BIGLARI HOLDINGS INC.
Form 10-K
February 27, 2017

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

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016

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	**37-0684070**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

17802 IH 10 West, Suite 400

San Antonio, Texas	**78257**
(Address of principal executive offices)	(Zip Code)

(210) 344-3400

Registrant’s telephone number, including area code

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

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

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

NONE

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

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

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 x No

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

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

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2016 was approximately $405,919,763.

As of February 20, 2017, 2,067,574 shares of the registrant’s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement to be filed for its 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. Business

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including media, property and casualty insurance, and restaurants. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings and its major operating subsidiaries. The Company's long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari. As of December 31, 2016, Mr. Biglari's beneficial ownership of the Company's outstanding common stock was approximately 51.3%.

In 2014, the Company's Board of Directors approved a change in the Company's fiscal year-end moving from a 52 or 53 week fiscal year ending on the last Wednesday in September to a calendar year ending on December 31 of each year. This form 10-K includes an audited statement of earnings, statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity for the years ended December 31, 2016 and 2015, transition period for September 25, 2014 to December 31, 2014 (the "2014 transition period") and fiscal year ended September 24, 2014, and an audited balance sheet as of December 31, 2016 and 2015. Fiscal year 2014 contained 52 weeks. For comparative purposes, an unaudited statement of earnings, statement of comprehensive income and statement of cash flows have been included for September 26, 2013 to December 31, 2013 (the "2013 transition period"). The comparative transition period has not been audited and is derived from the books and records of the Company. In the opinion of management, the comparative transition period reflects all adjustments necessary to present the financial position and results of operations of the Company in accordance with generally accepted accounting principles.

Restaurant Operations

The Company's restaurant operations' activities are conducted through two restaurant concepts operated by subsidiaries Steak n Shake Inc. ("Steak n Shake") and Western Sizzlin Corporation ("Western"). As of December 31, 2016, Steak n Shake operated 417 company-operated restaurants and 173 franchised units. Western operated 3 company-operated restaurants and 64 franchised units.

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

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

Operations

A typical restaurant's management team consists of a general manager, a restaurant manager and other managers depending on the operating complexity and sales volume of the restaurant. Each restaurant's general manager has primary responsibility for the day-to-day operations of his or her unit. Restaurant operations obtain food products and supplies from independent national distributors. Purchases are centrally negotiated to ensure uniformity in product quality.

Franchising

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

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

International

We have a corporate office in Monaco to support expansion of Steak n Shake primarily in Europe. We have developed an international organization with personnel in various functions to support international efforts. As of December 31, 2016 we have two company-operated locations in Europe to promote the Steak n Shake brand to prospective franchisees. Similar to our domestic franchise agreements, a typical international franchise development agreement provides the vehicle for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. As of December 31, 2016, there were a total of 20 franchised units in Europe and the Middle East.

Competition

The restaurant business is one of the most intensely competitive industries. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional and local establishments. There may be established competitors with financial and other resources that are greater than the Company’s restaurant operations capabilities. Restaurant businesses compete on the basis of price, menu, food quality, location, and customer service. The restaurant business is often affected by changes in consumer tastes and by national, regional, and local economic conditions. The performance of individual restaurants may be impacted by factors such as traffic patterns, demographic trends, weather conditions, and competing restaurants.

Government regulations

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

Trademark and licenses

The name and reputation of Steak n Shake is a material asset and management protects it and other service marks through appropriate registrations.

Insurance Business

Our insurance business is composed of First Guard Insurance Company and its agency, 1st Guard Corporation (collectively “First Guard”), which we acquired on March 19, 2014. First Guard is a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. First Guard is headquartered in Venice, Florida.

First Guard competes for truck insurance with other companies. The trucking insurance business is highly competitive in the areas of price and service. Vigorous competition is provided by large, well-capitalized companies and by small regional insurers. First Guard's insurance products are marketed primarily through direct response methods via the Internet or by telephone. First Guard's cost-efficient direct response marketing methods enable it to be a low-cost trucking insurer. First Guard uses its own claim staff to manage claims. Seasonal variations in First Guard's insurance business are not significant. However, extraordinary weather conditions or other factors may have a significant effect upon the frequency or severity of claims.

The insurance business is stringently regulated by state insurance departments. First Guard operates under licenses issued by various insurance authorities. Such supervision and regulation include matters relating to authorized lines of business, capital and surplus requirements, licensing of insurers, investments, the filing of annual and other financial reports prepared on the basis of Statutory Accounting Principles, the filing and form of actuarial reports, dividends, and a variety of other financial and non-financial matters.

Media Business

Our media business is composed of Maxim. We acquired certain assets and liabilities of Maxim on February 27, 2014. Maxim's business lies principally in media and licensing. Maxim is headquartered in New York City, New York.

Maxim competes for licensing business with other companies. The nature of the licensing business is predicated on projects that materialize with irregularity. In addition, publishing is a highly competitive business. The Company's magazines and related publishing products and services compete with other mass media, including the Internet and many other leisure-time activities. Competition for advertising dollars is based primarily on advertising rates, circulation levels, reader demographics, advertiser results, and sales team effectiveness.

Maxim products are marketed under various registered brand names, including, but not limited to, "MAXIM®" and "Maxim®".

Investments

The Company and its subsidiaries have invested in The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, “the investment partnerships”). The investment partnerships operate as private investment funds. As of December 31, 2016, the fair value of the investments was $972.7 million. These investments are subject to a rolling five-year lock-up period under the terms of the respective partnership agreements.

Employees

The Company employs 21,519 persons.

Additional information with respect to Biglari Holdings’ businesses

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

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

Item 1A. Risk Factors

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

Risks relating to Biglari Holdings

We are dependent on our Chairman and CEO.

Our success depends on the services of Sardar Biglari, Chairman and Chief Executive Officer. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari. If for any reason the services of Mr. Biglari were to become unavailable, a material adverse effect on our business could occur.

Sardar Biglari, our Chairman and CEO, beneficially owns over 50% of our outstanding shares of common stock, enabling Mr. Biglari to exert control over matters requiring shareholder approval.

Mr. Biglari has the ability to control the outcome of matters submitted to our shareholders for approval, including the election or removal of directors, the amendment of our certificate of incorporation or bylaws, along with other significant transactions. In addition, Mr. Biglari has the ability to control the management and affairs of the Company. This control position may conflict with the interests of some or all of the Company's other shareholders.

We are a "controlled company" within the meaning of the New York Stock Exchange rules and thus can rely on exemptions from certain corporate governance requirements.

Because Mr. Biglari beneficially owns more than 50% of the Company's outstanding voting stock, we are considered a "controlled company" pursuant to New York Stock Exchange rules. As a result, we are not required to comply with certain director independence and board committee requirements.

Our historical growth rate is not indicative of our future growth.

When evaluating our historical growth and prospects for future growth, it is important to consider that while our business philosophy has remained constant our mix of business has changed and will continue to change. Our dynamic business model makes it difficult to assess our prospects for future growth. Restrictions on our access to capital described further below may also adversely affect our ability to execute our plans for future growth.

Biglari Holdings' access to capital is subject to restrictions that may adversely affect its ability to satisfy its cash requirements or implement its growth strategy.

We are a holding company and are largely dependent upon dividends and other sources of funds from our subsidiaries in order to meet our needs. Steak n Shake's credit facility contains restrictions on its ability to pay dividends to Biglari Holdings. In addition, the ability of our insurance subsidiaries to pay dividends to Biglari Holdings is regulated by state insurance laws, which limit the amount of, and in certain circumstances may prohibit the payment of, cash dividends. Furthermore, as a result of our substantial investments in The Lion Fund, L.P. and The Lion Fund II, L.P., investment partnerships controlled by Mr. Biglari, our access to capital is restricted by the terms of their respective partnership agreements, as described more fully below. There is also a high likelihood that we will make additional investments in these investment partnerships. Taken together, these restrictions may result in our having insufficient funds to satisfy our cash requirements. As a result, we may need to look to other sources of capital which may be more expensive or may not be available.

Competition.

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

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

To the extent that the recovery from the economic recession continues to be slow or the economy worsens for a prolonged period of time, one or more of our significant operations could be materially harmed. In addition, our restaurant operations depend on having access to borrowed funds through the capital markets at reasonable rates. To the extent that access to credit is restricted or the cost of funding increases, our business could be adversely affected.

Our operating businesses face a variety of risks associated with doing business in foreign markets.

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

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

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

The success of our business depends on the continued ability to use the existing trademarks, service marks, and other components of our brand to increase brand awareness and further develop branded products. While we take steps to protect our intellectual property, our rights to our trademarks could be challenged by third parties or our use of these trademarks may result in liability for trademark infringement, trademark dilution, or unfair competition, adversely affecting our profitability. We may also become subject to these risks in the international markets in which we operate and in which we plan to expand. Any impairment of our intellectual property or brands, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, could adversely impact our business, financial condition and results of operations.

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

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

Certain agreements with our Chairman and CEO may have an adverse effect on our financial position.

We have entered into a license agreement with Sardar Biglari, Chairman and Chief Executive Officer, under which Mr. Biglari has granted the Company an exclusive license to use his name when connected to the provision of certain products and services, as well as a sublicense agreement with Steak n Shake that, *inter alia*, grants Steak n Shake the right to use the trademark "Steak n Shake by Biglari." In the event of a change of control of the Company or Mr. Biglari's termination without cause or resignation following specified occurrences, including (1) his removal as Chairman of the Board or Chief Executive Officer or (2) his no longer maintaining sole capital allocation authority, Mr. Biglari would be entitled to receive revenue-based royalty payments related to the usage of his name under the terms of the license agreement for a defined period of no less than five years. In addition, we have an incentive agreement with Mr. Biglari, in which he is entitled to receive performance-based annual incentive payments contingent on the growth of the Company's adjusted book value in each fiscal year.

Risks Relating to Our Restaurant Operations

Our restaurant operations face intense competition from a wide range of industry participants.

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

Changes in economic conditions may have an adverse impact on our restaurant operations.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Investment Activities

Our investment activities are conducted primarily through outside investment partnerships, The Lion Fund, L.P. and The Lion Fund II, L.P. (collectively, the "investment partnerships"), which are controlled by Mr. Biglari.

Our investment activities are conducted mainly through these outside investment partnerships. Under the terms of their partnership agreements, each contribution made by the Company to the investment partnerships is subject to a five-year lock-up period, and any distribution upon our withdrawal of funds will be paid out over a two-year period (and may be paid in-kind rather than in cash, thus increasing the difficulty of liquidating these investments). As a result of these provisions and our consequent inability to access this capital for a defined period, our capital invested in the investment partnerships may be subject to an increased risk of loss of all or a significant portion of value, and we may become unable to meet our capital requirements. There is a high likelihood that we will make additional investments in these investment partnerships in the future.

We also have a Shared Services Agreement with Biglari Capital Corp. (“Biglari Capital”), general partner of the investment partnerships, pursuant to which we agreed to provide certain services to Biglari Capital (e.g., use of space at our corporate headquarters). There can be no assurance that we may realize any benefit from the Shared Services Agreement.

The incentive allocation to which Mr. Biglari, as Chairman and Chief Executive Officer of Biglari Capital, general partner of the investment partnerships, is entitled under the terms of the respective partnership agreements is equal to 25% of the net profits allocated to the limited partners in excess of their applicable hurdle rate over the previous high-water mark.

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

Our investments are predominantly held through the investment partnerships, which generally invest in common stocks. These investments are largely concentrated in the common stock of one investee, Cracker Barrel Old Country Store, Inc. A significant decline in the major values of these investments may produce a large decrease in our consolidated shareholders’ equity and can have a material adverse effect on our consolidated book value per share and earnings.

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

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

To avoid becoming and registering as an investment company under the Investment Company Act, we operate as an ongoing enterprise, operating with an asset base from which to pursue acquisitions. Furthermore, Section 3(c)(3) of the Investment Company Act excludes insurance companies from the definition of “investment company”. Nonetheless, we monitor the value of our investments and structure transactions accordingly. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings or adverse developments with respect to our ownership of certain of our subsidiaries, could result in our inadvertently becoming an investment company. If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the Securities and Exchange Commission (the “SEC”), that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

Risks Relating to Our Insurance Business

Our success depends on our ability to underwrite risks accurately and to charge adequate rates to policyholders.

Our results of operations depend on our ability to underwrite and set rates accurately for risks assumed. A primary role of the pricing function is to ensure that rates are adequate to generate sufficient premiums to pay losses, loss adjustment expenses, and underwriting expenses, and earning a profit.

Our insurance business is vulnerable to significant catastrophic property loss, which could have an adverse effect on its financial condition and results of operations.

Our insurance business faces a significant risk of loss in the ordinary course of its business for property damage resulting from natural disasters, man-made catastrophes and other catastrophic events. These events typically increase the frequency and severity of commercial property claims. Because catastrophic loss events are by their nature unpredictable, historical results of operations may not be indicative of future results of operations, and the occurrence of claims from catastrophic events may result in significant volatility in our insurance business' financial condition and results of operations from period to period. We attempt to manage our exposure to these events through reinsurance programs, although there is no assurance we will be successful in doing so.

Inability to obtain reinsurance or to collect ceded losses and loss adjustment expenses could adversely affect our insurance business's ability to write new policies.

Our insurance business purchases reinsurance to help manage its exposure to risk. Under these ceded reinsurance arrangements, another insurer assumes a specified portion of our exposure in exchange for a specified portion of policy premiums. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly. Thus, any decrease in the amount of this reinsurance will increase the risk of loss. If our insurance business is unable to obtain sufficient reinsurance at a cost it deems acceptable, it may be unwilling to bear the increased risk and may reduce the level of its underwriting commitments.

Ceded reinsurance does not discharge our insurance business' direct obligations under the policies it writes. Our insurance business remains liable to policyholders even if it is unable to obtain recoveries under which it believes it is entitled to receive under the reinsurance contracts. Losses may not be recovered from the reinsurers until claims are paid.

Our insurance business is subject to extensive existing state, local and foreign governmental regulations that restrict its ability to do business and generate revenues.

Our insurance business is subject to regulation in the jurisdictions in which it operates. These regulations may relate to, among other things, the types of business that can be written, the rates that can be charged for coverage, the level of capital and reserves that must be maintained, and restrictions on the types and size of investments that can be placed. Regulations may also restrict the timing and amount of dividend payments. Accordingly, existing or new regulations related to these or other matters or regulatory actions imposing restrictions on our insurance business may adversely impact its results of operations.

Risks Relating to Our Media Business

Our media business faces significant competition from other magazine publishers and new forms of media, including digital media, and as a result our media business may not be able to improve its operating results.

Our media business competes principally with other magazine publishers. The proliferation of choices available to consumers for information and entertainment has resulted in audience fragmentation and has negatively impacted overall consumer demand for print magazines and intensified competition with other magazine publishers for share of print magazine readership. Our media business also competes with digital publishers and other forms of media. This competition has intensified as a result of the growing popularity of mobile devices and the shift in preference of some consumers from print media to digital media for the delivery and consumption of content.

Our media business derives a significant percentage of its revenues from advertising. Competition among print magazine and digital publishers for advertising is primarily based on the circulation and readership of magazines and the number of visitors to websites, respectively, and the demographics of customers, advertising rates, plus the effectiveness of advertising sales teams. The proliferation of new platforms available to advertisers, combined with continuing competition from print platforms, has impacted both the amount of advertising our media business is able to sell as well as the rates advertisers are willing to pay. Our media business' ability to compete successfully for advertising also depends on its ability to prove the value of its advertising.

Our pursuit of licensing opportunities for the Maxim brand may prove to be unsuccessful.

Maxim's success depends to a significant degree upon its ability to develop new licensing agreements to expand its brand. However, these licensing efforts may be unsuccessful. We may be unable to secure favorable terms for future licensing arrangements, which could lead to, among other things, disputes with licensing partners that hinder our ability to grow the Maxim brand. Future licensing partners may also fail to honor their contractual obligations or take other actions that can diminish the value of the Maxim brand. Disputes could also arise that prevent or delay our ability to collect licensing revenues under these arrangements. If any of these developments occur or our licensing efforts are otherwise not successful, the value and recognition of the Maxim brand, as well as the prospects of our media business, could be materially, adversely affected.

Our media business is exposed to risks associated with weak economic conditions.

Because magazines are generally discretionary purchases for consumers, circulation revenues are sensitive to general economic conditions and economic cycles. Certain economic conditions such as general economic downturns, including periods of increased inflation, unemployment levels, interest rates, gasoline and other energy prices, or declining consumer confidence, may negatively impact consumer spending. Reduced consumer spending or a shift in consumer spending patterns away from discretionary items will likely result in reduced demand for our media business's magazines and may result in decreased revenues.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Restaurant Properties

As of December 31, 2016, restaurant operations included 657 company-operated and franchised locations. Restaurant operations own the land and building for 154 restaurants. The following table lists the locations of the restaurants, as of December 31, 2016.

	Steak n Shake Company Operated	Franchised	Western Sizzlin Company Operated	Franchised	Total
Domestic:					
Alabama	2	7	—	6	15
Arizona	1	—	—	—	1
Arkansas	—	3	—	16	19
California	1	5	—	2	8
Colorado	2	2	—	—	4
Florida	80	3	—	—	83
Georgia	23	17	—	7	47
Illinois	62	7	—	—	69
Indiana	68	4	—	—	72
Iowa	3	—	—	—	3
Kansas	—	5	—	—	5
Kentucky	14	7	—	—	21
Louisiana	—	1	—	1	2
Maryland	—	1	—	1	2
Michigan	19	—	—	—	19
Mississippi	—	3	—	2	5
Missouri	39	25	—	—	64
Nevada	—	2	—	—	2
New Jersey	—	2	—	—	2
New York	1	—	—	—	1
North Carolina	6	7	—	7	20
Ohio	63	1	—	1	65
Oklahoma	—	5	—	9	14
Pennsylvania	7	4	—	—	11
South Carolina	1	5	—	3	9
Tennessee	9	13	—	4	26

Texas	14	13	—	1	28
Utah	—	1	—	—	1
Virginia	—	7	2	4	13
Washington	—	1	—	—	1
West Virginia	—	2	1	—	3
International:					
England	—	1	—	—	1
France	1	7	—	—	8
Kuwait	—	3	—	—	3
Italy	—	4	—	—	4
Portugal	—	2	—	—	2
Saudi Arabia	—	1	—	—	1
Spain	1	2	—	—	3
Total	417	173	3	64	657

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market Information

Biglari Holdings' common stock is listed for trading on the New York Stock Exchange (the "NYSE"), trading symbol: BH. The following table sets forth the high and low sales prices per share, as reported on the NYSE List:

	2016		2015	
	High	Low	High	Low
First Quarter	$389.30	$323.70	$440.00	$394.87
Second Quarter	425.69	359.46	425.79	344.99
Third Quarter	455.80	397.11	448.00	364.94
Fourth Quarter	485.62	415.60	385.96	325.82

Shareholders

Biglari Holdings had 5,888 beneficial shareholders of its common stock at February 14, 2017.

Dividends

Biglari Holdings has never declared a dividend.

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Performance Graph

The graph below matches Biglari Holdings Inc.'s cumulative 5-year total shareholder return on its common stock with the cumulative total returns of the S&P 500 Index and the S&P Restaurants Index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from September 30, 2011 to December 31, 2016.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The "Equity Compensation Plan Information" required by Item 201(d) of Regulation S-K will be contained in our definitive Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed on or before April 30, 2017, and such information is incorporated herein by reference.

Item 6. Selected Financial Data

(dollars in thousands except per share data)

	2016	2015	Transition Period 2014	2013
Revenue:				
Total revenues	$850,076	$861,452	$224,450	$204,442
Earnings:				
Net (loss) earnings	$99,451	$(15,843)	$91,050	$18,949
Basic (loss) earnings per share	$81.37	$(10.18)	$48.49	$11.05
Diluted (loss) earnings per share	$81.28	$(10.18)	$48.45	$11.03
Year-end data:				
Total assets	$1,096,967	$987,079	$1,298,509	$1,009,111
Long-term notes payable and other borrowings	281,555	296,062	309,003	198,833
Biglari Holdings Inc. shareholders' equity	$531,940	$451,372	$725,551	$587,885

	52 Weeks Ended		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
Revenue:			
Total revenues	$793,811	$755,822	$740,207
Earnings:			
Net earnings attributable to Biglari Holdings Inc.	$28,804	$140,271	$21,593
Basic earnings per share attributable to Biglari Holdings Inc.	$16.85	$90.89	$13.92
Diluted earnings per share attributable to Biglari Holdings Inc.	$16.82	$90.69	$13.88
Year-end data:			
Total assets	$1,156,310	$987,167	$771,830
Long-term notes payable and other borrowings	311,448	215,872	229,229
Biglari Holdings Inc. shareholders' equity	$638,717	$564,589	$349,125

Earnings per share of common stock is based on the weighted average number of shares outstanding during the period.

For financial reporting purposes and for purposes of computing the weighted average common shares outstanding for periods after fiscal 2012, the shares of Company stock attributable to the unrelated limited partners of the investment partnerships - based on their proportional ownership during the period - are considered outstanding shares.

For financial reporting purposes all common shares of the Company held by the former consolidated affiliated partnerships during fiscal 2012 are recorded in treasury stock on the consolidated balance sheet. For purposes of computing the weighted average common shares outstanding during fiscal 2012, the shares of treasury stock attributable to the unrelated limited partners of the consolidated affiliated partnerships - based on their proportional ownership during the period - are considered outstanding shares.

In fiscal year 2014 and 2013 the Company completed rights offerings in which 344,261 and 286,767 new shares of common stock were issued, respectively. The theoretical earnings per share have been retroactively restated for all periods prior to fiscal 2014 to give effect to the rights offerings.

For total assets, periods prior to 2016 were adjusted for the reclassifications of debt issuance costs related to the adoption of ASU 2015-03 and deferred taxes related to the adoption of ASU 2015-17. For long-term notes payable and other borrowings, periods prior to 2016 were adjusted for the reclassification of debt issuance costs related to the adoption of ASU 2015-03. See note 1 to the consolidated financial statements for additional information.

2014, 2013, and 2012 were fiscal years ending on the last Wednesday nearest September 30.

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

(dollars in thousands except 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, and restaurants. The Company's largest operating subsidiaries are involved in the franchising and operating of restaurants. Biglari Holdings is founded and led by Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings and its major operating subsidiaries. The Company's long-term objective is to maximize per-share intrinsic value. All major operating, investment, and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

In 2014, the Company's Board of Directors approved a change in the Company's fiscal year-end, moving from the last Wednesday in September to December 31 of each year. We are comparing the year ended December 31, 2016 to the year ended December 31, 2015 and to the fiscal year ended September 24, 2014, and we are comparing the 2014 transition period to the 2013 transition period. The 2013 transition period is unaudited.

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

			Transition Period		Fiscal Year
	2016	2015	2014	2013	2014
Operating businesses:					
Restaurant	$24,834	$26,985	$6,857	$6,537	$17,965
Insurance	3,313	2,313	595	—	964
Media	(6,385)	(11,459)	(3,455)	—	(9,949)
Other	(157)	197	(58)	(27)	1,099
Total operating businesses	21,605	18,036	3,939	6,510	10,079
Corporate	(6,387)	(8,315)	(2,051)	(2,060)	(5,511)
Investment gains (losses)	(193)	—	—	—	18,305
Investment partnership gains (losses)	91,525	(18,168)	91,191	15,516	12,316
Interest expense on notes payable	(7,099)	(7,396)	(2,029)	(1,017)	(6,385)
	$99,451	$(15,843)	$91,050	$18,949	$28,804

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

Restaurants

Our restaurant businesses, which include Steak n Shake and Western, comprise 657 company-operated and franchised restaurants as of December 31, 2016.

	Steak n Shake		Western Sizzlin		
	Company-operated	Franchised	Company-operated	Franchised	Total
Total stores as of September 25, 2013	415	104	4	82	605
Net restaurants opened (closed)	1	20	—	(11)	10
Total stores as of September 24, 2014	416	124	4	71	615
Net restaurants opened (closed)	1	4	—	(3)	2
Total stores as of December 31, 2014	417	128	4	68	617
Net restaurants opened (closed)	—	16	—	(2)	14
Total stores as of December 31, 2015	417	144	4	66	631
Net restaurants opened (closed)	—	29	(1)	(2)	26
Total stores as of December 31, 2016	417	173	3	64	657

The term "same-store sales" refers to the sales of company-operated units open at least 18 months at the beginning of the current period and have remained open through the end of the period. Same-store traffic measures the number of patrons who walk through the same units.

Management's Discussion and Analysis *(continued)*

Restaurant operations 2016 compared to 2015 and fiscal year 2014

Restaurant operations for 2016, 2015 and fiscal year 2014 are summarized below.

	2016		2015		Fiscal Year 2014	
Revenue						
Net sales	$795,322		$799,660		$759,889	
Franchise royalties and fees	18,794		16,428		15,032	
Other revenue	3,798		3,650		3,234	
Total revenue	817,914		819,738		778,155	
Restaurant cost of sales						
Cost of food	221,657	27.9%	232,271	29.0%	226,436	29.8%
Restaurant operating costs	395,262	49.7%	379,632	47.5%	358,998	47.2%
Rent	18,047	2.3 %	17,384	2.2 %	17,073	2.2 %
Total cost of sales	634,966		629,287		602,507	
Selling, general and administrative						
General and administrative	59,446	7.3 %	62,055	7.6 %	64,872	8.3 %
Marketing	51,324	6.3 %	46,050	5.6 %	43,324	5.6 %
Other expenses	3,907	0.5 %	7,590	0.9 %	5,409	0.7 %
Total selling, general and administrative	114,677	14.0%	115,695	14.1%	113,605	14.6%
Depreciation and amortization	21,573	2.6 %	23,736	2.9 %	24,064	3.1 %
Interest on obligations under leases	9,475		9,422		9,720	
Earnings before income taxes	37,223		41,598		28,259	
Income tax expense	12,389		14,613		10,294	
Net earnings	$24,834		$26,985		$17,965	

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

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

Net sales during 2016 were $795,322 representing a decrease of $4,338 when compared to 2015. The decreased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales, which decreased 0.4% whereas customer traffic decreased by 1.2%. Net sales during 2015 were $799,660 representing an increase of $39,771 when compared to fiscal 2014. The increased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales. In 2015, Steak n Shake's same-store sales increased by 4.0% compared to fiscal 2014. Comparable periods of calendar year 2015 and fiscal year 2014 were used to approximate the same-store sales comparisons.

In 2016 franchise royalties and fees increased 14.4%. During 2016, Steak n Shake opened 34 franchised units and closed five. One Western franchise unit closed during 2016. The increase in franchise fees and royalties are primarily attributable to the opening of new Steak n Shake franchised units in 2016 and 2015. Franchise royalties and fees during 2015 increased 9.3% compared to fiscal 2014. During the period from September 24, 2014 through December 31, 2015, Steak n Shake opened 29 franchised units and closed nine. During the same period, five Western franchised units closed. The increase in franchise fees and royalties during 2015 are primarily attributable to new Steak n Shake franchised units, which opened in 2015 and fiscal 2014. The percentage increase over fiscal 2014 was partially offset by forfeited area development fees realized in fiscal 2014.

Cost of food in 2016 was $221,657 or 27.9% of net sales, compared with $232,271 or 29.0% of net sales in 2015 and $226,436 or 29.8% of net sales in fiscal 2014. The decrease as a percent of sales during 2016 was primarily attributable to lower beef costs. The decrease as a percent of sales during 2015 compared to fiscal 2014 was primarily attributable to reduction in prices of beef and a change in menu mix.

Management's Discussion and Analysis *(continued)*

Restaurant operating costs during 2016 were $395,262 or 49.7% of net sales, compared to $379,632 or 47.5% of net sales in 2015 and $358,998 or 47.2% of net sales in fiscal 2014. Total costs, and as a percent of sales, during 2016, increased compared to 2015 principally due to higher wages and benefits. The increased costs during 2015 compared to fiscal 2014 were mainly based on higher sales. Costs as a percent of sales during 2015 remained relatively constant compared to fiscal 2014.

Selling, general and administrative expenses during 2016 were $114,677 or 14.0% of total revenues. General and administrative expenses decreased by $2,609 during 2016 compared to 2015 primarily due to decreased personnel expenses. Marketing expense increased by $5,274 in 2016 compared to 2015 primarily due to an increase in promotional advertising. Selling, general and administrative expenses during 2015 were $115,695 or 14.1% of total revenues. General and administrative expenses decreased by $2,817 during 2015 compared to fiscal 2014. The decreased expenses were primarily attributable to decreased personnel expenses. Marketing expense increased by $2,726 in 2015 compared to fiscal 2014 primarily related to commissions paid for third party gift card sales.

Interest on obligations under leases was $9,475 during 2016, versus $9,422 during 2015 and $9,720 during fiscal 2014. The total obligations under leases outstanding at December 31, 2016 were $89,498, compared to $95,965 at December 31, 2015 and $106,189 at September 24, 2014.

Restaurant operations 2014 transition period compared to 2013 transition period

Earnings of our restaurant operations for the transition periods are summarized below.

	Transition Period			
	2014		2013	
Revenue				
Net sales	$210,256		$200,407	
Franchise royalties and fees	4,076		3,177	
Other revenue	1,316		858	
Total revenue	215,648		204,442	
Restaurant cost of sales				
Cost of food	64,614	30.7%	58,826	29.4%
Restaurant operating costs	98,939	47.1%	94,268	47.0%
Rent	4,554	2.2 %	4,579	2.3 %
Total cost of sales	168,107		157,673	

Selling, general and administrative				
General and administrative	16,570	7.7 %	16,420	8.0 %
Marketing	9,844	4.6 %	10,807	5.3 %
Other expenses	1,523	0.7 %	706	0.3 %
Total selling, general and administrative	27,937	13.0%	27,933	13.7%
Depreciation and amortization	6,461	3.0 %	6,434	3.1 %
Interest on obligations under leases	2,577		2,612	
Earnings before income taxes	10,566		9,790	
Income tax expense	3,709		3,253	
Net earnings	$6,857		$6,537	

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

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

Net sales during the 2014 transition period were $210,256, an increase of $9,849 over the 2013 transition period. The increased performance of our restaurant operations was largely driven by Steak n Shake's same-store sales. Steak n Shake's same-store sales increased 4.8% during the 2014 transition period, whereas customer traffic increased by 2.7%.

Management's Discussion and Analysis *(continued)*

Franchise royalties and fees increased 28.3% during the 2014 transition period. The franchised units numbered 196 at December 31, 2014, compared to 188 at December 31, 2013. The increase in franchise fees is primarily attributable to newly franchised Steak n Shake stores that opened in the 2014 transition period and 2014 fiscal year.

Cost of food in the 2014 transition period was $64,614 or 30.7% of net sales, compared to $58,826 or 29.4% of net sales in the 2013 transition period. The increase in costs as a percentage of net sales was primarily attributable to higher beef costs during the 2014 transition period.

Restaurant operating costs were $98,939 or 47.1% of net sales compared to $94,268 or 47.0% in the 2013 transition period. The increased costs were mainly based on higher sales.

Selling, general and administrative expense of $27,937 or 13.0% of total revenues in the 2014 transition period remained relatively flat compared to $27,933 or 13.7% of total revenues in the 2013 transition period.

Interest on obligations under leases was $2,577 during the 2014 transition period, versus $2,612 during the 2013 transition period. The total obligations under leases outstanding at December 31, 2014 were $104,561.

Insurance

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

	2016	2015	2014
Premiums written	$22,397	$16,719	$8,719
Insurance losses	12,641	10,454	4,709
Underwriting expenses	4,843	2,908	2,213
Pre-tax underwriting gain	4,913	3,357	1,797
Other income and expenses			
Investment income and commissions	600	513	570
Other income	(378)	(341)	—

Total other income	222	172	570
Earnings before income taxes	5,135	3,529	2,367
Income tax expense	1,822	1,216	808
Contribution to net earnings	$3,313	$2,313	$1,559

On March 19, 2014, First Guard became a wholly-owned subsidiary of Biglari Holdings. The results of operations for First Guard are included in Biglari Holdings' consolidated results from the effective date of acquisition.

First Guard's cost-efficient direct response marketing methods enable it to be a low-cost trucking insurer.

Pre-tax underwriting gain was $4,913 in 2016 compared to $3,357 in 2015 and $1,797 in 2014. The increase in pre-tax underwriting gain was mainly based on higher net premiums written.

Insurance premiums and other on the statement of earnings includes premiums written, investment income and commissions, which are included in other income in the above table.

Management's Discussion and Analysis *(continued)*

Media

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

	2016	2015	2014
Revenue	$9,165	$24,482	$15,169
Media cost of sales	15,834	35,614	28,660
Selling, general and administrative expenses	3,000	6,677	7,626
Depreciation and amortization	409	296	362
Loss before income taxes	(10,078)	(18,105)	(21,479)
Income tax benefit	(3,693)	(6,646)	(8,075)
Contribution to net earnings	$(6,385)	$(11,459)	$(13,404)

On February 27, 2014, we acquired the assets of Maxim. The results of operations for Maxim are included in Biglari Holdings' consolidated results from the effective date of acquisition.

We have transformed Maxim's business model. We have significantly reduced the high operating costs in the media business, both in print and in digital. The magazine developed the Maxim brand, a franchise we are utilizing to build cash-generating businesses, namely licensing related to consumer products, services, and events. As a result, the net loss for 2016 declined significantly. In addition, Maxim generated a profit at the end of the fourth quarter, 2016.

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

Investment Gains

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.

The Company recognized a pre-tax loss of $306 ($193 net of tax) on a contribution of $5,682 in securities to investment partnerships during 2016. The Company recognized a pre-tax gain of $29,524 ($18,305 net of tax) on a contribution of $74,418 in securities to investment partnerships during fiscal year 2014.

Biglari Holdings' management does not regard the gains and losses that were recorded, as required by generally accepted accounting principles, as meaningful. The gains and losses recognized for financial reporting purposes are deferred for income tax purposes. These transactions essentially had no effect on our consolidated shareholders' equity because the gains and losses included in earnings were accompanied by a corresponding reduction of unrealized investment gains and losses included in accumulated other comprehensive income.

Management's Discussion and Analysis *(continued)*

Investment Partnership Gains (Losses)

Earnings from our investments in partnerships are summarized below.

			Transition Period		Fiscal Year
	2016	2015	2014	2013	2014
Investment partnership gains (losses)	$135,886	$(39,356)	$144,702	$23,493	$14,055
Tax expense (benefit)	44,361	(21,188)	53,511	7,977	1,739
Contribution to net earnings	$91,525	$(18,168)	$91,191	$15,516	$12,316

The investment partnerships concentrate investments, which expose them to more market price fluctuations than might be the case were investments more diversified.

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

Interest Expense

The Company's interest expense is summarized below.

			Transition Period		Fiscal Year
	2016	2015	2014	2013	2014
Interest expense on notes payable	$(11,450)	$(11,930)	$(3,272)	$(1,641)	$(9,166)
Loss on debt extinguishment	—	—			