

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 December 31, 2022

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 001-38477

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Indiana

82-3784946

(State or other jurisdiction of incorporation)

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

19100 Ridgewood Parkway, Suite 1200

San Antonio, Texas

78259

(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	Trading Symbols	Name of each exchange on which registered
Class A Common Stock, no par value	BH.A	New York Stock Exchange
Class B Common Stock, no par value	BH	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 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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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, 2022 was approximately \$ 125,207,808 .

Number of shares of common stock outstanding as of February 21, 2023:

Class A common stock –	206,864
Class B common stock –	2,068,640

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2023 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 property and casualty insurance, licensing and media, restaurants, and oil and gas. 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 the Company.

Biglari Holdings' management system combines decentralized operations with centralized financial decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of December 31, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and approximately 70.4% of the voting interest.

Restaurant Operations

The Company's restaurant operations are conducted through two subsidiaries: Steak n Shake Inc. ("Steak n Shake") and Western Sizzlin Corporation ("Western Sizzlin") for a combined 545 units. As of December 31, 2022, Steak n Shake had 177 company-operated restaurants, 175 franchise partner units, and 154 traditional franchise units. Of the 177 company-operated units, 39 are currently closed but Steak n Shake intends to rebrand a majority of them. Western Sizzlin had 3 company-operated restaurants and 36 franchise units.

Founded in 1934 in Normal, Illinois, on Route 66, Steak n Shake is a classic American brand serving premium burgers and milkshakes. Steak n Shake is headquartered in Indianapolis, Indiana.

Founded in 1962 in Augusta, Georgia, Western Sizzlin is a steak and buffet concept serving signature steak dishes as well as other classic American menu items. Western Sizzlin also operates two other concepts: Great American Steak & Buffet, and Wood Grill Buffet. Western Sizzlin is headquartered in Roanoke, Virginia.

The novel coronavirus ("COVID-19"), declared a pandemic by the World Health Organization in March 2020, caused governments to impose restrictive measures to contain its spread. In response to COVID-19, our restaurants were required to close their dining rooms in the first quarter of 2020, and the majority of those dining rooms remained closed during 2020. Steak n Shake reopened the majority of dining rooms during 2021, and in doing so has implemented a self-service model. Our restaurant operations followed the guidance of health officials in determining the appropriate restrictions to put in place for each restaurant.

Company-Operated Restaurants

A typical company-operated restaurant management team consists of a general manager, a restaurant manager, and other managers, depending on the 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.

Franchise Partner Restaurants

Steak n Shake offers a franchise partner program to transition company-operated restaurants to franchise partnerships. The franchise agreement stipulates that the franchisee make an upfront investment totaling ten thousand dollars. Steak n Shake, as the franchisor, assesses a fee of up to 15% of sales as well as 50% of profits. Potential franchise partners are screened based on entrepreneurial attitude and ability, but they become franchise partners based on achievement. Each must meet the gold standard in service. Franchise partners are single-unit owner-operators.

Traditional Franchise Restaurants

Restaurant operations' traditional 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 franchise restaurant management and associates.

International

We have a corporate office in Monaco and an international organization with personnel in various functions to support our international business. Similar to our traditional domestic franchise agreements, a typical international franchise development agreement includes development and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant.

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. Restaurant businesses compete on the basis of price, convenience, service, experience, menu variety, and product quality. 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, i.e., health, sanitation, safety, and fire agencies in the jurisdiction in which the restaurant is located.

Various federal and state labor laws govern our relationship with our employees, e.g., minimum wage, overtime pay, unemployment tax, health insurance, and workers' compensation. Federal, state, and local government agencies have established regulations requiring that we disclose nutritional information.

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

Biglari Holdings' insurance activities are conducted through two insurance entities, First Guard Insurance Company and its affiliated agency, 1st Guard Corporation (collectively "First Guard"), and Southern Pioneer Property & Casualty Insurance Company and its affiliated agency, Southern Pioneer Insurance Agency, Inc. (collectively "Southern Pioneer"). Our insurance businesses provide insurance of property and casualty.

The insurance business is stringently regulated by state insurance departments. Insurers based in the United States are subject to regulation by their states of domicile and by those states in which they are licensed to write policies on an admitted basis. First Guard and Southern Pioneer operate under licenses issued by various state insurance authorities. The primary focus of regulation is to ensure that insurers are financially solvent and that policyholder interests are otherwise protected. States establish minimum capital levels for insurance companies and establish guidelines for permissible business and investment activities. States have the authority to suspend or revoke a company's authority to do business as conditions warrant. States regulate the payment of dividends by insurance companies to their shareholders and other transactions with affiliates. Dividends, capital distributions, and other transactions of extraordinary amounts are subject to prior regulatory approval. Insurers may market, sell, and service insurance policies in the states where they are licensed. These insurers are referred to as admitted insurers. Admitted insurers are generally required to obtain regulatory approval of their policy forms and premium rates. Except for regulatory considerations, there are virtually no barriers to entry into the insurance industry.

First Guard is a direct underwriter of commercial truck insurance, selling physical damage and nontrucking liability insurance to truckers. The commercial truck 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 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. First Guard is headquartered in Venice, Florida.

Southern Pioneer underwrites garage liability and commercial property as well as homeowners and dwelling fire insurance on an admitted basis. Insurance coverages are offered nationwide, primarily through insurance agents. Southern Pioneer competes with large companies and local insurers. Southern Pioneer is headquartered in Jonesboro, Arkansas.

Biglari Holdings' insurance operations may be affected by extraordinary weather conditions or other factors, any of which may have a significant effect upon the frequency or severity of claims.

Oil and Gas Business

The Company's oil and gas operations are conducted through two entities, Southern Oil Company ("Southern Oil") and Abraxas Petroleum Corporation ("Abraxas Petroleum"). Southern Oil primarily operates oil and natural gas properties offshore in the shallow waters of the Gulf of Mexico. Abraxas Petroleum operates oil and natural gas wells in the Permian Basin.

On September 14, 2022, the Company purchased Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum for a purchase price of \$80 million. On October 26, 2022, the Company exchanged the Preferred Shares for 90% of the outstanding common stock of Abraxas Petroleum.

The oil and gas industry is fundamentally a commodity business. Southern Oil's and Abraxas Petroleum's operations and earnings, therefore, may be significantly affected by changes in oil and natural gas prices. The COVID-19 pandemic caused oil demand to decrease significantly during the second and third quarters of 2020, which created oversupplied markets and lower commodity prices and margins. In response, the Company cut production and expenses in its oil and natural gas business during 2020. However, the significant increase in average crude oil and natural gas prices in 2021 and 2022 as compared to 2020 resulting from the lifting of COVID-19 restrictions, the resumption of normal economic activity, and the resulting improvement in supply and demand fundamentals caused Southern Oil to return to full production during 2021 and 2022. Biglari Holdings' oil and gas operations compete with fully integrated, major global petroleum companies, as well as independent and national petroleum companies. In addition, our companies are subject to a variety of risks inherent in the oil and gas business, including a wide range of local, state, and federal regulations.

Southern Oil is headquartered in Madisonville, Louisiana, and Abraxas Petroleum is headquartered in San Antonio, Texas.

Brand Licensing Business

Maxim's business lies principally in brand licensing. Maxim is headquartered in New York, 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.

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, 2022, the fair value of the investments was \$383.0 million. These investments are subject to a rolling five-year lock-up period under the terms of the respective partnership agreements.

Employees

As of December 31, 2022, the Company employed 2,559 persons. When hiring personnel, we do not consider circumstances of birth, race, gender, ethnicity, religion, or any other factor unrelated to talent. The factor of prime importance to us, talent, is invariably found across a wide spectrum of humanity. We seek to associate with people of high character and competence.

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 (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, Compensation Committee Charter, and Audit Committee Charter are posted on the Company's website. The documents are also 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 their 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 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, 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 articles of incorporation or bylaws, and 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 passive shareholders, and reduce the possibility of a merger proposal, tender offer, or proxy contest for the removal of directors.

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. The Company does not have a governance and nominating committee.

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

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. 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. There is also a high likelihood that we will make additional investments in these investment partnerships.

Competition and technology may result in lower earnings.

Our operating businesses face intense competition within their markets, and many factors, including technological changes, may erode or prevent the strengthening of their competitive advantages. Accordingly, our future operating results will depend to some degree on our operating units successfully enhancing their competitive advantages. If our operating businesses are unsuccessful in these efforts, our periodic operating results may decline in the future. We also highlight certain competitive risks in the sections below.

Deterioration of general economic conditions may significantly reduce our operating earnings.

Our operating businesses are subject to normal economic cycles, which affect the general economy or the specific industries in which they operate. Significant deterioration of economic conditions over a prolonged period could produce a material adverse effect on one or more of our significant operations.

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

There is no assurance that our international operations will remain 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.

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, Office of Foreign Assets Control regulations, and

applicable local laws. 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.

Epidemics, pandemics, or other outbreaks, including COVID-19, could hurt our operating businesses and investments.

The outbreak of COVID-19 adversely affected our operations and investments, and in the future it or other epidemics, pandemics, or outbreaks may do the same. This is or may be due to closures or restrictions requested or mandated by governmental authorities, disruption to supply chains and workforce, reduction of demand for our products and services, credit losses when customers and other counterparties fail to satisfy their obligations to us, and volatility in global equity securities markets, among other factors.

Potential changes in laws or regulations may have a negative impact on our Class A common stock and Class B common stock.

In prior years, bills have been introduced in Congress that, if enacted, would have prohibited the listing of common stock on a national securities exchange if such common stock were part of a class of securities that has no voting rights or carries disproportionate voting rights. Although these bills have not been acted upon by Congress, there can be no assurance that such a bill (or a modified version thereof) will not be introduced in Congress in the future. Legislation or other regulatory developments could make the shares of Class A common stock and Class B common stock ineligible for trading on the NYSE or other national securities exchanges.

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 those 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 allegation regarding the 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 after these matters are completed or otherwise resolved.

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 intensely competitive industries. As there are virtually no barriers to entry into the restaurant business, competitors may include national, regional, and local establishments. Restaurant businesses compete on the basis of price, convenience, service, experience, menu variety, and product quality. 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. Declines in consumer restaurant spending 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.

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

The cost, availability, and quality of ingredients restaurant operations use to prepare their food are 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 and dairy products, which can be subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, changes in commodity markets, inflation, 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. We cannot predict whether we will continue to be able to anticipate and react to changing food costs by adjusting our purchasing practices, menu offerings, and menu prices, and a failure to do so could adversely affect our operating results.

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 Sizzlin'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, cause physical damage, or lead to a shortage of employees.

Changes in the availability of and the cost of labor could adversely affect our restaurant business.

Our restaurant business depends substantially on our ability to recruit and retain high-quality staff. Maintaining adequate staffing in our restaurants requires workforce planning and knowledge of the relevant labor market. The market for the most qualified talent continues to be competitive, and we must provide competitive wages, benefits, and workplace conditions. We have experienced, and may continue to experience, challenges in recruiting and retaining associates in various locations. A shortage of qualified candidates, failure to recruit and retain new associates in a timely manner, or higher than expected turnover levels could all affect our ability to grow sales at existing restaurants or meet our labor cost objectives.

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 harmed accordingly. 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.

Restaurant operations are also 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. The operation of the Steak n Shake and Western Sizzlin franchise systems 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 relationships 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 or increases in minimum wage rates, could adversely affect our business.

Risks Relating to Our Investment Activities

The majority of our investment activities are conducted through outside investment partnerships, The Lion Fund, L.P., and The Lion Fund II, L.P., 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, the capital we have invested in the investment partnerships may be subject to an increased risk of loss of all or a significant portion of its 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 have a services agreement with Biglari Capital Corp., the general partner of the investment partnerships ("Biglari Capital"), and Biglari Enterprises LLC (collectively, the "Biglari Entities"), in which the Company pays a fixed fee to the Biglari Entities for business and administrative-related services. The Biglari Entities are owned by Mr. Biglari. There can be no assurance that the fees paid will be commensurate with the benefits received.

The incentive allocation to which Mr. Biglari, as Chairman and Chief Executive Officer of Biglari Capital, is entitled with respect to our investments under the terms of the respective partnership agreements is equal to 25% of the net profits allocated to the limited partners in excess of a 6% hurdle rate over the previous high-water mark.

Our investments may be concentrated, and fair values are subject to a loss in value.

The majority of our investments are held through the investment partnerships, which generally invest in common stocks. These investments may be largely concentrated in the common stocks of a few investees. A significant decline in the 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, with approximately 2,500 employees, along 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." Because we monitor the value of our investments and structure transactions accordingly, 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, adverse developments with respect to our ownership of certain of our operating subsidiaries, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings, 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 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 in which 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.

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's 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.

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 held. 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 Brand Licensing Business

Licensing opportunities for the Maxim brand may be difficult to maintain.

Maxim's success depends to a significant degree upon licensing agreements. These licensing agreements mature from time to time, and we may be unable to secure favorable terms for future licensing arrangements. 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 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.

Risks Relating to Our Oil and Gas Business

Our oil and gas business is exposed to the effects of volatile commodity prices.

The single largest variable that affects our oil and gas results of operations is the price of crude oil and natural gas. The price we receive for our oil and natural gas production heavily influences our oil and gas business's revenue and profitability. Extended periods of low prices for crude oil or natural gas can have a material adverse impact on our results of operations.

Our oil and gas business is subject to disruption by factors beyond its control.

Any disruption of the extractive business of either of our oil and gas subsidiaries would adversely affect our revenues and profitability. Our oil and gas operations are therefore subject to disruption from natural or human causes beyond their control, including physical risks from hurricanes, severe storms, and other forms of system failures, any of which could result in suspension of operations or harm to people or the natural environment.

Our oil and gas business can be adversely affected by political or regulatory developments affecting our operations.

Our oil and gas operations can be affected by changing economic, regulatory, and political environments. Litigation or changes in national, state, or local environmental regulations or laws, including those designed to stop or impede the development or production of oil and natural gas, could adversely affect our operations and profitability.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Restaurant Properties

As of December 31, 2022, restaurant operations included 545 company-operated and franchise locations. Restaurant operations own the land and building for 155 restaurants; they also own 9 other properties. The following table lists the locations of the restaurants, as of December 31, 2022.

	Steak n Shake			Western Sizzlin		
	Company Operated	Franchise Partner	Traditional Franchise	Company Operated	Franchise	Total
Domestic:						
Alabama	1	1	4	—	5	11
Arkansas	—	—	4	—	7	11
California	—	—	2	—	—	2
Colorado	1	—	—	—	—	1
Delaware	—	—	1	—	—	1
Florida	20	57	7	—	—	84
Georgia	7	12	11	—	4	34
Illinois	37	18	9	—	—	64
Indiana	39	21	1	—	—	61
Iowa	2	1	1	—	—	4
Kansas	—	—	4	—	—	4
Kentucky	1	11	9	—	—	21
Louisiana	—	—	1	—	—	1
Maryland	—	—	1	—	1	2
Michigan	13	4	1	—	—	18
Mississippi	—	—	6	—	1	7
Missouri	10	11	22	—	—	43
Nebraska	—	—	1	—	—	1
Nevada	—	—	8	—	—	8
North Carolina	1	5	2	—	6	14
Ohio	30	19	1	—	1	51
Oklahoma	—	—	2	—	2	4
Pennsylvania	4	—	1	—	—	5
South Carolina	—	1	2	—	2	5
Tennessee	1	7	10	—	3	21
Texas	6	7	13	—	1	27
Virginia	—	—	4	2	3	9
Washington, D.C.	—	—	1	—	—	1
West Virginia	—	—	2	1	—	3
International:						
France	2	—	23	—	—	25
Monaco	1	—	—	—	—	1
Spain	1	—	—	—	—	1
Total	177	175	154	3	36	545

As of December 31, 2022, 39 of the 177 Steak n Shake company-operated stores were closed. The Company intends to rebrand the majority of its closed stores.

Other Properties

Southern Oil primarily operates oil and natural gas wells in Louisiana. Its operations are primarily offshore in the shallow waters of the Gulf of Mexico.

Abraxas Petroleum operates oil and natural gas wells in the Permian Basin.

First Guard owns the land and building of its office in Venice, Florida. Southern Pioneer owns the land and building of its office in Jonesboro, Arkansas.

The Company owns Steak n Shake's office building in Indianapolis, Indiana, along with two other undeveloped properties in other states.

Item 3. Legal Proceedings

Refer to Commitments and Contingencies - Note 15 to the Consolidated Financial Statements included in Item 8 for a discussion of legal proceedings.

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' Class A common stock and Class B common stock are listed for trading on the NYSE, trading symbol: BH.A and BH, respectively.

Shareholders

Biglari Holdings had 1,692 beneficial shareholders of its Class A common stock and 3,506 beneficial shareholders of its Class B common stock as of February 1, 2023.

Dividends

Biglari Holdings has never declared a dividend.

Item 6. Selected Financial Data

(dollars in thousands, except per-share data)

	2022	2021	2020	2019	2018
Revenue:					
Restaurant operations	\$ 241,568	\$ 271,290	\$ 350,666	\$ 610,220	\$ 775,690
Insurance premiums and other	64,540	58,609	52,679	30,083	27,628
Oil and gas	57,546	33,004	26,255	24,436	—
Licensing and media	4,577	3,203	4,083	4,099	6,576
Total revenues	<u>\$ 368,231</u>	<u>\$ 366,106</u>	<u>\$ 433,683</u>	<u>\$ 668,838</u>	<u>\$ 809,894</u>
Earnings:					
Net earnings (loss) attributable to Biglari Holdings Inc. shareholders	\$ (32,018)	\$ 35,478	\$ (37,989)	\$ 45,380	\$ 19,392
Net earnings (loss) per equivalent Class A share	<u>\$ (107.43)</u>	<u>\$ 111.83</u>	<u>\$ (110.05)</u>	<u>\$ 131.64</u>	<u>\$ 55.71</u>
Year-end data:					
Total assets	<u>\$ 828,474</u>	<u>\$ 894,807</u>	<u>\$ 1,017,968</u>	<u>\$ 1,139,309</u>	<u>\$ 1,029,493</u>
Notes payable and other borrowings	<u>\$ 10,000</u>	<u>\$ —</u>	<u>\$ 152,261</u>	<u>\$ 180,264</u>	<u>\$ 181,521</u>
Biglari Holdings Inc. shareholders' equity	<u>\$ 546,966</u>	<u>\$ 587,696</u>	<u>\$ 564,828</u>	<u>\$ 616,298</u>	<u>\$ 570,455</u>

Earnings per share of common stock is based on the weighted-average number of shares outstanding during the period. The Company has applied the “two-class method” of computing earnings per share as prescribed in Accounting Standards Codification 260, “Earnings Per Share.”

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 property and casualty insurance, licensing and media, restaurants, and oil and gas. 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 the Company.

Biglari Holdings' management system combines decentralized operations with centralized financial decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of December 31, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3% of the economic interest and approximately 70.4% of the voting interest.

Business Acquisitions

On September 14, 2022, the Company purchased 685,505 shares of Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum Corporation ("Abraxas Petroleum") for a purchase price of \$80,000. On October 26, 2022, the Company converted the Preferred Shares to 90% of the outstanding common stock of Abraxas Petroleum. The Company used working capital including its line of credit to fund the purchase of the Preferred Shares. Abraxas Petroleum operates oil and natural gas properties in the Permian Basin. The preliminary purchase price allocation includes \$70,200 of oil and gas properties, cash of \$21,726, and liabilities, net of other assets, of \$11,926. The Company's financial results include the results of Abraxas Petroleum from the acquisition date to the end of the calendar year. The revenues and operating results for Abraxas Petroleum were not significant to the Company.

On March 9, 2020, Biglari Holdings acquired the stock of Southern Pioneer Property & Casualty Insurance Company and its affiliated agency, Southern Pioneer Insurance Agency, Inc. (collectively "Southern Pioneer"). Southern Pioneer underwrites garage liability and commercial property as well as homeowners and dwelling fire insurance coverage. The Company's financial results include the results of Southern Pioneer from the date of acquisition.

Discussion of Operations

Net earnings attributable to Biglari Holdings Inc. shareholders are disaggregated in the table that follows.

	2022	2021	2020
Operating businesses:			
Restaurant	\$ 9,383	\$ 11,235	\$ (4,961)
Insurance	7,662	11,290	9,840
Oil and gas	19,091	7,528	1,890
Brand licensing	1,313	2,364	1,374
Interest expense	(305)	(841)	(6,940)
Corporate and other	(9,806)	(9,829)	(9,563)
Total operating businesses	27,338	21,747	(8,360)
Investment partnership gains (losses)	(56,961)	8,899	(32,506)
Investment gains (losses)	(2,682)	4,832	2,877
Net earnings (loss)	(32,305)	35,478	(37,989)
Earnings (loss) attributable to noncontrolling interest	(287)	—	—
Net earnings (loss) attributable to Biglari Holdings Inc. shareholders	\$ (32,018)	\$ 35,478	\$ (37,989)

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.

Our Management Discussion and Analysis generally discusses 2022 and 2021 items. Discussions of 2020 items can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 28, 2022.

Investment gains and losses in 2022 and 2021 were mainly derived from our investments in equity securities and included unrealized gains and losses from market price changes during the period. We believe that investment and derivative gains/losses are generally meaningless for analytical purposes in understanding our reported quarterly and annual results. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings.

Through our subsidiaries, we engage in numerous diverse business activities. We operate on a decentralized management structure. The business segment data (Note 17 to the accompanying Consolidated Financial Statements) should be read in conjunction with this discussion.

Restaurants

Our restaurant businesses, which include Steak n Shake and Western Sizzlin, comprise 545 company-operated and franchise restaurants as of December 31, 2022.

	Steak n Shake			Western Sizzlin			Total
	Company-operated	Franchise Partner	Traditional Franchise	Company-operated	Franchise		
Stores open on December 31, 2019	368	29	213	4	48		662
Corporate stores transitioned	(58)	57	1	—	—		—
Net restaurants opened (closed)	(34)	—	(20)	(1)	(9)		(64)
Stores open on December 31, 2020	276	86	194	3	39		598
Corporate stores transitioned	(73)	73	—	—	—		—
Net restaurants opened (closed)	(4)	—	(16)	—	(1)		(21)
Stores open on December 31, 2021	199	159	178	3	38		577
Corporate stores transitioned	(16)	16	—	—	—		—
Net restaurants opened (closed)	(6)	—	(24)	—	(2)		(32)
Stores open on December 31, 2022	177	175	154	3	36		545

As of December 31, 2022, 39 of the 177 company-operated Steak n Shake stores were closed. We plan to rebrand a majority of our closed company-operated restaurants.

Management's Discussion and Analysis (continued)

Restaurant operations for 2022, 2021, and 2020 are summarized below.

	2022		2021		2020	
Revenue						
Net sales	\$ 149,184		\$ 187,913		\$ 306,577	
Franchise partner fees	63,853		55,641		22,213	
Franchise royalties and fees	19,678		21,736		18,794	
Other revenue	8,853		6,000		3,082	
Total revenue	241,568		271,290		350,666	
 Restaurant cost of sales						
Cost of food	44,461	29.8 %	55,315	29.4 %	88,698	28.9 %
Restaurant operating costs	79,921	53.6 %	92,543	49.2 %	137,574	44.9 %
Occupancy costs	15,882	10.6 %	19,633	10.4 %	20,383	6.6 %
Total cost of sales	140,264		167,491		246,655	
 Selling, general and administrative						
General and administrative	40,206	16.6 %	39,940	14.7 %	35,922	10.2 %
Marketing	13,921	5.8 %	13,923	5.1 %	21,507	6.1 %
Other expenses (income)	(2,294)	(0.9)%	3,323	1.2 %	2,972	0.8 %
Total selling, general and administrative	51,833	21.5 %	57,186	21.1 %	60,401	17.2 %
 Impairments	3,520	1.5 %	4,635	1.7 %	23,646	6.7 %
 Depreciation and amortization	27,496	11.4 %	21,484	7.9 %	19,042	5.4 %
 Interest on finance leases and obligations	5,493		6,039		6,274	
 Earnings (loss) before income taxes	12,962		14,455		(5,352)	
 Income tax expense (benefit)	3,579		3,220		(391)	
 Contribution to net earnings	\$ 9,383		\$ 11,235		\$ (4,961)	

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

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

The COVID-19 pandemic adversely affected our restaurant operations and financial results. Our restaurants were required to close their dining rooms during the first quarter of 2020. The majority of Steak n Shake's dining rooms remained closed through the end of 2020 but reopened during 2021, and in doing so implemented a self-service model.

Net sales during 2022 were \$149,184 as compared to \$187,913 during 2021. The decrease in revenue of company-owned restaurants is primarily due to the shift of company units to franchise partner units. For company-operated units, sales to the end customer are recorded as revenue generated by the Company, but for franchise partner units, only our share of the restaurant's profits, along with certain fees, are recorded as revenue. Because we derive most of our revenue from our share of the profits, revenue will continue to decline as we transition from company-operated units to franchise partner units.

Management's Discussion and Analysis (continued)

To better convey the underlying economics of the franchise partnership model, the table below shows the average unit sales, the cost of food, and the labor costs of franchise partners. The average was based on 137 comparable franchise partner units, out of a total of 175. To be included as a comparable franchise partner unit, a unit had to be operated by a franchise partner for all of 2022, and had to be open in 2021 as either a company-operated or a franchise partner unit.

	2022	2021
Net sales	\$ 1,819	\$ 1,595
Cost of food	502	27.6 %
Labor costs	500	27.5 %

Our franchise partner fees were \$63,853 during 2022 as compared to \$55,641 during 2021. As of December 31, 2022, there were 175 franchise partner units as compared to 159 franchise partner units as of December 31, 2021. Included in franchise partner fees were \$20,426 and \$15,483 of rental income during 2022 and 2021, respectively. Franchise partners rent buildings and equipment from Steak n Shake.

The franchise royalties and fees generated by the traditional franchising business were \$19,678 during 2022 as compared to \$21,736 during 2021. The decrease in franchise royalties and fees was primarily due to the closing of certain traditional franchise stores. There were 190 traditional units open on December 31, 2022, as compared to 216 units open on December 31, 2021.

Other revenue in 2022 was \$8,853 as compared to \$6,000 in 2021. The increase was primarily a result of gift card breakage, as our restaurants have seen fewer gift card redemptions since the onset of the pandemic.

The cost of food at company-operated units in 2022 was \$44,461, or 29.8% of net sales as compared to \$55,315, or 29.4% of net sales in 2021. The decreases in the cost of food and operating costs are mainly attributable to the transitioning of company-operated units to franchise partner units. The cost of food expressed as a percentage of net sales remained consistent with 2021.

The operating costs at company-operated restaurants during 2022 were \$79,921, or 53.6% of net sales as compared to \$92,543, or 49.2% of net sales in 2021. As we transition to franchise partner units, the remaining company-operated units generate lower average unit volumes and correspondingly higher operating costs (including higher wages) as a percentage of net sales.

Selling, general and administrative expenses during 2022 were \$51,833, or 21.5% of total revenue as compared to \$57,186, or 21.1% of total revenue during 2021. Selling, general and administrative expenses decreased during 2022 as compared to 2021 primarily because of lower professional costs.

Asset impairments decreased \$1,115 during 2022 as compared to 2021. Higher asset impairments were recorded in 2021 primarily because a large number of underperforming stores were affected by the pandemic.

Depreciation and amortization expense increased \$6,012 during 2022 as compared to 2021. The year-over-year increase is primarily attributable to higher capital expenditures in 2021.

Interest on obligations under leases was \$5,493 during 2022 versus \$6,039 during 2021. The year-over-year decrease in interest expense is primarily attributable to the maturity and retirement of lease obligations.

Insurance

We view our insurance businesses as possessing two activities: underwriting and investing. Underwriting decisions are the responsibility of the unit managers, whereas investing decisions are the responsibility of our Chairman and CEO, Sardar Biglari. Our business units are operated under separate local management. Biglari Holdings' insurance operations consist of First Guard and Southern Pioneer.

Management's Discussion and Analysis (continued)

Underwriting results of our insurance operations are summarized below.

	2022	2021	2020
Underwriting gain (loss) attributable to:			
First Guard	\$ 6,578	\$ 10,573	\$ 9,379
Southern Pioneer	(1,277)	1,744	620
Pre-tax underwriting gain	5,301	12,317	9,999
Income tax expense	1,113	2,587	2,100
Net underwriting gain	<u>\$ 4,188</u>	<u>\$ 9,730</u>	<u>\$ 7,899</u>

Earnings of our insurance operations are summarized below.

	2022	2021	2020
Premiums earned	\$ 59,949	\$ 55,411	\$ 49,220
Insurance losses	37,187	27,649	24,828
Underwriting expenses	17,461	15,445	14,393
Pre-tax underwriting gain	5,301	12,317	9,999
Other income and expenses			
Investment income	1,380	704	1,212
Other income	3,223	1,414	1,220
Total other income	4,603	2,118	2,432
Earnings before income taxes	9,904	14,435	12,431
Income tax expense	2,242	3,145	2,591
Contribution to net earnings	<u>\$ 7,662</u>	<u>\$ 11,290</u>	<u>\$ 9,840</u>

Insurance premiums and other on the consolidated statement of earnings includes premiums earned, investment income, other income, and commissions. Commissions are in other income in the above table.

First Guard

First Guard is a direct underwriter of commercial truck insurance, selling physical damage and nontrucking liability insurance to truckers. 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 insurer. A summary of First Guard's underwriting results follows.

	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
Premiums earned	\$ 35,914	100.0 %	\$ 33,521	100.0 %	\$ 30,210	100.0 %
Insurance losses	22,299	62.1 %	16,338	48.7 %	14,031	46.5 %
Underwriting expenses	7,037	19.6 %	6,610	19.7 %	6,800	22.5 %
Total losses and expenses	29,336	81.7 %	22,948	68.4 %	20,831	69.0 %
Pre-tax underwriting gain	<u>\$ 6,578</u>		<u>\$ 10,573</u>		<u>\$ 9,379</u>	

First Guard's ratio of losses and loss adjustment expenses to premiums earned was 62.1% during 2022 as compared to 48.7% during 2021. First Guard's underwriting results in 2022 were in line with its historical performance despite cost inflation in property and physical damage claims, which began to accelerate in 2022. However, 2021 was an abnormally favorable year with low claim frequency despite a return to pre-pandemic traffic patterns.

Management's Discussion and Analysis (continued)**Southern Pioneer**

Southern Pioneer underwrites garage liability and commercial property insurance, as well as homeowners and dwelling fire insurance. The financial results for Southern Pioneer are from the date of acquisition, March 9, 2020. A summary of Southern Pioneer's underwriting results follows.

	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
Premiums earned	\$ 24,035	100.0 %	\$ 21,890	100.0 %	\$ 19,010	100.0 %
Insurance losses	14,888	61.9 %	11,311	51.7 %	10,797	56.8 %
Underwriting expenses	10,424	43.4 %	8,835	40.4 %	7,593	39.9 %
Total losses and expenses	25,312	105.3 %	20,146	92.1 %	18,390	96.7 %
Pre-tax underwriting gain (loss)	\$ (1,277)		\$ 1,744		\$ 620	

Southern Pioneer's ratio of losses and loss adjustment expenses to premiums earned was 61.9% during 2022 as compared to 51.7% during 2021. Southern Pioneer's 2022 performance was primarily attributable to higher claim frequency and severity (mainly related to adverse weather) in several niche lines.

Insurance – Investment Income

A summary of net investment income attributable to our insurance operations follows.

	2022	2021	2020
Interest, dividends, and other investment income:			
First Guard	\$ 751	\$ 133	\$ 285
Southern Pioneer	629	571	927
Pre-tax investment income	1,380	704	1,212
Income tax expense	289	148	255
Net investment income	\$ 1,091	\$ 556	\$ 957

We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

Management's Discussion and Analysis (continued)**Oil and Gas**

Biglari Holdings' oil and gas operations consist of Southern Oil and Abraxas Petroleum.

Southern Oil

Southern Oil primarily operates oil and natural gas properties offshore in the shallow waters of the Gulf of Mexico. Earnings for Southern Oil are summarized below.

	2022	2021	2020
Oil and gas revenue	\$ 46,091	\$ 33,004	\$ 26,255
Oil and gas production costs	13,355	10,470	8,700
Depreciation, depletion, and accretion	5,503	8,073	12,527
General and administrative expenses	2,694	4,748	3,010
Earnings before income taxes	24,539	9,713	2,018
Income tax expense	5,946	2,185	128
Contribution to net earnings	<u><u>\$ 18,593</u></u>	<u><u>\$ 7,528</u></u>	<u><u>\$ 1,890</u></u>

Our oil and gas business is highly dependent on oil and natural gas prices. Demand for petroleum grew in 2022, with our financial results benefiting from stronger prices and margins. The average West Texas Intermediate price per barrel for the year ended December 31, 2022, was approximately \$94.53 as compared to approximately \$68.17 for the year ended December 31, 2021. It is expected that the prices of oil and gas commodities will remain volatile, which will be reflected in our financial results. Depreciation, depletion, and accretion expense during 2022 decreased \$2,570 as compared to 2021, primarily due to temporarily shutting in producing wells.

Abraxas Petroleum

Abraxas Petroleum operates oil and natural gas properties in the Permian Basin. Earnings for Abraxas Petroleum from the date of acquisition, September 14, 2022, are summarized below.

	2022
Oil and gas revenue	\$ 11,455
Oil and gas production costs	4,487
Depreciation, depletion, and accretion	2,510
General and administrative expenses	3,806
Earnings before income taxes	652
Income tax expense	154
Contribution to net earnings	<u><u>\$ 498</u></u>

Management's Discussion and Analysis (continued)**Brand Licensing**

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

	2022	2021	2020
Licensing and media revenue	\$ 4,577	\$ 3,203	\$ 4,083
Licensing and media cost	2,695	2,275	2,156
General and administrative expenses	122	114	143
Earnings before income taxes	1,760	814	1,784
Income tax expense	447	(1,550)	410
Contribution to net earnings	<u>\$ 1,313</u>	<u>\$ 2,364</u>	<u>\$ 1,374</u>

We acquired Maxim with the idea of transforming its business model. The magazine developed the Maxim brand, a franchise we are utilizing to generate nonmagazine revenue, notably through licensing, a cash-generating business related to consumer products, services, and events.

Investment Gains and Investment Partnership Gains

Investment losses were \$3,393 (\$2,682 net of tax) in 2022 as compared to investment gains of \$6,401 (\$4,832 net of tax) in 2021. Investment gains in 2021 included a gain from the sale of real estate of \$5,047 (\$3,785 net of tax). Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

Earnings from our investments in partnerships are summarized below.

	2022	2021	2020
Investment partnership gains (losses)	\$ (75,953)	\$ 10,953	\$ (43,032)
Tax expense (benefit)	(18,992)	2,054	(10,526)
Contribution to net earnings	<u>\$ (56,961)</u>	<u>\$ 8,899</u>	<u>\$ (32,506)</u>

Investment partnership gains include gains/losses from changes in the market values of underlying investments and dividends earned by the partnerships. Dividend income has a lower effective tax rate than income from capital gains. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings.

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 in the Company's consolidated financial results.

Investment gains and losses in 2022 and 2021 were mainly derived from our investments in equity securities and included unrealized gains and losses from market price changes during the period. We believe that investment and derivative gains/losses are generally meaningless for analytical purposes in understanding our reported quarterly or annual results. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings.

Management's Discussion and Analysis (continued)

Interest Expense

The Company's interest expense is summarized below.

	2022	2021	2020
Interest expense on notes payable and other borrowings	\$ (399)	\$ (1,121)	\$ (9,262)
Tax benefit	(94)	(280)	(2,322)
Interest expense net of tax	<u><u>\$ (305)</u></u>	<u><u>\$ (841)</u></u>	<u><u>\$ (6,940)</u></u>

The Company paid Steak n Shake's outstanding credit facility in full in February 2021. On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to \$30,000. The balance on the line of credit was \$10,000 on December 31, 2022.

Income Taxes

The consolidated income tax benefit was \$10,722 in 2022 versus an expense of \$6,789 in 2021. The change in income tax expense was primarily due to a tax benefit of \$18,992 for investment partnership losses in 2022.

Corporate and Other

Corporate expenses exclude the activities of the restaurant, insurance, brand licensing, and oil and gas businesses. Corporate and other net losses for 2022 remained consistent with the preceding year.

Financial Condition

Our consolidated shareholders' equity on December 31, 2022, was \$546,966, a decrease of \$40,730 as compared to the December 31, 2021 balance. The decrease in shareholders' equity was primarily due to a net loss of \$32,018 and an increase in treasury stock of \$7,829.

Consolidated cash and investments are summarized below.

	December 31,	
	2022	2021
Cash and cash equivalents	\$ 37,467	\$ 42,349
Investments	69,466	83,061
Fair value of interest in investment partnerships	383,004	474,201
Total cash and investments	489,937	599,611
Less: portion of Company stock held by investment partnerships	(227,210)	(223,802)
Carrying value of cash and investments on balance sheet	<u><u>\$ 262,727</u></u>	<u><u>\$ 375,809</u></u>

Unrealized gains/losses of Biglari Holdings' stock held by the investment partnerships are eliminated in the Company's consolidated financial results.

Liquidity

Our balance sheet continues to maintain significant liquidity. Consolidated cash flow activities are summarized below.

	2022	2021	2020
Net cash provided by operating activities	\$ 127,825	\$ 228,767	\$ 117,556
Net cash used in investing activities	(136,605)	(58,525)	(129,487)
Net cash provided by (used in) financing activities	3,860	(156,157)	(29,109)
Effect of exchange rate changes on cash	38	(64)	10
Increase (decrease) in cash, cash equivalents, and restricted cash	<u><u>\$ (4,882)</u></u>	<u><u>\$ 14,021</u></u>	<u><u>\$ (41,030)</u></u>

Management's Discussion and Analysis (continued)

In 2022, cash from operating activities decreased by \$100,942 as compared to 2021. The change was primarily attributable to a decrease in distributions from investment partnerships from \$180,170 in 2021 to \$70,700 in 2022. The distributions during 2022 were primarily used to acquire Abraxas Petroleum, and the distributions during 2021 were primarily used to repay Steak n Shake's term loan.

Net cash used in investing activities increased during 2022 by \$78,080 as compared to 2021. The change was primarily due to the acquisition of Abraxas Petroleum of \$58,274, net of cash acquired, as well as purchases of limited partner interests of \$48,570 during 2022.

Cash provided by financing activities of \$3,860 during 2022 was primarily because of the \$10,000 draw on the Company's line of credit. Cash used in financing activities of \$156,157 during 2021 was primarily attributable to the repayment of Steak n Shake's outstanding balance of its term debt.

We intend to meet the working capital needs of our operating subsidiaries, principally through cash flows generated from operations and cash on hand. We continually review available financing alternatives.

Biglari Holdings Line of Credit

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to \$30,000. The line of credit will be available on a revolving basis until September 12, 2024. The line of credit includes customary covenants, as well as financial maintenance covenants. As of December 31, 2022, we were in compliance with all covenants. The balance of the line of credit on December 31, 2022, was \$10,000. Our interest rate was 6.53% on December 31, 2022, which is based on the 30-day Secured Overnight Financing Rate plus 2.728%.

Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into a credit agreement that provided for a senior secured term loan facility in an aggregate principal amount of \$220,000. The term loan was scheduled to mature on March 19, 2021. The Company repaid Steak n Shake's outstanding balance in full on February 19, 2021.

Western Sizzlin Revolver

Western Sizzlin's available line of credit is \$500. As of December 31, 2022 and 2021, Western Sizzlin had no debt outstanding under its revolver.

Critical Accounting Policies

Certain accounting policies require us to make estimates and judgments in determining the amounts reflected in the consolidated financial statements. Such estimates and judgments necessarily involve varying, and possibly significant, degrees of uncertainty. Accordingly, certain amounts currently recorded in the financial statements will likely be adjusted in the future based on new available information and changes in other facts and circumstances. A discussion of our principal accounting policies that required the application of significant judgments as of December 31, 2022, follows.

Consolidation

The consolidated financial statements include the accounts of Biglari Holdings Inc. and the wholly owned subsidiaries of Biglari Holdings Inc. The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. All intercompany accounts and transactions are eliminated in consolidation.

Our interests in the investment partnerships are accounted for as equity method investments because of our retained limited partner interest in the investment partnerships. The Company records gains from the investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the consolidated statement of earnings based on our proportional ownership interest in the investment partnerships.

Impairment of Restaurant Long-lived Assets

We review company-operated restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. Assets included in the impairment assessment generally consist of property, equipment, and leasehold improvements directly associated with an individual restaurant as well as any related finance or operating lease assets. We test for impairment by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total estimated future cash flows are less than the carrying amount of the asset, the carrying value is written down to the estimated fair value, and a loss is recognized in earnings. Determining the future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, fair market value if the asset were to be sold, and other financial and economic assumptions.

Management's Discussion and Analysis (continued)

Oil and Natural Gas Reserves

Crude oil and natural gas reserves are estimates of future production that impact certain asset and expense accounts. Proved reserves are the estimated quantities of oil and gas that geoscience and engineering data demonstrate with reasonable certainty to be economically producible in the future under existing economic conditions, operating methods, and government regulations. Proved reserves include both developed and undeveloped volumes. Proved developed reserves represent volumes expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are volumes expected to be recovered from new wells on undrilled proved acreage, or from existing wells where expenditure is required for recompletion. We estimate our proved oil and natural gas reserves in accordance with the guidelines established by the SEC. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

Income Taxes

We record deferred tax assets or liabilities, which are based on differences between financial reporting and the tax basis of assets and liabilities and are measured using the currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets are unable to be utilized, we would record a valuation allowance against the unrealizable amount and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate applicable to tax differences arising from reversal in the future. We must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded.

Goodwill and Other Intangible Assets

We evaluate goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. Goodwill impairment occurs when the estimated fair value of goodwill is less than its carrying value. The valuation methodology and underlying financial information included in our determination of fair value require significant managerial judgment. Based on a review of the qualitative factors, if we determine it is not more likely than not that the fair value is less than the carrying value, we may bypass the quantitative impairment test. We may also elect not to perform the qualitative assessment for the reporting unit or intangible assets and perform a quantitative impairment test instead.

Leases

We determine whether a contract is or contains a lease at contract inception based on the presence of identified assets and our right to obtain substantially all of the economic benefit from, or to direct the use of, such assets. When we determine a lease exists, we record a right-of-use asset and corresponding lease liability on our consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset for the lease term. Lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets are recognized at the commencement date at the value of the lease liability and are adjusted for any prepayments, lease incentives received, and initial direct costs incurred. Lease liabilities are recognized at the lease commencement date based on the present value of remaining lease payments over the lease term. As the discount rate implicit in the lease is not readily determinable in most of our leases, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. We do not record lease contracts with a term of 12 months or less on our consolidated balance sheets. We recognize fixed lease expense for operating leases on a straight-line basis over the lease term. For finance leases, we recognize amortization expense on the right-of-use asset and interest expense on the lease liability over the lease term.

Cautionary Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items, and assumptions underlying any of the foregoing. Forward-looking statements reflect management's current expectations regarding future events and use words such as "anticipate," "believe," "expect," "may," and other similar terminology. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. These forward-looking statements are all based on currently available operating, financial, and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, many beyond our control, including, but not limited to, the risks and uncertainties described in Item 1A, Risk Factors, set forth above. We undertake no obligation to publicly update or revise them, except as may be required by law.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Biglari Holdings Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Biglari Holdings Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2023 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of a Matter

As discussed in Note 4 and Note 14 to the consolidated financial statements, the Company and its subsidiaries have invested in investment partnerships in the form of limited partnership interests. These investment partnerships represent related parties, and such investments are subject to a rolling five-year lock up period under the terms of the respective partnership agreements for the investment partnerships. The value of these investments reported in the Company's consolidated balance sheets as of December 31, 2022 and 2021 totals \$155,794,000 and \$250,399,000, respectively. Our opinion is not modified with respect to this matter.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Property and Equipment — Refer to Notes 1 and 6 to the financial statements

Critical Audit Matter Description

Company-operated restaurants and associated long-lived assets are evaluated for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment may have occurred. The Company's evaluation of potential impairment of long-lived assets involves the comparison of undiscounted future cash flows expected to be generated by the asset group, generally an individual restaurant, over the expected remaining useful life of that asset group, to the respective carrying amount. The Company also applied a market analysis for certain properties. The Company's undiscounted future cash flows analysis requires management to make estimates and assumptions related to future revenues, labor costs and planned operating periods. To the extent that the undiscounted cash flows are not sufficient to recover the related assets, the Company estimates the fair value of the related assets using a discounted cash flow model to assess the amount of any impairment.

We identified the impairment of company-operated restaurant long-lived assets as a critical audit matter because of the estimates and assumptions required by management to evaluate the potential impairment of these asset groups. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of certain assumptions, in management's undiscounted and discounted future cash flows analyses, including revenue growth, food costs, labor costs, and planned operating periods of restaurants.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the undiscounted and discounted future cash flows analysis and the assessment of the expected remaining holding period included the following, among others:

- We tested the effectiveness of controls over management's evaluation of the recoverability of long-lived assets, including those over revenue, food costs, labor costs and the planned operating period for the store.
- We evaluated the undiscounted future cash flows analysis, including estimates of revenue growth, labor costs and planned operating periods of restaurants by (1) evaluating the underlying source information and assumptions used by management (2) performing sensitivity analyses and (3) testing the mathematical accuracy of the undiscounted future cash flows analysis.
- We evaluated the reasonableness of management's undiscounted future cash flows analysis by comparing management's projections to the Company's historical results and available market data.
- With the assistance of our fair value specialists, for the properties where management applied a market analysis, we evaluated the reasonableness of the valuation methodology and used comparable current market data to develop a range of independent estimates and compare our estimates to those used by management.
- We evaluated the discount rates used by management in the performance of discounted cash flow analyses by testing management's calculation, performing sensitivity analyses, comparing components to external market information as applicable, and assessed the mathematical accuracy of the Company's calculations of potential impairment.

/s/ DELOITTE & TOUCHE LLP

Austin, Texas

February 25, 2023

We have served as the Company's auditor since 2003.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Biglari Holdings Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Biglari Holdings Inc. and subsidiaries (the "Company") as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2022, of the Company and our report dated February 25, 2023, expressed an unqualified opinion on those financial statements and included an emphasis of a matter paragraph relating to the Company's investment in related party investment partnerships.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Abraxas Petroleum, which was acquired on September 14, 2022, and whose financial statements constitute approximately 9.8% of total assets, 3.1% of revenues, and 2.5% of net earnings of the consolidated financial statement amounts as of and for the year ended December 31, 2022. Accordingly, our audit did not include the internal control over financial reporting at Abraxas Petroleum.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Austin, Texas
February 25, 2023

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,467	\$ 42,349
Investments	69,466	83,061
Receivables	29,375	28,508
Inventories	3,851	3,803
Other current assets	10,495	7,088
Total current assets	150,654	164,809
Property and equipment	400,725	349,351
Operating lease assets	34,739	42,538
Goodwill	53,513	53,547
Other intangible assets	23,037	23,463
Investment partnerships	155,794	250,399
Other assets	10,012	10,700
Total assets	\$ 828,474	\$ 894,807
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 78,616	\$ 101,975
Loss and loss adjustment expenses	16,805	13,101
Unearned premiums	12,495	11,667
Current portion of lease obligations	16,981	16,898
Current portion of line of credit	10,000	—
Total current liabilities	134,897	143,641
Lease obligations	91,844	104,479
Deferred taxes	31,343	46,533
Asset retirement obligations	14,068	10,389
Other liabilities	754	2,069
Total liabilities	272,906	307,111
Shareholders' equity		
Common stock	1,138	1,138
Additional paid-in capital	381,788	381,788
Retained earnings	576,510	608,528
Accumulated other comprehensive loss	(2,790)	(1,907)
Treasury stock, at cost	(409,680)	(401,851)
Biglari Holdings Inc. shareholders' equity	546,966	587,696
Noncontrolling interests	8,602	—
Total shareholders' equity	555,568	587,696
Total liabilities and shareholders' equity	\$ 828,474	\$ 894,807

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

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

	Year Ended December 31,		
	2022	2021	2020
Revenues			
Restaurant operations	\$ 241,568	\$ 271,290	\$ 350,666
Insurance premiums and other	64,540	58,609	52,679
Oil and gas	57,546	33,004	26,255
Licensing and media	4,577	3,203	4,083
	<u>368,231</u>	<u>366,106</u>	<u>433,683</u>
Cost and expenses			
Restaurant cost of sales	140,264	167,491	246,655
Insurance losses and underwriting expenses	54,648	43,094	39,221
Oil and gas production costs	17,842	10,470	8,700
Licensing and media costs	2,695	2,275	2,156
Selling, general and administrative	70,608	76,018	76,360
Impairments	3,520	4,635	23,646
Depreciation, depletion, and amortization	36,443	30,050	32,222
Interest expense on leases	5,493	6,039	6,274
Interest expense on debt	399	1,121	9,262
	<u>331,912</u>	<u>341,193</u>	<u>444,496</u>
Other income (expenses)			
Investment gains (losses)	(3,393)	6,401	3,644
Investment partnership gains (losses)	(75,953)	10,953	(43,032)
Total other income (expenses)	(79,346)	17,354	(39,388)
Earnings (loss) before income taxes	<u>(43,027)</u>	<u>42,267</u>	<u>(50,201)</u>
Income tax expense (benefit)	(10,722)	6,789	(12,212)
Net earnings (loss)	<u>(32,305)</u>	<u>35,478</u>	<u>(37,989)</u>
Earnings (loss) attributable to noncontrolling interest	<u>(287)</u>	<u>—</u>	<u>—</u>
Net earnings (loss) attributable to Biglari Holdings Inc. shareholders	<u><u>\$ (32,018)</u></u>	<u><u>\$ 35,478</u></u>	<u><u>\$ (37,989)</u></u>
Net earnings (loss) per equivalent Class A share *	\$ (107.43)	\$ 111.83	\$ (110.05)

* Net earnings (loss) per equivalent Class B share outstanding are one-fifth of the equivalent Class A share or (\$ 21.49) for 2022, \$ 22.37 for 2021, and (\$ 22.01) for 2020.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
Net earnings (loss)	\$ (32,305)	\$ 35,478	\$ (37,989)
Foreign currency translation	(883)	(376)	1,279
Comprehensive income (loss)	(33,188)	35,102	(36,710)
Comprehensive income (loss) attributable to noncontrolling interest	(287)	—	—
Total comprehensive income (loss) attributable to Biglari Holdings Inc. shareholders	\$ (32,901)	\$ 35,102	\$ (36,710)

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
Operating activities			
Net earnings (loss)	\$ (32,305)	\$ 35,478	\$ (37,989)
Adjustments to reconcile net earnings (loss) to operating cash flows:			
Depreciation and amortization	36,443	30,050	32,222
Provision for deferred income taxes	(15,582)	5,269	(12,216)
Asset impairments and other non-cash expenses	3,520	4,772	24,636
Losses on disposal of assets	(1,578)	(25)	(868)
Investment (gains) losses	3,393	(6,214)	(4,856)
Investment partnership (gains) losses	75,953	(10,953)	43,032
Distributions from investment partnerships	70,700	180,170	98,330
Changes in receivables and inventories	3,339	(9,324)	7,014
Changes in other assets	8,523	136	733
Changes in accounts payable and accrued expenses	(24,581)	(592)	(32,482)
Net cash provided by operating activities	127,825	228,767	117,556
Investing activities			
Capital expenditures	(29,746)	(64,549)	(20,702)
Proceeds from property and equipment disposals	5,318	10,101	4,415
Acquisition of business, net of cash acquired	(58,274)	—	(36,187)
Purchases of limited partner interests	(48,569)	(12,300)	(70,130)
Purchases of investments	(134,451)	(110,199)	(299,950)
Sales of investments and redemptions of fixed maturity securities	129,117	118,422	293,067
Net cash used in investing activities	(136,605)	(58,525)	(129,487)
Financing activities			
Payments on line of credit	(20,000)	—	(500)
Proceeds from line of credit	30,000	—	500
Principal payments on long-term debt	—	(149,952)	(23,279)
Principal payments on direct financing lease obligations	(6,140)	(6,205)	(5,830)
Net cash provided by (used in) financing activities	3,860	(156,157)	(29,109)
Effect of exchange rate changes on cash			
	38	(64)	10
Increase (decrease) in cash, cash equivalents, and restricted cash	(4,882)	14,021	(41,030)
Cash, cash equivalents, and restricted cash at beginning of period	43,687	29,666	70,696
Cash, cash equivalents, and restricted cash at end of period	\$ 38,805	\$ 43,687	\$ 29,666

Year Ended December 31,

	2022	2021	2020
Cash and cash equivalents	\$ 37,467	\$ 42,349	\$ 24,503
Restricted cash included in other long-term assets	1,338	1,338	5,163
Cash, cash equivalents, and restricted cash at end of period	\$ 38,805	\$ 43,687	\$ 29,666

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

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

	Biglari Holdings Inc. Shareholder's Equity						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling interest	Total
Balance at December 31, 2019	\$ 1,138	\$ 381,788	\$ 611,039	\$ (2,810)	\$ (374,857)	\$ —	\$ 616,298
Net earnings (loss)			(37,989)				(37,989)
Other comprehensive income, net					1,279		1,279
Adjustment to treasury stock for holdings in investment partnerships					(14,760)		(14,760)
Balance at December 31, 2020	\$ 1,138	\$ 381,788	\$ 573,050	\$ (1,531)	\$ (389,617)	\$ —	\$ 564,828
Net earnings			35,478				35,478
Other comprehensive income, net				(376)			(376)
Adjustment to treasury stock for holdings in investment partnerships				(12,234)			(12,234)
Balance at December 31, 2021	\$ 1,138	\$ 381,788	\$ 608,528	\$ (1,907)	\$ (401,851)	\$ —	\$ 587,696
Net earnings (loss)			(32,018)			(287)	(32,305)
Other comprehensive income, net				(883)			(883)
Adjustment to treasury stock for holdings in investment partnerships				(7,829)			(7,829)
Transactions with noncontrolling interest						8,889	8,889
Balance at December 31, 2022	<u>\$ 1,138</u>	<u>\$ 381,788</u>	<u>\$ 576,510</u>	<u>\$ (2,790)</u>	<u>\$ (409,680)</u>	<u>\$ 8,602</u>	<u>\$ 555,568</u>

See accompanying Notes to Consolidated Financial Statements.

BIGLARI HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Years Ended December 31, 2022, 2021, and 2020)

(dollars in thousands, except share and per-share data)

Note 1. Summary of Significant Accounting Policies

Description of Business

Biglari Holdings Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance, licensing and media, restaurants, and oil and gas. 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 the Company.

Biglari Holdings' management system combines decentralized operations with centralized financial decision-making. Operating decisions for the various business units are made by their respective managers. All major investment and capital allocation decisions are made for the Company and its subsidiaries by Mr. Biglari.

As of December 31, 2022, Mr. Biglari beneficially owns shares of the Company that represent approximately 66.3 % of the economic interest and approximately 70.4 % of the voting interest.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Steak n Shake Inc., Western Sizzlin Corporation, First Guard Insurance Company, Maxim Inc., Southern Pioneer Property & Casualty Insurance Company, Southern Oil Company, and Abraxas Petroleum Corporation. Intercompany accounts and transactions have been eliminated in consolidation.

Change in Presentation

Loss and loss adjustment expenses of \$ 1,508 were reclassified to accounts payable and accrued expenses as of December 31, 2021 to conform to current year presentation.

Cash, Cash Equivalents, and Restricted Cash

Cash equivalents primarily consist of U.S. Government securities and money market accounts, all of which have original maturities of three months or less. Cash equivalents are carried at fair value. The statement of cash flows includes restricted cash with cash and cash equivalents.

Investments

We classify investments in fixed maturity securities at the acquisition date as either available-for-sale or held-to-maturity and re-evaluate the classification at each balance sheet date. Securities classified as held-to-maturity are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. As of December 31, 2022 and 2021, all investments were classified as available-for-sale and carried at fair value with net unrealized gains or losses reported in the statements of earnings. Realized gains and losses on disposals of investments are determined by the specific identification of the cost of investments sold. Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

Investment Partnerships

The Company holds a limited interest in The Lion Fund, L.P., and The Lion Fund II, L.P. (collectively the "investment partnerships"). Biglari Capital Corp. ("Biglari Capital"), an entity solely owned by Mr. Biglari, is the general partner of the investment partnerships. Our interests in the investment partnerships are accounted as equity method investments because of our retained limited partner interests. The Company records investment partnership gains (inclusive of the investment partnerships' unrealized gains and losses on their securities) as a component of other income based on our proportional ownership interest in the partnerships. The investment partnerships are, for purposes of generally accepted accounting principles ("GAAP"), investment companies under the AICPA Audit and Accounting Guide *Investment Companies*.

Concentration of Equity Price Risk

The majority of our investments are conducted through investment partnerships that generally hold common stocks. We also hold marketable securities directly. We concentrate a high percentage of the investments in a small number of equity securities.

Note 1. Summary of Significant Accounting Policies (continued)

A significant decline in the general stock market or in the prices of our major investments may have a materially adverse effect on our earnings and on consolidated shareholders' equity.

Receivables

Our accounts receivable balance consists primarily of franchisee, customer, and other receivables. We carry our accounts receivable at cost less an allowance for doubtful accounts, which is based on a history of past write-offs and collections and current credit conditions. Allowance for doubtful accounts was \$ 1,151 and \$ 505 at December 31, 2022 and 2021, respectively.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market, and consist primarily of restaurant food items and supply inventory.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized on the straight-line method over the estimated useful lives of the assets (10 to 30 years for buildings and land improvements, and 3 to 10 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the term of the related leases. Interest costs associated with the construction of new restaurants are capitalized. Major improvements are also capitalized, while repairs and maintenance are expensed as incurred. We review our long-lived restaurant assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For purposes of this assessment, assets are evaluated at the lowest level for which there are identifiable cash flows, which is generally at the individual restaurant level. Assets included in the impairment assessment generally consist of property, equipment, and leasehold improvements directly associated with an individual restaurant as well as any related finance or operating lease assets. If the future undiscounted cash flows of an asset are less than the recorded value, an impairment is recorded for the difference between the carrying value and the estimated fair value of the asset.

Oil and Gas Properties

The successful efforts method is used for crude oil and natural gas exploration and production activities. All costs for development wells, related plant and equipment, proved mineral interests in crude oil and natural gas properties, and related asset retirement obligation assets are capitalized. Costs of exploratory wells are capitalized pending determination of whether the wells found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. Costs are also capitalized for exploratory wells that have found crude oil and natural gas reserves, even if the reserves cannot be classified as proved when the drilling is completed, provided the exploratory well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. All other exploratory wells and costs are expensed. We did not have any property acquisition or exploration activities during 2022, and our development costs were nominal.

Asset Retirement Obligations

Asset retirement obligations relate to future costs associated with the plugging and abandonment of oil and gas wells, the removal of equipment and facilities from leased acreage, and the return of such land to its original condition. The Company determines its asset retirement obligation amounts by calculating the present value of the estimated future cash outflows associated with its plug and abandonment obligations. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred, and the cost of such liability increases the carrying amount of the related long-lived asset by the same amount. The liability is accreted each period through charges to depreciation, depletion, and amortization expense, and the capitalized cost is depleted on a unit-of-production basis over the proved developed reserves of the related asset. If an asset retirement obligation is settled for an amount other than the recorded amount, a gain or loss is recognized.

Goodwill and Other Intangible Assets

Goodwill and indefinite life intangible assets are not amortized, but are tested for potential impairment on an annual basis using either a qualitative or quantitative approach, or more often if events or circumstances change that could cause goodwill or indefinite life intangible assets to become impaired. Other purchased intangible assets are amortized over their estimated useful lives, generally on a straight-line basis. We perform reviews for impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying value. When an impairment is identified, we reduce the carrying value of the asset to its estimated fair value. During 2022 and 2021, no impairments were recorded to goodwill and other intangible assets. During 2020, we recorded an impairment to goodwill of \$ 300 and an impairment to indefinite life intangible assets of \$ 3,728 . Refer to Note 8 for information regarding our goodwill and other intangible assets.

Note 1. Summary of Significant Accounting Policies (continued)**Dual Class Common Stock**

The Company has two classes of common stock, designated Class A common stock and Class B common stock. Each Class A common share is entitled to one vote. Class B common stock possesses economic rights equal to one-fifth (1/5th) of such rights of Class A common stock; however, Class B common stock has no voting rights.

The following table presents shares authorized, issued, and outstanding.

	December 31, 2022		December 31, 2021		December 31, 2020	
	Class A	Class B	Class A	Class B	Class A	Class B
Common stock authorized	500,000	10,000,000	500,000	10,000,000	500,000	10,000,000
Common stock issued and outstanding	206,864	2,068,640	206,864	2,068,640	206,864	2,068,640

Earnings Per Share

Earnings per share of common stock is based on the weighted-average number of shares outstanding during the year. The shares of Company stock attributable to our limited partner interest in the investment partnerships — based on our proportional ownership during this period — are considered treasury stock on the consolidated balance sheet and thereby deemed not to be included in the calculation of weighted-average common shares outstanding. However, these shares are legally outstanding.

The Company has applied the “two-class method” of computing earnings per share as prescribed in Accounting Standards Codification (“ASC”) 260, “ *Earnings Per Share* .” The equivalent Class A common stock applied for computing earnings per share excludes the proportional shares of Biglari Holdings’ stock held by the investment partnerships. In the tabulation below is the equivalent Class A common stock for earnings per share. There are no dilutive securities outstanding.

	2022	2021	2020
Equivalent Class A common stock outstanding	620,592	620,592	620,592
Proportional ownership of Company stock held by investment partnerships	322,561	303,341	275,400
Equivalent Class A common stock for earnings per share	298,031	317,251	345,192

Revenue Recognition*Restaurant operations*

Restaurant operations revenues were disaggregated as follows.

	2022	2021	2020
Net sales	\$ 149,184	\$ 187,913	\$ 306,577
Franchise partner fees	63,853	55,641	22,213
Franchise royalties and fees	19,678	21,736	18,794
Other	8,853	6,000	3,082
	\$ 241,568	\$ 271,290	\$ 350,666

Note 1. Summary of Significant Accounting Policies (continued)

Net Sales

Net sales are composed of retail sales of food through company-operated stores. Company-operated store revenues are recognized, net of discounts and sales taxes, when our obligation to perform is satisfied at the point of sale. Sales taxes related to these sales are collected from customers and remitted to the appropriate taxing authority and are not reflected in the Company's consolidated statements of earnings as revenue.

Franchise Partner Fees

Franchise partner fees are composed of up to 15 % of sales as well as 50 % of profits. We are therefore fully affected by the operating results of the business, unlike in a traditional franchising arrangement, where the franchisor obtains a royalty fee based on sales only. We generate the majority of our revenue from our share of the franchise partners' profits. An initial franchise fee of ten thousand dollars is recognized when the operator becomes a franchise partner. The Company recognizes franchise partner fees monthly as underlying restaurant sales occur.

The Company leases or subleases property and equipment to franchisees under lease arrangements. Both real estate and equipment rental payments are charged to franchisees and are recognized in accordance with ASC 842, "Leases." During the years ended 2022, 2021, and 2020, restaurant operations recognized \$ 20,426 , \$ 15,483 , and \$ 5,675 , respectively, in franchise partner fees related to rental income.

Franchise Royalties and Fees

Franchise royalties and fees from Steak n Shake and Western Sizzlin franchisees are based upon a percentage of sales of the franchise restaurant and are recognized as earned. Franchise royalties are billed on a monthly basis. Initial franchise fees when a new restaurant opens or at the start of a new franchise term are recorded as deferred revenue when received and recognized as revenue over the term of the franchise agreement.

During the years ended December 31, 2022, 2021, and 2020, restaurant operations recognized \$ 1,810 , \$ 2,033 , and \$ 1,879 , respectively, in revenue related to initial franchise fees. As of December 31, 2022 and 2021, restaurant operations had deferred revenue recorded in accrued expenses related to franchise fees of \$ 3,484 and \$ 5,199 , respectively. Restaurant operations expect to recognize approximately \$ 703 of deferred revenue during 2023.

Our advertising arrangements with franchisees are reported in franchise royalties and fees. During the years ended December 31, 2022, 2021, and 2020, restaurant operations recognized \$ 6,386 , \$ 6,829 , and \$ 5,193 , respectively, in revenue related to franchisee advertising fees. As of December 31, 2022 and 2021, restaurant operations had deferred revenue recorded in accrued expenses related to franchisee advertising fees of \$ 2,748 and \$ 4,151 , respectively. Restaurant operations expect to recognize approximately \$ 2,061 of deferred revenue during 2023.

Other Revenue

Restaurant operations sells gift cards to customers which can be redeemed for retail food sales within our stores. Gift cards are recorded as deferred revenue when issued and are subsequently recorded as net sales upon redemption. Restaurant operations estimates breakage related to gift cards when the likelihood of redemption is remote. This estimate utilizes historical trends based on the vintage of the gift card. Breakage on gift cards is recorded as other revenue in proportion to the rate of gift card redemptions by vintage.

For the years ended December 31, 2022, 2021, and 2020, restaurant operations recognized \$ 5,395 , \$ 5,903 , and \$ 9,201 , respectively, of revenue from gift card redemptions. As of December 31, 2022 and 2021, restaurant operations had deferred revenue recorded in accrued expenses related to unredeemed gift cards of \$ 9,279 and \$ 15,059 , respectively. Restaurant operations expect to recognize approximately \$ 5,975 of deferred revenue during 2023.

Insurance Premiums and Commissions

Insurance premiums are earned over the terms of the related policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs, are charged to operations as incurred. Premiums earned are stated net of amounts ceded to reinsurer.

Oil and Gas

Revenues are derived from the sale of produced oil and natural gas. Revenue is recognized when the performance obligation is satisfied, which typically occurs at the point in time when control of the product transfers to the customer. Payment is due within 30 days of delivery.

Note 1. Summary of Significant Accounting Policies (continued)

Licensing Revenue and Other

Licensing revenue is recognized when earned. We derive value and revenues from intellectual property assets through a range of licensing and business activities, including licensing and syndication of our trademarks and copyrights in the United States and internationally. Magazine subscription and advertising revenues are recognized at the magazine cover date. The unearned portion of magazine subscriptions is deferred until the magazine's cover date, at which time a proportionate share of the gross subscription price is recognized as revenue.

Restaurant Cost of Sales

Cost of sales includes the cost of food, restaurant operating costs, and restaurant occupancy costs. Cost of sales excludes depreciation and amortization, which is presented as a separate line item on the consolidated statement of earnings.

Insurance Losses and Underwriting Expenses

Liabilities for estimated unpaid losses and loss adjustment expenses with respect to claims occurring on or before the balance sheet date are established under insurance contracts issued by our insurance subsidiaries. Such estimates include provisions for reported claims or case estimates, provisions for incurred but not reported claims, and legal and administrative costs to settle claims. The estimates of unpaid losses and amounts recoverable under reinsurance are established and continually reviewed by using a variety of actuarial, statistical, and analytical techniques. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify policyholders with respect to the underlying insurance contracts.

Oil and Gas Production Costs

Oil and gas production costs are costs incurred to operate and maintain wells and related equipment and facilities, including lease operating expenses and production taxes.

Marketing Expense

Advertising costs are charged to expense at the later of the date the expenditure is incurred or the date the promotional item is first communicated. Marketing expense is included in selling, general and administrative expenses in the consolidated statement of earnings.

Savings Plans

Several of our subsidiaries also sponsor defined contribution retirement plans, such as 401(k) or profit-sharing plans. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. Some of the plans allow for discretionary contributions as determined by management. Employer contributions expensed with respect to these plans were not material.

Foreign Currency Translation

The Company has certain subsidiaries located in foreign jurisdictions. For subsidiaries whose functional currency is other than the U.S. dollar, the translation of functional currency statements to U.S. dollar statements uses end-of-period exchange rates for assets and liabilities, weighted-average exchange rates for revenue and expenses, and historical rates for equity. The resulting currency translation adjustment is recorded in accumulated other comprehensive income, as a component of equity.

Use of Estimates

Preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates.

Note 2. Business Acquisitions

On September 14, 2022, the Company purchased the Series A Preferred Stock (the "Preferred Shares") of Abraxas Petroleum for a purchase price of \$ 80,000 . On October 26, 2022, the Company exchanged the Preferred Shares for 90 % of the outstanding common stock of Abraxas Petroleum. We have concluded that Abraxas Petroleum is a consolidated entity and have recorded noncontrolling interests attributable to the interest held by other shareholders. The Company used working capital including its line of credit to fund the purchase of the Preferred Shares. Abraxas Petroleum operates oil and natural gas properties in the Permian Basin. The Company's financial results include the results of Abraxas Petroleum from the acquisition date to the end of the year.

The purchase price allocation is provisional and subject to revision as the related valuations are completed.

	September 14, 2022
Cash and cash equivalents	\$ 21,726
Receivables and other assets	6,518
Property and equipment	75,400
Total identifiable assets acquired	103,644
Accounts payable and accrued expenses	(10,719)
Asset retirement obligations	(3,587)
Deferred taxes	(449)
Total liabilities assumed	(14,755)
Minority interest	(8,889)
Total consideration	\$ 80,000

On March 9, 2020, Biglari Holdings acquired the stock of Southern Pioneer Property & Casualty Insurance Company and its agency, Southern Pioneer Insurance Agency, Inc. (collectively "Southern Pioneer"). Southern Pioneer underwrites garage liability insurance and commercial property coverage, homeowners and dwelling fire insurance coverage, among other lines. The financial results for Southern Pioneer are included from the date of acquisition. Pro-forma financial information of Southern Pioneer is not material.

Note 3. Investments

Investments were \$ 69,466 and \$ 83,061 as of December 31, 2022 and 2021, respectively. We classify investments in fixed maturity securities at the acquisition date as either available-for-sale or held-to-maturity and re-evaluate the classification at each balance sheet date. Securities classified as held-to-maturity are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. Realized gains and losses on disposals of investments are determined on a specific identification basis. Dividends earned on investments are reported as investment income by our insurance companies. We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating.

Investment losses in 2022 were \$ 3,393 . Investment gains in 2021 were \$ 6,401 , which includes a \$ 5,047 gain on the sale of real estate. The Company purchased 26 acres of land in Murfreesboro, Tennessee, in 2014 for \$ 2,145 and sold it in the third quarter of 2021. Investment gains were \$ 3,644 in 2020.

Note 4. Investment Partnerships

The Company reports on the limited partnership interests in investment partnerships under the equity method of accounting. We record our proportional share of equity in the investment partnerships but exclude Company common stock held by said partnerships. The Company's pro-rata share of its common stock held by the investment partnerships is recorded as treasury stock even though these shares are legally outstanding. The Company records gains/losses from investment partnerships (inclusive of the investment partnerships' unrealized gains and losses on their securities) in the consolidated statements of earnings based on our carrying value of these partnerships. The fair value is calculated net of the general partner's accrued incentive fees. Gains and losses on Company common stock included in the earnings of these partnerships are eliminated because they are recorded as treasury stock.

Biglari Capital is the general partner of the investment partnerships and is an entity solely owned by Mr. Biglari.

Note 4. Investment Partnerships (continued)

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

	Fair Value	Company Common Stock	Carrying Value
Partnership interest at December 31, 2019	\$ 666,123	\$ 160,581	\$ 505,542
Investment partnership gains (losses)	(46,997)	(3,965)	(43,032)
Distributions (net of contributions)	(28,200)		(28,200)
Increase in proportionate share of Company stock held		14,760	(14,760)
Partnership interest at December 31, 2020	\$ 590,926	\$ 171,376	\$ 419,550
Investment partnership gains (losses)	51,145	40,192	10,953
Distributions (net of contributions)	(167,870)		(167,870)
Increase in proportionate share of Company stock held		12,234	(12,234)
Partnership interest at December 31, 2021	\$ 474,201	\$ 223,802	\$ 250,399
Investment partnership gains (losses)	(80,374)	(4,421)	(75,953)
Distributions (net of contributions)	(10,823)		(10,823)
Increase in proportionate share of Company stock held		7,829	(7,829)
Partnership interest at December 31, 2022	<u><u>\$ 383,004</u></u>	<u><u>\$ 227,210</u></u>	<u><u>\$ 155,794</u></u>

The carrying value of the investment partnerships net of deferred taxes is presented below.

	December 31,	
	2022	2021
Carrying value of investment partnerships	\$ 155,794	\$ 250,399
Deferred tax liability related to investment partnerships	(23,643)	(44,532)
Carrying value of investment partnerships net of deferred taxes	<u><u>\$ 132,151</u></u>	<u><u>\$ 205,867</u></u>

The Company's proportionate share of Company stock held by the investment partnerships at cost was \$ 409,680 and \$ 401,851 at December 31, 2022 and 2021, respectively, and was recorded as treasury stock.

The carrying value of the partnership interest approximates fair value adjusted by the value of held Company stock. Fair value of our partnership interest is assessed according to our proportional ownership interest of the fair value of investments held by the investment partnerships. Unrealized gains and losses on marketable securities held by the investment partnerships affect our net earnings.

Gains/losses from investment partnerships recorded in the Company's consolidated statements of earnings are presented below.

	2022	2021	2020
Gains (losses) from investment partnerships	\$ (75,953)	\$ 10,953	\$ (43,032)
Tax expense (benefit)	(18,992)	2,054	(10,526)
Contribution to net earnings	<u><u>\$ (56,961)</u></u>	<u><u>\$ 8,899</u></u>	<u><u>\$ (32,506)</u></u>

On December 31 of each year, the general partner of the investment partnerships, Biglari Capital, will earn an incentive reallocation fee for the Company's investments equal to 25 % of the net profits above an annual hurdle rate of 6 % over the previous high-water mark. Our policy is to accrue an estimated incentive fee throughout the year. The total incentive reallocation from Biglari Holdings to Biglari Capital includes gains on the Company's common stock. Gains and losses on the Company's common stock and the related incentive reallocations are eliminated in our financial statements.

There were no incentive reallocations from Biglari Holdings to Biglari Capital during 2022 and 2021. There were \$ 987 of incentive reallocations from Biglari Holdings to Biglari Capital during 2020, including \$ 253 associated with gains on the Company's common stock.

Note 4. Investment Partnerships (continued)

Summarized financial information for The Lion Fund, L.P., and The Lion Fund II, L.P., is presented below.

	Equity in Investment Partnerships	
	Lion Fund	Lion Fund II
Total assets as of December 31, 2022	\$ 285,071	\$ 330,832
Total liabilities as of December 31, 2022	\$ 10,517	\$ 167,847
Revenue for the year ended December 31, 2022	\$ (8,353)	\$ (79,397)
Earnings for the year ended December 31, 2022	\$ (8,690)	\$ (82,534)
Biglari Holdings' ownership interest	88.5 %	86.0 %
Total assets as of December 31, 2021	\$ 114,749	\$ 564,022
Total liabilities as of December 31, 2021	\$ 7,763	\$ 130,417
Revenue for the year ended December 31, 2021	\$ 20,068	\$ 41,486
Earnings for the year ended December 31, 2021	\$ 19,994	\$ 40,621
Biglari Holdings' ownership interest	62.7 %	93.9 %
Total assets as of December 31, 2020	\$ 112,970	\$ 566,663
Total liabilities as of December 31, 2020	\$ 189	\$ 25,453
Revenue for the year ended December 31, 2020	\$ (4,052)	\$ (48,544)
Earnings for the year ended December 31, 2020	\$ (4,120)	\$ (49,832)
Biglari Holdings' ownership interest	66.2 %	95.4 %

Revenue in the financial information of the investment partnerships, summarized above, includes investment income and unrealized gains and losses on investments.

Note 5. Other Current Assets

Other current assets include the following.

	December 31,	
	2022	2021
Deferred commissions on gift cards sold by third parties	\$ 1,454	\$ 3,221
Asset held for sale	4,700	—
Prepaid contractual obligations	4,341	3,867
Other current assets	\$ 10,495	\$ 7,088

The asset held for sale is Abraxas Petroleum's office building in San Antonio, Texas.

Note 6. Property and Equipment

Property and equipment are composed of the following.

	December 31,	
	2022	2021
Land	\$ 143,313	\$ 144,605
Buildings	151,627	148,605
Land and leasehold improvements	151,496	147,349
Equipment	222,661	224,581
Oil and gas properties	144,888	74,147
Construction in progress	2,238	2,815
	816,223	742,102
Less accumulated depreciation, depletion, and amortization	(415,498)	(392,751)
Property and equipment, net	<u><u>\$ 400,725</u></u>	<u><u>\$ 349,351</u></u>

The depreciation and amortization expense for property and equipment for 2022, 2021, and 2020 was \$ 28,879 , \$ 22,012 , and \$ 19,586 , respectively. The depletion expense related to oil and gas properties was \$ 7,024 , \$ 7,600 , and \$ 11,989 during 2022, 2021, and 2020, respectively. The accretion expense of the Company's asset retirement obligations was \$ 540 , \$ 438 , and \$ 497 during 2022, 2021, and 2020, respectively. Depletion and accretion expense are included in depreciation, depletion, and amortization expense within the consolidated statement of earnings.

The Company recorded impairments to restaurant long-lived assets of \$ 3,520 , \$ 4,635 , and \$ 19,618 during 2022, 2021, and 2020, respectively. The fair value of the long-lived assets was determined based on Level 3 inputs using a discounted cash flow model and quoted prices for the properties.

The property and equipment cost related to finance obligations as of December 31, 2022, is as follows: \$ 45,138 of buildings, \$ 45,148 of land, \$ 26,614 of land and leasehold improvements, and \$ 57,754 of accumulated depreciation.

Note 7. Asset Retirement Obligations

A reconciliation of the ending aggregate carrying amount of asset retirement obligations is as follows.

	December 31	
	2022	2021
Beginning balance	\$ 10,624	\$ 10,258
Acquired balance	3,587	—
Liabilities settled	(106)	(72)
Accretion expense	540	438
Asset retirement obligation	<u><u>\$ 14,645</u></u>	<u><u>\$ 10,624</u></u>

As of December 31, 2022 and 2021, \$ 577 and \$ 235 , respectively, is classified as current and is included in accounts payable and accrued expenses in the consolidated balance sheets.

Note 8. Goodwill and Other Intangible Assets

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired in connection with business acquisitions. No goodwill was recorded with the acquisition of Southern Oil or Abraxas Petroleum.

Note 8. Goodwill and Other Intangible Assets (continued)

A reconciliation of the change in the carrying value of goodwill is as follows.

	Restaurants	Insurance	Total
Balance as of December 31, 2020			
Goodwill	\$ 28,183	\$ 25,713	\$ 53,896
Accumulated impairment losses	(300)	—	(300)
	\$ 27,883	\$ 25,713	\$ 53,596
Change in foreign exchange rates during 2021	(49)	—	(49)
Balance as of December 31, 2021	\$ 27,834	\$ 25,713	\$ 53,547
Change in foreign exchange rates during 2022	(34)	—	(34)
Balance as of December 31, 2022	<u><u>\$ 27,800</u></u>	<u><u>\$ 25,713</u></u>	<u><u>\$ 53,513</u></u>

We evaluate goodwill and any indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. Goodwill impairment occurs when the estimated fair value of goodwill is less than its carrying value. GAAP allows entities testing for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. For our 2022 annual goodwill impairment testing, we elected to perform qualitative assessments for our reporting units. No indicators of impairment were noted. If a quantitative test were to be utilized for our reporting units, it would estimate the fair value of each reporting unit and compare it to its carrying value. To the extent the fair value was in excess of the carrying value, no impairment would be recognized. Otherwise, an impairment loss would be recognized for the amount that the carrying value of our reporting units, including goodwill, exceeded its fair value. In performing the quantitative test of goodwill, fair value would be determined based on a calculation that gives consideration to an income approach utilizing the discounted cash flow method and to a market approach using the market comparable and market transaction methods. No impairment was recorded for our reporting units in 2022 and 2021. The fair value of certain of Steak n Shake's reporting units declined in 2020, and an impairment to goodwill of \$ 300 was recorded in 2020. An impairment of Western Sizzlin's goodwill may be necessary if a significant decline in its franchise units occurs.

Other Intangible Assets

Intangible assets with indefinite lives are composed of the following.

	Trade Names	Lease Rights	Total
Balance as of December 31, 2020			
Intangibles	\$ 15,876	\$ 11,917	\$ 27,793
Accumulated impairment losses	—	(3,728)	(3,728)
	\$ 15,876	\$ 8,189	\$ 24,065
Change in foreign exchange rates during 2021	—	(602)	(602)
Balance as of December 31, 2021	\$ 15,876	\$ 7,587	\$ 23,463
Change in foreign exchange rates during 2022	—	(426)	(426)
Balance as of December 31, 2022	<u><u>\$ 15,876</u></u>	<u><u>\$ 7,161</u></u>	<u><u>\$ 23,037</u></u>

Intangible assets with indefinite lives consist of trade names and lease rights. No impairment was recorded in 2022 or 2021. During 2020, the Company recorded impairment charges of \$ 3,728 on lease rights to our international operations because of the adverse effects of the COVID-19 pandemic.

Note 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following.

	December 31,	
	2022	2021
Accounts payable	\$ 28,431	\$ 36,684
Gift cards and other marketing	12,028	19,244
Insurance accruals	6,012	7,936
Salaries, wages, and vacation	4,400	5,905
Deferred revenue	4,445	6,683
Taxes payable	14,896	11,392
Professional fees	600	11,731
Oil and gas payable	3,877	1,936
Other	3,927	464
Accounts payable and accrued expenses	<u>78,616</u>	<u>101,975</u>

Note 10. Unpaid loss and loss adjustment expense

Other liabilities for unpaid losses and loss adjustment expenses (also referred to as "claim liabilities") under insurance contracts are based upon estimates of the ultimate claim costs associated with claim occurrences as of the balance sheet date and include estimates for incurred-but-not-reported ("IBNR") claims. A reconciliation of the changes in claim liabilities, net of reinsurance, is as follows.

	December 31,	
	2022	2021
Amount of claim liabilities at the beginning of the year, net of reinsurance loss recoverable of \$ 1,892 and \$ 1,544 , respectively	\$ 13,101	\$ 12,429
Incurred losses and loss adjustment expenses:		
Provision for insured events in the current year	37,837	29,343
Change in provision for insured events of prior years	(652)	(1,695)
Total incurred losses and loss adjustment expenses	37,185	27,648
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	27,415	21,926
Losses and loss adjustment expenses attributable to insured events of prior years	6,066	5,050
Total payments	33,481	26,976
Amount of claim liabilities at the end of each year, net of reinsurance loss recoverable of \$ 715 and \$ 1,892 , respectively	<u>\$ 16,805</u>	<u>\$ 13,101</u>

Incurred losses and loss adjustment expenses shown in the preceding table were recorded in earnings and related to insured events occurring in the current year and events occurring in all prior years. Incurred and paid loss and loss adjustment expenses are net of reinsurance recoveries.

We recorded net reductions of estimated ultimate liabilities for prior accident years of \$ 652 in 2022 and \$ 1,695 in 2021. These reductions, as a percentage of net liabilities at the beginning of each year, were 5.0 % in 2022 and 13.6 % in 2021.

Note 10. Unpaid losses and loss adjustment expenses (continued)

Our net incurred and paid liability losses and loss adjustment expenses are summarized by accident year below. IBNR and case development liabilities are as of December 31, 2022.

Incurred Losses and Loss Adjustment Expenses through December 31,

Accident Year	2017*	2018*	2019*	2020*	2021*	2022	IBNR and Case Development Liabilities	Cumulative Number of Reported Claims
2017	\$ 29,877	\$ 28,778	\$ 28,944	\$ 28,553	\$ 28,231	\$ 29,452	\$ 229	\$ 4,322
2018		26,930	26,660	26,455	26,387	27,616	359	3,746
2019			27,675	26,758	26,461	27,295	1,013	3,630
2020				26,755	25,176	25,594	978	3,640
2021					26,892	27,518	3,834	3,633
2022						35,996	10,392	3,703
						\$ 173,471		

Cumulative Paid Losses and Loss Adjustment Expenses through December 31,

Accident Year	2017*	2018*	2019*	2020*	2021*	2022
2017	\$ 22,293	\$ 25,491	\$ 26,991	\$ 27,548	\$ 27,815	\$ 29,223
2018		20,246	23,796	24,844	25,589	27,257
2019			20,755	23,787	24,647	26,282
2020				20,481	22,614	24,616
2021					19,649	23,684
2022						25,604
					\$ 156,666	

*Unaudited required supplemental information

Loss and loss adjustment expense reserves include an amount for reported losses and an amount for losses incurred but not reported. We establish average liabilities based on expected severities for newly reported claims prior to establishing individual case reserves when insufficient time or information is available for specific claim estimates and for large volumes of minor physical damage claims that, once reported, are quickly settled. We establish case loss estimates for claims, including estimates for loss adjustment expenses, as the facts and merits of the claim are evaluated. Such reserves are necessarily based upon estimates, and while management, based on past experience, believes that the amount is adequate, the ultimate liability may be more or less than the amounts provided. We may record supplemental IBNR liabilities in certain situations when actuarial techniques are difficult to apply. The methods for making such estimates and for establishing the resulting reserves are continually reviewed, and any adjustments are reflected in operations annually.

First Guard

First Guard's claim liabilities predominately relate to commercial truck claims. For such claims, we establish and evaluate unpaid claim liabilities using historical claims data and other data as necessary to determine our best estimate, with an annual review by certified actuaries and certified public accountants. Claim liabilities include average case, case development, and IBNR estimates.

Note 10. Unpaid losses and loss adjustment expenses (continued)**Southern Pioneer**

Southern Pioneer's claim liabilities predominately relate to liquor liability, garage liability, and commercial property as well as homeowners and dwelling fire claims. For such claims, we establish and evaluate unpaid claim liabilities using standard actuarial methods and techniques. The actuarial methods utilize historical claims data, adjusted when deemed appropriate to reflect perceived changes in loss patterns. Claim liabilities include average case, case development, and IBNR estimates.

Note 11. Income Taxes

The components of the provision for income taxes consist of the following.

	2022	2021	2020
Current:			
Federal	\$ 1,935	\$ 1,053	\$ (472)
State	2,925	467	476
Deferred	(15,582)	5,269	(12,216)
Income tax expense (benefit)	<u><u>\$ (10,722)</u></u>	<u><u>\$ 6,789</u></u>	<u><u>\$ (12,212)</u></u>
Reconciliation of effective income tax:			
Tax at U.S. statutory rates	\$ (9,036)	\$ 8,875	\$ (10,542)
State income taxes, net of federal benefit	(555)	192	(1,750)
Federal income tax credits	(106)	(864)	(424)
Dividends received deduction	(1,183)	(468)	(233)
Valuation allowance	614	(723)	733
Foreign tax rate differences	(124)	(78)	240
Other	(332)	(145)	(236)
Income tax expense (benefit)	<u><u>\$ (10,722)</u></u>	<u><u>\$ 6,789</u></u>	<u><u>\$ (12,212)</u></u>

The Company did not have a net tax expense or benefit on income from international operations. Losses before income taxes derived from domestic operations during 2022 were \$ 40,624 , earnings before income taxes derived from domestic operations during 2021 were \$ 43,886 , and losses before income taxes derived from domestic operations during 2020 were \$ 40,989 . Losses before income taxes derived from international operations during 2022, 2021, and 2020 were \$ 2,403 , \$ 1,619 , and \$ 9,212 , respectively.

As of December 31, 2022, we had \$ 99 of unrecognized tax benefits, including \$ 13 of interest and penalties, which are included in other long-term liabilities in the consolidated balance sheet. As of December 31, 2021, we had \$ 83 of unrecognized tax benefits, including \$ 4 of interest and penalties, which is included in other long-term liabilities in the consolidated balance sheet. Our continuing practice is to recognize interest expense and penalties related to income tax matters in income tax expense. The unrecognized tax benefits of \$ 99 would impact the effective income tax rate if recognized. Adjustments to the Company's unrecognized tax benefit for gross increases for the current period tax position, gross decreases for prior period tax positions, and the lapse of statutes of limitations during 2022, 2021, and 2020 were not significant.

We file income tax returns which are periodically audited by various foreign, federal, state, and local jurisdictions. With few exceptions, we are no longer subject to federal, state, and local tax examinations for fiscal years prior to 2019. We believe we have certain state income tax exposures related to fiscal years 2018 through 2022.

Deferred tax assets and liabilities are determined based on differences between financial reporting and the tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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Note 11. Income Taxes (continued)

Our deferred tax assets and liabilities consist of the following.

	December 31,	
	2022	2021
Deferred tax assets:		
Insurance reserves	\$ 1,490	\$ 1,464
Compensation accruals	373	647
Gift card accruals	1,159	2,350
Net operating loss credit carryforward	12,597	11,018
Valuation allowance on net operating losses	(6,043)	(5,429)
Fixed assets and depletable assets basis difference	(3,867)	588
Income tax credit carryforward	—	813
Deferred income	830	1,106
Bad debt reserve	1,104	1,052
Other	487	796
Total deferred tax assets	8,130	14,405
Deferred tax liabilities:		
Investment partnerships	23,643	44,532
Investments	(197)	845
Goodwill and intangibles	16,027	15,561
Total deferred tax liabilities	39,473	60,938
Net deferred tax liability	\$ (31,343)	\$ (46,533)

Accounts payable and accrued expenses include income taxes payable of \$ 3,881 as of December 31, 2022. Receivables include income taxes receivable of \$ 344 as of December 31, 2021.

Note 12. Line of Credit and Note Payable

Biglari Holdings Line of Credit

On September 13, 2022, Biglari Holdings entered into a line of credit in an aggregate principal amount of up to \$ 30,000 . The line of credit will be available on a revolving basis until September 12, 2024. The line of credit includes customary covenants, as well as financial maintenance covenants. The balance of the line of credit on December 31, 2022, was \$ 10,000 . Our interest rate was 6.53 % on December 31, 2022, which is based on the 30-day Secured Overnight Financing Rate plus 2.728 %.

Steak n Shake Credit Facility

On March 19, 2014, Steak n Shake and its subsidiaries entered into a credit agreement which provided for a senior secured term loan facility in an aggregate principal amount of \$ 220,000 . The term loan was scheduled to mature on March 19, 2021. The Company repaid Steak n Shake's outstanding balance in full on February 19, 2021.

Western Sizzlin Revolver

Western Sizzlin's available line of credit is \$ 500 . As of December 31, 2022 and 2021, Western Sizzlin had no debt outstanding under its revolver.

Note 13. Lease Assets and Obligations

Lease obligations include the following.

	December 31,	
	2022	2021
Current portion of lease obligations		
Finance lease liabilities	\$ 1,237	\$ 1,414
Finance obligations	5,161	4,944
Operating lease liabilities	10,583	10,540
Total current portion of lease obligations	<u><u>\$ 16,981</u></u>	<u><u>\$ 16,898</u></u>
Long-term lease obligations		
Finance lease liabilities	\$ 4,129	\$ 5,347
Finance obligations	58,868	63,119
Operating lease liabilities	28,847	36,013
Total long-term lease obligations	<u><u>\$ 91,844</u></u>	<u><u>\$ 104,479</u></u>

Nature of Leases

Steak n Shake and Western Sizzlin operate restaurants that are located on sites owned by us and leased from third parties. In addition, they own sites and lease sites from third parties that are leased and/or subleased to franchisees.

Lease Costs

A significant portion of our operating and finance lease portfolio includes restaurant locations. We recognize fixed lease expense for operating leases on a straight-line basis over the lease term. For finance leases, we recognize amortization expense on the right-of-use asset and interest expense on the lease liability over the lease term.

Total lease costs consist of the following.

	2022	2021	2020
Finance lease costs:			
Amortization of right-of-use assets	\$ 1,290	\$ 1,576	\$ 1,404
Interest on lease liabilities	422	521	582
Operating lease costs*	<u><u>2,736</u></u>	<u><u>1,119</u></u>	<u><u>9,995</u></u>
Total lease costs	<u><u>\$ 4,448</u></u>	<u><u>\$ 3,216</u></u>	<u><u>\$ 11,981</u></u>

*Includes short-term leases, variable lease costs, and sublease income.

Supplemental cash flow information related to leases is as follows.

	Year Ended December 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 1,396	\$ 1,629
Operating cash flows from finance leases	421	506
Operating cash flows from operating leases	12,946	13,195

Supplemental balance sheet information related to leases is as follows.

	December 31, 2022	December 31, 2021
Finance leases:		
Property and equipment, net	<u><u>\$ 4,352</u></u>	<u><u>\$ 5,634</u></u>

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Note 13. Lease Asset and Obligations (continued)

Weighted-average lease terms and discount rates are as follows.

	2022
Weighted-average remaining lease terms:	
Finance leases	4.32 years
Operating leases	4.53 years
Weighted-average discount rates:	
Finance leases	7.0 %
Operating leases	7.0 %

Maturities of lease liabilities as of December 31, 2022, are as follows.

Year	Operating Leases	Finance Leases
2023	\$ 12,816	\$ 1,569
2024	10,109	1,534
2025	8,277	1,298
2026	5,630	959
2027	3,333	623
After 2027	5,890	232
Total lease payments	46,055	6,215
Less interest	6,625	849
Total lease liabilities	<u><u>\$ 39,430</u></u>	<u><u>\$ 5,366</u></u>

Rent expense is presented below.

	2022	2021	2020
Minimum rent	\$ 14,333	\$ 14,926	\$ 15,672
Contingent rent	105	137	137
Rent expense	<u><u>\$ 14,438</u></u>	<u><u>\$ 15,063</u></u>	<u><u>\$ 15,809</u></u>

Lease Income

The components of lease income are as follows.

	2022	2021	2020
Operating lease income	\$ 15,698	\$ 13,173	\$ 5,027
Variable lease income	5,875	3,479	1,738
Total lease income	<u><u>\$ 21,573</u></u>	<u><u>\$ 16,652</u></u>	<u><u>\$ 6,765</u></u>

Note 13. Lease Asset and Obligations (continued)

The following table displays the Company's future minimum rental receipts for non-cancelable leases and subleases as of December 31, 2022. Franchise partner leases and subleases are short-term leases and have been excluded from the table.

Year	Operating Leases	
	Subleases	Owned Properties
2023	\$ 747	\$ 162
2024	503	162
2025	454	162
2026	134	154
2027	116	116
After 2027	125	347
Total future minimum receipts	\$ 2,079	\$ 1,103

Note 14. Related Party Transactions

Services Agreement

During 2017, the Company entered into a services agreement with Biglari Enterprises LLC and Biglari Capital Corp. (collectively, the "Biglari Entities") under which the Biglari Entities provide business and administrative related services to the Company. The Biglari Entities are owned by Mr. Biglari. The services agreement has a rolling five-year term, with annual adjustments to the fixed fee. The fixed fee has not been adjusted, remaining at \$ 700 per month since inception.

The Company paid Biglari Enterprises \$ 8,400 in service fees during 2022 and 2021. The services agreement does not alter the Company's hurdle rate connected with the incentive reallocation paid to Biglari Capital Corp.

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

As of December 31, 2022, the Company's investments in The Lion Fund, L.P., and The Lion Fund II, L.P., had a fair value of \$ 383,004 .

Contributions to and distributions from The Lion Fund, L.P., and The Lion Fund II, L.P., were as follows.

	2022	2021	2020
Contributions	\$ 59,877	\$ 12,300	\$ 70,130
Distributions	(70,700)	(180,170)	(98,330)
	\$ (10,823)	\$ (167,870)	\$ (28,200)

As the general partner of the investment partnerships, Biglari Capital will earn an incentive reallocation fee, on December 31 of each year, for the Company's investments equal to 25 % of the net profits above a hurdle rate of 6 % over the previous high-water mark. There were no incentive reallocations in 2022 or 2021. There were \$ 987 of incentive reallocations from Biglari Holdings to Biglari Capital during 2020, including \$ 253 associated with gains on the Company's common stock. Gains on the Company's common stock and the related incentive reallocations are eliminated in our financial statements.

Incentive Agreement

The Incentive Agreement establishes a performance-based annual incentive payment for Mr. Biglari contingent upon the growth in adjusted equity in each year attributable to our operating businesses. In order for Mr. Biglari to receive any incentive, our operating businesses must achieve an annual increase in shareholders' equity in excess of 6 % (the "hurdle rate") above the previous highest level (the "high-water mark"). Mr. Biglari will receive 25 % of any incremental book value created above the high-water mark plus the hurdle rate. In any year in which book value declines, our operating businesses must completely recover their deficit from the previous high-water mark, and attain the hurdle rate, before Mr. Biglari becomes eligible to receive any further incentive payment. No incentive fees were earned during 2022, 2021, or 2020.

Note 15. Commitments and Contingencies

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

Note 16. Fair Value of Financial Assets

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

The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

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

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

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

Equity securities: The Company's investments in equity securities are classified within Levels 1 and 2 of the fair value hierarchy.

Bonds: The Company's investments in bonds consist of both corporate and government debt. Bonds are classified as Level 1 of the fair value hierarchy.

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

Derivative instruments: Options related to equity securities are marked to market each reporting period and are classified within Level 2 of the fair value hierarchy depending on the instrument.

Note 16. Fair Value of Financial Assets (continued)

As of December 31, 2022 and 2021, the fair values of financial assets were as follows.

	December 31,									
	2022				2021					
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Assets										
Cash equivalents	\$ 17,608	\$ —	\$ —	\$ 17,608	\$ 18,447	\$ —	\$ —	\$ 18,447		
Equity securities:										
Consumer goods	17,274	—	—	17,274	10,775	2,368	—	13,143		
Other	2,031	—	—	2,031	9,400	—	—	9,400		
Bonds:										
Government	48,456	—	—	48,456	54,584	—	—	54,584		
Corporate	2,199	—	—	2,199	4,512	—	—	4,512		
Options on equity securities	—	—	—	—	—	2,095	—	2,095		
Non-qualified deferred compensation plan investments	699	—	—	699	1,607	—	—	1,607		
Total assets at fair value	\$ 88,267	\$ —	\$ —	\$ 88,267	\$ 99,325	\$ 4,463	\$ —	\$ 103,788		

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

Note 17. Business Segment Reporting

Our reportable business segments are organized in a manner that reflects how management views those business activities. Our restaurant operations include Steak n Shake and Western Sizzlin. Our insurance operations include First Guard and Southern Pioneer. Our oil and gas operations include Southern Oil and Abraxas Petroleum. The Company also reports segment information for Maxim. Other business activities not specifically identified with reportable business segments are presented in corporate. We report our earnings from investment partnerships separate from our corporate expenses. We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are neither necessarily indicative of cash available to fund cash requirements nor synonymous with cash flow from operations. The tabular information that follows shows data of our reportable segments reconciled to amounts reflected in the consolidated financial statements.

Note 17. Business Segment Reporting (continued)

A disaggregation of our consolidated data for each of the three most recent years is presented in the tables which follow.

	Revenue		
	2022	2021	2020
Operating Businesses:			
Restaurant Operations:			
Steak n Shake	\$ 231,820	\$ 263,135	\$ 344,305
Western Sizzlin	9,748	8,155	6,361
Total Restaurant Operations	241,568	271,290	350,666
Insurance Operations:			
Underwriting:			
First Guard	35,914	33,521	30,210
Southern Pioneer	24,035	21,890	19,010
Investment income and other	4,591	3,198	3,459
Total Insurance Operations	64,540	58,609	52,679
Oil and Gas Operations:			
Southern Oil	46,091	33,004	26,255
Abraxas Petroleum	11,455	—	—
Total Oil and Gas Operations	57,546	33,004	26,255
Maxim	4,577	3,203	4,083
	\$ 368,231	\$ 366,106	\$ 433,683

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Note 17. Business Segment Reporting (continued)

	Earnings (Loss) Before Income Taxes		
	2022	2021	2020
Operating Businesses:			
Restaurant Operations:			
Steak n Shake	\$ 11,478	\$ 13,524	\$ (4,587)
Western Sizzlin	1,484	931	(765)
Total Restaurant Operations	12,962	14,455	(5,352)
Insurance Operations:			
Underwriting:			
First Guard	6,578	10,573	9,379
Southern Pioneer	(1,277)	1,744	620
Investment income and other	4,603	2,118	2,432
Total Insurance Operations	9,904	14,435	12,431
Oil and Gas Operations:			
Southern Oil	24,539	9,713	2,018
Abraxas Petroleum	652	—	—
Total Oil and Gas Operations	25,191	9,713	2,018
Maxim	1,760	814	1,784
Interest expense not allocated to segments	(399)	(1,121)	(9,262)
Operating Businesses	49,418	38,296	1,619
Corporate and other	(13,099)	(13,383)	(12,432)
Investment gains (losses)	(3,393)	6,401	3,644
Investment partnership gains (losses)	(75,953)	10,953	(43,032)
	\$ (43,027)	\$ 42,267	\$ (50,201)

	Capital Expenditures		
	2022	2021	2020
Operating Businesses:			
Restaurant			
	\$ 24,470	\$ 60,296	\$ 17,858
Insurance	1,558	1,451	5
Oil and Gas	906	996	2,806
Operating Businesses	26,934	62,743	20,669
Corporate and other	2,812	1,806	33
Consolidated results	\$ 29,746	\$ 64,549	\$ 20,702

Note 17. Business Segment Reporting (continued)

	Depreciation, Depletion, and Amortization		
	2022	2021	2020
Operating Businesses:			
Restaurant	\$ 27,496	\$ 21,484	\$ 19,042
Insurance	193	176	414
Oil and Gas	8,013	8,073	12,527
Operating Businesses	35,702	29,733	31,983
Corporate and other	741	317	239
Consolidated results	\$ 36,443	\$ 30,050	\$ 32,222

A disaggregation of our consolidated assets is presented in the table that follows.

	Identifiable Assets	
	December 31,	
	2022	2021
Reportable segments:		
Restaurant Operations:		
Steak n Shake	\$ 341,199	\$ 377,676
Western Sizzlin	19,431	17,239
Total Restaurant Operations	360,630	394,915
Insurance Operations:		
First Guard	58,997	74,615
Southern Pioneer	75,373	72,321
Total Insurance Operations	134,370	146,936
Oil and Gas Operations:		
Southern Oil	49,416	53,359
Abraxas Petroleum	81,339	—
Total Oil and Gas Operations	130,755	53,359
Maxim	16,093	16,605
Corporate	30,832	32,593
Investment partnerships	155,794	250,399
Total assets	\$ 828,474	\$ 894,807

Note 18. Supplemental Disclosures of Cash Flow Information

A summary of supplemental cash flow information for each of the three years ending December 31, 2022, 2021 and 2020 is presented in the following table.

	2022	2021	2020
Cash paid during the year for:			
Interest on debt	\$ 359	\$ 994	\$ 9,397
Interest on obligations under leases	5,493	6,039	6,274
Income taxes	1,092	4,532	15,402
Non-cash investing and financing activities			
Capital expenditures in accounts payable	1,897	8,733	2,399
Finance lease additions	—	733	3,285
Finance lease retirements	—	1,216	4,842

Note 19. Supplemental Oil and Gas Disclosures (Unaudited)

The Company has determined it had significant oil and gas producing activities during the years ended December 31, 2022 and December 31, 2021 in accordance with ASC 932 "Extractive Activities — Oil and Gas." The Company did not have significant oil and gas producing activities within the meaning of ASC 932 during the year ended December 31, 2020.

Estimated Quantities of Proved Oil and Natural Gas Reserves

The Company classifies recoverable hydrocarbons based on their status at the time of reporting. Within the commercial classification are proved reserves and two categories of unproved reserves: probable and possible. The potentially recoverable categories are also referred to as contingent resources. For reserve estimates to be classified as proved, they must meet all SEC and Company standards.

Proved oil and gas reserves are the estimated quantities that geoscience and engineering data demonstrate with reasonable certainty to be economically producible from known reservoirs under existing economic conditions, operating methods, and government regulations. Net proved reserves exclude royalties and interests owned by others and reflect contractual arrangements and royalty obligations in effect at the time of the estimate. Proved reserves are classified as either developed or undeveloped. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are the quantities expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

We engaged Netherland, Sewell & Associates, Inc. ("NSAI"), to prepare our reserve estimates for all of our estimated proved reserves at December 31, 2022. All proved oil and natural gas reserves are located in the United States, primarily offshore in the shallow waters of the Gulf of Mexico and in the Permian Basin.

Note 19. Supplemental Oil and Gas Disclosures (Unaudited) (continued)

The following table sets forth our estimate of the net proved oil and gas reserves for the year ended December 31, 2022 and 2021.

	Oil (MBbl)	Gas (MMcf)	Liquids (Bbl)	MBOE
Total proved reserves at December 31, 2020	2,223	24,917	—	6,376
Revisions	433	4,235	—	1,139
Extensions	62	189	—	94
Production	(357)	(2,798)	—	(824)
Total proved reserves at December 31, 2021	2,361	26,544	—	6,785
Revisions	(355)	(3,288)	—	(903)
Extensions	—	—	—	—
Acquisition of reserves	3,415	19,334	1,550	8,188
Production	(450)	(2,341)	(42)	(882)
Total proved reserves at December 31, 2022	4,971	40,249	1,508	13,188
Proved developed reserves				
December 31, 2022	4,507	32,132	1,508	11,371
December 31, 2021	1,897	18,427	—	4,968
Proved undeveloped reserves				
December 31, 2022	464	8,117	—	1,817
December 31, 2021	464	8,117	—	1,817

Revisions are affected by commodity prices as well as changes to previous proved reserve estimates based on the evaluation of production and operating performance data.

Bbl — One stock tank barrel, or 42 United States gallons liquid volume.

MBbl — Thousand barrels.

MMcf — Million cubic feet of natural gas.

MBOE — Thousand barrels of oil equivalent.

Natural gas is converted to an oil equivalent basis at six thousand cubic feet per one barrel of oil.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves

The standardized measure of discounted future net cash flows presented in the following table was computed using the 12-month unweighted average of the first-day-of-the-month commodity prices, the costs in effect at December 31, 2022 and 2021, and a 10 percent discount factor. The Company cautions that actual future net cash flows may vary considerably from these estimates. Although the Company's estimates of total proved reserves, development costs, and production rates were based on the best available information, the development and production of the crude oil and natural gas reserves may not occur in the periods assumed. Actual prices realized, costs incurred, and production quantities may vary significantly from those used. Therefore, the estimated future net cash flow computations should not be considered to represent the Company's estimate of the expected revenues or the current value of proved reserves.

Note 19. Supplemental Oil and Gas Disclosures (Unaudited) (continued)

The following table sets forth the standardized measure of discounted future net cash flows attributable to proved crude oil and natural gas reserves as of December 31, 2022 and 2021.

	December 31, 2022	December 31, 2021
Future cash inflows	\$ 728,382	\$ 247,294
Future production costs	(288,816)	(78,207)
Future development and abandonment costs	(36,719)	(32,673)
Future income tax expense	(69,999)	(28,904)
Future net cash flows	332,848	107,510
10 % annual discount for estimated timing of cash flows	(122,781)	(29,751)
Standardized measure of discounted future net cash flows	<u>\$ 210,067</u>	<u>\$ 77,759</u>

Changes in Standardized Measure of Discounted Future Net Cash Flows

Principle changes in the standardized measure of discounted future net cash flows attributable to the Company's proved oil and natural gas reserves are as follows.

Standardized measure at December 31, 2020	\$ 31,330
Net change in prices and production costs	67,058
Net change in future development costs	(85)
Sales of oil and natural gas, net of production expenses	(22,098)
Extensions	104
Revisions of previous quantity estimates	17,754
Net change in taxes	(14,604)
Accretion of discount	3,759
Changes in timing and other	(5,459)
Standardized measure at December 31, 2021	\$ 77,759
Net change in prices and production costs	58,439
Net change in future development costs	104
Sales of oil and natural gas, net of production expenses	(41,859)
Extensions	—
Acquisition of reserves	141,051
Revisions of previous quantity estimates	(9,072)
Net change in taxes	(26,456)
Accretion of discount	9,862
Changes in timing and other	239
Standardized measure at December 31, 2022	<u>\$ 210,067</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Based on an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures were effective as of December 31, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2022, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of Biglari Holdings Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision of our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, we used the criteria set forth in the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2022.

We are in the process of evaluating the existing controls and procedures of Abraxas Petroleum and integrating Abraxas Petroleum into our internal control over financial reporting. Abraxas Petroleum was acquired on September 14, 2022, and its financial statements constitute approximately 9.8% of total assets, 3.1% of revenues, and 2.5% of net earnings of the consolidated financial statement amounts as of and for the year ended December 31, 2022. In accordance with Securities and Exchange Commission guidance, we have excluded Abraxas Petroleum from management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2022.

The effectiveness of our internal control over financial reporting as of December 31, 2022, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Biglari Holdings Inc.
February 25, 2023

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 14. Principal Accountant Fees and Services

The information required by Part III Items 10, 11, 12, 13 and 14 will be contained in the Company's definitive proxy statement for its 2023 Annual Meeting of Shareholders, to be filed on or before April 20, 2023, and such information is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. *Financial Statements*

The following Consolidated Financial Statements, as well as the Reports of Independent Registered Public Accounting Firm, are included in Part II, Item 8 of this report:

	PAGE
Reports of Independent Registered Public Accounting Firm (PCAOB ID No 34)	25-27
Consolidated Balance Sheets	28
Consolidated Statements of Earnings	29
Consolidated Statements of Comprehensive Income	30
Consolidated Statements of Cash Flows	31
Consolidated Statements of Changes in Shareholders' Equity	32
Notes to Consolidated Financial Statements	33
Management's Report on Internal Control over Financial Reporting	58

2. *Financial Statement Schedule*

Schedules have been omitted for the reason that they are not required, are not applicable, or the required information is set forth in the financial statements or notes thereto.

(b) *Exhibits*

Exhibit Number	Description
2.01	Amended and Restated Agreement and Plan of Merger, dated as of March 5, 2018, by and among OBH Inc (the "Predecessor"), BH Merger Company and the Company (incorporated by reference to Exhibit 2.01 to the Company's Amendment No. 3 to Registration Statement on Form S-4 filed March 28, 2018).
3.01	First Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Annex II to the Company's Amendment No. 2 to Registration Statement on Form S-4 filed March 6, 2018).
3.02	Articles of Amendment to the First Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.02 to the Company's Form 8-K12B filed April 30, 2018).
3.03	By-Laws of the Company (incorporated by reference to Exhibit 3.03 to the Company's Form 8-K12B filed April 30, 2018).
4.01	Specimen Class A Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.01 to the Company's Amendment No. 3 to Registration Statement on Form S-4 filed March 28, 2018).
4.02	Specimen Class B Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.02 to the Company's Amendment No. 3 to Registration Statement on Form S-4 filed March 28, 2018).
4.03	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.01*	The Steak n Shake Non-Qualified Savings Plan, amended and restated as of March 15, 2010 (incorporated by reference to Exhibit 4.3 to the Predecessor's Registration Statement on Form S-8 dated April 22, 2010).
10.02	Amended and Restated Incentive Agreement, dated September 28, 2010, by and between the Predecessor and Sardar Biglari (incorporated by reference to Annex A to the Predecessor's definitive Proxy Statement dated September 29, 2010).
10.03	Services Agreement, dated as of September 15, 2017, by and among Biglari Holdings Inc., Biglari Capital Corp., and Biglari Enterprises LLC (incorporated by reference to Exhibit 10.1 to the Predecessor's Current Report on Form 8-K dated September 15, 2017).

10.04*	First Amendment, dated as of July 1, 2013, to the Amended and Restated Incentive Agreement, dated as of September 28, 2010, by and between Biglari Holdings Inc. and Sardar Biglari (incorporated by reference to Exhibit 10.3 to the Predecessor's Current Report on Form 8-K dated July 2, 2013).
10.05	Credit Agreement, dated as of March 19, 2014, among Steak n Shake Operations, Inc., as borrower, Steak n Shake Enterprises, Inc. and Steak n Shake, LLC, as subsidiary guarantors, the lenders party thereto, Jefferies Finance LLC, as joint lead arranger, syndication agent, documentation agent, book manager, administrative agent and collateral agent, and Fifth Third Bank, as joint lead arranger, swingline lender and issuing bank (incorporated by reference to Exhibit 10.1 to the Predecessor's Current Report on Form 8-K dated March 21, 2014).
10.06	Security Agreement, dated as of March 19, 2014, by Steak n Shake Operations, Inc., Steak n Shake Enterprises, Inc. and Steak n Shake, LLC, as pledgors, assignors and debtors, in favor of Jefferies Finance LLC, in its capacity as collateral agent, pledgee, assignee and secured party (incorporated by reference to Exhibit 10.2 to the Predecessor's Current Report on Form 8-K dated March 21, 2014).
10.07	Form of Indemnity Agreement for Directors, as adopted on June 3, 2015 (incorporated by reference to Exhibit 10.1 to the Predecessor's Current Report on Form 8-K dated June 4, 2015).
10.08	Amended and Restated Partnership Agreement of The Lion Fund II, L.P. as amended on June 3, 2015 (incorporated by reference to Exhibit 10.1 to the Predecessor's Current Report on Form 8-K dated June 4, 2015).
10.09*	Second Amendment to Amended and Restated Incentive Agreement dated March 26, 2019, by and between Biglari Holdings Inc. and Sardar Biglari (incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019).
10.1	Form of Indemnity Agreement for Directors, as adopted on May 26, 2022.
21.01	Subsidiaries of the Company.
31.01	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Report of Netherland, Sewell & Associates Inc. Independent Petroleum Engineers and Geologists.
101	Interactive Data Files
104	Cover page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

* Indicates management contract or compensatory plans or arrangements required to be filed as an exhibit to the Annual Report on Form 10-K.

** Furnished herewith.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 25, 2023.

BIGLARI HOLDINGS INC.

By: _____ /s/ BRUCE LEWIS
Bruce Lewis
Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on February 25, 2023.

Signature	Title
/s/ SARDAR BIGLARI	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Sardar Biglari	
/s/ BRUCE LEWIS	Controller (Principal Financial and Accounting Officer)
Bruce Lewis	
/s/ JOHN G. CARDWELL	Director
John G. Cardwell	
/s/ PHILIP COOLEY	Director - Vice Chairman
Philip Cooley	
/s/ KENNETH R. COOPER	Director
Kenneth R. Cooper	
/s/ RUTH J. PERSON	Director
Ruth J. Person	
/s/ EDMUND B. CAMPBELL, III	Director
Edmund B. Campbell, III	

BIGLARI HOLDINGS INC.

INDEMNITY AGREEMENT

This Indemnity Agreement (the "Agreement") is made as of May 26, 2022 ("Effective Date") by and between Biglari Holdings Inc., an Indiana corporation (the "Company"), and Sardar Biglari ("Indemnitee"). This Agreement supersedes and replaces any and all previous agreements between the Company and Indemnitee covering the subject matter of this Agreement.

RECITALS

WHEREAS, highly competent persons have become more reluctant to serve on publicly-held corporations as directors or officers or in other capacities unless they are provided with adequate protection through indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation.

WHEREAS, the Company's Amended and Restated Articles of Incorporation and Bylaws (collectively, the "Organizational Documents") require indemnification of the officers and directors of the Company, and Indemnitee may also be entitled to indemnification pursuant to applicable provisions of the Indiana Business Corporation Law ("IBCL"). The Organizational Documents and the IBCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors (the "Board"), officers and other persons with respect to indemnification.

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of directors and officers to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified.

WHEREAS, this Agreement is a supplement to and in furtherance of the Organizational Documents and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

WHEREAS, the Company has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve or continue to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

WHEREAS, the Indemnitee is willing to serve, continue to serve, and to consider additional service for or on behalf of the Company on the condition that he or she is so indemnified.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. **Services to the Company.** Indemnitee will serve or continue to serve as an officer, director or key employee of the Company for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his resignation, or is terminated or is no longer affiliated with the Company except as otherwise set forth herein.

2. **Definitions.** As used in this Agreement:

(a) "Corporate Status" describes the status of a person who is or was a director, officer, trustee, partner, member, fiduciary, employee or agent of the Company or of any other Enterprise (as defined below) which such person is or was serving at the request of the Company.

(b) "Disinterested Director" shall mean a director of the Company who is not and was not a party to the Proceeding (as defined below) in respect of which indemnification is sought by Indemnitee.

(c) "Enterprise" shall mean the Company and any other corporation, constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger to which the Company (or any of its wholly owned subsidiaries) is a party, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, partner, member, manager, fiduciary trustee, employee, or agent of another foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan, or other enterprise, whether for profit or not.

(d) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(e) "Expenses" shall mean all costs, expenses, fees and charges, including without limitation, attorneys' fees and costs, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties, and all other disbursements or expenses in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding (as defined below). Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding (as defined below), including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent.

(f) The term, "IBCL Standard of Conduct" has the same meaning as set forth in the IBCL, as existing and in force as of the Effective Date of this Agreement, including, but not limited to, requiring that the Indemnitee (A) (i) conducted himself or herself in good faith; (ii) reasonably believed that his or her conduct was in the best interests of the Company or in all other cases, at least not opposed to the best interests of the Company; and (iii) in the case of any criminal proceeding, had reasonable cause to believe his or her conduct was lawful, or had no reasonable cause to believe his or her conduct was unlawful; or (B) engaged in conduct for which he or she shall not be liable under any provisions of the Company's Organizational Documents.

(g) "Indemnity Obligations" shall mean all obligations of the Company to Indemnitee under this Agreement, including the Company's obligation to provide indemnification to Indemnitee and advance Expenses to Indemnitee under this Agreement.

(h) "Independent Counsel" shall mean a law firm or a member of a law firm that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning other indemnitees under similar indemnification agreements); or (ii) any other party to the Proceeding (as defined below) giving rise to a claim for indemnification hereunder.

(i) "Indiana Court" shall mean an Indiana circuit court or other court of competent jurisdiction.

(j) "Liabilities" means all claims, liabilities, damages, losses, judgments, orders, fines, penalties and other amounts payable in connection with, arising out of, or in respect of or relating to any Proceeding, including, without limitation, amounts paid in settlement in any Proceeding and all costs and expenses in complying with any judgment, order or decree issued or entered in connection with any Proceeding or any settlement agreement, stipulation or consent decree entered into or issued in settlement of any Proceeding.

(k) References to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on such persons, including duties relating to an employee benefit plan, its participants or beneficiaries; and references to "not opposed to the best interest of the corporation" describes the actions of a person who acts in good faith and in a manner he or she reasonably believes to be in the best interests of the participants and beneficiaries of an employee benefit plan.

(l) The term "Person" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act as in effect on the date hereof; provided, however, that "Person" shall exclude: (i) the Company; (ii) any Subsidiaries (as defined below) of the Company; (iii) any employee benefit plan of the Company or of a Subsidiary (as defined below) of the Company or of any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company; and (iv) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a Subsidiary (as defined below) of the Company or of a corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(m) The term "Proceeding" shall include any threatened, pending or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative, investigative, formal or informal nature, including any appeal therefrom, in each case, in which Indemnitee was, is or will be, or is threatened to be, involved as a party, witness or otherwise by reason of the fact that Indemnitee is or was a director, agent or officer of the Company, by reason of any action (or failure to act) taken by him or of any action (or failure to act) on his part while acting as a director, agent or officer of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, trustee, partner, member, fiduciary, employee or agent of any other Enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement, or advancement of expenses can be provided under this Agreement. If the Indemnitee believes in good faith that a situation may lead to or culminate in the institution of a Proceeding, such situation shall be considered a Proceeding under this paragraph.

(n) The term "Subsidiary," with respect to any Person, shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

3. Indemnity in Third-Party Proceedings. The Company shall indemnify and hold harmless Indemnitee, to the fullest extent permitted by applicable law, in accordance with the provisions of this Section 3 if Indemnitee was or is a party to or a participant (as a witness or otherwise) in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified against all Liabilities and Expenses incurred by Indemnitee or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee met the IBCL Standard of Conduct. The parties hereto intend that this Agreement shall

provide to the fullest extent permitted by law for indemnification in excess of that expressly permitted by IBCL, including, without limitation, any indemnification provided by the Organizational Documents, vote of its shareholders or disinterested directors or applicable law.

4. Indemnity in Proceedings by or in the Right of the Company. The Company shall indemnify and hold harmless Indemnitee, to the fullest extent permitted by applicable law, in accordance with the provisions of this Section 4 if Indemnitee was or is a party to or a participant (as a witness or otherwise) in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnitee shall be indemnified against all Liabilities and Expenses incurred in connection with the Proceeding, if Indemnitee met the IBCL Standard of Conduct. No indemnification for Liabilities and Expenses shall be made under this Section 4 shall be available where the IBCL expressly prohibits such indemnification by reason of any adjudication of liability of the Indemnitee to the Company.

5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, and without limiting the rights of Indemnitee under any other provision hereof, to the fullest extent permitted by applicable law, to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify and hold harmless Indemnitee against all Liabilities and Expenses incurred by him in connection therewith. Indemnification pursuant to this Section 5 shall not require a determination pursuant to Section 12 of this Agreement. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify and hold harmless Indemnitee against all Liabilities and Expenses incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. If the Indemnitee is not wholly successful in such Proceeding, the Company also shall indemnify and hold harmless Indemnitee against all Liabilities and Expenses incurred in connection with a claim, issue or matter related to any claim, issue, or matter on which the Indemnitee was successful. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by settlement, entry of a plea of nolo contendere or by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

6. Indemnification For Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness or otherwise asked to participate in any Proceeding to which Indemnitee is not a party, he shall be indemnified against all Liabilities and Expenses suffered or incurred by him or on his behalf in connection therewith.

7. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Liabilities and Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

8. Additional Indemnification. Notwithstanding any limitation in Sections 3, 4, or 5 or any applicable statutory provision, the Company hereby covenants and agrees to indemnify and hold harmless Indemnitee to the fullest extent permitted by applicable law if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all liabilities, obligations to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to any employee benefit plan), and Liabilities and Expenses incurred by Indemnitee in connection with the Proceeding. In furtherance and not in limitation of the foregoing, the Company shall indemnify and hold harmless Indemnitee (i) to the fullest extent permitted

by the provision of the IBCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the IBCL, and (ii) to the fullest extent authorized or permitted by any amendments to or replacements of the IBCL adopted after the date of this Agreement that increase the extent to which a limited liability company, corporation or other business enterprise may indemnify its officers and directors.

9. **Exclusions.** Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been received by or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount actually received under any insurance policy, contract, agreement, other indemnity provision or otherwise;

(b) where the Company reasonably determines that Indemnitee clearly violated Section 16(b) of the Exchange Act and must disgorge the profits to the Company, but indemnification shall not be prohibited if Indemnitee ultimately establishes in any Proceeding that no recovery of such profits from Indemnitee is permitted under Section 16(b) of the Exchange Act or similar provisions of any federal, state or local laws; or

(c) except as otherwise provided in Section 14(e) hereof, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation.

10. **Advances of Expenses; Defense of Claim.** Notwithstanding any provision of this Agreement to the contrary, and to the fullest extent permitted by applicable law, the Company shall advance the Expenses to be incurred by Indemnitee in connection with any Proceeding within ten (10) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding; provided, however, that the payment of such Expenses incurred by Indemnitee in advance of the final deposition of such matter under this Section 10 shall be made only upon receipt of (i) a written affirmation of Indemnitee's good faith belief that Indemnitee has met the IBCL Standard of Conduct; (ii) an unlimited written undertaking by Indemnitee to repay any Expenses so advanced in the event that it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, or, if no such determination is made by a court of competent jurisdiction, then by the Board, that Indemnitee is not entitled to be indemnified by the Company; and (iii) a determination is made that the facts then known to those making the determination would not preclude indemnification under Sections 3 or 4. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. Advances shall include any and all Expenses incurred pursuing a Proceeding to enforce this right of advancement. No other form of undertaking shall be required other than the execution of this Agreement. This Section 10(a) shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 9. Notwithstanding anything else contained in this Section 10, to the extent that the Company is prohibited by applicable law from making payment of Expenses to Indemnitee prior to the Company's determination that Indemnitee is entitled to indemnification, the Company shall not pay Expenses to the Indemnitee pursuant to this Section. Nothing herein shall be construed to limit the

Company's right to seek damages from Indemnitee, including but not limited to the full amount of the Expenses paid by the Company hereunder.

(a) The Company will be entitled to participate in the Proceeding at its own expense.

11. Procedure for Notification and Defense of Claim.

(a) Indemnitee shall notify the Company in writing of any Proceeding with respect to which Indemnitee intends to seek indemnification or advancement of Expenses hereunder as soon as reasonably practicable following the receipt by Indemnitee of notice thereof. The written notification to the Company shall include a description of the nature of the Proceeding and the facts underlying the Proceeding. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of such action, suit or proceeding. Any delay or failure by Indemnitee to notify the Company hereunder will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement, and any delay or failure in so notifying the Company shall not constitute a waiver by Indemnitee of any rights under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

(b) In the event Indemnitee is entitled to indemnification and/or advancement of Expenses with respect to any Proceeding, Indemnitee may, at Indemnitee's option, (i) retain counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld, conditioned or delayed) to defend Indemnitee in such Proceeding, at the sole expense of the Company, or (ii) have the Company assume the defense of Indemnitee in such Proceeding, in which case the Company shall assume the defense of such Proceeding with counsel selected by the Company and approved by Indemnitee (which approval shall not be unreasonably withheld, conditioned or delayed) within ten (10) days of the Company's receipt of written notice of Indemnitee's election to cause the Company to do so. If the Company is required to assume the defense of any such Proceeding, it shall engage legal counsel for such defense, and the Company shall be solely responsible for all fees and expenses of such legal counsel and otherwise of such defense. Such legal counsel may represent both Indemnitee and the Company (and/or any other party or parties entitled to be indemnified by the Company with respect to such matter) unless, in the reasonable opinion of legal counsel to Indemnitee, there is a conflict of interest between Indemnitee and the Company (or any other such party or parties) or there are legal defenses available to Indemnitee that are not available to the Company (or any such other party or parties). Notwithstanding either party's assumption of responsibility for defense of a Proceeding, each party shall have the right to engage separate counsel at its own expense. The party having responsibility for defense of a Proceeding shall provide the other party and its counsel with all copies of pleadings and material correspondence relating to the proceeding. Indemnitee and the Company shall reasonably cooperate in the defense of any Proceeding with respect to which indemnification is sought hereunder, regardless of whether the Company or Indemnitee assumes the defense thereof. Indemnitee may not settle or compromise any Proceeding without the prior written consent of the Company, which consent shall not be unreasonably withheld, conditioned or delayed. The Company may not settle or compromise any proceeding without the prior written consent of Indemnitee, which consent shall not be unreasonably withheld, conditioned or delayed.

12. Procedure Upon Application for Indemnification.

(a) A determination, if required by applicable law, with respect to Indemnitee's entitlement to indemnification shall be made in the specific case by one of the following methods, which shall be at the election of Indemnitee: (i) by a majority vote of a quorum of the Disinterested Directors; or

(ii) by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee. The Company promptly will advise Indemnitee in writing with respect to any determination that Indemnitee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall reasonably cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom. The Company will not deny any written request for indemnification hereunder made in good faith by Indemnitee unless a determination as to Indemnitee's entitlement to such indemnification described in this Section 12(a) has been made. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, (i) the Independent Counsel shall be selected by the Company within ten (10) days of the Submission Date (as defined below) (the cost of each such counsel to be paid by the Company), (ii) the Company shall give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected and (iii) Indemnitee may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company Indemnitee's written objection to such selection. Absent a timely objection, the person so selected shall act as Independent Counsel. If a written objection is so made by Indemnitee, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn. If no Independent Counsel shall have been selected and not objected to before thirty (30) days after the submission by Indemnitee of a written request for indemnification pursuant to Section 12(a) hereof (the "Submission Date"), each of the Company and Indemnitee shall select a law firm or member of a law firm meeting the qualifications to serve as Independent Counsel, and such law firms or members of law firms shall select the Independent Counsel. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

13. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 12(a) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) Subject to Section 14(f), if the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall, to the fullest extent not prohibited by law, be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if (i) the determination is to be made by Independent Counsel and Indemnitee objects to the Company's selection of Independent Counsel and (ii) the Independent Counsel ultimately selected requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful.

(d) To the greatest extent permitted by applicable law, settlement of any Proceeding without any finding of responsibility, wrongdoing or guilt on the part of the Indemnitee with respect to claims asserted in such Proceeding shall constitute a conclusive determination that Indemnitee is entitled to indemnification hereunder with respect to such Proceeding.

(e) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected by the Enterprise. The provisions of this Section 13(e) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement.

(f) The knowledge and/or actions, or failure to act, of any other director, officer, trustee, partner, member, fiduciary, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

14. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 12 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses, to the fullest extent permitted by applicable law, is not timely made pursuant to Section 10 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12 of this Agreement within ten (10) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5 or 6 or the last sentence of Section 12(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) payment of indemnification pursuant to Section 3, 4 or 8 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, or (vi) in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or Proceeding designed to deny, or to recover from, the Indemnitee the benefits provided or intended to be

provided to the Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by the Indiana Court to such indemnification, contribution or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial or arbitration proceeding commenced pursuant to this Section 14 shall be conducted in all respects as a de novo trial or arbitration on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 14, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be. If Indemnitee commences a judicial proceeding pursuant to this Section 14, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 10 until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed).

(c) If a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 14, absent a prohibition of such indemnification under applicable law.

(d) The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial or arbitration proceeding commenced pursuant to this Section 14 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. It is the intent of the Company that the Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Indemnitee hereunder.

(e) The Company shall indemnify and hold harmless Indemnitee to the fullest extent permitted by law against all Expenses and, if requested by Indemnitee, shall (within ten (10) days after the Company's receipt of such written request) advance to Indemnitee, to the fullest extent permitted by applicable law, such Expenses which are incurred by Indemnitee in connection with any judicial proceeding brought by Indemnitee (i) to enforce his rights under, or to recover damages for breach of, this Agreement or any other indemnification, advancement or contribution agreement or provision of the Organizational Documents now or hereafter in effect; or (ii) for recovery or advances under any insurance policy maintained by any person for the benefit of Indemnitee, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance, contribution or insurance recovery, as the case may be.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding; provided that, in absence of any such determination with respect to such Proceeding, the Company shall pay Liabilities and advance Expenses with respect to such Proceeding as if the Company had determined the Indemnitee to be entitled to indemnification and advancement of Expenses with respect to such Proceeding.

15. Non-Exclusivity; Survival of Rights; Insurance.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Organizational Documents, any agreement, a vote of shareholders or a resolution of the Board, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in applicable law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Organizational Documents or this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other Enterprise, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) The indemnification and contribution provided for in this Agreement will remain in full force and effect regardless of any investigation made by or on behalf of Indemnitee.

16. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee serves as a director, agent or officer of the Company or as a director, officer, trustee, partner, member, fiduciary, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other Enterprise which Indemnitee serves at the request of the Company and shall continue thereafter until and shall terminate upon the latest to occur of: (i) ten (10) years after the date that Indemnitee shall have ceased to serve as an officer or director of the Company or any other Enterprise and (ii) one (1) year after the final termination of any Proceeding then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 14 of this Agreement relating thereto (including any rights of appeal thereto) by reason of his Corporate Status, whether or not he is acting in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement, and shall inure to the benefit of the heirs, executors and administrators of Indemnitee.

17. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or

unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

18. Enforcement and Binding Effect.

(a) Without limiting any of the rights of Indemnitee under the Organizational Documents as they may be amended from time to time, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

(b) The indemnification and advancement of Expenses provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or of any other Enterprise at the Company's request, and shall inure to the benefit of Indemnitee and his or her spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(c) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(d) The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance Indemnitee shall not be precluded from seeking or obtaining any other relief to which he may be entitled. The Company and Indemnitee further agree that Indemnitee shall be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertaking in connection therewith. The Company acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court of competent jurisdiction, and the Company hereby waives any such requirement of such a bond or undertaking.

19. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

20. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) if delivered by hand and received for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by

certified or registered mail with postage prepaid, on the third (3rd) business day after the date on which it is so mailed:

(a) If to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide in writing to the Company.

(b) If to the Company, to:

17802 W Interstate 10
Suite 400
San Antonio, TX 78257-2509

or to any other address as may have been furnished to Indemnitee in writing by the Company.

21. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for other Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

22. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Indiana, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 14(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Indiana Court, and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Indiana Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Indiana Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Indiana Court has been brought in an improper or inconvenient forum.

23. Identical Counterparts; Construction. This Agreement may be executed in one or more counterparts (including by facsimile or electronic transmission), each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement. For purposes of this agreement, references to any gender include each other gender.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

BIGLARI HOLDINGS INC.,

INDEMNITEE

Name:
Title:

Name:

[Signature Page to Indemnity Agreement]

BIGLARI HOLDINGS INC.

Subsidiaries

Abraxas Petroleum Corporation
First Guard Insurance Company
Maxim Inc.
Steak n Shake Inc.
Southern Oil Company
Southern Pioneer Property and Casualty Insurance Company
Western Sizzlin Corporation

Jurisdiction of Incorporation or Organization

Nevada
Arizona
Delaware
Indiana
Delaware
Arkansas
Delaware

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sardar Biglari, certify that

1. I have reviewed this annual report on form 10-K of Biglari Holdings Inc.;
2. Based on my knowledge this report does not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements made in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2023

/s/ Sardar Biglari
Sardar Biglari
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce Lewis, certify that

1. I have reviewed this annual report on form 10-K of Biglari Holdings Inc;
2. Based on my knowledge this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over Financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2023

/s/ Bruce Lewis

Bruce Lewis
Controller

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350.

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Biglari Holdings Inc (the "Company") on Form 10-K for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U S C Sec 1350, as adopted pursuant to Sec 906 of the Sarbanes-Oxley Act of 2002, that

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sardar Biglari

Sardar Biglari
Chairman and Chief Executive Officer

February 25, 2023

/s/ Bruce Lewis

Bruce Lewis
Controller
February 25, 2023

February 24, 2023

Mr. Sardar Biglari
Biglari Holdings, Inc.
19100 Ridgewood Parkway, Suite 1200
San Antonio, Texas 78259

Dear Mr. Biglari:

In accordance with your request, we have estimated the proved reserves and future revenue, as of December 31, 2022, to the combined interests of Abraxas Petroleum Corporation (Abraxas) and Southern Oil of Louisiana LLC (SOLA) (collectively referred to herein as "Abraxas-SOLA") in certain oil and gas properties located onshore and offshore Louisiana and Texas. Abraxas and SOLA are both subsidiaries of Biglari Holdings Inc. (Biglari). We completed our evaluation on or about the date of this letter. It is our understanding that the proved reserves estimated in this report constitute all of the proved reserves owned by Abraxas-SOLA. The estimates in this report have been prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and, with the exception of the exclusion of future income taxes, conform to the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas. Definitions are presented immediately following this letter. This report has been prepared for Biglari's use in filing with the SEC; in our opinion the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

We estimate the net reserves and future net revenue to the Abraxas-SOLA interest in these properties, as of December 31, 2022, to be:

Category	Net Reserves			Future Net Revenue (M\$)	
	Oil (MBBL)	NGL (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
Proved Developed Producing	4,019.3	1,508.0	22,988.9	276,421.4	168,445.8
Proved Developed Non-Producing	487.6	0.0	9,143.4	61,196.6	43,745.6
Proved Undeveloped	464.4	0.0	8,116.7	65,233.9	45,213.3
Total Proved	4,971.3	1,508.0	40,249.1	402,851.9	257,404.7

Totals may not add because of rounding.

The oil volumes shown include crude oil and condensate. Oil and natural gas liquids (NGL) volumes are expressed in thousands of barrels (MBBL); a barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of cubic feet (MMCF) at standard temperature and pressure bases.

Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. As requested, probable and possible reserves that exist for these properties have not been included. The estimates of reserves and future revenue included herein have not been adjusted for risk. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated.

Gross revenue is Abraxas-SOLA's share of the gross (100 percent) revenue from the properties prior to any deductions. Future net revenue is after deductions for Abraxas-SOLA's share of production taxes, ad valorem taxes, capital costs, abandonment costs, and operating expenses but before consideration of any income taxes. The future net revenue has been discounted at an annual rate of 10 percent to determine its present worth, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

Prices used in this report are based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December 2022. For oil and NGL volumes, the average West Texas Intermediate spot price of \$94.14 per barrel is adjusted for quality, transportation fees, and market differentials. For gas volumes, the average Henry Hub spot price of \$6.357 per MMBTU is adjusted for energy content, transportation fees, and market differentials. All prices are held constant throughout the lives of the properties. The average adjusted product prices weighted by production over the remaining lives of the properties are \$94.20 per barrel of oil, \$27.99 per barrel of NGL, and \$5.412 per MCF of gas.

Operating costs used in this report are based on operating expense records of Abraxas and SOLA. These costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels. Operating costs have been divided into field-level costs, per-well costs, and per-unit-of-production costs. Headquarters general and administrative overhead expenses of Abraxas and SOLA are included to the extent that they are covered under joint operating agreements for the operated properties. For all properties, headquarters general and administrative overhead expenses of Biglari are not included. Operating costs are not escalated for inflation.

Capital costs used in this report were provided by SOLA and are based on authorizations for expenditure and actual costs from recent activity. Capital costs are included as required for workovers, new development wells, and production equipment. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. Abandonment costs used in this report are Abraxas' and SOLA's estimates of the costs to abandon the wells, platforms, and production facilities, net of any salvage value. Capital costs and abandonment costs are not escalated for inflation.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

We have made no investigation of potential volume and value imbalances resulting from overdelivery or underdelivery to the Abraxas and SOLA interests. Therefore, our estimates of reserves and future revenue do not include adjustments for the settlement of any such imbalances; our projections are based on Abraxas and SOLA receiving their net revenue interest share of estimated future gross production. Additionally, we have made no specific investigation of any firm transportation contracts that may be in place for these properties; our estimates of future revenue include the effects of such contracts only to the extent that the associated fees are accounted for in the historical field- and lease-level accounting statements.

The reserves shown in this report are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be economically producible; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans as provided to us by Abraxas and SOLA, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received for the reserves, and costs incurred in recovering such reserves may vary from assumptions made while preparing this report.

For the purposes of this report, we used technical and economic data including, but not limited to, well logs, geologic maps, seismic data, well test data, production data, historical price and cost information, and property ownership



interests. The reserves in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers (SPE Standards). We used standard engineering and geoscience methods, or a combination of methods, including performance analysis, volumetric analysis, analogy, that we considered to be appropriate and necessary to categorize and estimate reserves in accordance with SEC definitions and regulations. A substantial portion of these reserves are for behind-pipe zones, non-producing zones, and undeveloped locations; such reserves are based on estimates of reservoir volumes and recovery efficiencies along with analogy to properties with similar geologic and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

The data used in our estimates were obtained from Abraxas, SOLA, public data sources, and the nonconfidential files of Netherland, Sewell & Associates, Inc. (NSAI) and were accepted as accurate. Supporting work data are on file in our office. We have not examined the titles to the properties or independently confirmed the actual degree or type of interest owned. The technical persons primarily responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the SPE Standards. Michael B. Begland, a Licensed Professional Engineer in the State of Texas, has been practicing consulting petroleum engineering at NSAI since 1993 and has over 8 years of prior industry experience. Michelle F. Herrera, a Licensed Professional Geoscientist in the State of Texas, has been practicing consulting petroleum geoscience at NSAI since 2013 and has over 10 years of prior industry experience. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties nor are we employed on a contingent basis.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.
Texas Registered Engineering Firm F-2699

/s/ C.H. (Scott) Rees III

By:

C.H. (Scott) Rees III, P.E.
Executive Chairman

/s/ Michael B. Begland
By:
Michael B. Begland, P.E. 104898
Vice President

Date Signed: February 24, 2023

MBB:LEE

/s/ Michelle F. Herrera
By:
Michelle F. Herrera, P.G. 11912
Vice President

Date Signed: February 24, 2023

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

The following definitions are set forth in U.S. Securities and Exchange Commission (SEC) Regulation S-X Section 210.4-10(a). Also included is supplemental information from (1) the 2018 Petroleum Resources Management System approved by the Society of Petroleum Engineers, (2) the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, and (3) the SEC's Compliance and Disclosure Interpretations.

(1) Acquisition of properties. Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) Analogous reservoir. Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an "analogous reservoir" refers to a reservoir that shares the following characteristics with the reservoir of interest:

- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
- (ii) Same environment of deposition;
- (iii) Similar geological structure; and
- (iv) Same drive mechanism.

Instruction to paragraph (a)(2): Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) Bitumen. Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) Condensate. Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(5) Deterministic estimate. The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) Developed oil and gas reserves. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

- (i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- (ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Supplemental definitions from the 2018 Petroleum Resources Management System:

Developed Producing Reserves – Expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves – Shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

(7) Development costs. Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
- (ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

- (iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.
- (iv) Provide improved recovery systems.

(8) Development project. A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.

(9) Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

(10) Economically producible. The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.

(11) Estimated ultimate recovery (EUR). Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

(12) Exploration costs. Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or "G&G" costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

(13) Exploratory well. An exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well as those items are defined in this section.

(14) Extension well. An extension well is a well drilled to extend the limits of a known reservoir.

(15) Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) Oil and gas producing activities.

- (i) Oil and gas producing activities include:
 - (A) The search for crude oil, including condensate and natural gas liquids, or natural gas ("oil and gas") in their natural states and original locations;
 - (B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
 - (C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:
 - (1) Lifting the oil and gas to the surface; and
 - (2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

Instruction 1 to paragraph (a)(16)(i): The oil and gas production function shall be regarded as ending at a "terminal point", which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

Instruction 2 to paragraph (a)(16)(i): For purposes of this paragraph (a)(16), the term saleable hydrocarbons means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

(ii) Oil and gas producing activities do not include:

- (A) Transporting, refining, or marketing oil and gas;
- (B) Processing of produced oil, gas, or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
- (C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
- (D) Production of geothermal steam.

(17) Possible reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

- (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.
- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
- (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
- (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
- (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
- (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

(18) Probable reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

- (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.
- (iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.
- (iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) Probabilistic estimate. The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) Production costs.

- (i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:
 - (A) Costs of labor to operate the wells and related equipment and facilities.
 - (B) Repairs and maintenance.
 - (C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.
 - (D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.
 - (E) Severance taxes.
- (ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) Proved area. The part of a property to which proved reserves have been specifically attributed.

(22) Proved oil and gas reserves. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (i) The area of the reservoir considered as proved includes:
 - (A) The area identified by drilling and limited by fluid contacts, if any, and
 - (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
- (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:
 - (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

(23) Proved properties. Properties with proved reserves.

(24) Reasonable certainty. If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) Reliable technology. Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) Reserves. Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

Excerpted from the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas:

932-235-50-30 A standardized measure of discounted future net cash flows relating to an entity's interests in both of the following shall be disclosed as of the end of the year:

- a. Proved oil and gas reserves (see paragraphs 932-235-50-3 through 50-11B)
- b. Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the entity participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves (see paragraph 932-235-50-7).

The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes.

932-235-50-31 All of the following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with paragraphs 932-235-50-3 through 50-11B:

- a. Future cash inflows. These shall be computed by applying prices used in estimating the entity's proved oil and gas reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.
- b. Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.
- c. Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the entity's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions and tax credits and allowances relating to the entity's proved oil and gas reserves.
- d. Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.

DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

- e. Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.
- f. Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.

(27) Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

(28) Resources. Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) Service well. A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) Stratigraphic test well. A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as "exploratory type" if not drilled in a known area or "development type" if drilled in a known area.

(31) Undeveloped oil and gas reserves. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
- (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

From the SEC's Compliance and Disclosure Interpretations (October 26, 2009):

Although several types of projects — such as constructing offshore platforms and development in urban areas, remote locations or environmentally sensitive locations — by their nature customarily take a longer time to develop and therefore often do justify longer time periods, this determination must always take into consideration all of the facts and circumstances. No particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule.

Factors that a company should consider in determining whether or not circumstances justify recognizing reserves even though development may extend past five years include, but are not limited to, the following:

- The company's level of ongoing significant development activities in the area to be developed (for example, drilling only the minimum number of wells necessary to maintain the lease generally would not constitute significant development activities);
- The company's historical record at completing development of comparable long-term projects;
- The amount of time in which the company has maintained the leases, or booked the reserves, without significant development activities;
- The extent to which the company has followed a previously adopted development plan (for example, if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate); and
- The extent to which delays in development are caused by external factors related to the physical operating environment (for example, restrictions on development on Federal lands, but not obtaining government permits), rather than by internal factors (for example, shifting resources to develop properties with higher priority).

- (iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

(32) Unproved properties. Properties with no proved reserves.

