

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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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

Not Applicable

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

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 Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of May 3, 2017, 2,067,613 shares of the registrant's Common Stock, \$.50 stated value, were outstanding.

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PART 1 – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	March 31, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 68,560	\$ 75,808
Investments	20,702	22,297
Receivables	8,670	14,195
Inventories	7,096	6,773
Other current assets	7,474	8,716
Total current assets	112,502	127,789
Property and equipment	309,577	312,264
Goodwill and other intangible assets	66,040	66,054
Investment partnerships	546,170	577,637
Other assets	13,653	13,223
Total assets	\$ 1,047,942	\$ 1,096,967
 Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 107,791	\$ 112,882
Current portion of notes payable and other borrowings	7,067	7,129
Total current liabilities	114,858	120,011
Long-term notes payable and other borrowings	264,511	281,555
Deferred taxes	142,143	152,315
Other liabilities	11,456	11,146
Total liabilities	532,968	565,027
 Shareholders' equity		
Common stock - 2,067,613 and 2,067,193 shares outstanding	1,071	1,071
Additional paid-in capital	382,014	381,906
Retained earnings	499,612	515,433
Accumulated other comprehensive loss	(3,275)	(3,584)
Treasury stock, at cost	(364,448)	(362,886)
Biglari Holdings Inc. shareholders' equity	514,974	531,940
Total liabilities and shareholders' equity	\$ 1,047,942	\$ 1,096,967

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands except per share amounts)

	First Quarter	
	2017	2016
	(Unaudited)	
Revenues		
Restaurant operations	\$ 195,694	\$ 200,295
Insurance premiums and other	6,080	5,499
Media advertising and other	1,619	2,448
	<u>203,393</u>	<u>208,242</u>
Cost and expenses		
Restaurant cost of sales	157,298	155,737
Insurance losses and underwriting expenses	5,020	4,103
Media cost of sales	1,493	5,019
Selling, general and administrative	29,486	30,365
Depreciation and amortization	5,621	6,047
	<u>198,918</u>	<u>201,271</u>
Other income (expenses)		
Interest expense	(2,824)	(2,922)
Interest on obligations under leases	(2,280)	(2,281)
Investment partnership gains (losses)	(24,968)	78,973
Total other income (expenses)	<u>(30,072)</u>	<u>73,770</u>
Earnings (loss) before income taxes	<u>(25,597)</u>	<u>80,741</u>
Income tax expense (benefit)	<u>(9,776)</u>	<u>29,578</u>
Net earnings (loss)	<u>\$ (15,821)</u>	<u>\$ 51,163</u>
Earnings per share		
Basic earnings per common share	\$ (12.82)	\$ 41.20
Diluted earnings per common share	\$ (12.82)	\$ 41.16
Weighted average shares and equivalents		
Basic	1,234,478	1,241,733
Diluted	1,234,478	1,242,938

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	First Quarter	
	2017	2016
	(Unaudited)	
Net earnings (loss)	\$ (15,821)	\$ 51,163
Other comprehensive income:		
Net change in unrealized gains and losses on investments	191	(401)
Applicable income taxes	(67)	145
Foreign currency translation	185	331
Other comprehensive income, net	<u>309</u>	<u>75</u>
Total comprehensive income (loss)	<u>\$ (15,512)</u>	<u>\$ 51,238</u>

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	First Quarter	
	2017	2016
	(Unaudited)	
Operating activities		
Net earnings (loss)	\$ (15,821)	\$ 51,163
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	5,621	6,047
Provision for deferred income taxes	(10,281)	26,307
Asset impairments and other non-cash expenses	435	415
Loss on disposal of assets	99	265
Investment partnership gains / losses	24,968	(78,973)
Distributions from investment partnerships	5,015	4,750
Changes in receivables and inventories	5,202	7,923
Changes in other assets	(114)	(2,085)
Changes in accounts payable and accrued expenses	(5,261)	1,443
Net cash provided by operating activities	9,863	17,255
Investing activities		
Capital expenditures	(1,990)	(2,859)
Proceeds from property and equipment disposals	50	854
Purchases of investments	(16,945)	(24,472)
Redemptions of fixed maturity securities	18,653	12,989
Net cash used in investing activities	(232)	(13,488)
Financing activities		
Payments on revolving credit facility	(20)	(96)
Principal payments on long-term debt	(15,550)	(2,201)
Principal payments on direct financing lease obligations	(1,356)	(1,461)
Proceeds from exercise of stock options	30	1
Net cash used in financing activities	(16,896)	(3,757)
Effect of exchange rate changes on cash	17	48
Increase (decrease) in cash and cash equivalents	(7,248)	58
Cash and cash equivalents at beginning of year	75,808	56,523
Cash and cash equivalents at end of first quarter	\$ 68,560	\$ 56,581

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2016	\$ 1,071	\$ 381,906	\$ 515,433	\$ (3,584)	\$ (362,886)	\$ 531,940
Net earnings (loss)			(15,821)			(15,821)
Other comprehensive income, net				309		309
Adjustment to treasury stock for holdings in investment partnerships .		116			(1,600)	(1,484)
Exercise of stock options		(8)			38	30
Balance at March 31, 2017	\$ 1,071	\$ 382,014	\$ 499,612	\$ (3,275)	\$ (364,448)	\$ 514,974
Balance at December 31, 2015	\$ 1,071	\$ 391,853	\$ 415,982	\$ (3,679)	\$ (353,855)	\$ 451,372
Net earnings			51,163			51,163
Other comprehensive income, net				75		75
Adjustment to treasury stock for holdings in investment partnerships					(10,930)	(10,930)
Exercise of stock options		(5)			6	1
Balance at March 31, 2016	\$ 1,071	\$ 391,848	\$ 467,145	\$ (3,604)	\$ (364,779)	\$ 491,681

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2017

(dollars in thousands, except share and per share data)

Note 1. Summary of Significant Accounting Policies

Description of Business

The accompanying unaudited consolidated financial statements of Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In our opinion, all adjustments considered necessary to present fairly the results of the interim periods have been included and consist only of normal recurring adjustments. The results for the interim periods shown are not necessarily indicative of results for the entire fiscal year. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2016.

Biglari Holdings is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, and restaurants. The Company’s largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and led by Sardar Biglari, Chairman and Chief Executive Officer of 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 Mr. Biglari. As of March 31, 2017, Mr. Biglari’s beneficial ownership of the Company’s outstanding common stock was approximately 51.3%.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including Steak n Shake Inc. (“Steak n Shake”), Western Sizzlin Corporation (“Western”), Maxim Inc. (“Maxim”) and First Guard Insurance Company and its agency, 1st Guard Corporation (collectively “First Guard”). Intercompany accounts and transactions have been eliminated in consolidation.

Note 2. New Accounting Standards

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 provides for the elimination of Step 2 from the goodwill impairment test. If impairment charges are recognized, the amount recorded will be the amount by which the carrying amount exceeds the reporting unit’s fair value with certain limitations. The ASU is effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2020. The Company does not currently anticipate ASU 2017-04 will have a material impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, *Interests Held through Related Parties That Are under Common Control*. ASU 2016-17 amends the consolidation guidance in ASU 2015-02 regarding the treatment of indirect interests held through related parties that are under common control. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years. The Company adopted the provisions of ASU 2016-17 on January 1, 2017. The adoption of this update has had no material effect on the Company’s financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The objective of the update is to reduce diversity in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-15 will have on its consolidated financial statements and related disclosures.

Note 2. New Accounting Standards (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 *Leases*. ASU 2016-02 requires a lessee to recognize lease assets and lease liabilities on the balance sheet, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect this amended guidance will have on our results of operations. We anticipate the ASU will have a material impact on our balance sheet, but the ASU is non-cash in nature and will not affect our cash position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In July 2015, the FASB voted to defer the effective date of this ASU by one year, which would make the guidance effective for our first quarter fiscal year 2018 financial statements using either of two acceptable adoption methods: (i) retrospective adoption to each prior reporting period presented with the option to elect certain practical expedients; or (ii) adoption with the cumulative effect of initially applying the guidance recognized at the date of initial application and providing certain additional disclosures. We currently expect to adopt ASU 2014-09 as of January 1, 2018 under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued, and may issue in the future, interpretative guidance that may cause our evaluation to change. While we anticipate some changes to revenue recognition for certain transactions, we do not currently believe ASU 2014-09 will have a material effect on our consolidated financial statements.

The Company consolidated goodwill and other intangible assets into a single line item on the balance sheet at March 31, 2017 and changed the December 31, 2016 presentation to conform.

Note 3. Earnings Per Share

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. The shares of Company stock attributable to our limited partner interest in The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, the “investment partnerships”) — based on our proportional ownership during this period — are considered treasury stock on the consolidated balance sheet and thereby deemed not to be included in the calculation of weighted average common shares outstanding. However, these shares are legally outstanding.

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

	First Quarter	
	2017	2016
Basic earnings per share:		
Weighted average common shares	1,234,478	1,241,733
Diluted earnings per share:		
Weighted average common shares	1,234,478	1,241,733
Dilutive effect of stock awards	-	1,205
Weighted average common and incremental shares	1,234,478	1,242,938
Anti-dilutive stock awards excluded from the calculation of earnings per share	1,497	-

Note 3. Earnings Per Share (continued)

The Company's common stock is \$0.50 stated value. The following table presents shares authorized, issued and outstanding.

	March 31, 2017	December 31, 2016
Common stock authorized	2,500,000	2,500,000
Common stock issued	2,142,202	2,142,202
Treasury stock held by the Company	(74,589)	(75,009)
Outstanding shares	2,067,613	2,067,193
Proportional ownership of the Company's common stock in investment partnerships	(838,012)	(834,889)
Net outstanding shares for financial reporting purposes	1,229,601	1,232,304

Note 4. Investments

Investments consisted of the following.

	March 31, 2017	December 31, 2016
Cost	\$ 20,722	\$ 22,508
Gross unrealized gains	5	24
Gross unrealized losses	(25)	(235)
Fair value	\$ 20,702	\$ 22,297

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 volatility in our results.

Investments in equity securities and a related put option of \$4,463 are included in other assets and recorded at fair value.

Note 5. Investment Partnerships

The Company reports on the limited partnership interests in investment partnerships under the equity method of accounting. We record our proportional share of equity in the investment partnerships but exclude Company common stock held by said partnerships. The Company's pro-rata share of its common stock held by the investment partnerships is recorded as treasury stock even though they are legally outstanding. The Company records gains/losses from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the consolidated statements of earnings based on our carrying value of these partnerships. The fair value is calculated net of the general partner's accrued incentive fees. Gains and losses on Company common stock included in the earnings of these partnerships are eliminated because they are recorded as treasury stock.

Note 5. Investment Partnerships (continued)

The fair value and adjustment for Company common stock held by the investment partnerships to determine carrying value of our partnership interest is presented below.

	<u>Fair Value</u>	<u>Company Common Stock</u>	<u>Carrying Value</u>
Partnership interest at December 31, 2016	\$ 972,707	\$ 395,070	\$ 577,637
Investment partnership gains (losses)	(59,517)	(34,549)	(24,968)
Contributions (net of distributions) to investment partnerships	(5,015)		(5,015)
Increase in proportionate share of Company stock held		1,484	(1,484)
Partnership interest at March 31, 2017	<u>\$ 908,175</u>	<u>\$ 362,005</u>	<u>\$ 546,170</u>

	<u>Fair Value</u>	<u>Company Common Stock</u>	<u>Carrying Value</u>
Partnership interest at December 31, 2015	\$ 734,668	\$ 262,979	\$ 471,689
Investment partnership gains	115,894	36,921	78,973
Contributions (net of distributions) to investment partnerships	6,750		6,750
Increase in proportionate share of Company stock held		10,930	(10,930)
Partnership interest at March 31, 2016	<u>\$ 857,312</u>	<u>\$ 310,830</u>	<u>\$ 546,482</u>

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Carrying value of investment partnerships	\$ 546,170	\$ 577,637
Deferred tax liability related to investment partnerships	(144,676)	(155,553)
Carrying value of investment partnerships net of deferred taxes	<u>\$ 401,494</u>	<u>\$ 422,084</u>

The Company's proportionate share of Company stock held by investment partnerships at cost is \$343,530 and \$341,930 at March 31, 2017 and December 31, 2016, respectively, and is recorded as treasury stock.

The carrying value of the partnership interest approximates fair value adjusted by the value of held Company stock. Fair value is according to 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.

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

	<u>First Quarter</u>	
	<u>2017</u>	<u>2016</u>
Investment partnership gains (losses)	\$ (24,968)	\$ 78,973
Tax expense (benefit)	(9,761)	28,585
Contribution to net earnings (loss)	<u>\$ (15,207)</u>	<u>\$ 50,388</u>

On December 31 of each year, the general partner of the investment partnerships, Biglari Capital Corp. ("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% over the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year. The Company did not accrue an incentive fee during the first quarter of 2017. During the first quarter of 2016, the Company accrued incentive fees for Biglari Capital of \$2,921. Our investments in these partnerships are committed on a rolling 5-year basis. Biglari Capital is an entity solely owned by Mr. Biglari.

Note 5. Investment Partnerships (continued)

Summarized financial information for The Lion Fund, L.P. and The Lion Fund II, L.P. is presented below.

	Equity in Investment Partnerships	
	Lion Fund	Lion Fund II
Total assets as of March 31, 2017	\$ 203,202	\$ 1,041,405
Total liabilities as of March 31, 2017	\$ 202	\$ 199,443
Revenue for the first quarter ending March 31, 2017	\$ (15,696)	\$ (52,652)
Earnings (loss) for the first quarter ending March 31, 2017	\$ (15,716)	\$ (53,514)
Biglari Holdings' Ownership Interest	63.6%	92.5%
Total assets as of December 31, 2016	\$ 221,676	\$ 1,109,465
Total liabilities as of December 31, 2016	\$ 2,694	\$ 201,460
Revenue for the first quarter ending March 31, 2016	\$ (1,738)	\$ 130,525
Earnings (loss) for the first quarter ending March 31, 2016	\$ (1,771)	\$ 129,285
Biglari Holdings' Ownership Interest	63.4%	93.5%

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

Property and equipment is composed of the following.

	March 31, 2017	December 31, 2016
Land	\$ 160,219	\$ 160,328
Buildings	156,168	156,723
Land and leasehold improvements	164,287	163,817
Equipment	201,452	200,214
Construction in progress	1,695	1,539
	683,821	682,621
Less accumulated depreciation and amortization	(374,244)	(370,357)
Property and equipment, net	\$ 309,577	\$ 312,264

Note 7. Goodwill and Other Intangible Assets

Goodwill

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

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

	Restaurants	Other	Total
Goodwill at December 31, 2016	\$ 28,090	\$ 11,913	\$ 40,003
Change in foreign exchange rates during first quarter 2017	9	-	9
Goodwill at March 31, 2017	\$ 28,099	\$ 11,913	\$ 40,012

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. When evaluating goodwill for impairment, we may first perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. If we do not perform a qualitative assessment, or if we determine that it is not more likely than not that the fair value of the reporting unit exceeds its carrying amount, we test for potential impairment using a two-step approach. The first 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 occurs when the estimated fair value of goodwill is less than its carrying value.

Note 7. Goodwill and Other Intangible Assets *(continued)*

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 impairment charges for goodwill were recorded in the first three months of 2017 or 2016.

Other Intangible Assets

Other intangible assets are composed of the following.

	March 31, 2017			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Franchise agreement	\$ 5,310	\$ (3,717)	\$ 1,593	\$ 5,310	\$ (3,585)	\$ 1,725
Other	810	(717)	93	810	(707)	103
Total	6,120	(4,434)	1,686	6,120	(4,292)	1,828
Intangible assets with indefinite lives:						
Trade names	15,876	-	15,876	15,876	-	15,876
Other assets with indefinite lives	8,466	-	8,466	8,347	-	8,347
Total intangible assets	\$ 30,462	\$ (4,434)	\$ 26,028	\$ 30,343	\$ (4,292)	\$ 26,051

Intangible assets subject to amortization consist of franchise agreements connected with the purchase of Western as well as rights to favorable leases related to 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 the first quarters of 2017 and 2016 was \$142 and \$141, respectively. The Company's intangible assets with definite lives will fully amortize in 2020. Total annual amortization expense for each of 2018 and 2019 will approximate \$500.

Intangible assets with indefinite lives consist of trade names, franchise rights as well as lease rights.

Note 8. Restaurant Operations Revenues

Restaurant operations revenues were as follows.

	First Quarter	
	2017	2016
Net sales	\$ 189,051	\$ 195,067
Franchise royalties and fees	5,556	4,350
Other	1,087	878
	\$ 195,694	\$ 200,295

Note 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	March 31,	December 31,
	2017	2016
Accounts payable	\$ 36,622	\$ 33,961
Gift card liability	20,360	25,321
Salaries, wages, and vacation	9,076	15,618
Taxes payable	13,529	12,254
Workers' compensation and other self-insurance accruals	9,870	9,960
Deferred revenue	10,350	7,407
Other	7,984	8,361
Accounts payable and accrued expenses	<u>\$ 107,791</u>	<u>\$ 112,882</u>

Note 10. Borrowings

Notes payable and other borrowings include the following.

	March 31,	December 31,
	2017	2016
Current portion of notes payable and other borrowings		
Notes payable	\$ 2,200	\$ 2,200
Unamortized original issue discount	(312)	(308)
Unamortized debt issuance costs	(716)	(711)
Obligations under leases	5,538	5,571
Western revolver	357	377
Total current portion of notes payable and other borrowings	<u>\$ 7,067</u>	<u>\$ 7,129</u>
Long-term notes payable and other borrowings		
Notes payable	\$ 185,348	\$ 200,898
Unamortized original issue discount	(1,014)	(1,093)
Unamortized debt issuance costs	(1,996)	(2,177)
Obligations under leases	82,173	83,927
Total long-term notes payable and other borrowings	<u>\$ 264,511</u>	<u>\$ 281,555</u>

Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into the current credit agreement. The credit agreement provides for a senior secured term loan facility in an aggregate principal amount of \$220,000 and a senior secured revolving credit facility in an aggregate principal amount of up to \$30,000.

The term loan is scheduled to mature on March 19, 2021. It amortizes at an annual rate of 1.0% in equal quarterly installments, beginning June 30, 2014, at 0.25% of the original principal amount of the term loan, subject to mandatory prepayments from excess cash flow, asset sales and other events described in the credit agreement. The balance will be due at maturity. The revolver will be available on a revolving basis until March 19, 2019.

Steak n Shake has the right to request an incremental term loan facility from participating lenders and/or eligible assignees at any time, up to an aggregate total principal amount not to exceed \$70,000 if certain customary conditions within the credit agreement are met.

Borrowings bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. The applicable margins on revolver loans are contingent on Steak n Shake's total leverage ratio. The revolver also carries a commitment fee ranging from 0.40% to 0.50% per annum, depending on Steak n Shake's total leverage ratio, on the unused portion of the revolver.

The interest rate on the term loan was 4.75% as of March 31, 2017.

Note 10. Borrowings (continued)

The credit agreement includes customary affirmative and negative covenants and events of default, as well as a financial maintenance covenant, solely with respect to the revolver, relating to the maximum total leverage ratio. Steak n Shake's credit facility contains restrictions on its ability to pay dividends to Biglari Holdings.

Both the term loan and the revolver have been 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. As of March 31, 2017, \$187,548 was outstanding under the term loan, and no amount was outstanding under the revolver.

Steak n Shake had \$10,893 in standby letters of credit outstanding as of March 31, 2017 and December 31, 2016.

Western Revolver

As of March 31, 2017, Western has \$357 due June 13, 2017.

Fair Value of Debt

The carrying amounts for debt reported in the consolidated balance sheet did not differ materially from their fair values at March 31, 2017 and December 31, 2016. The fair value was determined to be a Level 3 fair value measurement.

Note 11. Accumulated Other Comprehensive Income

During the first quarters of 2017 and 2016, the changes in the balances of each component of accumulated other comprehensive income, net of tax, were as follows.

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Income (Loss)	Foreign Currency Translation Adjustments	Investment Gain (Loss)	Accumulated Other Comprehensive Income (Loss)
Beginning Balance	\$ (3,447)	\$ (137)	\$ (3,584)	\$ (2,992)	\$ (687)	\$ (3,679)
Other comprehensive income (loss) before reclassifications ..	185	124	309	331	(256)	75
Ending Balance	<u>\$ (3,262)</u>	<u>\$ (13)</u>	<u>\$ (3,275)</u>	<u>\$ (2,661)</u>	<u>\$ (943)</u>	<u>\$ (3,604)</u>

There were no reclassifications made from accumulated other comprehensive income to the consolidated statement of earnings during the first quarters of 2017 and 2016.

Note 12. Income Taxes

In determining the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate based on expected annual income, statutory tax rates, and available tax planning opportunities in the various jurisdictions in which the Company operates. Unusual or infrequently occurring items are separately recognized during the quarter in which they occur.

Income tax for the first quarter of 2017 was a benefit of \$9,776 compared to an expense of \$29,578 for the first quarter of 2016. The variance in income taxes between the first quarters of 2017 and 2016 is primarily attributable to taxes on income and losses from investment partnerships.

As of March 31, 2017 and December 31, 2016, we had approximately \$396 of unrecognized tax benefits, which are included in other liabilities in the consolidated balance sheets.

Note 13. Commitments and Contingencies

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

Note 14. Fair Value of Financial Assets and Liabilities

The fair values of substantially all of our financial instruments were measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the fair values presented are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of alternative market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

- Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.
- Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that may be considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit ratings, estimated durations and yields for other instruments of the issuer or entities in the same industry sector.
- Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities and we may be unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

The following methods and assumptions were used to determine the fair value of each class of the following assets 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.

Equity securities: The Company's investments in equity securities are classified within Level 1 of the fair value hierarchy.

Bonds: The Company's investments in bonds are classified within Level 2 of the fair value hierarchy.

Non-qualified deferred compensation plan investments: The assets of the non-qualified plan are set up in a rabbi trust. They represent mutual funds and are classified within Level 1 of the fair value hierarchy.

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

As of March 31, 2017 and December 31, 2016, the fair values of financial assets and liabilities were as follows.

	March 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	\$ 2,293	\$ -	\$ -	\$ 2,293	\$ 471	\$ -	\$ -	\$ 471
Equity securities:								
Consumer goods	2,445	-	-	2,445	2,018	-	-	2,018
Bonds	-	23,037	-	23,037	-	24,904	-	24,904
Options on equity securities	-	2,018	-	2,018	-	2,445	-	2,445
Non-qualified deferred compensation plan investments .	3,081	-	-	3,081	2,872	-	-	2,872
Total assets at fair value	<u>\$ 7,819</u>	<u>\$ 25,055</u>	<u>\$ -</u>	<u>\$ 32,874</u>	<u>\$ 5,361</u>	<u>\$ 27,349</u>	<u>\$ -</u>	<u>\$ 32,710</u>

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

Note 15. Related Party Transactions

Shared Services Agreement

During fiscal 2013, Biglari Holdings and Biglari Capital entered into the Shared Services Agreement pursuant to which Biglari Holdings provides certain services to Biglari Capital. Biglari Capital is an entity solely owned by Mr. Biglari. 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 the 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, L.P. and The Lion Fund II, L.P. under their respective partnership agreements. During the first quarters of 2017 and 2016, the Company provided services for Biglari Capital under the Shared Services Agreement costing an aggregate of \$227, and \$301, respectively.

Investments in The Lion Fund, L.P. and The Lion Fund II, L.P.

As of March 31, 2017, the Company's investments in The Lion Fund, L.P. and The Lion Fund II, L.P. had a fair value of \$908,175.

Contributions to and distributions from The Lion Fund, L.P. and The Lion Fund II, L.P. were as follows.

	First Quarter	
	2017	2016
Contributions of cash	\$ -	\$ 11,500
Distributions of cash	(5,015)	(4,750)
	<u>\$ (5,015)</u>	<u>\$ 6,750</u>

As the general partner of the investment partnerships, Biglari Capital on December 31 of each year will earn an incentive reallocation fee for the Company's investments equal to 25% of the net profits above an annual hurdle rate of 6% over the previous high water mark. Our policy is to accrue an estimated incentive fee throughout the year. The Company did not accrue incentive fees for Biglari Capital during the first quarter of 2017. The Company accrued \$2,921 in incentive fees for Biglari Capital during the first quarter of 2016.

Incentive Agreement Amendment

During 2013, Biglari Holdings and Mr. Biglari entered into an amendment to the Incentive Agreement to exclude earnings by the investment partnerships from the calculation of Mr. Biglari's incentive bonus. Under the Amended and Restated Incentive Agreement Mr. Biglari would receive a payment of approximately \$14,700 if an event occurred entitling him to a severance payment.

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 Governance, Nominating and Compensation Committee (comprised of independent members of the Company's Board of Directors). In addition, the license under the License Agreement is provided on a royalty-free basis in the absence of specified extraordinary events described below. Accordingly, the Company and its subsidiaries have paid no royalties to Mr. Biglari under the License Agreement since its inception.

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.

If (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") were to occur, Mr. Biglari would be entitled to receive a 2.5% royalty on "Revenues" with respect to the "Royalty Period." The royalty payment to Mr. Biglari would not apply to all revenues received by Biglari Holdings and its subsidiaries nor would it apply retrospectively (*i.e.*, to revenues received with respect to the period prior to the Triggering Event). The royalty would apply to revenues recorded by the Company on an accrual basis under

Note 15. Related Party Transactions *(continued)*

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 Governance, Nominating and Compensation 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.

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.

The actual amount of royalties paid to Mr. Biglari following the occurrence of a Triggering Event (as defined in the License Agreement) would depend on the Company’s revenues during the applicable period following the Triggering Event, and, therefore, depends on material assumptions and estimates regarding future operations and revenues. Assuming for purposes of illustration a Triggering Event occurred on December 31, 2016, using revenue from 2016 as an estimate of future revenue and calculated according to terms of the License Agreement, Mr. Biglari would receive approximately \$20,300 in royalty payments annually. At a minimum, the royalties would be earned on revenue generated from January 1, 2017 through December 31, 2023. Royalty payments beyond the minimum period would be subject to the licensee's continued use of the licensed marks.

Note 16. Business Segment Reporting

Our reportable business segments are organized in a manner that reflects how management views those business activities.

Our restaurant operations includes Steak n Shake and Western. As a result of the acquisitions of First Guard and Maxim, the Company reports segment information for these businesses. Other business activities not specifically identified with reportable business segments are presented in “Other” within total operating businesses. We report our earnings from investment partnerships separate from our corporate expenses.

We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are neither necessarily indicative of cash available to fund cash requirements, nor synonymous with cash flow from operations.

The tabular information that follows shows data of our reportable segments reconciled to amounts reflected in the consolidated financial statements.

Revenue and earnings before income taxes for the first quarters of 2017 and 2016 were as follows.

	Revenue	
	First Quarter	
	2017	2016
Operating Businesses:		
Restaurant Operations:		
Steak n Shake	\$ 192,690	\$ 196,898
Western	3,004	3,397
Total Restaurant Operations	<u>195,694</u>	<u>200,295</u>
First Guard	6,080	5,499
Maxim	1,619	2,448
	<u>\$ 203,393</u>	<u>\$ 208,242</u>
	Earnings Before Income Taxes	
	First Quarter	
	2017	2016
Operating Businesses:		
Restaurant Operations:		
Steak n Shake	\$ 3,352	\$ 8,362
Western	450	586
Total Restaurant Operations	<u>3,802</u>	<u>8,948</u>
First Guard	969	1,327
Maxim	(324)	(3,515)
Other	148	125
Total Operating Businesses	<u>4,595</u>	<u>6,885</u>
Corporate and Investments:		
Corporate	(2,400)	(2,195)
Investment partnership gains (losses)	<u>(24,968)</u>	<u>78,973</u>
Total Corporate and Investments	<u>(27,368)</u>	<u>76,778</u>
Interest expense on notes payable and other borrowings	(2,824)	(2,922)
	<u>\$ (25,597)</u>	<u>\$ 80,741</u>

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

(dollars in thousands except per share data)

Overview

Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, and restaurants. The Company’s largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and led by Sardar Biglari, Chairman and Chief Executive Officer of 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 Mr. Biglari.

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

	First Quarter	
	2017	2016
Operating businesses:		
Restaurant	\$ 2,497	\$ 5,478
Insurance	626	876
Media	(208)	(2,237)
Other	90	59
Total operating businesses	3,005	4,176
Corporate	(1,868)	(1,589)
Investment partnership gains / losses	(15,207)	50,388
Interest expense on notes payable and other borrowings	(1,751)	(1,812)
	<u>\$ (15,821)</u>	<u>\$ 51,163</u>

Our restaurant businesses include Steak n Shake Inc. (“Steak n Shake”) and Western Sizzlin Corporation (“Western”). As of March 31, 2017, Steak n Shake comprised 417 company-operated restaurants and 182 franchised units. Western comprised 3 company-operated restaurants and 62 franchised units.

Our insurance business is composed of First Guard Insurance Company and its agency, 1st Guard Corporation (collectively “First Guard”). First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers.

Our media business is composed of Maxim Inc. (“Maxim”). Maxim’s business lies principally in media and licensing.

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

Restaurants

Steak n Shake and Western comprise 664 company-operated and franchised restaurants as of March 31, 2017.

	Steak n Shake		Western Sizzlin		Total
	Company-operated	Franchised	Company-operated	Franchised	
Total stores as of December 31, 2015	417	144	4	66	631
Net restaurants opened (closed)	-	3	-	-	3
Total stores as of March 31, 2016	<u>417</u>	<u>147</u>	<u>4</u>	<u>66</u>	<u>634</u>
Total stores as of December 31, 2016	417	173	3	64	657
Net restaurants opened (closed)	-	9	-	(2)	7
Total stores as of March 31, 2017	<u>417</u>	<u>182</u>	<u>3</u>	<u>62</u>	<u>664</u>

Earnings of our restaurant operations are summarized below.

	First Quarter			
	2017		2016	
Revenue				
Net sales	\$ 189,051		\$ 195,067	
Franchise royalties and fees	5,556		4,350	
Other revenue	1,087		878	
Total revenue	195,694		200,295	
Restaurant cost of sales				
Cost of food	54,401	28.8%	53,992	27.7%
Restaurant operating costs	98,347	52.0%	97,232	49.8%
Rent	4,550	2.4%	4,513	2.3%
Total cost of sales	157,298		155,737	
Selling, general and administrative				
General and administrative	13,952	7.1%	13,980	7.0%
Marketing	12,435	6.4%	12,570	6.3%
Other expenses	678	0.3%	1,064	0.5%
Total selling, general and administrative	27,065	13.8%	27,614	13.8%
Depreciation and amortization	5,249	2.7%	5,715	2.9%
Interest on obligations under leases	2,280		2,281	
Earnings before income taxes	3,802		8,948	
Income tax expense	1,305		3,470	
Contribution to net earnings	\$ 2,497		\$ 5,478	

Cost of food, restaurant operating costs and rent expense are expressed as a percentage of net sales.

General and administrative, marketing, other expenses and depreciation and amortization are expressed as a percentage of total revenue.

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

Net sales during the first quarter of 2017 were \$189,051, representing a decrease of \$6,016 when compared to the first quarter 2016. The decreased performance of our restaurant operations was largely driven by Steak n Shake’s same-store sales which decreased 3.3% whereas customer traffic decreased 2.4% during the first quarter. The term “same-store sales” refers to the sales of company-operated units open at least 18 months at the beginning of the current period and have remained open through the end of the period.

In the first quarter of 2017 franchise royalties and fees increased 27.7% compared to those in 2016. Steak n Shake opened ten franchise units and closed one franchise unit during the first quarter of 2017. Western closed two franchise units during the first quarter of 2017. The increase in franchise fees and royalties includes forfeited area development fees realized during 2017.

Cost of food in the first quarter of 2017 was \$54,401 or 28.8% of net sales compared with \$53,992 or 27.7% of net sales in the first quarter of 2016. The increase as a percent of net sales during 2017 was primarily attributable to increased commodity costs.

Restaurant operating costs during the first quarter of 2017 were \$98,347 or 52.0% of net sales compared to \$97,232 or 49.8% of net sales in 2016. Total costs, and as a percent of net sales, during the first quarter of 2017 increased compared to the first quarter of 2016 principally due to higher wages and benefits.

Selling, general and administrative expenses during the first quarter of 2017 of \$27,065 or 13.8% of revenues remained relatively flat compared to the expenses in the first quarter of 2016 which were \$27,614 or 13.8% of total revenues.

Insurance

First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. Earnings of our insurance business are summarized below.

	First Quarter	
	2017	2016
Premiums written	\$ 5,907	\$ 5,361
Insurance losses	3,762	2,862
Underwriting expenses	1,258	1,241
Pre-tax underwriting gain	887	1,258
Other income (expense)		
Investment income and commissions	173	138
Other income	(91)	(69)
Total other income	82	69
Earnings before income taxes	969	1,327
Income tax expense	343	451
Contribution to net earnings	\$ 626	\$ 876

First Guard’s insurance products are marketed primarily through direct response methods via the Internet or by telephone. First Guard’s cost-efficient direct response marketing methods enable it to be a low-cost trucking insurer.

Premiums written during the first quarter of 2017 were \$5,907, an increase of \$546 or 10.2% compared to 2016. Pre-tax underwriting gain was \$887 in the first quarter of 2017 compared to \$1,258 in 2016.

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

Media

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

	First Quarter	
	2017	2016
Revenue	<u>\$ 1,619</u>	<u>\$ 2,448</u>
Media cost of sales	<u>1,493</u>	<u>5,019</u>
General and administrative expenses	<u>437</u>	<u>888</u>
Depreciation and amortization	<u>13</u>	<u>56</u>
Loss before income taxes	<u>(324)</u>	<u>(3,515)</u>
Income tax benefit	<u>(116)</u>	<u>(1,278)</u>
Contribution to net earnings	<u>\$ (208)</u>	<u>\$ (2,237)</u>

We acquired Maxim with the idea of transforming the brand. The magazine developed the Maxim brand, a franchise transforming into a cash-generating business, notably through licensing related to consumer products, services, and events of Maxim.

We have taken the risk on the belief that the probability for gain in value more than justifies the risk of loss.

Investment Partnership Gains (Losses)

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

	First Quarter	
	2017	2016
Investment partnership gains (losses)	<u>\$ (24,968)</u>	<u>\$ 78,973</u>
Tax expense (benefit)	<u>(9,761)</u>	<u>28,585</u>
Contribution to net earnings	<u>\$ (15,207)</u>	<u>\$ 50,388</u>

The Company recorded after-tax losses from investment partnerships of \$15,207 during the first quarter of 2017 and after-tax gains of \$50,388 during the first quarter of 2016. The volatility of the gains and losses during the various periods is attributable to changes in market values of investments held by the investment partnerships. The investments held by the investment partnerships are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc.

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

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

Interest Expense

The Company's interest expense is summarized below.

	First Quarter	
	2017	2016
Interest expense on notes payable and other borrowings	\$ 2,824	\$ 2,922
Tax benefit	1,073	1,110
Interest expense net of tax	<u>\$ 1,751</u>	<u>\$ 1,812</u>

Interest expense during the first quarter of 2017 was \$2,824 compared to \$2,922 for the first quarter of 2016. The outstanding balance on Steak n Shake's credit facility on March 31, 2017 was \$187,548 compared to \$210,174 on March 31, 2016. The interest rate has remained constant at 4.75% since March 19, 2014.

Corporate

Corporate expenses exclude the activities in the restaurant, insurance, media and other companies. Corporate net losses during the first quarter of 2017 were \$1,868 versus net losses of \$1,589 during the first quarter of 2016.

Income Tax Expense

Consolidated income tax was a benefit of \$9,776 or 38.2% of pretax income in the first quarter of 2017 versus an expense of \$29,578 or 36.6% of pretax income in the first quarter of 2016. The change in the tax expense between the first quarters of 2017 and 2016 was primarily due to deferred tax expenses and benefits associated with non-cash, pretax gains and losses from investment partnerships. The tax benefit recorded during the first quarter of 2017 included a deferred tax benefit of \$10,281, primarily due to non-cash, pretax losses from investment partnerships. The tax expense recorded during the first quarter of 2016 included a deferred tax expense of \$26,307, primarily due to non-cash, pretax gains from investment partnerships.

Financial Condition

Our consolidated shareholders' equity on March 31, 2017 was \$514,974, a decrease of \$16,966 compared to the December 31, 2016 balance. The decrease during the first quarter of 2017 was primarily attributable to net losses of \$15,821.

Consolidated cash and investments are summarized below.

	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 68,560	\$ 75,808
Investments	25,165	26,760
Fair value of interest in investment partnerships	908,175	972,707
Total cash and investments	<u>1,001,900</u>	<u>1,075,275</u>
Less portion of Company stock held by investment partnerships	<u>(362,005)</u>	<u>(395,070)</u>
Carrying value of cash and investments on balance sheet	<u>\$ 639,895</u>	<u>\$ 680,205</u>

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

Liquidity

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

	First Quarter	
	2017	2016
Net cash provided by operating activities	\$ 9,863	\$ 17,255
Net cash (used in) investing activities	(232)	(13,488)
Net cash (used in) financing activities	(16,896)	(3,757)
Effect of exchange rate changes on cash	17	48
Increase (decrease) in cash and cash equivalents	<u>\$ (7,248)</u>	<u>\$ 58</u>

Cash provided by operating activities decreased by \$7,392 during the first three months of 2017 compared to the first three months of 2016. The decrease was primarily related to payments of accrued expenses by our restaurant businesses during the first quarter of 2017.

Net cash used in investing activities during the first quarter of 2017 of \$232 was primarily due to capital expenditures of \$1,990 offset by redemptions of fixed maturity securities (net of purchases) of \$1,708. Net cash used in investing activities during the first quarter of 2016 of \$13,488 was primarily due to purchases of bonds (net of maturities) of \$11,483 and capital expenditures of \$2,859.

During the first quarters of 2017 and 2016 we incurred debt payments of \$15,570 and \$2,297, respectively. Debt obligations were reduced because of additional principal payments on long-term debt.

We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations, cash on hand, existing credit facilities, and the sale of excess properties and investments. We continually review available financing alternatives.

Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into the current credit agreement. The credit agreement provides for a senior secured term loan facility in an aggregate principal amount of \$220,000 and a senior secured revolving credit facility in an aggregate principal amount of up to \$30,000.

The term loan is scheduled to mature on March 19, 2021. It amortizes at an annual rate of 1.0% in equal quarterly installments, beginning June 30, 2014, at 0.25% of the original principal amount of the term loan, subject to mandatory prepayments from excess cash flow, asset sales and other events described in the credit agreement. The balance will be due at maturity. The revolver will be available on a revolving basis until March 19, 2019.

Steak n Shake has the right to request an incremental term loan facility from participating lenders and/or eligible assignees at any time, up to an aggregate total principal amount not to exceed \$70,000 if certain customary conditions within the credit agreement are met.

Borrowings bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. The applicable margins on revolver loans are contingent on Steak n Shake's total leverage ratio. The revolver also carries a commitment fee ranging from 0.40% to 0.50% per annum, according to Steak n Shake's total leverage ratio, on the unused portion of the revolver.

As of March 31, 2017, the interest rate on the term loan was 4.75%.

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

The credit agreement includes customary affirmative and negative covenants and events of default, as well as a financial maintenance covenant, solely with respect to the revolver, relating to the maximum total leverage ratio. As of March 31, 2017, we were in compliance with all covenants. Steak n Shake’s credit facility contains restrictions on its ability to pay dividends to Biglari Holdings.

Both the term loan and the revolver have been secured by first priority security interests on substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the credit facility. As of March 31, 2017, \$187,548 was outstanding under the term loan, and no amount was outstanding under the revolver.

We had \$10,893 in standby letters of credit outstanding as of March 31, 2017 and December 31, 2016.

Western Revolver

As of March 31, 2017, Western has \$357 due June 13, 2017.

Critical Accounting Policies

Management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized in our consolidated financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in our consolidated financial statements will likely increase or decrease in the future as additional information becomes available. There have been no material changes to critical accounting policies previously disclosed in our annual report on Form 10-K for the year ended December 31, 2016.

Effects of Governmental Regulations and Inflation

Most restaurant operations 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.

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

The federal healthcare reform legislation that became law in March 2010 (known as the Patient Protection and Affordable Care Act [“PPACA”]) mandates menu labeling of certain nutritional aspects of restaurant menu items such as caloric, sugar, sodium, and fat content. Altering our recipes in response to such legislation could increase our costs and/or change the flavor profile of our menu offerings, which could have an adverse impact on our results of operations. Additionally, if our customers perceive our menu items to contain unhealthy caloric, sugar, sodium, or fat content, our results of operations could be further adversely affected.

Additionally, minimum employee health care coverage mandated by state or federal legislation, such as the PPACA, could significantly increase our employee health benefit costs or require us to alter the benefits we provide to our employees. While we are assessing the potential impact the PPACA will have on our business, certain of the mandates in the legislation are not yet effective. If our employee health benefit costs increase, we cannot provide assurance that we will be able to offset these costs through increased revenue or reductions in other costs, which could have an adverse effect on our results of operations and financial condition.

Recently Issued Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our consolidated financial statements, see Note 2, “New Accounting Standards” in the accompanying notes to consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

Cautionary Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items, and assumptions underlying any of the foregoing. Forward-looking statements reflect management’s current expectations regarding future events and use words such as “anticipate,” “believe,” “expect,” “may,” and other similar terminology. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. These forward-looking statements are all based on currently available operating, financial, and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, many beyond our control, including, but not limited to, the risks and uncertainties described in Item 1A, Risk Factors of our annual report on Form 10-K. We undertake no obligation to publicly update or revise them, except as may be required by law.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The majority of our investments are conducted through investment partnerships which generally hold common stocks. We also hold marketable securities directly. Through investments in 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, and any distributions upon our withdrawal of funds will be paid out over two years (and may be paid in kind rather than in cash). Market prices for equity securities are subject to fluctuation. Consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. A hypothetical 10% increase or decrease in the market price of our investments would result in a respective increase or decrease in the carrying market value of our investments of \$57,134 along with a corresponding change in shareholders' equity of approximately 7%.

Borrowings on Steak n Shake's credit facility bear interest at a rate per annum equal to a base rate or a Eurodollar rate (minimum of 1%) plus an applicable margin. Interest on the term loan is based on a Eurodollar rate plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the revolver is based on a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. At March 31, 2017, a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately \$1,200 on our net earnings.

We have had minimal exposure to foreign currency exchange rate fluctuations in the first quarters in 2017 and 2016.

ITEM 4. Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of March 31, 2017.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information in response to this Item is included in Note 13 to the Consolidated Financial Statements included in Part 1 Item 1 of this Form 10-Q and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

An investment in the common stock of any company involves a degree of risk. Investors should consider carefully the risks and uncertainties described in the Company's annual report on Form 10-K filed with the SEC, as well as the risks subsequently disclosed in our reports filed with the SEC, before deciding whether to purchase our common stock. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm the Company's business, financial condition, and results of operations. The occurrence of risk factors could harm the Company's business, financial condition, and results of operations. The trading price of the Company's common stock could decline due to any of these risks and uncertainties, and stockholders may lose part or all of their investment.

There have been no material changes from the risk factors as previously disclosed on Item 1A to the Company's annual report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
31.01	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files.

* Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 5, 2017

BIGLARI HOLDINGS INC.

By: /s/ BRUCE LEWIS
Bruce Lewis
Controller

EXHIBIT 31.01

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sardar Biglari, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biglari Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

/s/ Sardar Biglari
Sardar Biglari
Chairman and Chief Executive Officer

EXHIBIT 31.02

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce Lewis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Biglari Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

/s/ Bruce Lewis
Bruce Lewis
Controller

EXHIBIT 32.01

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Biglari Holdings Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sardar Biglari
Sardar Biglari
Chairman and Chief Executive Officer
May 5, 2017

/s/ Bruce Lewis
Bruce Lewis
Controller
May 5, 2017