STEAK & SHAKE CO
Form 10-K
December 11, 2006

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

FORM 10-K

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

For the fiscal year ended September 27, 2006

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.)

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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:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, stated value $.50 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

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 X No _

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 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 a large accelerated filer, an accelerated filer or a non-accelerated filer. (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).
Large accelerated filer __ Accelerated Filer _X_ Non Accelerated filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act rule 12b-2). Yes No X

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 12, 2006, was approximately $445,658,513 based on the closing stock price of $17.03 per share on that day.

The number of shares of Common Stock outstanding at December 4, 2006 was 28,203,032.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2007 Annual Meeting of Shareholders of Registrant are incorporated by reference into Part III.

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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 27, 2006, we had 429 Company-owned restaurants and 48 franchised restaurants, located in 19 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 37% and 46% of sales, respectively, while breakfast and late night sales account for 6% and 11% 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 years 2006 and 2005 contained fifty-two weeks, while fiscal year 2004 contained fifty-three 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 sixty-percent of the sales mix, while sales for off-premises dining represent approximately forty-percent 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 $6.90 per person. The average check during the peak lunch and dinner hours is approximately $6.90 and $7.20, respectively.

We believe that Steak n Shake offers more compelling value and core menu items with a higher level of quality than competing fast food chains. Our menu continues to feature core items that include 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 including 100% pure U.S. beef, with cuts of T-bone, strip and sirloin steak, 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, new menu offerings included five varieties of Premium Topping Steakburger™ Sandwiches. These new steakburgers have provided more choices than our traditional Steakburger™ sandwiches. We have also added new Bits n Pieces™ Milk Shakes in the current year. These included bits and pieces of candies mixed into our traditional hand-dipped milkshakes. Candy choices include M&M®'s, chocolate peanut butter candies, cookie dough, and cookies and cream pieces. In addition to these new menu items that we have been launching Company wide, we are also testing other new items including Frozen Yogurt and Fruit n Frozen Yogurt Milk Shakes in select markets.

Expanding the Concept

Accelerating the Company's growth into both new and existing trade areas has been a focus in recent years. During fiscal year 2006, we opened twenty-six new Company-owned units and six new franchise units. The new

Company-owned units were built in existing markets, with franchise openings aiding in growth in current markets and new markets as well. 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; improving depth in the field organization through improved recruitment and higher retention; enhancing training and staff development; and aggressively marketing the brand through differentiation. We currently expects to expand our growth by opening approximately fifteen Company-owned Steak n Shake restaurants in fiscal year 2007. 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.

During our current fiscal fourth quarter, we acquired eight franchised restaurants from Creative Restaurants, Inc. ("CRI") a former franchisee. These restaurants were all well established restaurants primarily in the Louisville, Kentucky area. Similarly, we purchased 17 restaurants owned by Kelley Restaurants, Inc. ("KRI") in fiscal 2005. These restaurants were located in the Atlanta, Georgia and Charlotte, North Carolina markets. The purchase of franchised restaurants allows us to build on the success achieved by our franchisees while giving us the opportunity to further develop the markets in which these restaurants are located.

Because the site selection process is critical to the success of our restaurants, our 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. During fiscal 2006, we have begun utilizing a new site selection tool. Thompson MapInfo allows us to be much more analytic in our real estate site selections. This site selection tool provides a more sophisticated view of the sales potential for each prospective site as well as insight into markets around the country. In 2007 and beyond, we will continue to prioritize and select markets and individual sites for both Company-owned and franchise expansion.

Our Strategic Plan

During fiscal 2006, we unveiled our strategic plan for growth. While our growth plan is divided into 3 phases that build upon the previous phase, the strategic plan is centered around five key goals: Inspired Associates, Delighted Guests, Empowering Leaders, Process Excellence and Market Expansion. During 2007, the major focus of resources will be on Delighted Guests, with the goal of improving guest counts. As it relates to Delighted Guests, the first major initiative is called "The Guest Winning Promise." This initiative will explore a series of options for optimizing each element of the Steak 'n Shake guest experience including: building exterior design, interior atmosphere, dine-in & drive-thru menu, service execution, and point of sale system optimization. The intent is to be deliberate about every aspect of the Steak n Shake concept at a level of detail and understanding we have never completed before. We believe it is essential to ensure that our concept continues to have great consumer relevance while operating in the most efficient and effective manner possible.

While Delighted Guests will be our main focus in fiscal 2007, other initiatives will receive attention as well. For example, relative to Inspired Associates, we will begin a project called "The Associate Winning Promise." The goal of this project is to further understand the characteristics of those associates who most consistently delight our guests and find great satisfaction working at Steak 'n Shake. This will provide important insights about how best to attract, develop and retain these valued associates. We plan to begin testing and implementing the best ideas that arise from this research during 2007.

Strengthening the Foundation

In 2007, we expect to accelerate progress on field execution in a systematic manner. During 2006, we identified three key measures which correlate most highly with our same store sales success: change in drive-through speed, guest satisfaction in the dining room, and associate turnover. We have classified all restaurants into five quintiles based on their performance against these measures which we have labeled A (best) to E (worst). During 2007, we intend to make significant progress moving every "E-B" restaurant up at least one tier by working to address the issues affecting these under-performing units.

Restaurant Locations

The following table lists the locations of the 477 Steak n Shake restaurants, including 48 franchised units, as of September 27, 2006:

	Company-Owned	**Franchised**	**Total**
Alabama	6	-	6
Arkansas	-	1	1
Florida	83	-	83
Georgia	23	3	26
Illinois	62	6	68
Indiana	67	3	70
Iowa	4	-	4
Kansas	4	-	4
Kentucky	15	-	15
Michigan	21	-	21
Mississippi	-	1	1
Missouri	44	14	58
North Carolina	4	6	10

Ohio	63	-	63
Oklahoma	-	4	4
Pennsylvania	5	-	5
South Carolina	2	1	3
Tennessee	8	9	17
Texas	18	-	18
Total	**429**	**48**	**477**

Restaurant Operations

The key to growing our customer base is ensuring our guests have an enjoyable dine-in, carry-out or drive-thru experience. To ensure a positive guest experience, we must have competent and skilled restaurant management at each of our locations. A typical Steak n Shake restaurant's management team consists of a general manager, a restaurant manager and from one to four managers. The number of managers varies depending upon the sales volume of the unit. Each restaurant's General Manager 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 his/her unit's profitability and his/her bonus is partially based on exceeding the financial plan's expected store profitability. In addition to day-to-day operations, the General Manager is involved in the planning and budgeting process for his/her restaurant. An experienced, well-trained General Manager promotes compliance with our high standards for food quality and guest service, ensures that all health and safety requirements are met and ensures compliance with applicable state labor laws. We seek to employ managers who focus on guest service and who manage the restaurant from the dining room.

We foster a "promote from within" approach. To develop the talented bench strength needed for continued internal promotions, developing our associates into outstanding managers is one of our highest priorities. As part of our commitment to improving our standards of execution, we emphasize strengthening each management team's skills and capabilities 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 is designed to not only meet our current management needs, but to provide the foundation for our future growth needs as well.

Guest Satisfaction and Quality Control

Our reputation and guest loyalty have been earned through the consistent quality of the dining experience we provide to our guests. Our future success depends on our associates' consistent commitment to exceeding the guests' expectations. This commitment is monitored at Company-owned units 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, guest satisfaction surveys, and a mystery shopping program, in addition to their own internal management oversight procedures. These guest satisfaction measurement tools provide data for both continuing and improving our excellence in customer service.

Purchasing and Distribution Center Operations

We operate one 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 108 Company-owned and 9 franchised restaurants. The restaurants served by the distribution center are located in parts of the Midwest (primarily in Illinois, Missouri, Iowa and Wisconsin). Our semi-trailers handle refrigerated products, frozen products and dry goods in the same delivery trip. The restaurants that are not serviced by the distribution center obtain Company-approved food products and supplies 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 that meet 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

Our marketing thrust is driven by new product news and is directed towards building brand loyalty and increasing purchase frequency. 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 approach in our advertising campaigns. This "voice of the restaurant" defines our brand personality. By coupling this branding approach with real consumer benefits, existing guests are encouraged to visit more often and new guests are encouraged to give our concept a try. Television and radio, outdoor billboards, and coupon inserts are our key areas of focus in advertising.

Franchising

We designed our franchising program to extend the Company's brand name recognition 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.

Franchisees undergo a selection process supervised by the Vice President, Franchising, and require final approval by senior management. We typically seek franchisees with the financial resources necessary to fund successful development and significant experience in the restaurant/retail business. We assist franchisees with both the development and ongoing operation of their restaurants. Our management personnel assist with site selection, approve all restaurant sites and provide franchisees with prototype plans and construction support and specifications for their restaurants. Our staff provides both on-site and off-site instruction to franchised restaurant management associates.

All franchised restaurants are required to serve only Steak n Shake approved menu items. Access to services such as our distribution center and point-of-sale system enables franchisees to benefit from our purchasing power and assists us in monitoring compliance with our quality standards and specifications.

The standard Steak n Shake unit franchise agreement 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 fee and service fee both based on gross receipts. The standard franchise agreement also requires the franchisee to pay 5% of gross sales for advertising. For more information on franchising opportunities, visit our website at 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 establishments. In all of our current and proposed future market areas, there are established competitors with financial and other resources which are greater than ours. 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 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 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 27, 2006, we employed approximately 23,000 associates, of which approximately two-thirds were part-time hourly associates. We consider our employee relations to be good and believe that we are providing working conditions and wages that compare favorably with the industry.

Trademarks

"Steak n Shake®", "Steak 'n Shake Famous For Steakburgers®", "Famous For Steakburgers®", "Takhomasak®", "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 In Sight it Must be Right®", "Takhomacup®", "Takhomasak®", "Takhomacard®", "Banawberry®", "Banocolate®", "Strawnilla®", "Vanocha®", "Sippable Sundaes®", and the Company's "storefront design" ® are among the federally registered trademarks and servicemarks owned by the Company. "Chocawberry™", "High-n-Low™", "Orangilla™", "Side-by-Side™", "Vanawberry™", "Vanocolate "Bits 'n Pieces" are among the trademarks and service marks owned by the Company or for which federal registration applications are currently pending. We protect our trademark rights by appropriate legal action whenever necessary.

Government Regulation

We are subject to various federal, state and local laws and regulations that might impact 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 27, 2006, we had franchise operations in ten states and are subject to certain federal and state laws controlling the offering and conduct of the 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 2006, approximately 43.2% of our net sales were derived from five defined market areas (DMA's): St. Louis, Missouri (11.8%); Indianapolis, Indiana (11.7%); Orlando, Florida (7.2%); Chicago, Illinois (6.6%); and Tampa, Florida (5.9%). As a result, 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.

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. Our web site link is www.steaknshake.com and the link to SEC filings and corporate governance documents is www.steaknshake.com/investing.html. Our website and the information contained therein or connected thereto are not intended to be incorporated into this report on Form 10-K.

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Executive Officers of the Registrant

The following table sets forth, as of September 27, 2006, the names, ages, and positions held with the Company and its primary subsidiaries, and the date on which service in such capacities began, of the executive officers of the Company and its primary subsidiary:

Name	Age	Position with Company	Since
Jeffrey A. Blade	45	Senior Vice President, Chief Financial Officer -	
		The Steak n Shake Company	2004
		Steak n Shake Enterprises, Inc.	2006
Robert E. Brown	42	Vice President, Finance and Investor Relations	
		The Steak n Shake Company	2004
		Steak n Shake Enterprises, Inc.	2006
Roxanne Crosby	53	Senior Vice President -	
		The Steak n Shake Company	2003
		Steak n Shake Enterprises, Inc.	2006
Kevin E. Dooley	63	Vice President -	
		Steak n Shake Operations, Inc.	1993
Peter M. Dunn(1)	51	President -	
		The Steak n Shake Company	2002
		Steak n Shake Operations, Inc.	2002
		Chief Executive Officer -	
		The Steak n Shake Company	2004
		Steak n Shake Enterprises, Inc.	2006
Kenneth L. Faulkner	43	Vice President -	
		The Steak n Shake Company	2004
		Steak n Shake Operations, Inc.	2004
Duane E. Geiger	43	Vice President -	
		The Steak n Shake Company	2000
		Steak n Shake Enterprises, Inc.	2006
Alan B. Gilman(1)	76	Chairman -	
		The Steak n Shake Company	2003
		Steak n Shake Operations, Inc.	2003

		Steak n Shake Enterprises, Inc	2006
Bradley Manns	37	Vice President -	
		The Steak n Shake Company	2004
		Steak n Shake Operations, Inc.	2004
David C. Milne	39	General Counsel -	
		The Steak n Shake Company	2003
		Steak n Shake Enterprises, Inc.	2006
		Secretary -	
		The Steak n Shake Company	2004
		Steak n Shake Enterprises, Inc.	2006
Gary T. Reinwald	58	Executive Vice President -	
		The Steak n Shake Company	2004
		Steak n Shake Operations, Inc.	2004
Steven M. Schiller	41	Senior Vice President,	
		Chief Marketing Officer	
		The Steak n Shake Company	2005
		Steak n Shake Enterprises, Inc.	2006
J. Michael Vance	37	Vice President-	
		The Steak n Shake Company	2006
		Steak n Shake Enterprises, Inc.	2006
Gary S. Walker	46	Senior Vice President -	
		The Steak n Shake Company	1998
		Steak n Shake Operations, Inc.	1998
Douglas D. Willard	47	Vice President -	
		The Steak n Shake Company	2003
		Steak n Shake Enterprises, Inc.	2006
Alan Williger	63	Vice President -	
		The Steak n Shake Company	2006
		Steak n Shake Operations, Inc.	2006

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

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.

Mr. Brown joined the Company as Vice President, Finance and Investor Relations in 2004. Prior to joining Steak n Shake he worked in various financial roles with the Frito-Lay Company.

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. Prior to joining Steak n Shake, Mr. Dunn was President of Borden Foods Corporation, where he worked from 1993 to 2002. 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 the Company's Indiana Division Manager from 1994 to 2004 and served in various operational capacities since 1981.

Mr. Geiger was appointed Vice President Controller 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 from 1992 until 2004 and as President from 1992 until 2002.

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 since joining the Company in 1994.

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 the private practice of law 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, and has served in various capacities with the Company for more than 40 years.

Mr. Schiller joined the Company as Senior Vice President and Chief Marketing Officer in 2005. Prior to joining the Company, Mr. Schiller was the Group Director for the Marketing Organization for The Coca-Cola Company.

Mr. Vance was appointed Vice President - Information Technology in 2006 after having served in the capacity of Director of Information Technology since 2003. He most recently provided strategic technology solutions through consulting with Accenture.

Mr. Walker joined the Company in 1998 as Senior Vice President. His current duties include responsibility for operations, purchasing, distribution and franchising. 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.

Mr. Williger joined the Company in 2006 as Vice President, Real Estate and Development. Prior to joining the Company, Mr. Williger was the Executive Director of Real Estate at Applebees International, Inc.

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

ITEM 1A. RISK FACTORS

An investment in our common stock involves a degree of risk. These risks should be considered carefully with the uncertainties described below, and all other information included in this Annual Report on Form 10-K, as well as other filings that we make from time to time with the Securities and Exchange Commission, before deciding whether to purchase our common stock. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business, financial condition results or operations or cash flows. The occurrence of any of the following risks could harm our business, financial condition, results of operations or cash flows. The trading price of our common stock could decline due to any of these risks and uncertainties, and you may lose part or all of your investment.

Certain statements in this report 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, including those described below, 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.

Our planned expansion may not be successful.
We are currently building new restaurants in our existing markets and expect to continue to open additional new restaurants going forward. Our ability to open and profitably operate restaurants is subject to risks such as identifying and securing suitable and economically viable locations, negotiating acceptable lease or purchase terms for new locations, obtaining required governmental permits (including zoning approvals) on a timely basis, complying with other regulatory requirements, securing necessary contractors, subcontractors and labor, meeting construction schedules and budgets, increasing labor and building materials costs, and adverse weather conditions or other acts of God that could result in construction delays. If we are unable to successfully manage these risks, we could face increased costs and lower than anticipated revenues and earnings in future periods.

Our expansion plan includes adding locations in some of our existing markets. Although we have experience in these markets, increasing the number of locations in these markets may cause us to over-saturate markets and temporarily or permanently divert guests from our existing restaurants, thereby adversely affecting our overall profitability. We also plan to open restaurants in markets in which we have little or no meaningful experience. Those markets may have different competitive market conditions, consumer tastes and discretionary spending habits, which may cause our new restaurants to be less successful than restaurants in our existing markets. This could cause us to close restaurants, adversely affecting our overall profitability.

Due to our smaller restaurant base, our operating results could be materially and adversely affected by the negative performance of or the decision to close a small number of restaurants.
Our restaurant base is smaller than many other restaurant chains. Accordingly, poor operating results in one or more of our markets or the decision to close even a relatively small number of under-performing restaurants could materially and adversely affect our business, financial conditions, results of operations, or cash flows.

Our operating results could vary significantly if we are unable to attract guests to our restaurants and earn their repeat business.
We take pride in our ability to attract and retain our guests, however if we do not deliver an enjoyable dining experience for our guests or are unable to provide them with the food quality they expect, they may not return to our restaurants, and results may be negatively affected.

Changes in guest preferences for casual dining styles or menu items could adversely affect our financial performance.

Changing guest preferences, tastes and dietary habits can adversely impact our business and financial performance. We offer a large variety of entrees, side dishes and desserts and our continued success depends, in part, on the popularity of our product offerings and casual style of dining. A change in guest preferences away from this dining style or our offerings in favor of other dining styles or offerings may have an adverse effect on our business.

Increases in the minimum wage rates by federal or state governments could adversely affect our business.

Many of our associates are paid wages that relate to federal and state minimum wage rates. Any increases in the minimum wage rates may significantly increase our restaurant operating costs. In addition, since our business is labor-intensive, shortages in the labor pool or other inflationary pressure could increase labor costs, which could harm our financial performance.

Ownership and leasing of significant amounts of real estate exposes us to possible liabilities

We own the land and building, or lease the land and/or the building for our restaurants. Accordingly, we are subject to all of the risks associated with owning and leasing real estate. In particular, the value of our assets could decrease, and our costs could increase, because of changes in the investment climate for real estate, demographic trends and supply or demand for the use of the restaurants in the area, as well as liability for environmental conditions. We generally cannot cancel these leases. If an existing or future store is not profitable, and we decide to close it, we may, nonetheless, be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of the leases expires, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations.

Labor shortages, an increase in labor costs, or inability to attract qualified associates could harm our business.
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, or if they do not deliver an enjoyable dining experience to our guests, our results may be negatively affected. Additionally, competition for qualified employees could require us to pay higher wages or provide greater benefits, which could result in higher labor costs.

Fluctuations in commodity prices and the availability of commodities, including beef, poultry, and dairy could affect our business.
A significant component of our costs are related to food commodities, including beef, poultry, and dairy products, which can be subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, changes in international commodity markets and other factors. If there is a substantial increase in prices for these food commodities, and we are unable to offset the increases with changes in our menu pricing, our results of operation may be negatively affected. In addition, we are dependent on frequent deliveries of perishable food products that meet certain specifications. Shortages or interruptions in the supply of perishable food products caused by unanticipated demand, problems in production or distribution, disease or food-borne illnesses, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients, which would likely lower revenues, damage our reputation and otherwise harm our business.

Due to our geographic locations, certain restaurants are subject to climate conditions that could affect operations.
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 in the Midwest may face harsh winter weather conditions. 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, or if our restaurants are closed as the result of inclement weather, our sales and operating results may be negatively affected.

Unfavorable publicity could harm our business.
Restaurant chains such as ours can be adversely affected by publicity resulting from complaints or litigation alleging poor food quality, food-borne illness, personal injury caused by food tampering, adverse health effects (including obesity) or other concerns stemming from one or a limited number of restaurants. Regardless of whether the allegations or complaints are valid, unfavorable publicity relating to even just one of our restaurants, could adversely affect public perception of the entire brand which could immediately and severely hurt sales and accordingly, revenues and profits. If guests become ill from food-borne illnesses, we could also be forced to temporarily close some restaurants. In addition, instances of food-borne illnesses or food tampering, even those occurring solely at the restaurants of competitors, could, due to negative publicity about the restaurant industry, adversely affect sales.

We are subject to health, employment, environmental and other government regulations, and failure to comply with existing or future government regulations could expose us to litigation, damage our reputation and lower profits.
We are subject to various federal, state and local laws affecting our business. Restaurant operations are also subject to licensing and regulation by state and local departments relating to health, food preparation, sanitation and safety standards, federal and state labor laws (including applicable minimum wage requirements, overtime, working and safety conditions and citizenship requirements), federal and state laws prohibiting discrimination and other laws regulating the design and operation of facilities, such as the Americans with Disabilities Act of 1990. If we fail to comply with any of these laws, we may be subject to governmental action or litigation, and our reputation could be accordingly harmed. Injury to our reputation would, in turn, likely reduce revenues and profits.

In recent years, there has been an increased legislative, regulatory and consumer focus on nutrition and advertising practices in the food industry. As a result, we may become subject to regulatory initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of our food products, which could increase expenses. The operation of our franchise system is also subject to franchise laws and regulations enacted by a number of states and rules promulgated by the U.S. Federal Trade Commission. Any future legislation regulating franchise relationships may negatively affect our operations, particularly our relationship with franchisees. Failure to comply with new or existing franchise laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales.

We may not be able to adequately protect our intellectual property, which could decrease the value of our brand and products.

The success of our business depends on the continued ability to use the existing trademarks, service marks and other components of our brand to increase brand awareness and further develop branded products. While we take steps to protect our intellectual property, our rights to our trademarks could be challenged by third parties or our use of these trademarks may result in liability for trademark infringement, trademark dilution or unfair competition, adversely affecting our profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We currently lease 57,066 square feet of executive office space in Indianapolis, Indiana, under a lease expiring June 30, 2013.

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 lease division offices in Orlando, Florida; Cincinnati, Ohio; Columbus, Ohio; Detroit, Michigan; Chicago, Illinois; and a division office and administrative facility in Indianapolis, Indiana. We own division office facilities in St. Louis, Missouri. At September 27, 2006, we owned one restaurant location that had been leased to a third party. In addition, there were 10 restaurants under construction and we owned nineteen parcels of land that are being held for future development at September 27, 2006.

As of September 27, 2006, we operated 274 leased and 155 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, 176 contain clauses requiring the payment of a percentage of sales in excess of a certain threshold as rent 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 style but seat 54 to 198 customers and occupy between 1,000 and 6,000 square feet. We have lease obligations on two former restaurants which have been subleased to others as of September 27, 2006. 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.

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 27, 2006, SIC had two land and building leases for properties located in Chattanooga, Tennessee 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, which is subleased to a third party.

Restaurant Lease Expirations

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

	Number of Leases Expiring	
Calendar Year	SNS	SIC
2007 - 2011	**7**	0
2012 - 2016	**6**	0
2017 - 2021	**17**	0
2022 - 2026	**15**	0
2027 - 2031	**18**	0
Beyond	**211**	3
	274	3

ITEM 3. LEGAL PROCEEDINGS

We are engaged in various legal proceedings and have certain unresolved claims pending. The ultimate liability, if any, for the aggregate amounts claimed cannot be determined at this time. However, management of the Company, believes, based on examination of these matters and experiences to date, that the ultimate liability, if any, in excess of amounts already provided in our consolidated financial statements is not likely to have a material adverse effect on our results of operations, financial position or cash flows.

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.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price Range/Stock Trading

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

	2006		2005	
	High	**Low**	High	Low
First Quarter	**$ 19.39**	**$ 16.87**	$ 19.91	$ 16.48
Second Quarter	**$ 21.10**	**$ 16.60**	$ 20.40	$ 17.54
Third Quarter	**$ 20.08**	**$ 14.79**	$ 20.65	$ 17.92
Fourth Quarter	**$ 17.41**	**$ 13.46**	$ 21.80	$ 17.85

We did not pay cash dividends on our common stock during the two fiscal years reflected in the table. As of December 1, 2006, there were approximately 12,000 record holders of our common stock.

Share Repurchases

The following table presents a summary of share repurchases made by us:

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
July 6, 2006-August 2, 2006	--	--	--	2,979,600
August 3, 2006-August 30, 2006	--	--	--	2,979,600
August 31, 2006-September 27, 2006	--	--	--	2,979,600

The share repurchase program previously authorized by the Board of Directors was announced on November 16, 2005. The program allows for the repurchase of up to three million shares for a period of two years.

See Item 12 for "Equity Compensation Plan Information".

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL AND OPERATING DATA

The Steak n Shake Company

(Amounts in 000's, except per share data)

	2006	2005	2004	2003	2002
Statement of Earnings Data :					
Total Revenues	**$ 638,822**	$ 606,912	$ 553,692	$ 499,104	$ 459,014
Net Earnings (1)	**$ 28,001**	$ 30,222	$ 27,591	$ 20,861	$ 22,992
Per Share Data:					
Basic Earnings Per Common Share:					
Basic earnings per share (1)	**$ 1.01**	$ 1.10	$ 1.01	$ .77	$ .83
Diluted Earnings Per Common and					
Common Equivalent Share:					
Diluted earnings per share (1)	**$ 1.00**	$ 1.08	$ 1.00	$ .77	$ .82
Basic Weighted Average Shares (in thousands)	**27,723**	27,500	27,385	27,010	27,814
Diluted Weighted Average					
Shares and Share Equivalents (in thousands)	**28,039**	28,059	27,711	27,110	27,986
Statement of Financial Position Data:					
Total assets	**$ 542,521**	$ 474,657	$ 435,853	$ 417,174	$ 398,582
Long-term debt:					
Obligations under leases	**143,996**	147,615	144,647	147,957	151,502
Other long-term debt	**18,802**	6,315	9,429	16,203	24,419
Shareholders' equity	**$ 287,035**	$ 252,975	$ 218,932	$ 187,903	$ 166,421

SELECTED FINANCIAL AND OPERATING DATA
The Steak n Shake Company

	2006	2005	2004	2003	2002
Other Data:					
Number of Restaurants:					
Company-owned	**429**	399	365	356	348
Franchised	**48**	49	60	57	56
	477	448	425	413	404
Approximate Number of Employees	**23,000**	21,500	20,000	20,000	20,000
Approximate Number of Shareholders	**12,000**	13,500	13,500	13,500	12,500

(1) Fiscal 2006 net income and earnings per share includes the impact of the adoption of Statement of Financial Standard No. 123(R), "Share Based Payment." Net after-tax effect was $0.07 per diluted share.

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

The Steak n Shake Company
(Years ended September 27, 2006, September 28, 2005, and September 29, 2004)
(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.

The Company has a 52/53 week fiscal year ending on the last Wednesday in September. Fiscal years 2006 and 2005, which ended on September 27, 2006 and September 28, 2005, respectively, contained 52 weeks while fiscal year 2004, which ended on September 29, 2004, contained 53 weeks.

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

Business Profile
In fiscal 2006, we opened 26 new Company-owned restaurants and acquired eight existing restaurants from Creative Restaurants Inc. ("CRI"), a franchisee. This brings the total Company-owned restaurants to 429. Additionally, six new franchised units were opened during fiscal 2006 bringing the total number of franchised restaurants to 48. As of September 27, 2006, there were a total of 477 Steak n Shake restaurants.

Company Performance
We reported higher revenues and lower net earnings and diluted earnings per share in the year ended September 27, 2006 as compared to the prior year. Total revenues increased by 5.3% to $638,822, compared to $606,912 for the same period last year. Net earnings decreased 7.3% to $28,001 from $30,222 in the prior year, while diluted earnings per share decreased to $1.00 from $1.08. The current year includes a net $0.07 decrease in earnings per share relating to the adoption of Statement of Financial Standard No. 123(R), "Share Based Payments" (SFAS 123(R)), which was not included in the prior year. The prior period included a $912 impairment charge, net of tax, or $0.03 per diluted share, related to the decision to close two under-performing restaurants.

The keys to our revenue growth were primarily due to the addition of twenty-six new stores as well as revenues earned from eight CRI stores which were acquired at the beginning of the fourth quarter 2006. Fiscal year 2006 revenues also included a full year of sales from KRI stores that were purchased at the end of the first fiscal quarter in 2005. In the current year, same stores sales decreased by 2.1% for the full year as a result of a decrease in guest counts of 6.2% offset by an increase in average guest expenditure of 4.1%, aided by a 3.1% menu price increase in the current year.

We believe the decline in guest counts is due largely to the impact of rising fuel prices, rising interest rates and falling consumer confidence that diverted these guests to more traditional quick service restaurants ("QSR"). While this change in trend can largely be explained by external factors, we were dissatisfied that we were not able to grow our guest counts. We are committed to improving both our execution and the concept to enable us to gain same store sales, even in difficult environments. We remain respectful of the fact that the outlook for several external environmental factors that affect casual dining trends (such as gas prices and interest rates) remains uncertain.

During the year we made substantial progress on key operating measures, new product innovation and expansion. We have continued to focus on the importance of reducing the turnover of managers and associates. We continued to reduce associate turnover from a high of 220% in fiscal 2002 to a new record low of 128% at the end of 2006. Management turnover ended the year at 26% from a high of approximately 49% in 2002. We are clear these loyal and trained associates are driving higher levels of guest satisfaction. The percentage of guests giving us a perfect five on a five point scale hit a new high of 63% at the end of 2006, up from 53% when our surveys first began in 2003. During the second half of 2006, we also reduced average drive-through window times, allowing us to better serve our customers.

In 2006, we also made progress accelerating expansion. The 26 new Company-owned restaurants are on track to deliver average first year sales in excess of $1,600. As a result of deeper financial analysis than in the past, we discovered the new stores had a greater than anticipated negative impact on sales at nearby stores. This cannibalization contributed to the same store decline experience, in 2006. The learning from this year will be used to fine tune our real estate and market research strategy going forward.

The Steak 'n Shake brand enjoys a great heritage and loyal following. But like all great brands it must be refreshed in order to remain vital. In 2007, we will invest a significant amount of energy and resources towards improved execution and concept revitalization.

We often refer to a chart which shows that Steak n Shake is in the second of three phases of our growth plan. This phase contains two major activities within it; “Strengthening the Foundation” and “Preparing for Expansion." Given the challenging same store sales environment that we expect to face in fiscal 2007, we have chosen to place additional emphasis on “Strengthening the Foundation.” By unlocking the same store sales growth potential that exists within the brand, through improved execution, innovation and concept optimization, we can provide the strong foundation we need to accelerate earnings growth.

Fiscal 2007

We anticipate full-year diluted earnings per share in the range of $0.90 to $1.00. The earnings per share estimate is based on a same store sales decline of 3.0% to sales growth of 1.0%. We anticipate negative same store sales during the first half of the fiscal year, followed by improving same store sales in the second half of the year which will be driven by new product innovation and easier same store sales comparisons.

During the year, we will review all aspects of the organization to ensure that we are in a strong position to gain sales and have sustained earnings momentum going forward. Any actions which would affect cash flow have been estimated and are included in the earnings per share guidance above. In addition, we will continue reviewing all under-performing stores. Based on our analysis, we will develop a plan to improve each store's performance or dispose of the assets in instances where we believe doing so is in our best interest.

We anticipate opening approximately 15 new Company-owned stores in fiscal 2007 with the expectation that at least two-thirds of the openings will be completed in the first half of the fiscal year. Relative to franchising, we plan to open at least seven franchise units during fiscal 2007. Fiscal 2007 capital spending is anticipated to be in a range of $75,000 to $85,000, with a net capital spend of approximately $45,000 to $55,000, assuming $25,000 to $35,000 from the sale of real estate, primarily through sale-leaseback transactions. The breakdown of the capital plan includes $50,000 to $60,000 for new unit expansion, which includes new units, land acquisition and rebuild/remodels, approximately $15,000 for a new store point-of-sale systems, and approximately $10,000 for other project initiatives.

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates and our assumptions based on historical experience and other factors that are believed to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions or circumstances.

We believe the following critical accounting estimates are our more significant judgments and estimates used in preparation of our consolidated financial statements.

Impairment of Long-lived Assets
We review our restaurants for impairment on a restaurant-by-restaurant basis when events or circumstances indicate a possible impairment. We test 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, we believe that accounting estimates related to long-lived assets are critical.

Insurance Reserves
We self-insure a significant portion of expected losses under our workers' compensation, general liability, and auto liability insurance programs. In 2006 we began to self-insure our group health insurance risk. We purchase reinsurance for individual and aggregate claims that exceed predetermined limits. We record a liability for all unresolved claims and our estimates 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. Our reserve for self-insured liabilities at September 27, 2006, and September 28, 2005 were $10,521 and $3,070, respectively.

Income Taxes
We record deferred tax assets or liabilities based on differences between financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. We record deferred tax assets to the extent we believe 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. We 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, we believe estimates related to income taxes are critical. Based on 2006 results, a change of 1% in the annual effective tax rate would have an impact of $423 on net earnings.

Goodwill and Other Intangible Assets

We evaluate goodwill and other indefinite life intangible assets annually, or more frequently if indicators of impairment are present. If the determined fair values of these assets are less than the related carrying amounts an impairment loss is recognized. The methods used to estimate fair value may include future cash flow assumptions, which may differ from actual cash flows due to, among other things, economic conditions or changes in operating performance. The future cash flows expected to be generated by an asset requires significant judgment regarding future performance of the asset, and other financial and economic assumptions. Accordingly, we believe that accounting estimates related to goodwill and other intangible assets are critical.

Leases

We lease certain properties under operating leases. We also have many lease agreements that contain rent holidays, rent escalation clauses and/or contingent rent provisions. We recognize rent expense on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty. We use a time period for our straight-line rent expense calculation that equals or exceeds the time period used for depreciation. In addition, the rent commencement date of the lease term is the earlier of the date when we become legally obligated for the rent payments or the date when we take access to the grounds for buildout. As the assumptions inherent in determining lease commencement and lease expiration dates and other related complexities of accounting for leases involve significant judgement, management has determined that lease accounting is critical.

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:

	2006	2005	2004
Revenues:			
Net sales	99.4%	99.4%	99.2%
Franchise fees	**0.6**	0.6	0.8
Total Revenues	**100.0**	100.0	100.0
Costs and Expenses:			
Cost of sales (1)	**22.6**	23.2	23.6
Restaurant operating costs (1)	**50.3**	49.0	49.2
General and administrative	**8.3**	7.9	7.7
Depreciation and amortization	**4.5**	4.4	4.5
Marketing	**4.3**	4.4	4.2
Interest	**1.8**	2.1	2.4
Rent	**1.9**	1.7	1.6
Pre-opening costs	**0.6**	0.5	0.4
Provision for restaurant closings	**-**	0.2	(0.1)
Other income, net	(0.4)	(0.3)	(0.4)
Earnings Before Income Taxes	**6.6**	7.3	7.7
Income Taxes	**2.2**	2.3	2.7
Net Earnings	**4.4%**	5.0%	5.0%

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

(Amounts in $000s)

Fiscal 2006 compared with Fiscal 2005

Net Earnings

Net earnings decreased in the current year by 7.3% or $2,221 to $28,001, or $1.00 per diluted share compared with $30,222 or $1.08 per diluted share, for fiscal 2005. The decrease was primarily driven by the impact of the adoption of SFAS 123(R), which had an impact of $0.07 per diluted share coupled with the decrease in same stores sales as noted below.

Net Sales

For the year, net sales increased 5.3% from $603,068 to $634,941. The net sales gains were due to new Company-owned stores and the acquisition of franchise units partially offset by a 2.1% same store sales decline. That decline in same store sales was due to a declining guest count of 6.2% partially offset by a 4.1% increase in average guest expenditure. In 2006, we opened 26 new Company-owned stores and acquired eight restaurants in the fourth quarter from CRI, a franchisee. Fiscal 2006 net sales also benefited from a full year of sales relating to the acquisition of 17 franchised restaurants from KRI during December 2004. KRI sales during 2006 and 2005 were $37,765 and $29,750, respectively. CRI sales during the fourth quarter and full year of 2006 were $3,990.

Cost and Expenses

In 2006, cost of sales were $143,360 or 22.6% of net sales, compared with $140,078 or 23.2% of net sales in fiscal 2005. The decrease as a percentage of sales was due primarily to lower commodity costs, the positive impact of pricing actions and food cost control measures. These reductions were partially offset by unfavorable mix for premium topping STEAKBURGER™ sandwiches and premium milkshakes.

Restaurant operating costs were $319,070 or 50.3% of net sales compared to $295,202 or 49.0% of net sales in the prior year. The increase in absolute dollars for labor and fringes was $13,867 or 0.4% increase as a percent of net sales over the prior year; an increase in utilities of $3,131 or a 0.3% increase as a percent of net sales over the prior year, and an increase in repairs and maintenance of $1,898 or 0.2% increase as a percent of net sales over the prior year.

General and administrative expenses for fiscal 2006 were $52,949 or 8.3% of total revenues compared to $47,902 or 7.9% of total revenues in 2005. The increase in general and administrative expenses as a percent of sales was attributable to the $2,200 expense related to the expensing of stock options and shares issued from our employee stock purchase plan pursuant to SFAS 123(R).

Occupancy costs including depreciation and rent expense increased slightly as a percentage of total revenues primarily as a result of the decline in same store sales as well as the addition of capital assets owned which have increased depreciation expense and increased rental rates for new unit leases which have affected overall rent expense.

Interest expense as a percent of revenues in fiscal 2006 was $11,373 or 1.8%, versus $12,641 or 2.1% in the prior year. The decrease in interest expense was due to reduced debt under the senior notes agreement, lower capital lease balances and higher capitalized interest from increased land acquisition and unit construction.

In fiscal 2006, provision for restaurant closings was a credit of $103 as a result of the gain on the sale of one unit that had been closed during a prior year. Fiscal 2005 provision of $1,400 was charged as a result of the decision to close two restaurants.

Pre-opening expense was $3,579 or 0.6% of total revenues versus $3,247 or 0.5% of revenues in the prior year. The fluctuation is driven by an increase in new units from 19 last year to 26 in fiscal year 2006. Pre-opening costs per restaurant continue to average approximately $150.

Income tax expense was recorded at an effective tax rate of 33.8%, versus 32.0% in the prior year. The increase in the tax rate in the current year is due to a benefit recorded in the fourth quarter of last year of $900 due primarily to the favorable resolution of state income tax amounts accrued in prior years. In addition, the increase in the effective tax rate over prior year was also due to the tax effects of the adoption of SFAS 123(R) and an increase in state income tax expense.

Fiscal 2005 compared with Fiscal 2004

Net Sales

Net sales in fiscal 2005 increased $53,938 (9.8%) to $603,068 due to the opening of 19 new Company-owned restaurants, the addition of 17 restaurants acquired from KRI with 2005 sales of $29,224, and the increase in same store sales of 2.9%. Fiscal 2004 included an additional week of sales of $9,500. Same store sales included a 3.5% increase in the average guest expenditure and a 0.6% decrease in customer traffic. We had 399 Company-owned restaurants at September 28, 2005 compared to 365 stores at September 29, 2004. The year was highlighted by the extension of the Sippable SundaesÔ Milk Shakes in 2005 which increased comparable unit shake sales by 11%.

Cost and Expenses

Cost of sales increased $10,620 (8.2%) to $140,078 in fiscal 2005 due to increases in net sales. As a percentage of net sales, cost of sales decreased from 23.6% to 23.2%. Decrease in cost of sales as a percentage of net sales is due primarily to lower commodity costs which the result of the positive impact of pricing actions and strong food cost control measures compared to fiscal 2004.

Restaurant operating costs increased $25,145 (9.3%) to $295,202 in 2005. The increase is due to the opening of 19 new restaurants and the addition of 17 restaurants acquired during the year. As a percentage of net sales, restaurant operating costs decreased from 49.2% to 49.0%. The decrease in restaurant operating costs as a percentage of net sales is due to a decrease in turnover of employees and management which decreased overall training and operating costs.

General and administrative expenses increased $5,538 (13.1%) to $47,902 over fiscal 2004 and general and administrative expenses as a percentage of total revenues increased from 7.7% to 7.9%. The overall increase is primarily the result of planned investments, including investments in our Human Resources and Real Estate Departments and other capacities to support expected expansion.

Interest expense is incurred based on borrowings outstanding from long-term debt and finance lease obligations including the debt assumed from KRI. Interest expense decreased $438 (3.3%) to $12,641 from fiscal 2004 to fiscal 2005.

Rent expense continues to increase year over year as a result of the increase in the number of leased restaurants that are operated by the Company including the addition of KRI restaurants. The increases in rent expense are also the result of the increase in percentage rents resulting from the increase in net sales. The increase in 2005 from 2004 was $1,624 (18.8%) bringing total rent expense to $10,250.

In 2005, we recorded a charge in our provision for closing costs of $1,400 before taxes relating to the decision to close two under-performing restaurants. We closed these restaurants in 2006 and prepared the owned restaurants for sale. Similarly, in 2003, we made the decision to close nine under-performing restaurants. We sold five of these restaurants during 2004 and adjusted the amount of the provision by $394 to reflect the gain on the sale of these restaurants.

Pre-opening costs represent the costs to prepare for the opening of new restaurants. These costs have increased as we have continued our plan to increase the number of restaurants we own and operate. The increase in 2005 of $1,149 (54.8%) to $3,247 over fiscal 2004 reflects an increase in number of restaurants opened in fiscal 2005 compared to fiscal 2004 (19 in fiscal 2005 compared to 16 in fiscal 2004) as well as an increase in the number of rebuilds (five in fiscal 2005 compared with two in fiscal 2004). Pre-opening costs also include expenses incurred for restaurants yet to be opened that are currently under construction.

The effective income tax rate for fiscal 2005 decreased from 35.0% in fiscal 2004 to 32.0%. The decrease in the effective tax rate over the prior year is primarily the result of favorable resolution of income tax contingencies.

Restaurant Closings

In September 2005, we identified two under-performing restaurants for disposal and recorded a charge of $1,400 ($912 net of income taxes or $.03 per diluted share) relating to a write-down of related property and equipment to its estimated fair value. Similarly in 2003, we identified nine under-performing restaurants for disposal. Of the 11 restaurants identified for disposition, six have been sold. We are currently seeking buyers for the remaining properties, and anticipate completing the disposal of the properties in 2007. We do not anticipate any significant additional future payments related to the store closings, other than the amounts accrued as of year-end.

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, energy costs, transportation costs 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

We generated $69,578 in cash flows from operations during fiscal 2006, primarily due to $28,001 in net earnings and depreciation and amortization charges of $28,967. In 2005 we generated $64,279 in cash flows from operations, primarily due to $30,222 in net earnings and depreciation and amortization charges of $26,945.

Net cash used in investing activities of $87,314 during fiscal 2006 resulted from capital expenditures of $80,840 and the acquisition of CRI, a franchisee, for $9,598. There were twenty-six new restaurants opened in 2006 as well as eight restaurants acquired. Additionally, we rebuilt two restaurants during 2006. Net cash used in investing activities of $74,873 during 2005 resulted from capital expenditures of $63,622 and the acquisition of KRI, a franchisee, for $16,082. There were 19 new restaurants added in 2005 as well as five restaurants that were rebuilt. We expect to open at least fifteen Company-owned Steak n Shake restaurants during 2007 at an average cost of approximately $2,000 to $2,500, which includes the land, site improvements, building, equipment, and pre-opening costs. Approximately half of these units will be land leases or build-to-suit locations. Additionally, we plan to rebuild or replace four existing restaurants. The new store openings will allow us to continue our expansion in newer markets, while also further penetrating existing markets. This level of expansion will allow us to grow the business in a controlled manner while still focusing on improving each and every guest experience. We intend to fund future capital expenditures and meet our working capital needs by using anticipated cash flows from operations, our existing borrowing facilities, and through sale-leaseback transactions. We currently own the land and buildings on approximately one-third of our restaurant sites. The amount and timing of the potential sale leaseback-transactions will be based on both our current needs as well as the current market conditions.

On July 6, 2006, we completed the acquisition of CRI for $9,598, which included adjustments for working capital and other adjustments. The eight restaurants acquired are located predominately in the Louisville, Kentucky market. Similarly in fiscal 2005, we acquired KRI on December 29, 2004 for $16,082, which included adjustments for debt repayment, working capital and other adjustments. At the acquisition date, KRI operated 17 Steak n Shake restaurants. We assumed four mortgages on properties related to the KRI acquisition, however, three of the four mortgages were paid off during fiscal 2005. As of September 27, 2006, the remaining mortgage had a balance of $742 at a fixed interest rate of 5%.

As of September 27, 2006, we had outstanding borrowings of $5,572 under our Senior Note Agreement and Private Shelf Facility ("Senior Note Agreement"). Borrowings under the Senior Note Agreement bear interest at an average fixed rate of 7.6%. Our Senior Note Agreement was amended in the current fiscal year to extend the expiration of the remaining borrowing capacity of $75,000 through September 30, 2008. Subsequent to year-end, we borrowed an additional $15,000 through the amended agreement with a maturity of October 27, 2011. The interest rate on the additional debt is 5.66%, with interest paid quarterly and principal payments due annually, beginning October 27, 2009. The $15,000 was used to pay down the borrowings on the Revolving Credit Agreement.

We also maintain a $50,000 Revolving Credit Agreement that bears interest based on LIBOR plus 55 basis points, or the prime rate minus 100 basis points, at our election, and matures on January 30, 2008. As of September 27, 2006, we had borrowings under the Revolving Credit Agreement of $25,065 at a blended borrowing rate of 5.9%. We had no borrowings on the Revolving Credit Agreement as of September 28, 2005. We had $3,327 in standby letters of credit outstanding as of September 27, 2006 and September 28, 2005. Our debt agreements contain restrictions, which, among other things, require us to maintain certain financial ratios. During 2006 and 2005, we were in compliance with the covenants and anticipate compliance in future periods based on expected earnings and debt repayment terms.

Contractual Obligations

Our significant contractual obligations and commitments as of September 27, 2006 are shown in the following table.

	Payments due by period				
Contractual Obligations	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-term debt(1)	$ 13,796	$ 5,142	$ 11,641	$ 5,047	$ 35,626
Capital leases and finance obligations(1)	16,129	32,254	31,021	86,451	165,856
Operating leases(2)	10,368	20,463	18,498	79,127	128,456
Purchase commitments(3)	15,439	651	-	-	16,091
Other Long-term liabilities(4)	-	-	-	1,736	1,736
Total	$ 55,732	$ 58,510	61,160	$ 172,361	$ 347,765

(1) Payments include principal and interest.
(2) Payments exclude amounts to be paid for contingent rents.
(3) Primarily represents cost of sales components in which minimum volume is defined in contract terms.
(4) Includes liabilities for Non-qualified Deferred Compensation Plan

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements other than operating leases entered into in the normal course of business.

New Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. This Interpretation requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based solely on the technical merits of the position. The accounting provision of FIN 48 will be effective for us beginning in fiscal 2008. We are in the process of determining the effect, if any, that the adoption of FIN 48 will have on our financial statements.

In June 2006, the Emerging Issues Task Force reached a consensus on Issue no. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement" ("EITF 06-3"). The scope of EITF 06-3 includes sales, use, value added and some excise taxes that are assessed by a governmental authority on specific revenue-producing transactions between a seller and customer. EITF 06-3 states that a company should disclose its accounting policy (ie., gross or net presentation) regarding the presentation of taxes within its scope, and if significant, these disclosures should be applied retrospectively to the financial statements for all periods represented. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006, our second quarter of fiscal 2007. The adoption of EITF 06-3 is not expected to have a material effect on our financial position, results of operations or cash flows.

On September 13, 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the first fiscal year ending after November 15, 2006, which will be our fiscal year 2007. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

Statement of Accounting Standards No. 154 (SFAS 154) "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" was issued in May 2005, effective for fiscal years beginning after December 15, 2005. We will comply with the provisions of SFAS 154 for any accounting changes or error corrections that may occur in fiscal year 2007 and thereafter.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. We are in the process of analyzing the impact of SFAS 157, which is effective for fiscal years beginning after November 15, 2007.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure with regard to financial instruments is to changes in interest rates. We invest excess cash primarily in cash equivalents due to their relatively 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 our Senior Note Agreement, we may from time to time borrow in increments of at least $5,000. 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 55 basis points or the prime rate minus 100 basis points, at our election. Historically, we have not used derivative financial instruments to manage exposure to interest rate changes. At September 27, 2006 a hypothetical 100 basis point increase in short-term interest rates would have an impact of approximately $125 on our earnings.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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 27, 2006 and September 28, 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the years ended September 27, 2006, September 28, 2005, and September 29, 2004. 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Steak n Shake Company and subsidiaries as of September 27, 2006 and September 28, 2005, and the results of their operations and their cash flows for the years ended September 27, 2006, September 28, 2005, and September 29, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective September 29, 2005, the Company changed its method of accounting for share-based payments as required by Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of September 27, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 8, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte and Touche LLP
Indianapolis, Indiana
December 8, 2006

Consolidated Statements of Earnings
The Steak n Shake Company
(Years ended September 27, 2006, September 28, 2005, and September 29, 2004)
(Amounts in $000s except share and per share data)

	2006 (52 Weeks)	2005 (52 weeks)	2004 (53 weeks)
Revenues:			
Net sales	**$ 634,941**	$ 603,068	$ 549,130
Franchise fees	**3,881**	3,844	4,562
Total revenues	**638,822**	606,912	553,692
Costs and Expenses:			
Cost of sales	**143,360**	140,078	129,458
Restaurant operating costs	**319,070**	295,202	270,057
General and administrative	**52,949**	47,902	42,364
Depreciation and amortization	**28,967**	26,945	24,858
Marketing	**27,473**	26,771	23,106
Interest	**11,373**	12,641	13,079
Rent	**12,233**	10,250	8,626
Pre-opening costs	**3,579**	3,247	2,098
Provision for restaurant closings	**(103)**	1,400	(394)
Other income, net	**(2,371)**	(1,968)	(1,998)
Total costs and expenses	**596,530**	562,468	511,254
Earnings Before Income Taxes	**42,292**	44,444	42,438
Income Taxes	**14,291**	14,222	14,847
Net Earnings	**$ 28,001**	$ 30,222	$ 27,591
Basic Earnings Per Common and Common Equivalent Share	**$ 1.01**	$ 1.10	$ 1.01
Diluted Earnings Per Common and Common Equivalent Share	**$ 1.00**	$ 1.08	$ 1.00
Weighted Average Shares and Equivalents:			
Basic	**27,723,282**	27,499,982	27,385,447
Diluted	**28,038,545**	28,059,152	27,710,643

See accompanying notes.

Consolidated Statements of Financial Position
The Steak n Shake Company
(As of September 27, 2006 and September 28, 2005)
(Amounts in $000s except share data)

		2006		2005
Assets:				
Current Assets				
Cash	**$**	**4,820**	$	3,063
Receivables, net		**5,858**		2,619
Inventories		**7,018**		6,367
Deferred income taxes		**3,873**		2,600
Assets held for sale		**4,514**		1,756
Other current assets		**4,837**		4,633
Total current assets		**30,920**		21,038
Net property and equipment		**490,142**		439,620
Goodwill		**14,485**		7,458
Other intangible assets, net		**2,152**		2,079
Other assets		**4,822**		4,462
Total assets	**$**	**542,521**	$	474,657
Liabilities and Shareholders' Equity:				
Current Liabilities				
Accounts payable	**$**	**28,262**	$	21,304
Accrued expenses		**38,023**		30,908
Current portion of long-term debt		**2,512**		3,940
Line of credit		**10,065**		—
Current portion of obligations under leases		**4,221**		3,896
Total current liabilities		**83,083**		60,048
Deferred income taxes		**5,800**		5,483
Other long-term liabilities		**3,805**		2,221
Obligations under leases		**143,996**		147,615
Long-term debt		**18,802**		6,315
Commitments and Contingencies				
Shareholders' Equity:				
Common stock — $.50 stated value, 50,000,000 shares authorized — shares issued: 30,332,839 in 2006 and 2005		**15,166**		15,166
Additional paid-in capital		**123,860**		124,000
Less: Unamortized value of restricted shares		—		(2,300)
Retained earnings		**173,216**		145,215
Treasury stock — at cost: 2,170,332 shares in 2006; 2,460,026 shares in 2005		**(25,207)**		(29,106)

Total shareholders' equity		**287,035**		252,975
Total liabilities and shareholders' equity	**$**	**542,521**	$	474,657
See accompanying notes.				

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Consolidated Statements of Cash Flows
The Steak n Shake Company
(*Years ended September 27, 2006, September 28, 2005, and September 29, 2004*)
(Amounts in $000s)

	2006 (52 Weeks)	2005 (52 Weeks)	2004 (53 Weeks)
Operating Activities:			
Net earnings	$ **28,001**	$ 30,222	$ 27,591
Adjustments to reconcile net earnings			
to net cash provided by operating activities:			
Depreciation and amortization	**28,967**	26,945	24,858
Provision for deferred income taxes	**(956)**	1,769	192
Provision for restaurant closings	**(103)**	1,400	(394)
Non-cash expense for stock-based compensation and deferred rent	**4,560**	1,798	1,475
Loss on disposal of property	**911**	650	732
Changes in receivables and inventories	**(3,773)**	1,575	(1,099)
Changes in other assets	**(259)**	(935)	(3,979)
Changes in accounts payable and accrued expenses	**12,230**	855	(1,847)
Net cash provided by operating activities	**69,578**	64,279	47,529
Investing Activities:			
Additions of property and equipment	**(80,840)**	(63,622)	(46,278)
Purchase of franchisees	**(9,598)**	(16,082)	—
Proceeds from property and equipment disposals	**3,124**	4,365	2,684
Proceeds from sale of short-term investments	—	466	1,104
Purchase of short-term investments	—	—	(621)
Proceeds from long-term investments called or sold	—	—	5,095
	(87,314)	(74,873)	(38,016)

Net cash used in investing activities			
Financing Activities:			
Proceeds from line of credit facility	**25,065**	—	—
Principal payments on long-term debt	**(3,941)**	(9,910)	(8,215)
Proceeds from equipment and property leases	**700**	650	600
Principal payments on lease obligations	**(4,082)**	(4,494)	(3,661)
Proceeds from exercise of stock options	**646**	688	851
Stock repurchases	**(312)**	—	—
Excess tax benefits from stock-based awards	**72**	—	—
Proceeds from employee stock purchase plan	**1,345**	1,573	1,267
Net cash provided by (used in) financing activities	**19,493**	(11,493)	(9,158)
Increase (Decrease) in Cash and Cash Equivalents	**1,757**	(22,087)	355
Cash and Cash Equivalents at Beginning of Year	**3,063**	25,150	24,795
Cash and Cash Equivalents at End of Year	**$ 4,820**	$ 3,063	$ 25,150

See accompanying notes.

Consolidated Statements of Shareholders' Equity

The Steak n Shake Company

(Years ended September 27, 2006, September 28, 2005, and September 29, 2004)

(Amounts in $000s except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unamortized Value of Restricted Shares	Treasury Stock Shares	Treasury Stock Amount
Balance at September 24, 2003	$ 15,166	$ 123,180	$ 87,402	$ (195)	3,264,165	$ (37,650)
Net earnings			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
Shares forfeited under Capital Appreciation Plan				194	13,000	(194)
Changes in unamortized value of shares granted under Capital Appreciation Plan				712		
Tax effect relating to stock awards		607				
Shares issued for Employee Stock Purchase Plan					(146,787)	1,267
Balance at September 29, 2004	15,166	123,787	114,993	(1,393)	2,846,560	(33,621)
Net earnings			30,222			
Shares exchanged to exercise stock					156,280	(3,120)

options						
Shares reissued to exercise stock options					(314,284)	3,808
Shares granted under Capital Appreciation Plan				(2,478)	(139,700)	2,478
Shares forfeited under Capital Appreciation Plan				224	14,000	(224)
Changes in unamortized value of shares granted under Capital Appreciation Plan				1,347		
Tax effect relating to stock awards		213				
Shares issued for Employee Stock Purchase Plan					(102,830)	1,573
Balance at September 28, 2005	15,166	124,000	145,215	(2,300)	2,460,026	(29,106)
Net earnings			**28,001**			
Reclass of unamortized value of restricted shares		**(2,300)**		**2,300**		
Compensation expense for share-based payments		**3,992**				
Shares exchanged to exercise stock options					**74,547**	**(1,345)**
Shares reissued to exercise stock options					**(165,532)**	**1,991**
Shares repurchased under stock buyback					**20,400**	**(312)**

program						
Shares granted under Capital Appreciation Plan		**(2,381)**			**(135,500)**	**2,381**
Shares forfeited under Capital Appreciation Plan		**161**			**9,700**	**(161)**
Tax effect relating to stock awards		**388**				
Shares issued for Employee Stock Purchase Plan					**(93,309)**	**1,345**
Balance at September 27, 2006	$ **15,166**	$**123,860**	$ **173,216**	**$ -**	**2,170,332**	**$(25,207)**
See accompanying notes.						

Notes to Consolidated Financial Statements
The Steak n Shake Company
(Years ended September 27, 2006, September 28, 2005, and September 29, 2004)
(Amounts in $000s except share and per share data)

1. Summary of Significant Accounting Policies

Description of Business
The Steak n Shake Company's principal business is the operation, development and franchising of full service, casual dining restaurants. As of September 27, 2006, we operated 477 Steak n Shake restaurants including 48 franchised restaurants, through our wholly owned subsidiary Steak n Shake Operations, Inc.

Fiscal Year
Our fiscal year ends on the last Wednesday in September. Fiscal years 2006 and 2005 contain 52 weeks, while fiscal year 2004 contains 53 weeks.

Principles of Consolidation
The consolidated financial statements 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
Our 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. Cash equivalents and short-term investments are carried at cost, which approximates market value due to their short maturities. We had no short-term investments at September 27, 2006 or September 28, 2005.

Receivables
We carry our 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 $74 at September 27, 2006 and $69 at September 28, 2005.

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 under-performing restaurants and land that is currently being marketed for disposal. The balance at September 27, 2006 is comprised of: Land and Buildings - $4,197; Land and Leasehold Improvements - $190; and Equipment - $127. The balance at September 28, 2005 is comprised of: 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 (10 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. We review for impairment our long-lived assets

whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of this 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.

Goodwill and Purchased Intangible Assets

Goodwill and indefinite life intangibles are not amortized, but are tested for potential impairment on an annual basis, or more often if events or circumstances change that could cause goodwill or indefinite life intangibles to become impaired. Other purchased intangible assets are amortized on a straight-line basis over their estimated useful lives. We perform reviews for impairment of other intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. When an impairment is identified, we reduce the carrying amount of the asset to its estimated fair value.

Capitalized Software

Internal-use software is stated at cost less accumulated amortization and is amortized using the straight-line method over its estimated useful life ranging from three to five years. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. During the software application development stage, capitalized costs include external consulting costs, cost of software licenses, and internal payroll and payroll-related costs for employees who are directly associated with a software project. Upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion and business process reengineering costs are expensed in the period in which they are incurred. Capitalized software is included in the balance of Other Assets in the Statement of Financial Position.

Revenue Recognition

We record 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 and administrative services fees are based on franchise sales and are recognized as revenue as earned.

Insurance Reserves

We self-insure a significant portion of expected losses under our workers' compensation, general liability, medical, and auto liability insurance programs, and record a reserve for our estimated losses on all unresolved open claims and our estimated incurred, but not reported claims at the anticipated cost to us. Insurance reserves are recorded in the balance of accrued expenses in the Statement of Financial Position.

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*.

	2006	2005	2004
Basic earnings per share:			
Weighted average common shares	**27,723,282**	27,499,982	27,385,447
Diluted earnings per share:			
Weighted average common shares	**27,723,282**	27,499,982	27,385,447
Dilutive effect of stock options	**315,263**	559,170	325,196
Weighted average common and incremental shares	**28,038,545**	28,059,152	27,710,643
Number of share-based awards excluded from the calculation of earnings per share as the awards' exercise prices were greater than the average market price of the Company's common stock	**792,193**	280,929	54,372

Stock-Based Compensation

We adopted Statement of Financial Accounting Standard No. 123 (Revised 2004), "Share Based Payment" (SFAS 123(R)) on September 29, 2005. This Statement requires that all stock-based compensation, including grants of employee stock options and shares issued under our employee stock purchase plan, be accounted for using the fair value-based method. We elected to adopt SFAS 123(R) using the modified prospective method. Refer to Note 13 for additional information regarding our stock-based compensation.

Employees' 401(k) and Profit Sharing Plan

The Steak n Shake Company's 401(k) and Profit Sharing Plan (the "Plan") is a defined contribution plan covering substantially all employees 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 $1,500 paid in 2005 and $1,854 paid in 2004. There were no profit sharing contributions paid in 2006. In 2005, we amended the Plan to require a Company match equal to 50% of the participants' first 6% of compensation deferred. Matching contributions paid in fiscal 2006 and fiscal 2005 were $1,266 and $1,497, respectively.

Marketing Expense

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.

Non-Qualified Deferred Compensation Plan

We maintain a self-directed Non-Qualified Deferred Compensation Plan (the "Non-qualified Plan") for executive employees. The Non-qualified Plan is structured as a rabbi trust and therefore assets in the Non-qualified Plan are subject to creditor claims in the event of bankruptcy. We recognize investment assets on the Statement of Financial Position at current fair value. A liability of the same amount is recorded on the Statement of Financial Position representing the our obligation to distribute funds to participants. The investment assets are classified as trading, and accordingly, realized and unrealized gains and losses are recognized in income.

Segments

Our business, operating and franchising Steak n Shake restaurants, constitutes a single reportable segment pursuant to the provisions of Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No 131").

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.

New Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. This Interpretation requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The accounting provision of FIN 48 will be effective for us beginning in fiscal 2008. We are in the process of determining the effect, if any, that the adoption of FIN 48 will have on our financial statements.

In June 2006, the Emerging Issues Task Force reached a consensus on Issue no. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement" ("EITF 06-3"). The scope of EITF 06-3 includes sales, use, value added and some excise taxes that are assessed by a governmental authority on specific revenue-producing transactions between a seller and customer. EITF 06-3 states that a company should disclose its accounting policy (ie., gross or net presentation) regarding the presentation of taxes within its scope, and if significant, these disclosures should be applied retrospectively to the financial statements for all periods represented. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF 06-3 is not expected to have a material effect on our financial position, results of operations or cash flows.

On September 13, 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 (“SAB 108”), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the first fiscal year ending after November 15, 2006, which will be our fiscal year 2007. The adoption of this statement is not expected to have a material impact our financial position or results of operations.

Statement of Accounting Standards No. 154 (SFAS 154) “Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3” was issued in May 2005, effective for fiscal years beginning after December 15, 2005. We will comply with the provisions of SFAS 154 for any accounting changes or error corrections that may occur in fiscal year 2007 and thereafter.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. We are in the process of analyzing the impact of SFAS 157, which is effective for fiscal years beginning after November 15, 2007.

2. Restaurant Closings

At September 27, 2006, we held five properties that were previously closed due to under performance. In addition we held land at five locations that we currently have determined should be sold. We are currently seeking buyers for each of these properties, therefore the properties are classified as held for sale. We anticipate that we will dispose of the properties in fiscal 2007 and the estimated costs of disposal will not be material.

3. Other Current Assets

Other current assets are comprised of the following:

(amounts in $000s)	2006	2005
Prepaid Marketing	**$ 620**	$ 899
Prepaid Rent	**2,710**	2,682
Other	**1,507**	1,052
	$ 4,837	$ 4,633

4. Property and Equipment

Property and equipment is comprised of the following:

(amounts in $000's)	2006	2005
Land	$ **184,741**	$ 169,730
Buildings	**165,411**	160,066
Land and leasehold improvements	**139,603**	115,198
Equipment	**184,223**	166,593
Construction in progress	**15,460**	15,274
	689,438	626,861
Less accumulated depreciation and amortization	**(199,296)**	(187,241)
Net property and equipment	$ **490,142**	$ 439,620

Depreciation and amortization expense for property and equipment for 2006, 2005, and 2004 was $27,491, $24,702, and $23,008, respectively.

5. Goodwill and Other Intangibles

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of the net assets acquired related to the acquisitions of Creative Restaurants Inc ("CRI") and Kelley Restaurants, Inc. ("KRI"). The acquisitions of CRI and KRI took place on July 6, 2006 and December 29, 2004, respectively. The Goodwill balance related to the acquisition of CRI is $6,682. The Goodwill balance related to KRI increased from $7,458 in the prior year to $7,803 as a result of adjustments to the purchase price. The acquisitions are included in *Note 13*.

Other Intangibles

Other intangibles are comprised of the following:

(amounts in $000s)	2006	2005
Gross value of intangible assets subject to amortization	**$ 2,291**	$ 2,191
Accumulated Amortization	**(639)**	(452)
Intangible assets subject to amortization, net	**1,652**	1,739
Intangible assets with indefinite lives	**500**	340
Total intangible assets	**$ 2,152**	$ 2,079

Intangible assets subject to amortization consist of a right to operate and favorable leases acquired in connection with the acquisitions of CRI during fiscal 2006 and KRI during fiscal 2005 (See Note 12), and are being amortized over their estimated weighted average useful lives of 12 years and 8 years, respectively. Amortization expense for 2006, 2005, and 2004 was