

BIGLARI HOLDINGS INC.
Form 10-KT
March 13, 2015

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended ____

or

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

For the transition period from September 25, 2014 to December 31, 2014

Commission file number 0-8445

BIGLARI HOLDINGS INC.
(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of incorporation)

37-0684070
(I.R.S. Employer Identification No.)

17802 IH 10 West, Suite 400
San Antonio, Texas
(Address of principal executive offices)

78257
(Zip Code)

(210) 344-3400
Registrant's telephone number, including area code

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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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 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 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.

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 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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2014 was approximately \$607,674,654 based on the closing stock price of \$422.97 per share on that day.

As of March 5, 2015, 2,065,606 shares of the registrant's Common Stock were outstanding.

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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, 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.

On October 16, 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. This form 10-K is a transition report and includes financial information for September 25, 2014 to December 31, 2014 (the "2014 transition period"). 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 2013 transition period has not been audited and is derived from the books and records of the Company. In the opinion of management, the 2013 transition period reflects all adjustments necessary to present the financial position and results of operations in accordance with generally accepted accounting principles. Prior to the year-end change, Biglari Holdings' fiscal year ended on the last Wednesday in September. Fiscal years 2014, 2013 and 2012 each contained 52 weeks.

Restaurant Operations

The Company's restaurant operations' activities are conducted through two restaurant concepts operated by subsidiaries Steak n Shake Operations, Inc. ("Steak n Shake") and Western Sizzlin Corporation ("Western"). As of December 31, 2014, Steak n Shake operated 417 company-operated restaurants and 128 franchised units. Western operated 4 company-operated restaurants and 68 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.

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.

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 in the Middle East and Europe. We have developed an international organization with personnel in various functions to support international efforts. As of December 31, 2014 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.

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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, personnel 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, severe 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.

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 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.

The Company has an exclusive license with Mr. Biglari for the use of the Biglari and Biglari Holdings names and marks in association with various products and services, and has entered into a sublicense agreement with Steak n Shake, LLC and Steak n Shake Enterprises, Inc. providing for 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. See "Certain agreements with our Chairman and CEO may deter a change of control or proxy contest" under Part I, Item 1A and Note 16, "Related Party Transactions" in the accompanying notes to consolidated financial statements included in Part II, Item 8 of this transition report on form 10-K.

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 cost-efficient system and focus on customer service has enabled it to offer competitive rates and achieve an underwriting profit. 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 in media, in print and digital, and in licensing of products and services. Maxim is headquartered in New York City, New York.

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.

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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, 2014, the fair value of the investments was \$776.9 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 23,851 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.

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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. Moreover, certain counterparties have requested and obtained a provision in their agreements with the right to terminate in the event Mr. Biglari ceases to be our Chairman and Chief Executive Officer. If for any reason the services of Mr. Biglari were to become unavailable, a material adverse effect on our business could occur. At that time, the Company may owe significant amounts of money to Mr. Biglari pursuant to the terms of a license agreement. Taken as a whole, the losses pertaining to these contracts and the liabilities imposed by the license agreement connected to the loss of Mr. Biglari may materially impact the Company in an adverse manner.

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 relatively 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.

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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 deter a change of control or proxy contest.

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. Revenue-based royalties derived from Steak n Shake's restaurants (including Company operated and franchised locations), products and brands would be included in calculating these royalty payments, which would thus represent significant liability for the Company. A change of control would also enable franchisees to terminate their franchise agreement with us. 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. In the event of a change in control 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 receive specified payments thereunder. The combination of these provisions along with others referenced (e.g., contracts cancellable if Mr. Biglari is no longer Chairman and Chief Executive Officer) all together could create the prevention of a transaction involving a change of control of the Company or deterrence of a potential proxy contest.

The Lion Fund, L.P.'s ownership position in the Company enables it to exert significant influence over matters requiring shareholder approval.

The Lion Fund, L.P., controlled by Mr. Biglari, has the ability to exert significant influence on actions the Company may take in the future that require shareholder approval, including change of control transactions. Therefore, The Lion Fund, L.P.'s ownership position may conflict with the interests of some or all of the Company's other shareholders.

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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, personnel 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, severe 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 agreement, dated as of March 19, 2014, with the lenders party thereto. 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.

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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 second fiscal quarters, restaurants in the Midwest may face harsh winter weather conditions. During the first and fourth fiscal 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) in exchange for a 6% hurdle rate for the Company and its subsidiaries (as compared to a 5% hurdle rate for all other limited partners), above which Biglari Capital is entitled to receive an incentive reallocation in its capacity as general partner of the investment partnerships. There can be no assurance that the benefit, if any, we may realize from this increased hurdle rate will enable us to recoup our costs incurred in performing services for Biglari Capital under the Shared Services Agreement.

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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.

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. Because we are a holding company and a significant portion of our assets may, from time to time, consist of investments in entities in which we do not have a controlling interest, 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 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 proper