

BIGLARI HOLDINGS INC.
Form 10-Q
August 09, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 0-8445

BIGLARI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of incorporation or organization)

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

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

78257
(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 5, 2013 1,433,835 shares of the registrant’s Common Stock, \$.50 stated value, were outstanding.

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ITEM 1. FINANCIAL STATEMENTS

BIGLARI HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	July 3, 2013 (Unaudited)	September 26, 2012
Current assets:		
Cash and cash equivalents	\$ 22,358	\$ 60,359
Investments	131,207	269,858
Receivables, net of allowance of \$824 and \$744, respectively	7,516	7,001
Inventories	6,578	6,624
Assets held for sale	561	2,357
Other current assets	6,612	2,798
Total current assets	174,832	348,997
Property and equipment, net	349,156	356,638
Goodwill	27,529	27,529
Other intangible assets, net	7,926	6,248
Other assets	8,271	9,109
Equity in investment partnerships	337,479	—
Investments held by consolidated affiliated partnerships	—	25,266
Total assets	\$ 905,193	\$ 773,787
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Accounts payable	\$ 42,148	\$ 33,210
Accrued expenses	52,599	53,866
Deferred income taxes	11,205	19,367
Current portion of obligations under leases	6,197	5,713
Current portion of long-term debt	9,750	12,138
Total current liabilities	121,899	124,294
Deferred income taxes	71,587	8,675
Obligations under leases	107,280	110,353
Long-term debt	112,938	120,250
Other long-term liabilities	9,440	9,002
Total liabilities	423,144	372,574
Commitments and contingencies (Note 15)		

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Redeemable noncontrolling interests of consolidated affiliated partnerships	—	52,088
Shareholders' equity		
Common stock – \$0.50 stated value, 2,500,000 shares authorized – 1,511,174 shares issued, 1,328,118 and 1,227,928 shares outstanding (net of treasury stock), respectively	756	756
Additional paid-in capital	150,452	143,035
Retained earnings	365,429	251,983
Accumulated other comprehensive income	30,307	43,897
Treasury stock – at cost: 183,056 and 283,246 shares at July 3, 2013 and September 26, 2012, respectively (includes 105,670 shares held by investment partnerships at July 3, 2013 and 205,743 shares held by consolidated affiliated partnerships at September 26, 2012)	(64,895)	(90,546)
Biglari Holdings Inc. shareholders' equity	482,049	349,125
Total liabilities and shareholders' equity	\$ 905,193	\$ 773,787

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except share and per share data)

	Twelve Weeks Ended		Forty Weeks Ended	
	July 3, 2013	July 4, 2012	July 3, 2013	July 4, 2012
Net revenues				
Restaurant Operations:				
Net sales	\$ 179,105	\$ 172,128	\$ 561,581	\$ 552,002
Franchise royalties and fees	3,064	2,475	8,819	7,222
Other revenue	698	583	2,020	1,903
Total	182,867	175,186	572,420	561,127
Investment Management Operations:				
Consolidated Affiliated Partnerships:				
Investment gains	1,660	501	3,597	4,467
Other income	75	86	306	253
Total	1,735	587	3,903	4,720
Total net revenues	184,602	175,773	576,323	565,847
Costs and expenses				
Cost of sales	53,041	49,812	165,832	158,508
Restaurant operating costs	84,137	81,326	266,874	258,096
General and administrative	18,609	15,006	55,810	48,118
Depreciation and amortization	5,761	6,031	19,454	20,430
Marketing	11,711	11,666	33,710	31,943
Rent	4,548	4,044	14,045	13,536
Pre-opening costs	133	7	138	430
Provision for restaurant closings	214	26	500	346
Impairment of intangible assets	—	—	1,244	—
Loss on disposal of assets	121	115	960	484
Other operating (income) expense	(138)	(149)	(643)	(793)
Total costs and expenses, net	178,137	167,884	557,924	531,098
Other income (expense)				
Interest, dividend and other investment income	2,353	1,003	7,333	2,405
Interest on obligations under leases	(2,277)	(2,321)	(7,476)	(7,748)
Interest expense	(1,173)	(1,812)	(4,969)	(6,200)
Gain on sale of Biglari Capital Corp.	1,597	—	1,597	—
Gain on contributions to investment partnerships	162,869	—	162,869	—
Realized investment gains	—	227	1	4,200
Other than temporary impairment losses on investments	—	—	(570)	—
Total other income (expense)	163,369	(2,903)	158,785	(7,343)
Earnings before income taxes	169,834	4,986	177,184	27,406

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Income taxes	62,259	(17)	61,837	6,879
Net earnings	107,575	5,003	115,347	20,527
Earnings attributable to redeemable noncontrolling interest:				
Income allocation	(871)	(150)	(1,922)	(2,387)
Incentive fee	—	—	21	36
Total earnings attributable to redeemable noncontrolling interests	(871)	(150)	(1,901)	(2,351)
Net earnings attributable to Biglari Holdings Inc.	\$ 106,704	\$ 4,853	\$ 113,446	\$ 18,176
Earnings per share attributable to Biglari Holdings Inc.				
Basic earnings per common and common equivalent share	\$ 80.34	\$ 3.64	\$ 85.19	\$ 13.63
Diluted earnings per common and common equivalent share	\$ 80.16	\$ 3.63	\$ 85.01	\$ 13.59
Weighted average shares and equivalents				
Basic	1,328,116	1,334,339	1,331,692	1,333,880
Diluted	1,331,105	1,337,538	1,334,465	1,337,199

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Twelve Weeks Ended		Forty Weeks Ended	
	July 3, 2013	July 4, 2012	July 3, 2013	July 4, 2012
Net earnings attributable to Biglari Holdings Inc.	\$106,704	\$4,853	\$113,446	\$18,176
Other comprehensive income:				
Reclassification of investment appreciation in net earnings	—	—	(1)	(1,455)
Applicable income taxes	—	—	—	553
Reclassification of investment appreciation in net earnings on contribution to investment partnerships	(162,869)	—	(162,869)	—
Applicable income taxes	61,890	—	61,890	—
Reclassification of other than temporary impairment losses on investments	—	—	461	—
Applicable income taxes	—	—	(175)	—
Net change in unrealized gains and losses on investments	69,567	25,148	140,622	62,933
Applicable income taxes	(26,435)	(9,556)	(53,436)	(23,914)
Foreign currency translation	14	—	(82)	—
Other comprehensive income, net	(57,833)	15,592	(13,590)	38,117
Total comprehensive income	\$48,871	\$20,445	\$99,856	\$56,293

See accompanying Notes to Consolidated Financial Statements.

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BIGLARI HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Forty Weeks Ended	
	July 3, 2013	July 4, 2012
Operating activities		
Net earnings	\$ 115,347	\$ 20,527
Adjustments to reconcile net earnings to operating cash flows (excluding investment operations of consolidated affiliated partnerships):		
Depreciation and amortization	19,454	20,430
Provision for deferred income taxes	59,816	(1,373)
Asset impairments and provision for restaurant closings	500	346
Impairment of intangible assets	1,244	—
Stock-based compensation and other non-cash expenses	396	781
Loss on disposal of assets	960	484
Gain on sale of Biglari Capital Corp.	(1,597)	—
Gain on contributions to investment partnerships	(162,869)	—
Realized investment gains/losses	(1)	(4,200)
Other than temporary impairment on investments	570	—
Changes in receivables and inventories	(349)	(3,540)
Changes in other assets	(3,030)	(5,608)
Changes in accounts payable and accrued expenses	7,104	12,118
Investment operations of consolidated affiliated partnerships:		
Purchases of investments	—	(14,477)
Sales of investments	1,516	14,537
Realized investment gains, net	(261)	(1,685)
Unrealized gains/losses on marketable securities held by consolidated affiliated partnerships	(3,336)	(2,782)
Changes in cash and cash equivalents held by consolidated affiliated partnerships	(578)	(902)
Net cash provided by operating activities	34,886	34,656
Investing activities		
Additions of property and equipment	(10,421)	(6,804)
Proceeds from property and equipment disposals	2,360	2,288
Purchase of business and lease rights	(3,770)	—
Proceeds from sale of Biglari Capital Corp., net of cash on hand	1,699	—
Purchases of investments	(46,977)	(102,800)
Sales of investments	1	38,108
Changes in due to/from broker	—	(7,013)
Net cash used in investing activities	(57,108)	(76,221)
Financing activities		
Proceeds from revolving credit facility	17,000	—
Payments on revolving credit facility	(17,000)	—
Principal payments on long-term debt	(9,700)	(8,379)
Principal payments on direct financing lease obligations	(4,882)	(4,356)
Proceeds from exercise of stock options	11	29
Excess tax benefits from stock-based awards	3	383

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Repurchase of employee shares for tax withholding	—	(8)
Financing activities of consolidated affiliated partnerships:		
Contributions from noncontrolling interests	1,076	1,534
Distributions to noncontrolling interests	(2,302)	(154)
Net cash used in financing activities	(15,794)	(10,951)
Effect of exchange rate changes on cash	15	—
Decrease in cash and cash equivalents	(38,001)	(52,516)
Cash and cash equivalents at beginning of period		