

BIGLARI HOLDINGS INC.
Form 10-Q
August 08, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 0-8445

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation or organization)

37-0684070

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

17802 IH 10 West, Suite 400

San Antonio, Texas

(Address of principal executive offices)

78257

(Zip Code)

(210) 344-3400

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 4, 2014, 1,721,150 shares of the registrant’s Common Stock, \$.50 stated value, were outstanding.

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IndexPART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

| (In thousands, except share and per share data) | July 2, 2014 (Unaudited) | September 25, 2013 |
|--|--------------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 112,516 | \$ 94,626 |
| Investments | 9,471 | 85,479 |
| Receivables, net of allowance of \$782 and \$804, respectively | 11,149 | 7,055 |
| Inventories | 6,847 | 6,475 |
| Deferred income taxes | 8,453 | - |
| Assets held for sale | - | 561 |
| Other current assets | 10,035 | 3,290 |
| Total current assets | 158,471 | 197,486 |
| Property and equipment, net | 352,917 | 346,147 |
| Goodwill | 40,137 | 28,251 |
| Other intangible assets, net | 22,700 | 7,721 |
| Other assets | 13,849 | 11,239 |
| Investment partnerships | 489,031 | 397,699 |
| Total assets | \$ 1,077,105 | \$ 988,543 |
| Liabilities and shareholders' equity | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | 47,017 | 37,511 |
| Accrued expenses | 55,001 | 54,003 |
| Revolving credit | 1,000 | - |
| Deferred income taxes | - | 5,511 |
| Current portion of obligations under leases | 6,466 | 6,239 |
| Current portion of long-term debt | 2,200 | 9,750 |
| Total current liabilities | 111,684 | 113,014 |
| Deferred income taxes | 86,014 | 84,525 |
| Obligations under leases | 100,793 | 106,247 |
| Long-term debt | 215,130 | 110,500 |
| Other long-term liabilities | 10,017 | 9,668 |
| Total liabilities | 523,638 | 423,954 |
| Shareholders' equity | | |
| Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,797,941 shares issued at July 2, 2014 and September 25, 2013, 1,566,748 and 1,588,376 shares outstanding (net of treasury stock), respectively | 899 | 899 |

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| | | |
|---|--------------|------------|
| Additional paid-in capital | 269,810 | 269,810 |
| Retained earnings | 368,621 | 348,339 |
| Accumulated other comprehensive income | 238 | 21,457 |
| Treasury stock – at cost: 231,193 and 209,565 shares (includes 154,151 and 132,406 shares held by investment partnerships) at July 2, 2014 and September 25, 2013, respectively | (86,101) | (75,916) |
| Biglari Holdings Inc shareholders' equity | 553,467 | 564,589 |
| Total liabilities and shareholders' equity | \$ 1,077,105 | \$ 988,543 |

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(In thousands, except share and per share data)

| Twelve Weeks Ended | | Forty Weeks Ended | |
|--------------------|---------|-------------------|---------|
| July 2, | July 3, | July 2, | July 3, |
| 2014 | 2013 | 2014 | 2013 |

Net revenues

Restaurant Operations:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Net sales | \$181,557 | \$179,105 | \$577,061 | \$561,581 |
| Franchise royalties and fees | 3,682 | 3,064 | 11,296 | 8,819 |
| Other revenue | 714 | 698 | 2,520 | 2,020 |
| Total | 185,953 | 182,867 | 590,877 | 572,420 |
| Other revenue | 7,276 | - | 9,265 | - |
| Revenue from consolidated affiliated partnerships | - | 1,735 | - | 3,903 |
| Total net revenues | 193,229 | 184,602 | 600,142 | 576,323 |
| Costs and expenses | | | | |
| Cost of sales | 54,186 | 53,041 | 170,257 | 165,832 |
| Restaurant operating costs | 84,465 | 84,137 | 272,907 | 266,874 |
| General and administrative | 29,272 | 18,609 | 72,170 | 55,810 |
| Depreciation and amortization | 5,940 | 5,761 | 19,072 | 19,454 |
| Marketing | 11,250 | 11,711 | 31,928 | 33,710 |
| Rent | 5,060 | 4,548 | 15,494 | 14,045 |
| Pre-opening costs | 269 | 133 | 934 | 138 |
| Provision for restaurant closings | - | 214 | 270 | 500 |
| Impairment of intangible assets | - | - | - | 1,244 |
| Loss on disposal of assets | 136 | 121 | 481 | 960 |
| Other operating (income) expense | (149) | (138) | (488) | (643) |
| Total costs and expenses, net | 190,429 | 178,137 | 583,025 | 557,924 |
| Other income (expenses) | | | | |
| Interest, dividend and other investment income | 235 | 2,353 | 1,295 | 7,333 |
| Interest on obligations under leases | (2,239) | (2,277) | (7,463) | (7,476) |
| Interest expense | (2,791) | (1,173) | (6,385) | (4,969) |
| Gain on sale of Biglari Capital Corp. | - | 1,597 | - | 1,597 |
| Debt extinguishment losses | - | - | (1,133) | - |
| Realized investment gains | 57 | - | 57 | 1 |
| Gain on contribution to investment partnerships | - | 162,869 | 29,524 | 162,869 |
| Other than temporary impairment of losses on investments | - | - | - | (570) |
| Total other income (expenses) | (4,738) | 163,369 | 15,895 | 158,785 |
| Earnings (losses) before income taxes | (1,938) | 169,834 | 33,012 | 177,184 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Income tax expense (benefit) on operating earnings | (1,050) | 62,259 | 10,636 | 61,837 |
| Income tax expense (benefit) on investment partnership losses | 4,823 | - | (4,950) | - |
| Total income tax expense | 3,773 | 62,259 | 5,686 | 61,837 |
| Investment partnership gains/losses | 15,305 | - | (7,044) | - |
| Net earnings | 9,594 | 107,575 | 20,282 | 115,347 |
| Total earnings attributable to redeemable noncontrolling interests | - | (871) | - | (1,901) |
| Net earnings attributable to Biglari Holdings Inc. | \$9,594 | \$106,704 | \$20,282 | \$113,446 |
| Earnings per share attributable to Biglari Holdings Inc. | | | | |
| Basic earnings per common share | \$6.12 | \$74.57 | \$12.82 | \$79.07 |
| Diluted earnings per common share | \$6.11 | \$74.40 | \$12.80 | \$78.90 |
| Weighted average shares and equivalents | | | | |
| Basic | 1,566,741 | 1,430,973 | 1,581,469 | 1,434,826 |
| Diluted | 1,569,807 | 1,434,194 | 1,584,863 | 1,437,814 |

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| (In thousands) | Twelve Weeks Ended | | Forty Weeks Ended | |
|--|--------------------|-----------------|-------------------|-----------------|
| | July 2, 2014 | July 3, 2013 | July 2, 2014 | July 3, 2013 |
| Net earnings attributable to Biglari Holdings Inc | \$9,594 | \$106,704 | \$20,282 | \$113,446 |
| Other comprehensive income: | | | | |
| Reclassification of investment appreciation in net earnings | (57) | - | (57) | (1) |
| Applicable income taxes | 19 | - | 19 | - |
| Reclassification of investment appreciation on contribution to investment partnerships | - | (162,869) | (29,524) | (162,869) |
| Applicable income taxes | - | 61,890 | 11,219 | 61,890 |
| Reclassification of other than temporary losses on investments | - | - | - | 461 |
| Applicable income taxes | - | - | - | (175) |
| Net change in unrealized gains and losses on investments | (109) | 69,567 | (4,704) | 140,622 |
| Applicable income taxes | 41 | (26,435) | 1,792 | (53,436) |
| Foreign currency translation | 158 | 14 | 36 | (82) |
| Other comprehensive income (loss), net | 52 | (57,833) | (21,219) | (13,590) |
| Total comprehensive income | \$9,646 | \$48,871 | \$(937) | \$99,856 |

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| (In thousands) | Forty Weeks Ended | |
|---|-------------------|-----------------|
| | July 2, 2014 | July 3, 2013 |
| Operating activities | | |
| Net earnings | \$20,282 | \$115,347 |
| Adjustments to reconcile net earnings to operating cash flows: | | |
| Depreciation and amortization | 19,072 | 19,454 |
| Provision for deferred income taxes | 1,022 | 59,816 |
| Asset impairments and provision for restaurant closing | 270 | 500 |
| Impairment of intangible assets | - | 1,244 |
| Stock-based compensation and other non-cash expenses | 446 | 396 |
| Loss on disposal of assets | 481 | 960 |
| Debt extinguishment losses | 1,133 | - |
| Gain on sale of Biglari Capital Corp. | - | (1,597) |
| Gain on contribution to investment partnerships | (29,524) | (162,869) |
| Realized investment gains/losses | (57) | (1) |
| Other than temporary impairment of investments | - | 570 |
| Investment partnership losses | 7,044 | - |
| Distributions from investment partnerships | 5,853 | - |
| Changes in receivables and inventories | (1,741) | (349) |
| Changes in other assets | (5,280) | (3,030) |
| Changes in accounts payable and accrued expenses | (140) | 7,104 |
| Investment operations of consolidated affiliated partnerships | | |
| Sales of investments and distributions from investment partnerships | - | 1,516 |
| Realized investment gains, net | - | (261) |
| Unrealized gains/losses on marketable securities held by consolidated affiliated partnerships | - | (3,336) |
| Changes in cash and cash equivalents held by consolidated affiliated partnerships | - | (578) |
| Net cash provided by operating activities | 18,861 | 34,886 |
| Investing activities | | |
| Additions of property and equipment | (26,358) | (10,421) |
| Proceeds from property and equipment disposals | 2,543 | 2,360 |
| Acquisitions of businesses, net of cash acquired | (40,143) | (3,770) |
| Proceeds from sale of Biglari Capital Corp., net of cash on hand | - | 1,699 |
| Purchases of investments and contributions to investment partnerships | (40,000) | (46,977) |
| Sales of investments | 11,736 | 1 |
| Changes in restricted assets | 3,100 | - |
| Net cash (used in) investing activities | (89,122) | (57,108) |
| Financing activities | | |
| Proceeds from revolving credit facility | 11,700 | 17,000 |
| Payments on revolving credit facility | (10,700) | (17,000) |
| Borrowings on long-term debt | 217,800 | - |
| Principal payments on long-term debt | (120,800) | (9,700) |
| Deferred financing charges | (4,754) | - |

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| | | |
|---|------------|-----------|
| Principal payments on direct financing lease obligations | (5,208) | (4,882) |
| Proceeds from exercise of stock options | 3 | 11 |
| Excess tax benefits from stock-based awards | - | 3 |
| Financing activities of consolidated affiliated partnerships: | | |
| Contributions from noncontrolling interests | - | 1,076 |
| Distributions to noncontrolling interests | - | (2,302) |
| Net cash provided by (used in) financing activities | 88,041 | (15,794) |
| Effect of exchange rate on cash | 110 | 15 |
| Increase (Decrease) in cash and cash equivalents | 17,890 | (38,001) |
| Cash and cash equivalents at beginning of period | 94,626 | 60,359 |
| Cash and cash equivalents at end of period | \$ 112,516 | \$ 22,358 |

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Forty Weeks ended July 2, 2014 and July 3, 2013)
(Unaudited)

| (In thousands) | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|-----------------|----------------------------------|----------------------|--|-------------------|------------|
| Balance at September 25, 2013 | \$ 899 | \$ 269,810 | \$ 348,339 | \$ 21,457 | \$ (75,916) | \$ 564,589 |
| Net earnings attributable to Biglari Holdings Inc. | | | 20,282 | | | 20,282 |
| Other comprehensive loss, net | | | | (21,219) | | (21,219) |
| Exercise of stock options and other stock compensation transactions | | | | | 5 | 5 |
| Adjustment to Treasury stock for holdings in investment partnerships | | | | | (10,190) | (10,190) |
| Balance at July 2, 2014 | \$ 899 | \$ 269,810 | \$ 368,621 | \$ 238 | \$ (86,101) | \$ 553,467 |
| Balance at September 26, 2012 | \$ 756 | \$ 143,035 | \$ 251,983 | \$ 43,897 | \$ (90,546) | \$ 349,125 |
| Net earnings attributable to Biglari Holdings Inc. | | | 113,446 | | | 113,446 |
| Other comprehensive loss, net | | | | (13,590) | | (13,590) |
| Deconsolidation of affiliated partnerships | | | | | 25,640 | 25,640 |
| Increase in fair value of Treasury stock at deconsolidation | | 12,224 | | | | 12,224 |
| Exercise of stock options and other stock compensation transactions | | | 3 | | 11 | 14 |
| Adjustment to redeemable noncontrolling interest to reflect maximum redemption value | | (4,810) | | | | (4,810) |
| Balance at July 3, 2013 | \$ 756 | \$ 150,452 | \$ 365,429 | \$ 30,307 | \$ (64,895) | \$ 482,049 |

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
July 2, 2014

(In thousands, except share and per share data)

Note 1. Summary of Significant Accounting Policies

Description of Business

The accompanying unaudited consolidated financial statements of Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 years. 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 fiscal year ended September 25, 2013.

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, as well as restaurants. The Company’s largest operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings and its major operating subsidiaries. The Company’s long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. In addition to consolidating wholly-owned entities we consolidate entities if we have a controlling interest in the general partner. Prior to July 2013, the consolidated financial statements included the accounts of the Company, its wholly-owned subsidiaries (including Biglari Capital Corp. (“Biglari Capital”)), and investment related limited partnerships The Lion Fund, L.P. and Western Acquisitions, L.P. (collectively the “consolidated affiliated partnerships”), in which we had a controlling interest. As a result of the sale of Biglari Capital and the related liquidation of Western Acquisitions, L.P. during July 2013, the Company ceased to have a controlling interest in the consolidated affiliated partnerships. Accordingly, Biglari Capital and the consolidated affiliated partnerships are no longer consolidated in the Company’s financial statements.

Business Acquisitions

On February 27, 2014 the Company acquired certain assets and liabilities of Maxim. Maxim is a brand management company whose business lies in media, publishing, licensing and products. On March 19, 2014, the Company acquired the stock of First Guard Insurance Company and its affiliate, 1st Guard Corporation (collectively “First Guard”). First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. The financial results for Maxim and First Guard from the acquisition dates to the end of the fiscal quarter are included in the Company’s consolidated financial statements. These acquisitions were not material, individually, or in aggregate, to the Company. The purchase price of the two acquisitions was allocated based on the Company’s preliminary purchase price allocation. The fair value of the assets and liabilities acquired — other than investments, goodwill and intangibles — was not material.

Note 2. New Accounting Standards

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual periods beginning after December 15, 2016 and interim periods therein, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early adoption is not permitted. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

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In April 2014, the FASB issued ASU 2014-08 Reporting of Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 provides a narrower definition of discontinued operations than under existing generally accepted accounting principles (“GAAP”). ASU 2014-08 requires that only disposals of components of an entity (or groups of components) that represent a strategic shift that has or will have a major effect on the reporting entity’s operations are reported in the financial statements as discontinued operations. ASU 2014-08 also provides guidance on the financial statement presentations and disclosures of discontinued operations. ASU 2014-08 is effective prospectively for disposals (or classifications of held-for-sale) of components of an entity that occur in annual or interim periods beginning after December 15, 2014. We do not believe the adoption of ASU 2014-08 will have a material effect on the Company’s consolidated financial statements.

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

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

Note 3. Earnings Per Share

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. In fiscal year 2013, Biglari Holdings completed an offering of transferable subscription rights. The offering was oversubscribed and 286,767 new shares of common stock were issued. Earnings per share for the twelve and forty weeks ended July 3, 2013 have been retroactively restated to account for the 2013 rights offering.

For forty weeks which ended July 2, 2014, the shares of Company stock attributable to our limited partner interest in The Lion Fund, L.P. — 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.

Prior to the sale of Biglari Capital on July 1, 2013, all common shares of the Company held by the consolidated affiliated partnerships were recorded in treasury stock on the consolidated balance sheet. In order to compute the weighted average common shares outstanding, only the shares of treasury stock attributable to the unrelated limited partners of the consolidated affiliated partnerships — based on their proportional ownership during the period — were considered outstanding shares.

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

| Twelve Weeks Ended | | Forty Weeks Ended | |
|--------------------|-----------------|-------------------|-----------------|
| July 2, 2014 | July 3, 2013 | July 2, 2014 | July 3, 2013 |

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Basic earnings per share:

| | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| Weighted average common shares | 1,566,741 | 1,430,973 | 1,581,469 | 1,434,826 |
|--------------------------------|-----------|-----------|-----------|-----------|

Diluted earnings per share:

| | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| Weighted average common shares | 1,566,741 | 1,430,973 | 1,581,469 | 1,434,826 |
|--------------------------------|-----------|-----------|-----------|-----------|

| | | | | |
|---------------------------------|-------|-------|-------|-------|
| Dilutive effect of stock awards | 3,066 | 3,221 | 3,394 | 2,988 |
|---------------------------------|-------|-------|-------|-------|

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Weighted average common and incremental shares | 1,569,807 | 1,434,194 | 1,584,863 | 1,437,814 |
|--|-----------|-----------|-----------|-----------|

Number of share-based awards excluded from the calculation of earnings per share as the awards' exercise prices were greater than the average market price of the Company's common stock

| | | | |
|---|-----|---|-----|
| - | 759 | - | 759 |
|---|-----|---|-----|

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Note 4. Investments

Investments consisted of the following:

| | July 2, 2014 | September 25, 2013 |
|-------------------------|-----------------|--------------------------|
| Cost | \$9,161 | \$50,884 |
| Gross unrealized gains | 331 | 34,595 |
| Gross unrealized losses | (21) | - |
| Fair value | \$9,471 | \$85,479 |

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

During the second quarter of fiscal year 2014, the Company contributed \$74,418 of securities to the investment partnerships in exchange for limited partner interests. The Company recognized a pre-tax gain of \$29,524 (\$18,305 net of tax) on the contribution of securities. The gain had a material accounting effect on the Company's fiscal 2014 earnings. However, this gain had no impact on total shareholders' equity because the investments were carried at fair value prior to the contribution, with the unrealized gains included as a component of accumulated other comprehensive income.

In connection with the acquisition of First Guard we acquired \$15,043 of investments. During the third quarter of fiscal year 2014, the Company realized investment gains of \$57 on the sale of a portion of these investments.

Note 5. Investment Partnerships

The Company reports on the limited partnership interests in The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively the "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 shares of its common stock held by the investment partnerships are recorded as treasury stock. 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.

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

| Fair Value | Fair Value of Company Common | Carrying Value |
|------------|---------------------------------------|-------------------|
|------------|---------------------------------------|-------------------|

| | | Stock | |
|--|-----------|----------|-----------|
| Partnership interest at September 25, 2013 | \$455,297 | \$57,598 | \$397,699 |
| Investment partnership losses | (9,793) | (2,749) | (7,044) |
| Contributions of cash and securities (net of distributions) to investment partnerships | 108,566 | - | 108,566 |
| Increase in proportionate share of Company stock held | - | 10,190 | (10,190) |
| Partnership interest at July 2, 2014 | \$554,070 | \$65,039 | \$489,031 |

The Company's proportionate share of Company stock held by investment partnerships at cost is \$64,803 and \$54,613 at July 2, 2014 and September 25, 2013, respectively, and is recorded as treasury stock.

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

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For purposes of distinguishing investment partnership gains and losses, we use the investment partnerships' results for a similar period. For the Company's period ending July 2, 2014, the investment partnerships' value was utilized as of the period ending June 30, 2014. Therefore, we recorded \$7,044 of losses from investment partnerships during fiscal year 2014. On December 31 of each year, the general partner of the investment partnerships, Biglari Capital, will earn an incentive reallocation fee for the Company's investments equal to 25% of the net profits above an annual hurdle rate of 6%. Our policy is to accrue an estimated incentive fee throughout the fiscal year. Our investment in these partnerships is committed on a rolling 5-year basis.

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 |
| Current and total assets as of June 30, 2014 | \$170,369 | \$471,755 |
| Current and total liabilities as of June 30, 2014 | \$59 | \$22 |
| Revenue for the nine month period ended June 30, 2014 | \$2,701 | \$(2,057) |
| Earnings for the nine month period ended June 30, 2014 | \$2,638 | \$(2,090) |
| Biglari Holdings' ownership interest | 61.53 | % 95.24 % |

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

Note 6. Consolidated Affiliated Partnerships

Collectively, The Lion Fund, L.P. and Western Acquisitions, L.P. were referred to as consolidated affiliated partnerships of the Company. Certain of the consolidated affiliated partnerships held the Company's common stock as investments. Within our consolidated financial statements, we classified this common stock as treasury stock though the shares were legally outstanding.

Net earnings for the twelve and forty weeks ended July 3, 2013 of the Company included the realized and unrealized appreciation and depreciation of the investments held by consolidated affiliated partnerships, other than realized and unrealized appreciation and depreciation of investments the consolidated affiliated partnerships held in the Company's common stock which have been eliminated in consolidation.

Realized investment gains/losses arise when investments are sold (as determined on a specific identification basis). The total revenue from consolidated affiliated partnerships, other than holdings of the Company's common stock, were as follows:

| | Twelve Weeks Ended July 3, 2013 | Forty Weeks Ended July 3, 2013 |
|---|---------------------------------|--------------------------------|
| Net unrealized gains | \$1,555 | \$3,336 |
| Net realized gains from sale | 105 | 261 |
| Other income | 75 | 306 |
| Total revenue from consolidated affiliated partnerships | \$1,735 | \$3,903 |

The limited partners of each of the investment funds have the ability to redeem their capital upon certain occurrences; therefore, the ownership of the investment funds held by the limited partners is presented as redeemable noncontrolling interests of consolidated affiliated partnerships and measured at the greater of carrying value or fair value on the accompanying consolidated balance sheet. The affiliated partnerships were no longer consolidated as of September 25, 2013.

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

| | Forty Weeks Ended July 3, 2013 |
|--|--|
| Carrying value at beginning of period | \$52,088 |
| Contributions from noncontrolling interests | 1,076 |
| Distributions to noncontrolling interests | (2,302) |
| Incentive fee | (21) |
| Income allocation | 1,922 |
| Adjustment to redeemable noncontrolling interest to reflect maximum redemption value | 4,810 |
| Adjustment to reflect deconsolidation of affiliated partnerships | (57,573) |
| Carrying value at end of period | \$- |

The consolidated affiliated partnerships held shares of the Company's common stock. Any unrealized gain or loss on the common stock of the Company was eliminated in our financial statements. The unrealized gain that was attributable to the noncontrolling interests increased the redemption value of outside capital.

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

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

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

Note 7. Other Current Assets

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

Note 8. Property and Equipment

Property and equipment is composed of the following:

| | July 2, 2014 | September 25, 2013 |
|---------------------------------|-----------------|--------------------------|
| Land | \$162,895 | \$162,488 |
| Buildings | 160,075 | 152,891 |
| Land and leasehold improvements | 158,045 | 155,962 |
| Equipment | 213,494 | 209,913 |
| Construction in progress | 13,053 | 5,538 |
| | 707,562 | 686,792 |

| | | |
|--|------------|------------|
| Less accumulated depreciation and amortization | (354,645) | (340,645) |
| Property and equipment, net | \$352,917 | \$346,147 |

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Note 9. Goodwill and Other Intangibles

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired in connection with business acquisitions. Based on the Company's preliminary purchase price allocations for the First Guard and Maxim acquisitions, the Company recorded \$27,358 to goodwill and other intangibles.

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

The valuation methodology and underlying financial information included in our determination of fair value require significant management judgments. We use both market and income approaches to derive fair value. The judgments in these two approaches include, but are not limited to, comparable market multiples, long-term projections of future financial performance, and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results. No impairment charges for goodwill were recorded during the year-to-date periods in fiscal 2014 or 2013.

Other Intangibles

Other intangibles are composed of the following:

| | July 2, 2014 | | | September 25, 2013 | | |
|------------------------------------|-----------------------|--------------------------|----------|-----------------------|--------------------------|---------|
| | Gross carrying amount | Accumulated amortization | Total | Gross carrying amount | Accumulated amortization | Total |
| Amortizing intangibles: | | | | | | |
| Right to operate | \$1,480 | \$ (1,444) | \$36 | \$1,480 | \$ (1,353) | \$127 |
| Franchise agreement | 5,310 | (2,257) | 3,053 | 5,310 | (1,859) | 3,451 |
| Other | 810 | (605) | 205 | 810 | (574) | 236 |
| Total | 7,600 | (4,306) | 3,294 | 7,600 | (3,786) | 3,814 |
| Intangibles with indefinite lives: | | | | | | |
| Trade names | 15,471 | - | 15,471 | - | - | - |
| Other assets with indefinite lives | 3,935 | - | 3,935 | 3,907 | - | 3,907 |
| Total intangible assets | \$27,006 | \$ (4,306) | \$22,700 | \$11,507 | \$ (3,786) | \$7,721 |

Intangible assets subject to amortization consist of franchise agreements acquired in connection with the purchase of Western Sizzlin Corporation ("Western") as well as rights to favorable leases related to prior acquisitions. These intangible assets are being amortized over their estimated weighted average of useful lives ranging from eight to twelve years.

Amortization expense for the twelve weeks which ended July 2, 2014 and July 3, 2013 was \$169. Amortization expense for the forty weeks ending July 2, 2014 and July 3, 2013 was \$520. Total annual amortization expense for each of the next five years will approximate \$574.

Intangible assets with indefinite lives consist of trade names, franchise rights as well as lease rights. During the second fiscal quarter of 2013, the Company recorded an impairment loss for an intangible asset of \$1,244. This number represents the trade name of Western's company-operated stores, which we decided not to use any longer. The calculation of fair value for the trade name was determined primarily by using a discounted cash flow analysis.

Note 10. Other Assets

Other assets primarily include capitalized software, non-qualified plan investments, the non-current portion of capitalized loan acquisition costs, restricted cash and bonds of \$2,625, and the non-current portion of prepaid rent.

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Note 11. Borrowings

On March 19, 2014, Steak n Shake Operations, Inc. (“Steak n Shake”) and its subsidiaries entered into a new credit agreement. This credit agreement provides for a senior secured term loan facility in an aggregate principal amount of \$220.0 million (the “Term Loan”) and a senior secured revolving credit facility in an aggregate principal amount of up to \$30.0 million (the “Revolver”).

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

Steak n Shake has the right to request an incremental term loan facility from participating lenders and/or eligible assignees any time, up to an aggregate total principal amount not to exceed \$70.0 million if certain customary conditions within the credit agreement are met.

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

The credit agreement includes customary affirmative and negative covenants and events of default, as well as a financial maintenance covenant, solely with respect to the Revolver, relating to the maximum total leverage ratio.

Both the Term Loan and the Revolver have been secured by first priority security interests in substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the credit facility. Approximately \$118,589 of the proceeds of the Term Loan were used to repay all outstanding amounts under Steak n Shake’s former credit facility and to pay related fees and expenses, \$50,000 of such proceeds were used to pay a cash dividend to Biglari Holdings, and the remaining Term Loan proceeds of approximately \$51,411 will be used by Steak n Shake for working capital and general corporate purposes. As of July 2, 2014, \$219,450 is outstanding under the Term Loan, and no amount is outstanding under the Revolver.

During the third quarter of fiscal year 2014, Western Sizzlin Corporation drew \$1,000 on its revolving credit facility.

Interest Rate Swaps

During fiscal year 2013, Steak n Shake entered into a new interest rate swap for a notional amount of \$65,000 through September 30, 2015. The agreement hedges potential changes in the Eurodollar rate. The fair value of the interest rate swap was a liability of \$222 and \$214 on July 2, 2014 and September 25, 2013, respectively, and is included in accrued expenses on the consolidated balance sheet.

During fiscal year 2011, Steak n Shake entered into an interest rate swap agreement for a notional amount of \$20,000, which effectively fixed the interest rate on a prior credit facility at 3.25% through February 15, 2016. The notional amount decreases \$1,000 quarterly through its maturity on February 15, 2016. The notional amount of the interest rate swap was \$7,000 on July 2, 2014. The fair value of the interest rate swap was a liability of \$86 and \$187 on July 2, 2014 and September 25, 2013, respectively, and is included in accrued expenses on the consolidated balance sheet.

The carrying amounts for debt reported in the consolidated balance sheet did not differ materially from their fair values at July 2, 2014 and September 25, 2013. The fair value was determined to be a Level 3 fair value measurement.

Note 12. Other Long-term Liabilities

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

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Note 13. Accumulated Other Comprehensive Income

During the twelve weeks and forty weeks ended July 2, 2014, the changes in the balances of each component of accumulated other comprehensive income, net of tax, were as follows:

| | Twelve Weeks Ended July 2, 2014 | | |
|--|---|--------------------|---|
| | Foreign Currency Translation Adjustments | Investment Gain | Accumulated Other Comprehensive Income |
| Balance as of April 9, 2014 | \$(114) | \$300 | \$ 186 |
| Other comprehensive loss before reclassifications | 158 | (68) | 90 |
| Reclassification to (earnings) loss | - | (38) | (38) |
| Net current period other comprehensive income (loss) | 158 | (106) | 52 |
| Balance as of July 2, 2014 | \$44 | \$194 | \$ 238 |

| | Forty Weeks Ended July 2, 2014 | | |
|--|---|--------------------|---|
| | Foreign Currency Translation Adjustments | Investment Gain | Accumulated Other Comprehensive Income |
| Balance as of September 25, 2013 | \$8 | \$21,449 | \$ 21,457 |
| Other comprehensive loss before reclassifications | 36 | (2,912) | (2,876) |
| Reclassification to (earnings) loss | - | (18,343) | (18,343) |
| Net current period other comprehensive income (loss) | 36 | (21,255) | (21,219) |
| Balance as of July 2, 2014 | \$44 | \$194 | \$ 238 |

The following reclassifications were made from accumulated other comprehensive income to the consolidated statement of earnings:

| Reclassifications from Accumulated Other Comprehensive Income | Twelve Weeks Ended July | Forty Weeks Ended July | Affected Line Item in the Consolidated Statement of Earnings |
|---|-------------------------------|------------------------------|---|
| | 2, 2014 | 2, 2014 | |
| Investment Gain | \$- | \$29,524 | Gain on contribution to investment partnership |
| | 57 | 57 | Realized investment gains |
| | 19 | 11,238 | Income tax expense on operating earnings |
| | \$38 | \$18,343 | Net of Tax |

Note 14. Income Taxes

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

Income tax expense for the twelve weeks ending July 2, 2014 was \$3,773 compared to \$62,259 in the same period in the prior year. The change in tax expense is primarily attributable to gain on contribution to investment partnerships in the prior year.

As of July 2, 2014 and September 25, 2013, we had approximately \$465 and \$803, respectively, of unrecognized tax benefits, which are included in other long-term liabilities in the consolidated balance sheet.

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Note 15. Commitments and Contingencies

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

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

Note 16. Fair Value of Financial Assets and Liabilities

The fair values of substantially all of our financial instruments were measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the fair values presented are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of alternative market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

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

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

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

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

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

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

Interest rate swaps: Interest rate swaps are marked to market each reporting period and are classified within Level 2 of the fair value hierarchy. Interest rate swaps at July 2, 2014 and September 25, 2013 represent the fair market value for Steak n Shake's two interest rate swaps.

As of July 2, 2014 and September 25, 2013, the fair values of financial assets and liabilities were as follows:

| | July 2, 2014 | | | | September 25, 2013 | | | |
|---|------------------|-----------------|-------------|------------------|--------------------|---------------|-------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Cash equivalents | \$ 12,314 | \$ - | \$ - | \$ 12,314 | \$ - | \$ - | \$ - | \$ - |
| Equity securities: | | | | | | | | |
| Restaurant/Retail | - | - | - | - | 79,357 | - | - | 79,357 |
| Insurance | 6,319 | - | - | 6,319 | 6,122 | - | - | 6,122 |
| Bonds | - | 5,752 | - | 5,752 | - | - | - | - |
| Non-qualified deferred compensation plan investments | | | | | | | | |
| | 1,601 | - | - | 1,601 | 1,169 | - | - | 1,169 |
| Total assets at fair value | \$ 20,234 | \$ 5,752 | \$ - | \$ 25,986 | \$ 86,648 | \$ - | \$ - | \$ 86,648 |
| Liabilities | | | | | | | | |
| Interest rate swaps | 308 | - | - | 308 | - | 401 | - | 401 |
| Total liabilities at fair value | \$ 308 | \$ - | \$ - | \$ 308 | \$ - | \$ 401 | \$ - | \$ 401 |

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

Note 17. Related Party Transactions

On July 1, 2013, Biglari Holdings entered into the following agreements with Mr. Biglari, its Chairman and Chief Executive Officer: (i) a Stock Purchase Agreement for the sale of Biglari Capital; (ii) a Shared Services Agreement with Biglari Capital, and (iii) a First Amendment to the Amended and Restated Incentive Bonus Agreement, dated

September 28, 2010, with Mr. Biglari. The transactions contemplated thereby were unanimously approved by the independent Governance, Compensation and Nominating Committee of the Board of Directors of the Company (the "Committee"), which retained separate counsel, tax/accounting advisors, an independent compensation consultant, and a financial advisor to assist the Committee in the structuring, evaluation, and negotiation of such transactions.

Shared Services Agreement

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

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During fiscal year 2014, the Company provided services for Biglari Capital under the Shared Services Agreement, costing an aggregate of \$1,554.

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

During fiscal year 2014, the Company contributed cash and securities it owned with an aggregate value of \$108,566 in exchange for limited partner interests in The Lion Fund, L.P. and The Lion Fund II, L.P. As of July 2, 2014, the Company's investments in The Lion Fund, L.P. and The Lion Fund II, L.P. had a fair value of \$554,070.

As the general partner of the investment partnerships, Biglari Capital on December 31 of each year will earn an incentive reallocation fee for the Company's investments equal to 25% of the net profits above an annual hurdle rate of 6%. Our policy is to accrue an estimated incentive fee throughout the fiscal year. The total incentive reallocation from Biglari Holdings to Biglari Capital for calendar year 2013 was \$14,702, including \$3,655 associated with gains on the Company's common stock, which is eliminated in our financial statements.

License Agreement

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

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

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

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

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

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

Note 18. Business Segment Reporting

Net revenue, earnings (losses) before income taxes and noncontrolling interests, and net earnings attributable to Biglari Holdings Inc. for the twelve and forty weeks ended July 2, 2014 and July 3, 2013 were as follows:

| | Net Revenue | | | |
|-----------------------------|---|-----------------|-------------------|-----------------|
| | Twelve Weeks Ended | | Forty Weeks Ended | |
| | July 2, 2014 | July 3, 2013 | July 2, 2014 | July 3, 2013 |
| Operating Business: | | | | |
| Restaurant Operations: | | | | |
| Steak n Shake | \$182,613 | \$178,982 | \$581,701 | \$561,204 |
| Western | 3,340 | 3,885 | 9,176 | 11,216 |
| Total Restaurant Operations | \$185,953 | \$182,867 | \$590,877 | \$572,420 |
| Corporate and Other | 7,276 | 1,735 | 9,265 | 3,903 |
| | \$193,229 | \$184,602 | \$600,142 | \$576,323 |
| | | | | |
| | Earnings (losses) before income taxes and noncontrolling interests | | | |
| | Twelve Weeks Ended | | Forty Weeks Ended | |
| | July 2, 2014 | July 3, 2013 | July 2, 2014 | July 3, 2013 |
| Operating Business: | | | | |
| Restaurant Operations: | | | | |
| Steak n Shake | \$9,389 | \$6,932 | \$26,221 | \$23,787 |
| Western | 635 | 707 | 1,482 | 133 |

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| | | | | |
|---|------------|-----------|-----------|-----------|
| Total Restaurant Operations | 10,024 | 7,639 | 27,703 | 23,920 |
| Corporate and Other: | | | | |
| Corporate and other | (9,171) | 499 | (16,697) | (4,067) |
| Gain on contribution to investment partnerships | - | 162,869 | 29,524 | 162,869 |
| Investment partnership gains (losses) | 15,305 | - | (7,044) | - |
| Investment losses | - | - | - | (569) |
| Total Corporate and Other | 6,134 | 163,368 | 5,783 | 158,233 |
| Reconciliation of segments to consolidated amount: | | | | |
| Eliminations for gains (losses) from investment partnerships | (15,305) | - | 7,044 | - |
| Interest expense excluding interest allocated to operating businesses | (2,791) | (1,173) | (7,518) | (4,969) |
| | \$(1,938) | \$169,834 | \$33,012 | \$177,184 |

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| | Net earnings attributable to Biglari Holdings Inc. | | | |
|---|--|-----------------|-------------------|-----------------|
| | Twelve Weeks Ended | | Forty Weeks Ended | |
| | July 2, 2014 | July 3, 2013 | July 2, 2014 | July 3, 2013 |
| Operating Business: | | | | |
| Restaurant Operations: | | | | |
| Steak n Shake | \$6,657 | \$5,356 | \$17,620 | \$17,953 |
| Western | 403 | 459 | 929 | 86 |
| Total Restaurant Operations | 7,060 | 5,815 | 18,549 | 18,039 |
| Corporate and Other: | | | | |
| Corporate and other | (6,218) | 637 | (9,817) | (2,138) |
| Gain on contribution to investment partnerships | - | 100,979 | 18,305 | 100,979 |
| Investment partnership gains (losses) | 10,482 | - | (2,094) | - |
| Investment losses | - | - | - | (353) |
| Total Corporate and Other | 4,264 | 101,616 | 6,394 | 98,488 |
| Reconciliation of segments to consolidated amount: | | | | |
| Interest expense excluding interest allocated to operating businesses | (1,730) | (727) | (4,661) | (3,081) |
| | \$9,594 | \$106,704 | \$20,282 | \$113,446 |

As a result of the sale of Biglari Capital and related deconsolidation of the consolidated affiliated partnerships during July 2013, the Company no longer has an investment management segment. The segment related financial information for the twelve and forty weeks ended July 3, 2013 has been restated to eliminate this segment. Amounts previously reported are now included as a component of corporate and other.

The results of operations of First Guard and Maxim are included in corporate and other.

Note 19. Subsequent Events

On July 21, 2014 Biglari Holdings announced the terms of a new offering of transferable subscription rights (the "Rights Offering"). Pursuant to the Rights Offering, the Company will distribute one transferable subscription right for each share of its common stock to shareholders of record at the close of business on August 19, 2014.

Every five (5) subscription rights will entitle a shareholder to subscribe for one share of common stock at a price of \$250.00 in cash per share. The subscription rights (excluding oversubscription privileges) will be transferable and are expected to be admitted for trading on the New York Stock Exchange (NYSE: BH RT) during the course of the Rights Offering. The subscription period will commence on August 19, 2014 and terminate on September 12, 2014, unless the Rights Offering is extended.

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ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands, except share and per share data)

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, as well as restaurants. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. The Company is led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings and its major operating subsidiaries. The Company's long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Sardar Biglari, Chairman and Chief Executive Officer.

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

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

Biglari Holdings recognized non-cash pre-tax gains of \$29,524 (\$18,305 net of tax) in the year-to-date period of fiscal 2014 and \$162,869 (\$100,979 net of tax) in the same period fiscal 2013, on the contribution of securities to investment partnerships. Biglari Holdings' management does not regard the gains that were recorded, as required by GAAP, as meaningful. The gains recognized for financial reporting purposes are deferred for income tax purposes. This transaction essentially had no effect on our consolidated shareholders' equity because the gains included in earnings were accompanied by a corresponding reduction of unrealized investment gains included in accumulated other comprehensive income.

On February 27, 2014 the Company acquired certain assets and liabilities of Maxim. Maxim is a brand management company whose business lies in media, publishing, licensing and products. On March 19, 2014, the Company acquired the stock of First Guard Insurance Company and its affiliate, 1st Guard Corporation (collectively "First Guard"). First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. The financial results for Maxim and First Guard from the acquisition dates to the end of the fiscal quarter are included in the Company's consolidated financial statements. These acquisitions were not material, individually, or in aggregate, to the Company. The purchase price of the two acquisitions was allocated based on the Company's preliminary purchase price allocation. The fair value of the assets and liabilities acquired — other than investments, goodwill and intangibles — was not material.

Twelve Weeks Ended July 2, 2014

We recorded net earnings attributable to Biglari Holdings Inc. of \$9,594 for the third quarter of fiscal year 2014, as compared with net earnings attributable to Biglari Holdings Inc. of \$106,704 in the same period of fiscal year 2013.

Forty Weeks Ended July 2, 2014

We recorded net earnings attributable to Biglari Holdings Inc. of \$20,282 for the current year-to-date period, as compared with net earnings attributable to Biglari Holdings Inc. of \$113,446 in the same period of fiscal year 2013.

In fiscal year 2013 the Company completed a rights offering in which 286,767 new shares of common stock were issued. The earnings per share have been retroactively restated for the twelve and forty weeks ended July 3, 2013 to give effect to the rights offering.

On July 21, 2014 the Company announced the terms of a new rights offering. The Company will distribute one transferable subscription right for each share of its common stock to shareholders of record at the close of business on August 19, 2014.

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As of July 2, 2014, the total number of company-operated and franchised restaurants for Steak n Shake Operations, Inc. (“Steak n Shake”) and Western Sizzlin Corporation (“Western”) was 612 as follows:

| | Company-operated | Franchised | Total |
|---------------|------------------|------------|-------|
| Steak n Shake | 417 | 118 | 535 |
| Western | 4 | 73 | 77 |
| Total | 421 | 191 | 612 |

In the third quarter of 2014, Steak n Shake opened two restaurants and three franchise units. Western purchased one restaurant previously owned and operated by a franchisee but closed six franchise units.

Critical Accounting Policies

Management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized in our financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in our financial statements will likely increase or decrease in the future as additional information becomes available. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the year ended September 25, 2013.

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Results of Operations

The following table sets forth the percentage relationship to total net revenues, unless otherwise noted, of items included in the consolidated statements of earnings for the twelve and forty weeks ended July 2, 2014 and July 3, 2013:

| | Twelve Weeks Ended | | Forty Weeks Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | July 2, 2014 | July 3, 2013 | July 2, 2014 | July 3, 2013 |
| Net revenues | | | | |
| Restaurant Operations: | | | | |
| Net sales | 94.0 | % 97.0 | % 96.2 | % 97.4 |
| Franchise royalties and fees | 1.9 | 1.7 | 1.9 | 1.5 |
| Other revenue | 0.3 | 0.4 | 0.4 | 0.4 |
| Total | 96.2 | 99.1 | 98.5 | 99.3 |
| Other revenue | 3.8 | - | 1.5 | - |
| Revenue from consolidated affiliated partnerships | - | 0.9 | - | 0.7 |
| Total net revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| Costs and expenses | | | | |
| Cost of sales(1) | 29.8 | 29.6 | 29.5 | 29.5 |
| Restaurant operating costs(1) | 46.5 | 47.0 | 47.3 | 47.5 |
| General and administrative | 15.1 | 10.1 | 12.0 | 9.7 |
| Depreciation and amortization | 3.1 | 3.1 | 3.2 | 3.4 |
| Marketing | 5.8 | 6.3 | 5.3 | 5.8 |
| Rent | 2.6 | 2.5 | 2.6 | 2.4 |
| Pre-opening costs | 0.1 | 0.1 | 0.2 | 0.0 |
| Provision for restaurant closings | - | 0.1 | 0.0 | 0.1 |
| Impairment of intangible assets | - | - | - | 0.2 |
| Loss on disposal of assets | 0.1 | 0.1 | 0.1 | 0.2 |
| Other operating (income) expense | (0.1) | (0.1) | (0.1) | (0.1) |
| Other income (expenses) | | | | |
| Interest, dividend and other investment income | 0.1 | 1.3 | 0.2 | 1.3 |
| Interest on obligations under leases | (1.2) | (1.2) | (1.2) | (1.3) |
| Interest expense | (1.4) | (0.6) | (1.1) | (0.9) |
| Gain on sale of Biglari Capital Corp. | - | 0.9 | - | 0.3 |
| Debt extinguishment losses | - | - | (0.2) | - |
| Realized investment gains/losses | 0.0 | - | 0.0 | 0.0 |
| Gain on contribution to investment partnerships | - | 88.2 | 4.9 | 28.3 |
| Other-than-temporary impairment losses on investments | - | - | - | (0.1) |
| Total other income (expenses) | (2.5) | 88.5 | 2.6 | 27.6 |
| Earnings (losses) before income taxes | (1.0) | 92.0 | 5.5 | 30.7 |

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| | | | | |
|--|--------|--------|--------|----------|
| Income tax expense (benefit) on operating earnings | (0.5) | 33.7 | 1.8 | 10.7 |
| Income tax expense (benefit) on investment partnership losses | 2.5 | - | (0.8) | - |
| Total income tax expense (benefit) | 2.0 | 33.7 | 1.0 | 10.7 |
| Investment partnership gains/losses | 7.9 | - | (1.2) | - |
| Net earnings | 5.0 | 58.3 | 3.4 | 20.0 |
| Total earnings attributable to redeemable noncontrolling interests | - | (0.5) | - | (0.3) |
| Net earnings attributable to Biglari Holdings Inc. | 5.0 | % 57.8 | % 3.4 | % 19.7 % |

(1) Cost of sales and restaurant operating costs are expressed as a percentage of net sales

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Comparison of Twelve Weeks Ended July 2, 2014 to Twelve Weeks Ended July 3, 2013

Net Earnings / Losses Attributable to Biglari Holdings Inc.

For the current quarter we recorded net earnings attributable to Biglari Holdings Inc. of \$9,594 or \$6.11 per diluted share, as compared with net earnings attributable to Biglari Holdings Inc. of \$106,704, or \$74.40 per diluted share, for the third quarter of 2013. The third quarter of 2014 reflected net losses of \$4,547 attributable to Maxim, which included certain expenses deemed necessary to begin transforming the brand. The same period of 2013 included a net gain on contribution to investment partnerships of \$100,979.

Net Revenues

In the third quarter of 2014, net sales increased 1.4% from \$179,105 to \$181,557 primarily because of the increased performance of our restaurant operations, largely driven by Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 1.0% during the third quarter of 2014, whereas customer traffic increased by 0.5%.

Franchise royalties and fees increased 20.2% during the third quarter of 2014. The franchised units numbered 191 on July 2, 2014, compared to 187 on July 3, 2013. The increase is primarily attributable to royalties by new franchised Steak n Shake stores which opened in 2013 and 2014.

Other revenue of \$7,276 was recorded in the current quarter, primarily related to revenues of \$4,703 from Maxim.

Costs and Expenses

Cost of sales was \$54,186 or 29.8% of net sales, compared with \$53,041 or 29.6% of net sales in the third quarter of 2013. The increase in costs primarily was attributable to higher sales.

Restaurant operating costs were \$84,465 or 46.5% of net sales compared to \$84,137 or 47.0% of net sales in the third quarter of 2013. The increased costs were mainly caused by higher sales.

General and administrative expenses increased from \$18,609 or 10.1% of total net revenues in the third quarter of 2013 to \$29,272 or 15.1% of total net revenues. The higher expenses were primarily related to the operating expenses of Maxim.

Depreciation and amortization expense remained consistent at 3.1% as a percentage of total net revenues compared to the prior year quarter's percentage.

Marketing expense was \$11,250 or 5.8% of total net revenues versus \$11,711 or 6.3% of total net revenues in the third quarter of 2013.

Rent expense was \$5,060 or 2.6% of total net revenues versus \$4,548 or 2.5% of total net revenues in the third quarter of 2013.

Other Income (Expenses)

We recorded interest, dividend and other investment income of \$235 versus \$2,353 recorded in the third quarter of 2013. The decrease resulted from the contribution of securities on July 1, 2013 to the investment partnerships. The dividends for 2014 from the contributed securities are reflected in investment partnership results.

Interest expense increased from \$1,173 for the third quarter of 2013 to \$2,791 for the current quarter. The increase in expense stem from higher debt balances and higher interest rates. The outstanding borrowing increased on July 3, 2014 to \$220,450 as compared to \$122,688 on July 3, 2013. The interest rate on Steak n Shake's credit facility was 4.75%, an increase from 3.95% on July 3, 2013.

Income tax expense decreased from \$62,259 for the third quarter of 2013 to \$3,773 for the current quarter. The change in tax expense is primarily attributable to gain on contribution to investment partnerships in the prior year.

Investment Partnerships

We recorded \$15,305 of investment partnership gains in the third quarter of 2014. Our interest in the investment partnerships is accounted for as equity method investments. The carrying value of investment partnerships is inclusive of unrealized gains and losses on their securities. Our proportional ownership interest in the investment partnerships is net of an incentive fee payable to Biglari Capital, the general partner.

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Consolidated Affiliated Partnerships Investment Gains

Prior to the July 1, 2013 sale of Biglari Capital, we accounted for investment gains and losses on securities held by our consolidated affiliated partnerships. As we have ceased to hold a controlling interest in the consolidated affiliated partnerships, they are no longer consolidated in the Company's financial statements. In the third quarter of 2013, we recorded a net realized gain of \$105 related to dispositions of investments held by the consolidated affiliated partnerships, an unrealized net investment gain of \$1,555, as well as other income of \$75 for a total of \$1,735. These totals were offset by \$871 linked to gains attributable to redeemable noncontrolling interests.

Comparison of Forty Weeks Ended July 2, 2014 to Forty Weeks Ended July 3, 2013

Net Earnings Attributable to Biglari Holdings Inc.

For the current year-to-date period, we recorded net earnings attributable to Biglari Holdings Inc. of \$20,282, or \$12.80 per diluted share, as compared with net earnings attributable to Biglari Holdings Inc. of \$113,446, or \$78.90 per diluted share, for the same period of 2013. The year-to-date period of 2014 included a net gain on contributions to investment partnerships of \$18,305 and net losses of \$5,604 attributable to Maxim. The losses from Maxim were primarily driven by certain expenses incurred to begin transforming the brand after acquisition. The year-to-date period of 2013 included a net gain on contributions to investment partnerships of \$100,979.

Net Revenues

In the current year-to-date period, net sales increased 2.8% from \$561,581 to \$577,061 primarily because of the increased performance of our restaurant operations, largely driven by Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 2.6% during the current year-to-date period, whereas customer traffic increased by 2.1%.

Franchise royalties and fees increased 28.1% during the current year-to-date period. Franchise fees accounted for a 13.2% increase. The remaining 14.9% growth is predominantly attributable to royalties by new Steak n Shake franchised stores already opened in 2013 and 2014.

Other revenue of \$9,265 was recorded in the current quarter primarily related to revenues of \$6,199 from Maxim.

Costs and Expenses

Cost of sales was \$170,257 or 29.5% of net sales, compared with \$165,832 or 29.5% of net sales in the same period of 2013. The increase in costs primarily was related to higher sales.

Restaurant operating costs were \$272,907 or 47.3% of net sales compared to \$266,874 or 47.5% of net sales in the same period of 2013. The increased costs were mainly caused by higher sales.

General and administrative expenses increased from \$55,810 or 9.7% of total net revenues in the prior year-to-date period of 2013 to \$72,170 or 12.0% of total net revenues. The higher costs were mainly caused by \$16,413 of operating expenses for Maxim and First Guard during the second and third quarters of 2014.

Depreciation and amortization expense for the current year-to-date period was \$19,072 or 3.2% of total net revenues versus \$19,454 or 3.4% of total net revenues in the same period of 2013.

Marketing expense for the current year-to-date period was \$31,928 or 5.3% of total net revenues versus \$33,710 or 5.8% of total net revenues in the same period of 2013. The lower expense was primarily attributable to lower radio advertising.

Rent expense for the current year-to-date period was \$15,494 or 2.6% of total net revenues versus \$14,045 or 2.4% of total net revenues in the same period in 2013.

Impairment of intangible assets for 2013 of \$1,244 was an impairment of the trade name of Western's company-operated stores that we decided no longer to use. No impairments were recorded in 2014.

Other Income (Expenses)

We recorded interest, dividend and other investment income of \$1,295 primarily through accruing dividends pertinent to one investment versus \$7,333 recorded in the same period of 2013. The decrease resulted from the contribution of securities on July 1, 2013 to the investment partnerships. The dividends in 2014 from the contributed securities are reflected in investment partnership losses.

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Interest expense increased from \$4,969 for the prior year-to-date period of 2013 to \$6,385 for the current year-to-date period. The increase in interest expense was primarily due to the increase in outstanding borrowings and increased interest rates resulting from Steak n Shake's new credit agreement entered into on March 19, 2014.

Income tax expense decreased from \$61,837 for the year-to-date period of 2013 to \$5,686 for the current year-to-date period. The change in tax expense is primarily attributable to gain on contribution to investment partnerships in the prior year.

Biglari Holdings Investment Gains

In the current year-to-date period we recognized a gain of \$29,524 (\$18,305 net of tax) on the contribution of securities to investment partnerships compared to \$162,869 (\$100,979 net of tax) in the prior year. Biglari Holdings' management does not regard the gains that were recorded, as required by GAAP, to be meaningful. The gains recognized for financial reporting purposes are deferred for income tax purposes. The transactions essentially had no effect on our consolidated shareholders' equity because the gains included in earnings in the third quarter were accompanied by a corresponding reduction of unrealized investment gains included in accumulated other comprehensive income.

Investment Partnerships

We recorded \$7,044 of investment partnership losses in 2014. Our interest in the investment partnerships is accounted for as equity method investments. The carrying value of investment partnerships is inclusive of unrealized gains and losses on their securities. Our proportional ownership interest in the investment partnerships is net of an incentive fee payable to Biglari Capital, the general partner.

Consolidated Affiliated Partnerships Investment Gains

Prior to the July 1, 2013 sale of Biglari Capital we accounted for investment gains and losses on securities held by our consolidated affiliated partnerships. As we have ceased to have controlling interest in the consolidated affiliated partnerships, they are no longer consolidated in the Company's financial statements. Prospectively from July 1, 2013, we record earnings from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on the securities held by them) in the consolidated statements of earnings based on our proportional ownership interests in the investment partnerships' total earnings.

We recorded a net realized gain of \$261 in 2013 related to dispositions of investments held by our consolidated affiliated partnerships, an unrealized net investment gain of \$3,336, as well as other income of \$306 for a total of \$3,903. We also received an incentive fee of \$21. These amounts were offset by \$1,922 connected to earnings attributable to redeemable noncontrolling interests.

Liquidity and Capital Resources

We generated \$18,861 in cash flows from operations during the current year-to-date period as compared to \$34,886 during the same period of 2013. The change primarily related to timing of payments of various expenses.

Net cash used in investing activities during the current year-to-date period was \$89,122 compared to net cash used in investing activities of \$57,108 during the same period last year. The change primarily related to the acquisitions of First Guard and Maxim during the current year.

Net cash provided by financing activities during the current year-to-date period was \$88,041 compared to net cash used by financing activities of \$15,794 during the same period last year. The change primarily related to the borrowings on a new credit agreement for Steak n Shake.

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

Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into a new credit agreement. This credit agreement provides for a senior secured term loan facility in an aggregate principal amount of \$220.0 million (the "Term Loan") and a senior secured revolving credit facility in an aggregate principal amount of up to \$30.0 million (the "Revolver").

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

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Steak n Shake has the right to request an incremental term loan facility from participating Lenders and/or eligible assignees at any time, up to an aggregate total principal amount not to exceed \$70.0 million if certain customary conditions within the credit agreement are met.

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

Both the Term Loan and the Revolver have been secured by first priority security interests in substantially all the assets of Steak n Shake. Biglari Holdings is not a guarantor under the credit facility. Approximately \$118,589 of the proceeds of the Term Loan were used to repay all outstanding amounts under Steak n Shake's former credit facility and to pay related fees and expenses, \$50,000 of such proceeds were used to pay a cash dividend to Biglari Holdings, and the remaining Term Loan proceeds of approximately \$51,411 will be used by Steak n Shake for working capital and general corporate purposes. As of July 2, 2014, \$219,450 is outstanding under the Term Loan and no amount is outstanding under the Revolver.

The credit agreement includes customary affirmative and negative covenants and events of default, as well as a financial maintenance covenant, solely with respect to the Revolver, relating to a maximum total leverage ratio. Steak n Shake was in compliance with this financial covenant as of July 2, 2014.

During the third quarter of fiscal year 2014, Western Sizzlin Corporation drew \$1,000 on its revolving credit facility.

New Accounting Standards

Refer to Note 2 in our Notes to Consolidated Financial Statements within Item 1 of Part I of this Quarterly Report on Form 10-Q.

Effects of Governmental Regulations and Inflation

Most employees are paid hourly rates related to federal and state minimum wage laws. Any increase in the legal minimum wage would directly increase the Company's operating costs. The Company is also subject to various federal, state and local laws related to zoning, land use, safety standards, working conditions, and accessibility standards. Any changes in these laws that require improvements to its restaurants would increase operating costs. In addition, the Company is subject to franchise registration requirements and certain related federal and state laws regarding franchise operations. Any changes in these laws could affect its ability to attract and retain franchisees.

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

Risks Associated with 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 ability of the restaurant operations to increase store traffic on a profitable basis;
- competition in the restaurant industry for customers, staff, locations, and new products;
 - disruptions in the overall economy and the financial markets;
- the Company's ability to comply with the restrictions and covenants to its debt agreements;
- declines in the market price of our common stock, which could adversely affect our goodwill impairment analysis;
 - the potential to recognize additional impairment charges on our long-lived assets;
- fluctuations in food commodity and energy prices and the availability of food commodities;
 - the ability of our franchisees to operate profitable restaurants;
 - the poor performance or closing of even a small number of restaurants;
 - changes in customer preferences, tastes, and dietary habits;
- changes in minimum wage rates and the availability and cost of qualified personnel;
 - harsh weather conditions or losses due to casualties;
 - unfavorable publicity relating to food safety or food-borne illness;
- exposure to liabilities related to the ownership and leasing of significant amounts of real estate;
 - our ability to comply with existing and future governmental regulations;
- our ability to adequately protect our trademarks, service marks, and other components of our brand;
 - changes in market prices of our investments; and
- other risks identified in the periodic reports we file with the Securities and Exchange Commission.

Accordingly, such forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized. Additional risks and uncertainties not currently known to us or that are currently deemed immaterial may also become important factors that may harm our business, financial condition, results of operations or cash flows. We assume no obligation to update forward-looking statements except as required in our periodic reports.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We prefer to hold equity investments for very long periods of time; thus, we are not troubled by short-term price volatility assailing our investments. Our interests in the investment partnerships are committed on a rolling 5-year basis. Market prices for equity securities are subject to fluctuation. Consequently the amount realized in a subsequent sale of an investment may significantly differ from the reported market value. A hypothetical 10% increase or decrease in the market price of our investments would result in a respective increase or decrease in the fair market value of our investments of \$49,850, along with a corresponding change in shareholders' equity of approximately 6%.

Borrowings on the Term Loan bear interest at a rate per annum equal to a Eurodollar rate (minimum of 1%) plus an applicable margin of 3.75% or on the prime rate plus an applicable margin of 2.75%. Interest on loans under the Revolver bear interest at a rate per annum equal to a Eurodollar rate plus an applicable margin ranging from 2.75% to 4.25% or on the prime rate plus an applicable margin ranging from 1.75% to 3.25%. At July 2, 2014, a hypothetical 100 basis point increase in short-term interest rates would not have a significant impact on our net earnings. On October 11, 2012, Steak n Shake entered into a new interest rate swap for a notional amount of \$65,000 through September 30, 2015. The agreement hedges potential changes in the Eurodollar rate. The fair value of the interest rate swap was a liability of \$222 on July 2, 2014. In February 2011, in connection with the issuance of the term loan under Steak n Shake's previous credit facility, Steak n Shake entered into an interest rate swap agreement with the lender for a notional amount of \$20,000, which effectively fixed the interest rate on the term loan at 3.25% through its maturity. The fair value of the interest rate swap was a liability of \$86 at July 2, 2014.

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

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 July 2, 2014.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended July 2, 2014 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

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

There have been no material changes in the risk factors described in the Company's Annual Report on Form 10-K for the year ended September 25, 2013.

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.

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ITEM

6. EXHIBITS

Exhibit

Number Description

31.01 Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.02 Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.01* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101** Interactive Data Files.

* Furnished herewith.

** In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

Date: August 8, 2014

Biglari Holdings inc.

By: /s/ Bruce Lewis
Bruce Lewis
Controller

