Dear Shareholders of Biglari Holdings Inc.:

Biglari Holdings is unlike most public corporations in structure, scope, and style. I believe we are duty bound to communicate clearly our operations, economic objectives, and managerial philosophy in an effort to cement an alignment of expectations with all owners of our business. In doing so, the ownership will comprehend our policies and methods of operation.

We have been building Biglari Holdings to be a mosaic of businesses, devoted to acquisitions, thereby adding to a fine collection, an amalgam intended to produce a stream of significant, strong, and secure cash flows. We fashioned a structure enabling maximum flexibility concerning capital allocation — moving capital for efficacy — that has accounted for much of our economic gain. We hold a significant structural advantage as a permanently capitalized vehicle with cash-generating, controlled businesses distributing surplus cash to the parent company for reallocation. The genesis of the current construction was inaugurated seven and one-half years ago, when we took on a business at the edge of bankruptcy — Steak n Shake — which soon became the launching pad for Biglari Holdings.

From 1934 through 2008 the cumulative pre-tax earnings of Steak n Shake were around $480 million. However, when we took over in August 2008, the company was in serious turmoil — financially, operationally, and culturally — nearing extinction. The turnaround was exceedingly difficult because of the company's dire financial position and the country's severe credit crisis. Steak n Shake had been in violation of its debt covenants with lenders. However, we were able to obtain waivers on the credit agreements. Yet ominously, the lenders reduced the amount of credit available to the company, heightened interest rates, and tightened financial covenants. Against this backdrop, Steak n Shake was experiencing double digit declines in customer traffic as well as suffering *cash* losses of about $100,000 *per day*! In August 2008, to assess the amount of time we had left to turn the business around, we stress tested what projected pre-tax losses would become if declines of 10% in same-store sales continued in fiscal 2009. We braced ourselves…$57 million!

We started from an inauspicious base of $1.6 million in cash along with a business *in extremis*, operating at significant losses. We repositioned, resuscitated, and rescued Steak n Shake in very short order. The chain shifted from losing 11% in customer traffic in September 2008 to *gaining* 10% in December 2008, a remarkable 21 percentage point reversal. In contrast, during the same period, most other restaurant chains in the industry were experiencing precipitous declines in customer traffic. After turning our struggling company into a profitable enterprise, it formed the base from which we have been constructing a dynamic, value-building enterprise, Biglari Holdings. We began reallocating excess capital into superior but unrelated businesses and investments. In creating Biglari Holdings from scratch, we formulated no master plan concerning businesses or industries we would enter, but instead we pursued unusual, golden opportunities wherever and whenever they arose. Over the last seven years Biglari Holdings' cumulative pre-tax earnings (including profits from investments) have totaled approximately $485 million. *In other words, more money has been earned in the last seven years by Biglari Holdings than during the preceding 75 years by Steak n Shake.*

The compression of 75 years of profits into one-tenth of the time represents a testament to the virtues of creating a multifaceted holding company. It should be noted that I designed Biglari Holdings to fit my skill set as an entrepreneur and investor. Each building block of the Biglari

Holdings' architecture was guided by the economic objective of maximizing per-share intrinsic value.[1] Despite its advantages, we can further assert that our highly unusual system would *not* necessarily make sense for other entrepreneurs.

Our structure provides us with a far more flexible instrument than do most other forms of public corporations. By way of illustration, most corporations reinvest earnings within their industry, whereas we postulate that just because we generate profits, for example, in our restaurant business, it does not mean we are required to reinvest the money there. We send cash unneeded at the subsidiary level to the parent company in order to increase our ownership in other businesses. Furthermore, we are not limited to business ownership in its entirety. We venture into wider channels. Whereas our preference is total business ownership, the stock market offers a wider selection of fractional business ownership, in which we usually obtain more value than the price paid. The latitude in surveying a wide investment universe, comparing one opportunity against another, has proven to be an enormous advantage for Biglari Holdings. We transformed from nearly zero into an enterprise with $815 million in cash and investments. Here is the evolution of cash and investments since the end of fiscal 2008:

(In Millions)

	2015*	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Cash and Cash-Equivalents	$ 56.5	$ 124.3	$ 94.6	$ 60.4	$ 99.0	$ 47.6	$ 51.4	$ 6.9
Marketable Securities	23.8	21.5	85.5	269.9	115.3	32.5	3.0	–
The Lion Fund**	734.7	620.8	455.3	48.3	38.5	38.6	–	–
Total Investments	**$ 815.0**	**$ 766.6**	**$ 635.4**	**$ 378.6**	**$ 252.8**	**$ 118.7**	**$ 54.4**	**$ 6.9**

* *Data are for December 31, 2015. The years 2008 through 2014 were fiscal years that ended on Wednesday nearest September 30.*

** *These sums are Biglari Holdings' investments in The Lion Fund, L.P. and The Lion Fund II, L.P. The interests of the other limited partners are not included. Both partnerships throughout this letter will be referenced as The Lion Fund.*

Do not extrapolate from historical trends, for their continuation should be regarded as highly unpredictable.

Biglari Holdings can scale an agglomeration of operating companies because of its structure. We are able to fuse disparate businesses under the command of an efficient holding company because we centralize financial decision making but preferably seek to delegate operating authority at the business unit level. Centralized control in capital allocation lies within the extreme, with my being the sole capital deployer. We employ neither analysts nor advisors. Although Biglari Holdings employs 22,958, we function with a minuscule corporate headquarters utilizing a staff of only 5. We relinquish such departments as acquisitions, public relations, legal, human resources, strategic planning, investor relations, and the like. We avoid layers of expenses by waiving legions of corporate decision makers, who otherwise would stifle decision-making acuity and agility, limiting progress and performance.

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

Henry Ford reportedly said, “You can’t build a reputation on what you are going to do.” Evidence of our increasing reputational capital is our acquisition of First Guard Insurance Company, which has demonstrated that we are a distinct type of buyer, one who values non-integration and permanency. In stark contrast, strategic buyers will usually integrate the acquiree’s operations into their own, and private equity firms, exit driven, will very likely weaken the acquiree’s balance sheet. When sellers deeply care about their business and not exclusively about the price, we offer a superior alternative. We view Biglari Holdings as a museum of businesses housing a collection of excellent enterprises.

One extraordinary entrepreneur who favored our idiosyncrasies was Edmund B. Campbell, III, founder of First Guard. Over the years Ed had been approached but had refused a number of strategic and financial buyers because of his concern that such acquirors would be disruptive for the business and its employees. But, alternatively, our concept had great appeal. After all, we are not transient holders of businesses; rather, we offer a permanent residence for highly prized creations, thereby allowing and desiring the seller to continue running their business with great autonomy. First Guard is an ideal purchase — exceptionally well managed with uncommonly strong economics and appropriately priced — representing the blueprint for future additions into our collection of businesses.

When we purchased First Guard in March 2014, Ed received all cash for his 100% interest. Still, he has continued to run his business for Biglari Holdings with a level of zeal as if his ownership had never changed hands. This outcome is testimony to Ed’s character. He has no financial need to remain involved with Biglari Holdings, but he remains motivated by the thrill of achievement. As I will discuss later in the letter, the benefit of our ownership structure has allowed Ed and his team to attain results that exceed previously superb performances.

We expect other gifted individuals to join Biglari Holdings’ family of companies. The commitments we make to sellers — such as providing a permanent home for their businesses — will endure. With my controlling position in the Biglari Holdings stock, we can promise sellers there will be no change in control. Our proposition engenders advantages vis-à-vis acquisitive competitors unable or unwilling to make the same pledges. As a corollary, there will be no spinoffs of holdings such as First Guard. We are led by our own judgment and inclination, not by the unwise and unwanted opinions of pundits.

Your company has been created on a solid foundation from which we continue to build a powerful business. Our operating and capital deployment decisions are driven by their long-term economic consequences, measured by advancement in per-share intrinsic value. The combination of cash generated by operating subsidiaries along with my capital allocation work will stoke our corporate performance, which according to our criterion must outdo our benchmark, the S&P 500 Index. Over the last seven years, namely, since present management has been in control, we believe Biglari Holdings’ gain in per-share intrinsic value has *far* outstripped the S&P.

Phil Cooley, Vice Chairman of Biglari Holdings, and I evaluate Biglari Holdings’ economic performance through a multiplicity of substantive dimensions. However, two components — investments and operating businesses — are extremely critical in assessing the company’s progress. We will present the dual segments as if Biglari Holdings were split into two parts.

Investments

By the end of calendar 2015, total investments (cash, marketable securities, and Biglari Holdings' investments in The Lion Fund) amounted to $815 million. From September 24, 2008 through December 31, 2015, Biglari Holdings' investments have climbed by $808.1 million.

The exponential rise in investments is a byproduct of effective operational and financial management. Here is a breakdown of the major sources of capital contributing to our company's meteoric ascent in total investments:

(In Millions)

Sources of Capital Contributions	**2008-2015**
Investment Gains (net of losses)	$ 325.1
Operating Businesses	208.8
Acquisitions of Businesses.......................	(68.1)
Net Increase in Subsidiary Debt..............	180.8
Equity Offerings......................................	161.5
Total	**$ 808.1**

The turnaround of Steak n Shake initiated Biglari Holdings' progression. The sound reinvestment of capital propelled cumulative investment gains that exceed the cumulative cash production from operating businesses.

Whereas we pursue diversity of cash streams through the acquisition of controlled businesses, we take a concentrated approach to investments, which are largely managed through The Lion Fund. The investment partnerships adhere to a total return strategy, not an asset allocation strategy. We are *very* long-term investors, preferring to concentrate on *very* few investments. We are unfazed by volatility — actually we welcome it — because we trade steady annual returns in exchange for the expectation of superior long-term results. In times of adversity the speculator folds, but the true investor focuses. In pursuing portfolio concentration, the supreme consideration is knowledge. Risk is inversely related to knowledge: The more you know, the less you risk. Logically, we do not follow a myopic crowd into fads, fashion and fantasies of the moment.

Through The Lion Fund, our largest common stock holding is the ownership of 4,737,794 shares in Cracker Barrel Old Country Store, Inc., or a 19.8% equity interest. We purchased stock in Cracker Barrel for $241 million between May 2011 and December 2012, with a dollar-weighted purchase date of December 2011. Over four years of ownership, we have not sold a single share. In 2015 The Lion Fund received cash distributions of about $34.1 million, approximately 14.1% of our cost. At the end of the year the market value of our stake was about $600 million. Along the way we have collected a total of $69 million in dividends or 28.6% of our cost.

Except for regulatory requirements, we will not share our thoughts, discuss our intentions, or telegraph our investment ideas. We connect silence with strength, for a stealth approach benefits shareholders. Our trade secrets are valuable; sharing them can diminish the value of our business by enabling coattail riders to benefit at our shareholders' expense. The Lion Fund is a private investment partnership whose activities will and should remain private.

I started The Lion Fund in 2000 with a simple pay-for-performance arrangement, one continuing to this day. As a limited partner, Biglari Holdings pays *only* a contingent fee — one-quarter of the profits over 6% — to the general partner. The division of profits between limited partners and the general partner is predicated on the limited partners first making money, before the general partner shares in the excess. In other words, once Biglari Holdings earns a 6% return, it then retains 75% of the profits.

Our incentive system differs from that of most investment managers, whose compensation is tied to the level of assets under management. Regardless of whether an investor makes or loses money, the investment manager is guaranteed significant income. A typical manager's incentive is to earn a return on *his* capital, rather than a return on his *investors'* capital. In addition, a hedge fund manager may charge both a large management fee, 2% of assets, plus a significant contingent payment, 20% of profits — and usually absent a minimum hurdle rate. Our arrangement, in contrast, espouses a genuine partnership ethos.

Biglari Holdings has a $734.7 million investment in The Lion Fund partnerships. The net unrealized appreciation from the securities in the partnerships is $303.4 million. As is evident in Biglari Holdings' financial statements, we would owe taxes of $116 million if the partnerships liquidated their holdings at year-end values. Therefore, Biglari Holdings' investment in the partnerships arrives before accounting for the deferred income taxes on unrealized gains. The liability, we regard, is tantamount to an interest-free loan from the government for the company's benefit.

Operating Businesses

We have four major controlled businesses, each 100%-owned: Steak n Shake, Western Sizzlin, First Guard, and Maxim. When we started with Steak n Shake in 2008, it became the engine in Biglari Holdings' machine, powering expansion into other businesses and investments. We will continue to construct Biglari Holdings one acquisition at a time.

Because we are driven by intrinsic value, not by an income statement, in our view our reported earnings do not properly represent a meaningful measure of our economic progress. Nevertheless, as a first step in evaluating Biglari Holdings' performance, the following table delineates an unconventional breakdown of our earnings in a form Phil and I find more useful than the conventional one in our consolidated statements.

	(In 000's) 2015	2014
Operating Earnings:		
Steak n Shake	$ 39,749	$ 27,205
Western Sizzlin	1,849	1,830
First Guard	3,529	2,367
Maxim	(18,105)	(21,479)
Corporate and Other	(13,158)	(6,564)
Operating Earnings Before Interest and Taxes	13,864	3,359
Interest Expense	11,939	11,930
Income Taxes	(400)	(3,180)
Net Operating Earnings	2,325	(5,391)
The Lion Fund (net of taxes)	(18,168)	106,296
Total Earnings	$ (15,843)	$ 100,905

Notes: The 2015 and 2014 data are presented for calendar years. The 2014 fiscal year has been restated as calendar for comparability. The company adopted a calendar year, switching from one ending on the Wednesday nearest September 30 to one ending on December 31.

Our reported earnings are materially affected by the volatility in the carrying value of The Lion Fund. We are indifferent about the variability in reported earnings triggered by the accounting of the investment partnerships. We simply separate changes in the partnerships' values from those in operating businesses when we report Biglari Holdings' earnings. In addition, Phil and I evaluate our equity holdings within The Lion Fund based on their underlying operating results, not on their short-term changes in market price. Over the long run, no better barometer of value creation exists than gain in stock price. Intrinsic value and stock price often diverge — sometimes substantially and quite lengthily — but in the long run they converge at approximately the same destination.

The net operating earnings of $2.3 million in 2015 versus a *loss* of $5.4 million in 2014 provide an incomplete assessment. During the last several years we have taken actions that reduce profit but with the intention of maximizing the present value of future cash flows. Each operating subsidiary is managed through the idea of producing cash returns to advance intrinsic value. However, the subsidiaries are on differing stages of the business life cycle: We have been cash-cowing Western for years, whereas Maxim requires our initially putting the milk into the cow. The logical approach for shareholders to appraise Biglari Holdings is through reviewing the performance of each operating subsidiary.

Restaurant Operations

Our restaurant operations consist of Steak n Shake and Western Sizzlin. The business models of each differ, with Steak n Shake primarily operating restaurants, sporting a total of 561 locations, of which 417 are company operated. Western, on the other hand, is mainly engaged in franchising restaurants, with 70 units — all but 4 are franchisee run.

In 2015, Western sent Biglari Holdings $3.1 million of cash, a healthy improvement over 2014. The Western team did an outstanding job by wringing out more cash. Biglari Holdings purchased Western in March 2010 for a net purchase price of $21.7 million. Since then, an aggregate of $16.3 million has been paid to Biglari Holdings, through which we have redeployed the capital into more gainful opportunities. Additionally, the Western acquisition arrived with marketable securities of $2 million. The acquisition also included undeveloped real estate purchased in 2007 for $3.8 million, which has more than doubled in value.

* * *

Steak n Shake's performance over the last seven years has been exceptional, particularly when compared with the results of other publicly owned restaurant chains. When evaluating the prior seven-year performance against restaurant peers, one must consider that Steak n Shake has (1) paid more in dividends to Biglari Holdings than it has earned in profits, i.e., a dividend ratio well beyond 100% and (2) spent the *least* in capital expenditures as a percent of sales compared to *all* publicly owned restaurant companies. Many of these restaurant chains retain all of their earnings, usually to build more stores and to remodel existing ones. Without the tailwinds of retained earnings and major capital expenditures, Steak n Shake maintains a streak of 28 consecutive quarterly increases in same-store sales. Below is a side-by-side comparison of same-store performances before and after we took over.

Same-Store Sales

	Pre-Takeover				**Post-Takeover**						
Quarter	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
1st	–	-1.1%	-1.7%	-9.5%	**-1.4%**	**14.4%**	**2.1%**	**5.5%**	**1.3%**	**3.0%**	**6.0%**
2nd	–	-0.3%	-4.7%	-6.3%	**2.4%**	**5.1%**	**4.3%**	**4.8%**	**0.3%**	**3.7%**	**4.8%**
3rd	–	-3.9%	-4.3%	-5.8%	**5.0%**	**7.5%**	**4.9%**	**2.9%**	**4.2%**	**1.0%**	**3.0%**
4th	-3.0%	-3.4%	-3.9%	-7.4%	**10.1%**	**6.8%**	**5.3%**	**1.8%**	**3.3%**	**3.4%**	**0.8%**
Transition										**4.8%**	

Notes: 2015 data are for calendar year. The years 2005 through 2014 were fiscal years ending on the Wednesday nearest September 30. The transition period is from September 25, 2014 through December 31, 2014.

Same-store sales should not be the sole metric for performance measurement. Pursuing same-store sales growth without regard to other statistics — e.g., return on investment — can lead to ruinous behavior. Just as a physician would not depend on a single reading to gauge human vitality, an investor should not depend on a single reading to gauge business vitality.

In Steak n Shake's case, the validity of the same-store sales metric strengthens because it has been developed within a constant base of stores, in which customer traffic growth was attained without consequential capital outlays, covers several years, and has resulted in profit growth. The prime reason Steak n Shake's unit-level performance has been improving is that unit-level customer traffic has been on the ascendency for the past seven years, with a cumulative increase of about 40%. Viewing all company-operated units as a single, united, gigantic store, we served 85 million patrons in 2008, yet in 2015 we served 118 million customers. In other words, 33 million additional customers (some of whom were repeats) went through the same four walls in 2015, compared to those in 2008.

It is a truism that gaining more customers can be accomplished by opening more units — not necessarily a managerial accomplishment. The limiting factor is capital. Mastery in the trade is to *profitably* gain more customers through existing stores — and leveraging fixed restaurant-level costs — an exceedingly more difficult but also a far more rewarding concept. The swing in the pendulum from losses in 2008 to profits in subsequent years is attributable to our bolstering the stores in our domain to become more productive.

Here is a review of Steak n Shake's results since 2008:

(Dollars in 000's)

	Net Revenue	**Operating Earnings**	**Number of Customers***	**Number of Company Stores at Year-End**	**Operating Earnings Per Store**
2008	$ 610,061	$ (30,754)	85,000,000	423	$ (72.7)
2009 (53 weeks)	628,726	11,473	91,000,000	412	27.8
2010	662,891	38,316	101,000,000	412	93.0
2011	689,325	41,247	105,000,000	413	99.9
2012	718,010	45,622	110,000,000	414	110.2
2013	737,090	28,376	112,000,000	415	68.4
2014**	776,486	27,205	115,000,000	417	65.2
2015**	805,771	39,749	118,000,000	417	95.3

* *Customer count is only for company-operated units.*

** *Data are for calendar years. The 2014 fiscal year has been restated as calendar for comparability. The years 2008 through 2013 were fiscal years ending on the Wednesday nearest September 30.*

Phil and I believe that in 2015 Steak n Shake's intrinsic value increased moderately even though its operating earnings augmented by 46%. Steak n Shake's earnings before interest and taxes were $39.7 million, up from $27.2 million in the preceding year. For years we voluntarily have been trading near-term earnings to develop higher long-term cash flows. In 2015, we benefited from declining commodity prices, and we began to be rewarded on our prior investments because (1) aggressive spending to develop the franchising business leveled off and (2) years of strengthening our long-term competitive position boosted profits. We expect the momentum to continue in 2016, further advancing operating earnings. Notwithstanding, we will continue to allocate capital on the expectation of creating consequential, greater dollar value for each dollar spent.

Sir Isaiah Berlin, in his book *The Hedgehog and the Fox*, quotes the great Greek poet Archilochus, "The fox knows many things, but the hedgehog knows one big thing." Steak n Shake can be classified as pursuing a hedgehog strategy. We are disciplined not to diversify the menu but to present a simple menu centered on burgers/fries and shakes/drinks that comprise nearly 80% of our sales. Over the years we have eliminated a number of menu items, but have elevated quality and variety around core products. After all, too much complexity undermines simplicity along with the benefits of operational efficiencies. The underlying reasons patrons wanted Steak n Shake in the

1930s — savory steakburgers and hand-dipped milkshakes — have essentially remained unchanged. Steak n Shake intends to lead and dominate the premium burger and milkshake segment of the restaurant industry. Recalling that aphoristic parable, the winner in our business is the hedgehog. We are quite certain the hedgehog, and even the fox, would enjoy our recently introduced Nutella Milkshake.

We operate Steak n Shake on a basic principle: If we take care of our customers, our customers will take care of us. Our formula is simple: Provide the highest quality burgers and shakes at the lowest possible profit per customer from an ever-increasing number of customers. Our pricing philosophy therefore is to widen not our profit margin but our value proposition. By minimizing profit per customer, we gain loyalty in an industry where customer loyalty is exceedingly difficult to attain. A higher number of patrons translates into higher aggregate profits in the long term.

Our discipline using tight expense controls, minutely weeding out waste, enables us to achieve sustainable cost advantages. As we squeeze out costs, we pass most of the savings on to the customer. To maintain our success, we must persist within a culture of thrift, quickly correcting inefficiencies. Steak n Shake is a customer-focused organization — thanks to the relentless dedication, indeed the passion, of our more than 22,000 associates.

The traditional side of the business, company-operated units, has produced torrents of cash. In fact, over the last seven years Steak n Shake has distributed more than $330 million of capital to Biglari Holdings, which has powered the parent company's growth. Steak n Shake itself has an ambitious plan to become global but without major requirements for fixed asset investments. To achieve growth without major capital outlays we leverage the Steak n Shake brand to capitalize on a franchise-based model, a noncapital-intensive strategy that generates high-return, annuity-like cash flows. In the emerging side of the business, franchising, the necessity for major capital funding to expand the brand is borne by third parties. We mainly collect royalties. Our fundamental idea is to produce long-term cash flows yet concomitantly reduce operating risks.

Since 2010 we have invested substantial sums to build infrastructure and system-wide standards for the franchising business. After five years of investments, we now have reached scale and expect that for 2016 the franchising segment of our business will generate more cash than it consumes. The franchise business had resembled a start-up, necessitating investments that advanced intrinsic value but produced losses under conventional accounting. Because of the upfront costs, public companies desiring to enlarge their near-term accounting earnings would not have followed similar initiatives. We made the investments necessary to channel our growth. Now gradually we expect to fill these rivers of ever-increasing cash.

Displayed below are the number of franchise units and the revenues derived from them:

(Dollars in 000's)

	Number of Franchise Units	**Franchise Revenue**
2010.................................	71	$ 4,205
2015.................................	144	13,783
Overall Gain	73	$ 9,578

Although Steak n Shake was founded in 1934 in Normal, Illinois, the first franchised unit opened in 1939. From 1939 to 2010 Steak n Shake grew by an average of one franchised unit per year. In 2010 we made franchising the cornerstone of our growth strategy. Over the last five years, we have added more franchised units — 73 to be exact — than in the preceding 71 years.

Our prospects to enlarge both domestic and international franchising are better than ever. We have designed and developed our concepts in a modular way, not possessing an inflexible format but adapting to various venues. Because of the modularity of Steak n Shake's design, we are now growing in universities, casinos, airports, gas stations, shopping centers, and other arenas.

Internationally, we have two company-operated units along the Mediterranean Sea: one on the island of Ibiza, Spain, and the other in Cannes, France. Both units are solidly profitable and have served as successful, powerful counter-service-only models for prospective franchisees. We now have a total of 10 units internationally, with the most recent openings in Italy: one in Verona and the other in Milan.

First Guard Insurance Company

First Guard — a direct underwriter of commercial trucking insurance — is a low-cost operator, one with extraordinary efficiency, engendering a sustainable competitive advantage. First Guard was designed with an exceptional business model — no agent between the insurer and the insured — whose architect Ed Campbell, III, year-in and year-out has achieved performance par excellence in an industry not known for exceptional economics.

We purchased First Guard and its affiliated agency on March 19, 2014. Shown below are the results presented for full years, as if we had owned the company throughout 2014 rather than from the date of acquisition:

(Dollars in 000's)

	Net Written Premium	**Underwriting Profit**	**Combined Ratio***
2014.............................	$ 10,757	$ 2,293	78.7
2015.............................	16,719	3,357	79.9

**The combined ratio represents losses incurred plus expenses as compared to revenue from premiums. A combined ratio beneath 100 percent denotes an underwriting profit whereas a ratio above 100 percent presents a loss.*

We have no volume goal, but we do maintain an underwriting profit objective. Notwithstanding, in 2015 First Guard set a new volume record while generating excellent underwriting earnings. One-year underwriting profitability of 79.9% is stellar, but the company's 19-year underwriting record of 79.1% is absolutely stunning. Profitable underwriting is an oft-stated objective but not an oft-achieved objective. However, losses are alien to Ed and his team: First Guard has achieved an underwriting profit *every year* since its founding in 1997. In 2015, First Guard earned $3.5 million pre-tax, an increase of 35.3% over the prior year.

The parent company's exceptional financial strength has been an operational asset for First Guard. Biglari Holdings has the ability — deep capital strength — and the willingness to withstand volatility so long as the decisions carry with it the prospects of higher long-term earnings. As a consequence, we now retain most of our originated premium volume, whereas previously we were ceding a significant portion of our business through quota-share contracts with our reinsurer.

First Guard is a brilliant gem of a company because its founder is a brilliant manager. Ed has developed a team that is first rate: talented, seasoned and profit-minded. That, for sure, gives me the confidence to expect First Guard to grow larger and more profitable under the Biglari Holdings' aegis.

Maxim Inc.

We purchased a media business, Maxim — knowingly stepping into a maelstrom — with the expectation of incurring substantial short-term losses, the bulk of which we view as investments. The purchase of a troubled company with a core business, print publishing, in an industry with deteriorating economics is not for the faint of heart. If the tides are too tough, the abilities of the swimmer become irrelevant. With that in mind, we purchased Maxim for its brand, intending to reposition it and transform its business model. The magazine developed the Maxim brand, an underexploited franchise we are utilizing to build cash-generating businesses, especially licensing royalties related to consumer products, services, and events.

To implement our underlying concept, substantial investments have been necessary, initially to reposition Maxim as an inspirational and aspirational brand projecting style and sophistication. We have vastly improved the quality of the Maxim brand, which has resulted in our appealing to a more affluent audience. Maxim as a men's luxury lifestyle brand is resonating.

Our operating philosophy is to view *all* expenses as variable. Thus, we have made radical adjustments in operations, both in print and in digital, to reduce the fixed costs inherent in the business. We have formed a talented team who think creatively and who are also cost-conscious.

Since our acquisition, the company has reported an aggregate pre-tax loss of $39 million. Because of the tax efficiency emanating from the holding company — created by the significant taxable income generated by our other subsidiaries — the after-tax impact has been approximately $25 million. In last year's annual report I stated: "Our expectation is for Maxim to become profitable during 2016. Nevertheless, our pathway to profit, we anticipate, will be highly irregular." Although current trends are not to be envied, we believe Maxim will become profitable in late 2016. Do note that our aim is *not* to create earnings, but to create wealth. Consequently, wealth would be created only if the discounted value of future cash flows exceeds the cash outlay in the early years. We have taken the risk on the belief that the probability for gain in value more than justifies the risk of loss.

Shareholder Communications

My communications with shareholders are generally limited to the annual report and the annual meeting. We do not provide earnings guidance, nor do we hold quarterly conference calls because neither activity would be consistent with managing our entrepreneurial enterprise. On the other hand, we wish to provide all shareholders simultaneously with the same information. One-on-one meetings are neither productive nor practicable.

My aim in this report is to impart as much about our company as reasonable and necessary to supply the information needed to arrive at your own estimate of the intrinsic value of the company. Past Chairman's Letters are also important in that they help you gain more knowledge of the business. They can also assist in your evaluating our prior expectations against results. Because Biglari Holdings has evolved over the years, it is quite different in its diversity of assets from its former self. These letters can be easily accessed on our website, biglariholdings.com.

To keep abreast of the company, we will then issue press releases concerning 2016 quarterly results after the market closes on May 6, August 5, and November 4. The 2016 annual report will be posted on our website on Saturday, February 25, 2017.

Our annual meeting will be held at 1:00 pm on Thursday, April 7, 2016 in New York City at the St. Regis Hotel. The meeting is just for our owners; thus, to attend, you must own shares and show proof thereof. The bulk of the gathering is a question-and-answer session that usually lasts about five hours, covering myriad topics on shareholders' minds. Phil and I look forward to spending the time in answering your questions. We find the annual meeting to be an effective channel to communicate with you.

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We readily acknowledge that the ethos and entrepreneurial style of Biglari Holdings are not for everyone. In a world filled with hyper-orthodoxy, Biglari Holdings represents an oasis of unconventionality. We follow our own individualistic ideas and ideals rather than find refuge in superficial conventions and conformity. Consequently, we seek *owners* to join our journey who find our policies agreeable and who intend to be invested for decades to come.

Sardar Biglari
Chairman of the Board

February 18, 2016