

INCENTIVE AGREEMENT

This version represents a fully compiled version of the agreement, including all amendments.

This Incentive Agreement (the “**Agreement**”) is by and between BIGLARI HOLDINGS INC., an Indiana corporation, (“**Company**”) and SARDAR BIGLARI (“**Executive**”).

WITNESSETH:

WHEREAS, the parties hereto desire to enter into this Incentive Agreement to define and set forth the terms and conditions of certain compensation to be paid to Executive by Company;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, it is hereby covenanted and agreed by Company and Executive as follows:

1. Employment. Executive is currently the Chairman and Chief Executive Officer of Company. The terms and provisions of this Agreement shall apply during the term of employment of Executive with Company and for such periods after such term of employment as provided herein. Executive’s employment with Company is at-will and nothing contained herein shall be deemed to create any other employment relationship between Company and Executive.

2. Compensation and Other Benefits. Subject to the provisions of this Agreement, Company shall pay and provide the following compensation to Executive (together with Executive’s annual base salary, the “**Cash Compensation**”):

(a) Incentive Compensation.

(i) Company shall pay to Executive, determined as of the last day of each fiscal year of Company and also, solely with respect to Company’s fiscal year ending September 25, 2013 (“**Fiscal 2013**”), as of June 30, 2013 (each, an “**Incentive Compensation Calculation Date**”), incentive compensation equal to the Incentive Compensation Amount (as defined below) as of such Incentive Compensation Calculation Date; provided, however, that no duplicate Incentive Compensation Amount shall be paid to Executive in any fiscal year. The Incentive Compensation Amount shall be paid to Executive as promptly as practicable after each Incentive Compensation Calculation Date, and in no event later than 75 days after the end of each fiscal year (the “**Payment Date**”), subject to Section 6(c). The “**Incentive Compensation Amount**” means the amount computed (subject to proration with respect to Fiscal 2013, determined based upon the periods from September 27, 2012 through June 30, 2013 (the “**First Fiscal 2013 Period**”) and from July 1, 2013 through September 25, 2013 (the “**Second Fiscal 2013 Period**”)) using the following formula where “x” equals 1.06 (subject to proration for the 2010 fiscal year, Fiscal 2013 (as described above) and any short fiscal year during the term of this Agreement with respect to which the Incentive Compensation Amount is determined):

$$(0.25)(New Book Value - ((High Water Mark)(x)))$$

(ii) **“Book Value”** equals the amount of Total Shareholders’ Equity as set forth in the Consolidated Statement of Financial Position of Company, prepared in accordance with the accounting principles adopted by Company (as set forth in Company’s Annual Report on Form 10-K for the applicable fiscal year or, in the case of the First Fiscal 2013 Period, Company’s Annual Report on Form 10-K for Company’s fiscal year ended September 26, 2012), as of the applicable Incentive Compensation Calculation Date; provided, however, that Book Value as of the applicable Incentive Compensation Calculation Date shall be determined by reference to the consolidated net income and other comprehensive income of Company, but, commencing with respect to the Second Fiscal 2013 Period, shall be calculated without reference to any investments by Company and its subsidiaries in any Outside Investment Partnerships, and appropriate adjustments to such Book Value shall be made for any dividends, shares issuances or buybacks and other factors in accordance with Exhibit A hereto (but Book Value for the next succeeding Incentive Compensation Calculation Date shall not reflect such prior adjustments); provided, however, that Book Value with respect to the First Fiscal 2013 Period shall be subject to offset to the extent of any decrease in Book Value that occurs with respect to the Second Fiscal 2013 Period (and, for purposes of determining any such offset, Book Value with respect to each such period shall be calculated without reference to (x) any investments by Company and its subsidiaries in any Outside Investment Partnerships and (y) any CAP Items related to any Outside Investment Partnerships, which, for purposes hereof, shall expressly include CAP Items related to the partnerships included within such definition prior to their becoming Outside Investment Partnerships). The computations and procedures required to calculate Book Value, including without limitation, any accounting procedures used to implement any adjustments, allocations and other matters, shall be made in such reasonable manner as the Company in good faith shall determine to be appropriate and in accordance with Exhibit A hereto, and shall be subject to the approval of the Governance, Compensation and Nominating Committee (the **“Committee”**) of the Board of Directors of the Company (the **“Board”**).

(iii) **“New Book Value”** equals the Book Value as the most recent Incentive Compensation Calculation Date.

(iv) **“High Water Mark”** equals the highest Book Value after reduction for the Incentive Compensation Amount then paid (including, in the case of the Second Fiscal 2013 Period, the Incentive Compensation Amount with respect to the First Fiscal 2013 Period even though not then paid), as of any preceding Incentive Compensation Calculation Date (but without giving effect to any adjustments made with respect to such Incentive Compensation Calculation Date and, commencing with respect to the Second Fiscal 2013 Period, calculated without reference to (x) any investments by Company and its subsidiaries in any Outside Investment Partnerships and (y) any CAP Items related to any Outside Investment Partnerships, which, for purposes hereof, shall expressly include CAP Items related to the partnerships included within such definition prior to their becoming Outside Investment Partnerships). In the case of the first Incentive Compensation Calculation Date, such High Water Mark shall mean the Book Value as of July 7, 2010.

(v) **“CAP Items”** means (A) any gains/losses (realized or unrealized) and earnings (including, without limitation, dividends) on securities, prior to the date of the Contribution, that were contributed to such Outside Investment Partnerships pursuant to the Contribution, (B) the aggregate cost to acquire such securities and (C) any other items on Company’s consolidated balance sheet related to consolidated affiliated partnerships.

(b) New Book Value and the Incentive Compensation Amount with respect to each Incentive Compensation Calculation Date shall be determined by the Chief Financial Officer of Company in accordance with Section 2(a) and shall be subject to the approval of the Committee. Company shall deliver to Executive, following approval by the Committee and within forty-five (45) days after the applicable Incentive Compensation Calculation Date (in the case of Fiscal 2013, September 25, 2013), a statement (the **“Incentive Compensation Statement”**) setting forth the New Book Value and Incentive Compensation Amount with respect to such Incentive Compensation Calculation Date (in the case of Fiscal 2013, with respect to both the First Fiscal 2013 Period and the Second Fiscal 2013 Period) and showing its calculations in reasonable detail. Executive shall have a period of ten (10) days after the date on which the Incentive Compensation Statement is delivered to him (the **“Incentive Compensation Review Period”**) to review the Incentive Compensation Statement, during which period Executive shall have access to the relevant books and records of Company. If Executive objects to the calculation of the New Book Value or the Incentive Compensation Amount as set forth on such Incentive Compensation Statement, Executive shall so inform Company in writing (the **“Incentive Compensation Objection”**) on or before the last day of the Incentive Compensation Review Period, setting forth in reasonable detail the basis of the Incentive Compensation Objection and the adjustments to New Book Value and/or the Incentive Compensation Amount which Executive believes should be made. In the event that an Incentive Compensation Objection is not delivered to Company on or before the last day of the Incentive Compensation Review Period, Executive shall be deemed to have agreed to the Incentive Compensation Statement. In the event that an Incentive Compensation Objection is delivered to Company on or before the last day of the Incentive Compensation Review Period, Company, through the Committee, and Executive shall attempt in good faith to reach an agreement with respect to any matters in dispute. If Company and Executive are unable to resolve all of their differences within five (5) days after delivery of the Incentive Compensation Objection to Company, they shall refer their remaining differences to a nationally recognized independent public accounting firm mutually agreed upon by the Committee and Executive, which may be Company’s independent registered public accounting firm (the **“Accountants”**). The Accountants shall, based on those items as to which Company and Executive have agreed and the Accountants’ determination regarding those items in dispute, make a recommendation as to the New Book Value and Incentive Compensation Amount with respect to the applicable Incentive Compensation Calculation Date within fifteen (15) days after submission of the dispute to the Accountants, but in no event later than two (2) business days prior to the Payment Date. The Accountants’ determination shall be set forth in writing. Company shall pay the fees of the Accountants in connection therewith. The Committee shall consider the recommendation of the Accountants, but the Committee’s final determination shall be conclusive and binding upon the parties hereto.

3. Intentionally Omitted.

4. Definitions.

(a) Intentionally Omitted.

(b) Intentionally Omitted.

(c) Intentionally Omitted.

(d) Intentionally Omitted.

(e) Intentionally Omitted.

(f) Intentionally Omitted.

(g) Intentionally Omitted.

(h) Intentionally Omitted.

5. Intentionally Omitted.

6. General Provisions.

(a) Intentionally Omitted.

(b) Intentionally Omitted.

(c) Tax Withholding; Section 409A. All amounts paid to Executive hereunder shall be subject to all applicable federal, state and local wage withholding. This Agreement is intended to comply with the requirements of Section 409A of the Code (“**409A**”) and shall in all respects be administered in accordance with 409A. All payments not otherwise exempt from 409A which are to be made after a termination of employment under this Agreement may only be made after a “separation from service” under 409A. If upon Executive’s “separation from service” (within the meaning of 409A) from Company, Executive is then a “specified employee” (as defined by and determined in accordance with 409A), then solely to the extent necessary to comply with 409A and avoid the imposition of taxes under 409A, Company shall defer payment of “nonqualified deferred compensation,” subject to 409A, which is payable as a result of and would otherwise be paid within six (6) months following such separation from service, until the earlier of (a) the first business day of the seventh month after Executive’s separation from service, or (b) ten (10) days after Company receives written notice of Executive’s death. All such delayed payments shall be paid in a lump sum without accrual of interest. To the extent permissible by law, each payment and each installment described in this Agreement shall be considered a separate payment from each other payment or installment for purposes of 409A.

(d) Notices. Any notice hereunder by either party to the other shall be given in writing by personal delivery, or certified mail, return receipt requested, or overnight courier, or facsimile, in any case delivered to the applicable address set forth below:

(i) To Company:

Biglari Holdings Inc.
17802 IH 10 West, Suite 400
San Antonio, Texas 78257
Attention: Controller
Chairman of Compensation Committee
Facsimile: (210) 344-3411

(ii) To Executive:

Sardar Biglari
17802 IH 10 West, Suite 400
San Antonio, Texas 78257
Facsimile: (210) 344-3411

or to such other persons or other addresses as either party may specify to the other in writing. Any such notice shall be deemed to have been given upon receipt.

(e) Representation by Company. Company represents that (i) the execution of this Agreement and the provisions herein have been duly authorized by Company, including, where necessary, by the Board and the Committee, (ii) the execution, delivery and performance of this Agreement does not violate any law, regulation, order, decree, agreement, plan or corporate governance document of or applicable to Company, and (iii) upon the execution and delivery of this Agreement, it shall be the valid and binding obligation of Company enforceable in accordance with its terms.

(f) Assignment; Assumption of Agreement. No right, benefit or interest hereunder shall be subject to assignment, encumbrance, charge, pledge, hypothecation or setoff by Executive in respect of any claim, debt, obligation or similar process, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal personal representatives. This Agreement shall be binding upon and shall inure to the benefit of Company, its successors and assigns. Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation, operation of law or otherwise) to all or substantially all of the business or assets of Company to assume expressly and to agree to perform this Agreement in the same manner and to the same extent that Company would be required to perform it if no such succession or assignment had taken place. The term "Company" as used herein shall include any such successors and assigns.

(g) Amendment. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing and signed by the parties hereto; *provided, however*, that no such amendment, modification, waiver or discharge shall be effective without the affirmative vote of a majority of the Shares present and cast on any such proposal at a meeting called for such purpose, if such amendment, modification, waiver or discharge would materially increase the benefits to the Executive hereunder, including, without limitation, any modification or amendment that would reasonably be expected to increase the Incentive Compensation Amount. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(h) Severability. If any term or provision hereof is determined to be invalid or unenforceable in a final court or arbitration proceeding, (i) the remaining terms and provisions hereof shall be unimpaired and (ii) the invalid or unenforceable term or provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

(i) Governing Law and Arbitration. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Indiana, without giving effect to that body of law relating to choice of laws. Any controversy, dispute or claim between the parties relating to this Agreement shall be resolved by binding arbitration in Indiana, in accordance with the rules of the American Arbitration Association.

(j) Entire Agreement. This Agreement contains the entire agreement of Executive, Company and any predecessors or affiliates thereof with respect to the subject matter hereof and all prior agreements, term sheets, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof are superseded hereby.

(k) Counterparts. This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed an original, but both such counterparts shall together constitute one and the same document.

EXHIBIT A

Determination of Book Value

- Book Value is to be determined prior to the calculation of the Incentive Compensation Amount for the applicable period
- Gains/losses generated from the operations of Company and its subsidiaries are included in Book Value
- Gains/losses (realized or unrealized) from investments (other than investments held by any Outside Investment Partnerships) are included in Book Value
- Accounting adjustments that are required to be made directly to equity or other comprehensive income (except for unrealized investment gain/losses on available for sale securities) may be excluded depending on the nature of the item. These adjustments include such items as cumulative impact of a change in accounting principle, adjustments for postretirement medical or pension related items as applicable, and cumulative translation adjustments for investments in foreign subsidiaries. Exclusion of these items would require approval by the Committee.
- Other unusual or infrequently occurring transactions will be evaluated for inclusion or exclusion in the calculation of Book Value by the Committee. General principles, subject to final approval by the Committee, include the following:

	Include in Book Value Calculation	Exclude from Book Value Calculation
Items Generally Considered to be of an Ordinary Course Operating Nature:		
• Impairments of fixed assets	X	
• Impairment of goodwill or other intangible assets	X	
• Gain/loss on sale or disposal of assets	X	
• Casualty losses or gains from insurance proceeds (tangible assets or business interruption)	X	
• Restructuring charges	X	
• Gain/loss on discontinued operations	X	
• Gain/loss on extinguishment of debt	X	

<ul style="list-style-type: none"> • Settlement of a lawsuit arising out of a fact, event or condition existing or occurring subsequent to Executive's appointment as CEO 	X	
<ul style="list-style-type: none"> • Settlement of a lawsuit arising out of a fact, event or condition existing or occurring prior to Executive's appointment as CEO 		X
Items Resulting from Application or Interpretation of Accounting Standards:		
<ul style="list-style-type: none"> • Cumulative effect of an adoption of a mandatory accounting standard (e.g. FIN 48, FAS 123R) 		X
<ul style="list-style-type: none"> • Gain on bargain purchase resulting from the application of SFAS 141(R) to a business combination 		X
<ul style="list-style-type: none"> • Impact of a discretionary change in accounting policy 	X	
<ul style="list-style-type: none"> • Stock compensation related matters and impact of employee/board exercise/vesting of stock options and restricted shares 	X	
<ul style="list-style-type: none"> • Adjustments to Other Comprehensive Income for items such as: 		
<ul style="list-style-type: none"> ○ Minimum pension liability adjustments 		X
<ul style="list-style-type: none"> ○ Foreign currency translation adjustments 		X
<ul style="list-style-type: none"> ○ Unrealized and realized gains/losses on the mark to market of certain investments and derivatives classified as hedges (other than such investments and derivatives held by any Outside Investment Partnerships) 	X	

Any adjustments made to Book Value as of an Incentive Compensation Calculation Date shall not be carried forward in determining Book Value as of any succeeding Incentive Compensation Calculation Date.