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STEAK & SHAKE CO
Form DEF 14A
December 20, 2004

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

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 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)

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- 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:
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 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
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 - 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.
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 - (3) Filing Party:
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THE STEAK N SHAKE COMPANY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD FEBRUARY 9, 2005

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 at the Company's Corporate Office, 4th Floor, Century Building, 36 South Pennsylvania Street, Indianapolis, Indiana 46204, on Wednesday, February 9, 2005 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 shall be elected and qualified.
2. To act upon the approval of the 2005 Director Stock Option Plan, as adopted by the Board of Directors.
3. 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 28, 2005.
4. 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 1, 2004, 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 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 20, 2004
Indianapolis, Indiana

PLEASE SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT
PROMPTLY IN THE ENCLOSED ENVELOPE

THE STEAK N SHAKE COMPANY
500 CENTURY BUILDING
36 SOUTH PENNSYLVANIA STREET

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INDIANAPOLIS, INDIANA 46204
(317) 633-4100

PROXY STATEMENT For the Annual Meeting of Shareholders To be held February 9, 2005

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 at the Company's Corporate Office, 4th Floor, Century Building, 36 South Pennsylvania Street, Indianapolis, Indiana 46204, on Wednesday, February 9, 2005, 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 20, 2004.

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 1, 2004. At the close of business on that date, the Company had issued and outstanding 27,622,964 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 heretofore distributed 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 approval of the 2005 Director Stock Option Plan and (iii) FOR the approval of Deloitte & Touche, LLP as the Company's independent auditors for the fiscal year ending September 28, 2005.

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, the number of shares present for purposes of determining a quorum will not be reduced by such action. The 2005 Director Stock Option Plan and the ratification of the selection of the auditors will be approved if the proposal receives 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

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director at the meeting. In order for a shareholder to properly bring business or propose a director at the 2006 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 August 19, 2005 or in the event that the date of the meeting is changed more than 30 days from February 9, 2005 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 2006 Annual Meeting, including those matters raised other than 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 1, 2004 by each person or entity known to be the beneficial owner of more than 5% of the Common Stock of the Company:

Name & Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
MSD Capital, Inc. 645 Fifth Avenue, 21st Floor New York, NY 10022-5910	2,053,100	7.4%

(1) This table is based upon information supplied by MSD Capital, Inc. on Schedule 13G filed with the Securities and Exchange Commission on April 11, 2003 and information supplied thereafter by MSD Capital, Inc.

The following table shows the total number of shares of Common Stock beneficially owned as of December 1, 2004, and the percentage of Common Stock so owned as of that date, with respect to (i) each director, (ii) each executive officer named in the Summary Compensation Table, and (iii) all directors and executive officers, as a group:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Peter M. Dunn	98,400(2)	*
Alan B. Gilman	468,910(3)	1.7%
Roxanne Crosby	18,400(4)	*
Stephen Goldsmith	13,180(5)	*
Wayne L. Kelley	82,308(6)	*
Charles E. Lanham	390,480(7)	1.4%
Ruth J. Person	5,000(8)	*
Gary T. Reinwald	399,539(9)	1.4%
J. Fred Risk	119,299(10)	*
John W. Ryan	22,382(11)	*
Gary S. Walker	55,200(12)	*
James Williamson, Jr.	327,558(13)	1.2%
All directors and executive officers as a group (17 persons)	2,046,570(14)	7.4%

*Less than 1%.

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

(2) Includes 25,000 shares which may be acquired pursuant to stock options exercisable within 60 days.

(3) Includes 114,558 shares which may be acquired pursuant to stock options exercisable within 60 days.

(4) Includes 4,400 shares which may be acquired pursuant to stock options exercisable within 60 days.

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

(6) Includes 3,800 shares which may be acquired pursuant to stock options exercisable within 60 days.

(7) Includes 9,000 shares which may be acquired pursuant to stock options exercisable within 60 days. Also includes 30,928 shares owned of record and beneficially by Mr. Lanham's wife, with respect to which he disclaims beneficial ownership, and 21,750 shares owned by Mr. Lanham's affiliate, Hartford Heritage, LLC.

(8) Includes 5,000 shares which may be acquired pursuant to stock options exercisable within 60 days.

(9) Includes 81,896 shares which may be acquired pursuant to stock options exercisable within 60 days.

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

(12) Includes 24,200 shares which 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 9,000 shares which 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 345,329 shares which may be acquired pursuant to stock options exercisable within 60 days held by all directors and 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 29, 2004 with the exception of a Form 4 regarding the sale of stock filed late by James W. Bear, the Company's former Senior Vice President and CFO. Also, the Company files Form 4 reports for the

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Company's Directors, and the Company filed a Form 4 late for the receipt of options under the 2004 Director Stock Option Plan by Messrs. Goldsmith, Kelley, Lanham, Regas, Risk and Williamson and Drs. Ryan and Person.

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, which was updated and revised in the past year. 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 to 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, 2004. The Board of Directors has affirmatively determined that a majority of the director nominees are independent and have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).

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:

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Name	Age	Served As Director Since	Business Experience
-----	---	-----	-----
Peter M. Dunn	49	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	74	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.
Stephen Goldsmith	58	1999	Chairman of the Corporation for National and Community Service; Senior Vice President, Strategic Initiatives and e-Government, for ACS, a national business process outsourcer; Faculty Director, Innovations in American Government Harvard University; Chairman of the Manhattan Institute's Center for Civic Innovation; member of the Board of Directors of the Finish Line, Inc.; Trustee of Windrose Medical Properties Trust, a publicly traded real estate investment trust; Mayor of Indianapolis, Indiana from 1992 through 1999.
Wayne L. Kelley	60	2003	Director of Steak n Shake Operations, Inc., a subsidiary of the Company, since 1999; President of Kelley Restaurants, Inc. since 1991.
Charles E. Lanham	72	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	59	2002	Chancellor, Indiana University

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			Kokomo and Professor of Management President, American Association of University Administrators 2003-2004; Member of the Board of Directors, Workforce Development Strategies, Inc.
J. Fred Risk	76	1971	Private investor; Chairman of the Board of Directors of Security Group, Inc.
John W. Ryan	75	1996	Private investor; Chancellor of the State University of New York Systems from 1996 through 1999; President of Indiana University from 1971 through 1987.
James Williamson, Jr.	73	1985	Private investor.

There is no family relationship among any of the nominees for director.

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 four meetings during fiscal year 2004. The Board has, or during fiscal year 2004 had, five standing committees: an Executive Committee, a Personnel/Benefits Committee, an Audit Committee, a Compensation Committee, and a Nominating/Corporate Governance Committee. The Board also had a temporary Committee, the Acquisitions Committee, during fiscal year 2004.

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 29, 2004, the Executive Committee met 4 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 that may be found at www.steaknshake.com. 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 29, 2004, the Audit Committee met 4 times. Mr. Risk serves as Chairman of the Committee and Messrs. Goldsmith, Lanham and Ryan serve as members. The Chairman and each member of the Audit Committee are "independent" as that term is defined in Section 301 of the Sarbanes-Oxley Act of 2002 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

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Compensation Committee met 4 times during fiscal 2004. 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 the charter is available on the Company's web site, www.steaknshake.com.

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. Goldsmith, Lanham and Risk serve on the Committee. During fiscal year 2004 the Committee met 4 times. The Committee operates under a written charter that was approved by the Board of Directors. A copy may be obtained on the Company's web site, www.steaknshake.com. 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 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 needs of the Board and the Company at the time. 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.

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 qualifications of the nominee; (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 giving notice; (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

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requested by the Board. The Personnel/Benefits Committee met one time during fiscal 2004. 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. Roxanne 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 2004 the Board of Directors formed the Acquisitions Committee to explore, negotiate and, if appropriate, finalize the merger of Kelley Restaurants, Inc. ("KRI") into a subsidiary of Steak n Shake Operations, Inc. Mr. Risk served as chairman of the Committee, and Mr. Goldsmith, Dr. Ryan, Dr. Person and Mr. Dunn served on the Committee. Messrs. Kelley, Gilman, Williamson and Lanham were specifically excluded from any involvement with the Acquisitions Committee as a result of their status as shareholders in KRI. The Acquisitions Committee met two times during fiscal 2004.

During fiscal year 2004 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. All Directors attended the 2004 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 executive sessions without management during the 2004 fiscal year. Mr. Williamson, the Lead Outside Director, presides over these executive sessions. 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

During fiscal year 2004 directors received an annual fee of \$18,000. They received \$2,500 per board meeting attended and \$1,000 per telephonic board meeting attended. They also received \$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 an additional annual fee of \$20,000 for his services as Chairman of the Audit Committee. Mr. Williamson was paid an additional annual fee of \$25,000 for his services as Chairman of the Executive Committee, Chairman of the Compensation Committee and Lead Outside Director. Dr. Ryan was paid an additional annual fee of \$15,000 for his services as Chairman of the Nominating/Corporate Governance Committee. Directors who were also officers of the Company were not paid for their services on the Board. In the fiscal year ended September 29, 2004, the total compensation paid to non-employee directors was \$343,500. This figure includes \$38,000 paid to non-employee directors who served on boards of subsidiaries of the Company (including Mr. Kelley, who serves on the Board of Steak n Shake Operations, Inc. and was elected to the Company's Board on February 11, 2004). In addition, the ordinary and necessary expenses of members of the Board of Directors incurred in attending board and committee meetings are paid by the Company.

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The Company believes in compensating its non-employee directors partly on the basis of the Company's success in increasing the value of its stock so a portion of a non-employee director's compensation comes from stock options. 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 currently outstanding under the Director Plans are exercisable as to 20% on the date of grant and 20% on each anniversary of the date of grant until fully exercisable. The current options expire five years from the date of grant.

Options for the non-employee directors to purchase an aggregate of 38,000 shares of Common Stock were conditionally granted by the Board of Directors on November 17, 2004, subject to shareholder approval at the 2005 Annual Meeting of Shareholders. The conditional grants were made to Dr. Person and Dr. Ryan and Messrs. Goldsmith, Kelley, Lanham, Risk and Williamson for 5,000 shares each, and to Mr. Frank G. Regas, a director of a subsidiary of the Company, for 3,000 shares, at an option price equal to \$18.26, the closing per share price on the New York Stock Exchange on November 17, 2004. See "Approval of the 2005 Director Stock Option Plan," below.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company granted franchise rights in 1991 to KRI for development of Steak n Shake restaurants in the Atlanta, Georgia and Charlotte, North Carolina markets. KRI currently operates 13 restaurants in Atlanta, Georgia and 3 in Charlotte, North Carolina. The Company recorded \$1,706,000 in revenues from KRI during fiscal year 2004. Mr. Kelley serves as President and director, and Mr. Williamson and Mr. Gilman serve as directors of KRI and all are likewise shareholders in KRI. Mr. Lanham is also a shareholder in KRI.

As described in its November 11, 2004 Form 8-K and press release, the Company has entered into a merger agreement to merge SNS Merger Corporation, a subsidiary of Steak n Shake Operations, Inc., into KRI, with closing of the merger scheduled to occur on December 29, 2004.

Pursuant to the merger agreement, the issued and outstanding shares of KRI common stock will be converted into the right to receive cash having an aggregate value of approximately \$20.5 million at closing, subject to adjustment. The net value transferred at closing is anticipated to be approximately \$17.5 million, which includes adjustments for debt repayment, working capital and other items. In addition, ten percent (10%) of the adjusted purchase price will be 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 will receive as their initial payment pursuant to the merger agreement will be determined by multiplying the number of shares of KRI common stock owned by each such shareholder by the per share exchange amount. It is currently anticipated that the per share exchange amount will be \$165. However, the actual per share exchange amount will not be determined until the completion of the merger. Messrs. Kelley, Williamson, Gilman and Lanham own (directly or beneficially) 8,942, 3,222, 1,000 and 3,616 shares, respectively, of KRI common stock.

In addition, the consummation of the merger is conditioned, among other things, upon Steak n Shake Operations, Inc. entering into an employment agreement with Wayne Kelley in his capacity as the President of KRI. Pursuant to the employment agreement, Mr. Kelley would remain a full-time employee of KRI for a period of two years and sixteen weeks. Mr. Kelley will receive an annual

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salary of \$205,000 per year and shall 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 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 and directors of KRI.

The Company has obtained an independent fairness opinion and has reviewed the terms of the merger and believes that the terms of the merger are 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

	Fiscal Year	Annual Compensation		Long-Term Compensation		All Other Compensation (\$ (3))
		Salary (\$)	Bonus (\$)	Restricted Stock Awards (\$ (1))	Stock Options (#) (2)	
Alan B. Gilman (4) Chairman	2004	\$500,000	\$335,023	186,250	32,877	\$20,692
	2003	\$497,692	\$349,344	None	10,000	\$14,906
	2002	\$425,000	\$137,500	None	66,681	\$16,777
Peter M. Dunn(5) President and Chief Executive Officer	2004	\$463,846	\$335,023	298,000	45,000	\$16,237
	2003	\$340,577	\$244,541	214,000	20,000	\$ 1,442
	2002	\$ 0	None	None	None	\$ 0
Gary T. Reinwald Executive Vice President	2004	\$245,000	\$ 84,871	134,100	17,166	\$12,903
	2003	\$245,000	\$ 92,226	None	3,239	\$11,386
	2002	\$221,690	\$ 64,070	None	40,341	\$ 9,084
Gary S. Walker Senior Vice President	2004	\$205,000	\$ 74,477	104,300	11,000	\$16,808
	2003	\$205,000	\$ 78,244	None	None	\$ 6,915
	2002	\$185,580	\$ 55,270	None	22,000	\$10,150
Roxanne Crosby (6) Senior Vice President	2004	\$176,077	\$ 71,147	123,200	11,000	\$ 4,825
	2003	\$ 0	None	None	None	\$ 0
	2002	\$ 0	None	None	None	\$ 0