

BIGLARI HOLDINGS INC.
Form 10-Q
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015
or

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

For the transition period from _____ to _____

Commission File Number: 0-8445

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

INDIANA
(State or other jurisdiction of incorporation or organization)

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

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

78257
(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Edgar Filing: BIGLARI HOLDINGS INC. - Form 10-Q

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 4, 2015, 2,065,626 shares of the registrant's Common Stock, \$.50 stated value, were outstanding.

Index

BIGLARI HOLDINGS INC.
INDEX

	Page No.
<u>Part I – Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets—</u>	
<u>June 30, 2015 and December 31, 2014</u>	1
<u>Consolidated Statements of Earnings—</u>	
<u>Second Quarter and First Six Months 2015 and 2014</u>	2
<u>Consolidated Statements of Comprehensive Income—</u>	
<u>Second Quarter and First Six Months 2015 and 2014</u>	3
<u>Consolidated Statements of Cash Flows—</u>	
<u>First Six Months 2015 and 2014</u>	4
<u>Consolidated Statements of Changes in Shareholders’ Equity—</u>	
<u>First Six Months 2015 and 2014</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Management’s Discussion and Analysis of Financial Condition and</u>	
<u>Results of Operations</u>	19
<u>Item 2.</u>	
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
<u>Item 4.</u>	
<u>Controls and Procedures</u>	27
<u>Part II – Other Information</u>	
<u>Item 1A.</u>	
<u>Risk Factors</u>	28
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	28
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	28
<u>Item 5.</u>	
<u>Other Information</u>	28
<u>Item 6.</u>	
<u>Exhibits</u>	29
<u>Signatures</u>	30

IndexPART 1 – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 68,007	\$ 129,669
Investments	21,586	10,800
Receivables	14,611	19,003
Inventories	6,964	7,255
Deferred taxes	13,594	12,019
Other current assets	10,615	7,707
Total current assets	135,377	186,453
Property and equipment	345,537	353,875
Goodwill	40,164	40,164
Other intangible assets	22,469	22,756
Investment partnerships	769,580	697,982
Other assets	12,038	13,561
Total assets	\$ 1,325,165	\$ 1,314,791
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable	\$ 44,855	\$ 39,996
Accrued expenses	72,581	65,476
Current portion of notes payable and other borrowings	9,098	9,315
Total current liabilities	126,534	114,787
Long-term notes payable and other borrowings	307,735	312,595
Deferred taxes	153,261	150,732
Other liabilities	11,061	11,126
Total liabilities	598,591	589,240
Shareholders' equity		
Common stock - 2,065,608 and 2,065,586		
shares outstanding	1,071	1,071
Additional paid-in capital	391,876	391,877
Retained earnings	441,834	431,825
Accumulated other comprehensive loss	(962)	(783)
Treasury stock, at cost	(107,245)	(98,439)
Biglari Holdings Inc shareholders' equity	726,574	725,551
Total liabilities and shareholders' equity	\$ 1,325,165	\$ 1,314,791

See accompanying Notes to Consolidated Financial Statements.

Index

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in thousands except per-share amounts)

	Second Quarter		First Six Months	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Revenues				
Restaurant operations	\$ 211,631	\$ 200,889	\$ 408,367	\$ 386,435
Insurance premiums and other	3,717	2,586	7,371	2,881
Media advertising and other	6,608	4,703	12,046	6,199
	221,956	208,178	427,784	395,515
Cost and expenses				
Restaurant cost of sales	159,005	153,966	313,766	298,253
Insurance losses and underwriting expenses	2,560	1,736	5,523	1,984
Media cost of sales	9,183	9,447	18,601	11,855
Selling, general and administrative	36,198	32,829	68,656	62,226
Depreciation and amortization	6,226	6,374	12,770	12,506
	213,172	204,352	419,316	386,824
Other income (expenses)				
Interest and dividends	3	147	8	619
Interest expense	(2,997)	(3,000)	(6,003)	(5,877)
Interest on obligations under leases	(2,410)	(2,426)	(4,885)	(4,851)
Investment gains (including contributions)	-	29,524	-	29,524
Investment partnership gains (losses)	(5,557)	15,305	17,408	(30,537)
Total other income (expenses)	(10,961)	39,550	6,528	(11,122)
Earnings (loss) before income taxes	(2,177)	43,376	14,996	(2,431)
Income tax expense (benefit)	(2,203)	14,613	4,987	(3,764)
Net earnings	\$ 26	\$ 28,763	\$ 10,009	\$ 1,333
Earnings per share				
Basic earnings per common share	\$ 0.01	\$ 17.00	\$ 5.40	\$ 0.78
Diluted earnings per common share	\$ 0.01	\$ 16.97	\$ 5.39	\$ 0.78
Weighted average shares and equivalents				
Basic	1,848,279	1,692,098	1,854,889	1,703,379
Diluted	1,850,427	1,695,279	1,857,243	1,706,747

See accompanying Notes to Consolidated Financial Statements.

Index

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	Second Quarter		First Six Months	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Net earnings	\$26	\$28,763	\$10,009	\$1,333
Other comprehensive (loss) income:				
Net change in unrealized gains and losses on investments	(126)	(1,191)	(543)	(11,244)
Applicable income taxes	46	450	200	4,270
Reclassification of investment (appreciation) depreciation in net earnings	55	(57)	55	(57)
Applicable income taxes	(19)	19	(19)	19
Reclassification of investment appreciation on contribution to investment partnerships	-	(29,524)	-	(29,524)
Applicable income taxes	-	11,219	-	11,219
Foreign currency translation	65	158	128	(253)
Other comprehensive income (loss), net	21	(18,926)	(179)	(25,570)
Total comprehensive income (loss)	\$47	\$9,837	\$9,830	\$(24,237)

See accompanying Notes to Consolidated Financial Statements.

Index

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	2015	First Six Months (Unaudited)	2014
Operating activities			
Net earnings	\$ 10,009		\$ 1,333
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	12,770		12,506
Provision for deferred income taxes	1,185		(5,601)
Asset impairments and other non-cash expenses	337		1,687
Loss on disposal of assets	407		319
Realized investment (gains) losses	55		(57)
Investment partnership (gains) losses	(17,408)		30,537
Gain on contributions to investment partnerships	-		(29,524)
Distributions from investment partnerships	-		4,384
Changes in receivables and inventories	4,683		(1,032)
Changes in other assets	(1,193)		(4,487)
Changes in accounts payable and accrued expenses	12,514		3,450
Net cash provided by operating activities	23,359		13,515
Investing activities			
Additions of property and equipment	(6,102)		(21,075)
Proceeds from property and equipment disposals	137		2,024
Acquisitions of businesses, net of cash acquired	-		(40,143)
Purchases of investments	(85,985)		(40,000)
Sales of investments and redemptions of fixed maturity securities	11,657		11,736
Changes in restricted assets	-		3,100
Net cash used in investing activities	(80,293)		(84,358)
Financing activities			
Proceeds from revolving credit facility	-		4,700
Payments on revolving credit facility	(74)		(10,700)
Borrowings on long-term debt	-		217,800
Principal payments on long-term debt	(1,100)		(105,362)
Deferred financing costs	-		(4,754)
Principal payments on direct financing lease obligations	(3,554)		(3,626)
Proceeds from exercise of stock options	3		3
Net cash (used in) provided by financing activities	(4,725)		98,061
Effect of exchange rate changes on cash	(3)		(179)
(Decrease) increase in cash and cash equivalents	(61,662)		27,039
Cash and cash equivalents at beginning of year	129,669		85,477
Cash and cash equivalents at end of second quarter	\$ 68,007		\$ 112,516

See accompanying Notes to Consolidated Financial Statements.

Index

BIGLARI HOLDINGS INC.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2014	\$1,071	\$391,877	\$431,825	\$ (783)	\$(98,439)	\$725,551
Net earnings			10,009			10,009
Other comprehensive income, net				(179)		(179)
Adjustment to treasury stock for holdings in investment partnerships					(8,810)	(8,810)
Exercise of stock options		(1)			4	3
Balance at June 30, 2015	\$1,071	\$391,876	\$441,834	\$ (962)	\$(107,245)	\$726,574
Balance at December 31, 2013	\$899	\$269,810	\$367,287	\$ 25,805	\$(75,916)	\$587,885
Net earnings			1,333			1,333
Other comprehensive income, net				(25,570)		(25,570)
Adjustment to treasury stock for holdings in investment partnerships					(10,190)	(10,190)
Exercise of stock options					2	2
Balance at June 30, 2014	\$899	\$269,810	\$368,620	\$ 235	\$(86,104)	\$553,460

See accompanying Notes to Consolidated Financial Statements.

Index

BIGLARI HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2015
(dollars in thousands, except share and per-share data)

Note 1. Summary of Significant Accounting Policies

Description of Business

The accompanying unaudited consolidated financial statements of Biglari Holdings Inc. (“Biglari Holdings” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and with the instructions to form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments considered necessary to present fairly the results of the interim periods have been included and consist only of normal recurring adjustments. The results for the interim periods shown are not necessarily indicative of results for the entire fiscal year. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in our transition report on form 10-K for the period September 25, 2014 to December 31, 2014.

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including Steak n Shake Operations, Inc. (“Steak n Shake”), Western Sizzlin Corporation (“Western”), Maxim Inc. (“Maxim”) and First Guard Insurance Company and its agency, 1st Guard Corporation (collectively “First Guard”). Intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

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. As a result of the change in year end, the second quarter for 2015 includes the period from April 1, 2015 to June 30, 2015. For comparative purposes, the second quarter for 2014 includes the period from April 1, 2014 to June 30, 2014. The comparative quarter is derived from the books and records of the Company. In the opinion of management, the comparative quarter reflects all adjustments necessary to present the financial position as well as the results of operations in accordance with generally accepted accounting principles (“GAAP”). After the year-end change, Steak n Shake continues to operate on a 52/53 week year, which ends on the last Wednesday of the calendar year. For the second quarters of 2015 and 2014, Steak n Shake’s financial information included the period from April 2, 2015 to July 1, 2015, and April 3, 2014 to July 2, 2014, respectively. For the first six months of 2015 and 2014, Steak n Shake’s financial information included the period from January 1, 2015 to July 1, 2015, and January 2, 2014 to July 2, 2014, respectively. There were no significant transactions in the intervening periods.

Business Acquisitions

On February 27, 2014 the Company acquired certain assets and liabilities of Maxim. Maxim is a brand management company whose business lies in media, both in print and in digital, and in licensing of products and services. On

March 19, 2014, the Company acquired the stock of First Guard, a direct underwriter of commercial trucking insurance, selling physical damage and nontrucking liability insurance to truckers. These acquisitions were not material, individually or in aggregate, to the Company. The fair value of the assets and liabilities acquired — other than investments, goodwill and intangibles — was not material.

Subsequent Events

On June 4, 2015, The Lion Fund II, L.P. commenced a tender offer to purchase shares of common stock of Biglari Holdings at a purchase price of \$420.00 per share in cash. The Lion Fund II, L.P. completed the tender offer on July 1, 2015 and thus purchased 616,312 shares of Biglari Holdings' common stock. The 616,312 common shares purchased in the tender offer remain legally outstanding. As a result of the tender offer, Mr. Biglari beneficially owns approximately 49.5% of the outstanding common stock.