

What the heck is happening at Insignia \$ISIG

- Some weird stuff is happening at Insignia
- I'd love to get your take on it

I write on this blog for a bunch of reasons. Partly I do it because I'm always researching and writing up investment ideas, and I was kind of sad that all of that writing was going to die on my computer. Partly because it attracts people with interesting ideas looking to swap thoughts, which a lot of times can lead to really interesting new ideas.

Another reason I write was my hope that writing would encourage people to ask questions / poke holes in ideas I wrote on. To date, that hope has been more miss than hit.

So, with that in mind, I present one question: what the heck is going on at Insignia (ISIG)? A month ago, it had two feuding activists with board positions; suddenly, it has none. I don't have a position but I've been tempted to buy a bit just because it sure seems like something strange is brewing.

Some background here is helpful. In 2008, Sardar Biglari took over the Steak n Shake chain. After turning the chain around, Biglari was the darling of the value investing community and clearly had his eyes set on becoming the next [Warren Buffett](#). A few years later, he renamed the holding company Biglari Holdings (BH) and continued to expand the company, buying some insurance companies and even Maxim magazines. Unfortunately, it didn't turn out so well for shareholders, as BH's returns dramatically [under-performed peers](#). Despite the under performance, Biglari has consistently managed to [pay himself incredible sums](#) due to a unique structure where BH owns Biglari's hedge fund and Biglari's hedge fund controls BH, creating a circular chain of control that makes "it hard for investors (to) challenge any corporate decisions."

A few years ago, a BH shareholder, Nick Swenson from Groveland Capital, [dared to question](#) Biglari's [right to earn huge sums regardless of the experience of BH's shareholders](#). Biglari responded as any rational steward of shareholder capital would: with a [100 page presentation](#) that included a personal attack on the activists and [rapidly accumulating a position](#) in two of Groveland's other activist targets (AIRT and ISIG) with little regard to price. After [successfully defeating Groveland's challenge](#) in a fight where ISS took the rare stance of finding neither side appealing, Biglari celebrated by [getting more "involved"](#) with the turnaround of Maxim Magazine.

However, Biglari and Swenson just couldn't quit each other. Both were still

major holders of Insignia, and both had board seats. It's been fun to follow the company from a distance. Corporate boards normally act unanimously publicly and prefer to have any tensions or disagreements happen behind closed doors. Every now and then, you'll see a board member who publicly disagrees and lets it be known, but it's pretty rare. So Swenson's [public letter suggesting the board](#) was not "responding appropriately to the company's rapidly declining share price" was pretty entertaining. But I've never seen a board publicly rebuke another member as ISIG's did by responding to Swenson and [publicly proclaiming](#) his conduct was "unconstructive unprofessional and highly detrimental behavior" and asking him to resign.

True "get your popcorn ready" stuff.

Anyway, late last month, the board got what it wanted and [Swenson resigned](#). His resignation letter was not kind to the board, suggesting that shareholders would be right to experience anxiety about the current structure of the board and that Swenson would continue to work to represent the best interests of the company and shareholders but couldn't serve on a board that he didn't believe had "a sufficient number of well qualified independent directors". The company responded by noting their previous rebuke of Swenson and saying they were unanimous that his resignation was in the best interest of the company and its shareholders.

Here's where things get interesting. ISIG just [filed an 8-k](#) noting Biglari and his right hand man, Phil Cooley, had resigned from the board.

Suddenly, Insignia has gone from having two activists on the board to none. It makes sense Swenson would resign given his nemesis was pretty clearly in control, but why would Biglari and Cooley resign right after? I can think of a few reasons, but I'd love to hear if someone thinks any are more likely than the others (or if there's something I'm missing).

- Maybe this whole thing was about revenge for Biglari. ISIG is way smaller than the rest of BH; Biglari likely makes more in a year than ISIG is worth in total. With Swenson gone, there's no need for Biglari to be involved with ISIG; shareholder value, his reputation, and the remaining company be damned.
- Biglari owns ~20% of the company. That's a pretty illiquid stake- he managed to get in because he bought almost without regard to price, but I doubt he'll get out so easily. Maybe he's planning on buying the rest of the company and doesn't want to be on the board so he can't be accused of insider dealing?
- Maybe outside shareholders were rioting without Swenson on the board? Perhaps Biglari heard from so many of them it was best to just resign and, by doing so, signal to Swenson that he could successfully retake the board?

Maybe it's something I'm not thinking of. Maybe it's all innocuous. But earnings are Friday and it certainly feels like there are some interesting things happening behind the scenes.

My popcorn's ready.