

STEAK & SHAKE CO  
Form 10-K/A  
May 20, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K/A  
[Amendment No. 1]

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

For the fiscal year ended September 29, 2004

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

For the transition period from . . . . . to . . . . .

Commission file number 0-8445

THE STEAK N SHAKE COMPANY

(Exact name of registrant as specified in its charter)

INDIANA 37-0684070

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

36 S. Pennsylvania Street, Suite 500  
Indianapolis, Indiana 46204  
(317) 633-4100

(Address and telephone number of registrant's principal executive offices)  
Securities registered pursuant to Sec. 12(b) of the Act:

<u>Title of Each Class on Which Registered</u>	<u>Name of Exchange</u>
Common Stock, stated value \$.50 per share	New York Stock Exchange
Preferred Stock Purchase Rights	
New York Stock Exchange	

Securities registered pursuant to Sec. 12(g) of the Act: None.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act rule 12b-2). Yes  No

The aggregate market value of Common Stock held by persons not "affiliated" with the registrant, based on the closing price of the Common Stock at April 7, 2004, was approximately \$524,695,120.

The number of shares of Common Stock outstanding at December 1, 2004 was 27,622,964.

DOCUMENTS INCORPORATED BY REFERENCE

PARTS OF FORM 10-K INTO WHICH

IDENTITY OF DOCUMENT DOCUMENT IS INCORPORATED

Registrant's Annual Report to Shareholders for fiscal year  
ended September 29, 2004

Part II

The definitive Proxy Statement to be filed with respect  
to the 2005 Annual Meeting of Shareholders of Registrant

Part III

### Explanatory Note

The purpose of this amendment on Form 10-K/A of The Steak n Shake Company ("the Company") for the fiscal year ended September 29, 2004 is to restate the Company's consolidated financial statements for the fiscal years 2004, 2003 and 2002 and related disclosures as described in Note 2 to the consolidated financial statements, including the selected financial data included herein as of and for the fiscal years 2004, 2003, 2002, 2001 and 2000. Additional information about the decision to restate these consolidated financial statements can be found in the Company's Current Report on Form 8-K, filed with the SEC on May 16, 2005.

For the convenience of the reader, this Form 10-K/A includes all of the information contained in the original report on Form 10-K, and no attempt has been made in this Form 10-K/A to modify or update the disclosures presented in the original report on Form 10-K, except as required to reflect the effects of the restatement. This Form 10-K/A does not reflect events occurring after the filing of the Form 10-K or modify or update those disclosures, including the exhibits to the Form 10-K affected by subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-K on December 6, 2004. Accordingly, the Form 10-K/A should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K, including amendments to those filings. The following items have been amended as a result of the restatement:

- Part II - Item 6 - Selected Financial Data
- Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations
  - Part II - Item 8 - Financial Statements and Supplementary Data
    - Part II - Item 9A - Controls and Procedures
  - Part IV - Item 15 - Exhibits and Financial Statement Schedules

We have not amended and do not intend to amend the Company's previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods affected by the restatement other than the Form 10-K for the fiscal year ended September 29, 2004 and the Form 10-Q for the fiscal quarter ended December 22, 2004. For this reason, the consolidated financial statements, reports of independent registered accounting firms and related financial information for the affected periods contained in any other prior reports should no longer be relied upon.

### Description of Restatement

Historically, when accounting for ground leases with renewal options, the Company depreciated its buildings over a period of 25 years (estimated economic life of buildings). In certain cases, the term of 25 years included both the initial lease term and certain renewal option periods under the lease. The Company recorded rent expense from the rent commencement date through the initial term of the lease. The restatement reflects rent expense being recognized on a straight-line basis over the lease term, including any additional cancelable option periods where failure to exercise such options would have resulted in an economic penalty.

Additionally, the Company had recognized rent expense for its operating leases using a lease term that commenced when rent payments began, which generally coincided with a point in time near the date the Company's restaurants opened. This generally had the effect of excluding the restaurant build-out period (during which the Company typically made no rent payments) from the calculation of the period over which rent was expensed. The Company has determined that, under GAAP, it should have recognized rent expense over a lease term that included the build-out period, which, in most cases, will cause rent expense to be recognized sooner than previously reported. The restatement reflects rent expense beginning in the build-out period.

The Company has also determined that certain build-to-suit leases should have been treated as sale leaseback transactions to more fully reflect the provisions of Statement of Financial Accounting Standards No. 98, "Accounting for Leases" and Emerging Issues Task Force 97-10, "The Effect of Lessee Involvement in Asset Construction." Under an interpretation of the statement, the Company was determined to have continued involvement in the property, which required the proceeds from these build-to-suit leases to have been accounted for as a "finance obligations," reflected as a liability and amortized over the life of the related lease. The related assets should be depreciated over their estimated useful lives. The restatement reflects lease payments on the above mentioned leases being recorded as interest expense and debt repayment, as opposed to rent expense. In addition, the Company recorded additional depreciation expense for the related assets.

The total impact of the adjustments reduced the Company's net income for the fiscal years ended September 29, 2004, September 24, 2003, and September 25, 2002 by \$71,000, \$78,000 and \$97,000 respectively. Additionally, beginning retained earnings for the fiscal year ended September 25, 2002 were reduced by \$537,000.

## **PART I.**

### **ITEM 1. BUSINESS**

#### *General*

The Steak n Shake Company ("Steak n Shake" or the "Company") is engaged primarily in the ownership, operation and franchising of Steak n Shake restaurants. Founded in 1934 in Normal, Illinois, Steak n Shake is one of the oldest restaurant chains in the country. As of September 29, 2004, we had 365 Company-owned restaurants and 60 franchised restaurants, located in 19 Midwestern and Southern states. Steak n Shake restaurants are generally open 24 hours a day, seven days a week, and in addition to the core menu, offer a breakfast menu during breakfast hours. Lunch and dinner sales account for approximately 36.4% and 45.1% of sales, respectively, while breakfast and late night sales account for 6.9% and 11.6% of sales, respectively.

Our fiscal year ends on the last Wednesday in September. Accordingly, every five or six years, our fiscal year contains fifty-three weeks. Fiscal year 2004 contained fifty-three weeks, while fiscal years 2003 and 2002 contained fifty-two weeks. Our first, third, and fourth quarters contain twelve weeks and the second quarter contains sixteen weeks (except in fiscal years when there are fifty-three weeks, in which case the fourth quarter contains thirteen weeks).

#### *The Steak n Shake Concept*

We strive to be the best restaurant in the world at providing guests a genuine, classic community diner experience with STEAKBURGER® sandwiches and hand-dipped milk shakes. We occupy a distinct niche in the restaurant industry by offering full-service dining with counter and dining room seating, as well as drive-thru and carryout service. Counter and dining room sales represent approximately two-thirds of the sales mix, while sales for off-premises dining represent approximately one-third of the sales mix. Unlike some fast-food restaurants, all Steak n Shake food is freshly prepared, cooked-to-order in view of the guest, and served promptly on china with flatware and glassware by a friendly team of wait staff. Our prices are generally less than most casual dining and family-style concepts with an average check of approximately \$6.37 per person. The average check during the peak lunch and dinner hours is approximately \$6.34 and \$6.63, respectively.

We believe that Steak n Shake offers more compelling value and core menu items with a higher level of quality than competitor fast food and casual dining chains. For 70 years, Steak n Shake's menu has featured core items including STEAKBURGER® sandwiches, thin and crispy french fries and hand-dipped milk shakes. We believe that our focus on certain menu items has allowed us to serve consistent, high-quality food, that has built brand loyalty with our guests. Menu items are prepared in accordance with our strict specifications using high-quality ingredients such as 100% pure U.S. beef, including cuts of T-bone, strip and sirloin steaks, in our STEAKBURGER® sandwiches. Over the years, we have responded to changing guest tastes by providing greater menu variety without losing our focus or guest appeal. During the current year, we expanded our menu by offering Side-by-Side® Milk Shakes and hot fudge shots for our milk shakes.

#### *Expanding the Concept*

Controlled growth into both new and existing trade areas has been a focus over the last several years. During fiscal year 2004, we opened sixteen new units and franchisees opened three new units, with the majority of new Company-owned units being built in the Ohio and Texas markets. This level of expansion has allowed us to build field organizational quality and stability while focusing on improving each and every guest experience through hospitality initiatives; improve the depth of the field organization through improved recruitment and higher retention; enhance training and staff development; and aggressively market the brand through unique differentiation brand

marketing. The Company currently expects to open between eighteen and twenty-four Company-owned Steak n Shake restaurants in fiscal year 2005. The actual number of openings will depend on many factors, including the ability to locate appropriate sites, negotiate acceptable purchase or lease terms, obtain necessary local governmental permits, complete construction, and recruit and train restaurant management and hourly associates.

Our controlled expansion program is based upon a market penetration strategy focused on clustering restaurants in current or contiguous trade areas to capitalize on our name recognition, increase guest convenience and achieve media and operating efficiencies. The addition of Company-owned restaurants in markets where our television marketing efforts have already been implemented, allows us to leverage our advertising costs over more units and to benefit from management efficiencies. In existing media markets, our advertising expenditures create higher levels of customer recognition and greater market acceptance for new units.

We believe the site selection process is critical to the success of our restaurants, and senior management devotes significant time and resources to analyzing each prospective site. We consider a variety of factors in the site selection process, including local market demographics, site visibility and accessibility, highway interchanges and proximity to significant generators of potential guests such as major retailers, housing communities and businesses.

A final element of our expansion program is franchising. Our franchising program is designed to extend brand name recognition of Steak n Shake and derive additional revenues without substantial investment by the Company. As part of our continual planning process, management reviews the relationship of the number of Company-owned to franchised restaurants and the selection of areas for development by the Company and our franchisees. Our expansion plans include selectively seeking new franchisees to help grow the Steak n Shake brand by focusing on areas where the Company does not currently have plans to build enough stores to merit the infrastructure necessary to support those markets. (See "Franchising")

#### *Restaurant Locations*

The following table lists the locations of the 425 Steak n Shake restaurants, including 60 franchised units, as of September 29, 2004:

	<b>Company-Owned</b>	<b>Franchised</b>	<b>Total</b>
Alabama	6	-	6
Florida	72	-	72
Georgia	7	16	23
Iowa	4	-	4
Illinois	57	6	63
Indiana	59	3	62
Kansas	4	-	4
Kentucky	6	8	14
Michigan	19	-	19
Mississippi	-	1	1
Missouri	43	14	57
North Carolina	-	6	6
Ohio	60	-	60
Oklahoma	-	1	1
Pennsylvania	3	-	3
South Carolina	2	-	2
Tennessee	9	5	14
Texas	13	-	13
Wisconsin	1	-	1

Total	365	60	425
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### ***Restaurant Operations***

The key to growing our customer base is to ensure our guests have an enjoyable dining experience when they step through our doors or visit our drive-thru windows. To ensure a positive guest experience, we must have competent and skilled restaurant management at each of our locations. The management team of a typical Steak n Shake restaurant consists of a general manager, a restaurant manager and assistant managers. The number of assistant managers varies depending upon the volume of the unit. The general manager of each restaurant has primary responsibility for the day-to-day operations of the restaurant and is responsible for maintaining Company-established operating standards and procedures. The general manager holds the responsibility for the profitability of each unit and his/her bonus is derived from the store level profitability against the financial plan. In addition to the day-to-day operations, the general manager is very involved with the planning and budgeting for each restaurant. An experienced, well-trained general manager promotes compliance with our high standards for food quality and guest service, and ensures that all health and safety requirements are met and that the restaurant complies with applicable state labor laws. We seek to employ managers who are guest service oriented and who manage the restaurant from the dining room. We recognize the important role of a seasoned, well-trained and properly motivated restaurant team.

The competition for attracting new managers is intense. Therefore, we foster a promote from within approach. To develop the talented bench strength needed for continued internal promotions, people development is one of our highest priorities. As part of our commitment to improving our standards of execution, we emphasize strengthening the skills and capabilities of each restaurant team through innovative selection, development, evaluation, and reward systems. Associates are encouraged to learn new skills to foster their professional growth and to create greater opportunities for advancement. The management development process ensures that we not only meet our current management needs, but that we are also able to meet our future growth needs.

### ***Guest Satisfaction and Quality Control***

For 70 years, our reputation and long-standing guest loyalty have been earned by the consistent quality of the dining experience. The success of Steak n Shake depends on our associates' consistent commitment to exceed the guests' expectations. During the current year, we have initiated a new guest satisfaction measurement tool, which provides guests the opportunity to evaluate us on delivering a quality dining experience. The information received from the guests is real-time, and allows us to address issues in an expeditious and effective manner.

Restaurant management is responsible for ensuring the restaurants are operated in accordance with strict operational procedures and quality requirements. Compliance for Company-owned units is monitored through the use of guest comment cards, guest satisfaction surveys, a mystery shopping program, frequent on-site visits and formal inspections by management and training personnel. Franchised restaurants are monitored through periodic inspections by the Company's franchise field operations personnel and a mystery shopping program, in addition to their own internal management oversight.

### ***Purchasing and Distribution Center Operations***

We operate a distribution center in Bloomington, Illinois from which food products (except for items purchased by the restaurants locally such as bakery goods, produce and dairy products) and restaurant supplies are delivered to 113 Company-owned and 16 franchised restaurants. The restaurants served are located in parts of the Midwest (primarily in Illinois, Missouri, Iowa and Wisconsin). Our semi-trailers have the capability to handle refrigerated and frozen products along with dry goods in the same delivery trip. The remaining Steak n Shake restaurants, located primarily in the Southeast, Texas, and parts of the Midwest (primarily Indiana, Ohio, Michigan, and Tennessee) obtain food products and supplies that meet the Company's quality standards and specifications from two separate independent distributors; one with locations in Orlando, Florida and Pryor, Oklahoma, and the other with a location in Zanesville, Ohio.



Purchases are negotiated centrally for most food and beverage products and supplies to ensure uniform quality, adequate quantities and competitive prices. Short-term forward buying contracts are utilized to facilitate the availability of products pursuant to our specifications and to lessen our exposure to fluctuating prices. Food and supply items undergo ongoing research, development and testing in an effort to maintain the highest quality products and to be responsive to changing consumer tastes.

### ***Branding***

For 70 years we have embraced our heritage by offering a core product mix of STEAKBURGER® sandwiches and hand-dipped milk shakes to our guests. As times have changed, we have enhanced our menu to offer new menu offerings to our guests. For instance, during the current year we added the innovative Side-by-Side® milk shakes, which allows the guest to choose any two flavors of milk shakes and have them served side-by-side in one glass. This new concept has been well received by guests. Also introduced during fiscal year 2004 were the Sippable Sundae®, which includes adding hot fudge to any milk shake and the branded TAKHOMACARD® gift card.

We communicate our niche value positioning to the consumer via a branded differentiation marketing strategy. Marketing platforms are product benefit directed and explain why Steak n Shake is superior to fast food alternatives by using a fun, irreverent, tongue-in-cheek humorous approach in our advertising campaigns. This "voice of the restaurant" defines our brand personality, recalling a day when life was simpler, friendlier, and less stressful. By coupling this branding approach with real consumer benefits, existing guests are encouraged to visit more often and new guests are encouraged to try a STEAKBURGER® sandwich and a milk shake. Print, outdoor and local marketing promotions are also utilized, but the most effective and efficient media form remains television, as it sells Steak n Shake with sight, sound, motion, and emotion.

Our marketing thrust is driven by new product news and is directed towards building brand loyalty and increasing purchase frequency. Value at Steak n Shake is based on exceeding guests' expectations by delivering freshly prepared, cooked-to-order, quality food served promptly by a friendly, well-trained staff.

### ***Franchising***

We designed our franchising program to extend the brand name recognition of Steak n Shake to areas where we have no current development plans, and to derive additional revenues without substantial investment. Our expansion plans include selectively seeking new franchisees to help grow the Steak n Shake brand, along with expanding relationships with current franchisees.

As of September 29, 2004, we had 60 franchised Steak n Shake restaurants operated by 15 franchisees, located in Georgia, Illinois, Indiana, Kentucky, Mississippi, Missouri, North Carolina, Oklahoma, and Tennessee. These restaurants are located in areas contiguous to markets in which there are Company-owned restaurants. As of September 29, 2004, we have commitments from existing franchisees for the development of five additional franchised restaurants in fiscal 2005.

Franchisees undergo a selection process supervised by the Vice President, Franchising, and require final approval by senior management. We seek franchisees with the financial resources necessary to fund successful development (minimum of \$1,500,000 net worth, \$500,000 liquid assets) and significant experience in the restaurant/retail business who have demonstrated the financial and management capabilities required to operate a franchised restaurant effectively.

We assist franchisees with both the development and the ongoing operation of their restaurants. Our management personnel assist with site selection, approve all franchise sites and provide franchisees with prototype plans and specifications for construction of their restaurants. Our training staff provides both on-site and off-site instruction to franchised restaurant management associates. Managers of franchised restaurants are required to obtain the same

training as managers of Company-owned units. Our support continues after a restaurant opening with periodic training programs, providing manuals and updates relating to product specifications, guest service and quality control procedures, advertising and marketing materials and assisting with particular advertising and marketing needs. Franchise field representatives visit all franchisees quarterly to support the successful operation of their restaurants. We also make available to franchisees certain accounting services and management information reports prepared at the corporate office for a monthly fee, based on our actual costs.

All franchised restaurants are required, pursuant to their respective franchise agreements, to serve Steak n Shake approved menu items. Although not required to do so, franchisees served by our distribution center purchase food, supplies and smallwares at our cost, plus a markup to cover the cost of operation, including freight for delivery. Our point-of-sale systems are also available for purchase by franchisees. Access to these services enables franchisees to benefit from our purchasing power and assists us in monitoring compliance with our standards and specifications for uniform quality.

The standard Steak n Shake franchise agreement generally has an initial term of 20 years. Among other obligations, the agreement requires franchisees to pay an initial franchise fee of \$40,000 for the first restaurant in a market, \$35,000 for the second unit, and \$30,000 for each subsequent unit, and a continuing royalty of 4% of monthly gross receipts. The standard franchise agreement also requires the franchisee to pay 5% of monthly gross sales to the Company for advertising, of which 80% is spent on local, regional or national marketing and 20% is used by Steak n Shake for creative and promotional development, outside independent marketing agency fees and technical and professional marketing advice.

In certain circumstances, our financing subsidiary, SNS Investment Company, Inc., will assist qualified franchisees in financing the development of one or more franchised restaurants by purchasing or leasing approved sites from third parties, constructing the restaurant and leasing or subleasing the finished facility to the franchisee. The lease terms and rentals, including a surcharge by the Company for administrative services, are negotiated based on prevailing real estate and construction costs in effect in the franchised area. As of September 29, 2004, six restaurants were financed through this subsidiary.

For more information on franchising opportunities, visit our website at [www.steaknshake.com/franchise](http://www.steaknshake.com/franchise).

### ***Competition***

The restaurant business is one of the most intensely competitive industries in the United States, with price, menu offerings, location and service all being significant competitive factors. Our competitors include national, regional and local chains, as well as local establishments. In all of our current and proposed future market areas, there are established competitors with financial and other resources, which are greater than our resources. We face competition for sites on which to locate new restaurants, as well as for restaurant associates and guests. The restaurant business is often affected by changes in consumer tastes and by national, regional and local economic conditions and demographic trends. The performance of individual restaurants may be affected by factors such as traffic patterns, demographic factors, harsh weather conditions, and the type, number and location of competing restaurants. Additional factors that may adversely affect the restaurant industry in general, and our restaurants in particular, are inflation of food, labor and associate benefit costs, negative publicity surrounding food quality or safety issues, and difficulty in attracting qualified management personnel and hourly associates.

### ***Seasonal Aspects***

We have substantial fixed costs, which do not decline as a result of a decline in sales. Our first and second fiscal quarters, which include the winter months, usually reflect lower average weekly unit volumes as compared to the third and fourth fiscal quarters. Additionally, sales in the first two fiscal quarters can be adversely affected by severe winter weather. We also may be negatively affected by adverse weather during the first and fourth fiscal quarters as hurricanes and tropical storms may impact the Southeastern portion of the United States, where we have a significant number of restaurants.

### ***Employees***

As of September 29, 2004, we employed approximately 20,000 associates, of which approximately two-thirds are part-time hourly associates. We consider our employee relations to be good and believe that we provide working conditions and wages that compare favorably with the industry.

### ***Trademarks***

"Steak n Shake®", "Takhomasak®", "Famous For Steakburgers®", "FAXASAK®", "Original Steakburger®", "In Sight It Must Be Right®", "Steak n Shake - It's a Meal®", "The Original Steakburger®", "The "Wing and Circle"® logo", "Steak n Shake Famous For Steakburgers®", "Steak n Shake In Sight it Must be Right®", "Takhomacup®", "Takhomasak®", and the Company's "storefront design" ® are among the federally registered trademarks and servicemarks owned by the Company. "Takhomacard™", "Banawberry™", "Banocolate™", "Chocawberry™", "High-n-Low™", "Orangilla™", "Side-by-Side™", "Sippable Sundaes™", "Strawnilla™", "Up-n-Down™", "Vanawberry™", "Vanoch", "Vanocolate™" are among the trademarks and service marks owned by the Company for which federal registration applications are currently pending. The Company protects its trademark rights by appropriate legal action whenever necessary.

### ***Government Regulation***

We are subject to various federal, state and local laws effecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities, including health and safety and fire agencies in the state and municipality in which the restaurant is located. The development and construction of restaurants is subject to compliance with applicable zoning, land use and environmental regulations. Difficulties in obtaining, or failure to obtain, the required licenses or approvals could delay or prevent the development of a new restaurant in a particular area.

Our restaurant operations are also subject to federal and state minimum wage laws and laws governing such matters as working conditions, child labor, overtime and tip credits. Many of our restaurant associates are paid at rates related to the federal and state minimum wage laws, and accordingly, further increases in the minimum wage would increase our labor costs.

As of September 29, 2004, we have franchise operations in nine states -- Georgia, Illinois, Indiana, Kentucky, Mississippi, Missouri, North Carolina, Oklahoma, and Tennessee -- and are subject to certain federal and state laws controlling the offering and conduct of our franchise business in those states. In addition, we are subject to franchise registration requirements in several states in which we are now conducting or will conduct franchise business in the future.

### ***Geographic Concentration***

During fiscal 2004, approximately 47.6% of our net sales were derived from five markets: St. Louis, Missouri (13.4%); Indianapolis, Indiana (12.7%); Orlando, Florida (7.6%); Chicago, Illinois (7.4%); and Tampa, Florida (6.5%). As a result, our results of operations may be materially affected by weather, economic or business conditions within these markets. Also, given our present geographic concentration, adverse publicity relating to Steak n Shake restaurants could have a more pronounced overall adverse effect on our sales than might be the case if our restaurants were more broadly dispersed.

### ***Shareholder Rights Plan***

On May 16, 2001, the Company's Board of Directors adopted a Shareholder Rights Plan (the "Plan"). Under the Plan, rights have been attached to the outstanding shares of Common Stock at the rate of one right for each share of Common Stock held by shareholders of record at the close of business on May 31, 2001. The rights will become exercisable only if a person or group of affiliated persons (an "Acquiring Person") acquires 15% or more of the Company's Common Stock or announces a tender offer or exchange offer that would result in the acquisition of 30% or more of the outstanding Common Stock. At that time, the rights may be redeemed at the election of the Board of Directors. If not redeemed, then prior to the acquisition by the Acquiring Person of 50% or more of the outstanding Common Stock of the Company, the Company may exchange the rights (other than rights owned by the Acquiring Person, which would have become void) for Common Stock (or other securities) of the Company on a one-for-one basis. If not exchanged, the rights may be exercised and the holders may acquire one one-hundredth of a share of Preferred Stock of the Company for \$40.00. Each one one-hundredth of a share of Preferred Stock carries the same voting rights as one share of Common Stock. Each right may also be exchanged for shares of the Company's Common Stock having a value of two times the exercise price. If the Acquiring Person engages in a merger or other business combination with the Company, the rights would entitle the holders to acquire shares of the Acquiring Person having a market value equal to twice the exercise price of the rights. The Plan will expire in May 2011. The Plan is intended to protect the interests of the Company's shareholders against certain coercive tactics sometimes employed in takeover attempts.

### ***Information Available on our Web Site***

We make available through our web site, free of charge, our filings with the Securities and Exchange Commission ("SEC") as soon as reasonably practicable after we file them electronically with, or furnish them to, the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents. In addition, corporate governance documents such as our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Whistleblower Policy, Nominating and Corporate Governance Committee Charter, Compensation Committee Charter, and Audit Committee Charter are posted on our web site and are available without charge upon written request. The Company web site link is [www.steaknshake.com](http://www.steaknshake.com) and the link to SEC filings and corporate governance documents is [www.steaknshake.com/investing.html](http://www.steaknshake.com/investing.html). The Company's website and the information contained therein or connected

thereto are not intended to be incorporated into this report on Form 10-K/A.

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**Executive Officers of the Registrant**

The following table sets forth, as of September 29, 2004, the names, ages, and positions held with the Company and its subsidiaries, and the date on which service in such capacities began, of the executive officers of the Company and its subsidiaries:

Name	Age	Position with Company	Since
K e v i n F . Beauchamp	47	Vice President -	
		The Steak n Shake Company	1993
Jeffrey A. Blade	43	Steak n Shake Operations, Inc.	1997
		Senior Vice President, Chief Financial Officer -	
B. Charlene Boog	72	The Steak n Shake Company	2004
		Steak n Shake Operations, Inc.	2004
Roxanne Crosby	51	Associate Vice President -	
		The Steak n Shake Company	1997
Kevin E. Dooley	61	Senior Vice President -	
		The Steak n Shake Company	2003
Peter Dunn <sup>(1)</sup>	49	Steak n Shake Operations, Inc.	2003
		Vice President -	
K e n n e t h L . Faulkner	41	Steak n Shake Operations, Inc.	1993
		President -	
Duane E. Geiger	41	The Steak n Shake Company	2002
		Steak n Shake Operations, Inc.	2002
Alan B. Gilman <sup>(1)</sup>	74	Chief Executive Officer -	
		The Steak n Shake Company	2004
William H. Hart	55	Steak n Shake Operations, Inc.	2004
		Vice President -	
Bradley Manns	35	Steak n Shake Operations, Inc.	2004
		Vice President -	
David C. Milne	37	The Steak n Shake Company	2000
		Steak n Shake Operations, Inc.	2000
K e n n e t h L . Faulkner	41	Chairman -	
		The Steak n Shake Company	2003
Duane E. Geiger	41	Steak n Shake Operations, Inc.	2003
		Vice President -	
Alan B. Gilman <sup>(1)</sup>	74	Steak n Shake Operations, Inc.	1991
		Vice President -	
William H. Hart	55	Steak n Shake Operations, Inc.	1991
		Vice President -	
Bradley Manns	35	Steak n Shake Operations, Inc.	1991
		Vice President -	
David C. Milne	37	The Steak n Shake Company	2004
		Steak n Shake Operations, Inc.	2004
K e n n e t h L . Faulkner	41	General Counsel -	
		The Steak n Shake Company	2003
Duane E. Geiger	41	Steak n Shake Operations, Inc.	2003
		Secretary -	
Alan B. Gilman <sup>(1)</sup>	74	The Steak n Shake Company	2003
		Steak n Shake Operations, Inc.	2003
William H. Hart	55	Secretary -	
		The Steak n Shake Company	2004

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Gary T. Reinwald	56	Steak n Shake Operations, Inc.	2004
		Executive Vice President -	
		The Steak n Shake Company	2004
Gary S. Walker	44	Steak n Shake Operations, Inc.	2004
		Senior Vice President -	
		The Steak n Shake Company	1998
		Steak n Shake Operations, Inc.	1998
Douglas D. Willard	45	Vice President -	
		Steak n Shake Operations, Inc.	2003

(1) Member of the Board of Directors of the Company

Mr. Beauchamp was appointed Vice President, Operations in 1997. Mr. Beauchamp joined the Company as Vice President and Controller in 1993.

Mr. Blade joined the Company as Senior Vice President and Chief Financial Officer in 2004. From 1999 to 2004, Mr. Blade was Vice President of Finance for the U.S. operations of Cott Corporation. Prior thereto, Mr. Blade served in various financial roles for the Kraft Foods Corporation from 1988 to 1999.

Ms. Boog was appointed Associate Vice President in 1997. Prior thereto, she served as Assistant Vice President and Assistant Secretary from 1991 to 1997.

Ms. Crosby joined the Company as Senior Vice President, Human Resources in 2003. From 2002 to 2003, Ms. Crosby was a consultant. Prior thereto, Ms. Crosby worked as Vice President Human Resources for the Borden Foods Corporation from 1995 to 2001.

Mr. Dooley joined Steak n Shake Operations, Inc. as Vice President in 1993 and is responsible for engineering and construction.

Mr. Dunn joined the Company in 2002 as President and Chief Operating Officer, and was subsequently appointed Chief Executive Officer in 2004. From 1993 to 2002, Mr. Dunn was President of Borden Foods Corporation. Prior thereto, he served in several capacities for Kraft General Foods, including General Manager for Claussen Pickle Company and the Marketing Manager for Oscar Mayer.

Mr. Faulkner was appointed Vice President, Operations in 2004. Prior thereto, Mr. Faulkner served as Indiana Division Manager from 1994 to 2004 and served in various operational capacities since 1981.

Mr. Geiger was appointed Vice President Planning and Internal Audit in 2004. Prior thereto, Mr. Geiger was Vice President, Information Systems, Financial Planning and Treasurer and served in other various capacities within the Company since 1993.

Mr. Gilman was elected Chairman during 2003 and has been a Director of the Company since 1992. He served as Chief Executive Officer until 2004 and as President until 2002.

Mr. Hart has been Vice President, Purchasing of Steak n Shake Operations, Inc. since 1991.

Mr. Manns was appointed Vice President, Franchising in 2004. Prior thereto, Mr. Manns has served in various management capacities for the Company in the operations, human resources, and legal functions.

Mr. Milne was promoted to General Counsel in 2003 and Secretary in 2004 after joining the Company in 2000. From 1996 to 2000, Mr. Milne was in private practice with the firm of Scopelitis, Garvin, Light and Hanson.

Mr. Reinwald was appointed Executive Vice President of the Company in 2004. Prior thereto, Mr. Reinwald was Senior Vice President, Operations and National General Manager of Steak n Shake Operations, Inc., and served in various capacities with the Company for more than 40 years.

Mr. Walker joined the Company as Senior Vice President in 1998 and is responsible for operations support, purchasing and distribution. From 1994 to 1998, Mr. Walker was Vice President of Marketing - Home Care Division for DowBrands L.P.

Mr. Willard joined the Company in 2003 as Vice President, Consumer Insight and Innovation. Prior to joining the Company, Mr. Willard served as an independent consultant. From 1992 to 2001, Mr. Willard served in various management capacities with Borden Foods Corporation in the business development and marketing functions.



Officers are elected annually at a meeting of the Board of Directors.

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**ITEM 2. PROPERTIES**

We currently lease 36,715 square feet of executive office space in Indianapolis, Indiana, under a lease expiring June 30, 2013.

**Steak n Shake Operations, Inc.**

As of September 29, 2004, we operated 224 leased and 141 owned restaurants. Restaurant leases for land and building typically are non-cancelable, have an initial term of 18 to 25 years, renewal terms aggregating twenty years or more and require us to pay real estate taxes, insurance and maintenance costs. Of these leases, 175 contain percentage of sales rental clauses in addition to base rent requirements. Restaurants are generally 3,900 square feet and seat approximately 100 customers, while a minimal percentage of restaurants have a similar architectural style but seat 54 to 198 customers and occupy between 1,000 and 6,000 square feet. We have lease obligations on two former restaurant locations which have been subleased to others as of September 29, 2004. These obligations primarily relate to restaurant locations disposed of in the late 1970's, and the sublease rentals cover substantially all of our obligations under the primary leases.

We also have a complex of three buildings located in Bloomington, Illinois, where we own 38,900 square feet of office/warehouse space in two separate buildings, one of which has cold storage facilities, and lease a 26,300 square foot distribution center and division office facility. We also lease division offices in Orlando, Florida; Cincinnati, Ohio; Columbus, Ohio; Detroit, Michigan; Chicago, Illinois; and a division office and administrative facility in Indianapolis, Indiana. In addition, we own a division office facility in St. Louis, Missouri. At September 29, 2004, we owned one restaurant location that had been leased to a third party. In addition, there were 10 restaurants under construction and we owned 7 parcels of land that are being held for future development at September 29, 2004.

**SNS Investment Company**

SNS Investment Company ("SIC"), a wholly owned subsidiary of the Company, assists qualified franchisees with financing by purchasing or leasing land, constructing the restaurant and then leasing or subleasing the land and building to the franchisee. SIC leases the land and building for these properties as the primary lessee. These leases typically have an initial term of 18 years, renewal options aggregating 20 years or more, and require SIC to pay real estate taxes, insurance and maintenance costs. As of September 29, 2004, SIC had six land and building leases for properties located in Louisville and Elizabethtown, Kentucky; Chattanooga, Tennessee; Clarksville, Indiana and Columbia, Missouri which are being operated by franchisees pursuant to sublease agreements. All lease and sublease agreements between SIC and its franchisees specifically include triple net lease provisions whereby the franchisee is responsible for all real estate taxes, insurance and maintenance costs. Additionally, SIC has a ground lease for a property in Bloomington, Indiana, and owns a property in Indianapolis, Indiana, which are subleased and leased, respectively, to third parties.

**Restaurant Lease Expirations**

Restaurant leases are scheduled to expire as follows, assuming the exercise of all renewal options:

Calendar Year	Number of Leases Expiring	
	SNS	SIC
2005 - 2009	5	0
2010 - 2014	2	0
2015 - 2019	5	0

2020 - 2024	13	0
2025 - 2029	14	0
Beyond	185	7
	224	7

**ITEM 3. LEGAL PROCEEDINGS**

There are no legal proceedings against the Company, which, if adversely resolved, would have a material effect upon the Company.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of shareholders during the fourth quarter of the fiscal year covered by this Report.

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**PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Price Range/Stock Trading**

The Common Stock of The Steak n Shake Company is traded on the New York Stock Exchange ("NYSE") under the symbol SNS. Stock price quotations can be found in major daily newspapers and in *The Wall Street Journal*. The high and low closing sales prices for the Company's Common Stock, as reported on the NYSE for each quarter of the Company's past two fiscal years, are shown below:

	2004		2003	
	High	Low	High	Low
First Quarter	<b>\$18.13</b>	<b>\$14.50</b>	\$11.63	\$9.97
Second Quarter	<b>\$21.70</b>	<b>\$17.21</b>	\$10.52	\$8.89
Third Quarter	<b>\$20.38</b>	<b>\$17.04</b>	\$15.25	\$9.60
Fourth Quarter	<b>\$18.51</b>	<b>\$16.38</b>	\$16.04	\$14.05

The Company did not pay cash dividends on its Common Stock during the two fiscal years reflected in the table. As of December 1, 2004, there were 13,500 record holders of the Common Stock.

See Item 12 for "Equity Compensation Plan Information".

**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data for each of the Company's five most recent fiscal years, set forth in the Company's 2004 Annual Report to Shareholders under "Selected Financial and Operating Data (Unaudited)" is incorporated herein by reference.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial conditions and results of operations set forth in the Company's 2004 Annual Report to Shareholders under "Management's Discussion and Analysis" is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's primary market risk exposure with regard to financial instruments is to changes in interest rates. The Company invests excess cash primarily in cash equivalents due to their relative low credit risk. Interest rates on these securities are based upon market rates at the time of purchase and remain fixed until maturity. Pursuant to the terms of the Senior Note Agreement, the Company may from time to time issue notes in increments of at least \$5,000,000. The interest rate on the notes is based upon market rates at the time of the borrowing. Once the interest rate is established at the time of the initial borrowing, the interest rate remains fixed over the term of the underlying note. The Revolving Credit Agreement bears interest at a rate based upon LIBOR plus 75 basis points or the prime rate, at the election of

the Company. Historically, the Company has not used derivative financial instruments to manage exposure to interest rate changes. At September 29, 2004, a hypothetical 100 basis point increase in short-term interest rates would have an immaterial impact on the Company's earnings.

The Company purchases certain food products, which may be affected by volatility in commodity prices due to weather conditions, supply levels, and other market conditions. The Company utilizes various purchasing and contract pricing techniques to minimize volatility, but does not enter into financial derivative contracts.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Company's Consolidated Statements of Earnings, Consolidated Statements of Financial Position, Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders' Equity, Notes to Consolidated Financial Statements and Reports of Independent Registered Public Accounting Firms set forth in the Company's 2004 Annual Report to Shareholders are incorporated herein by reference.

Information on quarterly results of operations, set forth in the Company's 2004 Annual Report to Shareholders under "Quarterly Financial Data (Unaudited)" is incorporated herein by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

As previously reported by the Company in its current report on Form 8-K filed on February 19, 2003, the Audit Committee decided to change the Company's independent registered public accountants and replaced Ernst & Young LLP with Deloitte & Touche LLP. There were no disagreements or reportable events with the Company's auditors during the two-year period ended September 29, 2004.

## **ITEM 9A. CONTROLS AND PROCEDURES**

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(c)) as of September 29, 2004, the Company's Chief Executive Officer and Chief Financial Officer have concluded, after consideration of the restatement described in Note 2 in the consolidated financial statements, that the Company's disclosures controls and procedures are effective in timely alerting the Company's management to material information required to be included in this Form 10-K/A and other Exchange Act filings.

There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 29, 2004 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

The Company has made changes in its internal controls over financial reporting since the date of the original filing. In connection with correcting its lease accounting methodology, the Company has instituted the following procedures:

- Use of a consistent lease period (generally, the initial non-cancelable lease term plus certain option periods where failure to exercise such options would result in an economic penalty) when calculating depreciation of leasehold improvements, in determining straight-line rent expense and classification of its leases as either an operating lease or a capital lease;
- Commencement of the lease term and straight-line rent expense on the date when the Company takes possession and the right to control use of the leased premises;
  - Further review of leases to determine the appropriate treatment for financial reporting.



**PART III.**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information included under the captions "Election of Directors", "Committees and Meetings of the Board of Directors", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Miscellaneous - Code of Business Conduct and Ethics" in the Company's definitive Proxy Statement relating to its 2005 Annual Meeting of Shareholders is incorporated herein by reference. Certain information relating to the Company's executive officers is included in Part I of this Form 10-K under "Executive Officers of the Registrant."

**ITEM 11. EXECUTIVE COMPENSATION**

The information included under the captions "Compensation of Directors", "Compensation of Executive Officers", "Summary Compensation Table", "Options/SAR Grants in Last Fiscal Year", "Aggregated Option Exercises in Fiscal 2004 and Fiscal Year End Option Values", "Long Term Incentive Plans - Awards in Last Fiscal Year", "Report of the Compensation Committee", and "Company Performance" in the Company's definitive Proxy Statement relating to its 2005 Annual Meeting of Shareholders is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information contained under the caption "Ownership of Common Stock" in the Company's definitive Proxy Statement relating to its 2005 Annual Meeting of Shareholders is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information contained under the caption "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement relating to its 2005 Annual Meeting of Shareholders is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information included in Appendix A in the Company's definitive Proxy Statement relating to its 2005 Annual Meeting of Shareholders is incorporated herein by reference.

**PART IV.**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as a part of this report:

1. Financial Statements. The following table sets forth the financial statements filed as a part of this report:

Consolidated Statements of Financial Position at September 29, 2004 and September 24, 2003

For the years ended September 29, 2004, September 24, 2003 and September 25, 2002:

Consolidated Statements of Earnings

Consolidated Statements of Cash Flows

Consolidated Statements of Shareholders' Equity

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

2. Financial Statement Schedules.

All schedules for the years ended September 29, 2004, September 24, 2003 and September 25, 2002 have been omitted for the reason that they are not required, are not applicable, or the required information is set forth in the financial statements or notes thereto.

3. Exhibits. The following exhibits are filed as a part of this Annual Report on Form 10-K/A.

3.01 Amended and Restated Articles of Incorporation of The Steak n Shake Company, filed March 27, 2002. (Incorporated by reference to the Registrant's definitive Proxy Statement dated December 19, 2001, related to the 2002 Annual Meeting of Shareholders).

3.02 Restated Bylaws of The Steak n Shake Company, as amended, dated July 16, 2004. (Incorporated by reference to Exhibit 3.02 to the Registrant's Annual Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).

4.01 Specimen certificate representing Common Stock of The Steak n Shake Company. (Incorporated by reference to Exhibit 4.01 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 11, 2001).

4.02 Amended and Restated Note Purchase and Private Shelf Agreement by and between The Steak n Shake Company and The Prudential Insurance Company of America dated as of September 20, 2002 related to the \$75,000,000 senior note agreement and private shelf facility. (Incorporated by reference to Exhibit 4.02 to the Registrant's Annual Report on Form 10-K for the year ended September 25, 2002).

4.03 Amendment No. 1 to Amended and Restated Note Purchase Agreement by and between The Steak n Shake Company and The Prudential Insurance Company



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of America dated as of December 18, 2002 related to the \$75,000,000 senior note agreement and private shelf facility. (Incorporated by reference to Exhibit 4.03 to the Registrant's Annual Report on Form 10-K for the year ended September 25, 2002).

4.04 Rights Agreement dated as of May 16, 2001 between The Steak n Shake Company and Computershare Investor Services, LLC, as Rights Agent.

(Incorporated by reference to Exhibit 4.01 to the Registrant's current report on Form 8-K filed May 17, 2001).

4.05 Credit Agreement by and between The Steak n Shake Company and Fifth Third Bank, Indiana (Central) dated November 16, 2001, relating to a \$30,000,000 revolving line of credit. (Incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended September 26, 2001).

4.06 First Amendment to Credit Agreement by and Between The Steak n Shake Company and Fifth Third Bank, Indiana (Central) dated October 17, 2002 relating to a \$30,000,000 revolving line of credit. (Incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended September 25, 2002).

4.07 Second Amendment to Credit Agreement by and Between The Steak n Shake Company and Fifth Third Bank, Indiana (Central) dated December 18, 2002 relating to a \$30,000,000 revolving line of credit. (Incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended September 25, 2002).

4.08 Amendment No. 2 dated May 21, 2003 to the Amended and Restated Note Purchase and Private Shelf Agreement dated September 20, 2002. (Incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 9, 2003).

4.09 Third Amendment to Credit Agreement by and between The Steak n Shake Company and Fifth Third Bank, Indiana (Central) dated May 22, 2003 related to a \$30,000,000 revolving line of credit. (Incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 9, 2003).

4.10 Amendment No. 3 dated September 17, 2003 to the Amended and Restated Note Purchase and Private Shelf Agreement dated September 20, 2002. (Incorporated by reference to Exhibit 4.10 to the Registrant's Annual Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).

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- 10.01 Letter from the Registrant to Alan B. Gilman dated June 27, 1992. (Incorporated by reference to Exhibit 19.13  
\* to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 1992).
- 10.02 Retirement Agreement by and between S. Sue Aramian and the Registrant dated August 15, 2001.  
\* (Incorporated by reference to Exhibit 10.05 to the Registrant's Annual Report on Form 10-K for the year ended September 26, 2001).
- 10.03 Consolidated Products, Inc. 1995 Employee Stock Option Plan. (Incorporated by reference to the Appendix to  
\* the Registrant's definitive Proxy Statement dated January 12, 1995 related to the 1995 Annual Meeting of Shareholders).
- 10.04 Consolidated Products, Inc. 1997 Employee Stock Option Plan. (Incorporated by reference to the Appendix to  
\* the Registrant's definitive Proxy Statement dated December 24, 1996 related to the 1997 Annual Meeting of Shareholders).
- 10.05 Amendment No. 1 to The Steak n Shake Company's (formerly Consolidated Products, Inc.) 1997 Employee  
\* Stock Option Plan. (Incorporated by reference to the Appendix to the Registrant's definitive Proxy Statement dated December 19, 2001 related to the 2002 Annual Meeting of Shareholders).
- 10.06 \* Form of option agreement related to 2000 Non-employee Director Stock Option Program and schedule  
relating thereto. (Incorporated by reference to Exhibit 10.22 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 5, 2000).
- 10.07 \* Form of option agreement related to 2002 Non-employee Director Stock Option Program and schedule  
relating thereto. (Incorporated by reference to Exhibit 10.22 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 19, 2001).
- 10.08 The Steak n Shake Company Incentive Bonus Plan approved by the Company's Board of Directors on  
\* February 12, 2003. (Incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 9, 2003).
- 10.09 \* The Steak n Shake Company's 2003 Director Stock Option Plan. (Incorporated by reference to Exhibit 10.12  
to the Registrant's Annual Report on Form 10-K for the year ended September 24, 2003).
- 10.10 \* Letter from Registrant to Peter Dunn dated July 25, 2002. (Incorporated by reference to Exhibit 10.13 to the  
Registrant's Annual Report on Form 10-K for the year ended September 24, 2003).
- 10.11 The Steak n Shake Company Amended and Restated 1997 Capital Appreciation Plan. (Incorporated by  
\* reference to the Appendix to the Registrant's definitive Proxy Statement dated December 19, 2003 related to the 2004 Annual Meeting of Shareholders).
- 10.12 The Steak n Shake Company 2004 Director Stock Option Plan. (Incorporated by reference to the Appendix to  
\* the Registrant's definitive Proxy Statement dated December 19, 2003 related to the 2004 Annual Meeting of Shareholders).
- 10.13 \* Form of The Steak n Shake Company Capital Appreciation Agreement. (Incorporated by reference to  
Exhibit 10.13 to the Registrant's Annual

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Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).

10.14 \* Form of The Steak n Shake Company Stock Option Agreement.(Incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).

13.01 Portions of the Annual Report to Shareholders for the Year Ended September 29, 2004 incorporated by reference into this Form 10-K/A.

14.01 The Steak n Shake Company Conflicts of Interest and Standards of Business Ethics Policy. (Incorporated by reference to Exhibit 14.01 to the Registrant's Annual Report on Form 10-K for the year ended September 24, 2003).

21.01 Subsidiaries of the Registrant.

23.01 Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.

23.02 Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.

31.01 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.02 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.01 Section 1350 Certifications.

\* Indicates management contract or compensatory plans or arrangements required to be filed as an Exhibit.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 20, 2005.

THE STEAK N SHAKE COMPANY

By: /s/ Jeffrey A. Blade

Jeffrey A. Blade  
Senior Vice President and  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on May 20, 2005.

/s/ Jeffrey A. Blade Senior Vice President and Chief Financial Officer  
Jeffrey A. Blade (Principal Financial Officer and Principal  
Accounting Officer)

/s/ Peter M. Dunn Chief Executive Officer and Director  
Peter M. Dunn (Principal Executive Officer)

/s/ Alan B. Gilman Chairman and Director  
Alan B. Gilman

/s/ Wayne L. Kelley Director  
Wayne L. Kelley

/s/ Charles E. Lanham Director  
Charles E. Lanham

/s/ Ruth J. Person Director  
Ruth J. Person

/s/ J. Fred Risk Director  
J. Fred Risk

/s/ Dr. John W. Ryan Director  
Dr. John W. Ryan

/s/ Stephen M. Schmidt Director  
Stephen Schmidt

/s/ James Williamson, Jr. Director  
James Williamson, Jr.

**THE STEAK N SHAKE COMPANY AND SUBIDIARIES**

Index to Exhibits

Number Description

(3) 3.01 Amended and Restated Articles of Incorporation of The Steak n Shake Company, filed March 27, 2002. (Incorporated by reference to the Registrant's definitive Proxy Statement dated December 19, 2001 related to the 2002 Annual Meeting of Shareholders).

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(4) 4.01 Specimen certificate representing Common Stock of The Steak n Shake Company (formerly Consolidated Products, Inc.). (Incorporated by reference to Exhibit 4.01 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 11, 2001).

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2002. (Incorporated by reference to Exhibit 4.10 to the Registrant's Annual Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).

(9) No exhibit.

(10) 10.01\*Letter from the Registrant to Alan B. Gilman dated June 27, 1992. (Incorporated by reference to Exhibit 19.13 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 1992).

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Proxy Statement dated December 19, 2003 related to the 2004 Annual Meeting of Shareholders).

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Report on Form 10-K for the year ended September 29, 2004 filed on December 16, 2004).



(11) No exhibit.

(12) No exhibit.

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(18) No exhibit.

(21) 21.01 Subsidiaries of the Registrant.

(22) No exhibit.

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23.02 Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.

(24) No exhibit.

(27) No exhibit.

(31) 31.01 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Executive Officer.

32.02 Rule 13(a)-14(a)/15d-14(a) Certification of Chief Financial Officer.

(32) 32.01 Section 1350 Certifications.

\* Indicates management contracts or compensatory plans or arrangements required to be filed as an Exhibit.



**EXHIBIT 13.01 - Annual Report to Shareholders for the Year Ended September 29, 2004****SELECTED FINANCIAL AND OPERATING DATA, AS RESTATED  
(UNAUDITED)**

The Steak n Shake Company

(All dollar amounts in thousands, except per share data)

	2004 <sup>(1)</sup>	2003 <sup>(1)</sup>	2002 <sup>(1)</sup>	2001 <sup>(1)</sup>	2000 <sup>(1)</sup>
Statement of					
Earnings Data :					
Revenues	\$ 553,692	\$ 499,104	\$ 459,014	\$ 445,191	\$ 406,047
Earnings from		(2)			
continuing					
operations	27,591	20,861	22,992	20,718	21,423
Discontinued					(3)
operations	—	—	—	—	(3,715)
Net earnings	\$ 27,591	\$ 20,861	\$ 22,992	\$ 20,718	\$ 17,708
Per Share Data:					
Basic Earnings Per					
Common Share:					
Continuing					
operations	\$ 1.01	\$ .77	\$ .83	\$ .72	\$ .73
Discontinued					(3)
operations	—	—	—	—	(.13)
Basic earnings per	\$ 1.01	\$ .77	\$ .83	\$ .72	\$ .60
share					
Diluted Earnings					
Per Common and					
Common					
Equivalent Share:					
Continuing					
operations	\$ 1.00	\$ .77	\$ .82	\$ .72	\$ .73
Discontinued					(3)
operations	—	—	—	—	(.13)
Diluted earnings	\$ 1.00	\$ .77	\$ .82	\$ .72	\$ .60
per share					
Basic Weighted					
Average Shares (in					
thousands)					
	27,385	27,010	27,814	28,707	29,263
Diluted Weighted					
Average					
Shares and Share					
Equivalents (in					
thousands)					
	27,711	27,110	27,986	28,716	29,339

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Statement of  
Financial Position

Data:

Total assets	<b>\$ 435,853</b>	\$ 417,174	\$ 398,582	\$ 374,250	\$ 349,358
Long-term debt:					
Obligations under leases	<b>144,647</b>	147,957	151,502	139,014	116,654
Revolving line of credit		—	—	—	12,695
Senior notes	<b>9,429</b>	16,203	24,419	28,379	25,522
Shareholders' equity	<b>\$ 218,932</b>	\$ 187,903	\$ 166,421	\$ 161,467	\$ 148,857

**SELECTED FINANCIAL AND OPERATING DATA, AS RESTATED  
(UNAUDITED)**

The Steak n Shake Company

	2004	2003	2002	2001	2000
Other Data: <sup>(4)</sup>					
Number of Restaurants:					
Company-owned	<b>365</b>	356	348	332	313
Franchised	<b>60</b>	57	56	56	54
	<b>425</b>	413	404	388	367
Number of Employees	<b>20,000</b>	20,000	20,000	19,000	18,000
Number of Shareholders	<b>13,500</b>	13,500	12,500	11,500	12,000

- (1) Amounts for all fiscal years have been restated from amounts previously reported to reflect the effects of the restatement discussed in Note 2 to the Consolidated Financial Statements.
- (2) In 2003, the Company recorded a charge of \$5,200 (\$3,360 net of income taxes or \$.13 per diluted share) related to the disposal of nine under-performing restaurants.
- (3) In 2000, the Company recorded a charge for the loss on disposal of discontinued operations of the Specialty Restaurant segment of \$3,715 (\$2,400 net of income taxes or \$.08 per diluted share).
- (4) Data presented is not required by generally accepted accounting principles but provides an important measure of Company performance.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Steak n Shake Company

*(Years ended September 29, 2004, September 24, 2003 and September 25, 2002)*

(Amounts in \$000s, except per share data)

In the following discussion, the term "same store sales" refers to the sales of only those units open eighteen months as of the beginning of the current fiscal period being discussed and which remained open through the end of the fiscal period.

For an understanding of the significant factors that influenced the performance of the Company during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements and related notes found elsewhere in this Annual Report.

### Overview

The Company recently reviewed its lease accounting and determined it was appropriate to restate its consolidated financial statements for the fiscal years 2002 through 2004 and for the first quarter of fiscal 2005. See Note 2 to the accompanying consolidated financial statements for more information. The following management's discussion and analysis gives effect to such restatements.

The Steak n Shake Company reported higher revenues, net income and diluted earnings per share in the year ended September 29, 2004 as compared to the prior year. The Company's revenues increased by 10.9% to \$553,692 compared to \$499,104 for the same period last year. Net earnings increased 32.3% to \$27,591 from \$20,861 in the prior year, while diluted earnings per share increased to \$1.00 from \$0.77 (prior year period included a \$3,400 charge, net of tax, or \$.13 per diluted share, for closing nine underperforming restaurants).

The key to the Company's revenue growth was a 7.7% increase in same store sales (excluding the impact of an additional week in fiscal 2004). The same store sales growth is primarily attributable to increasing guest counts by 3.9% and a higher average check of 3.8%, which was aided by a 2.9% menu price increase. These sales gains helped offset higher food costs in beef, poultry, and dairy products.

Management continues to focus on five key operating strategies that are linked in a "virtuous cycle" which include: developing effective field leaders; improving associate satisfaction and training; growing guest counts; improving margins; and expanding the brand. Management believes that these efforts are the key factors driving seven consecutive quarters of positive same store sales. For fiscal year 2005, the Company anticipates opening 18-24 new Company-owned restaurants and diluted earnings per share in the range of \$1.08 - \$1.11.

The Company has a 52/53 week fiscal year ending on the last Wednesday in September. Fiscal year 2004, which ended on September 29, 2004, contained 53 weeks while fiscal years 2003 and 2002, which ended on September 24, 2003 and September 25, 2002, respectively, each contained 52 weeks.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use its judgment to make estimates and assumptions that can have a material impact on the results of operations and reported amounts of assets and liabilities. The Company evaluates its assumptions and estimates on an ongoing basis based on historical experience and various other factors that are believed to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes that, of its significant accounting policies, the following policies involve a higher degree of risk, judgment and/or complexity.

*Property and Equipment*

Property and equipment are recorded at cost with depreciation and amortization being recognized on the straight-line method over the estimated useful lives of the assets (15 to 25 years for building and land improvements, 3 to 10 years for equipment, and the shorter of the estimated useful life or the lease term for leasehold improvements). The Company reviews its restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. The Company tests for impairment by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total estimated future cash flows are less than the carrying amount of the asset, the carrying amount is written down to the estimated fair value, and a loss is recognized in earnings. Because depreciation and amortization expense is based upon useful lives of assets and the net salvage value at the end of their lives, significant judgment is required in estimating this expense. Additionally, the future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, fair market value if the asset were to be sold, and other financial and economic assumptions. Accordingly, management believes that accounting estimates related to property and equipment are critical.

*Insurance Reserves*

The Company self-insures a significant portion of expected losses under its workers' compensation, general liability, and auto liability insurance programs. The Company purchases reinsurance for individual and aggregate claims that exceed predetermined limits. The Company records a liability for all unresolved claims and its estimate of incurred but not reported ("IBNR") claims at the anticipated cost to the Company. The liability estimate is based on information received from insurance companies, combined with management's judgments regarding frequency and severity of claims, claims development history, and settlement practices. Significant judgment is required to estimate IBNR claims as parties have yet to assert a claim and therefore the degree to which injuries have been incurred, and the related costs, have not yet been determined. Additionally, estimates about future costs involve significant judgment regarding legislation, case jurisdictions and other matters. Accordingly, management believes that estimates related to self-insurance reserves are critical. The Company's reserve for self-insured liabilities at September 29, 2004 and September 24, 2003 was \$4,298 and \$3,519, respectively. If the Company were to change its assumptions used in estimating the reserve by 10%, the impact on net earnings would be approximately \$724 of additional expense.

*Income Taxes*

The Company records deferred tax assets or liabilities based on differences between financial reporting and tax bases of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. Management records deferred tax assets to the extent it believes there will be sufficient future taxable income to utilize those assets prior to their expiration. To the extent deferred tax assets would be unable to be utilized, management would record a valuation allowance against the unrealizable amount, and record that amount as a charge against earnings. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future. Management must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded. Accordingly, management believes estimates related to income taxes are critical. Based on 2004 results, a change of 1% in the annual effective tax rate would have an impact of \$425 on net earnings.

**Results of Operations**

In the following table is set forth the percentage relationship to total revenues, unless otherwise noted, of items included in the Company's consolidated statements of earnings for the periods indicated:

	2004	2003	2002
Revenues			
Net sales	99.2%	99.2%	99.2%
Franchise fees	.8	.8	.8
	100.0	100.0	100.0
Costs and Expenses			
Cost of sales	23.6 <sup>(1)</sup>	22.9 <sup>(1)</sup>	23.1 <sup>(1)</sup>
Restaurant operating costs	49.2 <sup>(1)</sup>	49.6 <sup>(1)</sup>	48.8 <sup>(1)</sup>
General and administrative	7.7	7.6	7.5
Depreciation and amortization	4.5	4.9	5.1
Marketing	4.2	3.8	3.5
Interest	2.4	2.7	3.1
Rent	1.6	1.6	1.6
Provision for restaurant closings	(.1)	1.0	—
Pre-opening costs	.4	.4	.5
Other income, net	(.4)	(.4)	(.4)
Earnings Before Income Taxes	7.7	6.5	7.8
Income Taxes	2.7	2.3	2.8
Net Earnings	5.0%	4.2%	5.0%

(1) Cost of sales and restaurant operating costs are expressed as a percentage of net sales.

(Amounts in \$000s)

**Year Ended September 29, 2004 to Year Ended September 24, 2003***Revenues*

Net sales increased \$53,853 (10.9%) to \$549,130, due to a 7.7% increase in same store sales and an additional week in the current year which netted \$9,500 in incremental sales. The increase in same store sales is due to increased customer counts of 3.9% and increased check average of 3.8%. The increase in same store sales is attributed to increased television advertising spending in select markets as well as gains from new menu items such as the Side-by-Side Milk Shakes. The increase in check average resulted primarily from a 2.9% weighted average menu price increase compared to the prior year. The Company had 365 Company-owned Steak n Shake restaurants operating at September 29, 2004, compared to 356 at September 24, 2003.

*Costs and Expenses*

Cost of sales increased \$15,962 (14.1%) to \$129,458 due to the increase in net sales and higher food commodity prices. As a percentage of net sales, cost of sales increased from 22.9% to 23.6%. The increase as a percentage of net sales is attributable to increased commodity prices for beef, dairy products, and chicken compared to the prior year.



Restaurant operating costs increased \$24,533 (10.0%) to \$270,057 due to increased sales and the opening of 16 new Company-owned restaurants. As a percentage of net sales, restaurant operating costs decreased to 49.2%, compared to 49.6% for the prior year. The decrease as a percentage of net sales is primarily attributed to improved labor utilization and higher sales volumes, compared to the prior year.

General and administrative expenses increased \$4,455 (11.8%) to \$42,364, and as a percentage of revenue increased from 7.6% to 7.7%. The overall increase in general and administrative expenses reflected increased investments of \$1,600 in consumer research, new product development and guest satisfaction, combined with an additional \$900 in legal and professional fees. Also impacting the increase was a \$700 non-recurring gain on sale of property in 2003.

Depreciation and amortization expense increased \$540 (2.2%) to \$24,858. The increase is primarily due to the opening of 16 Company-owned restaurants in the current year.

Marketing expense increased \$4,250 (22.5%) to \$23,106, principally as a result of adding 16 new television markets in the current year. Over 90% of our restaurants are now supported by television advertising.

Interest expense decreased \$571 (4.2%) to \$13,079 due to a decline in weighted average borrowings outstanding from principal repayments on long-term debt and capital lease obligations of \$11,876 during the year.

Rent expense increased \$604 (7.5%) to \$8,626 as a result of increased percentage rents over the prior year due to increased net sales.

The Company recorded a reduction in its provision for restaurant closings of \$394 during the current year as proceeds from the disposal of restaurants exceeded previous estimates.

Pre-opening costs increased \$209 (11.1%) to \$2,098 as the Company opened 16 Company-owned restaurants in the current year compared to 13 new openings in the prior year.

Other income, net decreased \$66 (3.2%) to \$1,998 due to reduced interest income from lower cash and investment balances than the prior year.

#### *Income Taxes*

The Company's effective income tax rate decreased from 35.4% in the prior year to 35.0% in the current year. The change in the effective rate is primarily due to increased WOTC and FICA tax credits and lower state income taxes.

**Year Ended September 24, 2003 to Year Ended September 25, 2002**

*Revenues*

Net sales increased \$39,918 (8.8%) to \$495,277, due to a 4.9% increase in same-store sales, coupled with the opening of thirteen new Company-owned restaurants. The strong sales growth is mainly attributable to system-wide acceptance of credit cards in the first quarter, increased television and promotional marketing throughout the year, and the introduction of three new shake flavors in the third quarter. These efforts had the effect of increasing customer counts by 2.8% and check average by 2.0%. The increased check average was also partially caused by a 1.3% weighted-average menu price increase. The Company had 356 Company-owned Steak n Shake restaurants operating at September 24, 2003, compared to 348 at September 25, 2002.

*Costs and Expenses*

Cost of sales increased \$8,171 (7.8%) to \$113,496 primarily due to the increase in net sales. As a percentage of net sales, cost of sales decreased to 22.9% from 23.1% based on menu price increases and decreases in dairy product costs compared to 2002.

Restaurant operating costs increased \$23,090 (10.4%) to \$245,524 due to increased sales and opening of new restaurants. As a percentage of net sales, restaurant operating costs increased to 49.6% from 48.8% as credit card processing fees were incurred in 2003, but not in 2002. Additionally, market conditions caused the Company's property taxes and insurance premiums to increase 16.3%.

General and administrative expenses increased \$3,694 (10.8%) to \$37,909 in 2003, and as a percentage of revenue increased to 7.6% in 2003 from 7.5% in 2002. This increase in general and administrative expenses is attributable to increased staffing and training to support new and growing markets, and incremental investments in consumer research, mystery shopping, and training.

Depreciation and amortization expense increased \$1,075 (4.6%) to \$24,318 primarily from property and equipment additions due to opening thirteen new Company-owned restaurants in 2003.

Marketing expense increased \$2,794 (17.4%) to \$18,856, and as a percentage of revenue increased to 3.8% from 3.5% in 2002. This increase is primarily attributable to additional television marketing in several key Midwestern and Southeastern markets, combined with increased promotional marketing.

Interest expense decreased \$690 (4.8%) to \$13,650 due to principal repayments on long-term debt and capital leases of \$7,214 during 2003.

Rent expense increased \$881 (12.3%) to \$8,022 as increased sales resulted in higher percentage rent payments.

The provision for restaurant closings of \$5,200 relates to the decision to dispose of nine under-performing units in 2003.

Pre-opening costs in 2003 were \$323 less than 2002 as thirteen Company-owned restaurants were opened in 2003, compared to sixteen new restaurants in 2002.

Other income, net increased \$211 (11.4%) over 2002 to \$2,064 primarily due to increased interest income on higher average investment balances in 2003.

*Income Taxes*

The Company's effective tax rate decreased to 35.4% in 2003 from 35.9% in 2002 primarily due to lower state income taxes.

### **Restaurant Closings**

During 2003, the Company identified nine under-performing restaurants for disposal and recorded a charge of \$5,200 (\$3,360 net of income taxes, or \$.13 per diluted share). Included in the charge was a write-down of related property and equipment to its estimated fair value, lease termination costs, and closing costs. During 2004, the Company recorded a reduction in this provision of \$394 as proceeds from disposal of restaurants exceeded previous estimates. The Company is currently seeking buyers for the remaining four properties, and anticipates completing the disposal of the properties within the next six to nine months. The Company does not anticipate any significant additional future payments related to the store closings, other than the amounts accrued.

### **Effects of Governmental Regulations and Inflation**

Most Steak n Shake employees are paid hourly rates related to federal and state minimum wage laws. Any increase in the legal minimum wage would directly increase our operating costs. We are also subject to various federal, state and local laws related to zoning, land use, safety standards, working conditions, and accessibility standards. Any changes in these laws that require improvements to our restaurants would increase our operating costs. In addition, we are subject to franchise registration requirements and certain related federal and state laws regarding franchise operations. Any changes in these laws could affect our ability to attract and retain franchisees.

Inflation in food, labor, fringe benefits and other operating costs directly affect our operations. Our results of operations have not been significantly affected by inflation during the last three fiscal years.

### **Liquidity and Capital Resources**

The Company generated \$47,529 in cash flows from operations during 2004, primarily due to \$27,591 in net earnings and depreciation and amortization charges of \$24,858. Increases in receivables, inventories and other assets, due to an increased restaurant base, offset \$5,079 of the net income and depreciation and amortization amounts. Cash flows from operations in 2003 were primarily due to \$20,861 in net earnings, depreciation and amortization charges of \$24,318, and a non-cash charge for restaurant closings of \$5,200. Modest increases in receivables, inventories and other assets were offset by similar increases in accounts payable and accrued liabilities, most of which is attributable to the increase in Company-owned restaurants over 2002 and timing of vendor and tax payments.

Net cash used in investing activities of \$38,016 during 2004 resulted from capital expenditures of \$46,278, offset by proceeds from the sale of long-term investments of \$5,095 and proceeds from disposals of \$2,684. The capital expenditures included the cost of sixteen new and two remodeled restaurants. Net cash used in investing activities in 2003 totaled \$24,413. Capital expenditures of \$30,707 resulted primarily from the opening of thirteen new, three rebuilt, and two relocated restaurants offset by proceeds from long-term investments of \$5,000 and proceeds from disposals of \$1,632. The Company expects to open eighteen to twenty-four Company-owned Steak n Shake restaurants during 2005 at an average cost of approximately \$2,000, which includes the land, site improvements, building, and equipment. Additionally, the Company plans to rebuild or replace several existing restaurants. The new store openings will allow the Company to continue its expansion in newer markets such as Texas, while also further penetrating existing markets in the Midwest and Florida. This level of expansion will allow the Company to grow the business in a controlled manner while still focusing on improving each and every guest experience. The Company intends to fund future capital expenditures and meet its working capital needs by using existing cash and investments and anticipated cash flows from operations in addition to its borrowing facilities.

On November 5, 2004, the Company entered into an agreement to purchase Kelley Restaurants, Inc. for approximately \$17,500. Kelley Restaurants, Inc. operates 16 Steak n Shake restaurants in the Atlanta, Georgia and Charlotte, North Carolina markets. The transaction is anticipated to close at the end of December 2004, and will be funded by existing cash and investments.

As of September 29, 2004, the Company had outstanding borrowings of \$16,204 under its Senior Note Agreement and Private Shelf Facility ("Senior Note Agreement") and \$75,000 of additional borrowing capacity available.

Borrowings under the Senior Note Agreement bear interest at an average fixed rate of 7.6%. At September 24, 2003 the Company had outstanding borrowings of \$24,418.

The Company also maintains a \$30,000 Revolving Credit Agreement ("Revolving Credit Agreement") that bears interest based on LIBOR plus 75 basis points, or the prime rate, at the election of the Company, and matures in January 2005. The Company is currently negotiating with several banks to obtain a new revolving line of credit with similar provisions, and anticipates completing the negotiations prior to the expiration of the existing facility in January 2005. There were no borrowings under the Revolving Credit Agreement at September 29, 2004 and September 24, 2003, but the Company had \$3,022 in standby letters of credit outstanding at September 29, 2004. The Company's debt agreements contain restrictions, which, among other things, require the Company to maintain certain financial ratios. During 2004 and 2003, the Company was in compliance with the covenants, and anticipates compliance in future periods based on anticipated earnings and debt repayments terms.

## Contractual Obligations

The Company's significant contractual obligations and commitments as of September 29, 2004 are shown in the following table.

Contractual Obligations	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Long-term debt <sup>(1)</sup>	\$ 7,967	\$ 7,345	\$ 2,761	\$ 773	\$ 18,846
Capital leases and finance obligations <sup>(1)</sup>	16,142	31,612	31,144	114,226	193,124
Operating leases	6,899	13,588	12,568	31,656	64,711
Purchase commitments <sup>(2)</sup>	3,289	-	-	-	3,289
<b>Total</b>	<b>\$ 34,297</b>	<b>\$ 52,545</b>	<b>\$ 46,473</b>	<b>\$ 146,655</b>	<b>\$ 279,970</b>

(1) Payments include principal and interest.

(2) Primarily represents cost of sales components in which minimum volume is defined in contract terms.

## Risks Associated with Forward-Looking Statements

Certain statements in this report and in other reports and proxy statements the Company files with the SEC contain forward-looking information. In general, forward-looking statements include estimates of future revenues, cash flows, capital expenditures, or other financial items, and assumptions underlying any of the foregoing. Forward-looking statements reflect management's current expectations regarding future events and use words such as "anticipate", "believe", "expect", "may", "will", and other similar terminology. These statements speak only as of the date they are made and involve a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Several factors, many beyond our control, could cause actual results to differ materially from our expectations. Some of these factors are as follows:

- Our ability to attract and retain guests to our restaurants is dependent upon our ability to execute our operating initiatives effectively. If we do not deliver an enjoyable dining experience to our guests they may not return to our restaurants, and our results may be negatively affected.
- Changes in economic conditions may impact our guests' discretionary spending. If guests choose not to spend money on dining at our restaurants, our results may be negatively affected.
- Our unique advertising and marketing programs are an essential part of our plan to attract and retain guests. If these programs do not continue to be as effective at attracting guests in the future as they have been in the past, our results may be negatively affected.
- Many of our restaurants are located in the Midwest and Southeast portions of the United States. During the first and second fiscal quarters, many restaurants may face harsh winter weather conditions in the Midwest. During the first and fourth fiscal quarters, many restaurants in

the Southeast may face harsh weather associated with hurricanes or tropical storms. These harsh weather conditions may make it more difficult for guests to visit our restaurants, or may necessitate the closure of our restaurants for a period of time. If guests are unable to visit our restaurants, our sales and operating results may be negatively affected.

- Our associates are essential to the operation of our restaurants and our ability to deliver an enjoyable dining experience to our guests. If we are unable to attract and retain enough qualified restaurant personnel at a reasonable cost, and if they do not deliver an enjoyable dining experience, our results may be negatively affected.
- Our menu offerings include STEAKBURGER<sup>®</sup> sandwiches, chicken sandwiches, french fries, and hand-dipped Milk Shakes. If consumer tastes change and we are unable to meet these changes in demand, our results may be negatively affected.
- Our menu offerings include beef, poultry, and dairy products. If concerns or negative publicity arise surrounding food safety or food-borne illnesses, consumer behavior may change related to our products, and our sales and operating results may be negatively affected.
- A significant component of our costs is related to food commodities. If there is a substantial increase in food commodity prices, and we are unable to offset those increases with changes in our menu prices, our results may be negatively affected.
- Our expansion plans are based on identifying opportunities for new restaurants in new and existing markets. Our plans also involve identifying new franchisees and expanding relationships with current franchisees. If the Company and its franchisees are unable to locate suitable sites for new restaurants, negotiate acceptable lease or purchase terms, and meet construction schedules, our expansion plans may be negatively affected.
- Many of our associates are paid wages that relate to federal and state minimum wage rates. Any increases in minimum wage rates may significantly increase our restaurant operating costs.
- Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, and the American Institute of Certified Public Accountants may affect our reported financial results.

The foregoing list of important factors is not intended to be all-inclusive as other general market, industry, economic, and political factors, terrorist acts, weather and other acts of God may also impact our operations. Readers are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this report, as we assume no obligation to update forward-looking statements.



## FINANCIAL STATEMENTS AND SCHEDULES

**Consolidated Statements of Earnings**

The Steak n Shake Company

*(Years ended September 29, 2004, September 24, 2003 and September 25, 2002)*

(Amounts in \$000s except share and per share data)

	<b>2004</b> <b>(53 Weeks)</b> <b>(as restated,</b> <b>see note 2)</b>	2003 (52 weeks) (as restated, see note 2)	2002 (52 weeks) (as restated, see note 2)
<b>Revenues:</b>			
Net sales	\$ 549,130	\$ 495,277	\$ 455,359
Franchise fees	4,562	3,827	3,655
Total revenues	<b>553,692</b>	499,104	459,014
<b>Costs and Expenses:</b>			
Cost of sales	<b>129,458</b>	113,496	105,325
Restaurant operating costs	<b>270,057</b>	245,524	222,434
General and administrative	<b>42,364</b>	37,909	34,215
Depreciation and amortization	<b>24,858</b>	24,318	23,243
Marketing	<b>23,106</b>	18,856	16,062
Interest	<b>13,079</b>	13,650	14,340
Rent	<b>8,626</b>	8,022	7,141
Provision for restaurant closings	<b>(394)</b>	5,200	—
Pre-opening costs	<b>2,098</b>	1,889	2,212
Other income, net	<b>(1,998)</b>	(2,064)	(1,853)
Total costs and expenses	<b>511,254</b>	466,800	423,119
Earnings Before Income Taxes	<b>42,438</b>	32,304	35,895
Income Taxes	<b>14,847</b>	11,443	12,903
Net Earnings	<b>\$ 27,591</b>	\$ 20,861	\$ 22,992
<b>Basic Earnings Per Common and</b>			
Common Equivalent Share	<b>\$ 1.01</b>	\$ .77	\$ .83
<b>Diluted Earnings Per Common and</b>			
Common Equivalent Share	<b>\$ 1.00</b>	\$ .77	\$ .82
<b>Weighted Average Shares and Equivalents:</b>			
Basic	<b>27,385,447</b>	27,010,024	27,814,482
Diluted	<b>27,710,643</b>	27,110,065	27,985,911

*See accompanying notes.*





**Consolidated Statements of Financial Position**

The Steak n Shake Company

*(September 29, 2004 and September 24, 2003)*

(Amounts in \$000s except share and per share data)

	<b>2004</b> (as restated, see note 2)	2003 (as restated, see note 2)
Assets:		
Current Assets Cash, including cash equivalents of \$23,590 in 2004 and \$22,975 in 2003	\$ 25,150	\$ 24,795
Short-term investments	466	949
Receivables, net	4,123	3,471
Inventories	6,204	5,757
Deferred income taxes	2,755	2,470
Assets held for sale	1,756	-
Other current assets	4,946	1,814
Total current assets	45,400	39,256
Property and Equipment		
Land	144,818	134,779
Buildings	148,802	141,100
Land and leasehold improvements	95,234	91,793
Equipment	153,409	142,195
Construction in progress	11,048	8,274
	553,311	518,141
Less accumulated depreciation and amortization	(168,053)	(151,003)
Net property and equipment	385,258	367,138
Other Assets	5,195	10,780
Total assets	\$ 435,853	\$ 417,174
Liabilities and Shareholders' Equity:		
Current Liabilities		
Accounts payable	\$ 18,563	\$ 17,461
Accrued expenses	29,379	32,286
Current portion of senior note	6,775	8,215
Current portion of obligations under leases	3,887	3,540
Total current liabilities	58,604	61,502
Deferred Income Taxes	2,969	2,492
Other Long-term Liabilities	1,272	1,117
Obligations Under Leases	144,647	147,957
Senior Note	9,429	16,203
Commitments and Contingencies		
Shareholders' Equity:		
Common stock — \$.50 stated value, 50,000,000 shares		

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authorized — shares issued: 30,332,839 in 2004		
and 2003	<b>15,166</b>	15,166
Additional paid-in capital	<b>123,787</b>	123,180
Retained earnings	<b>114,993</b>	87,402
Less: Unamortized value of restricted shares	<b>(1,393)</b>	(195)
Treasury stock — at cost: 2,846,560 shares in 2004;		
3,264,165 shares in 2003	<b>(33,621)</b>	(37,650)
Total shareholders' equity	<b>218,932</b>	187,903
Total liabilities and shareholders' equity	<b>\$ 435,853</b>	\$ 417,174

*See accompanying notes.*

**Consolidated Statements of Cash Flows**

The Steak n Shake Company

*(Years ended September 29, 2004, September 24, 2003 and September 25, 2002)*

(Amounts in \$000s)

	<b>2004</b>	2003	2002
	<b>(53 Weeks)</b>	(52 Weeks)	(52 Weeks)
	<b>(as restated, see note 2)</b>	(as restated, see note 2)	(as restated, see note 2)
<b>Operating Activities:</b>			
Net earnings	\$ 27,591	\$ 20,861	\$ 22,992
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	24,858	24,318	23,243
Provision for deferred income taxes	192	(1,934)	(1,349)
Provision for restaurant closings	(394)	5,200	—
(Gain) loss on disposal of property	732	(457)	289
Changes in receivables and inventories	(1,099)	(1,067)	2,116
Changes in other assets	(3,980)	(2,443)	(1,501)
Changes in accounts payable and accrued expenses	(371)	6,351	9,341
Net cash provided by operating activities	47,529	50,829	55,131
<b>Investing Activities:</b>			
Additions of property and equipment	(46,278)	(30,707)	(41,351)
Proceeds from property and equipment disposals	2,684	1,632	2,352
Proceeds from sale of short-term investments	1,104	171	9,270
Purchase of short-term investments	(621)	(509)	(6,380)
Purchase of long-term investments	—	—	(10,000)
Proceeds from long-term investments called or sold	5,095	5,000	—
Net cash used in investing activities	(38,016)	(24,413)	(46,109)

Financing Activities:			
Principal payments on long-term debt	(8,215)	(3,960)	(3,960)
Proceeds from equipment and property leases	600	—	13,511
Principal payments on lease obligations	(3,661)	(3,380)	(3,474)
Proceeds from exercise of stock options	851	167	125
Stock repurchases	—	(989)	(19,702)
Proceeds from employee stock purchase plan	1,267	1,255	1,049
Net cash used in financing activities	(9,158)	(6,907)	(12,451)
Increase (Decrease) in Cash and Cash Equivalents			
	355	19,509	(3,429)
Cash and Cash Equivalents at Beginning of Year			
	24,795	5,286	8,715
Cash and Cash Equivalents at End of Year			
	\$ 25,150	\$ 24,795	\$ 5,286
<i>See accompanying notes.</i>			

**Consolidated Statements of Shareholders' Equity**

The Steak n Shake Company

*(Years ended September 29, 2004, September 24, 2003 and September 25, 2002)*

(Amounts in \$000s except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unamortized Value of Restricted Shares	Treasury Shares	Stock Amount
Balance at September 26, 2001 (as previously reported)	\$ 15,075	\$ 122,522	\$ 44,087	\$ (927)	1,982,201	\$ (18,752)
Prior period adjustment			(537)			
Balance at September 26, 2001 (as restated, see note 2)	\$ 15,075	\$ 122,522	\$ 43,550	\$ (927)	1,982,201	\$ (18,752)
Net earnings (as restated, see note 2)			22,992			
Shares exchanged to exercise stock options					136,556	(1,863)
Shares reissued to exercise stock options					(229,480)	1,988
Shares repurchased under Stock Buyback Program					1,488,329	(19,702)
Shares granted under Capital Appreciation Plan				(32)	(3,000)	32
Changes in unamortized value of shares granted under Capital Appreciation Plan				635		
Tax effect relating to stock options		(147)				
Shares issued for Employee Stock	91	959				

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Purchase Plan						
Balance at September 25, 2002 (as restated, see note 2)	15,166	123,334	66,542	(324)	3,374,606	(38,297)
Net earnings (as restated, see note 2)			20,861			
Shares exchanged to exercise stock options					126,577	(1,787)
Shares reissued to exercise stock options					(168,214)	1,954
Shares repurchased under Stock Buyback Program					98,800	(989)
Shares granted under Capital Appreciation Plan				(214)	(20,000)	214
Changes in unamortized value of shares granted under Capital Appreciation Plan				343		
Tax effect relating to stock options		(154)				
Shares issued for Employee Stock Purchase Plan					(147,604)	1,255
Other			(1)			
Balance at September 24, 2003 (as restated, see note 2)	15,166	123,180	87,402	(195)	3,264,165	(37,650)
Net earnings (as restated, see note 2)			27,591			
Shares exchanged to exercise stock options					173,449	(3,198)
Shares reissued to exercise stock options					(321,267)	4,050
Shares granted under Capital Appreciation Plan				(2,104)	(136,000)	2,104
				194	13,000	(194)

Shares forfeited under Capital Appreciation Plan						
Changes in unamortized value of shares granted under Capital Appreciation Plan				712		
Tax effect relating to stock options	607					
Shares issued for Employee Stock Purchase Plan				(146,787)	1,267	
Balance at September 29, 2004 (as restated, see note 2)	\$ 15,166	\$ 123,787	\$ 114,993	\$ (1,393)	2,846,560	\$ (33,621)

*See accompanying notes.*



## **Notes to Consolidated Financial Statements**

The Steak n Shake Company

(Years ended September 29, 2004, September 24, 2003 and September 25, 2002)

(Amounts in \$000s except share and per share data)

### **1. Summary of Significant Accounting Policies**

#### ***Description of Business***

The Steak n Shake Company's (the "Company") principal business is the operation, development and franchising of full service, casual dining restaurants. As of September 29, 2004, the Company operated 425 Steak n Shake restaurants, including 60 franchised restaurants, through its wholly owned subsidiary Steak n Shake Operations, Inc. The Company's business, operating and franchising Steak n Shake restaurants, constitutes a single segment pursuant to the provisions of Statement of Financial Accounting Standards No. 131, *Disclosure About Segments of an Enterprise and Related Information*.

#### ***Fiscal Year***

The Company's fiscal year ends on the last Wednesday in September. Fiscal year 2004 contains 53 weeks, while fiscal years 2003 and 2002 contain 52 weeks.

#### ***Principles of Consolidation***

The consolidated financial statements of the Company include the accounts of The Steak n Shake Company (parent) and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

#### ***Cash, Cash Equivalents, and Short-Term Investments***

The Company's policy is to invest cash in excess of operating requirements in income-producing investments. Cash equivalents primarily consist of bank repurchase agreements, U.S. Government securities, and money market accounts, all of which have maturities of three months or less. Short-term investments at September 29, 2004 and September 24, 2003 primarily consisted of commercial papers, which were available for sale. Cash equivalents and short-term investments are carried at cost, which approximates market value due to their short maturities.

#### ***Receivables***

The Company carries its accounts receivable at cost less an allowance for doubtful accounts which is based on a history of past write-offs and collections and current credit conditions. The allowance for doubtful accounts was \$104 at September 29, 2004 and \$121 at September 24, 2003.

#### ***Inventories***

Inventories are valued at the lower of cost (first-in, first-out method) or market, and consist primarily of restaurant food items and supply inventory.

#### ***Assets Held for Sale***

Assets held for sale consists of property and equipment related to the under-performing restaurants identified for disposal in 2003, and is comprised of the following: Land and Buildings - \$1,546; Leasehold Improvements - \$146; and Equipment - \$64. Assets held for sale are reported at estimated fair value.

#### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized on the straight-line method over the estimated useful lives of the assets (15 to 25 years for buildings and land improvements, and 3 to 10 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the term of the related leases. Interest costs associated with the construction of new restaurants are capitalized. Major improvements are also

capitalized while repairs and maintenance are expensed as incurred. The Company reviews for impairment its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of assessment, assets are evaluated on a restaurant-by-restaurant basis, the lowest level for which there are identifiable cash flows. If the future undiscounted cash flows of an asset are less than the recorded value, an impairment is recorded for the difference between the carrying value and the estimated fair value of the asset.

**Revenue Recognition**

The Company records revenues from restaurant sales at the time of sale, net of discounts. Revenues from the sale of gift cards are deferred at the time of sale and recognized upon redemption of the gift cards by the customer.

**Franchise Fees**

Unit franchise fees and area development fees are recorded as revenue when the related restaurant begins operations. Royalty fees based on franchise sales are recognized as revenue on the accrual basis of accounting.

**Insurance Reserves**

The Company self-insures a significant portion of its expected losses under its workers' compensation, general liability, and auto liability insurance programs, and records a reserve for its estimated losses on all unresolved open claims and its estimated incurred but not reported claims at the anticipated cost to the Company.

**Earnings Per Share**

Earnings per share of common stock is based on the weighted average number of shares outstanding during the year. The following table presents a reconciliation of basic and diluted weighted average common shares as required by Statement of Financial Accounting Standards No. 128, *Earnings Per Share*.

	<b>2004</b>	2003	2002
Basic earnings per share:			
Weighted average common shares	<b>27,385,447</b>	27,010,024	27,814,482
Diluted earnings per share:			
Weighted average common shares	<b>27,385,447</b>	27,010,024	27,814,482
Dilutive effect of stock options	<b>325,196</b>	100,041	171,429
Weighted average common and incremental shares	<b>27,710,643</b>	27,110,065	27,985,911
Number of stock options excluded from the calculation of earnings per share as the options' exercise prices were greater than the average market price of the Company's common stock	<b>54,372</b>	919,922	557,917

**Stock-Based Compensation**

The Company accounts for its Stock Option and Employee Stock Purchase Plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*. No stock-based employee compensation cost for options issued is reflected in net earnings, as all options are granted under those plans at an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

(Amounts in \$000s, except per share data)	2004	2003	2002
Net earnings, as reported	\$ 27,591	\$ 20,861	\$ 22,992
Less proforma compensation expense, net of tax	(1,483)	(1,156)	(1,588)
Proforma net earnings	\$ 26,108	\$ 19,705	\$ 21,404
Basic earnings per share, as reported	\$ 1.01	\$ .77	\$ .83
Proforma basic earnings per share	\$ .95	\$ .73	\$ .77
Diluted earnings per share, as reported	\$ 1.00	\$ .77	\$ .82
Proforma diluted earnings per share	\$ .94	\$ .73	\$ .76

The impact of applying FASB Statement No. 123 in this proforma disclosure is not necessarily indicative of future results.

#### ***Employees' 401(k) and Profit Sharing Plan***

The Steak n Shake Company Employees' 401(k) and Profit Sharing Plan (the "Plan") is a defined contribution plan covering substantially all employees of the Company after they have attained age 21 and completed one year of service and allows employees to defer up to 20% of their salaries. Company profit sharing contributions to the Plan, which are subject to the discretion of the Board of Directors, amounted to \$1,854 paid in for 2004, \$1,858 paid in 2003, and \$1,695 paid in 2002. During 2004, the Board of Directors authorized a non-discretionary Company matching contribution equal to 50% of each participants' first 6% of compensation deferred. As of September 29, 2004, the Company accrued, but had not yet paid, \$677 in contributions to the Plan.

#### ***Marketing Expenses***

Advertising costs are charged to expense at the latter of the date the expenditure is incurred, or the date the promotional item is first communicated.

#### ***Use of Estimates***

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates.

#### ***Reclassifications***

Certain amounts in the 2002 and 2003 financial statements have been reclassified to conform to the 2004 presentation.

## **2. Restatement of Previously Issued Financial Statements**

Subsequent to the issuance of the consolidated financial statements for the fiscal year ended September 29, 2004, management reviewed its lease accounting and determined that certain adjustments were required to correct its accounting treatment.

Historically, when accounting for ground leases with renewal options, the Company depreciated its buildings over a period of 25 years (estimated economic life of buildings). In certain cases, the term of 25 years included both the

initial lease term and certain renewal option periods under the lease. The Company recorded rent expense from the rent commencement date through the initial term of the lease. The restatement reflects rent expense being recognized on a straight-line basis over the lease term, including any additional cancelable option periods where failure to exercise such options would have resulted in an economic penalty.

Additionally, the Company had recognized rent expense for its operating leases using a lease term that commenced when rent payments began, which generally coincided with a point in time near the date the Company's restaurants opened. This generally had the effect of excluding the restaurant build-out period (during which the Company typically made no rent payments) from the calculation of the period over which rent was expensed. The Company has determined that, under GAAP, it should have recognized rent expense over a lease term that included the build-out period, which, in most cases, will cause rent expense to be recognized sooner than previously reported. The restatement reflects rent expense beginning in the build-out period.

The Company has also determined that certain build-to-suit leases should have been treated as sale leaseback transactions to more fully reflect the provisions of Statement of Financial Accounting Standards No. 98, "Accounting for Leases" and Emerging Issues Task Force 97-10, "The Effect of Lessee Involvement in Asset Construction." Under an interpretation of the statement, the Company was determined to have continued involvement in the property, which required the proceeds from these build-to-suit leases to have been accounted for as a "finance obligations," reflected as a liability and amortized over the life of the related lease. The related assets should be depreciated over their estimated useful lives. The restatement reflects lease payments on the above mentioned leases being recorded as interest expense and debt repayment, as opposed to rent expense. In addition, the Company recorded additional depreciation expense for the related assets.

The total impact of the adjustments reduced the Company's net income for the fiscal years ended September 29, 2004, September 24, 2003, and September 25, 2002 by \$71, \$78 and \$97 respectively. Additionally, beginning retained earnings for the fiscal year ended September 25, 2002 were reduced by \$537.

The following tables summarize the impact for the fiscal years ended September 29, 2004, September 24, 2003, and September 25, 2002:

**Consolidated  
Statements  
of Earnings  
Summary of  
Restatement  
Impacts**

The Steak n

Shake

Company

*(Years Ended September 29, 2004, September 24, 2003,  
and September 25, 2002)*

*(Amounts in \$000s except share  
and per share data)*

For the fiscal  
year ended:

	<b>September 29, 2004</b>		September 24, 2003		September 25, 2002							
	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>	<b>As</b>						
	<b>Previously Reported</b>	<b>Previously Reported</b>	<b>As Restated</b>	<b>Previously Reported</b>	<b>As Restated</b>	<b>Previously Reported</b>	<b>As Restated</b>					
Depreciation and Amortization	\$	<b>24,710</b>	\$	<b>24,858</b>	\$	24,170	\$	24,318	\$	23,095	\$	23,243
Interest		<b>12,832</b>		<b>13,079</b>		13,391		13,650		14,072		14,340
Rent		<b>8,912</b>		<b>8,626</b>		8,309		8,022		7,408		7,141
Total costs and expenses		<b>511,145</b>		<b>511,254</b>		466,680		466,800		422,970		423,119
Earnings Before Income Taxes		<b>42,547</b>		<b>42,438</b>		32,424		32,304		36,044		35,895
Income Taxes		<b>14,885</b>		<b>14,847</b>		11,485		11,443		12,955		12,903
Net Earnings	\$	<b>27,662</b>	\$	<b>27,591</b>	\$	20,939	\$	20,861	\$	23,089	\$	22,992
Basic Earnings Per Common and Common Equivalent Share	\$	<b>1.01</b>	\$	<b>1.01</b>	\$	0.78	\$	0.77	\$	0.83	\$	0.83
Diluted Earnings Per Common and Common Equivalent Share	\$	<b>1.00</b>	\$	<b>1.00</b>	\$	0.77	\$	0.77	\$	0.83	\$	0.82

**Consolidated  
Statements of  
Financial Position  
Summary of  
Restatement Impacts**

The Steak n Shake  
Company  
(September 29, 2004  
and September 24,  
2003)  
(Amounts in \$000s)

For the fiscal year  
ended:

	September 29, 2004		September 24, 2003	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Buildings	\$ 145,101	\$ 148,802	\$ 137,399	\$ 141,100
Less accumulated depreciation and amortization	(166,742)	(168,053)	(149,840)	(151,003)
Net property and equipment	382,868	385,258	364,600	367,138
Total assets	\$ 433,463	\$ 435,853	\$ 414,636	\$ 417,174
Accrued expenses	\$ 29,872	\$ 29,379	\$ 32,718	\$ 32,286
Current portion of obligations under leases	3,730	3,887	3,401	3,540
Total current liabilities	58,940	58,604	61,795	61,502
Deferred Income Taxes	3,391	2,969	2,876	2,492
Other Long-term Liabilities	16	1,272	22	1,117
Obligations Under Leases	141,972	144,647	145,125	147,957
Retained earnings	115,776	114,993	88,114	87,402
Total shareholders' equity	219,715	218,932	188,615	187,903
Total liabilities and shareholders' equity	\$ 433,463	\$ 435,853	\$ 414,636	\$ 417,174

**Consolidated Statements of Cash Flows  
Summary of  
Restatement**

**Impacts**

The Steak n

Shake

Company

*(Years Ended September 29, 2004, September 24, 2003, and**September 25, 2002)**(Amounts in \$000s)*

For the fiscal

year ended:

	<b>September 29, 2004</b>		September 24, 2003		September 25, 2002	
	<b>As Previously Reported</b>	<b>As Restated</b>	As Previously Reported	As Restated	As Previously Reported	As Restated
Operating Activities:						
Net earnings	\$ 27,662	\$ 27,591	\$ 20,939	\$ 20,861	\$ 23,089	\$ 22,992
Depreciation and amortization	24,710	24,858	24,170	24,318	23,095	23,243
Provision for deferred income taxes	230	192	(1,892)	(1,934)	(1,297)	(1,349)
Changes in accounts payable and accrued expenses	(471)	(371)	6,253	6,351	9,224	9,341
Net cash provided by operating activities	47,390	47,229	50,703	50,829	55,015	55,131
Financing Activities:						
Principal payments on lease obligations	(3,522)	(3,661)	(3,254)	(3,380)	(3,358)	(3,474)
Net cash used in financing activities	\$ (9,019)	\$ (9,158)	(6,781)	(6,907)	(12,335)	(12,451)



### 3. Restaurant Closings

During the fourth quarter of fiscal year 2003, the Company identified nine under-performing restaurants for disposal. In connection with the decision to dispose of these restaurants, the Company recorded a charge of \$5,200 for property and equipment write-downs, lease termination costs, and closing costs. During fiscal year 2004, the Company disposed of five of these restaurants. Proceeds received from these disposed restaurants exceeded previous estimates by \$394, resulting in an adjustment to the reserve during the year. The Company is currently seeking buyers for the remaining four properties, which are classified as assets held for sale, and anticipates completing the disposal of these properties within the next six to nine months.

Activity related to the provision for restaurant closings is as follows:

	Balance at September 24, 2003	Non-cash charges during 2004	Cash charges during 2004	Adjustments to estimates during 2004	Balance at September 29, 2004
(amounts in \$000's)					
Asset write-downs	\$4,860	\$(1,413)	-	\$(389)	\$3,058
Lease termination costs	225	-	\$(225)	-	-
Closing costs	115	-	(86)	(5)	24
Total	\$ 5,200	\$ (1,413)	\$ (311)	\$ (394)	\$ 3,082

### 4. Other Assets

(amounts in \$000s)	2004	2003
Long-term investments	-	\$5,001
Other assets	\$4,000	4,464
Intangible assets	1,195	1,315
	\$ 5,195	\$ 10,780

Long-term investments consisted of U.S. Government guaranteed debt securities with a fair value of \$5,293 at September 24, 2003. Gross unrealized gains on held-to-maturity securities were \$292 at September 24, 2003. During 2004, the Company sold the held-to-maturity securities prior to their maturity for \$5,095 and recorded a gain of \$95 on the sale. Intangible assets consist of a \$1,480 right to operate that is recorded at cost and is being amortized \$120 per year over its estimated life of twelve years. Accumulated amortization totaled \$285 at September 29, 2004 and \$165 at September 24, 2003.

### 5. Accrued Expenses

(amounts in \$000s)	2004	2003
Salaries and wages	\$ 6,831	\$ 10,329
Taxes payable	13,041	12,309
Insurance accruals	4,298	3,519
Other	5,209	6,129
	\$ 29,379	\$ 32,286



**6. Income Taxes**

The components of the provision for income taxes consist of the following:

(amounts in \$000s)	2004	2003	2002
Current:			
Federal	\$ 12,801	\$ 11,465	\$ 12,341
State	1,854	1,912	2,333
Deferred	192	(1,934)	(1,771)
Total income taxes	\$ 14,847	\$ 11,443	\$ 12,903

The reconciliation of effective income tax is:

	2004	2003	2002
Tax at U.S. statutory rates	\$ 14,853	\$ 11,306	\$ 12,563
State income taxes, net of federal benefit	1,277	1,243	1,376
Employer's FICA tax credit	(1,030)	(942)	(676)
Jobs tax credit	(401)	(237)	(260)
Other	148	73	(100)
Total income taxes	\$ 14,847	\$ 11,443	\$ 12,903

Income taxes paid totaled \$13,815 in 2004, \$13,615 in 2003, and \$11,810 in 2002.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates, and laws that will be in effect when the differences are expected to reverse. The Company's net deferred tax liability consists of the following:

(amounts in \$000s)	2004	2003
Deferred tax assets:		
Insurance reserves	\$ 1,504	\$ 1,390
Provision for restaurant closings	1,077	1,840
Capital leases	74	171
Capital appreciation plans	447	582
Accrued vacation	1,106	712
Accrued rent	297	262
Other	134	795
Total deferred tax assets	4,639	5,752
Deferred tax liabilities:		
Depreciation	4,765	5,743
Other	88	31
Total deferred tax liabilities	4,853	5,774
Net deferred tax liability	(214)	(22)
Less current portion	2,755	2,470
Long-term liability	(\$2,969)	(\$2,492)

## 7. Leased Assets and Lease Commitments

The Company leases certain of its physical facilities under non-cancelable lease agreements. Steak n Shake restaurant leases typically have initial terms of eighteen to twenty-five years and renewal terms aggregating twenty years or more. These leases require the Company to pay real estate taxes, insurance and maintenance costs. Certain leased facilities, which are no longer operated by the Company's subsidiaries, but have been subleased to third parties, are classified below as non-operating properties. Minimum future rental payments for non-operating properties have not been reduced by minimum sublease rentals of \$663 related to operating leases receivable under non-cancelable subleases. The property and equipment cost related to the finance obligations and capital leases as of September 29, 2004, is as follows: \$76,235 buildings, \$60,459 land, \$32,350 land and leasehold improvements, and \$34,181 accumulated depreciation.

At September 29, 2004, obligations under non-cancelable finance obligations, capital leases, and operating leases (excluding real estate taxes, insurance and maintenance costs) require the following minimum future rental payments:

(Amounts in \$000's)	Finance		Capital		Operating	
	Obligations	Leases	Leases	Total	Operating	Non-Operating
Year	Operating Property	Operating Property	Operating Property	Total	Operating Property	Non-Operating Property
2005	\$ 15,109	\$ 1,033	\$ 1,033	\$ 16,142	\$ 6,783	\$ 116
2006	15,131	701	701	15,832	6,698	116
2007	15,153	627	627	15,780	6,658	116
2008	15,043	626	626	15,669	6,523	116
2009	14,858	617	617	15,475	5,868	61
After 2009	110,783	3,443	3,443	114,226	31,518	138
Total minimum future rental payments	186,077	7,047	7,047	193,124	\$ 64,048	\$ 663
Less amount representing interest	122,703	3,394	3,394	126,077		
Total principal obligations under leases	63,374	3,653	3,653	67,027		
Less current portion	3,439	448	448	3,887		
Non-current principal obligations under leases	59,935	3,205	3,205	63,140		
Residual value at end of lease term	81,507	—	—	81,507		
Obligations under leases	\$ 141,442	\$ 3,205	\$ 3,205	\$ 144,647		

During 2004, the Company received net proceeds from sale and leaseback transactions aggregating \$600 involving one property.

Contingent rent totaling \$697 in 2004, \$556 in 2003, and \$468 in 2002 is recorded in rent expense in the accompanying consolidated statements of earnings.

## **8. Debt**

### ***Revolving Credit Agreement***

The Company's \$30,000 Revolving Credit Agreement matures in January 2005 and bears interest at a rate based on LIBOR plus 75 basis points or the prime rate, at the election of the Company. There were no outstanding borrowings under the Revolving Credit Agreement at September 29, 2004, but the Company had \$3,022 in stand-by letters of credit outstanding, which reduced the borrowing limit. The Company is currently negotiating with several banks to obtain a new revolving line of credit with similar provisions, and anticipates completing the negotiations prior to the expiration of the existing facility in January 2005.

### ***Senior Note Agreement***

The Company's amended and restated Senior Note Agreement and Private Shelf Facility (the "Senior Note Agreement") allows for additional borrowing of up to \$75,000 until September 20, 2005. As of September 29, 2004, the Company had borrowings of \$16,204 with an average interest rate of 7.6% under its original \$75,000 Senior Note Agreement. Interest rates are fixed based upon market rates at the time of borrowing. Amounts maturing in fiscal years 2005 through 2009 are as follows: \$6,775, \$3,857, \$2,429, \$1,714 and \$714, respectively.

Interest capitalized in connection with financing additions to property and equipment amounted to \$502 and \$476 in 2004 and 2003, respectively. Interest paid on debt amounted to \$1,829 in 2004, \$2,181 in 2003, and \$2,428 in 2002.

The carrying amounts for debt reported in the consolidated statement of financial position do not differ materially from their fair market values at September 29, 2004.

The Revolving Credit Agreement and Senior Note Agreement are unsecured and contain restrictions, which among other things, require the Company to maintain certain financial ratios. The Company is in compliance with all restrictive covenants under these borrowing agreements at September 29, 2004.

## **9. Related Party Transactions**

A member of the Board of Directors is the President of Kelley Restaurants, Inc. ("KRI"), a franchisee. In accordance with its franchise agreement, the Company collects initial franchise fees, royalty fees, and advertising fees from its franchisees. The Company recorded revenues from KRI totaling \$1,706, \$1,392, and \$1,208, during 2004, 2003, and 2002, respectively. Amounts receivable from KRI at September 29, 2004 and September 24, 2003 were \$450 and \$361 and are recorded in receivables, net in the consolidated statements of financial position. See Note 12 "Subsequent Events."

## **10. Common Stock Plans**

### ***Capital Appreciation Plan***

The 1997 Capital Appreciation Plan provides for tandem awards of Common Stock (restricted shares) and book units of up to 1,067,187 shares and related units. These awards are restricted for a period of three years and are returnable to the Company if the grantee is not employed (except for reasons of retirement, permanent disability or death) by the Company at the end of the period. The stock is valued at 100% of market value at the date of grant, and the book units, which are granted in an equal number to the shares of stock, provide for a cash payment at the end of the three-year period equal to the sum of the net change in book value per share and the common stock dividends paid per share during the period, as adjusted for stock dividends/splits. The total value of the stock grant (based upon market value at the date of the grant) is recorded to unamortized value of restricted shares and is amortized to compensation expense ratably over the three-year period. The total number of shares and book units granted under the 1997 Plan for which restrictions have not lapsed was 146,000 at September 29, 2004, 122,500 at September 24, 2003, and 102,500 at September 25, 2002. At September 29, 2004, 526,622 shares were reserved for future grants. The average remaining period for which restrictions had not lapsed at September 29, 2004 was 1.88 years. The amount charged to expense under the Plans was \$860 in 2004, \$452 in 2003, and \$799 in 2002.

**Employee Stock Option Plan**

The 1997 Employee Stock Option Plan (the "1997 Plan") provides for the granting of up to 1,745,313 stock options. The 1997 Plan provides that the options are exercisable as to 20% on the date of grant and 20% on each anniversary of the date of grant thereafter until fully exercisable. The options expire either five or ten years from the date of grant and are issued with an exercise price equal to the fair market value of the underlying stock on the date of issuance. Options are granted under the 1997 Plan to officers and key employees selected by the Stock Option Committee. As of September 29, 2004, 1,355,012 options have been granted under the 1997 Plan and 831,184 are exercisable.

The 1995 Employee Stock Option Plan (the "1995 Plan") provides for the granting of up to 686,297 stock options. Options granted under the 1995 Plan are primarily incentive stock options exercisable on the same terms as the 1997 Plan. Options were granted under the 1995 Plan to officers and key employees selected by the Stock Option Committee. At September 29, 2004, 634,543 options have been granted under the 1995 Plan and 19,876 are exercisable.

The following table summarizes the options activity under the 1997 and 1995 Plans:

	Shares	Weighted Average Price
Outstanding at September 26, 2001	1,011,036	\$12.27
Fiscal 2002 Activity:		
Granted	591,646	12.67
Exercised	(203,957)	8.69
Canceled	(19,277)	10.74
Outstanding at September 25, 2002	1,379,448	12.99
Fiscal 2003 Activity:		
Granted	100,424	13.80
Exercised	(114,382)	11.63
Canceled	(135,501)	14.35
Outstanding at September 24, 2003	1,229,989	13.03
Fiscal 2004 Activity:		
Granted	<b>391,052</b>	<b>17.32</b>
Exercised	<b>(311,467)</b>	<b>12.63</b>
Canceled	<b>(63,044)</b>	<b>13.39</b>
Outstanding at September 29, 2004	<b>1,246,530</b>	<b>\$ 14.38</b>

**Nonemployee Director Stock Option Plans**

The Company's Nonemployee Director Stock Option Plans provide for the grant of nonqualified stock options at a price equal to the fair market value of the Common Stock on the date of the grant. Options outstanding under each Plan are exercisable as to 20% on the date of grant and 20% on each anniversary of the date of grant thereafter until fully exercisable. The options expire five years from the date of grant.

The following table summarizes information about the Nonemployee Director Stock Option Plans.

	Shares	Weighted Average Price
Outstanding at September 26, 2001	19,800	\$ 11.08
Fiscal 2002 Activity:		
Granted	35,000	9.99
Outstanding at September 25, 2002	54,800	10.38
Fiscal 2003 Activity:		
Granted	46,000	9.97
Exercised	(3,300)	11.08
Outstanding at September 24, 2003	97,500	10.17
Fiscal 2004 Activity:		
Granted	<b>43,000</b>	<b>17.98</b>
Exercised	<b>(10,000)</b>	<b>9.98</b>
Outstanding at September 29, 2004	<b>130,500</b>	<b>\$ 12.75</b>

The following table summarizes information regarding stock options outstanding at September 29, 2004 under the employee and nonemployee director stock option plans.

Range of Exercise Prices	Number Outstanding at September 29, 2004	Options Outstanding Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable Number at September 29, 2004	Weighted Average Exercise Price
\$ 5 - \$ 10	310,696	1.98 years	\$ 9.73	193,056	\$ 9.61
\$10 - \$15	338,324	2.57 years	\$ 13.02	308,324	\$ 12.98
\$15 - \$20	710,087	4.14 years	\$ 16.60	391,257	\$ 16.42
\$20 - \$21	17,923	4.41 years	\$ 20.48	17,923	\$ 20.48
\$ 5 - \$21	1,377,030	3.27 years	\$ 14.22	910,560	\$ 13.89

At September 24, 2003, 948,108 options were exercisable at a weighted average exercise price of \$13.21, and at September 25, 2002, 963,538 options were exercisable at a weighted average exercise price of \$13.11. Stock options are issued pursuant to the employee and nonemployee director stock option plans with exercise prices equal to the market value on the date of grant. As discussed in Note 1, the Company measures stock compensation in accordance with APB Opinion No. 25. Had the Company measured stock compensation in accordance with fair value provisions



of SFAS No. 123, the effect on net earnings and earnings per share would have been as summarized in Note 1. In calculating the impact of options granted, the Company has estimated the fair value of each grant using the Black-Scholes option-pricing model.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. The fair value estimates are based on the following assumptions:

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	2004	2003	2002
Risk-free interest rate	2.0%	2.0%	2.0%
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	38%	42%	42%
Expected life in years	5 years	5 years	5 years

### ***Employee Stock Purchase Plan***

Under the Employee Stock Purchase Plan, a maximum of 1,852,545 shares of Common Stock are available for issuance to all eligible employees of the Company as determined by the Board of Directors (125,821 per year for 1993 to 1997; 154,688 per year for 1998 to 2002; and 150,000 per year for 2003 to 2005). Unissued shares in any given calendar year are available to increase the annual maximum number of shares issuable in subsequent years. Employees may purchase shares of Common Stock through payroll deductions from 2% to 10% of compensation up to a maximum fair market value of \$10 or 1,000 shares per year. Shares are purchased at a 15% discount from the lesser of the share price on the first or last day of the year. Shares purchased under the plan were 146,787 in 2004, 147,604 in 2003, and 181,222 in 2002.

### **11. Commitments and Contingencies**

The Company is involved in various legal matters in the normal course of business. In the opinion of management, the ultimate outcome of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

### **12. Supplemental Disclosures of Cash Flow Information**

During fiscal 2004, the Company issued 136,000 shares of restricted stock totaling \$2,104. During 2003 and 2002, the Company issued 20,000 shares valued at \$214 and 3,000 shares valued at \$32, respectively. During 2004, the Company entered into capital leases for equipment of \$250, and for building and land improvements of \$821.

### **13. Subsequent Events**

On November 5, 2004, the Company entered into an agreement to purchase Kelley Restaurants, Inc., its largest franchisee, for approximately \$17,500. Kelley Restaurants, Inc. operates 16 Steak n Shake restaurants in the Atlanta, Georgia and Charlotte, North Carolina markets. This transaction is subject to completion of due diligence, approval of the shareholders of Kelley Restaurants, Inc. and other contingencies and is expected to close by the end of December 2004. The President of Kelley Restaurants, Inc. is a member of the Company's Board of Directors. See Note 8.

### **14. Quarterly Financial Data (Unaudited)**

	Quarter <sup>(1)</sup>							
	As Previously Stated		As Restated		As Previously Stated		As Restated	
(amounts in \$000s excepts per share data)	First	Second	Third	Fourth <sup>(2)</sup>	First	Second	Third	Fourth <sup>(2)</sup>

2004 (53  
weeks)

Revenues	\$ 114,473	\$ 114,473	\$ 163,790	\$ 163,790	\$ 130,627	\$ 130,627	\$ 144,802	\$ 144,802
Costs and Expenses	107,386	107,413	151,430	151,465	119,285	119,310	133,044	133,066
Earnings Before Income Taxes	7,087	7,060	12,360	12,325	11,342	11,317	11,758	11,736
Net Earnings	4,590	4,573	8,007	7,984	7,417	7,401	7,648	7,633
Diluted Earnings per Common and Common Equivalent Share	\$ .17	\$ .17	\$ .29	\$ .29	\$ .27	\$ .27	\$ .28	\$ .28

2003 (52  
weeks)

Revenues	\$ 102,055	\$ 102,055	\$ 149,672	\$ 149,672	\$ 121,269	\$ 121,269	\$ 126,108	\$ 126,108
Costs and Expenses	96,765	96,794	139,018	139,055	110,209	110,236	120,688	120,715
Earnings Before Income Taxes	5,290	5,261	10,654	10,618	11,059	11,033	5,420	5,393
Net Earnings	3,402	3,383	6,839	6,815	7,089	7,071	3,609	3,592
Diluted Earnings per Common and Common Equivalent Share	\$ .13	\$ .13	\$ .25	\$ .25	\$ .26	\$ .26	\$ .13	\$ .13

- (1) The Company's fiscal year includes quarters consisting of 12, 16, 12 and 12 weeks, respectively. In 2004, the fourth quarter includes 13 weeks.
- (2) In the fourth quarter of 2003, the Company recorded a charge of \$5,200 (\$3,360 net of income taxes or \$.13 per diluted share) related to the disposal of nine under-performing restaurants.

**Management's Report**

The Steak n Shake Company

**Management's Report on Responsibility for Financial Reporting**

The management of The Steak n Shake Company is responsible for the preparation, integrity and objectivity of the Company's financial statements and the other financial information in this report. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and reflect in all material respects the Company's consolidated results of operations and the financial position for the periods shown based upon management's best estimates and judgments.

In addition, management maintains internal control systems which are adequate to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and which produce records adequate for the preparation of financial information. There are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived. We believe the Company's systems provide the appropriate balance. The effectiveness of the control systems is supported by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility and a strong budgetary system of control. Deloitte & Touche LLP, our independent registered public accountants, has been engaged to express an opinion regarding the fair presentation of the Company's financial condition and operating results. As part of its audit of the Company's financial statements, Deloitte & Touche LLP considered the Company's system of internal controls to the extent it deemed necessary to determine the nature, timing and extent of its audit tests.

The Audit Committee of the Board of Directors, which is composed of four outside directors, serves in an oversight role to assure the integrity and objectivity of the Company's financial reporting process. The Committee meets periodically with representatives of management and the independent registered public accounting firms to review matters of a material nature related to auditing, financial reporting, internal accounting controls and audit results. The independent registered public accountants have free access to the Audit Committee. The Audit Committee is also responsible for the selection of the independent registered public accountants.

/s/ Peter M. Dunn      /s/ Jeffrey A. Blade  
*President and*              *Senior Vice President*  
*Chief Executive Officer*      *and Chief Financial Officer*

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
The Steak n Shake Company

We have audited the accompanying consolidated statements of financial position of The Steak n Shake Company and subsidiaries (the "Company") as of September 29, 2004 and September 24, 2003, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the years ended September 29, 2004 and September 24, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2004 and 2003 consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Steak n Shake Company and subsidiaries at September 29, 2004 and September 24, 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the accompanying financial statements have been restated.

/s/ Deloitte & Touche LLP  
November 22, 2004  
(May 16, 2005 as to the effects of the restatement described in Note 2)  
Indianapolis, Indiana

**Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
The Steak n Shake Company

We have audited the accompanying consolidated statements of earnings, shareholders' equity and cash flows of The Steak n Shake Company for the year ended September 25, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of The Steak n Shake Company for the year ended September 25, 2002, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 of the consolidated financial statements, the accompanying consolidated statements of earnings, shareholders' equity and cash flows for the year ended September 25, 2002, have been restated.

/s/ Ernst & Young LLP  
Indianapolis, Indiana  
December 3, 2002  
except for Note 2, as to which the date is  
May 16, 2005

