices Act, and applicable local law. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business and our financial condition.

The inability of Restaurant Operations' franchisees to operate profitable restaurants may negatively impact our financial performance.

Restaurant Operations operate franchise programs and collect royalties and marketing and service fees from their franchisees. Growth within the existing franchise base is dependent upon many of the same factors that apply to our Restaurant Operations' company-operated restaurants, and sometimes the challenges of opening profitable restaurants prove to be more difficult for the franchisees. For example, franchisees may not have access to the financial or management resources that they need to open or continue operating the restaurants contemplated by their franchise agreements. In addition, our Restaurant Operations' continued growth is also partially dependent upon our ability to find and retain qualified franchisees in new markets, which may include markets in which the Steak n Shake and Western brands are less well known. Furthermore, the loss of any franchisees due to financial concerns and/or operational inefficiencies could impact our Restaurant Operations' profitability. Moreover, if our franchisees do not successfully operate or market restaurants in a manner consistent with our standards, our restaurant brands' reputations could be harmed, which in turn could adversely affect our business and operating results.

Adverse weather conditions or losses due to casualties could negatively impact our operating performance.

Property damage caused by casualties and natural disasters, instances of inclement weather, flooding, hurricanes, fire, and other acts of nature can adversely impact sales in several ways. Many of Steak n Shake's and Western's restaurants are located in the Midwest and Southeast portions of the United States. During the first and second fiscal quarters, restaurants in the Midwest may face harsh winter weather conditions. During the first and fourth fiscal quarters, restaurants in the Southeast may experience hurricanes or tropical storms. Our sales and operating results may be negatively affected by these harsh weather conditions, which could make it more difficult for guests to visit our restaurants, necessitate the closure of restaurants for a period of time or costly repairs due to physical damage or lead to a shortage of employees resulting from unsafe road conditions or an evacuation of the general population.

We are subject to health, employment, environmental, and other government regulations, and failure to comply with existing or future government regulations could expose us to litigation or penalties, damage our reputation, and lower profits.

We are subject to various global, federal, state, and local laws and regulations affecting our business. Changes in existing laws, rules and regulations applicable to us, or increased enforcement by governmental authorities, may require us to incur additional costs and expenses necessary for compliance. If we fail to comply with any of these laws, we may be subject to governmental action or litigation, and our reputation could be accordingly harmed. Injury to our reputation would, in turn, likely reduce revenues and profits.

The development and construction of restaurants is subject to compliance with applicable zoning, land use, and environmental regulations. Difficulties in obtaining, or failure to obtain, the required licenses or approvals could delay or prevent the development of a new restaurant in a particular area.

In recent years, there has been an increased legislative, regulatory, and consumer focus on nutrition and advertising practices in the food industry. As a result, Restaurant Operations may become subject to regulatory initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of our food products, which could increase expenses. The operation of the Steak n Shake and Western franchise system is also subject to franchise laws and regulations enacted by a number of states, and to rules promulgated by the U.S. Federal Trade Commission. Any future legislation regulating franchise relationships may negatively affect our operations, particularly our relationship with franchisees. Failure to comply with new or existing franchise laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales. Further national, state and local government initiatives, such as mandatory health insurance coverage, “living wage” or other proposed increases in minimum wage rates could adversely affect our business.

Our investment activities are now conducted primarily through outside investment partnerships: The Lion Fund, L.P. and The Lion Fund II, L.P.

As a result of our sale of Biglari Capital Corp. (“Biglari Capital”), general partner of The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, the “investment partnerships”), to Mr. Biglari, and the contribution of our investments to these funds in exchange for limited partner interests, our investment activities are now conducted mainly through these outside investment partnerships. Under the terms of their partnership agreements, each contribution made by the Company to the investment partnerships is subject to a five-year lock-up period, and any distribution upon our withdrawal of funds will be paid out over a two-year period. As a result of these provisions, our capital invested in the investment partnerships may be subject to an increased risk of loss of all or a significant portion of value, and may become unable to meet our capital requirements.

In connection with the sale of Biglari Capital, we also entered into a Shared Services Agreement with Biglari Capital pursuant to which we agreed to provide certain services to Biglari Capital (e.g., use of space at our corporate headquarters) in exchange for a 6% hurdle rate for the Company and its subsidiaries (as compared to a 5% hurdle rate for all other limited partners), above which Biglari Capital is entitled to receive an incentive reallocation in its capacity as general partner of the investment partnerships. There can be no assurance that the benefit, if any, we may realize from this increased hurdle rate will enable us to recoup our costs incurred in performing services for Biglari Capital under the Shared Services Agreement.

Our investment activities may involve the purchase of securities on margin.

We may purchase securities on margin in connection with our investment activities. If we do so, a significant decrease in the value of the securities that collateralize the margin line of credit could result in a margin call. If we do not have sufficient cash available from other sources in the event of a margin call, we may be required to sell those securities at a time when we prefer not to sell them, which could result in material losses.

Our investments are unusually concentrated and fair values are subject to a loss in value.

Our investments are concentrated in outside limited partnerships, which generally invest in common stocks. A significant decline in the major values of these partnerships may produce a large decrease in our consolidated shareholders’ equity and can have a material adverse effect on our consolidated book value per share and earnings.

We are subject to the risk of possibly becoming an investment company under the Investment Company Act of 1940.

Because we are a holding company and a significant portion of our assets may, from time to time, consist of investments in entities in which we do not have a controlling interest, we run the risk of inadvertently becoming an investment company, which would require us to register under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Registered investment companies are subject to extensive, restrictive and potentially adverse regulations relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid becoming and registering as an investment company under the Investment Company Act, we monitor the value of our investments and structure transactions accordingly. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings or adverse developments with respect to our ownership of certain of our subsidiaries, could result in our inadvertently becoming an investment company. If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the SEC, that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

We may not be able to adequately protect our intellectual property, which could decrease the value of our brand and products.

The success of our business depends on the continued ability to use the existing trademarks, service marks, and other components of our brand to increase brand awareness and further develop branded products. While we take steps to protect our intellectual property, our rights to our trademarks could be challenged by third parties or our use of these trademarks may result in liability for trademark infringement, trademark dilution, or unfair competition, adversely affecting our profitability. We may also become subject to these risks in the international markets in which we plan to operate.

Litigation could have a material adverse effect on our financial position, cash flows and results of operations.

We are or may be from time to time a party to various legal actions, investigations and other proceedings brought by employees, consumers, suppliers, shareholders, government agencies or other third parties in connection with matters pertaining to our business, including related to our investment activities. The outcome of such matters is often difficult to assess or quantify and the cost to defend future proceedings may be significant. Even if a claim is unsuccessful or is not fully pursued, the negative publicity surrounding any negative allegation regarding our Company, our business or our products could adversely affect our reputation. While we believe that the ultimate outcome of routine legal proceedings individually and in the aggregate will not have a material impact on our financial position, we cannot assure that an adverse outcome on, or reputational damage from, any of these matters would not, in fact, materially impact our business and results of operations for the period when these matters are completed or otherwise resolved.

Certain agreements with our Chairman and CEO may deter a change of control.

We have entered into a license agreement with Sardar Biglari, Chairman and Chief Executive Officer, under which Mr. Biglari has granted the Company an exclusive license to use his name when connected to the provision of certain products and services, and a sublicense agreement with Steak n Shake that, among other things, grants Steak n Shake the right to use the trademark “Steak n Shake by Biglari.” In the event of a change of control of the Company, Mr. Biglari would be entitled to receive revenue-based royalty payments related to the usage of his name under the terms of the license agreement for a defined period of no less than five years. Revenue-based royalties derived from Steak n Shake’s restaurants (including Company operated and franchised locations), products and brands, would be included in calculating these royalty payments. A change of control would also enable franchisees to terminate their franchise agreement with us. In addition, we have an incentive agreement with Mr. Biglari, in which he is entitled to receive performance-based annual incentive payments contingent on the growth of the Company’s adjusted book value in each fiscal year. In the event of a change in control after the third anniversary of the incentive agreement, Mr. Biglari would receive specified payments thereunder. The combination of these provisions along with others referenced (e.g., contracts cancellable if Mr. Biglari is no longer Chairman and CEO) altogether could have the effect of preventing a transaction involving a change of control of the Company or deterrence of a potential proxy contest.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Office and Warehouse Facilities

Use	Location	Own/Lease
Executive Office	San Antonio, TX	Lease
Executive Office	Indianapolis, IN	Lease
Executive Office	Roanoke, VA	Lease
Executive Office	Los Angeles, CA	Lease
Executive Office	Monte-Carlo, Monaco	Lease
Executive Office	Indianapolis, IN	Own

Restaurant Properties

As of September 25, 2013, Restaurant Operations included 605 company-operated and franchised. Restaurant Operations owns the land and building for 153 restaurants. See “Geographic Concentration and Restaurant Locations” under Part I, Item 1 for additional detail.

Item 3. Legal Proceedings

We are involved in various legal proceedings and have certain unresolved claims pending. We believe, based on examination of these matters and experiences to date, that the ultimate liability, if any, in excess of amounts already provided in our consolidated financial statements is not likely to have a material effect on our results of operations, financial position or cash flows.

On June 3, 2013 and July 2, 2013, two shareholders of the Company filed derivative actions putatively on behalf of the Company against the members of our board of directors in the United States District Courts for the Southern District of Indiana and the Western District of Texas. The shareholders allege claims for breach of fiduciary duty, gross mismanagement, contribution and indemnification, abuse of control, waste, and unjust enrichment relating to certain Company transactions, including the Company’s acquisition of Biglari Capital, Mr. Biglari’s incentive agreement, the trademark license agreement between the Company and Mr. Biglari, and the Company’s rights offering. The shareholders seek to recover unspecified damages, various forms of injunctive relief, and an award of their attorneys’ fees. The Company believes these claims are without merit and intends to defend these cases vigorously.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Rights Offering

In fiscal year 2013, Biglari Holdings completed an offering of transferable subscription rights, distributing one transferable subscription right (“Rights”) for each share of its common stock to shareholders of record on August 27, 2013. Every five Rights entitled a shareholder to subscribe for one share of common stock at a price of \$265.00. Shareholders on the record date who fully exercised the Rights distributed to them were also entitled to subscribe for and purchase additional shares of common stock not purchased by other Rights holders through their basic subscription privileges. The offering was oversubscribed and 286,767 new shares of common stock were issued. The Company received net proceeds of \$75.6 million from the offering. Including the issuance of the newly subscribed shares the Company had 1,720,782 shares outstanding as of September 25, 2013.

Market Information

Biglari Holdings’ common stock is listed for trading on the New York Stock Exchange (the “NYSE”), trading symbol: BH. The following table sets forth the high and low sales prices per share, as reported on the NYSE List and adjusted for the 2013 offering of transferable subscription rights during the periods indicated:

	2013		2012	
	High	Low	High	Low
First Quarter	\$ 354.06	\$ 305.00	\$ 363.86	\$ 266.26
Second Quarter	374.69	339.09	388.64	341.91
Third Quarter	385.32	345.84	384.04	339.13
Fourth Quarter	432.67	385.15	368.76	325.90

Shareholders

Biglari Holdings had approximately 10,300 beneficial shareholders, of which approximately 1,200 were record holders of its common stock at December 3, 2013.

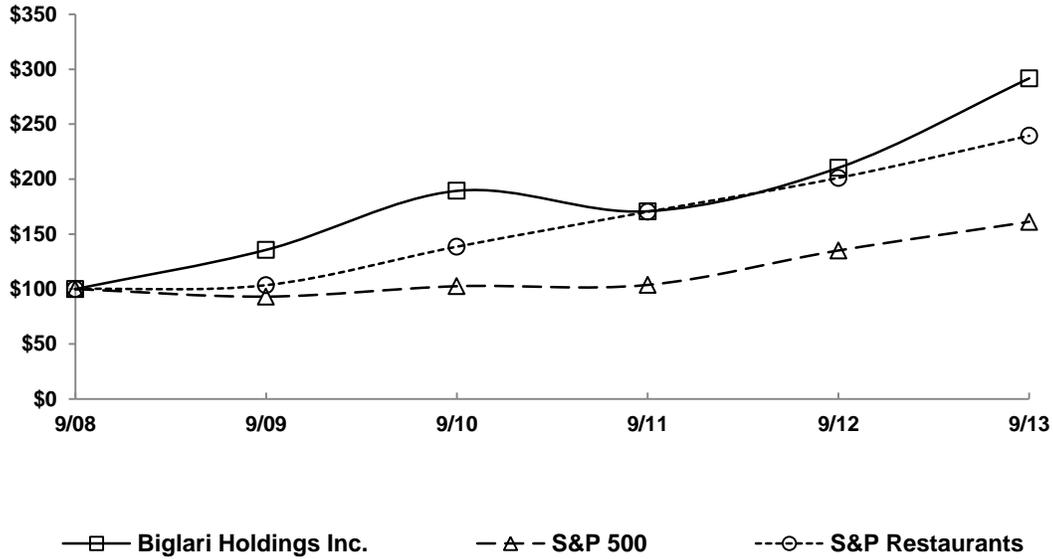
Dividends

Biglari Holdings has not declared a cash dividend during the fiscal years ended September 25, 2013, September 26, 2012 and September 28, 2011.

Performance Graph

The following chart compares the subsequent value of \$100 invested in Biglari Holdings’ common stock on September 30, 2008 with a similar investment in the Standard and Poor’s 500 Stock Index and Standard and Poor’s Restaurant Index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Biglari Holdings Inc., the S&P 500 Index, and the S&P Restaurants Index



*\$100 invested on 9/30/08 in stock or index, including reinvestment of dividends.
Fiscal year ending September 30.

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The preceding stock price performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent that we specifically incorporate it by reference into such filings.

Securities Authorized for Issuance Under Equity Compensation Plans

The “Equity Compensation Plan Information” required by Item 201(d) of Regulation S-K will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

Item 6. Selected Financial Data

Selected Financial Data for the Past Five Years

(dollars in thousands except per share data)

	52 Weeks Ended				53 Weeks Ended
	Fiscal 2013 ⁽²⁾⁽⁴⁾	Fiscal 2012 ⁽²⁾⁽³⁾	Fiscal 2011 ⁽²⁾⁽³⁾	Fiscal 2010 ⁽²⁾⁽³⁾	Fiscal 2009 ⁽²⁾
Revenue:					
Total net revenues	\$ 755,822	\$ 740,207	\$ 709,200	\$ 673,781	\$ 628,736
Earnings:					
Net earnings attributable to Biglari Holdings Inc.	\$ 140,271	\$ 21,593	\$ 34,565	\$ 28,094	\$ 5,998
Basic earnings per share attributable to Biglari Holdings Inc. ⁽¹⁾	\$ 98.11	\$ 15.02	\$ 24.13	\$ 18.67	\$ 3.91
Diluted earnings per share attributable to Biglari Holdings Inc. ⁽¹⁾	\$ 97.90	\$ 14.99	\$ 24.00	\$ 18.55	\$ 3.89
Year-end data:					
Total assets	\$ 988,543	\$ 773,787	\$ 672,860	\$ 563,839	\$ 514,496
Long-term debt:					
Obligations under leases	106,247	110,353	116,066	124,247	130,076
Other long-term debt	110,500	120,250	101,417	17,781	48
Biglari Holdings Inc. shareholders' equity	\$ 564,589	\$ 349,125	\$ 279,678	\$ 248,995	\$ 291,861

(1) Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. In fiscal year 2013 the Company completed a rights offering in which 286,767 new shares of common stock were issued. The theoretical earnings per share have been retroactively restated for all years to give effect to the rights offering.

(2) Fiscal years 2013, 2012, 2011, 2010, and 2009 ended on September 25, 2013, September 26, 2012, September 28, 2011, September 29, 2010 and September 30, 2009, respectively.

(3) For financial reporting purposes all common shares of the Company held by the consolidated affiliated partnerships are recorded in Treasury stock on the Consolidated Balance Sheet. For purposes of computing the weighted average common shares outstanding, the shares of treasury stock attributable to the unrelated limited partners of the consolidated affiliated partnerships — based on their proportional ownership during the period — are considered outstanding shares.

(4) For financial reporting purposes and for purposes of computing the weighted average common shares outstanding, the shares of Company stock attributable to the unrelated limited partners of The Lion Fund, L.P.— based on their proportional ownership during the period — are considered outstanding shares.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands except per share data)

Biglari Holdings Inc. ("Biglari Holdings" or the "Company") is a diversified holding company engaged in a number of business activities. Our most important operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, Steak n Shake Operations, Inc. ("Steak n Shake"), and Western Sizzlin Corporation ("Western"). Our long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

On July 1, 2013, Biglari Holdings sold all of the outstanding shares of Biglari Capital Corp. ("Biglari Capital") to Mr. Biglari. Biglari Capital is the general partner of The Lion Fund, L.P. (the "Lion Fund") and the newly-formed The Lion Fund II, L.P. (the "Lion Fund II"). Lion Fund and Lion Fund II (collectively "investment partnerships") are limited partnerships that operate as private investment funds. In connection with the sale of Biglari Capital, the Company contributed cash and securities with an aggregate value of \$377,636 to the investment partnerships in exchange for a limited interest.

Biglari Holdings recognized a non-cash pre-tax gain of \$182,476 (\$114,931 net of tax) on the contribution of securities to investment partnerships in 2013. Biglari Holdings' management does not regard the gain that was recorded, as required by GAAP, as meaningful. The gain recognized for financial reporting purposes is deferred for income tax purposes. The transaction essentially had no effect on our consolidated shareholders' equity because the gain included in earnings in 2013 was accompanied by a corresponding reduction of unrealized investment gains included in Accumulated Other Comprehensive Income.

Our interests are accounted as equity method investments because of our retained limited partner interest in the investment partnerships. The Company records earnings from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Consolidated Statement of Earnings based on our proportional ownership interest in the investment partnerships' total earnings.

On July 3, 2013 the Company liquidated the partners' interest in Western Acquisitions, L.P. by distributing assets of the partnership to the partners.

In fiscal year 2013 the Company completed a rights offering in which 286,767 new shares of common stock were issued. The theoretical earnings per share have been retroactively restated for all years to give effect to the rights offering. The Company received net proceeds of \$75,595 from the offering.

In the following discussion, the term "same-store sales" refers to the sales of only those units open at least 18 months as of the beginning of the current period being discussed and which remained open through the end of the period.

We have a 52/53 week fiscal year ending on the last Wednesday in September. Fiscal years 2013, 2012, and 2011, which ended on September 25, September 26, and September 28, respectively, all contained 52 weeks.

The following discussion should be read in conjunction with Item 1, Business and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the "Cautionary Note Regarding Forward-Looking Statements" and the risks and uncertainties described in Item 1A, Risk Factors set forth above.

Investment gains/losses in any given period will vary; therefore, for analytical purposes, management measures operating performance by analyzing earnings before realized and unrealized investment gains/losses.

Net earnings attributable to Biglari Holdings for each of the past three years are disaggregated in the table that follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Business:			
Restaurant Operations:			
Steak n Shake	\$ 21,023	\$ 31,756	\$ 29,367
Western	338	1,354	1,610
Total Restaurant Operations	<u>21,361</u>	<u>33,110</u>	<u>30,977</u>
Investment Management:			
Biglari Capital Corp. (incentive fee)	13	22	1,535
Management fees	—	—	139
Consolidated affiliated partnerships	662	1,321	1,815
Total Investment Management Operations	<u>675</u>	<u>1,343</u>	<u>3,489</u>
Corporate and Other:			
Corporate and other	(5,578)	(9,196)	(3,099)
Gains from investment partnerships	13,296	—	—
Investment and derivative gains	114,579	2,604	4,941
Total Corporate and Other	<u>122,297</u>	<u>(6,592)</u>	<u>1,842</u>
Reconciliation of segments to consolidated amount:			
Interest expense and loss on debt extinguishment, excluding interest allocated to operating businesses.....	(4,062)	(6,268)	(1,743)
	<u>\$ 140,271</u>	<u>\$ 21,593</u>	<u>\$ 34,565</u>

Fiscal Year 2013

We recorded net earnings attributable to Biglari Holdings Inc. of \$140,271 for the current year, as compared with net earnings attributable to Biglari Holdings Inc. of \$21,593 in 2012. The increase was primarily driven by a pre-tax gain of \$182,746 (\$114,931 net of tax) on contributions to investment partnerships and \$20,068 pre-tax Gains from changes in the carrying value of the partnerships.

As of September 25, 2013 the total number of company-operated and franchised restaurants was 605 as follows:

	<u>Company- operated</u>	<u>Franchised</u>	<u>Total</u>
Steak n Shake	415	104	519
Western	4	82	86
Total	<u>419</u>	<u>186</u>	<u>605</u>

During 2013, Steak n Shake did not close any company-operated restaurants, but two franchised units suffered closure. Steak n Shake opened one company-operated as well as twenty-three franchised units. Western closed one company-operated restaurant and seven franchised units. Western opened two franchised units.

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 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 financial statements will likely increase or decrease in the future as additional information becomes available.

We believe the following critical accounting policies represent our more significant judgments and estimates used in preparation of our consolidated financial statements.

Consolidation

The consolidated financial statements include the accounts of (i) Biglari Holdings Inc., (ii) the wholly-and majority-owned subsidiaries of Biglari Holdings Inc. in which control can be exercised and (iii) limited partnership investment entities in which we have a controlling interest as the general partner. In evaluating whether we have a controlling interest in entities in which we would consolidate, we consider the following: (1) for voting interest entities, we consolidate those entities in which we own a majority of the voting interests; and (2) for limited partnership entities, we consolidate those entities if we are the general partner of such entities and for which no substantive removal rights exist. The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered include the determination as to the degree of control over an entity by its various equity holders and the design of the entity.

Before the sale of Biglari Capital and liquidation of Western Acquisitions, L.P., the Company consolidated its affiliated partnerships in its consolidated financial statements, which included the accounts of (i) the Company, (ii) its wholly-owned subsidiaries Biglari Capital, Steak n Shake, and Western, and (iii) the Lion Fund and Western Acquisitions, L.P. (the "consolidated affiliated partnerships"), in which the Company had a substantive controlling interest. As a result of the sale of Biglari Capital and the related liquidation of Western Acquisitions, L.P., the Company has ceased to have a controlling interest in the consolidated affiliated partnerships, which, accordingly, will no longer be consolidated in the Company's financial statements. Beginning July 1, 2013, the consolidated financial statements only include the accounts of (i) the Company and (ii) its wholly-owned subsidiaries Steak n Shake and Western. All intercompany accounts and transactions are eliminated in consolidation.

Prior to July 1, 2013 the consolidated affiliated partnerships' assets and liabilities were consolidated on the Consolidated Balance Sheet even though outside limited partners had majority ownership in the consolidated affiliated partnerships. The Company did not guarantee any of the liabilities of its subsidiaries that were serving as general partners to these consolidated affiliated partnerships.

Beginning July 1, 2013, our interests in the investment partnerships are accounted as equity method investments because of our retained limited partner interest in the investment partnerships. The Company records Gains from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Consolidated Statement of Earnings based on our proportional ownership interest in the investment partnerships.

Long-lived Assets — Impairment and Classification as Held for Sale

We review company-operated restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. We test for impairment by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total estimated future cash flows are less than the carrying amount of the asset, the carrying value is written down to the estimated fair value, and a loss is recognized in earnings. The future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, fair market value if the asset were to be sold, and other financial and economic assumptions.

We sell restaurants that have been closed due to underperformance. We classify an asset as held for sale in the period during which each of the following conditions is met: (a) management has committed to a plan to sell the asset; (b) the asset is available for immediate sale in its present condition; (c) an active search for a buyer has been initiated; (d) completion of the sale of the asset within one year is probable; (e) the asset is being marketed at a reasonable price; and (f) no significant changes to the plan of sale are expected. There is judgment involved in estimating the timing of completing the sale of an asset.

Insurance Reserves

We currently self-insure a significant portion of expected losses under our workers' compensation, general liability, directors' and officers' liability, and auto liability insurance programs. For certain programs, we purchase reinsurance for individual and aggregate claims that exceed predetermined limits. We record a liability for all unresolved claims and our estimates of incurred but not reported ("IBNR") claims at the anticipated cost to us. The liability estimate is based on information received from insurance companies, combined with management's judgments regarding frequency and severity of claims, claims development history, and settlement practices. Significant judgment is required to estimate IBNR claims as parties have yet to assert a claim, and therefore the degree to which injuries have been incurred and the related costs have not yet been determined. Additionally, estimates about future costs involve significant judgment regarding legislation, case jurisdictions, and other matters.

We self-insure our group health insurance risk. We record a liability for our group health insurance for all applied claims and our estimate of claims incurred but not yet reported. Our estimate is based on information received from our insurance company and claims processing practices.

Our reserves for self-insured liabilities at September 25, 2013 and September 26, 2012 were \$8,629 and \$7,971, respectively.

Income Taxes

We record deferred tax assets or liabilities based on differences between financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets would be unable to be utilized, we would record a valuation allowance against the unrealizable amount and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future. We must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded. Based on 2013 results, a change of one percentage point in the annual effective tax rate would have an impact of \$2,165 on net earnings.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

Goodwill and Other Intangible Assets

We are required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The required analysis of potential impairment of goodwill requires a two-step approach. The first step is the estimation of fair value of each reporting unit. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. The valuation methodology and underlying financial information included in our determination of fair value require significant management judgments. We use both market and income approaches to derive fair value. The judgments in these two approaches include, but are not limited to, comparable market multiples, long-term projections of future financial performance, and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

Leases

Restaurant Operations leases certain properties under operating leases. Many of these lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. Rent expense is recognized on a straight-line basis over the expected lease term, including cancelable option periods when failure to exercise such options would result in an economic penalty. We use a time period for straight-line rent expense calculation that equals or exceeds the time period used for depreciation. In addition, the rent commencement date of the lease term is the earlier of the date when they become legally obligated for the rent payments or the date when they take access to the grounds for build out. Accounting for leases involves significant management judgment.

Results of Operations

The following table sets forth the percentage relationship to total net revenues, unless otherwise noted, of items included in the Consolidated Statements of Earnings for the periods indicated:

	2013 (52 weeks)	2012 (52 weeks)	2011 (52 Weeks)
Net revenues			
<i>Restaurant Operations</i>			
Net sales	97.5%	97.5%	97.9%
Franchise royalties and fees	1.6	1.3	1.2
Other revenue	0.4	0.3	0.3
Total	99.5	99.1	99.5
<i>Investment Management Operations</i>			
Management fee income	—	—	0.0
<i>Consolidated Affiliated Partnerships</i>			
Investment gains	0.5	0.8	0.4
Other income	0.0	0.0	0.1
Total	0.5	0.9	0.5
Total net revenues	100.0	100.0	100.0
Costs and expenses			
Cost of sales ⁽¹⁾	29.6	28.7	27.7
Restaurant operating costs ⁽¹⁾	47.3	46.8	47.7
General and administrative	10.2	8.7	6.8
Depreciation and amortization	3.3	3.6	4.0
Marketing	5.9	5.7	5.4
Rent	2.4	2.4	2.4
Pre-opening costs	0.0	0.1	0.0
Provision for restaurant closings	0.2	0.1	0.1
Impairment of intangible assets	0.2	—	—
Loss on disposal of assets	0.1	0.1	0.1
Other operating (income) expense	(0.1)	(0.1)	(0.2)
Other income (expenses)			
Interest, dividend and other investment income	1.1	0.5	0.1
Interest on obligations under leases	(1.3)	(1.4)	(1.5)
Interest expense	(0.9)	(1.1)	(0.4)
Loss on debt extinguishment	—	(0.3)	—
Gain on sale of Biglari Capital Corp.	0.2	—	—
Gain on contributions to investment partnerships	24.2	—	—
Realized investment gains/losses	0.0	0.6	1.0
Other than temporary impairment	(0.1)	—	—
Derivative and short sale gains/losses	—	—	0.1
Total other income (expenses)	23.2	(1.6)	(0.7)
Earnings before income taxes	26.0	4.2	6.7
Income tax from operating earnings	8.9	0.9	2.0
Income tax on gains from investment partnerships	0.9	—	—
Total income taxes	9.8	0.9	2.0
Gains from investment partnerships	2.7	—	—
Consolidated net earnings	18.9	3.3	4.8
Earnings attributable to redeemable noncontrolling interest:			
Income allocation	(0.3)	(0.4)	(0.3)
Incentive fee	0.0	0.0	0.4
Total earnings/loss attributable to redeemable noncontrolling interests	(0.3)	(0.4)	0.1
Net earnings attributable to Biglari Holdings Inc.	18.6%	2.9%	4.9%

(1) Cost of sales and Restaurant operating costs are expressed as a percentage of Net sales.

Fiscal Year 2013 Compared with Fiscal Year 2012

Net Earnings Attributable to Biglari Holdings Inc.

We recorded net earnings attributable to Biglari Holdings Inc. of \$140,271 or \$97.90 per diluted share, for the current year, as compared with net earnings attributable to Biglari Holdings Inc. of \$21,593, or \$14.99 per diluted share, in 2012. The increase was primarily driven by a pre-tax gain of \$182,746 (\$114,931 net of tax) on contributions to investment partnerships and a \$20,068 pre-tax gain from changes in the carrying value of the investment partnerships. Earnings per share have been retroactively restated for all years to account for the 2013 rights offering.

Net Revenues

In 2013, net sales increased 2.1% from \$721,754 to \$736,968, primarily due to the performance of our Restaurant Operations, mainly through the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 2.2% during 2013. (Customer traffic increased by 2.1%.)

Franchise royalties and fees increased 21.9% during 2013. The number of franchised units increased from 170 at the end of 2012 to 186 at the end of 2013. Franchise fees in conjunction with the opening of the franchised stores alone accounted for a 4.7% increase. The remaining 17.2% increase is primarily attributable to royalties from new Steak n Shake franchised stores, opened in 2012 and 2013.

Cost and Expenses

The cost of sales in the current year was \$218,199 or 29.6% of net sales, compared with \$207,234 or 28.7% of net sales in 2012. Higher revenues impacted cost of sales by approximately \$5.4 million. Higher commodity prices impacted cost of sales by approximately \$3.2 million.

Restaurant operating costs in the current year were \$348,654 or 47.3% of net sales compared to \$337,905 or 46.8% of net sales in 2012. Restaurant operating costs increased because of, *inter alia*, increased staffing in our stores of \$4.3 million, higher supply costs of \$2.3 million, and higher insurance costs of \$1.6 million.

General and administrative expenses increased from \$64,286 or 8.7% of total net revenues in 2012 to \$76,799 or 10.2% of total net revenues in the current year. Increased training in 2013 resulted in a \$2.7 million higher expense, largely tied to franchise openings. In addition, our efforts to franchise the Steak n Shake concept domestically and internationally has steadily increased General and administrative expenses. In fiscal 2013, direct franchising costs represent 24.8% of Steak n Shake's general and administrative expenses, up from 14.8% in fiscal 2012.

Depreciation and amortization expense was \$25,250 or 3.3% of total net revenues in the current year, versus \$26,424 or 3.6% of total net revenues in 2012.

Marketing expense was \$44,375 or 5.9% of total net revenues in the current year, versus \$42,531 or 5.7% of total net revenues in 2012. The increase was primarily attributable to an increase in radio advertising.

Rent expense in 2013 remained consistent at 2.4% as a percentage of total net revenues compared to the prior year.

Asset impairments and provision for restaurant closings for 2013 were \$1,738 or 0.2% of total net revenues in the current year, versus \$901 or 0.1% of total net revenues in 2012. Steak n Shake recorded asset impairment costs of \$1,666 for 2013 and \$901 for 2012. No Steak n Shake company-operated restaurants were closed in 2013 or 2012. Western closed one company-operated restaurant in 2013 and recorded restaurant closing costs of \$72.

Impairment of intangible assets for 2013 of \$1,244 was an impairment of the trade name of Western's company-operated stores, which we decided no longer to use.

Loss on disposal of assets was \$1,111 or 0.1% of total net revenues in the current year compared to \$611 or 0.1% of total net revenues in the prior year.

Other Income (Expenses)

We recorded interest, dividend and other investment income of \$8,265 in 2013 mostly from dividends relating to our investment in Cracker Barrel Old Country Store, Inc. versus \$4,000 recorded in 2012.

Interest expense on obligations under leases was \$9,829 or 1.3% of total net revenues in the current year, versus \$10,073 or 1.4% of total net revenues in 2012.

Interest expense decreased from \$8,155 in 2012 to \$6,551 in the current year. The decrease primarily pertained to lower interest on Steak n Shake's current credit facility, which was entered into on September 25, 2012 compared to Steak n Shake's former credit facility, which was entered into on September 8, 2011. The interest rate on Steak n Shake's current credit facility was 3.94% on September 25, 2013. The total outstanding debt for the Company on September 25, 2013 was \$120,250 compared to \$132,388 on September 26, 2012.

The loss on extinguishment of debt for 2012 of \$1,955 related to the write-off of deferred loan costs associated with Steak n Shake's former credit facility.

Our 2013 effective income tax rate increased to 37.8% from the 2012 effective income tax rate of 20.7%. The increase in the tax rate is primarily attributable to Gains from investment partnerships of \$20,068 not included in Earnings before income taxes and Gain on contributions to investment partnerships of \$182,746 taxed at 37.1%.

Biglari Holdings Investment Gains

For 2013 we recorded Gain on sale of Biglari Capital Corp. of \$1,597, Gain on contributions to investment partnerships of \$182,746, Other than temporary impairment of \$570, and realized investment gains of \$1 related to dispositions on marketable equity securities. We recorded net realized investment gains of \$4,200 for 2012 related to dispositions of marketable equity securities.

Consolidated Affiliated Partnerships Investment Gains

Prior to the July 1, 2013 deconsolidation of our affiliated partnerships, we recorded a net realized gain of \$261 for 2013 related to dispositions of investments held by our consolidated affiliated partnerships, plus an unrealized net investment gain of \$3,336 for a total of \$3,597. We also received an incentive fee of \$21. These amounts were offset by \$1,922 related to earnings attributable to redeemable noncontrolling interests.

Investment Partnerships

We recorded \$20,068 of Gains from investment partnerships in 2013. Our interests in the investment partnerships are accounted for as equity method investments after the July 1, 2013 deconsolidation of our affiliated partnerships. The carrying value of investment partnerships are inclusive of unrealized gains and losses on their securities. Our proportional ownership interest in the investment partnerships is net of an estimated accrued incentive fee payable to Biglari Capital Corp., the general partner.

Fiscal Year 2012 Compared with Fiscal Year 2011

Net Earnings Attributable to Biglari Holdings Inc.

We recorded net earnings attributable to Biglari Holdings Inc. of \$21,593, or \$14.99 per diluted share, for 2012, as compared with net earnings attributable to Biglari Holdings Inc. of \$34,565, or \$24.00 per diluted share, in 2011.

Net Revenues

In 2012, net sales increased 3.9% from \$694,378 to \$721,754, primarily due to the performance of our Restaurant Operations, mainly through the increase in Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 3.8% during 2012. (Customer traffic of 3.7%.)

Franchise royalties and fees increased 12.0% during 2012. The number of franchised units increased from 165 at the end of 2011 to 170 at the end of 2012. The increase in revenue is primarily attributable to new Steak n Shake franchised stores opened in 2011 and 2012.

Cost and Expenses

Cost of sales was \$207,234 or 28.7% of net sales, compared with \$192,645 or 27.7% of net sales in 2011. Higher commodity prices impacted cost of sales by approximately \$8.6 million. Higher revenues impacted cost of sales by approximately \$6.9 million.

Restaurant operating costs were \$337,905 or 46.8% of net sales compared to \$331,262 or 47.7% of net sales in 2011. Restaurant operating costs primarily increased because of higher insurance costs of \$4.0 million and higher employment taxes of \$2.2 million.

General and administrative expenses increased from \$48,404 or 6.8% of total net revenues in 2011 to \$64,286 or 8.7% of total net revenues largely because of an increase in legal and professional services of \$3.8 million, as well as higher incentive compensation costs of \$7.7 million. Moreover, investment related expenses (i.e., incentive compensation) appear on the income statement, but any corresponding unrealized capital gains run through the balance sheet as other comprehensive income.

Depreciation and amortization expense was \$26,424 or 3.6% of total net revenues, versus \$28,361 or 4.0% of total net revenues in 2011.

Marketing expense was \$42,531 or 5.7% of total net revenues, versus \$38,476 or 5.4% of total net revenues in 2011. The increase was primarily attributable to an increase in marketing efforts and higher production costs associated with our television commercials.

Rent expense in 2012 remained consistent at 2.4% as a percentage of total net revenues compared to the prior year.

Asset impairments and provision for restaurant closings for 2012 was \$901 or 0.1% of total net revenues, versus \$1,032 or 0.1% of total net revenues in 2011.

Loss on disposal of assets was \$611 or 0.1% of total net revenues compared to \$702 or 0.1% of total net revenues in the prior year.

Other Income (Expenses)

We recorded interest, dividend and other investment income of \$4,000 in 2012 mostly through the receipt of dividends relating to our increased investment in Cracker Barrel Old Country Store, Inc. versus \$742 recorded in 2011.

Interest expense on obligations under leases was \$10,073 or 1.4% of total net revenues, versus \$10,565 or 1.5% of total net revenues in 2011.

Interest expense increased from \$2,811 in 2011 to \$8,155 in 2012. The increase primarily pertained to the interest on Steak n Shake's former credit facility, which was entered into on September 8, 2011. A full year of interest is reflected in our 2012 results. Steak n Shake entered into a new credit facility on September 25, 2012, which is further discussed in the "Liquidity and Capital Resources" section. The total outstanding debt for the Company on September 26, 2012 was \$132,388 compared to \$127,558 on September 28, 2011.

The loss on extinguishment of debt for 2012 of \$1,955 related to the write-off of deferred loan costs associated with Steak n Shake's former credit facility. We had no gains/losses on debt extinguishment in 2011.

Our 2012 effective income tax rate decreased to 20.7% from the 2011 effective income tax rate of 29.0%. The decrease in the tax rate is primarily attributable to dividends received from equity investments, which are taxed at lower rates than is the income derived from wholly owned businesses

Biglari Holdings Investment Gains

We recorded net realized investment gains of \$4,200 for 2012 related to dispositions of marketable equity securities. We recorded \$7,360 of net realized gains on investments and \$610 of investment gains related to the change in fair value of derivatives and securities sold short in 2011. We directly hold these investments, not our consolidated affiliated partnerships.

Consolidated Affiliated Partnerships Investment Gains

We recorded a net realized gain of \$2,895 for 2012 related to dispositions of investments held by our consolidated affiliated partnerships, plus an unrealized net investment gain of \$3,047 for a total of \$5,942. We also received an incentive fee of \$36. These amounts were offset by \$3,188 related to earnings attributable to redeemable noncontrolling interests.

Effects of Governmental Regulations and Inflation

Most Restaurant Operation employees are paid hourly rates related to minimum wage laws. Any increase in the legal minimum wage would directly increase our operating costs. We are also subject to various laws related to zoning, land use, health and safety standards, working conditions, and accessibility standards. Any changes in these laws that require improvements to our restaurants would increase our operating costs. In addition, we are subject to franchise registration requirements and certain related laws regarding franchise operations. Any changes in these laws could affect our ability to attract and retain franchisees.

Inflation in food, labor, fringe benefits, energy costs, transportation costs and other operating costs directly affect our operations.

Liquidity and Capital Resources

We generated \$38,792 in cash flows from operations during 2013 based primarily on net earnings. We generated \$49,966 and \$74,751 in cash flows from operations during 2012 and 2011, respectively, based primarily on net earnings and due to timing of receipts and payment of disbursements related to operating activities.

Net cash used in investing activities of \$60,765, \$87,885 and \$89,503 during 2013, 2012, and 2011, respectively, was primarily a result of net purchases of investments and capital expenditures.

Net cash provided by financing activities was \$56,343 in 2013, which was primarily the result of the Rights offering.

Net cash used in financing activities of \$709 in 2012 was a result of principal payments on Steak n Shake's former credit facility and direct financing lease obligations offset by borrowings under the Credit Facility. Net cash provided by financing activities of \$66,176 during 2011 resulted primarily from borrowings on long-term debt.

Our balance sheet continues to maintain significant liquidity. We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations, existing credit facilities, and the sale of excess properties and investments. We continually review available financing alternatives.

Consolidated Affiliated Partnerships

Prior to the July 1, 2013 sale of Biglari Capital we accounted for investment gains and losses on securities held by our consolidated affiliated partnerships. Because we have ceased to have a controlling interest in the consolidated affiliated partnerships, they are no longer consolidated in the Company's financial statements. From July 1, 2013, we record gains/losses from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on the securities) in the Consolidated Statements of Earnings based on the carrying value of proportional ownership interests in the investment partnerships.

Collectively, the Lion Fund and Western Acquisitions were referred to as consolidated affiliated partnerships of the Company. Certain of the consolidated affiliated partnerships held the Company's common stock as investments. Within our consolidated financial statements, we classified this common stock as Treasury stock though the shares were legally outstanding. As of September 26, 2012, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock. However, beginning July 1, 2013, only the Company's proportional share of its common stock held by the investment partnerships is recorded as Treasury stock. As of September 25, 2013 our proportional share of the Company's common stock held by the investment partnerships was 132,406 shares.

Net earnings of the Company included the realized and unrealized appreciation/depreciation of the investments held by consolidated affiliated partnerships, other than realized and unrealized appreciation/depreciation of investments the consolidated affiliated partnerships held in the Company's common stock, which was eliminated in the consolidation.

In fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these investments in the Lion Fund totaled \$48,306 at September 26, 2012. These investments in the Lion Fund did not appear explicitly in the Company's Consolidated Balance Sheet as of September 26, 2012 because of the requirement to consolidate fully the Lion Fund (inclusive of third party interests) in the Company's financial statement. Further, the Lion Fund's portfolio holds significant interest in Biglari Holdings' common stock, which was classified on the Company's Consolidated Balance Sheet as a reduction to Shareholders' equity as of September 26, 2012.

Steak n Shake Credit Facility

On September 25, 2012, Steak n Shake, as borrower, entered into a credit agreement (the “Credit Facility”) with the lenders party thereto. The Credit Facility consists of a \$130,000 senior secured term loan facility (the “Term Loan”) and a \$50,000 senior secured revolving credit facility (the “Revolver”). As of September 25, 2013, outstanding borrowings under the Term Loan were \$120,250 and there were no borrowings under the Revolver.

The Term Loan matures on September 25, 2017 and has a repayment schedule with quarterly amortization, beginning on December 31, 2012, initially equal to 1.875% of the initial principal amount of the Term Loan (as adjusted pursuant to the Credit Facility), together with accrued and unpaid interest on the principal amount to be paid, with the balance due at maturity. The Revolver will be available until September 25, 2017. Interest on the Term Loan and Revolver is based on a Eurodollar rate plus an applicable margin ranging from 3.00% to 3.75% or a base rate plus an applicable margin ranging from 2.00% to 2.75%. The applicable margins are contingent on Steak n Shake’s total leverage ratio. The Revolver also carries a commitment fee ranging from 0.35% to 0.50%, based on Steak n Shake’s total leverage ratio, per annum on the unused portion of the credit line.

As of September 25, 2013, the interest rate on the Term Loan was 3.94%.

The Credit Facility includes affirmative and negative covenants and events of default, as well as financial covenants relating to a maximum total leverage ratio and a minimum consolidated fixed charge coverage ratio. Steak n Shake was in compliance with all covenants under the Credit Facility as of September 25, 2013.

On September 18, 2013, Steak and Shake entered into a first amendment to the Credit Facility. The amendment provided the ability for Steak n Shake to make investments in the investment partnerships, extended the maximum total leverage ratio up to 3.75 to 1.00 for the period ending September 30, 2013, and made certain other amendments to the Credit Facility.

Both the Term Loan and the Revolver are secured by first priority security interests in substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the Credit Facility. \$114,176 of the proceeds of the Term Loan was used to repay all outstanding amounts under Steak n Shake’s former credit facility. The remaining Term Loan proceeds of \$15,824 were used for working capital and general corporate purposes. Steak n Shake incurred no material early termination penalties in connection with retiring the former credit facility.

We recorded a \$1,955 loss on the extinguishment of debt for the fiscal year ended September 26, 2012 related to the write-off of deferred loan costs associated with the former credit facility.

We had \$6,588 and \$4,781 in standby letters of credit outstanding as of September 25, 2013 and September 26, 2012, respectively.

Security Agreement

In connection with the Credit Facility, Steak n Shake entered into a security agreement (the “Security Agreement”) with Fifth Third Bank. Pursuant to the Security Agreement, Steak n Shake granted to Fifth Third a lien on all of the Pledged Collateral (as defined in the Security Agreement). The Pledged Collateral does not include the real estate of Steak n Shake, but such real estate is subject to a springing lien if Steak n Shake does not maintain certain leverage ratios.

Interest Rate Swap

On October 11, 2012, Steak n Shake entered into a new interest rate swap for a notional amount of \$65,000 through September 30, 2015. The agreement hedges potential changes in the Eurodollar rate. The fair value of the interest rate swap was a liability of \$214 on September 25, 2013 and is included in Accrued expenses on the Consolidated Balance Sheet.

During fiscal year 2011, Steak n Shake entered into an interest rate swap agreement for a notional amount of \$20,000, which effectively fixed the interest rate on its prior credit facility at 3.25% through February 15, 2016. The notional amount decreases \$1,000 quarterly through its maturity on February 15, 2016. The notional amount of the interest rate swap was \$10,000 on September 25, 2013. The fair value of the interest rate swap was a liability of \$187 and \$351 on September 25, 2013 and September 26, 2012, respectively, and is included in Accrued expenses on the Consolidated Balance Sheet.

Western Real Estate Loan Agreement and Note Payable

Western Real Estate, L.P. (“Western RE”), a wholly-owned subsidiary of Western, had a promissory note of \$2,293 as of September 26, 2012. The balance of the note was paid in full on November 28, 2012.

The carrying amounts for debt reported in the Consolidated Balance Sheet do not differ materially from their fair market values at September 25, 2013.

Debentures

The Company acquired 100% of the outstanding equity interests of Western. Under the terms of the merger agreement, each share of Western’s common stock was cancelled upon the completion of the merger and converted into the right to receive a pro rata portion of a new issue of 14% redeemable subordinated debentures due 2015 issued by the Company (the “Debentures”) in the aggregate principal amount of \$22,959 with cash paid in lieu of fractional Debenture interests. The Company paid \$194 in lieu of fractional Debentures.

On March 30, 2011, the Company redeemed all of its outstanding Debentures. The Debentures were redeemed for cash at an aggregate redemption price of approximately \$23,420, representing 100% of the principal amount outstanding, plus accrued and unpaid interest up to, but not including, March 30, 2011. The Debentures were issued and the redemption was effected pursuant to the provisions of the Indenture, dated March 30, 2010 (the “Indenture”), between the Company and Wells Fargo Bank, National Association, as trustee. Upon the redemption of the Debentures, the Company’s obligations under the Debentures and the Indenture were satisfied and discharged in accordance with their terms. Included in the Debentures aggregate redemption price of \$23,420 was approximately \$7,804 of principal and interest paid to the Lion Fund. The payment to the Lion Fund does not appear explicitly in the Company’s Consolidated Statement of Cash Flows for 2011 because of the requirement to consolidate fully the Lion Fund in the Company’s financial statements.

Contractual Obligations

Our significant contractual obligations and commitments as of September 25, 2013 are shown in the following table:

Contractual Obligations	Payments due by period				Total
	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	
Long-term debt ^{(1) (2)}	\$ 14,703	\$ 34,487	\$ 87,891	\$ —	\$ 137,081
Capital leases and finance obligations ⁽¹⁾	15,960	28,733	19,047	14,168	77,908
Operating leases ⁽³⁾	15,110	27,038	22,717	59,928	124,793
Purchase commitments ⁽⁴⁾	2,048	883	29	—	2,960
Other long-term liabilities ⁽⁵⁾	—	—	—	1,202	1,202
Total	\$ 47,821	\$ 91,141	\$ 129,684	\$ 75,298	\$ 343,944

(1) Includes principal and interest and assumes payoff of indebtedness at maturity date.

(2) Includes outstanding borrowings under the Credit Facility.

(3) Excludes amounts to be paid for contingent rents. Includes amounts to be paid for subleased properties.

(4) Includes agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms. Excludes agreements that are cancelable without penalty.

(5) Includes liabilities for Non-Qualified Deferred Compensation Plan. Excludes our unrecognized tax benefits of \$803 as of September 25, 2013 because we cannot make a reliable estimate of the timing of cash payments.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than operating leases entered into in the normal course of business.

Recently Issued Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our financial statements, see Note 1, “Summary of Significant Accounting Policies” in the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

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 set forth above. We undertake no obligation to publicly update or revise them, except as may be required by law.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

We prefer to hold equity investments for very long periods of time so we are not troubled by short-term price volatility with respect to our investments. Our interests in the investment partnerships are committed on a rolling 5-year basis. Market prices for equity securities are subject to fluctuation. Consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. A hypothetical 10% increase or decrease in the market price of our investments would result in a respective increase or decrease in the fair market value of our investments of \$48,318, along with a corresponding change in Shareholders' equity of approximately 5%.

At September 25, 2013 interest on the Term Loan and Revolver was based on a Eurodollar rate plus an applicable margin ranging from 3.00% to 3.75% or a base rate plus an applicable margin ranging from 2.00% to 2.75%, based on Steak n Shake's total leverage ratio. At September 25, 2013, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$281 on our net earnings. On October 11, 2012, Steak n Shake entered into a new interest rate swap for a notional amount of \$65,000 through September 30, 2015. The agreement hedges potential changes in the Eurodollar rate. The fair value of the interest rate swap was a liability of \$214 on September 25, 2013. In February 2011, in connection with the issuance of the term loan under Steak n Shake's previous credit facility, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixed the interest rate on the term loan at 3.25% through its maturity. The fair value of the interest rate swap was a liability of \$187 at September 25, 2013.

We began to transact business in international markets in fiscal year 2013. We have had minimal exposure to foreign currency exchange rate fluctuations.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Biglari Holdings Inc.
San Antonio, Texas

We have audited the accompanying consolidated balance sheets of Biglari Holdings Inc. and subsidiaries (the "Company") as of September 25, 2013 and September 26, 2012, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the years ended September 25, 2013, September 26, 2012, and September 28, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Biglari Holdings Inc. and subsidiaries as of September 25, 2013 and September 26, 2012, and the results of their operations and their cash flows for the years ended September 25, 2013, September 26, 2012, and September 28, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 5 to the financial statements, during 2013, the Company contributed cash and securities with an aggregate value of \$377.6 million to investment partnerships. The Company and its subsidiaries have invested in the investment partnerships in the form of limited partner interests. These investments are subject to a rolling five-year lock-up period under the terms of the respective partnership agreements for the investment partnerships.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 25, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 7, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
December 7, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Biglari Holdings Inc.
San Antonio, Texas

We have audited the internal control over financial reporting of Biglari Holdings Inc. and subsidiaries (the "Company") as of September 25, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 25, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended September 25, 2013 of the Company and our report dated December 7, 2013 expressed an unqualified opinion on those financial statements and financial statement schedule and included an emphasis of a matter paragraph relating to the contribution of cash and securities to investment partnerships that are subject to a rolling five-year lock-up period.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
December 7, 2013

Management's Report on Internal Control Over Financial Reporting

The management of Biglari Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, and effected by the board of directors, management and other personnel, to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in detail accurately and fairly reflect the transactions and dispositions of assets of the company;
- Provide assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company;
- Provide assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements; and
- Ensure that material information relating to the company, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period which this report is being prepared.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of September 25, 2013 based on the criteria set forth in a report entitled *Internal Control—Integrated Framework (1992)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that, as of September 25, 2013, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on the Company's internal control over financial reporting and its report is included herein.

/s/ Sardar Biglari

Sardar Biglari

Chairman and Chief Executive Officer

/s/ Bruce Lewis

Bruce Lewis

Controller

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(amounts in \$000s, except share and per share data)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>(52 Weeks)</u>	<u>(52 Weeks)</u>	<u>(52 Weeks)</u>
Net revenues			
<i>Restaurant Operations</i>			
Net sales	\$ 736,968	\$ 721,754	\$ 694,378
Franchise royalties and fees	11,741	9,631	8,600
Other revenue	3,210	2,520	2,425
Total	<u>751,919</u>	<u>733,905</u>	<u>705,403</u>
<i>Investment Management Operations</i>			
Management fee income	—	—	224
<i>Consolidated Affiliated Partnerships</i>			
Investment gains	3,597	5,942	3,135
Other income	306	360	438
Total	<u>3,903</u>	<u>6,302</u>	<u>3,797</u>
Total net revenues	<u>755,822</u>	<u>740,207</u>	<u>709,200</u>
Costs and expenses			
Cost of sales	218,199	207,234	192,645
Restaurant operating costs	348,654	337,905	331,262
General and administrative	76,799	64,286	48,404
Depreciation and amortization	25,250	26,424	28,361
Marketing	44,375	42,531	38,476
Rent	18,453	17,638	16,891
Pre-opening costs	199	430	89
Provision for restaurant closings	1,738	901	1,032
Impairment of intangible asset	1,244	—	—
Loss on disposal of assets	1,111	611	702
Other operating (income) expense	(934)	(934)	(1,157)
Total costs and expenses, net	<u>735,088</u>	<u>697,026</u>	<u>656,705</u>
Other income (expenses)			
Interest, dividend and other investment income	8,265	4,000	742
Interest on obligations under leases	(9,829)	(10,073)	(10,565)
Interest expense	(6,551)	(8,155)	(2,811)
Loss on debt extinguishment	—	(1,955)	—
Gain on sale of Biglari Capital Corp	1,597	—	—
Gain on contributions to investment partnerships	182,746	—	—
Realized investment gains	1	4,200	7,360
Other than temporary impairment	(570)	—	—
Derivative and short sale gains	—	—	610
Total other income (expenses)	<u>175,659</u>	<u>(11,983)</u>	<u>(4,664)</u>
Earnings before income taxes	<u>196,393</u>	31,198	47,831
Income tax from operating earnings	67,517	6,453	13,867
Income tax on gains from investment partnerships	6,772	—	—
Total income taxes	<u>74,289</u>	6,453	13,867
Gains from investment partnerships	20,068	—	—
Consolidated net earnings	<u>142,172</u>	24,745	33,964
Earnings attributable to redeemable noncontrolling interest:			
Income allocation	(1,922)	(3,188)	(1,909)
Incentive fee	21	36	2,510
Total earnings/loss attributable to redeemable noncontrolling interests	<u>(1,901)</u>	<u>(3,152)</u>	<u>601</u>
Net earnings attributable to Biglari Holdings Inc.	<u>\$ 140,271</u>	<u>\$ 21,593</u>	<u>\$ 34,565</u>
Earnings per share attributable to Biglari Holdings Inc.			
Basic earnings per common share	\$ 98.11	\$ 15.02	\$ 24.13
Diluted earnings per common share	\$ 97.90	\$ 14.99	\$ 24.00
Weighted average shares and equivalents			
Basic	1,429,684	1,437,321	1,432,728
Diluted	1,432,737	1,440,834	1,440,215

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)
(amounts in \$000s)

	<u>2013</u> <u>(52 Weeks)</u>	<u>2012</u> <u>(52 Weeks)</u>	<u>2011</u> <u>(52 Weeks)</u>
Net earnings attributable to Biglari Holdings Inc.	\$ 140,271	\$ 21,593	\$ 34,565
Other comprehensive (loss) income:			
Reclassification of investment appreciation in net earnings	(1)	(1,455)	2,213
Applicable income taxes	—	553	(861)
Reclassification of investment appreciation in net earnings on contribution to investment partnerships	(182,746)	—	—
Applicable income taxes	67,815	—	—
Reclassification of other than temporary impairment losses on investments	461	—	—
Applicable income taxes	(175)	—	—
Net change in unrealized gains (losses) on investments	146,079	81,075	(9,144)
Applicable income taxes	(53,881)	(30,808)	3,476
Foreign currency translation gains	8	—	—
Other comprehensive (loss) income, net	(22,440)	49,365	(4,316)
Total comprehensive income	\$ 117,831	\$ 70,958	\$ 30,249

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(amounts in \$000s, except share and per share data)

	<u>September 25, 2013</u>	<u>September 26, 2012</u>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 94,626	\$ 60,359
Investments	85,479	269,858
Receivables, net of allowance of \$804 and \$744, respectively	7,055	7,001
Inventories	6,475	6,624
Assets held for sale	561	2,357
Other current assets.....	3,290	2,798
Total current assets	197,486	348,997
Property and equipment, net	346,147	356,638
Goodwill	28,251	27,529
Other intangible assets, net	7,721	6,248
Other assets	11,239	9,109
Investment partnerships	397,699	—
Investments held by consolidated affiliated partnerships.....	—	25,266
Total assets	\$ 988,543	\$ 773,787
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable.....	\$ 37,511	\$ 33,210
Accrued expenses	54,003	53,866
Deferred income taxes	5,511	19,367
Current portion of obligations under leases	6,239	5,713
Current portion of long-term debt.....	9,750	12,138
Total current liabilities	113,014	124,294
Deferred income taxes	84,525	8,675
Obligations under leases	106,247	110,353
Long-term debt	110,500	120,250
Other long-term liabilities.....	9,668	9,002
Total liabilities	423,954	372,574
Commitments and contingencies (Notes 15 and 19)		
Redeemable noncontrolling interests of consolidated affiliated partnerships	—	52,088
Shareholders' equity		
Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,797,941 and 1,511,174 shares issued at September 25, 2013 and September 26, 2012, respectively, 1,588,376 and 1,227,928 shares outstanding (net of treasury stock), respectively	899	756
Additional paid-in capital	269,810	143,035
Retained earnings.....	348,339	251,983
Accumulated other comprehensive income	21,457	43,897
Treasury stock – at cost: 209,565 and 283,246 shares at September 25, 2013 and September 26, 2012, respectively (includes 132,406 shares held by investment partnerships at September 25, 2013 and 205,743 shares held by consolidated affiliated partnerships at September 26, 2012).....	(75,916)	(90,546)
Biglari Holdings Inc. shareholders' equity	564,589	349,125
Total liabilities and shareholders' equity	\$ 988,543	\$ 773,787

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(amounts in \$000s)

	2013 (52 Weeks)	2012 (52 Weeks)	2011 (52 Weeks)
Operating activities			
Net earnings	\$ 142,172	\$ 24,745	\$ 33,964
Adjustments to reconcile net earnings to operating cash flows (excluding investment operations of consolidated affiliated partnerships):.....			
Depreciation and amortization	25,250	26,424	28,361
Provision for deferred income taxes	72,035	(2,727)	(2,186)
Asset impairments and provision for restaurant closings.....	1,738	901	1,032
Impairment of intangible assets.....	1,244	—	—
Stock-based compensation and other non-cash expenses	526	888	950
Loss on disposal of assets.....	1,111	611	702
Gain on sale of Biglari Capital Corp	(1,597)	—	—
Gain on contributions to investment partnerships	(182,746)	—	—
Gain on sale of subsidiary	—	—	(1,559)
Loss on debt extinguishment	—	1,955	—
Realized investment gains/losses	(1)	(4,200)	(7,360)
Other than temporary impairments on investments	570	—	—
Derivative and short sale gains/losses	—	—	(610)
Gains from investment partnerships	(20,068)	—	—
Changes in receivables and inventories.....	195	(3,659)	2,066
Changes in other assets	(2,742)	1,019	2,972
Changes in accounts payable and accrued expenses.....	3,764	10,491	12,918
Investment operations of consolidated affiliated partnerships:			
Purchases of investments.....	—	(14,477)	(53,727)
Sales of investments.....	1,516	26,052	52,271
Realized investment gains, net	(261)	(2,895)	(3,365)
Unrealized gains/losses on marketable securities held by consolidated affiliated partnerships	(3,336)	(3,047)	230
Changes in cash and cash equivalents held by consolidated affiliated partnerships.....	(578)	(12,115)	7,870
Changes in due to/from broker	—	—	222
Net cash provided by operating activities	38,792	49,966	74,751
Investing activities			
Additions of property and equipment.....	(14,167)	(8,675)	(13,018)
Proceeds from property and equipment disposals.....	2,449	2,379	2,007
Purchase of business and lease rights	(3,770)	—	—
Proceeds from sale of Biglari Capital Corp., net of cash on hand.....	1,699	—	—
Proceeds from sale of subsidiary, net of cash on hand	—	—	196
Purchases of investments and contributions to investment partnerships.....	(46,977)	(108,825)	(171,893)
Sales of investments.....	1	38,108	90,058
Changes in due to/from broker	—	(7,272)	3,147
Changes in restricted cash	—	(3,600)	—
Net cash used in investing activities.....	(60,765)	(87,885)	(89,503)
Financing activities			
Proceeds from revolving credit facility	17,000	—	194,045
Payments on revolving credit facility.....	(17,000)	(15,000)	(197,045)
Borrowings on long-term debt	—	130,000	111,959
Principal payments on long-term debt.....	(12,138)	(110,170)	(17,333)
Deferred financing charges	—	(1,961)	(3,174)
Principal payments on direct financing lease obligations.....	(5,904)	(5,272)	(7,469)
Proceeds from stock rights offering.....	75,595	—	—
Proceeds from exercise of stock options and employees stock purchase plan	13	29	29
Excess tax benefits from stock-based awards.....	3	382	3
Repurchase of employee shares for tax withholding	—	(8)	(541)
Financing activities of consolidated affiliated partnerships:			
Contributions from noncontrolling interests.....	1,076	1,545	1,780
Distributions to noncontrolling interests.....	(2,302)	(254)	(16,078)
Net cash provided by (used in) financing activities	56,343	(709)	66,176
Effect of exchange rate changes on cash	(103)	—	—
Increase (decrease) in cash and cash equivalents	34,267	(38,628)	51,424
Cash and cash equivalents at beginning of year	60,359	98,987	47,563
Cash and cash equivalents at end of year	\$ 94,626	\$ 60,359	\$ 98,987

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(amounts in \$000s except share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance at September 29, 2010	\$ 756	\$ 143,521	\$ 195,825	\$ (1,152)	\$ (89,955)	\$ 248,995
Net earnings attributable to Biglari Holdings Inc.			34,565			34,565
Other comprehensive loss, net				(4,316)		(4,316)
Exercise of stock options and other stock compensation transactions		375			(614)	(239)
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value		673				673
Balance at September 28, 2011	\$ 756	\$ 144,569	\$ 230,390	\$ (5,468)	\$ (90,569)	\$ 279,678
Net earnings attributable to Biglari Holdings Inc.			21,593			21,593
Other comprehensive income, net				49,365		49,365
Exercise of stock options and other stock compensation transactions		859			23	882
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value		(2,393)				(2,393)
Balance at September 26, 2012	\$ 756	\$ 143,035	\$ 251,983	\$ 43,897	\$ (90,546)	\$ 349,125
Net earnings attributable to Biglari Holdings Inc.			140,271			140,271
Other comprehensive loss, net				(22,440)		(22,440)
Deconsolidation of affiliated partnerships		12,224			25,640	37,864
Adjustment to Treasury stock for holdings in investment partnerships					(11,033)	(11,033)
Issuance of common stock for rights offering	143	119,367	(43,915)			75,595
Exercise of stock options and other stock compensation transactions		(6)			23	17
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value		(4,810)				(4,810)
Balance at September 25, 2013	\$ 899	\$ 269,810	\$ 348,339	\$ 21,457	\$ (75,916)	\$ 564,589

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(amounts in \$000s, except share and per share data)

Note 1. Summary of Significant Accounting Policies

Description of Business

Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) is a diversified holding company engaged in a number of business activities. The Company’s most important operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings and its major operating subsidiaries. The Company’s long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

Fiscal Year

Our fiscal year ends on the last Wednesday in September. Fiscal years 2013, 2012, and 2011 each contain 52 weeks.

Principles of Consolidation

As of September 25, 2013, the consolidated financial statements include the accounts of (i) the Company and (ii) its wholly-owned subsidiaries Steak n Shake Operations, Inc. (“Steak n Shake”) and Western Sizzlin Corporation (“Western”). In addition to consolidating wholly-owned entities we consolidate entities if we have a controlling interest in the general partner.

As a result of acquisitions in 2010 the Company obtained controlling interests in The Lion Fund, L.P. (the “Lion Fund”), Western Acquisitions, L.P., Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. which were collectively referred to as “consolidated affiliated partnerships”. Prior to the third quarter of fiscal year 2013 the Company consolidated its affiliated partnerships in its consolidated financial statements, which included the accounts of (i) the Company, (ii) its wholly-owned subsidiaries Biglari Capital Corp. (“Biglari Capital”), Steak n Shake, and Western, and (iii) the Lion Fund and Western Acquisitions, L.P. The consolidated affiliated partnerships’ assets and liabilities were consolidated on the Consolidated Balance Sheet even though outside limited partners had majority ownership in all of the partnerships. The Company did not guarantee any of the liabilities of its subsidiaries that served as general partners to these consolidated affiliated partnerships. All intercompany accounts and transactions have been eliminated in consolidation.

During the third quarter of fiscal year 2013 the Company liquidated the partners’ interest in Western Acquisitions, L.P. by distributing assets of the partnership to the partners and Biglari Holdings sold all of the outstanding shares of Biglari Capital to Mr. Biglari. Biglari Capital is the general partner of the Lion Fund and the newly-formed The Lion Fund II, L.P. (the “Lion Fund II”). Lion Fund and Lion Fund II (collectively “investment partnerships”) are limited partnerships that operate as private investment funds. As a result of the sale of Biglari Capital and the related liquidation of Western Acquisitions, L.P., the Company has ceased to have a controlling interest in the consolidated affiliated partnerships, which are, accordingly, no longer consolidated in the Company’s financial statements.

During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated and the funds distributed to the partners. During the third quarter of fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P.

Beginning July 1, 2013, the consolidated financial statements only include the accounts of (i) the Company and (ii) its wholly-owned subsidiaries Steak n Shake and Western.

During fiscal year 2013, the Company contributed cash and securities owned by it in exchange for limited partner interest in the investment partnerships. Prior to the sale of Biglari Capital, the securities contributed to the investment partnerships were accounted for as available for sale securities with unrealized gains and losses recorded as a component of Accumulated Other Comprehensive Income in the Consolidated Balance Sheet. Our interests in the investment partnerships are accounted for as equity method investments due to our retained limited partner interest. Prospectively from the sale of Biglari Capital, the Company records earnings from investment partnerships in the Consolidated Statement of Earnings based on our proportional ownership interest in the investment partnerships’ total earnings.

Western’s and the investment partnerships’ September 30 period end for financial reporting purposes differs from the end of the Company’s fiscal year. There were no significant transactions in the intervening period.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(amounts in \$000s, except share and per share data)

Note 1. Summary of Significant Accounting Policies – (continued)

Cash and Cash Equivalents

Cash equivalents primarily consist of U.S. Government securities and money market accounts, all of which have original maturities of three months or less. Cash equivalents are carried at fair value. Our policy is to reinvest cash equivalents to acquire businesses or to purchase securities. Cash held by the consolidated affiliated partnerships is included in Investments held by consolidated affiliated partnerships on our Consolidated Balance Sheet.

Investments

Our investments consist of available-for-sale securities and are carried at fair value with net unrealized gains or losses reported as a component of Accumulated other comprehensive income in Shareholders' equity. Realized gains and losses on disposals of investments are determined by specific identification of cost of investments sold and are included in Realized investment gains/losses, a component of Other income.

Investment Partnerships

Our interests in the investment partnerships are accounted as equity method investments because of our retained limited partner interests. The Company records Gains from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Consolidated Statements of Earnings based on our proportional ownership interest in the partnerships.

Investments Held by Investment Partnerships and Consolidated Affiliated Partnerships

The investment partnerships and consolidated affiliated partnerships are, for purposes of accounting principles generally accepted in the United States ("GAAP"), investment companies under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for these entities, pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946-810-45 (formerly EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation*).

Marketable equity securities held by the consolidated affiliated partnerships are recorded at fair value with net unrealized and realized investment gains/losses included in Investment gains/losses of consolidated affiliated partnerships, a component of Net revenues on the Consolidated Statement of Earnings.

Concentration of Equity Price Risk

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

Receivables

Our accounts receivable balance consists primarily of franchisee, tax, and other receivables. We carry our accounts receivable at cost less an allowance for doubtful accounts which is based on a history of past write-offs and collections and current credit conditions.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market, and consist primarily of restaurant food items and supply inventory.

Assets Held for Sale

Assets held for sale consists of property and equipment related to restaurants and land that is currently being marketed for disposal. Assets held for sale are reported at the lower of carrying value or estimated fair value less costs to sell. The Company expects to sell these properties within one year of their classification as assets held for sale.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Years ended September 25, 2013, September 26, 2012, and September 28, 2011) (amounts in \$000s, except share and per share data)

Note 1. Summary of Significant Accounting Policies – (continued)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized on the straight-line method over the estimated useful lives of the assets (10 to 25 years for buildings and land improvements, and 3 to 10 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the term of the related leases. Interest costs associated with the construction of new restaurants are capitalized. Major improvements are also capitalized while repairs and maintenance are expensed as incurred. We review our long-lived assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For purposes of this assessment, assets are evaluated at the lowest level for which there are identifiable cash flows. If the future undiscounted cash flows of an asset are less than the recorded value, an impairment is recorded for the difference between the carrying value and the estimated fair value of the asset. Refer to Note 3 for information regarding asset impairments.

Goodwill and Intangible Assets

Goodwill and indefinite life intangibles are not amortized, but are tested for potential impairment on an annual basis, or more often if events or circumstances change that could cause goodwill or indefinite life intangibles to become impaired. Other purchased intangible assets are amortized over their estimated useful lives, generally on a straight-line basis. We perform reviews for impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying value. When an impairment is identified, we reduce the carrying value of the asset to its estimated fair value. No impairments were recorded on goodwill during fiscal years 2013, 2012, or 2011. During fiscal year 2013, the Company recorded an impairment related to the trade name of Western's company-operated stores. Refer to Note 10 for information regarding our goodwill and other intangible assets.

Capitalized Software

Internal-use software is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life ranging from three to seven years. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, and internal payroll and payroll-related costs for employees who are directly associated with a software project. Upgrades and enhancements are capitalized if they result in added functionality which enables the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion, and business process reengineering costs are expensed in the period in which they are incurred. Capitalized software is included in the balance of Other assets in the Consolidated Balance Sheet.

Operating Leases

The Company leases certain property under operating leases. Many of these lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. Rent expense is recognized on a straight-line basis over the expected lease term, including cancelable option periods when failure to exercise such options would result in an economic penalty. In addition, the rent commencement date of the lease term is the earlier of the date when we become legally obligated for the rent payments or the date when we take access to the property or the grounds for build out.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(amounts in \$000s, except share and per share data)

Note 1. Summary of Significant Accounting Policies – (continued)

Revenue Recognition

Net Sales

We record revenue from restaurant sales at the time of sale, net of discounts. Revenue from the sale of gift cards is deferred at the time of sale and recognized upon redemption by the customer or at expiration of the gift cards. Sales revenues are presented net of sales taxes. Cost of sales primarily includes the cost of food and disposable paper and plastic goods used in preparing and selling our menu items and excludes depreciation and amortization, which is presented as a separate line item on the Consolidated Statement of Earnings.

Franchise Royalties and Fees

Unit franchise fees and area development fees are recorded as revenue when the related restaurant begins operations. Royalty fees and administrative services fees are based on franchise sales and are recognized as revenue as earned.

Other Revenue

Other revenue relates primarily to rental income.

Investment Gains from Consolidated Affiliated Partnerships

Investment gains from consolidated affiliated partnerships include realized and unrealized gains/losses on investments held by consolidated affiliated partnerships. Realized gains/losses from the disposal of investments held by consolidated affiliated partnerships are determined by specific identification of cost of investments sold.

Insurance Reserves

We self-insure a significant portion of expected losses under our workers' compensation, general liability, auto, directors' and officers' and medical liability insurance programs, and record a reserve for our estimated losses on all unresolved open claims and our estimated incurred but not reported claims at the anticipated cost to us. Insurance reserves are recorded in the balance of Accrued expenses in the Consolidated Balance Sheet.

Earnings Per Share

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. In fiscal year 2013, Biglari Holdings completed an offering of transferable subscription rights, distributing one transferable subscription right ("Rights") for each share of its common stock to shareholders of record on August 27, 2013. Every five Rights entitled a shareholder to subscribe for one share of common stock at a price of \$265.00. Shareholders on the record date who fully exercised the Rights distributed to them were also entitled to subscribe for and purchase additional shares of common stock not purchased by other Rights holders through their basic subscription privileges. The offering was oversubscribed and 286,767 new shares of common stock were issued. The Company received net proceeds of \$75,595 from the offering. Earnings per share have been retroactively restated for every year to account for the 2013 rights offering. For fiscal year 2013 financial reporting purposes, the shares of Company stock attributable to our limited partner interest in the Lion Fund — based on our proportional ownership during the period — are considered Treasury stock on the Consolidated Balance Sheet. For fiscal year 2012 financial reporting purposes all common shares of the Company held by the consolidated affiliated partnerships are recorded in Treasury stock on the Consolidated Balance Sheet.

For purposes of computing the weighted average common shares outstanding the shares of treasury stock attributable to the unrelated limited partners of the consolidated affiliated partnerships — based on their proportional ownership during the period — are considered outstanding shares.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)
(amounts in \$000s, except share and per share data)

Note 1. Summary of Significant Accounting Policies – (continued)

The following table presents a reconciliation of basic and diluted weighted average common shares:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Basic earnings per share:			
Weighted average common shares	<u>1,429,684</u>	1,437,321	1,432,728
Diluted earnings per share:			
Weighted average common shares	<u>1,429,684</u>	1,437,321	1,432,728
Dilutive effect of stock awards	<u>3,053</u>	3,513	7,487
Weighted average common and incremental shares	<u>1,432,737</u>	1,440,834	1,440,215
Number of share-based awards excluded from the calculation of earnings per share as the awards' exercise prices were greater than the average market price of the Company's common stock.	<u>705</u>	<u>705</u>	<u>705</u>

Stock-Based Compensation

We account for all stock-based compensation, including grants of employee stock options, nonvested stock and shares issued under our employee stock purchase plan, using the fair value based method. Refer to Note 18 for additional information regarding our stock-based compensation.

The Steak n Shake 401(k) Savings Plan

The Steak n Shake 401(k) Savings Plan (the "401(k) Plan") is a defined contribution plan covering substantially all employees after they have attained age 21 and completed six months of service and allows employees to defer up to 20% of their salaries and allows for discretionary matching contributions. Discretionary matching contributions of \$207, \$213 and \$271 were made in fiscal years 2013, 2012 and 2011, respectively.

Marketing Expense

Advertising costs are charged to expense at the later of the date the expenditure is incurred or the date the promotional item is first communicated.

Non-Qualified Deferred Compensation Plan

We maintain The Steak n Shake Non-Qualified Savings Plan, a self-directed non-qualified deferred compensation plan (the "Non-Qualified Plan") for executive employees. The Non-Qualified Plan allows highly compensated employees to defer amounts from their salaries for retirement savings and includes a discretionary employer match generally equal to the amount of the match the employee would have received as a participant in our 401(k) Plan. The Non-Qualified Plan is structured as a rabbi trust; therefore, assets in the Non-Qualified Plan are subject to creditor claims in the event of bankruptcy. We recognize investment assets in Other assets on the Consolidated Balance Sheet at current fair value. A liability of the same amount is recorded in Other long-term liabilities on the Consolidated Balance Sheet representing our obligation to distribute funds to participants. The investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized in income.

Use of Estimates

Preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Years ended September 25, 2013, September 26, 2012, and September 28, 2011) (amounts in \$000s, except share and per share data)

Note 1. Summary of Significant Accounting Policies – (continued)

New Accounting Standards

In February 2013, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2013-04, *Liabilities (Topic 405)*, which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 is effective for fiscal years beginning after December 15, 2013, which is effective for the Company’s first quarter of fiscal year 2015. We do not believe the adoption of ASU 2013-04 will have a material effect on the Company’s consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 requires disclosure of the amounts reclassified out of each component of accumulated other comprehensive income and into net earnings during the reporting period and is effective for reporting periods beginning after December 15, 2012. We do not believe the adoption of ASU 2013-02 in the first quarter of fiscal year 2014 will have a material impact on the measurement of net earnings or other comprehensive income.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* and in January 2013, the FASB issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11, as clarified, enhances disclosures surrounding offsetting (netting) assets and liabilities. The clarified standard applies to derivatives, repurchase agreements and securities lending transactions and requires companies to disclose gross and net information about financial instruments and derivatives eligible for offset and to disclose financial instruments and derivatives subject to master netting arrangements in financial statements. The clarified standard did not have a material effect on our financial position or results of operations.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*, which makes certain technical corrections (i.e., relatively minor corrections and clarifications) and “conforming fair value amendments” to the FASB Accounting Standards Codification (the “Codification”). The corrections and improvements include technical corrections based on feedback on the Codification and conforming amendments primarily related to fair value in areas outside of ASC 820. The amendments affect various Codification topics and apply to all reporting entities within the scope of those topics and became effective for the Company on December 20, 2012. The adoption of ASU 2012-04 did not have a material effect on our financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a “qualitative” assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on our financial position or results of operations.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income*. The amendments in ASU 2011-12 supersede certain pending paragraphs in ASU 2011-05, *Presentation of Comprehensive Income* to effectively defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements became effective in the first quarter of fiscal 2013. The adoption of ASU 2011-12 did not impact the measurement of net earnings or other comprehensive income.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Years ended September 25, 2013, September 26, 2012, and September 28, 2011) (amounts in \$000s, except share and per share data)

Note 2. Divestitures

On July 1, 2013, Biglari Holdings sold all of the outstanding shares of Biglari Capital to Mr. Biglari for \$1,700. The Company recorded a gain on the sale of \$1,597. Biglari Capital is the general partner of the investment partnerships. During fiscal year 2013, the Company contributed cash and securities owned by it with an aggregate value of \$377,636 in exchange for limited partner interests in the investment partnerships.

On July 3, 2013 the Company liquidated the partners' interests in Western Acquisitions, L.P. by distributing assets of the partnership to the partners.

During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated and the funds distributed to the partners. During the third quarter of fiscal year 2011, Western Mustang Holdings, L.L.C. sold its interests in Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. As a result of the sale, we recorded a gain of \$1,559, of which \$1,259 was non-cash in Other operating income in the Consolidated Statement of Earnings.

As a result of the sale, the Company ceased to have involvement in the operations of Mustang Capital Management, L.L.C. and Mustang Capital Advisors, L.P. Although these entities meet the definition of "discontinued operations," as defined in FASB ASC paragraph 205-20-45-1, *Reporting Discontinued Operations* ("ASC paragraph 205-20-45-1"), we have not separated the results of operations because the amounts are immaterial to our consolidated financial results. Net earnings after tax related to the entities was approximately \$2,606 for the year ended September 28, 2011, including \$1,246 that is attributable to noncontrolling interests. The after-tax income for the year ended September 28, 2011 includes the aforementioned gain on sale of \$1,559.

Note 3. Impairment and Restaurant Closings

Steak n Shake recorded asset impairment during fiscal years 2013, 2012 and 2011 of \$1,666, \$901 and \$1,032, respectively. No Steak n Shake company-operated restaurants were closed in fiscal years 2013, 2012 and 2011. Western recorded restaurant closing costs of \$72 in fiscal year 2013. Western closed one company-operated restaurant in fiscal year 2013.

Note 4. Investments

Investments consisted of the following:

	2013	2012
Cost	\$ 50,884	\$ 199,057
Gross unrealized gains	34,595	71,416
Gross unrealized losses	—	(615)
Fair value	<u>\$ 85,479</u>	<u>\$ 269,858</u>

During fiscal year 2013, the Company contributed \$377,636 of cash and securities to the investment partnerships in exchange for limited partner interests. We apply equity method accounting to these investments. As of September 25, 2013, the Company retained a balance of \$85,479 of investments deemed as available-for-sale securities, largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc.

Investment gains/losses are recognized when investments are sold (as determined on a specific identification basis) or as otherwise required by GAAP. The timing of realized gains and losses from sales can have a material effect on periodic earnings. However, such realized gains or losses usually have little, if any, impact on total Shareholders' equity because the investments are carried at fair value with any unrealized gains/losses included as a component of Accumulated other comprehensive income in Shareholders' equity. We believe that realized investment gains/losses are often meaningless in terms of understanding reported results. Short-term investment gains/losses have caused and may continue to cause significant volatility in our results.

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Note 4. Investments – (continued)

The Company recognized a pre-tax gain of \$182,746 (\$114,931 net of tax) on the contribution of securities to investment partnerships for fiscal year 2013. The gain had a material effect on the Company's fiscal 2013 earnings. However, this gain had no impact on total Shareholders' equity because the investments were carried at fair value prior to the contribution, with the unrealized gains included as a component of Accumulated other comprehensive income.

Realized investment gains/losses for the fiscal years ended September 25, 2013, September 26, 2012 and September 28, 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross realized gains on sales	\$ 1	\$ 4,584	\$ 7,775
Gross realized losses on sales	—	(384)	(415)
Total realized gains/losses	<u>\$ 1</u>	<u>\$ 4,200</u>	<u>\$ 7,360</u>

During fiscal year 2013, the Company had unrealized losses on available-for-sale equity securities in a continuous unrealized loss position for more than twelve consecutive months. Therefore, we recorded an impairment of \$570 in fiscal year 2013.

From time to time, the Company enters into certain derivative transactions as part of its investment strategy. In accordance with ASC 815, *Accounting for Derivative Instruments and Hedging Activities*, these derivatives are marked to market for each reporting period and this fair value adjustment is recorded as a gain or loss in the Consolidated Statement of Earnings.

The Company may enter into short sales on certain equity securities, that is, a transaction in which the Company sells securities it does not own. The Company's use of short sales involves the risk that the price of the security in the open market may be higher when it is purchased in order to close out the Company's short position, resulting in a loss to the Company. Such a loss is theoretically limitless because there are no restrictions on the potential increase in the price of a security, or any guarantee as to the price at which the Company would be able to purchase the security in the open market. Securities sold in short sale transactions and the interest and dividends payable on such securities, if any, are reflected as a liability in Accrued expenses in the Consolidated Balance Sheet. As of September 25, 2013 and September 26, 2012 we had no outstanding short sales.

For the year ended September 28, 2011, the Company recorded investment gains of \$610 related to the change in fair value of derivatives and securities sold short.

Note 5. Equity in Investment Partnerships

Beginning July 1, 2013, as a result of the sale of Biglari Capital and of our limited partner interests in the investment partnerships, the Company reports on the limited partnership interests under the equity method of accounting. Our proportional share of equity in the investment partnerships, excluding Company common stock held by said partnerships, is recorded as Equity in investment partnerships. The Company's pro-rata share of its common stock held by the investment partnerships is recorded as Treasury stock. The Company will record 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.

The fair value and carrying value of our partnership interest is presented below:

Fair value of partnership interest at July 1, 2013	\$ 54,608
Contributions to investment partnerships	377,636
Gains from investment partnerships from July 1 through September 25, 2013	23,053
Fair value of partnership interest at September 25, 2013	<u>455,297</u>
Gains from appreciation of Biglari Holdings stock held by investment partnerships	(2,985)
Proportionate share of Company stock held by investment partnerships	(54,613)
Carrying value of partnership interests at September 25, 2013	<u>\$ 397,699</u>

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Note 5. Equity in Investment Partnerships – (continued)

The carrying value of the partnership interest approximates fair value adjusted by changes in the value of Company stock held. Fair value is estimated based on our proportional ownership interest of the fair value of investments held by the investment partnerships. The fair value measurement is classified as level 3 within the fair value hierarchy.

The investment partnerships have a December 31 fiscal year end, with their most current quarter ending September 30, 2013. For purposes of recording our allocation of Gains from the investment partnerships, we use the investment partnerships' similar period results. For the period ended September 25, 2013, the investment partnership for the period ended September 30, 2013 was used. Accordingly, we recorded \$20,068 of Gains from investment partnerships during fiscal year 2013. As the general partner of the investment partnerships, Biglari Capital 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% on December 31 of each year. Our policy is to accrue an estimated incentive fee throughout the fiscal year. Our investment in these partnerships is committed according to a rolling 5-year basis.

Summarized financial information for Lion Fund and Lion Fund II is presented below:

	Equity in Investment Partnerships	
	Lion Fund	Lion Fund II
Current and Total Assets as of September 30, 2013.....	\$ 126,121	\$ 408,883
Current and Total Liabilities as of September 30, 2013.....	\$ 83	\$ 11
Revenue for the 3 month period ending September 30, 2013	\$ 9,200	\$ 25,109
Earnings for the 3 month period ending September 30, 2013	\$ 9,170	\$ 25,098
Biglari Holdings' Ownership Interest	52.14%	96.28%

The investments held by the investment partnerships are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc.

Note 6. Consolidated Affiliated Partnerships

Collectively, the Lion Fund and Western Acquisitions were referred to as consolidated affiliated partnerships of the Company. Certain of the consolidated affiliated partnerships held the Company's common stock as investments. Within our consolidated financial statements, we classified this common stock as Treasury stock though the shares were legally outstanding. As of September 26, 2012, the consolidated affiliated partnerships held 205,743 shares of the Company's common stock. However, beginning July 1, 2013, only the Company's proportional share of its common stock as held by the investment partnerships is recorded as Treasury stock. As of September 25, 2013 our proportional share of the Company's common stock held by the investment partnerships was 132,406 shares.

Net earnings of the Company included the realized and unrealized appreciation/depreciation of the investments held by consolidated affiliated partnerships, other than realized and unrealized appreciation/depreciation of investments the consolidated affiliated partnerships held in the Company's common stock, which was eliminated in the consolidation.

In fiscal year 2010, Biglari Holdings invested a total of \$35,697 in the Lion Fund, both in the form of the acquisition of the general partner and as a direct limited partner investment. The fair value of these investments in the Lion Fund totaled \$48,306 at September 26, 2012. These investments in the Lion Fund did not appear explicitly in the Company's Consolidated Balance Sheet as of September 26, 2012 because of the requirement to consolidate fully the Lion Fund (inclusive of third party interests) in the Company's financial statement. Further, the Lion Fund's portfolio holds significant interest in Biglari Holdings' common stock, which was classified on the Company's Consolidated Balance Sheet as a reduction to Shareholders' equity as of September 26, 2012.

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Note 6. Consolidated Affiliated Partnerships – (continued)

The following table summarizes the cost and fair value of the investments held by the consolidated affiliated partnerships, other than holdings of the Company's common stock:

	2012
Equity securities:	
Cost	\$ 10,288
Fair value	\$ 13,151

The investments held by consolidated affiliated partnerships, other than holdings of the Company's common stock, were as follows:

	September 26, 2012
Fair value of equity securities	\$ 13,151
Cash.....	12,115
Investments held by consolidated affiliated partnerships.....	\$ 25,266

Cash held by consolidated affiliated partnerships was available for use only by the consolidated affiliated partnerships.

Realized investment gains/losses arise when investments are sold (as determined on a specific identification basis). The net unrealized and realized gains/losses from investments held by consolidated affiliated partnerships, other than holdings of the Company's debt and equity securities, for the fiscal years ended September 25, 2013, September 26, 2012 and September 28, 2011 were as follows:

	2013	2012	2011
Gross unrealized gains	\$ 3,746	\$ 3,047	\$ 1,317
Gross unrealized losses	(410)	—	(1,547)
Net realized gains/losses from sale	261	2,895	3,365
Total net unrealized and realized gains/losses	\$ 3,597	\$ 5,942	\$ 3,135

The limited partners of each of the investment funds have the ability to redeem their capital upon certain occurrences; therefore, the ownership of the investment funds held by the limited partners was presented as Redeemable noncontrolling interests of consolidated affiliated partnerships and measured at the greater of carrying value or fair value on the accompanying Consolidated Balance Sheet. The maximum redemption amount of the redeemable noncontrolling interests as of September 26, 2012 was \$52,088. The affiliated partnerships were no longer consolidated as of September 25, 2013.

The following is a reconciliation of the redeemable noncontrolling interests in the consolidated affiliated partnerships:

	2013	2012	2011
Carrying value at beginning of year	\$ 52,088	\$ 45,252	\$ 62,245
Contributions from noncontrolling interests	1,076	1,545	1,780
Distributions to noncontrolling interests	(2,302)	(254)	(17,499)
Incentive fee	(21)	(36)	(2,510)
Income allocation	1,922	3,188	1,909
Adjustment to redeemable noncontrolling interest to reflect maximum redemption value	4,810	2,393	(673)
Adjustment to reflect deconsolidation of affiliated partnerships.....	(57,573)	—	—
Carrying value at end of year	\$ —	\$ 52,088	\$ 45,252

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 6. Consolidated Affiliated Partnerships – (continued)

The consolidated affiliated partnerships held shares of the Company's common stock. Any unrealized gain or loss on the common stock of the Company was eliminated in our financial statements. The unrealized gain that was attributable to the noncontrolling interests increased the redemption value of outside capital. The adjustment to increase the redemption value based on unrealized gains in the Company's common stock held by the consolidated affiliated partnerships was \$2,393 on September 26, 2012 and (\$673) on September 28, 2011.

The Company, through its ownership of Biglari Capital and Western Investments Inc., was entitled to an incentive fee to the extent investment performance of the consolidated affiliated partnerships exceeded specified hurdle rates. Any such fee was included in net earnings attributable to the Company in the period the fee was earned.

Biglari Capital, the general partner of the Lion Fund, earned a \$21 incentive reallocation fee at December 31, 2012. At December 31, 2011, Biglari Capital earned a \$36 incentive reallocation fee. At December 31, 2010, Biglari Capital earned a \$2,510 incentive reallocation fee. As a result of the sale of Biglari Capital and liquidation of Western Acquisitions, L.P., the Company is no longer entitled to receive such incentive fees.

Net earnings attributable to the Company only included the Company's share of gains and losses related to its investments in the consolidated affiliated partnerships; all other earnings or losses from the consolidated affiliated partnerships are allocated to the redeemable noncontrolling interests.

During the first quarter of fiscal year 2011, Mustang Capital Partners I, L.P. and Mustang Capital Partners II, L.P. were liquidated, and their funds were distributed to the partners. The distribution of \$15,660, including \$1,421 of noncash distributions, is noted in the Distributions to noncontrolling interests line in the above reconciliation.

Note 7. Assets Held for Sale

Assets held for sale are composed of the following:

	<u>2013</u>	<u>2012</u>
Land and buildings	\$ 561	\$ 2,050
Improvements	—	307
Total assets held for sale	<u>\$ 561</u>	<u>\$ 2,357</u>

As of September 25, 2013, the balance included two parcels of land. In fiscal year 2013, three restaurants and two parcels of land were sold. Two parcels of land were added to assets held for sale during 2013.

The balance on September 26, 2012 included the following assets: three restaurants and two parcels of land. In fiscal year 2012, one restaurant and two parcels of land were sold. One parcel of land and one restaurant were added to assets held for sale during 2012. Five parcels of land, one office building, and one restaurant were reclassified to property and equipment during fiscal year 2012.

The Company expects to sell these properties within one year of their classification as assets held for sale.

Note 8. Other Current Assets

Other current assets primarily include prepaid rent and other prepaid contractual obligations.

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Note 9. Property and Equipment

Property and equipment is composed of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 162,488	\$ 162,685
Buildings	152,891	150,601
Land and leasehold improvements	155,962	155,702
Equipment	209,913	204,340
Construction in progress	5,538	2,605
	<u>686,792</u>	<u>675,933</u>
Less accumulated depreciation and amortization	(340,645)	(319,295)
Property and equipment, net	<u>\$ 346,147</u>	<u>\$ 356,638</u>

Depreciation and amortization expense for property and equipment for fiscal years 2013, 2012, and 2011 was \$23,422, \$24,290, and \$25,169, respectively.

Note 10. Goodwill and Other Intangibles

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:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 27,529	\$ 27,529
Acquisition of business and lease rights	722	—
Balance at end of year	<u>\$ 28,251</u>	<u>\$ 27,529</u>

We are required to assess goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. The analysis of potential impairment of goodwill requires a two-step approach. The first step is the estimation of fair value of each reporting unit. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

During the fourth quarter of the fiscal year, we perform our annual assessment of the recoverability of our goodwill related to four reporting units. During the second quarter of the fiscal year, we perform our annual assessment of our recoverability of goodwill related to two reporting units. The valuation methodology and underlying financial information included in our determination of fair value require significant management judgments. We use both market and income approaches to derive fair value. The judgments in these two approaches include, but are not limited to, comparable market multiples, long-term projections of future financial performance, and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results. No potential impairment was identified for our reporting units during fiscal years 2013, 2012, or 2011.

During fiscal year 2013, the Company made the decision to close two of Western's company-operated stores. As a result, the Company will combine the two reporting units related to Western's operations into one in order to test goodwill for impairment in the future.

The Company acquired a business and lease rights during fiscal year 2013 for \$3,770. The purchase price was allocated under Intangible assets with indefinite lives of \$3,407, Goodwill of \$722, and other assets and liabilities of (\$359). Proforma financial information is not presented as it is not material.

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Note 10. Goodwill and Other Intangibles – (continued)

Other Intangibles

Other intangibles are composed of the following:

	2013			2012		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Right to operate	\$ 1,480	\$ (1,353)	\$ 127	\$ 1,480	\$ (1,235)	\$ 245
Franchise agreement	5,310	(1,859)	3,451	5,310	(1,328)	3,982
Other	810	(574)	236	810	(533)	277
Total	<u>7,600</u>	<u>(3,786)</u>	<u>3,814</u>	<u>7,600</u>	<u>(3,096)</u>	<u>4,504</u>
Intangible assets with indefinite lives	3,907	—	3,907	1,744	—	1,744
Total intangible assets	<u>\$ 11,507</u>	<u>\$ (3,786)</u>	<u>\$ 7,721</u>	<u>\$ 9,344</u>	<u>\$ (3,096)</u>	<u>\$ 6,248</u>

Intangible assets subject to amortization consist of franchise agreements connected with the purchase of Western and rights to favorable leases related with prior acquisitions. These intangible assets are being amortized over their estimated weighted average of useful lives ranging from eight to twelve years.

Amortization expense for fiscal years 2013, 2012, and 2011 was \$690, \$702, and \$742, respectively. Total annual amortization expense for each of the next five years will approximate \$595.

Intangible assets with indefinite lives consist of reacquired franchise rights in connection with previous acquisitions as well as lease rights acquired in the current year. During fiscal year 2013, the Company recorded an impairment loss for an intangible asset of \$1,244. The loss represents the trade name of Western’s company-operated stores, which we decided no longer to use.

Note 11. Other Assets

Other assets primarily include capitalized software, non-qualified plan investments, the non-current portion of capitalized loan acquisition costs, restricted cash of \$3,600 related to workers’ compensation claims, and the non-current portion of prepaid rent.

Note 12. Accrued Expenses

Accrued expenses include the following:

	2013	2012
Salaries, wages, vacation, and severance	\$ 22,379	\$ 22,205
Taxes payable	12,986	13,067
Insurance accruals	8,629	7,971
Other	10,009	10,623
Total accrued expenses	<u>\$ 54,003</u>	<u>\$ 53,866</u>

Note 13. Other Long-term Liabilities

Other long-term liabilities include deferred rent expense, non-qualified plan obligations, deferred gain on sale-leaseback transactions, uncertain tax positions, and deferred compensation.

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Note 14. Income Taxes

The components of the provision for income taxes consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current:			
Federal	\$ 506	\$ 7,275	\$ 13,217
State	1,748	1,905	2,836
Deferred.....	72,035	(2,727)	(2,186)
Total income taxes	<u>\$ 74,289</u>	<u>\$ 6,453</u>	<u>\$ 13,867</u>
Reconciliation of effective income tax:			
Tax at U.S. statutory rates (35%)	\$ 68,738	\$ 10,919	\$ 16,741
State income taxes, net of federal benefit	5,043	1,063	1,410
Tax attributed to investment partnerships	7,024	—	—
Federal income tax credits	(4,249)	(3,517)	(4,307)
Share-based payments	—	25	68
Tax attributed to noncontrolling interests	(666)	(1,103)	210
Dividends received deduction	(2,647)	(963)	(161)
Other	1,046	29	(94)
Total income taxes	<u>\$ 74,289</u>	<u>\$ 6,453</u>	<u>\$ 13,867</u>

Income taxes paid totaled \$1,518 in fiscal year 2013, \$16,802 in fiscal year 2012, and \$12,436 in fiscal year 2011. Income tax refunds totaled \$52 in fiscal year 2013, \$641 in fiscal year 2012 and \$2,856 in fiscal year 2011.

As of September 25, 2013, we had approximately \$803 of unrecognized tax benefits, including approximately \$100 of interest and penalties, which are included in Other long-term liabilities in the Consolidated Balance Sheet. During fiscal year 2013, we recognized approximately \$46 in potential interest and penalties associated with uncertain tax positions. Our continuing practice is to recognize interest expense and penalties related to income tax matters in Income tax expense. Of the \$803 of unrecognized tax benefits, \$803 would impact the effective income tax rate if recognized.

The following table summarizes the Company's unrecognized tax benefits, excluding interest and penalties:

September 29, 2010	\$ 1,235
Gross increases – current period tax positions	178
Gross increases – prior period tax positions	238
Lapse of statute of limitations	(171)
September 28, 2011	<u>1,480</u>
Gross increases – current period tax positions	109
Lapse of statute of limitations	(843)
September 26, 2012	<u>746</u>
Gross increases – current period tax positions	25
Gross decreases – prior period tax positions	(6)
Lapse of statute of limitations	(62)
September 25, 2013	<u>\$ 703</u>

We file income tax returns which are periodically audited by various foreign, federal, state, and local jurisdictions. With few exceptions, we are no longer subject to federal, state, and local tax examinations for fiscal years prior to 2009. We believe we have certain state income tax exposures related to fiscal years 2009 through 2012. Due to the expiration of the various state statutes of limitations for these fiscal years, it is possible that the total amount of unrecognized tax benefits will decrease by approximately \$419 within 12 months.

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Note 14. Income Taxes – (continued)

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. Our deferred tax assets and liabilities consist of the following:

	<u>2013</u>	<u>2012</u>
Deferred tax assets:		
Insurance reserves	\$ 2,938	\$ 2,673
Share-based payments	13	13
Compensation accruals	1,952	1,968
Gift card accruals	942	596
Net operating loss credit carryforward	60	60
Other	2,027	2,516
Total deferred tax assets	<u>7,932</u>	<u>7,826</u>
Deferred tax liabilities:		
Investments	91,405	27,274
Fixed asset basis difference	3,187	5,436
Goodwill and intangibles	3,376	3,158
Total deferred tax liabilities	<u>97,968</u>	<u>35,868</u>
Net deferred tax liability	<u>(90,036)</u>	<u>(28,042)</u>
Less current portion	<u>(5,511)</u>	<u>(19,367)</u>
Long-term liability	<u>\$ (84,525)</u>	<u>\$ (8,675)</u>

Receivables on the Consolidated Balance Sheet include income tax receivables of \$1,662 and \$2,455 as of September 25, 2013 and September 26, 2012, respectively.

In September 2013, the IRS issued final and proposed regulations under IRC Sections 162, 263(a), and 168. These regulations provide guidance regarding the deduction and capitalization of expenditures related to tangible property and the disposition of tangible depreciable property. The regulations are generally effective for tax years beginning on or after January 1, 2014 and taxpayers will be allowed to rely on, and early adopt, both the final regulations and the proposed disposition rules to facilitate implementation efforts. The application of the new regulations did not have a material effect on the Company's consolidated financial statements.

Note 15. Leased Assets and Lease Commitments

We lease certain physical facilities under non-cancelable lease agreements. These leases require the payment of real estate taxes, insurance and maintenance costs. Certain leased facilities, which are no longer operated but are subleased to third parties or franchisees, are classified below as non-operating properties. Minimum future rental payments for non-operating properties have not been reduced by minimum sublease rentals of \$9,567 related to operating leases receivable under non-cancelable subleases. The property and equipment cost related to finance obligations and capital leases as of September 25, 2013 is as follows: \$72,941 buildings, \$61,663 land, \$29,506 land and leasehold improvements, \$2,600 equipment and \$66,108 accumulated depreciation.

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Note 15. Leased Assets and Lease Commitments – (continued)

On September 25, 2013, obligations under non-cancelable finance obligations, capital leases, and operating leases (excluding real estate taxes, insurance and maintenance costs) require the following minimum future rental payments:

Year	Finance Obligations	Capital Leases	Total	Operating Leases	
				Operating Property	Non-Operating Property
2014	\$ 15,279	\$ 681	\$ 15,960	\$ 14,649	\$ 461
2015	14,576	673	15,249	13,812	412
2016	12,997	487	13,484	12,400	414
2017	10,367	300	10,667	11,072	581
2018	8,147	233	8,380	10,269	795
After 2018	14,168	—	14,168	52,814	7,114
Total minimum future rental payments	75,534	2,374	77,908	\$ 115,016	\$ 9,777
Less amount representing interest	43,546	249	43,795		
Total principal obligations under leases	31,988	2,125	34,113		
Less current portion	5,659	580	6,239		
Non-current principal obligations under leases	26,329	1,545	27,874		
Residual value at end of lease term	78,354	19	78,373		
Obligations under leases	\$ 104,683	\$ 1,564	\$ 106,247		

Contingent rent totaling \$1,356 in fiscal year 2013, \$1,173 in fiscal year 2012, and \$967 in fiscal year 2011 is recorded in Rent expense in the accompanying Consolidated Statement of Earnings.

Non-cancellable finance obligations were created when the Company, under prior management, entered into certain build-to-suit or sale leaseback arrangements. As a result of continuing involvement in the underlying leases (generally due to right of substitution or purchase option provisions of the leases), the Company accounts for the leases as financings.

Note 16. Borrowings

Steak n Shake Credit Facility

On September 25, 2012, Steak n Shake, as borrower, and its subsidiaries entered into a credit agreement (the “Credit Facility”) with the lenders party thereto as amended. The Credit Facility consists of a \$130,000 senior secured term loan facility (the “Term Loan”) and a \$50,000 senior secured revolving credit facility (the “Revolver”).

The Term Loan matures on September 25, 2017 and has a repayment schedule with quarterly amortization, beginning on December 31, 2012, initially equal to 1.875% of the initial principal amount of the Term Loan (as adjusted pursuant to the Credit Facility), together with accrued and unpaid interest on the principal amount to be paid, with the balance due at maturity. The Revolver will be available until September 25, 2017. Interest on the Term Loan and Revolver is based on a Eurodollar rate plus an applicable margin ranging from 3.00% to 3.75% or a base rate plus an applicable margin ranging from 2.00% to 2.75%. The applicable margins are contingent on Steak n Shake’s total leverage ratio. The Revolver also carries a commitment fee ranging from 0.35% to 0.50%, based on Steak n Shake’s total leverage ratio, per annum on the unused portion of the credit line. As of September 25, 2013, the interest rate on the Term Loan was 3.94%, and there were no borrowings under the Revolver.

The Credit Facility includes affirmative and negative covenants and events of default, as well as financial covenants relating to a maximum total leverage ratio and a minimum consolidated fixed charge coverage ratio. Steak n Shake was in compliance with all covenants under the New Credit Facility as of September 25, 2013.

On September 18, 2013, Steak n Shake entered into a first amendment to the Credit Facility, which provided Steak n Shake the ability to make certain investments, including into The Lion Fund II, extended the maximum total leverage ratio up to 3.75 to 1.00 for the period ending September 30, 2013, as well as made certain other amendments to the Credit Facility.

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Note 16. Borrowings – (continued)

Both the Term Loan and the Revolver are secured by first priority security interests in substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the Credit Facility. \$114,176 of the proceeds of the Term Loan was used to repay all outstanding amounts under Steak n Shake's former credit facility and to pay related fees and expenses. The remaining Term Loan proceeds of approximately \$15,824 were used by Steak n Shake for working capital and general corporate purposes. Steak n Shake incurred no material early termination penalties in connection with the termination of the former credit facility.

We recorded a \$1,955 loss on the extinguishment of debt for the fiscal year ended September 26, 2012 related to the write-off of deferred loan costs associated with the former credit facility. We capitalized \$1,961 in debt issuance costs related to the Credit Facility in 2012 and we capitalized \$3,174 in debt issuance costs for the year ended September 28, 2011 related to the former credit facility.

We had \$6,588 and \$4,781 in standby letters of credit outstanding as of September 25, 2013 and September 26, 2012, respectively.

Security Agreement

In connection with the Credit Facility, Steak n Shake entered into a security agreement (the "Security Agreement") with Fifth Third Bank. Pursuant to the Security Agreement, Steak n Shake granted to Fifth Third a lien on all of the Pledged Collateral (as defined in the Security Agreement). The Pledged Collateral does not include the real estate of Steak n Shake, but such real estate is subject to a springing lien if Steak n Shake does not maintain certain leverage ratios.

Interest Rate Swap

On October 11, 2012, Steak n Shake entered into a new interest rate swap for a notional amount of \$65,000 through September 30, 2015. The agreement hedges potential changes in the Eurodollar rate. The fair value of the interest rate swap was a liability of \$214 on September 25, 2013 and is included in Accrued expenses on the Consolidated Balance Sheet.

During fiscal year 2011, Steak n Shake entered into an interest rate swap agreement for a notional amount of \$20,000, which effectively fixed the interest rate on a prior credit facility at 3.25% through February 15, 2016. The notional amount decreases \$1,000 quarterly through its maturity on February 15, 2016. The notional amount of the interest rate swap was \$10,000 on September 25, 2013. The fair value of the interest rate swap was a liability of \$187 and \$351 on September 25, 2013 and September 26, 2012, respectively, and is included in Accrued expenses on the Consolidated Balance Sheet.

Western Real Estate Loan Agreement and Note Payable

Western Real Estate, L.P. ("Western RE"), a wholly-owned subsidiary of Western, had a promissory note of \$2,293 as of September 26, 2012. The balance of the note was paid in full on November 28, 2012.

The carrying amounts for debt reported in the Consolidated Balance Sheet do not differ materially from their fair market values at September 25, 2013. The fair value was determined to be a Level 3 fair value measurement.

Expected principal payments for all outstanding borrowings, excluding the Revolver, for which we had no outstanding borrowings as of September 25, 2013, are as follows:

2014.....	\$	9,750
2015.....		13,000
2016.....		13,000
2017.....		84,500
Total.....	\$	<u>120,250</u>

Interest

No interest was capitalized in connection with financing additions to property and equipment during fiscal years 2013, 2012, and 2011. Interest paid on debt amounted to \$4,950 in 2013, \$7,359 in 2012, and \$2,947 in 2011. Interest paid on obligations under leases was \$9,829, \$10,073, and \$10,565 in 2013, 2012, and 2011, respectively.

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Note 16. Borrowings – (continued)

Debentures

In connection with the acquisition of Western in fiscal year 2010, the Company issued 14% redeemable subordinated debentures due 2015 (the “Debentures”) in the aggregate principal amount of \$22,959. On March 30, 2011, the Company redeemed all of its outstanding Debentures. The Debentures were redeemed for cash at an aggregate redemption price of approximately \$23,420, representing 100% of the principal amount outstanding, plus accrued and unpaid interest up to, but not including, March 30, 2011. The Debentures were issued and the redemption was effected pursuant to the provisions of the Indenture, dated March 30, 2010 (the “Indenture”), between the Company and Wells Fargo Bank, National Association, as trustee. Upon the redemption of the Debentures, the Company’s obligations under the Debentures and the Indenture were satisfied and discharged in accordance with their terms. Included in the Debentures aggregate redemption price of \$23,420 was approximately \$7,804 of principal and interest paid to the Lion Fund. The payment to the Lion Fund did not appear explicitly in the Company’s Consolidated Statement of Cash Flows because of the requirement to consolidate fully the Lion Fund in the Company’s financial statements.

Note 17. Related Party Transactions

On July 1, 2013, Biglari Holdings entered into the following agreements with Mr. Biglari, its Chairman and Chief Executive Officer: (i) a Stock Purchase Agreement, (ii) a Shared Services Agreement with Biglari Capital, and (iii) a First Amendment to the Amended and Restated Incentive Bonus Agreement, dated September 28, 2010, with Mr. Biglari. The transactions contemplated thereby were unanimously approved by the independent Governance, Compensation and Nominating Committee of the Board of Directors of the Company (the “Committee”), which retained separate counsel, tax/accounting advisors, an independent compensation consultant, and a financial advisor to assist the Committee in the structuring, evaluation, and negotiation of such transactions.

Taken together, the agreements provide for the following transactions:

- The contribution of investments held by Biglari Holdings to the Lion Fund and the Lion Fund II. In return, Biglari Holdings received limited partner interests in each of these investment partnerships.
- Biglari Capital’s distribution of substantially all of its partnership interests in the Lion Fund (including its adjusted capital balance) to Biglari Holdings. As a result, Biglari Capital maintained solely a general partner interest in each of the Lion Fund and the Lion Fund II.
- The sale of Biglari Capital by Biglari Holdings to Mr. Biglari for a purchase price of \$1,700.
- The execution of the Shared Services Agreement pursuant to which Biglari Holdings will provide certain services to Biglari Capital in exchange for an increase in Biglari Holdings’ and its subsidiaries’ hurdle rate above that of other limited partners (6% vs. 5%) with respect to Biglari Holdings’ and its subsidiaries’ limited partner interests in the Lion Fund and the Lion Fund II. The hurdle rate is the threshold annualized return for limited partners of each of the Lion Fund and the Lion Fund II above which Biglari Capital, as general partner of each, is entitled to receive an incentive reallocation.
- The modification of the Incentive Bonus Agreement between Biglari Holdings and Mr. Biglari to give effect to the transactions, *inter alia*, by providing that Mr. Biglari’s incentive compensation will thereafter be calculated without reference to any investments by Biglari Holdings and its subsidiaries in investment partnerships (including the Lion Fund and the Lion Fund II), of which Biglari Capital or Mr. Biglari is the general partner.

The transactions were entered into by Biglari Holdings to, among other things, (a) reduce regulatory burdens related to investments, (b) improve cash management, (c) foster an enhanced understanding of Biglari Holdings and mitigate conflicts of interest through the separation and clear demarcation of Biglari Holdings from the Lion Fund, and (d) simplify the Incentive Bonus Agreement.

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Note 17. Related Party Transactions – (continued)

Stock Purchase Agreement

Pursuant to the Stock Purchase Agreement, Biglari Holdings sold all the shares of Biglari Capital to Mr. Biglari for a purchase price of \$1,700 in cash (the “Biglari Capital Transaction”) and recorded a gain of \$1,597. Prior to the execution and delivery of the Stock Purchase Agreement, Biglari Capital distributed to the Company substantially all of Biglari Capital’s partnership interests in the Lion Fund (including, without limitation, Biglari Capital’s adjusted capital balance in its capacity as general partner of the Lion Fund, which totaled \$5,721). Biglari Capital thus retained solely a general partner interest in each of the Lion Fund and the Lion Fund II at the time of the Biglari Capital Transaction. In addition, Biglari Holdings contributed securities owned by it to the Lion Fund and the Lion Fund II in exchange for limited partner interests in each of these investment partnerships. Biglari Holdings will maintain an interest in the contributed securities through its limited partner interests in the Lion Fund and the Lion Fund II, but without the associated costs under the Incentive Bonus Agreement with Mr. Biglari, as explained further below. The contribution of securities to the Lion Fund and the Lion Fund II was enacted in order to achieve a clear delineation on a forward-going basis between the roles of Biglari Holdings – which will generally own companies in their entirety – and the Lion Fund and the Lion Fund II – which will own companies in part, *i.e.*, through their investments in securities.

Shared Services Agreement

In connection with the Biglari Capital Transaction, Biglari Holdings and Biglari Capital entered into the Shared Services Agreement pursuant to which Biglari Holdings will provide certain services to Biglari Capital, including use of space at the Company’s corporate headquarters in San Antonio, in exchange for a 6% hurdle rate for Biglari Holdings and its subsidiaries (as compared to a 5% hurdle rate for all other limited partners) in order to determine the incentive reallocation to Biglari Capital, as general partner of the Lion Fund and the Lion Fund II, under their respective partnership agreements. The incentive reallocation to Biglari Capital is equal to 25% of the net profits allocated to the limited partners in excess of their applicable hurdle rate. The Shared Services Agreement runs for an initial five-year term, and automatically renews for successive five-year periods, unless terminated by either party effective at the end of the initial or renewed term, as applicable. The term of the Shared Services Agreement coincides with the lock-up period for the Company’s investments in the Lion Fund and the Lion Fund II under their respective partnership agreements.

Incentive Agreement Amendment

Also in connection with the Biglari Capital Transaction, Biglari Holdings and Mr. Biglari entered into the Incentive Agreement Amendment, which amends the Amended and Restated Incentive Bonus Agreement with Mr. Biglari to reflect and give effect to the Biglari Capital Transaction and to more closely tie Mr. Biglari’s incentive compensation to the Company’s operating earnings, while excluding unrealized gains and earnings on investments held by the investment partnerships from the calculation of the incentive bonus. The Incentive Agreement Amendment makes assertions as follows:

- With respect to the Company’s fiscal year ending September 25, 2013 (“fiscal 2013”) only, provides for Mr. Biglari’s incentive compensation to be calculated by reference to the periods (i) from the beginning of fiscal 2013 to the closing of the Biglari Capital Transaction and (ii) from the closing of the Biglari Capital Transaction to the end of fiscal 2013. Any decrease in adjusted book value attributable to a decline in operating earnings during this latter period will be offset against adjusted book value for the former period in determining Mr. Biglari’s incentive compensation.
- Excludes from the calculation of Biglari Holdings’ adjusted book value, and therefore from the calculation of Mr. Biglari’s incentive compensation, commencing with the period after the closing of the Biglari Capital Transaction, any realized or unrealized gains or losses, earnings and all other amounts attributable to any investments by Biglari Holdings and its subsidiaries in “Outside Investment Partnerships,” defined as investment partnerships (or the equivalent) in which Biglari Holdings or a subsidiary is a limited partner (or the equivalent) and Mr. Biglari or his affiliate (other than Biglari Holdings or a subsidiary) is the general partner (or the equivalent). As a result of the Biglari Capital Transaction, the Lion Fund and the Lion Fund II now constitute Outside Investment Partnerships and all amounts attributable to their investments in securities (including the securities contributed by Biglari Holdings) will be excluded from the calculation of Mr. Biglari’s incentive compensation.

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Note 17. Related Party Transactions – (continued)

- Provides for the “high water mark” in the Incentive Bonus Agreement to be adjusted to give effect to the Biglari Capital Transaction, commencing with the period after the closing of the Biglari Capital Transaction. The calculation of the high water mark would thus exclude (a) Biglari Holdings’ and its subsidiaries’ investments in Outside Investment Partnerships, (b) gains/losses (realized or unrealized) and earnings on the securities contributed to the Outside Investment Partnerships, prior to their date of contribution, as well as the aggregate cost to acquire such securities, and (c) any other items on Biglari Holdings’ Consolidated Balance Sheet related to investment partnerships.

License Agreement

On January 11, 2013, the Company entered into a Trademark License Agreement (the “License Agreement”) with Mr. Biglari. The License Agreement was unanimously approved by the Committee.

Under the License Agreement, Mr. Biglari granted to the Company an exclusive license to use the Biglari and Biglari Holdings names (the “Licensed Marks”) in association with various products and services (collectively the “Products and Services”). Upon (a) the expiration of twenty years from the date of the License Agreement (subject to extension as provided in the License Agreement), (b) Mr. Biglari’s death, (c) the termination of Mr. Biglari’s employment by the Company for Cause (as defined in the License Agreement), or (d) Mr. Biglari’s resignation from his employment with the Company absent an Involuntary Termination Event (as defined in the License Agreement), the Licensed Marks for the Products and Services will transfer from Mr. Biglari to the Company without any compensation if the Company is continuing to use the Licensed Marks in the ordinary course of its business. Otherwise, the rights will revert to Mr. Biglari.

The license provided under the License Agreement is royalty-free unless and until one of the following events occurs: (i) a Change of Control (as defined in the License Agreement) of the Company; (ii) the termination of Mr. Biglari’s employment by the Company without Cause; or (iii) Mr. Biglari’s resignation from his employment with the Company due to an Involuntary Termination Event (each, a “Triggering Event”). Following the occurrence of a Triggering Event, Mr. Biglari is entitled to receive a 2.5% royalty on “Revenues” with respect to the “Royalty Period.” The royalty payment to Mr. Biglari does not apply to all revenues received by Biglari Holdings and its subsidiaries simply because the name of the public corporation is “Biglari Holdings,” nor does it apply retrospectively (i.e., to revenues received with respect to the period prior to the Triggering Event). The royalty applies to revenues recorded by the Company on an accrual basis under GAAP, solely with respect to the defined period of time after the Triggering Event equal to the Royalty Period, from a covered Product, Service or business that (1) has used the Biglari Holdings or Biglari name at any time during the term of the License Agreement, whether prior to or after a Triggering Event, or (2) the Company has specifically identified, prior to a Triggering Event, will use the name Biglari or Biglari Holdings.

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

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

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Note 17. Related Party Transactions – (continued)

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

Note 18. Common Stock Plans

We maintain stock-based compensation plans which allow for the issuance of incentive stock options, non-qualified stock options, and restricted stock to officers, other key employees, and to members of the Board of Directors. We generally use treasury shares to satisfy the issuance of shares under these stock-based compensation plans. No shares were granted under the plans in fiscal year 2013, 2012 or 2011.

Restricted Stock Plans

On March 7, 2008, our shareholders approved the 2008 Equity Incentive Plan (the “2008 Plan”). The 2008 Plan provides for grants of stock-based awards for up to 45,000 shares of common stock with a maximum of 35,000 shares which may be issued as restricted stock. These restricted stock awards are restricted for a period and are forfeited to us if the grantee is not employed (except for reasons of retirement, permanent disability or death) at the end of the vesting period. Awards of restricted stock are valued at 100% of market value at the date of grant. The total value of the stock grant is amortized to compensation expense ratably over the vesting period. There are no shares of restricted stock granted under the 2008 Plan for which restrictions have not lapsed at September 25, 2013. At September 25, 2013, no shares were reserved for future grants. To date, 11,660 shares have vested under the 2008 Plan.

The total fair value of shares vested during the year ended September 28, 2011 was \$657. No shares vested in 2013 or 2012. The amount charged to expense under the 2008 Plan was \$51 (\$32, net of tax) in 2011. No expense was recorded under the 2008 Plan in 2013 or 2012. There was no unrecognized compensation cost at September 25, 2013.

There was no restricted stock activity under the 2008 Plan in 2013.

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Note 18. Common Stock Plans – (continued)

Employee Stock Option Plans

The 2008 Plan also provides for awards in the form of options to purchase shares of common stock. No options were granted in 2013, 2012, or 2011 under the 2008 Plan. Options granted under the 2008 Plan are exercisable in equal installments on each anniversary of the date of grant until fully exercisable. The options expire ten years from the date of the grant and are issued with an exercise price equal to the fair market value of a share of common stock on the date of grant. Options may be granted under the 2008 Plan to officers and key employees selected by the Governance, Compensation and Nominating Committee of the Board of Directors (the “Compensation Committee”). As of September 25, 2013, 10,235 options have been granted under the 2008 Plan and no shares are available for future issuance.

The following table summarizes the options activity under all of our stock option plans:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at September 26, 2012	10,036	\$ 275.89		
Exercised	(535)	171.08		
Canceled or forfeited	(120)	293.21		
Outstanding at September 25, 2013.....	9,381	281.64	3.39 years	\$ 1,252
Vested or expected to vest at September 25, 2013	9,381	281.64	3.39 years	\$ 1,252
Exercisable at September 25, 2013	9,281	\$ 282.52	3.42 years	\$ 1,248

During fiscal years 2013, 2012, and 2011, \$0, \$75 (\$74, net of tax), and \$218 (\$210, net of tax), respectively, was charged to expense related to the stock option plans. The total intrinsic value of options exercised during the years ended September 25, 2013, September 26, 2012, and September 28, 2011 was \$133, \$235, and \$693, respectively. There was no unrecognized stock option compensation cost at September 25, 2013.

Note 19. Commitments and Contingencies

We are involved in various legal proceedings and have certain unresolved claims pending. We believe, based on examination of these matters and experiences to date, that the ultimate liability, if any, in excess of amounts already provided in our consolidated financial statements is not likely to have a material effect on our results of operations, financial position or cash flows.

On June 3, 2013 and July 2, 2013, two shareholders of the Company filed derivative actions putatively on behalf of the Company against the members of our board of directors in the United States District Courts for the Southern District of Indiana and the Western District of Texas. The shareholders allege claims for breach of fiduciary duty, gross mismanagement, contribution and indemnification, abuse of control, waste, and unjust enrichment relating to certain Company transactions, including the Company’s acquisition of Biglari Capital, Mr. Biglari’s incentive agreement, the trademark license agreement between the Company and Mr. Biglari, and the Company’s rights offering. The shareholders seek to recover unspecified damages, various forms of injunctive relief, and an award of their attorneys’ fees. The Company believes these claims are without merit and intends to defend these cases vigorously.

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Note 20. Fair Value of Financial Assets and Liabilities

The fair value framework as established in ASC paragraph 820-10-50-2 requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair values, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the Consolidated Balance Sheet.

Cash equivalents: Cash equivalents primarily consist of money market funds which are classified within Level 1 of the fair value hierarchy. The consolidated affiliated partnerships did not hold cash equivalents on September 26, 2012.

Equity securities: The Company's investments in equity securities are carried at fair value, based on quoted market prices, and are classified within 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 that are carried at fair value, based on quoted market prices, and are classified within Level 1 of the fair value hierarchy.

Investment held by consolidated affiliated partnership: Investments of \$190 as of September 26, 2012 have been classified within Level 3 of the fair value hierarchy and represent a private security.

Interest rate swaps: Interest rate swaps are marked to market each reporting period with fair value based on readily available market quotes, and are classified within Level 2 of the fair value hierarchy. Interest rate swaps at September 25, 2013 and September 26, 2012 represent the fair market value for Steak n Shake's two interest rate swaps.

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Note 20. Fair Value of Financial Assets and Liabilities – (continued)

As of September 25, 2013 and September 26, 2012, the fair values of financial assets and liabilities were as follows:

	September 25, 2013				September 26, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 14,286	\$ —	\$ —	\$ 14,286
Equity securities:								
Restaurant/Retail	79,357	—	—	79,357	266,940	—	—	266,940
Insurance	6,122	—	—	6,122	1,574	—	—	1,574
Other	—	—	—	—	1,344	—	—	1,344
Equity securities held by consolidated affiliated partnerships:								
Restaurant/Retail	—	—	—	—	11,156	—	—	11,156
Other	—	—	—	—	1,805	—	—	1,805
Non-qualified deferred compensation plan investments	1,169	—	—	1,169	888	—	—	888
Investment held by consolidated affiliated partnership	—	—	—	—	—	—	190	190
Total assets at fair value	<u>\$ 86,648</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 86,648</u>	<u>\$ 297,993</u>	<u>\$ —</u>	<u>\$ 190</u>	<u>\$ 298,183</u>
Liabilities								
Interest rate swaps	—	401	—	401	—	351	—	351
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 401</u>	<u>\$ —</u>	<u>\$ 401</u>	<u>\$ —</u>	<u>\$ 351</u>	<u>\$ —</u>	<u>\$ 351</u>

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

During fiscal years 2013, 2012 and 2011, the Company recorded impairments on long-lived assets of \$1,666, \$901, and \$1,032, respectively. The fair value of the long-lived assets was determined based on Level 2 inputs using quoted prices for similar properties and quoted prices for the properties from brokers. The fair value of the assets impaired was not material for the years ended 2013, 2012, and 2011.

During fiscal year 2013, the Company recorded impairment on intangible assets of \$1,244. The fair value was determined based on a discounted cash flow analysis which is a level 3 measurement. The fair value of the trade name was not material at impairment.

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Note 21. Business Segment Reporting

Our reportable business segments are organized in a manner that reflects how management views those business activities. Certain businesses have been grouped together for segment reporting based upon operations even though those business units are operated under separate management.

For fiscal year 2013 reportable segments were: (1) Restaurant Operations and (2) Investment Management. Our Restaurant Operations segment includes Steak n Shake and Western. On July 1, 2013 the Company sold Biglari Capital and no longer has an Investment Management segment as of September 25, 2013. We present information related to the holding company, Biglari Holdings, as Corporate and other.

We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are not necessarily indicative of cash available to fund cash requirements, nor are they 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. The segments' financial information does not reflect the impact of eliminations arising from intersegment transactions. The eliminations row represents the eliminations required to arrive at our consolidated GAAP reported results.

A disaggregation of select data from our Consolidated Statements of Earnings for the three most recent years is presented in the tables that follow.

Net revenue and earnings before income taxes and noncontrolling interests for the years ended September 25, 2013, September 26, 2012, and September 28, 2011 were as follows:

	Net Revenue		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Business:			
Restaurant Operations:			
Steak n Shake	\$ 737,090	\$ 718,010	\$ 689,325
Western	<u>14,829</u>	<u>15,895</u>	<u>16,078</u>
Total Restaurant Operations	<u>751,919</u>	<u>733,905</u>	<u>705,403</u>
Investment Management:			
Management fees	—	—	224
Consolidated affiliated partnerships	<u>3,903</u>	<u>6,302</u>	<u>3,573</u>
Total Investment Management Operations	<u>3,903</u>	<u>6,302</u>	<u>3,797</u>
	<u>\$ 755,822</u>	<u>\$ 740,207</u>	<u>\$ 709,200</u>

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Note 21. Business Segment Reporting – (continued)

	Earnings before income taxes and noncontrolling interests			Net earnings attributable to Biglari Holdings Inc.		
	2013	2012	2011	2013	2012	2011
Operating Business:						
Restaurant Operations:						
Steak n Shake	\$ 28,376	\$ 45,622	\$ 41,247	\$ 21,023	\$ 31,756	\$ 29,367
Western	511	2,157	2,455	338	1,354	1,610
Total Restaurant Operations	<u>28,887</u>	<u>47,779</u>	<u>43,702</u>	<u>21,361</u>	<u>33,110</u>	<u>30,977</u>
Investment Management:						
Biglari Capital Corp. (incentive fee)	21	36	2,510	13	22	1,535
Management fees	—	—	224	—	—	139
Consolidated affiliated partnerships	3,380	5,319	3,370	662	1,321	1,815
Total Investment Management Operations	<u>3,401</u>	<u>5,355</u>	<u>6,104</u>	<u>675</u>	<u>1,343</u>	<u>3,489</u>
Corporate and Other:						
Corporate and other	(12,070)	(15,990)	(4,624)	(5,931)	(9,196)	(3,099)
Gains from investment partnerships	20,068	—	—	13,296	—	—
Gain on contributions to investment partnerships	182,746	—	—	114,931	—	—
Investment and derivative gains	1	4,200	7,970	1	2,604	4,941
Total Corporate and Other	<u>190,745</u>	<u>(11,790)</u>	<u>3,346</u>	<u>122,297</u>	<u>(6,592)</u>	<u>1,842</u>
Reconciliation of segments to consolidated amount:						
Eliminations including Gains from investment partnerships ..	(20,089)	(36)	(2,510)	—	—	—
Interest expense and loss on debt extinguishment, excluding interest allocated to operating businesses.....	(6,551)	(10,110)	(2,811)	(4,062)	(6,268)	(1,743)
	<u>\$ 196,393</u>	<u>\$ 31,198</u>	<u>\$ 47,831</u>	<u>\$ 140,271</u>	<u>\$ 21,593</u>	<u>\$ 34,565</u>

A disaggregation of our consolidated capital expenditure, depreciation, and amortization captions for fiscal years ended September 25, 2013, September 26, 2012, and September 28, 2011 is presented in the table that follows:

	Capital Expenditures			Depreciation and Amortization		
	2013	2012	2011	2013	2012	2011
Reportable segments:						
Restaurant Operations:						
Steak n Shake	\$ 6,337	\$ 7,513	\$ 11,092	\$ 24,230	\$ 25,432	\$ 27,279
Western	64	58	18	693	729	785
Investment Management	—	—	—	—	—	27
Corporate and other	7,766	1,104	1,908	327	263	270
Consolidated Results	<u>\$ 14,167</u>	<u>\$ 8,675</u>	<u>\$ 13,018</u>	<u>\$ 25,250</u>	<u>\$ 26,424</u>	<u>\$ 28,361</u>

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)
(amounts in \$000s, except share and per share data)

Note 21. Business Segment Reporting – (continued)

A disaggregation of our consolidated asset captions as of September 25, 2013 and September 26, 2012 is presented in the table that follows:

	Goodwill		Identifiable Assets	
	2013	2012	2013	2012
Reportable segments:				
Restaurant Operations				
Steak n Shake	\$ 15,225	\$ 14,503	\$ 504,589	\$ 433,382
Western	13,026	13,026	5,298	7,526
Investment Management	—	—	277	26,348
Corporate and other	—	—	450,128	279,002
Consolidated results	\$ 28,251	\$ 27,529	\$ 960,292	\$ 746,258
Reconciliation of segments to consolidated amount:				
Goodwill			28,251	27,529
Total assets			\$ 988,543	\$ 773,787

Note 22. Quarterly Financial Data (Unaudited)

	1 st Quarter	2 nd Quarter	3 rd Quarter (3)	4 th Quarter (3)
For the year ended September 25, 2013 (52 weeks) ⁽¹⁾				
Total net revenues	\$ 166,511	\$ 225,210	\$ 184,602	\$ 179,499
Gross profit ⁽²⁾	38,425	48,523	41,927	41,240
Costs and expenses	159,181	220,606	178,137	177,164
Earnings before income taxes	5,930	1,420	169,834	19,209
Net earnings attributable to Biglari Holdings Inc. ⁽⁵⁾	4,562	2,180	106,704	26,825
Basic earnings per common share ⁽⁴⁾	\$ 3.17	\$ 1.52	\$ 74.57	\$ 18.85
Diluted earnings per common share ⁽⁴⁾	\$ 3.17	\$ 1.51	\$ 74.40	\$ 18.82
For the year ended September 26, 2012 (52 weeks) ⁽¹⁾				
Total net revenues	\$ 166,390	\$ 223,684	\$ 175,773	\$ 174,360
Gross profit ⁽²⁾	42,129	52,279	40,990	41,217
Costs and expenses	151,678	211,536	167,884	165,928
Earnings before income taxes	14,753	7,667	4,986	3,792
Net earnings attributable to Biglari Holdings Inc.	8,795	4,528	4,853	3,417
Basic earnings per common share	\$ 6.13	\$ 3.15	\$ 3.38	\$ 2.38
Diluted earnings per common share	\$ 6.11	\$ 3.15	\$ 3.37	\$ 2.38

(1) Our fiscal year includes quarters consisting of 12, 16, 12 and 12 weeks, respectively.

(2) We define Gross profit as Net sales less Cost of sales and Restaurant operating costs, which excludes Depreciation and amortization.

(3) We recorded pre-tax Gain on contribution to investment partnerships of \$162,869 in the 3rd quarter and \$19,877 in the 4th quarter.

(4) Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. In fiscal year 2013 the Company completed a rights offering in which 286,767 new shares of common stock were issued. The theoretical earnings per share have been retroactively restated for all years to give effect to the rights offering.

(5) Net earnings attributable to Biglari Holdings Inc. for the fourth quarter 2013 includes \$20,068 (\$13,296 net of tax) of Gains from investment partnerships.

Note 23. Supplemental Disclosures of Cash Flow Information

During fiscal year 2013, we had four new capital lease obligations of \$2,311 and had \$1,043 of capital expenditures in Accounts payable at year-end. During fiscal year 2012, we had no new capital lease obligations or lease retirements, and had \$589 of capital expenditures in Accounts payable at year-end. During fiscal year 2011, we had no new lease obligations or lease retirements, and had \$741 of capital expenditures in Accounts payable at year-end.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of September 25, 2013.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 25, 2013 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be contained in our definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed on or before January 23, 2014, and such information is incorporated herein by reference.

Part IV

Item 15 Exhibits and Financial Statement Schedules

(a) 1. *Financial Statements*

The following Consolidated Financial Statements, as well as the Reports of Independent Registered Public Accounting Firm, are included in Part II, Item 8 of this report:

	<u>PAGE</u>
Reports of Independent Registered Public Accounting Firm	27-28
Management's Report on Internal Control over Financial Reporting	29
Consolidated Balance Sheets at September 25, 2013 and September 26, 2012	32
<i>For the years ended September 25, 2013, September 26, 2012, and September 28, 2011:</i>	
Consolidated Statements of Earnings	30
Consolidated Statements of Comprehensive Income	31
Consolidated Statements of Cash Flows	33
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2. *Financial Statement Schedule*

Schedule I—Parent Company

Condensed Balance Sheets at September 25, 2013 and September 26, 2012	66
<i>For the years ended September 25, 2013, September 26, 2012, and September 28, 2011:</i>	
Condensed Statements of Earnings	67
Condensed Statements of Comprehensive Income	68
Condensed Statements of Cash Flows	69
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Other schedules have been omitted for the reason that they are not required, are not applicable, or the required information is set forth in the financial statements or notes thereto.

(b) *Exhibits*

See the "Exhibit Index" at page 73.

Condensed Balance Sheets

Biglari Holdings Inc. (Parent Company) (Amounts in \$000s) Schedule I

	September 25, 2013	September 26, 2012
Assets		
Cash and cash equivalents	\$ 72,279	\$ 25,931
Investments	6,122	248,494
Other	4,696	7,000
Investment partnerships	346,514	—
Investments in and advances to/from subsidiaries	218,186	105,197
Total assets	\$ 647,797	\$ 386,622
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	\$ 11,947	\$ 11,162
Deferred income taxes	13	25,873
Total current liabilities	11,960	37,035
Deferred income taxes	71,248	462
Total liabilities	83,208	37,497
Shareholders' equity	564,589	349,125
Total liabilities and shareholders' equity	\$ 647,797	\$ 386,622

See accompanying Notes to Condensed Parent Company Financial Statements.

Condensed Statements of Earnings

Biglari Holdings Inc. (Parent Company)

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(Amounts in \$000s)

Schedule I (continued)

	2013 (52 Weeks)	2012 (52 Weeks)	2011 (52 Weeks)
Income			
Distributed earnings from subsidiaries	\$ —	\$ —	\$ 28,094
Undistributed earnings from subsidiaries	29,777	28,306	5,500
Total	<u>29,777</u>	<u>28,306</u>	<u>33,594</u>
Costs, expenses and other			
General and administrative	19,685	18,374	4,768
Interest	—	14	1,589
Other income, net	(5,220)	(3,412)	(329)
Gain on sale of Biglari Capital Corp.	(1,597)	—	—
Gain on contributions to investment partnerships	(162,869)	—	—
Other than temporary impairment	570	—	—
Investment income	(1)	(4,152)	(7,970)
Total	<u>(149,432)</u>	<u>10,824</u>	<u>(1,942)</u>
Income taxes	59,006	(4,111)	971
Gains from investment partnerships	20,068	—	—
Net earnings	<u>\$ 140,271</u>	<u>\$ 21,593</u>	<u>\$ 34,565</u>

See accompanying Notes to Condensed Parent Company Financial Statements.

Condensed Statements of Comprehensive Income

Biglari Holdings Inc. (Parent Company)

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(Amounts in \$000s)

Schedule I (continued)

	2013 <u>(52 Weeks)</u>	2012 <u>(52 Weeks)</u>	2011 <u>(52 Weeks)</u>
Net earnings attributable to Biglari Holdings Inc.	\$ 140,271	\$ 21,593	\$ 34,565
Other comprehensive (loss) income:			
Reclassification of investment appreciation in net earnings	(1)	(1,455)	2,213
Applicable income taxes	—	553	(861)
Reclassification of investment appreciation in net earnings on contribution to investment partnerships	(182,746)	—	—
Applicable income taxes	67,815	—	—
Reclassification of other than temporary impairment losses on investments	461	—	—
Applicable income taxes	(175)	—	—
Net change in unrealized gains (losses) on investments	146,079	81,075	(9,144)
Applicable income taxes	(53,881)	(30,808)	3,476
Foreign currency translation gains	8	—	—
Other comprehensive (loss) income, net	<u>(22,440)</u>	<u>49,365</u>	<u>(4,316)</u>
Total comprehensive income	<u>\$ 117,831</u>	<u>\$ 70,958</u>	<u>\$ 30,249</u>

See accompanying Notes to Consolidated Financial Statements.

Condensed Statements of Cash Flows.

Biglari Holdings Inc. (Parent Company)

(Years ended September 25, 2013, September 26, 2012, and September 28, 2011)

(Amounts in \$000s)

Schedule I (continued)

	2013 (52 Weeks)	2012 (52 Weeks)	2011 (52 Weeks)
Operating activities			
Net earnings	\$ 140,271	\$ 21,593	\$ 34,565
Adjustments to reconcile net earnings to net cash:			
Excess distributed earnings of subsidiaries	—	—	128,749
Undistributed earnings of subsidiaries	(29,777)	(28,306)	(5,500)
Provision for deferred income taxes	56,396	(3,570)	—
Gain on sale of Biglari Capital Corp.	(1,597)	—	—
Gain on contributions to investment partnerships	(162,869)	—	—
Realized investment gains/losses	(1)	(4,152)	(7,360)
Other than temporary impairments on investments	570	—	—
Derivative and short sale gains/losses	—	—	(610)
Gains from investment partnerships	(20,068)	—	—
Changes in accounts payable and accrued expenses	785	7,346	239
Other	3,410	(3,483)	(198)
Net cash provided by (used in) operating activities	(12,880)	(10,572)	149,885
Investing activities			
Investments in and advances to/ from subsidiaries, net	30,000	7,239	2,611
Additions of property and equipment	(1,106)	(624)	(661)
Proceeds from sale of Biglari Capital Corp, net of cash on hand	1,699	—	—
Purchases of investments	(46,977)	(101,004)	(171,893)
Sales of investments	1	49,536	90,058
Changes in due to/from broker	—	(7,051)	3,148
Net cash used in investing activities	(16,383)	(51,904)	(76,737)
Financing activities			
Principal payments on long-term debt	—	—	(22,765)
Proceeds from stock rights offering	75,595	—	—
Proceeds from exercise of stock options and employees stock purchase plan	13	29	29
Excess tax benefits from stock-based awards	3	382	3
Repurchase of employee shares for tax withholding	—	(8)	(541)
Net cash provided by (used in) financing activities	75,611	403	(23,274)
Increase (decrease) in cash and cash equivalents	46,348	(62,073)	49,874
Cash and cash equivalents at beginning of year	25,931	88,004	38,130
Cash and cash equivalents at end of year	\$ 72,279	\$ 25,931	\$ 88,004

Notes to Condensed Parent Company Financial Statements
Biglari Holdings Inc. (Parent Company)
(years ended September 25, 2013, September 26, 2012, and September 28, 2011)
(amounts in \$000s)

Note 1. Basis of Presentation

Biglari Holdings Inc.'s (the "Company") condensed financial information has been derived from the consolidated financial statements and should be read in conjunction with the consolidated financial statements included in this Annual Report on Form 10-K.

During the third quarter of fiscal year 2013 the Company sold all of the outstanding shares of Biglari Capital Corp. ("Biglari Capital") to Mr. Biglari for \$1,700. Biglari Capital is the general partner of the Lion Fund and the newly-formed The Lion Fund II, L.P. (the "Lion Fund II"). Lion Fund and Lion Fund II (collectively "investment partnerships") are limited partnerships that operate as private investment funds. Prior to the sale of Biglari Capital, the Company consolidated the Lion Fund. As a result of the sale of Biglari Capital the Company has ceased to have a controlling interest in the Lion Fund, which is, accordingly, no longer consolidated in the Company's financial statements.

During fiscal year 2013, the Company contributed cash and securities owned by it of \$326,451 in exchange for limited partner interest in the investment partnerships. Prior to the sale of Biglari Capital, the securities contributed to the investment partnerships were accounted for as available-for-sale-securities with unrealized gains and losses recorded as a component of Shareholders' equity in the Condensed Balance Sheet. Our interests in the investment partnerships are accounted for as equity method investments due to our retained limited partner interest. Prospectively from the sale of Biglari Capital, the Company records earnings from investment partnerships in the Condensed Statement of Earnings based on our proportional ownership interest in the investment partnerships' total earnings.

Our investments consist of available-for-sale securities and are carried at fair value with net unrealized gains or losses reported as a component of Accumulated other comprehensive income in Shareholders' equity. Realized gains and losses on disposals of investments are determined by specific identification of cost of investments sold and are included in Realized investment gains/losses, a component of Other income.

Our interests in the investment partnerships are accounted as equity method investments because of our retained limited partner interest. The Company records earnings from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Condensed Statements of Earnings based on our proportional ownership interest in partnerships' total earnings.

In fiscal year 2013, Biglari Holdings completed an offering of transferable subscription rights, distributing one transferable subscription right ("Rights") for each share of its common stock to shareholders of record on August 27, 2013. Every five Rights entitled a shareholder to subscribe for one share of common stock at a price of \$265.00. Shareholders on the record date who fully exercised the Rights distributed to them were also entitled to subscribe for and purchase additional shares of common stock not purchased by other Rights holders through their basic subscription privileges. The offering was oversubscribed and 286,767 new shares of common stock were issued. The Company received net proceeds of \$75,595 from the offering.

Note 2. Subsidiary Transactions

Dividends

No cash dividends were received during fiscal year 2013 or 2012. During fiscal year 2011, the Company received cash dividends from subsidiaries of \$156,843, which included distributions of current year earnings of \$28,094 and historical earnings of \$128,749.

Our wholly-owned subsidiary has a credit facility that imposes restrictions on its ability to transfer funds to the Company through intercompany loans, distributions, or dividends.

Investment in Subsidiaries

The Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries adjusted for the cost basis of shares of Biglari Holdings common stock held by certain consolidated affiliated partnerships.

Notes to Condensed Parent Company Financial Statements
Biglari Holdings Inc. (Parent Company)
(years ended September 25, 2013, September 26, 2012, and September 28, 2011)
(amounts in \$000s)

Note 3. Investments

Investments consisted of the following:

	<u>2013</u>	<u>2012</u>
Cost	\$ 5,989	\$ 180,240
Gross unrealized gains	133	68,715
Gross unrealized losses	—	(461)
Fair value	<u>\$ 6,122</u>	<u>\$ 248,494</u>

During fiscal year 2013, the Company contributed \$326,451 of cash and securities to the investment partnerships in exchange for limited partner interests. We apply equity method accounting to these investments. As of September 25, 2013, the Company retained a balance of \$6,122 of investments deemed as available-for-sale securities.

Investment gains/losses are recognized when investments are sold (as determined on a specific identification basis) or as otherwise required by GAAP. The timing of realized gains and losses from sales can have a material effect on periodic earnings. However, such realized gains or losses usually have little, if any, impact on total Shareholders' equity because the investments are carried at fair value with any unrealized gains/losses included as a component of Accumulated other comprehensive income in Shareholders' equity. We believe that realized investment gains/losses are often meaningless in terms of understanding reported results. Short-term investment gains/losses have caused and may continue to cause significant volatility in our results.

The Company recognized a pre-tax gain of \$162,869 (\$102,607 net of tax) on the contribution of securities to investment partnerships for fiscal year 2013. The gain had a material effect on the Company's fiscal 2013 earnings. However, this gain had no impact on total Shareholders' equity because the investments were carried at fair value prior to the contribution, with the unrealized gains included as a component of Accumulated other comprehensive income.

Realized investment gains/losses for the fiscal years ended September 25, 2013, September 26, 2012 and September 28, 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross realized gains on sales	\$ 1	\$ 4,536	\$ 7,775
Gross realized losses on sales	—	(384)	(415)
Total realized gains/losses	<u>\$ 1</u>	<u>\$ 4,152</u>	<u>\$ 7,360</u>

During fiscal year 2013, the Company had unrealized losses on available-for-sale equity securities in a continuous unrealized loss position for more than twelve consecutive months. Therefore, we recorded an impairment of \$570 in fiscal year 2013.

From time to time, the Company enters into certain derivative transactions as part of its investment strategy. In accordance with ASC 815, *Accounting for Derivative Instruments and Hedging Activities*, these derivatives are marked to market for each reporting period and this fair value adjustment is recorded as a gain or loss in the Condensed Statement of Earnings.

The Company may enter into short sales on certain equity securities, that is, a transaction in which the Company sells securities it does not own. The Company's use of short sales involves the risk that the price of the security in the open market may be higher when it is purchased in order to close out the Company's short position, resulting in a loss to the Company. Such a loss is theoretically limitless because there are no restrictions on the potential increase in the price of a security, or any guarantee as to the price at which the Company would be able to purchase the security in the open market. Securities sold in short sale transactions and the interest and dividends payable on such securities, if any, are reflected as a liability in Accrued expenses in the Condensed Balance Sheet. As of September 25, 2013 and September 26, 2012 we had no outstanding short sales.

For the year ended September 28, 2011, the Company recorded investment gains of \$610 related to the change in fair value of derivatives and securities sold short.

Notes to Condensed Parent Company Financial Statements
Biglari Holdings Inc. (Parent Company)
(years ended September 25, 2013, September 26, 2012, and September 28, 2011)
(amounts in \$000s)

Note 4. Equity in Investment Partnerships

Beginning July 1, 2013, as a result of the sale of Biglari Capital and of our limited partner interests in the investment partnerships, the Company reports on the limited partnership interests under the equity method of accounting. Our proportional share of equity in the investment partnerships, excluding Company common stock held by said partnerships, is recorded as Equity in investment partnerships. The Company's pro-rata share of its common stock held by the investment partnerships is recorded as Treasury stock. The Company will record gains/losses from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the Condensed 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.

The fair value and carrying value of our partnership interest is presented below:

Fair value of partnership interest at July 1, 2013	\$ 54,608
Contributions to investment partnerships	326,451
Gains from investment partnerships from July 1 through September 25, 2013	<u>23,053</u>
Fair value of partnership interest at September 25, 2013	404,112
Gains from appreciation of Biglari Holdings stock held by investment partnerships	(2,985)
Proportionate share of Company stock held by investment partnerships	<u>(54,613)</u>
Carrying value of partnership interests at September 25, 2013	<u>\$ 346,514</u>

The carrying value of the partnership interest approximates fair value adjusted by changes in the value of Company stock held. Fair value is estimated based on our proportional ownership interest of the fair value of investments held by the investment partnerships. The fair value measurement is classified as level 3 within the fair value hierarchy.

The investment partnerships have a December 31 fiscal year end, with their most current quarter ending September 30, 2013. For purposes of recording our allocation of Gains from the investment partnerships, we use the investment partnerships' similar period results. For the period ended September 25, 2013, the investment partnership for the period ended September 30, 2013 was used. Accordingly, we recorded \$20,068 of Gains from investment partnerships during fiscal year 2013. As the general partner of the investment partnerships, Biglari Capital 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% on December 31 of each year. Our policy is to accrue an estimated incentive fee throughout the fiscal year. Our investment in these partnerships is committed according to a rolling 5-year basis.

The investments held by the investment partnerships are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc.

Note 5. Income Taxes

Federal income taxes are paid based on the consolidated results of Biglari Holdings.

INDEX TO EXHIBITS

Exhibit Number	Description
	All documents referenced below were filed pursuant to the Securities Exchange Act of 1934 by the Company, file number 0-8445, unless otherwise indicated.
2.01	Agreement and Plan of Merger, dated as of October 22, 2009, by and among the Company, Grill Acquisition Corporation and Western. (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated October 23, 2009).
3.01	Amended and Restated Articles of Incorporation of the Company, filed March 27, 2002, as amended by Articles of Amendment dated December 17, 2009, January 27, 2010 and April 8, 2010. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 dated April 15, 2010).
3.02	Restated Bylaws of the Company, as amended through July 1, 2009. (Incorporated by reference to Exhibit 3.01 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2009).
4.01	Specimen certificate representing Common Stock of the Company. (Incorporated by reference to Exhibit 4.01 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 11, 2001).
10.01*	1997 Employee Stock Option Plan. (Incorporated by reference to the Appendix to the Company's definitive Proxy Statement dated December 24, 1996).
10.02*	Amendment No. 1 to 1997 Employee Stock Option Plan. (Incorporated by reference to the Appendix to the Company's definitive Proxy Statement dated December 19, 2001).
10.03*	Form of Stock Option Agreement under the Company's 1997 Employee Stock Option Plan. (Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).
10.04*	2005 Director Stock Option Plan. (Incorporated by reference to Appendix B to the Company's definitive Proxy Statement dated December 20, 2004).
10.05*	2006 Employee Stock Option Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 8, 2006).
10.06*	2006 Incentive Bonus Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 8, 2006).
10.07*	Form of Incentive Stock Option Agreement under the 2006 Employee Stock Option Plan (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 8, 2006).
10.08*	2007 Non-Employee Director Restricted Stock Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 9, 2007).
10.09*	2008 Equity Incentive Plan. (Incorporated by reference to Appendix A to the Company's definitive Proxy Statement dated February 8, 2008).
10.10*	Form of Employee Stock Option Agreement under the Company's 2008 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 9, 2008).
10.11*	Form of 2008 Equity Incentive Plan Restricted Stock Agreement under the Company's 2008 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.02 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 9, 2008).
10.12*	The Steak n Shake Non-Qualified Savings Plan, amended and restated as of March 15, 2010. (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 dated April 22, 2010).
10.13	Multiple Unit Franchise Agreement, dated as of September 21, 2005, by and among the Company, Reinwald Enterprises Emory, LLC and Reinwald Enterprises Wild Geese, LLC. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 27, 2005)

- 10.14* Form of Indemnity Agreement entered into on October 9, 2007 with the following Officers and Directors of the Company: Jeffrey A. Blade, Duane E. Geiger, Alan B. Gilman, Omar Janjua, David C. Milne, Thomas Murrill, Gary T. Reinwald, Steven M. Schiller, J. Michael Vance, Geoff Ballotti, Wayne Kelley, Charles Lanham, Ruth Person, John W. Ryan, J. Fred Risk, Steven M. Schmidt, Edward Wilhelm, and James Williamson, Jr. (Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended September 26, 2007).
- 10.15* Severance Agreement, dated as of January 26, 2010, by and between the Company and Duane Geiger. (Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 23, 2009).
- 10.16* Amended and Restated Incentive Bonus Agreement, dated September 28, 2010, by and between the Company and Sardar Biglari. (Incorporated by reference to Annex A to the Company's definitive Proxy Statement dated September 28, 2011).
- 10.17 Credit Agreement, dated as of September 25, 2012, by and among Steak n Shake Operations, Inc., as borrower, Steak n Shake Enterprises, Inc., as a subsidiary guarantor, Steak n Shake, LLC, as a subsidiary guarantor, the lenders party thereto, Fifth Third Bank, as lead arranger, book manager, administrative agent, collateral agent, swingline lender and issuing bank, Regions Bank, as syndication agent, and Wells Fargo Bank, N.A. and Compass Bank, as co-documentation agents. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 28, 2012).
- 10.18 Security Agreement, dated as of September 25, 2012, by Steak n Shake Operations, Steak n Shake Enterprises, Inc. and Steak n Shake, LLC, as pledgers, assignors and debtors, in favor of Fifth Third Bank, in its capacity as collateral agent, pledgee, assignee and secured party. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 28, 2012).
- 10.19 Trademark License Agreement, dated as of January 11, 2013, by and between Biglari Holdings Inc. and Sardar Biglari. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 11, 2013).
- 10.20 Trademark Sublicense Agreement, entered as of May 14, 2013, by and among the Company, Steak n Shake, LLC and Steak n Shake Enterprises, Inc. (Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 10, 2013).
- 10.21 Stock Purchase Agreement, dated July 1, 2013, by and between Biglari Holdings Inc. and Sardar Biglari. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 2, 2013).
- 10.22 Shared Services Agreement, dated July 1, 2013, by and between Biglari Holdings Inc. and Biglari Capital Corp. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 2, 2013).
- 10.23* First Amendment, dated as of July 1, 2013, to the Amended and Restated Incentive Bonus Agreement, dated as of September 28, 2010, by and between Biglari Holdings Inc. and Sardar Biglari. (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 2, 2013).
- 10.24 First Amendment to Credit Agreement, dated as of September 18, 2013, by and among Steak n Shake Operations, Inc., the Subsidiary Guarantors party thereto, the lenders party thereto, and Fifth Third Bank, as administrative agent, collateral agent and L/C issuer. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 24, 2013).
- 14.01 Code of Conduct, dated May 17, 2010.
- 21.01 Subsidiaries of the Company.
- 23.01 Consent of Independent Registered Public Accounting Firm.
- 31.01 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.02 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.01 Section 1350 Certifications.

101** Interactive Data Files.

- * Indicates management contract or compensatory plans or arrangements required to be filed as an exhibit to this Annual Report on Form 10-K.
- ** In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.