

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 September 30, 2022

or

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

For the transition period from \_\_\_ to \_\_\_

Commission file number 001-38477

**BIGLARI HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation)

82-3784946

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

19100 Ridgewood Parkway, Suite 1200

San Antonio, TX

(Address of principal executive offices)

78259

(Zip Code)

(210) 344-3400

Registrant's telephone number, including area code

17802 IH 10 West, Suite 400, San Antonio, TX 78257

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

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Class A Common Stock, no par value	BH.A	New York Stock Exchange
Class B Common Stock, no par value	BH	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and an “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Number of shares of common stock outstanding as of November 1, 2022:

Class A common stock –	206,864
Class B common stock –	2,068,640

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**PART 1 – FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED BALANCE SHEETS**  
*(dollars in thousands)*

	September 30, 2022 <u>(Unaudited)</u>	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 64,842	\$ 42,349
Investments	70,032	83,061
Receivables	25,826	28,508
Inventories	3,704	3,803
Other current assets	13,147	7,088
Total current assets	177,551	164,809
Property and equipment	414,497	349,351
Operating lease assets	38,539	42,538
Goodwill and other intangible assets	75,933	77,010
Investment partnerships	144,864	250,399
Other assets	10,761	10,700
<b>Total assets</b>	<b>\$ 862,145</b>	<b>\$ 894,807</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 101,503	\$ 100,467
Loss and loss adjustment expenses	14,613	14,609
Unearned premiums	12,493	11,667
Current portion of lease obligations	17,093	16,898
Total current liabilities	145,702	143,641
Lease obligations	95,980	104,479
Line of credit	30,000	—
Deferred taxes	28,515	46,533
Asset retirement obligations	14,721	10,389
Other liabilities	1,819	2,069
<b>Total liabilities</b>	<b>316,737</b>	<b>307,111</b>
<b>Shareholders' equity</b>		
Common stock	1,138	1,138
Additional paid-in capital	381,788	381,788
Retained earnings	566,455	608,528
Accumulated other comprehensive loss	(3,777)	(1,907)
Treasury stock, at cost	(409,119)	(401,851)
<b>Biglari Holdings Inc. shareholders' equity</b>	<b>536,485</b>	<b>587,696</b>
<b>Noncontrolling interests</b>	<b>8,923</b>	<b>—</b>
<b>Total shareholders' equity</b>	<b>545,408</b>	<b>587,696</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 862,145</b>	<b>\$ 894,807</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

*(dollars in thousands except per share amounts)*

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
<b>Revenues</b>				
Restaurant operations	\$ 59,437	\$ 59,144	\$ 179,608	\$ 196,424
Insurance premiums and other	16,312	14,723	47,745	43,729
Oil and gas	14,380	7,353	38,632	24,310
Licensing and media	1,905	863	3,788	2,695
	<u>92,034</u>	<u>82,083</u>	<u>269,773</u>	<u>267,158</u>
<b>Cost and expenses</b>				
Restaurant cost of sales	36,162	41,694	107,469	129,297
Insurance losses and underwriting expenses	13,245	10,672	40,812	31,733
Oil and gas production costs	4,090	2,050	11,752	6,957
Licensing and media costs	345	880	1,975	1,749
Selling, general and administrative	15,469	16,889	48,275	50,848
Impairments	—	—	20	559
Depreciation, depletion, and amortization	8,456	7,682	24,127	22,239
Interest expense on leases	1,372	1,462	4,169	4,619
Interest expense on borrowings	67	—	67	1,121
	<u>79,206</u>	<u>81,329</u>	<u>238,666</u>	<u>249,122</u>
<b>Other income</b>				
Investment gains (losses)	(849)	4,534	(4,184)	6,465
Investment partnership gains (losses)	29,658	(20,231)	(82,244)	27,344
Total other income (expenses)	<u>28,809</u>	<u>(15,697)</u>	<u>(86,428)</u>	<u>33,809</u>
<b>Earnings (loss) before income taxes</b>	<u>41,637</u>	<u>(14,943)</u>	<u>(55,321)</u>	<u>51,845</u>
Income tax expense (benefit)	9,598	(4,274)	(13,282)	11,544
<b>Net earnings (loss)</b>	<u>32,039</u>	<u>(10,669)</u>	<u>(42,039)</u>	<u>40,301</u>
<b>Earnings attributable to noncontrolling interest</b>	34	—	34	—
<b>Net earnings (loss) attributable to Biglari Holdings Inc. shareholders</b>	<u>\$ 32,005</u>	<u>\$ (10,669)</u>	<u>\$ (42,073)</u>	<u>\$ 40,301</u>
Net earnings (loss) per equivalent Class A share *	\$ 109.13	\$ (33.74)	\$ (140.30)	\$ 125.79

\*Net earnings (loss) per equivalent Class B share outstanding are one-fifth of the equivalent Class A share or \$21.83 and \$(28.06) for the third quarter and first nine months of 2022, respectively, and \$(6.75) and \$25.16 for the third quarter and first nine months of 2021, respectively.

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(dollars in thousands)*

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
<b>Net earnings (loss)</b>	\$ 32,039	\$ (10,669)	\$ (42,039)	\$ 40,301
Foreign currency translation	(618)	(49)	(1,870)	(378)
<b>Comprehensive income (loss)</b>	<b>31,421</b>	<b>(10,718)</b>	<b>(43,909)</b>	<b>39,923</b>
<b>Comprehensive income attributable to noncontrolling interests</b>	<b>34</b>	<b>—</b>	<b>34</b>	<b>—</b>
<b>Total comprehensive income (loss) attributable to Biglari Holdings Inc. shareholders</b>	<b>\$ 31,387</b>	<b>\$ (10,718)</b>	<b>\$ (43,943)</b>	<b>\$ 39,923</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(dollars in thousands)*

	First Nine Months	
	2022	2021
	(Unaudited)	
<b>Operating activities</b>		
Net earnings (loss)	\$ (42,039)	\$ 40,301
Adjustments to reconcile net earnings (loss) to operating cash flows:		
Depreciation, depletion, and amortization	24,127	22,239
Provision for deferred income taxes	(22,289)	16,625
Asset impairments and other non-cash expenses	20	696
Gains on disposal of assets	(905)	(306)
Investment and investment partnership (gains) losses	86,428	(34,461)
Distributions from investment partnerships	51,200	172,420
Changes in receivables, inventories and other assets	7,240	3,608
Changes in accounts payable and accrued expenses	(4,028)	(9,877)
<b>Net cash provided by operating activities</b>	<b>99,754</b>	<b>211,245</b>
<b>Investing activities</b>		
Capital expenditures	(23,437)	(46,486)
Proceeds from property and equipment disposals	2,201	2,749
Acquisition of a business, net of cash acquired	(54,899)	—
Purchases of limited partner interests	(23,886)	(4,800)
Purchases of investments	(110,837)	(81,923)
Sales of investments and redemptions of fixed maturity securities	108,394	74,678
<b>Net cash used in investing activities</b>	<b>(102,464)</b>	<b>(55,782)</b>
<b>Financing activities</b>		
Proceeds from revolving credit facility	30,000	—
Principal payments on long-term debt	—	(149,952)
Principal payments on direct financing lease obligations	(4,647)	(4,634)
<b>Net cash provided by (used in) financing activities</b>	<b>25,353</b>	<b>(154,586)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(150)</b>	<b>(85)</b>
Increase in cash, cash equivalents and restricted cash	22,493	792
Cash, cash equivalents and restricted cash at beginning of year	43,687	29,666
<b>Cash, cash equivalents and restricted cash at end of third quarter</b>	<b>\$ 66,180</b>	<b>\$ 30,458</b>

	First Nine Months	
	2022	2021
	(Unaudited)	
Cash and cash equivalents	\$ 64,842	\$ 27,795
Restricted cash in other long-term assets	1,338	2,663
<b>Cash, cash equivalents and restricted cash at end of third quarter</b>	<b>\$ 66,180</b>	<b>\$ 30,458</b>

*See accompanying Notes to Consolidated Financial Statements.*

**BIGLARI HOLDINGS INC.**

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

	Biglari Holdings Inc. Shareholders' Equity						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- controlling Interests	Total
Balance at December 31, 2021	\$ 1,138	\$ 381,788	\$608,528	\$ (1,907)	\$(401,851)	\$ —	\$587,696
Net earnings (loss)			(298)				(298)
Other comprehensive loss				(231)			(231)
Adjustment to treasury stock for holdings in investment partnerships					130		130
Balance at March 31, 2022	\$ 1,138	\$ 381,788	\$608,230	\$ (2,138)	\$(401,721)	\$ —	\$587,297
Net earnings (loss)			(73,780)				(73,780)
Other comprehensive loss				(1,021)			(1,021)
Adjustment to treasury stock for holdings in investment partnerships					(6,760)		(6,760)
Balance at June 30, 2022	\$ 1,138	\$ 381,788	\$534,450	\$ (3,159)	\$(408,481)	\$ —	\$505,736
Net earnings			32,005			34	32,039
Other comprehensive loss				(618)			(618)
Adjustment to treasury stock for holdings in investment partnerships					(638)		(638)
Transactions with noncontrolling interests						8,889	8,889
Balance at September 30, 2022	<u>\$ 1,138</u>	<u>\$ 381,788</u>	<u>\$566,455</u>	<u>\$ (3,777)</u>	<u>\$(409,119)</u>	<u>\$ 8,923</u>	<u>\$545,408</u>

Biglari Holdings Inc. Shareholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- controlling interests	Total
Balance at December 31, 2020	\$ 1,138	\$ 381,788	\$573,050	\$ (1,531)	\$(389,617)	\$ —	\$564,828
Net earnings			71,707				71,707
Other comprehensive loss				(444)			(444)
Adjustment to treasury stock for holdings in investment partnerships					3,049		3,049
Balance at March 31, 2021	\$ 1,138	\$ 381,788	\$644,757	\$ (1,975)	\$(386,568)	\$ —	\$639,140
Net earnings (loss)			(20,737)				(20,737)
Other comprehensive income				115			115
Adjustment to treasury stock for holdings in investment partnerships					(5,026)		(5,026)
Balance at June 30, 2021	\$ 1,138	\$ 381,788	\$624,020	\$ (1,860)	\$(391,594)	\$ —	\$613,492
Net earnings (loss)			(10,669)				(10,669)
Other comprehensive loss				(49)			(49)
Adjustment to treasury stock for holdings in investment partnerships					(4,208)		(4,208)
Balance at September 30, 2021	\$ 1,138	\$ 381,788	\$613,351	\$ (1,909)	\$(395,802)	\$ —	\$598,566

*See accompanying Notes to Consolidated Financial Statements.*

## BIGLARI HOLDINGS INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022

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

#### Note 1. Summary of Significant Accounting Policies

##### *Description of Business*

The accompanying unaudited consolidated financial statements of Biglari Holdings Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In our opinion, all adjustments considered necessary to present fairly the results of the interim periods have been included and consist only of normal recurring adjustments. The results for the interim periods shown are not necessarily indicative of results for the 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, 2021.

Biglari Holdings is a holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance, licensing and media, restaurants, and oil and gas. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and led by Sardar Biglari, Chairman and Chief Executive Officer of the Company.

Biglari Holdings' management system combines decentralized operations with centralized finance decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of September 30, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and approximately 70.4% of the voting interest.

##### *Business Acquisition*

On September 14, 2022, the Company completed the purchase of 685,505 shares of Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum Corporation ("Abraxas Petroleum") for a purchase price of \$80,000. On October 26, 2022, the Company converted the preferred stock to 90% of the outstanding common stock of Abraxas Petroleum. We have concluded that Abraxas Petroleum is a consolidated entity and have recorded noncontrolling interests attributable to the interest held by other shareholders. The Company used working capital including its line of credit to fund the purchase of the Preferred Shares. Abraxas Petroleum operates oil and natural gas properties in the Permian Basin. The Company's financial results include the results of Abraxas Petroleum from the acquisition date to the end of the third quarter. The revenues and operating results for Abraxas Petroleum were not significant to the Company for the third quarter.

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries, including Steak n Shake Inc., Western Sizzlin Corporation, First Guard Insurance Company, Maxim Inc., Southern Pioneer Property & Casualty Insurance Company, Southern Oil Company and Abraxas Petroleum. Intercompany accounts and transactions have been eliminated in consolidation.

#### Note 2. Earnings Per Share

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

On June 8, 2022, The Lion Fund II, L.P. transferred 83,465 shares of Biglari Holdings' Class A common stock and 890,272 shares of Biglari Holdings' Class B common stock to The Lion Fund, L.P.

**Note 2. Earnings Per Share (continued)**

The following table presents shares authorized, issued and outstanding on September 30, 2022 and December 31, 2021.

	September 30, 2022		December 31, 2021	
	Class A	Class B	Class A	Class B
Common stock authorized	500,000	10,000,000	500,000	10,000,000
Common stock issued and outstanding	206,864	2,068,640	206,864	2,068,640

The Company has applied the “two-class method” of computing earnings per share as prescribed in Accounting Standards Codification (“ASC”) 260, “*Earnings Per Share*”. The equivalent Class A common stock applied for computing earnings per share excludes the proportional shares of Biglari Holdings’ stock held by the investment partnerships. In the tabulation below is the weighted average equivalent Class A common stock for earnings per share. There are no dilutive securities outstanding.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Equivalent Class A common stock outstanding	620,592	620,592	620,592	620,592
Proportional ownership of Company stock held by investment partnerships	327,317	304,356	320,711	300,215
Equivalent Class A common stock for earnings per share	293,275	316,236	299,881	320,377

**Note 3. Investments**

We classify investments in fixed maturity securities at the acquisition date as either available-for-sale or held-to-maturity and re-evaluate the classification at each balance sheet date. Securities classified as held-to-maturity are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. Realized gains and losses on disposals of investments are determined on a specific identification basis. Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating result. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

Investment losses for the third quarter and first nine months of 2022 were \$849 and \$4,184, respectively. Investment gains in the third quarter and first nine months of 2021 were \$4,534 and \$6,465, respectively.

**Note 4. Investment Partnerships**

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

Biglari Capital Corp. is the general partner of the investment partnerships and is an entity solely owned by Mr. Biglari.

**Note 4. Investment Partnerships** *(continued)*

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

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2021	\$ 474,201	\$ 223,802	\$ 250,399
Investment partnership gains (losses)	(119,864)	(37,620)	(82,244)
Distributions (net of contributions)	(16,023)		(16,023)
Changes in proportionate share of Company stock held		7,268	(7,268)
Partnership interest at September 30, 2022	<u>\$ 338,314</u>	<u>\$ 193,450</u>	<u>\$ 144,864</u>

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2020	\$ 590,926	\$ 171,376	\$ 419,550
Investment partnership gains (losses)	110,690	83,346	27,344
Distributions (net of contributions)	(167,620)		(167,620)
Changes in proportionate share of Company stock held		6,185	(6,185)
Partnership interest at September 30, 2021	<u>\$ 533,996</u>	<u>\$ 260,907</u>	<u>\$ 273,089</u>

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

	September 30, 2022	December 31, 2021
Carrying value of investment partnerships	\$ 144,864	\$ 250,399
Deferred tax liability related to investment partnerships	(22,176)	(44,532)
Carrying value of investment partnerships net of deferred taxes	<u>\$ 122,688</u>	<u>\$ 205,867</u>

The Company's proportionate share of Company stock held by investment partnerships at cost was \$409,119 and \$401,851 at September 30, 2022 and December 31, 2021, respectively, and was recorded as treasury stock.

The carrying value of the partnership interest approximates fair value adjusted by the value of held Company stock. Fair value of our partnership interest is assessed according to our proportional ownership interest of the fair value of investments held by the investment partnerships. Unrealized gains and losses on marketable securities held by the investment partnerships affect our net earnings.

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

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Gains (losses) from investment partnerships	\$ 29,658	\$ (20,231)	\$ (82,244)	\$ 27,344
Tax expense (benefit)	6,601	(4,946)	(20,153)	6,175
Contribution to net earnings (loss)	<u>\$ 23,057</u>	<u>\$ (15,285)</u>	<u>\$ (62,091)</u>	<u>\$ 21,169</u>

On December 31 of each year, the general partner of the investment partnerships, Biglari Capital Corp., will earn an incentive reallocation fee for the Company's investments equal to 25% of the net profits above an annual hurdle rate of 6% over the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year. The total incentive reallocation from Biglari Holdings to Biglari Capital Corp. includes gains on the Company's common stock. Gains and losses on the Company's common stock and the related incentive reallocations are eliminated in our financial statements.

There were no incentive reallocations from Biglari Holdings to Biglari Capital Corp. during the first nine months of 2022 and 2021.

**Note 4. Investment Partnerships** *(continued)*

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

	Equity in Investment Partnerships	
	Lion Fund	Lion Fund II
Total assets as of September 30, 2022	\$ 247,357	\$ 307,446
Total liabilities as of September 30, 2022	\$ 9,973	\$ 162,520
Revenue for the first nine months of 2022	\$ (46,341)	\$ (88,378)
Earnings for the first nine months of 2022	\$ (46,544)	\$ (89,771)
Biglari Holdings' ownership interest as of September 30, 2022	88.2 %	87.7 %
Total assets as of December 31, 2021	\$ 114,749	\$ 564,022
Total liabilities as of December 31, 2021	\$ 7,763	\$ 130,417
Revenue for the first nine months of 2021	\$ 35,639	\$ 94,078
Earnings for the first nine months of 2021	\$ 35,584	\$ 93,548
Biglari Holdings' ownership interest as of September 30, 2021	62.4 %	93.9 %

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

**Note 5. Property and Equipment**

Property and equipment is composed of the following.

	September 30, 2022	December 31, 2021
Land	\$ 142,813	\$ 144,605
Buildings	151,138	148,605
Land and leasehold improvements	147,765	147,349
Equipment	230,712	224,581
Oil and gas properties	140,916	74,147
Construction in progress	5,744	2,815
	819,088	742,102
Less accumulated depreciation, depletion, and amortization	(404,591)	(392,751)
Property and equipment, net	\$ 414,497	\$ 349,351

Depletion expense related to oil and gas properties was \$4,345 and \$5,875 during the first nine months of 2022 and 2021, respectively.

The Company recorded an impairment to restaurant long-lived assets of \$559 in the first nine months of 2021 related to underperforming stores. The fair value of the long-lived assets was determined based on Level 3 inputs using a discounted cash flow model and quoted prices for the properties. There were no impairments of property and equipment in 2022.

As of September 30, 2022, \$5,002 of property and equipment is recorded as held for sale within other current assets.

## Note 6. Goodwill and Other Intangible Assets

### Goodwill

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

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

	Goodwill
Goodwill at December 31, 2021	\$ 53,547
Change in foreign exchange rates during the first nine months of 2022	(83)
Goodwill at September 30, 2022	<u>\$ 53,464</u>

We evaluate goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. Goodwill impairment occurs when the estimated fair value of goodwill is less than its carrying value. GAAP allows entities testing for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. We use both qualitative and quantitative assessments. The valuation methodology and underlying financial information included in our quantitative determination of fair value require significant management judgments. We use both market and income approaches to derive fair value of reporting units utilizing a quantitative assessment. 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 was recorded in the first nine months of 2022 or 2021. Western Sizzlin has experienced a decline in its franchised units for several years. If Western Sizzlin's franchised units continue to decline, an impairment of its goodwill may be necessary.

### Other Intangible Assets

Intangible assets with indefinite lives are composed of the following.

	Trade Names	Lease Rights	Total
Balance at December 31, 2021	\$ 15,876	\$ 7,587	\$ 23,463
Impairment to lease rights	—	(20)	(20)
Change in foreign exchange rates during the first nine months of 2022	—	(974)	(974)
Balance at September 30, 2022	<u>\$ 15,876</u>	<u>\$ 6,593</u>	<u>\$ 22,469</u>

Intangible assets with indefinite lives consist of trade names and lease rights. Fair values were determined using Level 3 inputs and available market data.

## Note 7. Restaurant Operations Revenues

Restaurant operations revenues were as follows.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Net sales	\$ 37,448	\$ 41,916	\$ 113,345	\$ 146,269
Franchise partner fees	15,880	11,508	47,929	31,744
Franchise royalties and fees	5,089	4,865	15,472	14,594
Other	1,020	855	2,862	3,817
	<u>\$ 59,437</u>	<u>\$ 59,144</u>	<u>\$ 179,608</u>	<u>\$ 196,424</u>

### Net Sales

Net sales are composed of retail sales of food through company-operated stores. Company-operated store revenues are recognized, net of discounts and sales taxes, when our obligation to perform is satisfied at the point of sale. Sales taxes related to these sales are collected from customers and remitted to the appropriate taxing authority and are not reflected in the Company's consolidated statements of earnings as revenue.

## Note 7. Restaurant Operations Revenues (continued)

### Franchise Partner Fees

Franchise partner fees are composed of up to 15% of sales as well as 50% of profits. We are therefore fully affected by the operating results of the business, unlike in a traditional franchising arrangement, where the franchisor obtains a royalty fee based on sales only. We generate most of our revenue from our share of the franchise partners' profits. An initial franchise fee of ten thousand dollars is recognized during the year the operator becomes a franchise partner. The Company recognizes franchise partner fees monthly as underlying restaurant sales occur.

The Company leases or subleases property and equipment to franchise partners under lease arrangements. Both real estate and equipment rental payments are charged to franchise partners and are recognized in accordance with ASC 842, "Leases". During the third quarter of 2022 and 2021, restaurant operations recognized \$5,362 and \$4,277, respectively, in franchise partner fees related to rental income. During the first nine months ended September 30, 2022 and September 30, 2021, restaurant operations recognized \$15,193 and \$10,910, respectively, in franchise partner fees related to rental income.

### Franchise Royalties and Fees

Franchise royalties and fees from Steak n Shake and Western Sizzlin franchisees are based upon a percentage of sales of the franchise restaurant and are recognized as earned. Franchise royalties are billed on a monthly basis. Initial franchise fees when a new restaurant opens or at the start of a new franchise term are recorded as deferred revenue when received and recognized as revenue over the term of the franchise agreement.

### Other Revenue

Restaurant operations sells gift cards to customers which can be redeemed for retail food sales within our stores. Gift cards are recorded as a liability when issued and are subsequently recorded as net sales upon redemption. Restaurant operations estimates breakage related to gift cards when the likelihood of redemption is remote. This estimate utilizes historical trends based on the vintage of the gift card. Breakage on gift cards is recorded as other revenue in proportion to the rate of gift card redemptions by vintage.

## Note 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	September 30, 2022	December 31, 2021
Accounts payable	\$ 34,288	\$ 36,684
Gift card and other marketing	15,985	19,244
Insurance accruals	5,971	6,428
Salaries, wages and vacation	6,902	5,905
Deferred revenue	4,831	6,683
Taxes payable	21,583	11,392
Professional fees	1,998	11,731
Oil and gas payable	5,586	1,936
Other	4,359	464
Accounts payable and accrued expenses	<u>\$ 101,503</u>	<u>\$ 100,467</u>

## Note 9. Line of Credit and Note Payable

### Bigari Holdings Line of Credit

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to \$30,000. The line of credit will be available on a revolving basis until September 12, 2024. The line of credit includes customary covenants, as well as financial maintenance covenants. The balance of the line of credit on September 30, 2022 was \$30,000.

### Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into a credit agreement which provided for a senior secured term loan facility in an aggregate principal amount of \$220,000. The term loan was scheduled to mature on March 19, 2021. The Company repaid the balance of Steak n Shake's term facility on February 19, 2021.

## Note 10. Lease Assets and Obligations

Lease obligations include the following.

	September 30, 2022	December 31, 2021
<b>Current portion of lease obligations</b>		
Finance lease liabilities	\$ 1,214	\$ 1,414
Finance obligations	5,119	4,944
Operating lease liabilities	10,760	10,540
Total current portion of lease obligations	<u>\$ 17,093</u>	<u>\$ 16,898</u>
<b>Long-term lease obligations</b>		
Finance lease liabilities	\$ 4,431	\$ 5,347
Finance obligations	60,009	63,119
Operating lease liabilities	31,540	36,013
Total long-term lease obligations	<u>\$ 95,980</u>	<u>\$ 104,479</u>

### *Nature of Leases*

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

### *Lease Costs*

A significant portion of our operating and finance lease portfolio includes restaurant locations. We recognize fixed lease expense for operating leases on a straight-line basis over the lease term. For finance leases, we recognize amortization expense on the right-of-use asset and interest expense on the lease liability over the lease term.

Total lease cost consists of the following.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Finance lease costs:				
Amortization of right-of-use assets	\$ 309	\$ 404	\$ 1,023	\$ 1,205
Interest on lease liabilities	102	126	325	399
Operating and variable lease costs	3,577	4,011	10,782	11,189
Sublease income	(2,895)	(3,771)	(8,487)	(9,786)
Total lease costs	<u>\$ 1,093</u>	<u>\$ 770</u>	<u>\$ 3,643</u>	<u>\$ 3,007</u>

Supplemental cash flow information related to leases is as follows.

	First Nine Months	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 1,116	\$ 1,226
Operating cash flows from finance leases	\$ 324	\$ 384
Operating cash flows from operating leases	\$ 9,347	\$ 9,806

**Note 10. Lease Assets and Obligations (continued)**

Supplemental balance sheet information related to leases is as follows.

	September 30, 2022	December 31, 2021
Finance leases:		
Property and equipment, net	\$ 4,619	\$ 5,634

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

	September 30, 2022
Weighted-average remaining lease terms:	
Finance leases	4.56 years
Operating leases	4.90 years
Weighted-average discount rates:	
Finance leases	7.0 %
Operating leases	7.0 %

Maturities of lease liabilities as of September 30, 2022 are as follows.

Year	Operating Leases	Finance Leases
2022	\$ 4,215	\$ 394
2023	11,781	1,551
2024	9,985	1,534
2025	8,290	1,298
2026	5,671	959
After 2026	9,967	855
Total lease payments	49,909	6,591
Less interest	7,609	946
Total lease liabilities	\$ 42,300	\$ 5,645

**Lease Income**

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

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Operating lease income	\$ 4,085	\$ 3,211	\$ 11,737	\$ 8,471
Variable lease income	1,556	1,370	4,312	3,375
Total lease income	\$ 5,641	\$ 4,581	\$ 16,049	\$ 11,846

**Note 10. Lease Assets and Obligations (continued)**

The following table displays the Company's future minimum rental receipts for non-cancelable leases and subleases as of September 30, 2022. Franchise partner leases and subleases are short-term leases and have been excluded from the table.

Year	Operating Leases	
	Subleases	Owned Properties
2022	\$ 228	\$ 62
2023	767	247
2024	503	247
2025	454	250
2026	134	247
After 2026	241	805
Total future minimum receipts	<u>\$ 2,327</u>	<u>\$ 1,858</u>

**Note 11. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income decreased by \$618 and \$49 during the third quarters of 2022 and 2021, respectively. During the first nine months of 2022, accumulated other comprehensive income decreased by \$1,870 and \$378 in the first nine months of 2021. There were no reclassifications from accumulated other comprehensive loss to earnings during the first nine months of 2022 and 2021. All changes in accumulated other comprehensive loss were due to foreign currency translation adjustments.

**Note 12. Income Taxes**

In determining the quarterly provision for income taxes, the Company used an estimated annual effective tax rate for the first nine months of 2022 and a discrete effective tax rate method based on statutory tax rates for the first nine months of 2021. Our periodic effective income tax rate is affected by the relative mix of pre-tax earnings or losses and underlying income tax rates applicable to the various taxing jurisdictions.

Income tax expense for the third quarter of 2022 was \$9,598 compared to an income tax benefit of \$4,274 for the third quarter of 2021. Income tax benefit for the first nine months of 2022 was \$13,282 compared to an income tax expense of \$11,544 for the first nine months of 2021. The variance in income taxes between 2022 and 2021 is attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax gains were \$29,658 during the third quarter of 2022 compared to pre-tax losses of \$20,231 during the third quarter of 2021. Investment partnership pre-tax losses were \$82,244 during the first nine months of 2022 compared to pre-tax gains of \$27,344 during the first nine months of 2021.

**Note 13. Commitments and Contingencies**

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

**Note 14. Fair Value of Financial Assets**

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

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

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

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

The following methods and assumptions were used to determine the fair value of each class of the following assets recorded at fair value in the consolidated balance sheets:

*Cash equivalents:* Cash equivalents primarily consist of money market funds which are classified as Level 1 of the fair value hierarchy.

*Equity securities:* The Company's investments in equity securities are classified as Levels 1 and 2 of the fair value hierarchy.

*Bonds:* The Company's investments in bonds consist of both corporate and government debt. Bonds are classified as Level 1 or 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 publicly traded securities, each of which are classified as Level 1 of the fair value hierarchy.

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

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

As of September 30, 2022 and December 31, 2021, the fair values of financial assets were as follows.

	September 30, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents	\$ 16,389	\$ —	\$ —	\$ 16,389	\$ 18,447	\$ —	\$ —	\$ 18,447
Equity securities								
Consumer goods	16,266	932	—	17,198	10,775	2,368	—	13,143
Insurance	49	—	—	49	6,513	—	—	6,513
Technology	1,832	—	—	1,832	2,887	—	—	2,887
Bonds								
Government	44,914	—	—	44,914	54,584	—	—	54,584
Corporate	3,003	—	—	3,003	4,512	—	—	4,512
Options on equity securities	—	3,531	—	3,531	—	2,095	—	2,095
Non-qualified deferred compensation plan investments	1,299	—	—	1,299	1,607	—	—	1,607
Total assets at fair value	<u>\$ 83,752</u>	<u>\$ 4,463</u>	<u>\$ —</u>	<u>\$ 88,215</u>	<u>\$ 99,325</u>	<u>\$ 4,463</u>	<u>\$ —</u>	<u>\$ 103,788</u>

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

**Note 15. Related Party Transactions*****Service Agreement***

The Company is party to a service agreement with Biglari Enterprises LLC and Biglari Capital Corp. (collectively, the “Biglari Entities”) under which the Biglari Entities provide business and administrative related services to the Company. The Biglari Entities are owned by Mr. Biglari.

The Company paid Biglari Enterprises \$6,300 in service fees during the first nine months of 2022 and 2021. The service agreement does not alter the hurdle rate connected with the incentive reallocation paid to Biglari Capital Corp.

***Incentive Agreement***

The Incentive Agreement establishes a performance-based annual incentive payment for Mr. Biglari contingent upon the growth in adjusted equity in each year attributable to our operating businesses. In order for Mr. Biglari to receive any incentive, our operating businesses must achieve an annual increase in shareholders’ equity in excess of 6% (the “Hurdle Rate”) above the previous highest level (the “High Water Mark”). Mr. Biglari will receive 25% of any incremental book value created above the High Water Mark plus the Hurdle Rate. In any year in which book value declines, our operating businesses must completely recover their deficit from the previous High Water Mark, along with attaining the Hurdle Rate, before Mr. Biglari becomes eligible to receive any further incentive payment.

## Note 16. Business Segment Reporting

Our reportable business segments are organized in a manner that reflects how management views those business activities. Our restaurant operations include Steak n Shake and Western Sizzlin. Our insurance operations include First Guard and Southern Pioneer. Our oil and gas operations include Southern Oil and Abraxas Petroleum. The Company also reports segment information for Maxim. Other business activities not specifically identified with reportable business segments are presented in corporate. We report our earnings from investment partnerships separate from our corporate expenses. We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are neither necessarily indicative of cash available to fund cash requirements, nor synonymous with cash flow from operations. The tabular information that follows shows data of our reportable segments reconciled to amounts reflected in the consolidated financial statements.

A disaggregation of our consolidated data for the third quarters and first nine months of 2022 and 2021 is presented in the tables which follow.

	Revenue			
	Third Quarter		First Nine Months	
	2022	2021	2022	2021
<b>Operating Businesses:</b>				
Restaurant Operations:				
Steak n Shake	\$ 56,949	\$ 56,993	\$ 172,444	\$ 190,517
Western Sizzlin	2,488	2,151	7,164	5,907
Total Restaurant Operations	59,437	59,144	179,608	196,424
Insurance Operations:				
Underwriting				
First Guard	9,112	8,458	26,858	24,760
Southern Pioneer	6,004	5,443	17,653	16,406
Investment income and other	1,196	822	3,234	2,563
Total Insurance Operations	16,312	14,723	47,745	43,729
Oil and Gas Operations:				
Southern Oil	12,688	7,353	36,940	24,310
Abraxas Petroleum	1,692	—	1,692	—
Total Oil and Gas Operations	14,380	7,353	38,632	24,310
Maxim	1,905	863	3,788	2,695
	<u>\$ 92,034</u>	<u>\$ 82,083</u>	<u>\$ 269,773</u>	<u>\$ 267,158</u>

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

	Earnings (Losses) Before Income Taxes			
	Third Quarter		First Nine Months	
	2022	2021	2022	2021
<b>Operating Businesses:</b>				
Restaurant Operations:				
Steak n Shake	\$ 3,964	\$ (2,959)	\$ 11,777	\$ 5,733
Western Sizzlin	369	247	997	707
Total Restaurant Operations	4,333	(2,712)	12,774	6,440
Insurance Operations:				
Underwriting:				
First Guard	2,354	2,832	4,800	7,922
Southern Pioneer	(483)	397	(1,101)	1,511
Investment income and other	1,221	613	3,188	1,965
Total Insurance Operations	3,092	3,842	6,887	11,398
Oil and Gas Operations:				
Southern Oil	6,795	2,982	19,137	9,047
Abraxas Petroleum	446	—	446	—
Total Oil and Gas Operations	7,241	2,982	19,583	9,047
Maxim	1,534	(56)	1,699	867
Interest expense not allocated to segments	(67)	—	(67)	(1,121)
Total Operating Businesses	16,133	4,056	40,876	26,631
Corporate and other	(3,305)	(3,302)	(9,769)	(8,595)
Investment gains (losses)	(849)	4,534	(4,184)	6,465
Investment partnership gains (losses)	29,658	(20,231)	(82,244)	27,344
	<u>\$ 41,637</u>	<u>\$ (14,943)</u>	<u>\$ (55,321)</u>	<u>\$ 51,845</u>

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

(dollars in thousands except per share data)

### Overview

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance, licensing and media, restaurants, and oil and gas. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and led by Sardar Biglari, Chairman and Chief Executive Officer of the Company.

Biglari Holdings' management system combines decentralized operations with centralized finance decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of September 30, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and 70.4% of the voting interest.

On September 14, 2022, the Company completed the purchase of 685,505 shares of Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum Corporation ("Abraxas Petroleum") for a purchase price of \$80,000. On October 26, 2022, the Company converted the preferred stock to 90% of the outstanding common stock of Abraxas Petroleum. We have concluded that Abraxas Petroleum is a consolidated entity and have recorded noncontrolling interests attributable to the interest held by other shareholders. The Company used working capital including its line of credit to fund the purchase of the Preferred Shares. Abraxas Petroleum operates oil and natural gas properties in the Permian Basin. The Company's financial results include the results of Abraxas Petroleum from the acquisition date to the end of the third quarter. The revenues and operating results for Abraxas Petroleum were not significant to the Company for the third quarter.

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

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Operating businesses:				
Restaurant	\$ 3,320	\$ (1,515)	\$ 9,588	\$ 5,146
Insurance	2,389	2,985	5,292	8,902
Oil and gas	5,574	2,325	14,867	7,016
Brand licensing	1,150	(43)	1,274	662
Interest expense	(52)	—	(52)	(841)
Corporate and other	(2,742)	(2,526)	(7,630)	(6,649)
Total operating businesses	9,639	1,226	23,339	14,236
Investment gains	(657)	3,390	(3,287)	4,896
Investment partnership gains (losses)	23,057	(15,285)	(62,091)	21,169
	32,039	(10,669)	(42,039)	40,301
Earnings attributable to noncontrolling interest	34	—	34	—
	<u>\$ 32,005</u>	<u>\$ (10,669)</u>	<u>\$ (42,073)</u>	<u>\$ 40,301</u>

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

**Restaurants**

Our restaurant businesses, which include Steak n Shake and Western Sizzlin, comprise 552 company-operated and franchise restaurants as of September 30, 2022.

	Steak n Shake			Western Sizzlin		
	Company-operated	Franchise Partner	Traditional Franchise	Company-operated	Franchise	Total
Total stores as of December 31, 2021	199	159	178	3	38	577
Corporate stores transitioned	(12)	12	—	—	—	—
Net restaurants opened (closed)	(6)	—	(19)	—	—	(25)
Total stores as of September 30, 2022	<u>181</u>	<u>171</u>	<u>159</u>	<u>3</u>	<u>38</u>	<u>552</u>
Total stores as of December 31, 2020	276	86	194	3	39	598
Corporate stores transitioned	(54)	54	—	—	—	—
Net restaurants opened (closed)	(1)	—	(15)	—	(1)	(17)
Total stores as of September 30, 2021	<u>221</u>	<u>140</u>	<u>179</u>	<u>3</u>	<u>38</u>	<u>581</u>

As of September 30, 2022, 39 of the 181 company-operated Steak n Shake stores were closed. We plan to rebrand a majority of our closed company-operated restaurants.

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

Restaurant operations are summarized below.

	Third Quarter				First Nine Months			
	2022		2021		2022		2021	
<b>Revenue</b>								
Net sales	\$ 37,448		\$ 41,916		\$ 113,345		\$ 146,269	
Franchise partner fees	15,880		11,508		47,929		31,744	
Franchise royalties and fees	5,089		4,865		15,472		14,594	
Other revenue	1,020		855		2,862		3,817	
<b>Total revenue</b>	<b>59,437</b>		<b>59,144</b>		<b>179,608</b>		<b>196,424</b>	
<b>Restaurant cost of sales</b>								
Cost of food	11,359	30.3 %	13,123	31.3 %	33,684	29.7 %	43,404	29.7 %
Restaurant operating costs	20,745	55.4 %	24,496	58.4 %	61,127	53.9 %	71,751	49.1 %
Occupancy costs	4,058	10.8 %	4,075	9.7 %	12,658	11.2 %	14,142	9.7 %
<b>Total cost of sales</b>	<b>36,162</b>		<b>41,694</b>		<b>107,469</b>		<b>129,297</b>	
<b>Selling, general and administrative</b>								
General and administrative	9,556	16.1 %	9,255	15.6 %	28,327	15.8 %	27,416	14.0 %
Marketing	2,758	4.6 %	2,302	3.9 %	9,589	5.3 %	10,212	5.2 %
Other expenses	(825)	(1.4)%	1,332	2.3 %	(1,141)	(0.6)%	2,266	1.2 %
<b>Total selling, general and administrative</b>	<b>11,489</b>	<b>19.3 %</b>	<b>12,889</b>	<b>21.8 %</b>	<b>36,775</b>	<b>20.5 %</b>	<b>39,894</b>	<b>20.3 %</b>
<b>Impairments</b>								
Impairments	—		—		(20)		(559)	
Depreciation and amortization	(6,081)		(5,811)		(18,401)		(15,615)	
Interest on finance leases and obligations	(1,372)		(1,462)		(4,169)		(4,619)	
<b>Earnings (loss) before income taxes</b>								
Earnings (loss) before income taxes	4,333		(2,712)		12,774		6,440	
<b>Income tax expense (benefit)</b>								
Income tax expense (benefit)	1,013		(1,197)		3,186		1,294	
<b>Contribution to net earnings (loss)</b>								
Contribution to net earnings (loss)	<u>\$ 3,320</u>		<u>\$ (1,515)</u>		<u>\$ 9,588</u>		<u>\$ 5,146</u>	

*Cost of food, restaurant operating costs, and occupancy costs are expressed as a percentage of net sales. General and administrative, marketing and other expenses are expressed as a percentage of total revenue.*

The novel coronavirus (“COVID-19”), declared a pandemic by the World Health Organization in March 2020, caused governments to impose restrictive measures to contain its spread. The COVID-19 pandemic adversely affected our restaurant operations and financial results. Our restaurants were required to close their dining rooms during the first quarter of 2020. The majority of Steak n Shake’s dining rooms were reopened during 2021, and in doing so a self-service model has been implemented.

Net sales for the third quarter and first nine months of 2022 were \$37,448 and \$113,345, respectively, representing a decrease of \$4,468 or 10.7% and \$32,924 or 22.5%, compared to the third quarter and first nine months of 2021, respectively. The decrease in revenue of company-owned restaurants is primarily due to the shift of company units to franchise partner units. For company-operated units, sales to the end customer are recorded as revenue generated by the Company, but for franchise partner units, only our share of the restaurant’s profits, along with certain fees, are recorded as revenue. Because we derive most of our revenue from our share of the profits, revenue will continue to decline as we transition from company-operated units to franchise partner units.

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

Franchise partner fees were \$15,880 during the third quarter of 2022, as compared to \$11,508 during the third quarter of 2021. Franchise partner fees were \$47,929 and \$31,744 during the first nine months of 2022 and 2021, respectively. As of September 30, 2022, there were 171 franchise partner units, compared to 140 franchise partner units as of September 30, 2021. For a franchise partner to be awarded a restaurant, he or she must demonstrate the gold standard in service.

The franchise royalties and fees generated by the traditional franchising business were \$5,089 during the third quarter of 2022, as compared to \$4,865 during the third quarter of 2021. Franchise royalties and fees during the first nine months of 2022 were \$15,472 compared to \$14,594 during the first nine months of 2021.

The cost of food as a percentage of net sales during the third quarter and first nine months of 2022 was 30.3% and 29.7%, respectively, as compared to 31.3% and 29.7% of net sales during the third quarter and first nine months of 2021, respectively. Cost of food as a percentage of net sales were lower during the third quarter of 2022 compared to 2021 primarily because of higher menu prices.

Restaurant operating costs as a percentage of net sales during the third quarter of 2022 were 55.4%, as compared to 58.4% of net sales in the third quarter of 2021. Restaurant operating costs during the first nine months of 2022 were 53.9% of net sales, as compared to 49.1% of net sales in 2021. The increase during the first nine months was primarily the result of higher wages.

Selling, general and administrative costs during the third quarter and first nine months of 2022 were \$11,489 and \$36,775, respectively, compared to \$12,889 and \$39,894 in the third quarter and first nine months of 2021, respectively. Steak n Shake recorded gains on the disposal of assets of \$1,084 and \$1,749 in the third quarter and first nine months of 2022, respectively.

The Company recorded no impairment charges in the third quarter and \$20 in the first nine months of 2022. The Company recorded no impairment charges in the third quarter and \$559 in the first nine months of 2021, respectively. Impairments during 2021 are related to underperforming stores.

### Insurance

We view our insurance businesses as possessing two activities: underwriting and investing. Underwriting decisions are the responsibility of the unit managers, whereas investing decisions are the responsibility of our Chairman and CEO, Sardar Biglari. Our business units are operated under separate local management. Biglari Holdings' insurance operations consist of First Guard and Southern Pioneer.

Underwriting results of our insurance operations are summarized below.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Underwriting gain (loss) attributable to:				
First Guard	\$ 2,354	\$ 2,832	\$ 4,800	\$ 7,922
Southern Pioneer	(483)	397	(1,101)	1,511
Pre-tax underwriting gain	1,871	3,229	3,699	9,433
Income tax expense	392	681	776	1,984
Net underwriting gain	\$ 1,479	\$ 2,548	\$ 2,923	\$ 7,449

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

Earnings of our insurance operations are summarized below.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Premiums earned	\$ 15,116	\$ 13,901	\$ 44,511	\$ 41,166
Insurance losses	8,814	6,657	27,646	20,040
Underwriting expenses	4,431	4,015	13,166	11,693
Pre-tax underwriting gain	1,871	3,229	3,699	9,433
Other income and expenses				
Investment income	362	195	832	652
Other income (expenses)	859	418	2,356	1,313
Total other income	1,221	613	3,188	1,965
Earnings before income taxes	3,092	3,842	6,887	11,398
Income tax expense	703	857	1,595	2,496
Contribution to net earnings (loss)	\$ 2,389	\$ 2,985	\$ 5,292	\$ 8,902

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

### First Guard

First Guard is a direct underwriter of commercial truck insurance, selling physical damage and nontrucking liability insurance to truckers. First Guard's insurance products are marketed primarily through direct response methods via the Internet or by telephone. First Guard's cost-efficient direct response marketing methods enable it to be a low-cost insurer. A summary of First Guard's underwriting results follows.

	Third Quarter				First Nine Months			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums earned	\$ 9,112	100.0 %	\$ 8,458	100.0 %	\$26,858	100.0 %	\$24,760	100.0 %
Insurance losses	4,815	52.8 %	3,935	46.5 %	16,468	61.3 %	11,746	47.4 %
Underwriting expenses	1,943	21.3 %	1,691	20.0 %	5,590	20.8 %	5,092	20.6 %
Total losses and expenses	6,758	74.1 %	5,626	66.5 %	22,058	82.1 %	16,838	68.0 %
Pre-tax underwriting gain	\$ 2,354		\$ 2,832		\$ 4,800		\$ 7,922	

### Southern Pioneer

Southern Pioneer underwrites garage liability and commercial property insurance, as well as homeowners and dwelling fire insurance. A summary of Southern Pioneer's underwriting results follows.

	Third Quarter				First Nine Months			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums earned	\$ 6,004	100.0 %	\$ 5,443	100.0 %	\$17,653	100.0 %	\$16,406	100.0 %
Insurance losses	3,999	66.6 %	2,722	50.0 %	11,178	63.3 %	8,294	50.6 %
Underwriting expenses	2,488	41.4 %	2,324	42.7 %	7,576	42.9 %	6,601	40.2 %
Total losses and expenses	6,487	108.0 %	5,046	92.7 %	18,754	106.2 %	14,895	90.8 %
Pre-tax underwriting gain (loss)	\$ (483)		\$ 397		\$ (1,101)		\$ 1,511	

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

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

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Interest, dividends and other investment income:				
First Guard	\$ 202	\$ 54	\$ 398	\$ 84
Southern Pioneer	160	141	434	568
Pre-tax investment income	362	195	832	652
Income tax expense	76	41	175	137
Net investment income	<u>\$ 286</u>	<u>\$ 154</u>	<u>\$ 657</u>	<u>\$ 515</u>

We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

**Oil and Gas***Southern Oil*

Southern Oil primarily operates oil and natural gas properties offshore in the shallow waters of the Gulf of Mexico. Earnings for Southern Oil are summarized below.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Oil and gas revenue	\$ 12,688	\$ 7,353	\$ 36,940	\$ 24,310
Oil and gas production costs	3,484	2,050	11,146	6,957
Depreciation, depletion and accretion	1,873	1,717	4,926	6,286
General and administrative expenses	536	604	1,731	2,020
Earnings before income taxes	6,795	2,982	19,137	9,047
Income tax expense	1,564	657	4,613	2,031
Contribution to net earnings	<u>\$ 5,231</u>	<u>\$ 2,325</u>	<u>\$ 14,524</u>	<u>\$ 7,016</u>

*Abraxas Petroleum*

Abraxas Petroleum operates oil and gas properties in the Permian Basin. Earnings for Abraxas Petroleum from the date of acquisition on September 14, 2022 are summarized below.

	Third Quarter
	2022
Oil and gas revenue	\$ 1,692
Oil and gas production costs	606
Depreciation, depletion and accretion	360
General and administrative expenses	280
Earnings before income taxes	446
Income tax expense	103
Contribution to net earnings	343
Earnings attributable to noncontrolling interests	34
Net earnings attributable to Biglari Holdings Inc. shareholders	<u>\$ 309</u>

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

### Brand Licensing

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

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Licensing and media revenue	\$ 1,905	\$ 863	\$ 3,788	\$ 2,695
Licensing and media costs	345	880	1,975	1,749
General and administrative expenses	26	39	114	79
Earnings (loss) before income taxes	1,534	(56)	1,699	867
Income tax expense (benefit)	384	(13)	425	205
Contribution to net earnings (loss)	\$ 1,150	\$ (43)	\$ 1,274	\$ 662

We acquired Maxim with the idea of transforming its business model. The magazine developed the Maxim brand, a franchise we are utilizing to generate nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events.

### Investment Gains

Investment losses net of tax for the third quarter of 2022 were \$657 compared to investment gains net of tax for the third quarter of 2021 of \$3,390. Investment losses net of tax for the first nine months of 2022 were \$3,287 compared to investment gains net of tax for the first nine months of 2021 of \$4,896. Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

### Investment Partnership Gains

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

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Investment partnership gains (losses)	\$ 29,658	\$ (20,231)	\$ (82,244)	\$ 27,344
Tax expense (benefit)	6,601	(4,946)	(20,153)	6,175
Contribution to net earnings (loss)	\$ 23,057	\$ (15,285)	\$ (62,091)	\$ 21,169

Investment partnership gains include gains/losses from changes in market values of underlying investments and dividends earned by the partnerships. Dividend income has a lower effective tax rate than income from capital gains. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings.

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

## 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.

	Third Quarter		First Nine Months	
	2022	2021	2022	2021
Interest expense on notes payable	\$ 67	\$ —	\$ 67	\$ 1,121
Tax benefit	15	—	15	280
Interest expense net of tax	<u>\$ 52</u>	<u>\$ —</u>	<u>\$ 52</u>	<u>\$ 841</u>

### Corporate and Other

Corporate expenses exclude the activities of the restaurant, insurance, brand licensing, and oil and gas businesses. Corporate and other net losses during the third quarter and first nine months of 2022 were relatively flat compared to the same period in 2021.

### Income Taxes

Income tax expense for the third quarter of 2022 was \$9,598 compared to an income tax benefit of \$4,274 for the third quarter of 2021. Income tax benefit for the first nine months of 2022 was \$13,282 compared to an income tax expense of \$11,544 for the first nine months of 2021. The variance in income taxes between 2022 and 2021 is attributable to taxes on income generated by the investment partnerships. Investment partnership pre-tax gains were \$29,658 during the third quarter of 2022 compared to pre-tax losses of \$20,231 during the third quarter of 2021. Investment partnership pre-tax losses were \$82,244 during the first nine months of 2022 compared to pre-tax gains of \$27,344 during the first nine months of 2021.

### Financial Condition

Consolidated cash and investments are summarized below.

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 64,842	\$ 42,349
Investments	70,032	83,061
Fair value of interest in investment partnerships	338,314	474,201
Total cash and investments	473,188	599,611
Less: portion of Company stock held by investment partnerships	(193,450)	(223,802)
Carrying value of cash and investments on balance sheet	<u>\$ 279,738</u>	<u>\$ 375,809</u>

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

## 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 Nine Months	
	2022	2021
Net cash provided by operating activities	\$ 99,754	\$ 211,245
Net cash used in investing activities	(102,464)	(55,782)
Net cash provided by (used in) financing activities	25,353	(154,586)
Effect of exchange rate changes on cash	(150)	(85)
Increase in cash, cash equivalents and restricted cash	<u>\$ 22,493</u>	<u>\$ 792</u>

Cash provided by operating activities was \$99,754 during 2022 compared to \$211,245 in 2021. The decrease in cash provided by operating activities is mainly attributable to distributions from investment partnerships of \$51,200 for 2022 and \$172,420 for 2021. The distributions during 2021 were primarily used to repay Steak n Shake’s debt.

Cash used in investing activities during 2022 was \$102,464 compared to \$55,782 in 2021. Capital expenditures were lower during 2022 by \$23,049 compared to 2021. Steak n Shake incurred higher capital expenditures during 2021 for its transition to a self-service model.

Cash provided by financing activities was \$25,353 in 2022 compared to \$154,586 used in 2021. The Company repaid Steak n Shake’s debt during 2021.

We intend to meet the working capital needs of our operating subsidiaries principally through anticipated cash flows generated from operations and cash on hand. We continually review available financing alternatives.

### Biglari Holdings Line of Credit

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to \$30,000. The line of credit will be available on a revolving basis until September 12, 2024. The line of credit includes customary covenants, as well as financial maintenance covenants. As of September 30, 2022, we were in compliance with all covenants. The balance of the line of credit on September 30, 2022 was \$30,000.

### Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into a credit agreement which provided for a senior secured term loan facility in an aggregate principal amount of \$220,000. The term loan was scheduled to mature on March 19, 2021. The Company repaid the balance of Steak n Shake’s term facility on February 19, 2021.

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

### **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, 2021.

### **Recently Issued Accounting Pronouncements**

No recently issued accounting pronouncements were applicable for this Quarterly Report on Form 10-Q.

### **Cautionary Note Regarding Forward-Looking Statements**

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

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The majority of our investments are conducted through investment partnerships which generally hold common stocks. We also hold marketable securities directly. Through investment partnerships we hold concentrated positions. 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. 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 value of our investments of \$21,490 along with a corresponding change in shareholders’ equity of approximately 3%.

We have had minimal exposure to foreign currency exchange rate fluctuations in the first nine months of 2022 and 2021.

Our oil and natural gas business is fundamentally a commodity business. This means our operations and earnings may be significantly affected by changes in oil and gas prices. Such commodity prices depend on local, regional and global events or conditions that affect supply and demand for oil and gas. Any material decline in crude oil or natural gas prices could have a material adverse effect on our operations.

## **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 September 30, 2022.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in Item 1A to the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

Exhibit Number	Description
<a href="#">31.01</a>	<a href="#">Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">31.02</a>	<a href="#">Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.01*</a>	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	Interactive Data Files.
104	Cover page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

\* Furnished herewith.

**SIGNATURES**

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

Biglari Holdings Inc.

Date: November 4, 2022

By: /s/ BRUCE LEWIS  
Bruce Lewis  
Controller