

STEAK & SHAKE CO
Form DEF 14A
January 03, 2006

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ☒ **[X]**
Filed by a party other than the Registrant ☐ **[]**

Check the appropriate box:

- ☐ Preliminary Proxy Statement
☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to Section 240.14a-12

The Steak N Shake Company
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ **[X]** No fee required

☐ **[]** Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

- 1) Title of each class of securities to which transaction applies:
- 2) Aggregate number of securities to which transaction applies:
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:

☐ **[]** Fee paid previously with preliminary materials.

☐ **[]** Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount previously paid:

Edgar Filing: STEAK & SHAKE CO - Form DEF 14A

- 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:
-

THE STEAK N SHAKE COMPANY

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD FEBRUARY 8, 2006**

TO THE SHAREHOLDERS OF THE STEAK N SHAKE COMPANY

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of The Steak n Shake Company (the "Company") will be held on the 1st Floor of the Century Building, 36 South Pennsylvania Street, Indianapolis, Indiana 46204, on Wednesday, February 8, 2006 at 1:30 p.m., Eastern Standard Time, for the following purposes:

1. To elect nine directors to serve until the next Annual Meeting of Shareholders and until their respective successors are elected and qualified;
2. To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche, LLP as the Company's independent auditors for the fiscal year ending September 27, 2006;
3. To approve the 2006 Employee Stock Option Plan;
4. To approve the 2006 Incentive Bonus Plan;
5. To approve the 2006 Employee Stock Purchase Plan;
6. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on December 5, 2005 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting.

We urge you to sign, date and mail the enclosed proxy in the envelope provided or to vote via the telephone or internet (pursuant to instructions contained on the Proxy card) whether or not you expect to be present in person. You may revoke the proxy at any time prior to the time the proxy is exercised by filing with the Secretary of the Company a properly executed instrument revoking such proxy, by filing a properly executed proxy bearing a later date, or by attending the Annual Meeting and withdrawing your proxy and voting in person.

By Order of the Board of Directors

David C. Milne, Secretary
December 30, 2005
Indianapolis, Indiana

**PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT
PROMPTLY IN THE ENCLOSED ENVELOPE OR CAST YOUR VOTE
VIA TELEPHONE OR INTERNET VIA INSTRUCTIONS ON THE PROXY CARD**

THE STEAK N SHAKE COMPANY

**500 Century Building
36 South Pennsylvania Street
Indianapolis, Indiana 46204
(317) 633-4100**

PROXY STATEMENT

For the Annual Meeting of Shareholders
To be held February 8, 2006

This proxy statement is furnished to the shareholders of The Steak n Shake Company (the "Company") in connection with the solicitation by the Company of proxies to be voted at the Annual Meeting of Shareholders (the "Annual Meeting") to be held on the 1st Floor of the Century Building, 36 South Pennsylvania Street, Indianapolis, Indiana 46204, on Wednesday, February 8, 2006, at 1:30 p.m., Eastern Standard Time, and at any adjournment thereof. This proxy statement and the accompanying form of proxy were first mailed to shareholders on or about December 30, 2005.

Each properly executed proxy returned prior to the meeting will be voted in accordance with the directions contained therein. The enclosed proxy may be revoked by the person giving it at any time before it is voted by giving written notice to the Secretary of the Company.

OUTSTANDING COMMON STOCK

The record date for shareholders entitled to vote at the Annual Meeting was December 5, 2005. At the close of business on that date, the Company had issued and outstanding 27,900,582 shares of Common Stock entitled to vote at the Annual Meeting. Unless otherwise stated, all references herein to numbers and prices of shares of Common Stock, options and capital appreciation shares of the Company have been adjusted to reflect all stock dividends and stock splits distributed in the past by the Company.

ACTION TO BE TAKEN AT THE ANNUAL MEETING

Unless the shareholder otherwise specifies in the proxy, the accompanying proxy will be voted (i) FOR the election, as directors of the Company, of the nine persons named under the caption "Election of Directors"; (ii) FOR the ratification of Deloitte & Touche, LLP as the Company's independent auditors for the fiscal year ending September 27, 2006. (iii) FOR the approval of the 2006 Employee Stock Option Plan; (iv) FOR the approval of the 2006 Incentive Bonus Plan, and (v) FOR the approval of the 2006 Employee Stock Purchase Plan.

QUORUM AND VOTING

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the Annual Meeting. In deciding all questions, a holder of Common Stock is entitled to one vote, in person or by proxy, for each share registered in his/her/its name on the record date. Directors of the Company are elected by a plurality of the votes cast by the holders of the shares represented at the meeting. Abstentions, broker non-votes and instructions on the enclosed form of proxy to withhold authority to vote for one or more of the nominees will result in the nominee receiving fewer votes; however, it will not affect the outcome of the election. Approval of the 2006 Employee Stock Option Plan, the 2006 Incentive Bonus Plan, the 2006 Employee Stock Purchase Plan and the ratification of the selection of the auditors will occur if these proposals receive more votes cast in favor of the proposal than are cast in opposition to it. Abstentions and broker non-votes with respect to those proposals will not be counted as votes for or against those proposals.

SHAREHOLDER PROPOSALS

The bylaws of the Company require shareholders to provide advance notice in order to bring business before an annual meeting or to nominate a candidate for director at the meeting. In order for a shareholder to properly bring business or propose a director at the 2007 Annual Meeting, the shareholder must give written notice to the Company at the address on the front page of this proxy statement. To be timely, a shareholder's notice must be received by the Company on or before September 3, 2006, or in the event that the date of the meeting associated with this notice is changed more than 30 days from February 8, 2006 such notice must be delivered or mailed to and received by the Company not later than 120 days prior to the date the Company mailed proxy materials for the preceding year's annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made. These procedures apply to any matter that a shareholder wishes to raise at the 2007 Annual Meeting, other than those raised pursuant to 17 C.F.R. §240.14a-8 of the Rules and Regulations of the SEC. A shareholder proposal that does not meet the above requirements will be considered untimely, and any proxy solicited by the Company may confer discretionary authority to vote on such proposal.

OWNERSHIP OF COMMON STOCK

The following table shows the number and percentage of outstanding shares of Common Stock beneficially owned as of December 5, 2005 by each person or entity known to be the beneficial owner of more than 5% of the Common Stock of the Company:

<u>Name & Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership ⁽¹⁾</u>	<u>Percent of Class</u>
MSD Capital, Inc. MSD SBI, L.P. 645 Fifth Avenue, 21 st Floor New York, NY 10022-5910	2,293,700	8.2%

(1) This table is based upon information supplied by MSD Capital, Inc. on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2005. MSD Capital, Inc. and MSD SBI, L.P. share voting and investment power over the shares.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u> ⁽¹⁾	<u>Percent of Class</u>
Jeffrey Blade	28,100 ⁽²⁾	*
Peter M. Dunn	136,400 ⁽³⁾	*
Alan B. Gilman	486,710 ⁽⁴⁾	1.7%
Wayne L. Kelley	96,270 ⁽⁵⁾	*
Charles E. Lanham	388,480 ⁽⁶⁾	1.4%
Ruth J. Person	9,000 ⁽⁷⁾	*
Steven M. Schmidt	1,000 ⁽⁸⁾	*
Gary T. Reinwald	246,106 ⁽⁹⁾	*
J. Fred Risk	124,299 ⁽¹⁰⁾	*
John W. Ryan	27,382 ⁽¹¹⁾	*
Gary S. Walker	65,600 ⁽¹²⁾	*
James Williamson, Jr.	230,158 ⁽¹³⁾	*
All directors and executive officers as a group (17 persons)	1,922,394 ⁽¹⁴⁾	6.8%

*

Less than 1%.

⁽¹⁾ Includes shares that may be acquired pursuant to stock options exercisable within 60 days under the Company's stock option plans.

⁽²⁾ Includes 8,100 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽³⁾ Includes 43,000 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽⁴⁾ Includes 124,558 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽⁵⁾ Includes 7,400 shares that may be acquired pursuant to stock options exercisable within 60 days; also includes 75,670 shares held by Mr. Kelley's late father's estate in three residuary trusts, to which he disclaims beneficial ownership.

⁽⁶⁾ Includes 14,000 shares that may be acquired pursuant to stock options exercisable within 60 days. Also includes 30,928 shares which were owned of record and beneficially by Mr. Lanham's late wife, over whose estate he is the executor and the voting rights to such shares he possesses, and 21,750 shares owned by Mr. Lanham's affiliate, Hartford Heritage, LLC.

⁽⁷⁾ Includes 9,000 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽⁸⁾ Includes 1,000 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽⁹⁾ Includes 58,680 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽¹⁰⁾ Includes 10,000 shares that may be acquired pursuant to stock options exercisable within 60 days. Also includes 7,726 shares owned of record and beneficially by Mr. Risk's wife, with respect to which he disclaims beneficial ownership.

⁽¹¹⁾ Includes 14,000 shares that may be acquired pursuant to stock options exercisable within 60 days.

⁽¹²⁾ Includes 29,957 shares that may be acquired pursuant to stock options exercisable within 60 days and 300 shares owned of record and beneficially by Mr. Walker's minor children, with respect to which he disclaims beneficial ownership.

⁽¹³⁾ Includes 14,000 shares that may be acquired pursuant to stock options exercisable within 60 days. Also includes 19,011 shares owned of record and beneficially by Mr. Williamson's wife, with respect to which he disclaims beneficial ownership.

⁽¹⁴⁾ Includes 386,366 shares that may be acquired pursuant to stock options exercisable within 60 days held by all directors and executive officers as a group.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 sets forth certain filing requirements relating to securities ownership by directors, executive officers and ten percent shareholders of a publicly held company. To the Company's knowledge, based on the representations of its directors and executive officers and copies of their respective reports filed with the Securities and Exchange Commission, all filing requirements were satisfied by each such person during the fiscal year ended September 28, 2005 with the exception of a Form 4 regarding the exercise of stock options which the Company filed 5 days late on behalf of Mr. Gary S. Walker.

INTERESTS OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

All persons standing for election as director were unanimously nominated by the Board of Directors. No person being nominated as a director is being proposed for election pursuant to any agreement or understanding between any such person and the Company.

MISCELLANEOUS

a) Creation and Distribution of Proxies

The entire cost of soliciting proxies will be paid by the Company. In addition to the solicitation of proxies by use of the mails, certain officers, directors and employees of the Company, none of whom receive additional compensation therefor, may solicit proxies by telephone, facsimile or personal interview at the expense of the Company. The Company will also request brokers, dealers, banks and voting trustees, and their nominees, to forward this proxy statement and the accompanying form of proxy to beneficial owners and will reimburse such record holders for their reasonable expense in forwarding solicitation material.

b) Code of Business Conduct and Ethics.

The Company has in place a long-standing code of ethics. It applies to its principal executive officer, principal financial officer and principal accounting officer, as well as all officers, directors and employees. A copy of the Code of Business Conduct and Ethics (the "Code") can be obtained without charge on the Company's web site (www.steaknshake.com) or by written request to the Company at the address on the front page of this proxy statement. If the Company makes any substantive amendment of, or grants any waiver of a provision of the Code, the Company will disclose the nature of such amendment or waiver via its website and in a current report on Form 8-K.

1. ELECTION OF DIRECTORS

Nine directors will be elected to serve until the next Annual Meeting and until their respective successors shall have been duly elected and qualified. All of the nominees are currently directors of the Company and were elected at the Annual Meeting of Shareholders held February 11, 2005 except Mr. Schmidt, who was appointed to the Board on April 20, 2005 to fill the vacancy created by Mr. Steven Goldsmith's resignation.

If any of the nominees named below is not available to serve as a director at the time of the Annual Meeting (an event which the Board of Directors does not now anticipate), the proxies will be voted for the election as directors of such other person or persons as the Board of Directors may designate, unless the Board of Directors, in its discretion, amends the Company's Bylaws to reduce the number of directors.

The nominees for the Board of Directors of the Company are listed below, along with the age, tenure as director and business background for at least the last five years for each:

<u>Name</u>	<u>Age</u>	<u>Served As Director Since</u>	<u>Business Experience</u>
Peter M. Dunn	50	2004	Currently President and Chief Executive Officer; President and Chief Operating Officer of the Company from 2002 to February 11, 2004; formerly President, Borden Foods Co., 1997-2001.
Alan B. Gilman	75	1992	Currently Chairman of the Board of Directors; President and Chief Executive Officer of the Company from 1992 to September 30, 2002; Chief Executive Officer and Co-Chairman of the Company from September 30, 2002 through August 11, 2003; Chief Executive Officer and Chairman of the Company from August 11, 2003 through February 11, 2004.
Wayne L. Kelley	61	2003	Director of Steak n Shake Operations, Inc., a subsidiary of the Company, since 1999; President of Kelley Restaurants, Inc., the Company's largest franchisee, from 1988 through 2004; currently employed by the Company in a senior real estate advisory role.
Charles E. Lanham	73	1971	Chairman of the Board of Directors of Overhead Door Company of Indianapolis, Inc. from 1960 until February, 2004; Vice Chairman of Klipsch Lanham Investments, a private investment company; Trustee of Windrose Medical Properties Trust, a publicly traded real estate investment trust.
Ruth J. Person	60	2002	Chancellor, Indiana University Kokomo and Professor of Management; President, American Association of University Administrators 2003-2004; Member of the Board of Directors, Workforce Development Strategies, Inc.; Member, Key Bank Advisory Board - Central Indiana
J. Fred Risk	77	1971	Private investor; Chairman of the Board of Directors of Security Group, Inc.
John W. Ryan	76	1996	Private investor; Chancellor of the State University of New York Systems from 1996 through 1999; President of Indiana University from 1971 through 1987.
Steven M. Schmidt	51	2005	President & CEO, ACNielsen; EVP, VNU Marketing Information New York, NY; formerly President of Pillsbury Foods, Canada. Has also held senior executive posts with Pepsi-Cola and Procter & Gamble.
James Williamson, Jr.	74	1985	Private investor.

The Board has determined that all of the nominees standing for election at the 2006 Annual Meeting, other than Messrs. Dunn, Gilman and Kelley, are "independent" within the meaning of the listing standards of The New York Stock Exchange because such nominees have no material relationship with the Company either directly, or as a partner, shareholder, or affiliate of an organization that has a relationship with the Company. The Board has made this determination based on the following:

- 1) Other than Messrs. Dunn, Gilman and Kelley, no nominee for director is an officer or an employee of the Company or its subsidiaries or affiliates, nor has he/she been such an employee within the prior three years.
- 2) Other than Messrs. Dunn, Gilman and Kelley, no nominee for director has received, nor has an immediate family member of the nominee received during any twelve month period in the last three years more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service.
- 3) No nominee or immediate family member of the nominee is or within the past five years has been affiliated with the Company's external auditor.
- 4) No nominee for director has nor any immediate family members of the nominee have within the last three years been employed as an executive officer of another company on which company's Compensation Committee one of the Company's present executive officers served.
- 5) No nominee is a current employee or has an immediate family member who is a current executive officer of a company that in any of the last three fiscal years has done business with the Company in an amount of \$1 million or 2% of such other company's consolidated gross revenues.
- 6) No nominee, other than Mr. Dunn, serves as a Director, Trustee, Executive Officer or similar position of a charitable or non-profit organization to which the Company or its subsidiaries made charitable contributions or payments in fiscal year 2005 in excess of 1 million or 2% of the organization's consolidated gross revenues.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF THE NOMINEES NAMED IN THIS PROXY STATEMENT.

COMMITTEES AND MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held five meetings during fiscal year 2005. The Board has five standing committees: an Executive Committee, a Personnel/Benefits Committee, an Audit Committee, a Compensation Committee, and a Nominating/Corporate Governance Committee.

The Executive Committee may exercise all of the powers of the Board of Directors in the management of the affairs of the Company to the extent permitted by law. During the fiscal year ended September 28, 2005, the Executive Committee met four times. Mr. Williamson serves as Chairman and Mr. Risk and Dr. Ryan serve as members of the Executive Committee.

The Audit Committee, among other duties, serves in an oversight role intended to ensure the integrity and objectivity of the Company's financial reporting process. It operates under a written charter which was approved by the Board, a copy of which is available at the Company's website (www.steaknshake.com) or by written request to the Corporate Secretary at the address on the front page of this proxy statement. The Committee meets with representatives of management and the independent auditors to review matters of a material nature related to auditing, financial reporting, internal accounting controls and audit results. The Audit Committee is also responsible for making determinations regarding the independence and selection of the Company's independent auditors. See "Report of the Audit Committee," below. During the fiscal year ended September 28 2005 the Audit Committee met five (5) times. Mr. Risk serves as Chairman of the Committee and Mr. Lanham and Dr. Ryan served as members for the entire year. Mr. Schmidt was appointed to the Committee on April 20, 2005. The Chairman and each member of the Audit Committee are "independent" as that term is defined in Rule 10A-3 of the Exchange Act and the listing standards for the New York Stock Exchange. In addition, the Board of Directors has determined that Mr. Risk qualifies as an "audit committee financial expert" as that term is defined in Item 401(h)(2) of Regulation S-K.

The Compensation Committee is charged with establishing the compensation for the Company's Chief Executive Officer and the other executive officers, as well as guidelines for the administration of incentive and equity-based compensation plans. See "Report of the Compensation Committee" below. The Compensation Committee met four times during fiscal 2005. Mr. Williamson serves as Chairman of the Compensation Committee and Mr. Lanham, Dr. Person and Dr. Ryan serve on the committee. The Chairman and each member of the Committee are "independent" as that term is defined in the listing standards of the New York Stock Exchange. The Committee operates under a written charter approved by the Board of Directors, a copy of which is available on the Company's web site (www.steaknshake.com) or by written request to the Corporate Secretary at the address on the front page of this proxy statement.

The Nominating/Corporate Governance Committee is charged with making recommendations regarding the nomination of appropriate individuals for election to the Board of Directors, overseeing the Company's Corporate Governance Guidelines, allocating Board resources to various committees and evaluating the performance of the Board, its Committees and its individual members. Dr. Ryan is the Chairman of the Committee and Messrs. Lanham and Risk served on the Committee for the entire fiscal 2005. Mr. Schmidt joined the Committee on April 20, 2005. During fiscal year 2005 the Committee met four times. The Committee operates under a written charter that was approved by the Board of Directors, a copy of which may be obtained on the Company's web site (www.steaknshake.com) or by written request to the Corporate Secretary at the address on the front page of this proxy statement. The Chairman and all members of the Committee are "independent" as that term is defined in the listing standards of the New York Stock Exchange.

The Nominating/Corporate Governance Committee has promulgated Corporate Governance Guidelines, which are available on the Company's web site at www.steaknshake.com. Shareholders may also obtain a copy free of charge by directing a request to the Corporate Secretary at the address on the front page of this proxy statement.

The Nominating/Corporate Governance Committee identifies nominees for director from various sources, including, without limitation, its members, other directors, senior management, shareholders and third party consultants. Candidates are evaluated based on their credentials and the then-current needs of the Board and the Company. Of particular importance are the candidate's experience, judgment, integrity, ability to make independent inquiries, understanding of the Company's business environment and willingness and ability to devote adequate time to Board activities. The Nominating/Corporate Governance Committee will identify nominees who meet specific objectives in terms of the composition of the Board, such as financial expertise, and may take into account such factors as geographic, occupational, gender, race and age diversity. In the past year the Committee used a third party search firm (the "Search Firm") to perform a national search to identify qualified individuals to serve on the Company's Board. Mr. Schmidt was one such individual identified by the Search Firm. The Search Firm supplied the Board with Mr. Schmidt's resume and other background information regarding his business and other relevant experience. After Messrs. Gilman, Williamson and Dunn and Dr. Ryan interviewed Mr. Schmidt and reviewed the information provided by the Search Firm, Dr. Ryan nominated Mr. Schmidt for election to the Board.

Shareholders who wish to recommend to the Nominating/Corporate Governance Committee a candidate for election to the Board of Directors at the annual meeting should send their suggestions to the Corporate Secretary at the address shown on the first page of this Proxy. The Corporate Secretary will promptly forward all such letters to the members of the Committee. In order for director nominations to be properly brought before an annual meeting by a shareholder, timely notice must be given by the shareholder to the Corporate Secretary. To be timely, the notice must be delivered at the above address not less than 120 days prior to the date the Company mailed proxy materials for the preceding year's annual meeting.

Nominations for directors must include the following information: (i) a statement of the nominee's qualifications; (ii) all information required to be disclosed in the solicitation of proxies for elections of directors pursuant to Regulation 14A of the Securities Exchange Act of 1934; (iii) the name and address of the shareholder making the nomination; (iv) a representation that the shareholder is a holder of Company's common stock and intends to appear at the meeting to make the nomination; (v) a description of all arrangements or understandings among the shareholder and the nominee; and (vi) the written consent of the nominee to serve as a director if so elected. Other than the submission requirements set forth above, there are no differences in the manner in which the Nominating/Corporate Governance Committee evaluates a nominee for director recommended by a shareholder.

The Personnel/Benefits Committee makes determinations and recommendations to the Board of Directors regarding personnel policies and employee benefit plans, administers the Company's 401k and Profit Sharing Plan and performs such other functions with respect to personnel and benefit matters as may be requested by the Board. The Personnel/Benefits Committee met one time during fiscal 2005. Mr. Lanham is Chairman of the Committee and Dr. Person and Mr. Kelley are members, together with Mr. Blade, Senior Vice President and Chief Financial Officer, Mr. Reinwald, Executive Vice President, Ms. Crosby, Senior Vice President of Human Resources, and Ms. B. Charlene Boog, Associate Vice President, Administration. Mr. Gilman and Mr. Dunn serve as *ex officio* members of the Committee.

During fiscal year 2005 no director attended less than 75% in the aggregate of: (i) the total meetings of the Board of Directors, and (ii) the total number of meetings held by all Board committees on which he or she served. Directors are expected to attend the Annual Meeting of Shareholders and all attended the 2005 Annual Meeting of Shareholders.

Pursuant to the listing requirements of the New York Stock Exchange, the non-management directors of the Company met in four sessions without management during the 2005 fiscal year. Mr. Williamson, the Lead Outside Director, presides over these meetings of the Outside Directors. Interested parties may communicate directly with the presiding director or with the non-management directors as a group via letter directed to Mr. Williamson at the address shown on the first page of this Proxy.

SHAREHOLDER COMMUNICATION WITH THE BOARD

The Board has implemented a process whereby shareholders of the Company may send communications to the Board's attention. Any shareholder desiring to communicate with the Board, or one or more specified members thereof, should communicate in a writing addressed to the Board, or specified directors, to the Corporate Secretary at the address shown on the first page of this Proxy. The Secretary has been instructed by the Board to promptly forward all such communications to the specified addressees thereof.

COMPENSATION OF DIRECTORS

With the exception of Messrs. Williamson and Risk and Dr. Ryan (whose compensation is summarized below) during fiscal year 2005, all non-employee directors received an annual fee of \$20,000. Non-employee directors also receive fees of \$3,000 per board meeting attended, \$1,000 for each committee meeting attended that was not held in conjunction with a Board of Directors' meeting and \$500 for each committee meeting attended that was held in conjunction with a Board of Directors' meeting. Mr. Risk was paid a total annual fee of \$40,000 for his services as Chairman of the Audit Committee. Mr. Williamson was paid a total annual fee of \$45,000 for his services as Chairman of the Executive Committee, Chairman of the Compensation Committee and Lead Outside Director. Dr. Ryan was paid a total annual fee \$35,000 for his services as Chairman of the Nominating/Corporate Governance Committee. Directors who are employees of the Company are not paid for their services on the Board. In the fiscal year ended September 28, 2005, the total compensation paid to non-employee directors was \$372,389. This figure includes \$44,000 paid to non-employee directors who served on boards of subsidiaries of the Company. In addition, the ordinary and necessary expenses the members of the Board of Directors incurred in attending board and committee meetings are reimbursed by the Company and all non-employee directors are eligible to participate in the Company's Medical Reimbursement Plan, which provides reimbursement up to \$3,500 per year for otherwise unreimbursed medical costs.

The Company believes in compensating its non-employee directors on a basis tied to increases in the value of the Company's stock. The Company has had director stock option plans (the "Director Plans") in place since 1990, which provide for non-discretionary grants of nonqualified stock options to the directors of the Company at a price equal to the fair market value of the Common Stock on the date of grant. Options granted under the Director Plans through fiscal 2005 are exercisable as to 20% on the date of grant and 20% on each anniversary thereof until fully exercisable. The options expire five years from the date of grant.

Options for the non-employee directors to purchase an aggregate of 30,000 shares of Common Stock were granted by the Board of Directors on November 8, 2005 to Drs. Person and Ryan and Messrs. Lanham, Risk, Schmidt and Williamson for 5,000 shares each at \$19.22, which was the closing per share price on the New York Stock Exchange on that date.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company granted franchise rights in 1991 to Kelley Restaurants, Inc. ("KRI") for development of Steak n Shake restaurants in the Atlanta, Georgia and Charlotte, North Carolina markets. Until the merger described below KRI operated 13 restaurants in the Atlanta, Georgia market and 4 in the Charlotte, North Carolina market. The Company recorded \$484,998 in revenues from KRI during fiscal year 2005. Mr. Kelley served as President and director, and Mr. Williamson and Mr. Gilman served as directors of KRI and all were likewise shareholders in KRI. Mr. Lanham was also a shareholder in KRI.

As described in its November 11, 2004 Form 8-K and press release, the Company merged SNS Merger Corporation, a subsidiary of Steak n Shake Operations, Inc., with KRI on December 29, 2004. Pursuant to the merger agreement, the total paid by the Company was approximately \$16,082,000, after adjustment for working capital and debt repayment. Ten percent (10%) of the adjusted purchase price was deposited in escrow for up to 24 months from the closing of the transaction in order to satisfy indemnification claims. Any amounts remaining in escrow after the escrow period will be distributed to shareholders of KRI.

The amount of cash each shareholder received as their initial payment pursuant to the merger agreement was determined by multiplying the number of shares of KRI common stock owned by each such shareholder by the per share exchange amount of \$165. Messrs. Kelley, Williamson, Gilman and Lanham owned (directly or beneficially) 8,942, 3,222, 1,000 and 3,616 shares, respectively, of KRI common stock.

Pursuant to an employment agreement entered into at the time of closing, Mr. Kelley became a full-time employee of KRI or the Company for ---28 months. Mr. Kelley receives an annual salary of \$205,000 per year and will be entitled to a bonus of \$57,000 if he is still employed at the end of the employment period.

The negotiations for the merger were conducted between the Company's Acquisitions Committee (a temporary Committee of the Board of Directors consisting of Mr. Risk (Chairman), Drs. Ryan and Person, and Messrs. Dunn and Steven Goldsmith (a former member of the Board)) and Wayne Kelley. Messrs. Gilman, Williamson and Lanham did not participate in negotiations or provide any input to either party regarding the terms of the merger, other than to the extent they voted in favor of the merger in their capacity as shareholders or directors of KRI. The members of the Acquisition Committee determined that Messrs. Williamson and Lanham remained independent after the transaction by applying the standards set forth in NYSE Listing Standard 307.00 after considering that the related party transaction was an isolated, not ongoing event, that neither Mr. Williamson nor Mr. Lanham obtained a material portion of their personal wealth from the transaction, and that neither of them participated in any manner in the Company's consideration or negotiation of the transaction.

The Company obtained an independent fairness opinion and believes that the terms of the merger were on terms no less favorable to the Company than would have been available in the absence of the relationships described.

COMPENSATION OF EXECUTIVE OFFICERS

The following table shows the compensation paid to the Company's Chief Executive Officer and its other four most highly compensated executive officers (the "Named Executive Officers") for the last three fiscal years:

Summary Compensation Table

		Annual Compensation		Long-Term Compensation			All Other Compensation (\$) ⁽⁴⁾
		Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$)	Stock Options(#) ⁽²⁾	LTIP Payouts (\$) ⁽³⁾	
Fiscal Year							

Edgar Filing: STEAK & SHAKE CO - Form DEF 14A

				(1)			
Alan B. Gilman	2005	500,000	89,024	None	25,000	0	40,292
Chairman	2004	500,000	335,023	186,250	32,877	30,625	20,692
	2003	497,692	349,344	None	10,000	0	14,906
Peter Dunn	2005	500,000	226,608	350,000	25,000	0	33,117
President;	2004	463,846	335,023	298,000	45,000	0	16,237
Chief	2003	340,577	244,541	214,000	20,000	0	1,442
Executive Officer							
Jeffrey Blade	2005	300,000	71,815	208,000	16,500	0	18,827
Senior Vice	2004	165,000	97,764	163,795	12,000	0	3,650
President,	2003	0	0	None	None	0	0
Chief Financial Officer							
G a r y Reinwald	2005	245,000	41,367	157,500	7,400	0	18,766
Executive	2004	245,000	84,871	134,100	7,166	20,825	12,905
Vice President	2003	245,000	92,226	None	3,239	0	11,386
Gary Walker	2005	240,000	57,207	152,125	15,757	0	16,103
Senior Vice	2004	205,000	74,477	104,300	11,000	17,150	16,808
President	2003	205,000	78,244	None	None	0	6,915

(1) The amounts shown in this column represent the market value of the restricted stock awarded under the Company's Capital Appreciation Plan and were calculated by multiplying the closing market price of the Company's Common Stock on the date of award by the number of shares awarded. The number and value of the aggregate unvested restricted stock holdings of each of the Named Executive Officers as of September 28, 2005 (based on a closing market price of \$18.10 on that date) are as follows: Mr. Gilman, 12,500 shares (\$226,250); Mr. Dunn, 60,000 shares (\$1,086,000); Mr. Blade, 20,000 shares (\$362,000); Mr. Reinwald, 18,000 shares (\$325,800) and Mr. Walker, 15,500 shares (\$280,550). The shares of Common Stock are issued at the time of the award; however, these shares may not be transferred for a period of three years thereafter and are forfeited to the Company if the grantee is not employed by the Company (except for reasons of retirement, permanent disability or death) at the end of the period. The amounts do not reflect the cash value of book units awarded in tandem with the restricted Common Stock, which is included in the column entitled "LTIP Payouts" when paid. The recipient of the award is entitled to any dividends paid on outstanding Common Stock subsequent to the date of the award.

(2) Options granted under the Employee Stock Option Plans provide for a reload option (the "Reload Option") in the event the optionee surrenders other shares of the Company's Common Stock in payment for option shares, in whole or in part. Any such Reload Option (i) will be for a number of shares equal to the number of shares so surrendered; (ii) will have an expiration date which is 5 years from the Reload Option issuance date; (iii) will be fully exercisable on the date of grant, and (iv) will have an exercise price equal to the average market price of the Company's Common Stock on the five (5) business days before the shares were surrendered to exercise the option. There is no Reload Option with respect to the exercise of a Reload Option. Mr. Gilman's 2003 grant was the grant of a Reload Option for 10,000 shares on July 2, 2003. His 2004 grant was 25,000 options, with a reload option granted in an amount of 7,877 options. His 2005 grant was 25,000 options. Mr. Dunn's 2003 option grant was the grant of options for 20,000 options on September 30, 2002. His 2004 grant was the grant of 45,000 options. His 2005 grant was for 25,000 options. Mr. Blade's 2004 grant was the grant of 12,000 options and his 2005 grant was for 16,500 options. Mr. Reinwald's 2003 option grant was the grant of a Reload Option for 3,239 shares on July 2, 2003. His 2004 grant was the grant of 16,000 options, with a reload option grant in an amount of 1,166 options and his 2005 grant was for 7,400 options. Mr. Walker's 2004 grant was the grant of 11,000 options and his 2005 grant was for 12,500 options.

More information regarding the fiscal 2004 stock option grants to the Named Executive Officers is set forth in the Option/SAR Grants in Last Fiscal Year table, which follows.

(3) Includes cash value paid in respect of book units. Book units are awarded in tandem with restricted stock grants under the Company's Capital Appreciation Plan. They provide for a cash payment at the end of the three-year vesting period equal to: (i) the sum of the cumulative increase in the Company's earnings per share over the vesting period, and (ii) any dividends paid over the vesting period.

(4) Other Compensation Includes: (i) amounts payable pursuant to the Company's executive medical reimbursement plan which provides for payment of certain medical expenses, as defined, of up to \$3,500 for each plan year ending October 31, (ii) amounts paid by the Company for or on behalf of each executive with respect to group life insurance premiums for coverage in excess of \$50,000, (iii) amounts of annual profit sharing contributions by the Company to the accounts of the Named Executive Officers under the Company's Employee 401k and Profit Sharing Plan and Nonqualified Deferred Compensation Plan, and (iv) amounts of matching contributions made under the Company's 401k and Profit Sharing Plan and Nonqualified Deferred Compensation Plan, which match 50% of up to 6% of total salary deferred into the Plans.

SEPARATION AGREEMENTS WITH EXECUTIVE OFFICERS

The Company has agreed that if Mr. Gilman leaves the Company's employment for any reason other than retirement or termination by the Company for cause, he will be paid at his base compensation rate on the date of termination for a period of nine months thereafter. The Company has agreed that if Mr. Dunn leaves the Company's employment for any reason other than termination for malfeasance or retirement, he will be paid at his base compensation rate on the date of termination for a period of 12 months thereafter. The Company has agreed that if Mr. Blade leaves the Company for any reason except termination for just cause he will be paid 10 months of his then-current salary, a prorated portion of any bonus to which he would have been entitled that year, and outplacement assistance for 10 months.

The following table presents information for the Named Executive Officers who received stock options during fiscal 2005 under the Company's Employee Stock Option Plans:

Options/SAR Grants in Last Fiscal Year

Securities Percentage of Potential Realizable
Underlying Total Options Value at Assumed Annual
Number of Granted to Rates of Stock Price
Options Employees in Exercise Price Expiration Appreciation for Option Term ⁽¹⁾
Name Granted Fiscal 2005 (\$ per share) Date 5% (\$) 10% (\$)

Alan B. Gilman	25,000	7.7%	19.75	9/14/10	136,414	301,439
Peter Dunn	25,000	7.7%	19.75	9/14/10	136,414	301,439
Gary Reinwald	7,400	2.3%	19.75	9/14/10	40,379	89,226
Gary Walker	3,257	1.0%	20.06	5/24/10	18,051	39,888
(Reload Option)						
Gary Walker	12,500	3.8%	19.75	9/14/10	68,207	150,720
Jeff Blade	16,500	5.1%	19.75	9/14/10	90,033	198,950

⁽¹⁾ The dollar amounts under these columns are the result of calculations at the 5% and 10% rates as required by the Securities and Exchange Commission and should not be considered a reliable forecast of future appreciation, if any, of the Company's stock price. As an example, the Company's per share stock price would be \$25.21 and \$31.81 if increased by 5% and 10%, respectively, compounded annually over a five-year option term on a grant price of \$19.75.

The following table presents certain information for the Named Executive Officers relating to exercises of stock options during fiscal year 2005 and, in addition, information relating to the valuation of unexercised stock options:

**Aggregated Option Exercises In
Fiscal 2005 and Fiscal Year End Option Values**

<u>Name</u>	<u>Number of Shares Acquired on Exercise</u>	<u>Dollar Value Realized</u> ⁽¹⁾	Underlying Value of Shares Unexercised Options On <u>September 28, 2005</u> ⁽²⁾			
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Alan Gilman	5,000	\$ 43,450	124,558	40,000	\$ 347,482	\$ 29,400

Edgar Filing: STEAK & SHAKE CO - Form DEF 14A

Peter Dunn	0	0	43,000	47,000	166,400	69,600
Gary Reinwald	37,982	317,408	58,680	18,720	239,654	18,816
Gary Walker	6,600	68,640	29,957	18,800	78,914	12,936
Jeff Blade	0	0	8,100	20,400	0	0

(1) Based on the New York Stock Exchange closing price of the Company's Common Stock on the date of exercise.

(2) Based on the New York Stock Exchange closing price of the Company's Common Stock on September 28, 2005, of \$18.10 per share.

The following table presents certain information for the Named Executive Officers relating to the grant of book units pursuant to the Company's Capital Appreciation Plan during fiscal year 2005 and information relating to the valuation of those grants:

Long-Term Compensation Plan - Awards In Last Fiscal Year

<u>Name</u>	<u>Shares, Units Or Other Rights ⁽¹⁾</u>	<u>Performance or Other Period Until Maturation Or Payout</u>	<u>Estimated Future Payouts Under Non-Stock Price-Based Plans</u>		
			<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>
Alan B. Gilman	0	N/A	N/A	N/A	N/A
Peter Dunn	20,000	3 years - October 4, 2007	N/A	N/A	N/A
Gary T. Reinwald	9,000	3 years - October 4, 2007	N/A	N/A	N/A
Gary S. Walker	7,000	3 years - October 4, 2007	N/A	N/A	N/A
Gary S. Walker	1,500	3 years - September 14, 2008	N/A	N/A	N/A
Jeff Blade	8,500	3 years - October 4, 2007	N/A	N/A	N/A
Jeff Blade	3,000	3 years - September 14, 2008	N/A	N/A	N/A

(1) This represents the number of shares of the Company's Common Stock underlying the book units. A book unit is issued in tandem with a share of restricted stock and provides for a cash payment at the end of the three-year vesting period equal to: (i) the sum of the cumulative increase in the Company's earnings per share over the vesting period and (ii) any dividends paid over the vesting period.

REPORT OF THE COMPENSATION COMMITTEE

The compensation of the Company's executive officers is determined by the Compensation Committee of the Board of Directors. The Compensation Committee operates under a written charter approved by the Board of Directors. The Compensation Committee has five members: James Williamson, Jr. (Chairman), Drs. John W. Ryan and Ruth J. Person, and Messrs. Charles E. Lanham and Steven Schmidt. All Committee members meet the independence requirements of the New York Stock Exchange. A sub-Committee of all Committee members except Mr. Williamson considers and approves equity and bonus compensation for the Named Executive Officers, which is intended to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

The following report with respect to certain cash and stock compensation paid or awarded to the Company's executive officers, including the Named Executive Officers, during fiscal 2005 is furnished by the directors who comprise the Compensation Committee.

Compensation Philosophy and Practices

The Company's compensation programs for executive officers are intended to enable the Company to attract, motivate, reward and retain the high level management talent required to achieve corporate objectives and, thereby, increase shareholder value. It is the Company's policy to provide cash and stock incentives to achieve both short-term and long-term objectives and to reward exceptional performance and contributions to the success of the Company's business. To attain these objectives, the Company's executive compensation program includes a competitive base salary, coupled with an added cash incentive bonus, which is "at risk" based on the performance of the Company's business, as reflected in the achievement of predetermined financial and operational objectives. The stock-based components of compensation include awards under the Company's Capital Appreciation Plan and options under the Company's Employee Stock Option Plans. As a general matter, as an executive officer's level of management responsibility in the Company increases, a greater portion of his or her potential total compensation depends upon the Company's performance as measured by the attainment of defined financial and operational performance objectives. In addition, all eligible Company employees, including its eligible executive officers, participate in the matching component of the Company's Employee 401k Savings Plan and the Company's Nonqualified Deferred Compensation Plan.

Relationship of Compensation to Performance

From time to time, the Committee establishes the salaries that will be paid to the Company's executive officers. In setting base salaries, the Committee takes into account a number of factors, including competitive compensation data, the extent to which an individual may participate in the Company's incentive compensation plans, and qualitative factors bearing on an individual's experience, responsibilities, management and leadership abilities and job performance.

In connection with its compensation determinations, during fiscal 2005 the Compensation Committee reviewed the Towers Perrin Annual Chain Restaurant Compensation Survey and other available studies. These studies provide reference points for the Committee in establishing executive compensation programs for the Company's executive officers and other management which are appropriate and competitive within the industry.

During fiscal 2005, each of the Company's executive officers received compensation pursuant to the Company's annual incentive bonus plan. At the beginning of fiscal 2005 the Board established targeted earnings and sales growth goals. Each executive job classification had a specific bonus percentage level ascribed to it based on the level of responsibility that it requires, the impact it could have on the business, and prior performance by the associate. Bonuses were determined based on the Company's actual earnings and sales results as compared to the targeted goals. No bonus would have been paid for performance below a minimum threshold, and the payment was reduced

substantially for performance below the targets. The maximum amount payable under the 2005 bonus plan would have been 2.5 times the individual associate's target bonus percentage level, if increases were substantially above the targeted earnings and sales goals. During fiscal 2005 actual performance was at 65% of the targeted bonus level.

Stock Option Awards

Stock options are granted to key employees by the Committee under the Company's Employee Stock Option Plans (the "Plans"). The number of shares subject to options granted to each individual generally depends upon his or her level of management responsibility. The largest grants are awarded to the employees who, in the view of the Board, have the greatest potential to impact the Company's profitability and growth and increase shareholder value. Options under the Plans may be either incentive stock options or nonqualified stock options, at the discretion of the Committee (and subject to limits under Code Section 422), and are granted at an exercise price equal to 100% of the fair market value of the Company's common stock on the date of the grant. The Committee has discretion, as limited by the Plans, as to the duration of the option exercise period and the vesting of the right to exercise the options within that period. Options granted in fiscal 2005 under the Plans are exercisable as to 20% on the date of grant and 20% on each anniversary of the date of grant thereafter until fully exercisable, with the exception of Reload Options, which are fully exercisable on the date of grant. Reload Options represent an option to repurchase shares that are used by the grantee to pay the exercise price of any original option grant. A Reload Option is not granted upon the exercise of a Reload Option, however. Outstanding options expire five years from the date of grant, with the exception of options granted on April 29, 1998 and May 6, 1999, which expire ten years from the date of grant. Stock option awards to the Named Executive Officers over the past three fiscal years are disclosed in the Summary Compensation Table.

Restricted Stock Awards

Restricted stock awards under the Company's Capital Appreciation Plan may be granted by the Committee to executive officers and other key employees of the Company. The number of restricted shares and book units awarded are intended to serve as a retention vehicle and are based on the Compensation Committee's evaluation of the potential contributions of each grantee to the long-term profitability and growth of the Company. The grantee holds all of the ownership rights (other than the right to receive dividends) to the stock from the date of grant, including the right to vote the stock, but may not transfer or assign the stock during a period of three years following the date of the grant. These shares are forfeited to the Company if the grantee is not employed by the Company (except for reasons of retirement, permanent disability or death) at the end of the period. Book units are awarded in tandem with restricted stock grants under the Company's Capital Appreciation Plan and provide for a cash payment at the end of the three-year vesting period equal to: (i) the sum of the cumulative increase in the Company's earnings per share during the vesting period and (ii) any dividends paid over the vesting period. Restricted stock awards and cash payouts in respect of book units granted to the Named Executive Officers over the past three fiscal years are disclosed in the Summary Compensation Table.

Compensation of the Chairman and Chief Executive Officer

The Committee annually reviews and approves the compensation of Alan B. Gilman (Chairman) and Peter M. Dunn (CEO) and the compensation policies described above apply equally to them. They are also eligible to participate in the Company's equity plans, 401k Plan, bonus plans, Nonqualified Deferred Compensation Plan and Medical Reimbursement Plan (up to \$3,500 per year for otherwise unreimbursed medical expenses).

Mr. Gilman's total compensation was determined by the Committee in accordance with the "Relationship of Compensation to Performance" and "Stock Option Awards" sections herein. His base compensation was \$500,000 in fiscal year 2005 and he earned an incentive bonus of \$89,024, which represents 17.8% of his fiscal year 2005 base salary. He also received 25,000 stock options.

The total compensation paid to Mr. Dunn during fiscal year 2005 was determined by the Committee in accordance with the criteria described in the "Relationship of Compensation to Performance," "Stock Option Awards" and "Restricted Stock Awards" sections in this report. His base compensation was \$500,000 in fiscal year 2005, and he received an incentive bonus of \$226,608, representing 45% of his fiscal 2005 base salary. He also received 25,000 stock options and 20,000 shares of restricted stock (with 20,000 book units).

The overall compensation package for the Chairman and CEO is designed to motivate and reward them for driving the Company to strengthen its competitive position in the casual/family dine segment of the restaurant industry. Accordingly, a significant portion of their compensation is incentive based, providing greater compensation as direct and indirect measures of shareholder value increase. The Compensation Committee believes that their compensation for 2005 was directly related to the size and the overall performance of the Company, as measured by financial criteria and qualitative factors related to the achievement by the Company of the strategic initiatives in which it was engaged. To ensure that the compensation of the Chairman and the CEO is reasonable the Compensation Committee has reviewed benchmarking studies setting forth the compensation paid by the Company's peers to their respective Chairman and Chief Executive Officer and their respective executives. Furthermore, the Compensation Committee has considered internal pay standards, including the relative differences between the Chairman and CEO's compensation and the compensation of the other named executive officers and other executive officers. Based on this review, the Compensation Committee found that the total compensation in fiscal 2005 for Mr. Gilman, Mr. Dunn and the other Named Executive Officers was reasonable and not excessive.

The Compensation Committee's Policy Regarding the Deductibility of Compensation

Pursuant to Code Section 162(m), publicly held corporations are prohibited from deducting compensation paid to the named executive officers, as of the end of the fiscal year, in excess of \$1 million unless the compensation is "performance based". It is the Compensation Committee's policy that the compensation paid to executive officers qualified for deductibility to the extent not inconsistent with the Company's fundamental compensation policies. In furtherance of this policy, the Company is seeking shareholder approval for the 2006 Employee Stock Option Plan and the 2006 Incentive Bonus Plan to satisfy the performance based compensation requirements of Code Section 162(m).

The foregoing report is respectfully submitted by the members of the Compensation Committee:

James Williamson, Jr., Chairman, Charles E. Lanham, Dr. Ruth J. Person, Dr. John W. Ryan, and Steven M. Schmidt

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee operates under a written charter approved by the Board of Directors. A copy of the charter is available on the Company's web site, www.steaknshake.com. The Board annually reviews the NYSE listing standards' definition of independence for Audit Committee members and has

determined that each of the members of the Audit Committee meets that definition. In addition, the Board has determined that Fred Risk is an "Audit Committee Financial Expert" as defined by SEC rules.

Management is responsible for the Company's internal controls and financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

During fiscal year 2005 the Audit Committee fulfilled its responsibilities by meeting with the Company's independent auditors, internal auditors and the Company's management. In the course of doing so it reviewed and discussed the Company's quarterly earnings press releases, quarterly 10-Q filings, consolidated financial statements and related periodic reports filed with the SEC. It also reviewed management's assessment of the effectiveness of the Company's internal control over financial reporting and the independent auditor's opinion regarding management's assessment of the effectiveness of its internal control over financial reporting. It also reviewed with the independent auditors the audit plan and scope.

The Audit Committee reviewed the Company's audited financial statements for the fiscal year ended September 28, 2005, and discussed them with management and the Company's independent auditors. The Audit Committee's review included discussion with the independent auditors of the matters required to be discussed pursuant to the Statement on Auditing Standards No. 61, as amended, (Communication with Audit Committees). The Audit Committee also received written disclosures from the independent auditors as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with the independent auditors that firm's independence. More information regarding the Company's independent auditors appears elsewhere in connection with the proposal to ratify the Audit Committee's selection of Deloitte & Touche, LLP as the Company's auditors for fiscal 2006.

Based upon the Audit Committee's discussions with management and the independent auditors and the Audit Committee's review of the representations of management and the independent auditors, the Audit Committee recommended that the Board of Directors include the audited financial statements in the Company's Annual Report on Form 10-K for the year ended September 28, 2005, to be filed with the Securities and Exchange Commission.

The foregoing report is respectfully submitted by the members of the Audit Committee.

J. Fred Risk, Chairman, Charles E. Lanham, Dr. John W. Ryan, and Steven M. Schmidt

COMPANY PERFORMANCE

The graph below compares for each of the last five fiscal years the cumulative total return of the Company, the S&P 500, the S&P SmallCap 600 and the S&P Restaurants Indices. The Company is included among the companies comprising the S&P SmallCap 600, a major market index. The S&P Restaurants Index is included in the graph in order to provide a more direct comparison of the Company's returns to those of other companies in the restaurant business. The cumulative total returns displayed below have assumed \$100 invested on September 30, 2000, in the Company's Common Stock, the S&P 500, the S&P SmallCap 600 and the S&P Restaurants Indices, and reinvestment of dividends paid since September 30, 2000.

Cumulative Total Return		<u>9/00</u>	<u>9/01</u>	<u>9/02</u>	<u>9/03</u>	<u>9/04</u>	<u>9/05</u>
THE STEAK N SHAKE COMPANY	\$	100.00	\$ 123.75	\$ 137.50	\$ 186.25	\$ 213.50	\$ 226.88
S & P 500		100.00	73.38	58.35	72.58	82.65	92.78
S & P SMALLCAP 600		100.00	89.39	87.78	111.36	138.73	168.16
S & P RESTAURANTS	\$	100.00	\$ 94.63	\$ 84.79	\$ 104.23	\$ 135.53	\$ 162.32

Equity Compensation Plan Information

The following table provides information regarding the Company's current equity compensation plans as of September 28, 2005. The information in this table does not include the securities to be issued under the 2006 Employee Stock Option Purchase Plan and 2006 Employee Stock Option Plan, which are subject to approval at the Annual Meeting and discussed more fully herein. The table does include, however, all securities previously approved for issuance.

Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of Securities To be Issued Upon Exercise of Outstanding Options Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)</u>
Equity compensation plans by shareholders ⁽¹⁾	1,355,626	\$ 16.11	938,928 ⁽²⁾
Equity compensation plans not approved by shareholders ⁽³⁾	21,000	9.99	0
TOTAL	1,376,626		