LUBYS INC
Form 10-K
November 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended August 26, 2009

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

For the Transition Period From to

Commission file number 001-08308

Luby s, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**74-1335253**
(State or other jurisdiction of incorporation or organization)	***(IRS Employer Identification Number)***

13111 Northwest Freeway, Suite 600

Houston, Texas 77040

(Address of principal executive offices, including zip code)

(713) 329-6800

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which registered
Common Stock ($0.32 par value per share)	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

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

The aggregate market value of the shares of common stock of the registrant held by nonaffiliates of the registrant as of February 11, 2009, was approximately $100,177,708 (based upon the assumption that directors and executive officers are the only affiliates).

As of November 2, 2009, there were 28,522,206 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into the designated parts of this Form 10-K:

Definitive Proxy Statement relating to 2010 annual meeting of shareholders (in Part III)

Luby s, Inc.

Form 10-K

Year ended August 26, 2009

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Additional Information

We file reports with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet site at *http://www.sec.gov* that contains the reports, proxy and information statements, and other information that we file electronically. Our website address is *www.lubys.com*. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is specifically referenced elsewhere in this report.

Compliance with New York Stock Exchange Requirements

We submitted to the New York Stock Exchange (NYSE) the CEO certification required by Section 303A.12(a) of the NYSE s Listed Company Manual with respect to our fiscal year ended August 27, 2008. We expect to submit the CEO certification with respect to our fiscal year ended August 26, 2009 to the NYSE within 30 days after our annual meeting of shareholders. We are filing as an exhibit to this Form 10-K the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements contained in this Form 10-K, other than statements of historical facts, are forward-looking statements for purposes of these provisions, including any statements regarding:

- future operating results;
- future capital expenditures, including expected reductions in capital expenditures;
- future debt, including liquidity and the sources and availability of funds related to debt;
- projections regarding the financial performance of our new prototype restaurants;
- plans for expansion of our business;
- scheduled openings of new units;
- closing existing units;
- effectiveness of management s Cash Flow Improvements and Capital Redeployment Plan;
- future sales of assets and the gains or losses that may be recognized as a result of any such sales;
- plans relating to our short-term and long-term investments; and
- continued compliance with the terms of our 2007 Revolving Credit Facility, as amended.

In some cases, investors can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend outlook, may should, will, and would or similar words. Forward-looking statements are based on certain assumptions and analyses made by management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although management believes that our assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of our control. The following factors, as well as the factors set forth in Item 1A of this Form 10-K and any other cautionary language in this Form 10-K, provide examples of risks, uncertainties, and events that may cause our financial and operational results to differ materially from the expectations described in our forward-looking statements:

- general business and economic conditions;

the impact of competition;

our operating initiatives, changes in promotional, couponing and advertising strategies and the success of management s business plans;

fluctuations in the costs of commodities, including beef, poultry, seafood, dairy, cheese, oils and produce;

ability to raise menu prices and customers acceptance of changes in menu items;

increases in utility costs, including the costs of natural gas and other energy supplies;

changes in the availability and cost of labor, including the ability to attract qualified managers and team members;

the seasonality of the business;

collectability of accounts receivable;

changes in governmental regulations, including changes in minimum wages and health care benefit regulation;

the effects of inflation and changes in our customers disposable income, spending trends and habits;

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- the ability to realize property values;
- the availability and cost of credit;
- weather conditions in the regions our restaurants operate;
- costs relating to legal proceedings;
- impact of adoption of new accounting standards;
- effects of actual or threatened future terrorist attacks in the United States;
- unfavorable publicity relating to operations, including publicity concerning food quality, illness or other health concerns or labor relations; and
- the continued service of key management personnel.

Each forward-looking statement speaks only as of the date of this Form 10-K, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Investors should be aware that the occurrence of the events described above and elsewhere in this Form 10-K could have material adverse effect on our business, results of operations, cash flows and financial condition.

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PART I

Item 1. ***Business***
Overview

Luby s, Inc. (formerly, Luby s Cafeterias, Inc.) was founded in 1947 in San Antonio, Texas. The company was originally incorporated in Texas in 1959, with nine cafeterias in various locations, under the name Cafeterias, Inc. It became a publicly held corporation in 1973, then changed its name in 1981 to Luby s Cafeterias, Inc. and joined the New York Stock Exchange in 1982. Luby s was reincorporated in Delaware on December 31, 1991 and was restructured into a holding company on February 1, 1997, at which time all of the operating assets were transferred to Luby s Restaurants Limited Partnership, a Texas limited partnership composed of two wholly owned, indirect corporate subsidiaries. All restaurant operations are conducted by the partnership. In this report, unless otherwise specified, Luby s, we, our, us and our company refer Luby s, Inc., the partnership and the consolidated subsidiaries of Luby s, Inc.

As of November 2, 2009, we operated 96 restaurants located throughout Texas and three other states, as set forth in the table below. These establishments are located in close proximity to retail centers, business developments and residential areas. Of the 96 restaurants, 68 are located on property that we own and 28 are on leased premises.

Texas:	
Houston Metro	32
Dallas/Fort Worth Metro	13
San Antonio Metro	15
Rio Grande Valley	11
Austin	7
Other Texas Markets	15
Other States	3
Total	96

For additional information regarding our restaurant locations, please read Properties in Item 2 of Part I of this report.

We are headquartered in Houston, Texas, our largest restaurant market. Our corporate headquarters is located at 13111 Northwest Freeway, Suite 600, Houston, Texas 77040, and our telephone number at that address is (713) 329-6800. Our website is www.lubys.com.

Operations

We provide our customers with made-from-scratch quality food, value pricing, service and hospitality. Our cafeteria-style restaurants feature a unique concept format in today s family and casual dining segment of restaurant companies. The cafeteria food delivery system allows customers to select freshly prepared items from the serving line, including entrées, vegetables, salads, desserts, breads and beverages, before transporting their selected items on serving trays to a table or booth of their choice in the dining area. Each restaurant on a daily basis offers 17 to 22 entrées, 12 to 14 vegetable dishes, 12 to 16 salads, and 10 to 12 varieties of desserts. Food is prepared in small quantities throughout serving hours, and frequent quality checks are conducted.

Our product offerings, convenient cafeteria delivery system and value pricing appeal to a broad range of customers, including those customers that focus on healthy choices, quality, variety and affordability. We have had particular success among families with children, shoppers, travelers, seniors, and business people looking for a quick, freshly-prepared meal at a fair price.

Our restaurants are generally open for lunch and dinner seven days a week and all of our restaurants sell food-to-go orders, which accounted for 13.5% of restaurant sales in fiscal year 2009. We also provide culinary contract services for organizations that offer on-site food service, such as healthcare facilities. For more information, please read Culinary Contract Services below.

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Food is prepared fresh daily at our restaurants. Menus are reviewed periodically and new offerings and seasonal food preferences are regularly incorporated.

Each restaurant is operated as a separate unit under the control of a general manager who has responsibility for day-to-day operations, including food production and personnel employment and supervision. Our philosophy is to grant authority to restaurant managers to direct the daily operations of their stores and, in turn, to compensate them on the basis of their performance. We believe this strategy is a significant factor contributing to the profitability of our restaurants.

Each general manager is supervised by an area leader. Each area leader is responsible for approximately 7 to 10 units, depending on location.

Quality control teams also help maintain uniform standards of food preparation, safety and sanitation. The teams visit each restaurant as necessary and work with the staff to confirm adherence to our recipes, train personnel in new techniques, and implement systems and procedures used universally throughout our company.

During fiscal year 2009, we spent approximately 1.8% of restaurant sales on traditional marketing mediums with particular emphasis on radio advertisements and outdoor billboards as well as point-of-purchase, sponsorships, and local store marketing.

We operate from a centralized purchasing arrangement to obtain the economic benefit of bulk purchasing and lower prices for most of our menu offerings. The arrangement involves a competitively selected prime vendor for each of our three major purchasing regions.

During fiscal year 2009, we opened one seafood restaurant which was subsequently closed and closed four additional cafeteria-style restaurants. Subsequent to fiscal year 2009, we closed 23 restaurants.

New Prototype Restaurant

In August 2007, we introduced our new restaurant prototype design, with the opening of our first new store in over seven years, located in Cypress, Texas, a suburb north of Houston. This new prototype capitalizes on our core fundamentals of serving great food made-from-scratch and a convenient delivery system. In fiscal year 2008, we opened three new units employing this prototype design. Although we opened no new prototype units in fiscal year 2009, we anticipate using and further modifying this prototype design as we execute our strategy to build new restaurants in markets where we believe we can achieve superior restaurant cash flows. No new restaurants or related construction are planned for fiscal year 2010.

Culinary Contract Services

Our culinary contract services operation, branded as Luby s Culinary Services, consists of a business line servicing healthcare, higher education and corporate dining clients. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service and retail dining. As of November 2, 2009, we had contracts with seven long-term acute care hospitals, three acute care medical centers, one behavioral hospital, two business and industry clients, and two higher education institutions. As the industry begins to appreciate our unique abilities to deliver quality services that include design and procurement as well as nutrition and food services, we continue to pursue new accounts. We anticipate allocating capital expenditures as needed to further develop our culinary contract services business in fiscal year 2010.

Employees

As of November 2, 2009, we had a workforce of 5,826 employees consisting of 5,310 non-management restaurant employees, 371 restaurant managers and 145 clerical, facility services, administrative and executive employees. Employee relations are considered to be good. We have never had a strike or work stoppage, and we are not subject to collective bargaining agreements.

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Item 1A. ***Risk Factors***

An investment in our common stock involves a high degree of risk. Investors should consider carefully the risks and uncertainties described below, and all other information included in this Annual Report on Form 10-K, 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 or results of operations. The occurrence of any of the following risks could harm our business, financial condition and results of operations. The trading price of our common stock could decline due to any of these risks and uncertainties, and investors may lose part or all of their investment.

General economic factors may adversely affect our results of operations.

The protracted economic slowdown experienced in the United States in fiscal years 2008 and 2009 has adversely affected disposable consumer income and consumer confidence. As a result of the deteriorating business and economic conditions affecting our customers, we have experienced reduced customer traffic and lowered our menu prices, which has lowered our profit margins and adversely affected our results of operations. A further slowdown in the economy or other economic conditions affecting disposable consumer income, such as unemployment levels, inflation, fuel and other energy costs, and interest rates, may adversely affect our business by reducing overall consumer spending or by causing customers to shift their spending to our competitors, which could result in a further reduction in customer traffic and lowered menu prices leading to a further reduction in revenues and a reduction in our margins. In response to current economic conditions, we have adopted a Cash Flow Improvement and Capital Redeployment Plan, pursuant to which includes closing 25 under performing restaurants with the potential for 5 to 10 additional closures over the next 24 months. Continued difficulties in the U.S. economy could require us to close additional restaurants in the future.

The impact of inflation on food, labor and other aspects of our business also can negatively affect our results of operations. Commodity inflation in food, beverages and utilities can also impact our financial performance. Although we attempt to offset the effects of inflation through periodic menu price increases, cost controls and incremental improvement in operating margins, we may not be able to completely do so, which could negatively affect our results of operations.

We face the risk of adverse publicity and litigation, the cost of which could have a material adverse effect on our business and financial performance.

We may from time to time be the subject of complaints or litigation from customers alleging illness, injury or other food quality, health or operational concerns. Unfavorable publicity relating to one or more of our restaurants or to the restaurant industry in general may taint public perception of the Luby s brand. Multi-unit restaurant businesses can be adversely affected by publicity resulting from poor food quality, illness or other health concerns or operating issues stemming from one or a limited number of restaurants. Publicity resulting from these allegations may materially adversely affect our business and financial performance, regardless of whether the allegations are valid or whether we are liable. In addition, we are subject to employee claims alleging injuries, wage and hour violations, discrimination, harassment or wrongful termination. In recent years, a number of restaurant companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace, employment and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Regardless of whether any claims against us are valid or whether we are ultimately determined to be liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our financial performance. A judgment significantly in excess of our insurance coverage, if any, for any claims could materially adversely affect our financial condition or results of operations.

We face intense competition, and if we are unable to compete effectively or if customer preferences change, our business and financial performance will be adversely affected.

The restaurant industry is intensely competitive and is affected by changes in customer tastes and dietary habits and by national, regional and local economic conditions and demographic trends. New menu items, concepts, and trends are constantly emerging. We offer a large variety of entrées, side dishes and desserts and our continued success depends, in part, on the popularity of our cuisine and cafeteria-style dining. A change away from this cuisine or dining style could have a material adverse effect on our results of operations. Changing customer preferences, tastes and dietary habits can adversely impact our business and financial performance. We compete on quality, variety, value, service, concept, price, and location with well-established national and regional chains, as well as with locally owned and operated restaurants. We face significant competition from family-style restaurants, fast-casual restaurants, and buffets as well as fast food restaurants. In addition, we also face growing competition as a result of the trend toward convergence in grocery, deli, and restaurant services, particularly in the supermarket industry, which offers convenient meals in the form of improved entrées and side dishes from the deli section. Many of our competitors have significantly greater financial resources than we do. We also compete with other restaurants and retail establishments for restaurant sites and personnel. We anticipate that intense competition will continue. If we are unable to compete effectively, our business, financial condition, and results of operations would be materially adversely affected.

Our strategic growth plan may not be successful.

In fiscal years 2007, 2008 and 2009, we opened four new restaurants using our prototype design. We did not open any new restaurants in fiscal year 2009 and do not expect to open any new restaurants in fiscal year 2010. Depending on future economic conditions, we may open new restaurants using the prototype design in future fiscal years. Our ability to open and profitably operate new restaurants is subject to various risks such as the identification and availability of suitable and economically viable locations, the negotiation of acceptable terms for new locations, the need to obtain all required governmental permits (including zoning approvals) on a timely basis, the need to comply with other regulatory requirements, the availability of necessary contractors and subcontractors, the availability of construction materials and labor, the ability to meet construction schedules and budgets, the ability to manage union activities such as picketing or hand billing which could delay construction, increases in labor and building materials costs, the availability of financing at acceptable rates and terms, changes in weather or other acts of God that could result in construction delays and adversely affect the results of one or more restaurants for an indeterminate amount of time, our ability to hire and train qualified management personnel and general economic and business conditions. At each potential location, we compete with other restaurants and retail businesses for desirable development sites, construction contractors, management personnel, hourly employees and other resources.

If we are unable to successfully manage these risks, we could face increased costs and lower than anticipated revenues and earnings in future periods. We may be evaluating acquisitions or engaging in acquisition negotiations at any given time. We cannot be sure that we will be able to continue to identify acquisition candidates on commercially reasonable terms or at all. If we make additional acquisitions, we also cannot be sure that any benefits anticipated from the acquisition will actually be realized. Likewise, we cannot be sure that we will be able to obtain necessary financing for acquisitions. Such financing could be restricted by the terms of our debt agreements or it could be more expensive than our current debt. The amount of such debt financing for acquisitions could be significant and the terms of such debt instruments could be more restrictive than our current covenants. In addition, a prolonged economic downturn would adversely affect our ability to open new stores or upgrade existing units.

Our Cash Flow Improvement and Capital Redeployment Plan may not be successful.

Pursuant to our Cash Flow Improvement and Capital Redeployment Plan adopted in October 2009, we have closed 24 underperforming units that we plan to sell over the next three years. Our ability to sell these properties, however, is subject to various risks, including depressed market values, availability of credit to potential buyers and a lack of qualified buyers. Accordingly, the proceeds we ultimately realize from these sales may be less than expected, or may take longer to realize. In addition, the terms of these sales may be on terms that are unfavorable to us. If we are unable to sell our properties at our carrying value, we will incur additional losses. Moreover, if proceeds ultimately received from the sales are less than expected, our ability to redeploy capital to continue upgrades to our core base of restaurants and to expand our culinary contract services business may be impaired. The Company anticipates that approximately 5 to 10 additional locations may be added to the plan and closed within 24 months depending on future cash flow performance and lease terminations.

Because our restaurants and culinary contract services locations are concentrated in Texas, regional events can adversely affect our financial performance.

Approximately 97% of our restaurants were located in Texas as of November 2, 2009. Our remaining restaurants are located in Arkansas and Oklahoma. Thirteen of our fifteen culinary contract services locations are also located in Texas. This concentration could adversely affect our financial performance in a number of ways. For example, our results of operations may be adversely affected by economic conditions in Texas or the southern United States or the occurrence of an event of terrorism or natural disaster in any of the communities in which we operate. Also, given our geographic concentration, negative publicity relating to our restaurants could have a more pronounced adverse effect on our overall revenues than might be the case if our restaurants were more broadly dispersed. Although we generally maintain property and casualty insurance to protect against property damage caused by casualties and natural disasters, inclement weather, flooding, hurricanes and other acts of God, these events can adversely impact our sales by discouraging potential customers from going out to eat or by rendering a restaurant or culinary contract services location inoperable for a significant amount of time.

An increase in the minimum wage could adversely affect our financial performance.

From time to time, the U.S. Congress and state legislatures have increased and will consider increases in the minimum wage. The restaurant industry is intensely competitive, and if the minimum wage is increased, we may not be able to transfer all of the resulting increases in operating costs to our customers in the form of price increases. In addition, because our business is labor intensive, shortages in the labor pool or other inflationary pressure could increase labor costs that could adversely affect our results of operations.

We may be required to recognize additional impairment charges.

We assess our long-lived assets as and when recognized by generally accepted accounting principles in the United States and determine when they are impaired. Based on market conditions and operating results, we may be required to record additional impairment charges, which would reduce expected earnings for the periods in which they are recorded.

We may not be able to realize our deferred tax assets.

Our ability to realize our deferred tax assets is dependent on our ability to generate taxable income in the future. If we are unable to generate enough taxable income in the future, we may incur additions to the valuation allowance which would reduce expected earnings for the periods in which they are recorded.

Labor shortages or increases in labor costs could adversely affect our business and results of operations.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including regional managers, restaurant general managers and chefs, in a manner consistent with our standards and expectations. Qualified individuals that we need to fill these positions are in short supply and competition for these employees is intense. If we are unable to recruit and retain sufficient qualified individuals, our operations and reputation could be adversely affected. Additionally, competition for qualified employees could require us to pay higher wages, which could result in higher labor costs. If our labor costs increase, our results of operations will be negatively affected.

If we are unable to anticipate and react to changes in food, utility and other costs, our results of operations could be materially adversely affected.

Many of the food and beverage products we purchase are affected by commodity pricing, and as such, are subject to price volatility caused by production problems, shortages, weather or other factors outside of our control. Our profitability depends, in part, on our successfully anticipating and reacting to changes in the prices of commodities. Therefore, we enter into purchase commitments with suppliers when we believe that it is advantageous for us to do so. If commodity prices were to increase, we may be forced to absorb the additional costs rather than transfer these increases to our customers in the form of menu price increases. Our success also depends, in part, on our ability to absorb increases in utility costs. Our operating results are affected by fluctuations in the price of utilities. Our inability to anticipate and respond effectively to an adverse change in any of these factors could have a significant adverse effect on our results of operations.

Our business is affected by local, state and federal regulations.

The restaurant industry is subject to extensive federal, state and local laws and regulations. We are also subject to licensing and regulation by state and local authorities relating to health, health care, employee medical plans, sanitation, safety and fire standards, building codes and liquor licenses, federal and state laws governing our relationships with employees (including the Fair Labor Standards Act and applicable minimum wage requirements, overtime, unemployment tax rates, family leave, tip credits, working conditions, safety standards and citizenship requirements), federal and state laws which prohibit discrimination, potential healthcare benefits legislative mandates, and other laws regulating the design and operation of facilities, such as the Americans With Disabilities Act of 1990.

As a publicly traded corporation, we are subject to various rules and regulations as mandated by the Securities and Exchange Commission and the New York Stock Exchange. Failure to timely comply with these rules and regulations could result in penalties and negative publicity.

Our planned culinary contract services expansion may not be successful.

Successful expansion of our culinary contract services depends on our ability to obtain new clients as well as retain and renew our existing client contracts. Our ability to do so generally depends on a variety of factors, including the quality, price and responsiveness of our services, as well as our ability to market these services effectively and differentiate ourselves from our competitors. We may not be able to renew existing client contracts at the same or higher rates or that our current clients will turn to competitors, cease operations, elect to self-operate or terminate contracts with us. The failure to renew a significant number of our existing contracts would have a material adverse effect on our business and results of operations.

If we do not collect our accounts receivable, our financial results could be adversely affected.

A portion of our accounts receivable is concentrated in our culinary contract service operations among several customers. Failure to collect from one of these accounts receivable would adversely affect the results of our operations.

If we lose the services of any of our key management personnel, our business could suffer.

The success of our business is highly dependent upon our key management personnel, particularly Christopher J. Pappas, our President and Chief Executive Officer, and Harris J. Pappas, our Chief Operating Officer. The loss of the services of any key management personnel could have a material adverse effect upon our business.

Our business is subject to seasonal fluctuations, and, as a result, our results of operations for any given quarter may not be indicative of the results that may be achieved for the full fiscal year.

Our business is subject to seasonal fluctuations. Historically, our highest earnings have occurred in the third quarter of the fiscal year, as our revenues in most of our restaurants have typically been higher during the third quarter of the fiscal year. Similarly, our results of operations for any single quarter will not necessarily be indicative of the results that may be achieved for a full fiscal year.

Economic factors affecting financial institutions could affect our access to capital.

The syndicate of banks may not have the ability to provide us with capital under our existing Revolving Credit Facility. Our existing Revolving Credit Facility expires in June 2011 and we may not be able to amend or renew the facility with terms and conditions consistent with the existing facility.

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Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of November 2, 2009, Luby s had 96 operating locations that typically contain 8,000 to 10,500 square feet of floor space with seating capacity for 250 to 300 customers. We own the underlying land and buildings in which 68 of our restaurants are located. Eight of these restaurant properties contain excess building space, which is leased to tenants unaffiliated with Luby s.

In addition to the owned locations, 28 other restaurants are held under leases, including eight in regional shopping malls. The majority of the leases are fixed-dollar rentals. The majority of the leases require additional amounts paid related to property taxes, hazard insurance and maintenance of common areas. Of the 28 restaurant leases, the current terms of four expire before 2011, 13 expire between 2011 and 2014, and 11 thereafter. Of the 28 restaurant leases, 24 can be extended beyond their current terms at our option.

As of November 2, 2009, we had 24 owned properties with a carrying value of approximately $17.5 million, five properties located on ground leases with a zero carrying value, two in line leased properties and two unimproved ground leases with a carrying value of zero in properties held for sale.

Also as of November 2, 2009, we had one owned site and one leased site held for future use.

We lease approximately 30,000 square feet of corporate office space, which extends through 2011. The space is located on the Northwest Freeway in Houston, Texas in close proximity to many of our Houston restaurant locations.

We lease approximately 1,006 square feet of office space, which expires December 31, 2009. The space is located in The Woodlands, Texas.

We lease approximately 60,000 square feet of warehouse space for in-house repair, fabrication and storage in Houston, Texas. In addition, we lease approximately 3,200 square feet of warehouse and office space in Arlington, Texas.

We maintain general liability insurance and property damage insurance on all properties in amounts which management believes provide adequate coverage.

Item 3. ***Legal Proceedings***

Certain current and former hourly restaurant employees filed a lawsuit against us in U.S. District Court for the Southern District of Texas alleging violations of the Fair Labor Standards Act with respect to the inclusion of certain employees in a tip pool. The lawsuit seeks penalties and attorney s fees and was conditionally certified as a collective action in October 2008. We intend to vigorously defend our position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

From time to time, we are subject to various other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employees and others related to issues common to the restaurant industry. We currently believe that the final disposition of these types of lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our security holders during the fourth quarter of the fiscal year ended August 26, 2009.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Stock Prices

Our common stock is traded on the New York Stock Exchange under the symbol LUB. The following table sets forth, for the last two fiscal years, the high and low sales prices on the New York Stock Exchange as reported in the consolidated transaction reporting system.

Fiscal Quarter Ended	*High*	*Low*
November 21, 2007	$ 11.83	$ 9.75
February 13, 2008	11.26	8.80
May 7, 2008	9.95	6.81
August 27, 2008	7.85	5.80
November 19, 2008	8.70	3.56
February 11, 2009	5.94	3.23
May 6, 2009	5.88	3.23
August 26, 2009	5.14	3.95

As of November 2, 2009, there were 2,679 holders of record of our common stock. No cash dividends have been paid on our common stock since fiscal year 2000, and we currently have no intention to pay a cash dividend on our common stock. On November 2, 2009, the closing price of our common stock on the New York Stock Exchange was $3.58.

Equity Compensation Plans

Securities authorized under our equity compensation plans as of August 26, 2009, were as follows:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation plans previously approved by security holders	404,206	$ 10.46	1,345,840
Equity compensation plans not previously approved by security holders	29,625	6.74	
Total	433,831	$ 10.21	1,345,840

See Note 14, Share-Based Compensation, to our Consolidated Financial Statements included in Item 8 of Part II of this report.

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The following graph compares the cumulative total stockholder return on our common stock for the five fiscal years ended August 26, 2009, with the cumulative total return on the S&P SmallCap 600 Index and an industry peer group index. The peer group index consists of Bob Evans Farms, Inc., Ruby Tuesday Inc., CBRL Group Inc. and O Charley s. These companies are multi-unit family and casual dining restaurant operators in the mid-price range.

The cumulative total shareholder return computations set forth in the performance graph assume an investment of $100 on August 26, 2004, and the reinvestment of all dividends. The returns of each company in the peer group index have been weighed according to that company s stock market capitalization.

	2004	2005	2006	2007	2008	2009
Luby s Inc.	100.00	202.16	146.31	176.33	114.17	70.01
S&P 500 Index Total Return	100.00	112.55	122.53	141.07	125.37	98.90
S&P 500 Restaurant Index	100.00	122.02	141.75	174.89	189.74	187.19
Peer Group Index Only	100.00	102.30	110.62	111.39	71.19	75.83
Peer Group Index + Luby s Inc.	100.00	105.18	111.58	113.51	72.61	74.74

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Item 6. ***Selected Financial Data***

Five-Year Summary of Operations

	Fiscal Year Ended				
	August 26, 2009 *(364 days)*	**August 27, 2008** *(364 days)*	**August 29, 2007** *(364 days)*	**August 30, 2006** *(364 days)*	**August 31, 2005** [(a)] *(371 days)*
	(In thousands except per share data)				
Sales					
Restaurant sales	$ 279,893	$ 309,457	$ 318,323	$ 324,640	$ 318,401
Culinary contract services	12,970	8,205	2,065		
Total sales	292,863	317,662	320,388	324,640	318,401
Income (loss) from continuing operations	(26,203)	2,469	11,087	20,921	8,306
Loss from discontinued operations [(b)]	(215)	(204)	(224)	(1,360)	(4,858)
Net income (loss)	(26,418)	2,265	10,863	19,561	3,448
Income (loss) per share from continuing operations:					
Basic	$ (0.93)	$ 0.09	$ 0.43	$ 0.80	$ 0.37
Assuming dilution	$ (0.93)	$ 0.09	$ 0.41	$ 0.76	$ 0.36
Loss per share from discontinued operation:					
Basic	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.22)
Assuming dilution	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.21)
Net income (loss) per share					
Basic	$ (0.94)	$ 0.08	$ 0.42	$ 0.75	$ 0.15
Assuming dilution	$ (0.94)	$ 0.08	$ 0.40	$ 0.71	$ 0.15
Weighted-average shares outstanding					
Basic	27,969	27,799	26,121	26,024	22,608
Assuming dilution	27,969	28,085	27,170	27,444	23,455
Total assets	$ 194,365	$ 226,521	$ 219,634	$ 206,699	$ 206,214
Total debt	$	$	$	$	$ 13,500
Number of restaurants at fiscal year end	119	123	128	128	131

(a) Fiscal year ended August 31, 2005 consists of 53 weeks, while all other periods presented consist of 52 weeks.

(b) Our business plan approved in fiscal year 2003 called for the closure of more than 50 locations. In accordance with this plan, the entire fiscal activity of the applicable stores closed after the inception of the plan has been reclassified to discontinued operations. For comparison purposes, prior fiscal years results related to these same locations have also been reclassified to discontinued operations. Restaurants closed subsequent to the completion of the 2003 disposal plan, as of August 30, 2006, have not been reclassified or reported as discontinued operations.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Management s discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and footnotes for the fiscal years ended August 26, 2009, August 27, 2008, and August 29, 2007 included in Item 8 of this report.

Overview

In fiscal year 2009, we generated revenues primarily by providing quality food to customers at our 119 restaurants located throughout Texas and three other states. These establishments are located in close proximity to retail centers, business developments and residential areas. In addition to our non-franchised restaurant business model, we also provide culinary contract services for organizations that offer on-site food service, such as health care facilities, college and universities, as well as businesses and institutions.

The protracted economic slowdown experienced in the United States in fiscal years 2008 and 2009 has adversely affected disposable consumer income and consumer confidence. As a result of the declining economic conditions, we have experienced a reduction in our revenues and earnings, resulting primarily from lower customer traffic and to a lesser extent our menu prices. We believe that this difficult economic environment will continue during fiscal year 2010 and expect that our revenues and results of operations will continue to be negatively affected as a result.

In response to rising commodity prices during the first half of fiscal year 2009, we raised menu prices at our restaurants. During the second half of the fiscal year, however, as the difficult economic environment continued, we lowered menu prices, implemented various discounts and promotions, reduced our capital expenditures and implemented cost control measures to help reduce the impact of declining guest traffic and frequency. These cost control measures included the closure of four restaurants in fiscal year 2009. Of the four locations closed, one was a month-to-month operating lease location that closed due to Hurricane Ike damages, two were underperforming out-of-state locations and one was closed after expiration of its lease. In addition, on October 15, 2009 we announced a Cash Flow Improvement and Capital Redeployment Plan focused on improving cash flow from operations, which included closing 24 underperforming stores.

Fiscal 2009 Review

Same-store restaurant sales declined 8.6% for fiscal year 2009, compared to fiscal year 2008. The negative trend in consumer spending and dining frequency in fiscal year 2008 continued throughout fiscal year 2009. This traffic decline was partially offset by a higher per person average spend in fiscal year 2009 compared to fiscal year 2008. During the second half of fiscal 2009 we tested and rolled out value priced offerings at attractive menu price points to be more competitive in markets. We feel these initiatives (which included our Half-Off LuAnn on Friday and Saturday nights in February, Monday thru Friday LuAnn Rewind to $5.99, which represented 25% off our then current LuAnn menu price, and our Luby s Price Rewind) lowered average spending per customer below the prior year in the last several weeks of fiscal year 2009. We have received favorable guest comments from the actions taken in this challenging consumer confidence environment. Over the past 11 quarters, we have experienced a same-store sales decline on average of (4.6%); this decline follows a period of twelve consecutive quarters when we averaged an increase in same-store sales of 4.6% per quarter.

Fiscal year 2009 profitability was negatively impacted by lower restaurant sales as well as non-cash charges related to asset impairments associated with underperforming restaurants: The following provides a brief summary of selected expenses:

Food costs, as a percentage of restaurant sales, were flat year-over year;

Significant decreases in labor costs were realized through improved scheduling of our crew employees and lower restaurant management costs, partially offset by a higher average wage rate due to the

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required federal minimum wage increase; however, as a percentage of restaurant sales, payroll and related costs increased approximately 220 basis points;

Operating expense dollars declined $5.7 million as a result of lower utility costs and cost control efforts related to repairs and maintenance, supplies and services as well as partially due to closure of 4 restaurants. As a percentage of restaurant sales, operating expenses were up approximately 50 basis points;

Depreciation expense increased significantly as a result of new and existing unit capital expenditures activity in fiscal years 2008 and 2009;

General and administrative expenses as a percentage of total sales increased approximately 20 basis points due primarily to lower sales partially offset by reductions in corporate staffing and other general and administrative expenses;

Asset impairment charges during the fiscal year totaled $19.0 million resulting in an after-tax reduction in fiscal year 2009 net income of approximately $0.45 per share; and

Income taxes reflected a valuation allowance charge of $5.1 million resulting in an after-tax reduction in fiscal year 2009 net income of approximately $0.18 per share.

Our culinary contract services business continued to grow through the execution of four new location service agreements. We view this area as a growth business which generally requires less capital investment and more favorable percentage returns on invested capital. Our culinary contract services business generated $13.0 million in sales during fiscal year 2009 compared to $8.2 million in sales during fiscal year 2008, a 58.1% increase. Culinary contract services improved its net income in fiscal year 2009 compared to fiscal year 2008.

In fiscal year 2009, we spent $12.3 million on capital expenditures, which included $6.6 million in restaurant upgrades such as dining room updates, new restaurant equipment, restroom remodels and the addition of new furniture as well as capital-related culinary contract services and future restaurant sites. We remain committed to our operational procedures, policies and initiatives designed to strengthen and to grow our business. These programs are focused on customer service, menu innovation, food quality assurance, technological enhancements and staff training and development. The long-term consistent execution of these programs is designed to enhance overall customer satisfaction and increase profitability.

Our long-term plan continues to focus on expanding our brand and investing in our business. However, in light of current global economic conditions, our near-term focus is on managing capital allocations conservatively and maintaining a healthy balance sheet. We have taken a prudent approach to our capital allocation in fiscal year 2010 for new unit development and store upgrades, and we now expect to reduce our capital expenditures significantly in the current fiscal year. We do not plan to open new restaurants in fiscal year 2010. We believe our operational execution has improved through our commitment to higher operating standards, and we believe that will enhance shareholder value over the long term.

On October 15, 2009, we announced a Cash Flow Improvement and Capital Redeployment Plan (the Plan) focused on improving cash flow from operations, which included closing 25 underperforming stores in the first quarter of fiscal year 2010. In conjunction with these store closings, we incurred a non-cash pre-tax $19.0 million impairment charge in the fourth quarter of fiscal year 2009. The closure of these locations will eliminate negative cash flow incurred from their operations and is estimated to generate approximately $25 million to $30 million in cash from the sale of the properties based on current estimates of individual property values. See Note 19, Subsequent Events, in our Consolidated Financial Statements included in Item 8 of Part II of this report.

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Accounting Periods

Our fiscal year ends on the last Wednesday in August. Accordingly, each fiscal year normally consists of 13 four-week periods, or accounting periods, accounting for 364 days in the aggregate. Each of the first three quarters of each fiscal year consists of three four-week periods, while the fourth quarter normally consists of four four-week periods. Fiscal years 2009, 2008, and 2007 all contained 52 weeks. Comparability between quarters may be affected by the varying lengths of the quarters, as well as the seasonality associated with the restaurant business.

Same-Store Sales

The restaurant business is highly competitive with respect to food quality, concept, location, price, and service, all of which may have an effect on same-store sales. Our same-store sales calculation measures the relative performance of a certain group of restaurants. To qualify for inclusion in this group, a store must have been in operation for 18 consecutive accounting periods. Stores that close on a permanent basis are removed from the group in the fiscal quarter when operations cease at the restaurant, but remain in the same-store group for previously reported fiscal quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies. Same-store sales decreased 8.6% for fiscal year 2009, decreased 2.6% for fiscal year 2008 and decreased 1.5% for fiscal year 2007.

The following table shows the same-store sales change for comparative historical quarters:

	Fiscal Year 2009				Fiscal Year 2008				Fiscal Year 2007			
Increase (Decrease)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Same-store sales	(13.6)%	(8.9)%	(3.2)%	(6.7)%	(2.0)%	(3.2)%	(1.5)%	(3.1)%	(2.0)%	(1.9)%	(3.6)%	1.7%

Minimum Wage Increase Impact

The third of three federal minimum wage increases took effect on July 23, 2009. We expect to experience a compression due to these minimum wage increases, meaning that wages earned by employees within a certain range of the new minimum wage would be adjusted over time as the new minimum wage increases are phased in through calendar year 2009.

Discontinued Operations

Our business plan, as approved in fiscal year 2003 and completed in fiscal year 2006, called for the closure of more than 50 locations. In accordance with the plan, the entire fiscal activity of the applicable stores closed after the inception of the plan has been classified as discontinued operations. Results related to these same locations have also been classified as discontinued operations for all periods presented.

Impact of Hurricane Ike

Hurricane Ike struck southeast Texas in September 2008 causing massive power outages and inflicting wide-spread damage in the greater Houston area. Over 40 Luby s locations in the Houston area were closed over varying lengths of time due to the storm. Restaurant sales were negatively impacted by approximately 273 days in the aggregate when some of our locations were unable to open due to storm damage or loss of power. We incurred approximately $1.5 million in lost sales from these store closures. We incurred storm related direct costs of $1.5 million for damages, auxiliary power, food loss and other miscellaneous costs. We received insurance proceeds of approximately $0.6 million related to hurricane property damage claims which were recognized in income in fiscal year ended August 26, 2009. We continue seeking to recover a portion of lost profits through insurance claims.

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RESULTS OF OPERATIONS

Fiscal Year 2009 (52 weeks) compared to Fiscal Year 2008 (52 weeks)

Sales

Total sales decreased approximately $24.8 million, or 7.8%, in fiscal year 2009, compared to fiscal year 2008, consisting of a $29.6 million decrease in restaurant sales and a $4.8 million increase in culinary contract services revenue. The $29.6 million decline in restaurant sales included a $9.0 million reduction in sales related to closed operations offset by a $4.8 million increase in sales from stores opened less than 18 periods. On a same-store basis, sales decreased approximately $25.4 million, or 8.6%, due primarily to declines in guest traffic partially offset by higher average spending per customer during fiscal year 2009.

Cost of Food

Food costs decreased approximately $8.1 million, or 9.4%, in fiscal year 2009 compared to fiscal year 2008 primarily due to the lower sales volume. As a percentage of restaurant sales, food costs increased 0.1%, from 27.9% in fiscal year 2008 to 28.0% in fiscal year 2009. The relatively flat food cost as a percent of sales was primarily the result of our 1) raising prices during the first half of the year when commodity prices were increasing and 2) lowering menu prices (including the effect of various discounts and promotions) during the second half of the year when commodity prices were generally stabilizing.

Payroll and Related Costs

Payroll and related costs decreased approximately $4.2 million, or 3.8%, in fiscal year 2009 compared to fiscal year 2008. This decrease was the result of a significant reduction in the use of overtime, improved scheduling of hourly employees, and lower restaurant management costs, offset by a higher average hourly wage rate as a result of required minimum wage increases. As a percentage of restaurant sales, these costs increased 2.2%, from 35.0% in fiscal year 2008 to 37.2% in fiscal year 2009, due to reduced restaurant sales and required minimum wage increases.

Other Operating Expenses

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services and occupancy costs. Other operating expenses decreased by approximately $5.7 million, or 7.8%, for fiscal year 2009, compared to fiscal year 2008. As a percentage of restaurant sales, these costs increased 0.5%. Other operating expenses decreased primarily due to 1) an approximate $3.6 million reduction in utilities expense, 2) an approximate $2.2 million decline in our repairs and maintenance expense and 3) a $2.4 million decline in store supplies. These cost declines were partially offset by 1) an approximate $0.9 million increase in marketing and advertising expense, 2) an approximate $1.5 million increase in repairs primarily associated with Hurricane Ike and 3) an approximate $0.1 million increase in services and other expenses.

Depreciation and Amortization

Depreciation and amortization expense increased by approximately $1.2 million, or 6.5%, in fiscal year 2009, compared to fiscal year 2008 due to the higher depreciable asset base generated by increased capital expenditures in fiscal year 2008, including the opening of three restaurants in fiscal year 2008, relocating one unit in fiscal year 2008, and upgrading and remodeling existing units in fiscal year 2008 and to a lesser extent in fiscal year 2009.

General and Administrative Expenses

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other

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office expenses. General and administrative expenses decreased by approximately $1.4 million, or 5.4%, in fiscal year 2009 compared to fiscal year 2008. The decrease was mainly due to 1) a reduction of approximately $0.9 million in professional service fees primarily related to costs in the solicitation of proxies in fiscal year 2008 in connection with our 2008 annual meeting of shareholders; 2) a reduction of approximately $0.2 million in recruiting expenses; 3) a reduction of approximately of $0.2 million in bonus payments; and 4) and a reduction of approximately $0.2 million in office supplies expense. As a percentage of total sales, general and administrative expenses increased to 8.4% in fiscal year 2009, compared to 8.2% in fiscal year 2008, primarily due to decreased sales.

Asset Charges

The provision for asset impairments and restaurant closings increased by approximately $17.4 million in fiscal year 2009, compared to fiscal year 2008 primarily due to asset impairment and lease settlement costs recognized in fiscal year 2009 and further discussed in Note 19, Subsequent Events, to our Consolidated Financial Statements included in Item 8 of Part II of this report.

The net gain on disposition of property and equipment increased by approximately $0.9 million in fiscal year 2009 from loss of $28,000 in fiscal year 2008. This increase is primarily due to fiscal year 2009 proceeds from the sale of assets exceeding the carrying value of assets retired in fiscal year 2009 by $0.8 million.

Interest Income

Interest income decreased approximately $0.9 million due to lower interest rates and cash investment balances.

Interest Expense

Interest expense increased $0.2 million from fiscal year 2008 due to the reduction in unamortized debt expense recognized as a result of the amendment of our 2007 Revolving Credit Agreement.

Other Income, net

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; and de-recognition of gift certificate liability resulting from the expiration of state statutes of limitation on gift certificate amounts. Other income, net, increased by approximately $49,000 in fiscal year 2009 compared to fiscal year 2008, due primarily to increases in rental income and de-recognition of our gift certificate liability, partially offset by a decrease in prepaid state sales tax discounts resulting from lower sales in fiscal year 2009.

Taxes

The income tax benefit related to continuing operations for fiscal year 2009 was $5.8 million compared to recognition of an income tax benefit of $3.6 million in fiscal year 2008. The benefit for income taxes in fiscal year 2009 reflects the tax effect of the pre-tax loss for the year adjusted for a valuation allowance reducing the current recognition of the full tax benefit for the year.

The income tax benefit in fiscal year 2008 includes approximately $3.1 million of items that are expected to be nonrecurring. The remaining tax benefit recorded for fiscal year 2008 is the net of the federal tax benefit and state tax expense based on the effective tax rate applied to pre-tax loss from continuing operations.

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Discontinued Operations

The net loss from discontinued operations increased by approximately $11,000 in fiscal year 2009 compared to fiscal year 2008, principally due to increased property tax expense in fiscal year 2009.

Fiscal Year 2008 (52 weeks) compared to Fiscal Year 2007 (52 weeks)

Sales

Total sales decreased approximately $2.7 million, or 0.9%, in fiscal year 2008 compared to fiscal year 2007, consisting of an $8.9 million decrease in restaurant sales and a $6.1 million increase in culinary contract services revenue. The $8.9 million decline in restaurant sales included a $5.6 million reduction in sales related to closed operations. On a same-store basis, sales decreased approximately $8.0 million, or 2.6%, due primarily to declines in guest traffic partially offset by higher menu prices.

Cost of Food

Food costs increased approximately $0.6 million, or 0.7%, in fiscal year 2008 compared to fiscal year 2007 due to higher commodity prices for beef, seafood, fresh produce and oils, partially offset by lower sales volume. As a percentage of restaurant sales, food costs increased 1.0%, from 26.9% in fiscal year 2007 to 27.9% in fiscal year 2008, primarily due to increased commodity costs in oils and shortenings and seafood partially offset by higher menu prices.

Payroll and Related Costs

Payroll and related costs increased approximately $10,000 in fiscal year 2008 compared to fiscal year 2007. As a percentage of restaurant sales, these costs increased 1.0%, from 34.0% in fiscal year 2007 to 35.0% in fiscal year 2008, due to reduced restaurant sales. Payroll and related expenses included higher average wages paid to our hourly employees and an increase in staffing among the management teams at the restaurants as well as higher training related costs. These increases were partially offset by lower workers compensation accrual estimates, generally lower variable compensation of our unit management on decreased profitability and improved performance in overtime usage.

Other Operating Expenses

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services, supplies and occupancy costs. Other operating expenses increased by approximately $3.7 million, or 5.3%, in fiscal year 2008 compared to fiscal year 2007. As a percentage of restaurant sales, these costs increased 1.8%. Other operating expenses increased primarily due to 1) an approximate $2.0 million increase in repairs and maintenance costs as we focused efforts on improving the appearance and functionality of our restaurants for our guests and employees; 2) an approximate $1.9 million increase in utility expenses resulting from higher utility rates; and 3) an approximate $1.2 million increase in supplies expenses as we retooled and standardized our kitchens for improved efficiency. These cost increases were offset by an approximate $1.8 million reduction in marketing and advertising costs as we chose to focus our marketing efforts on specific geographical markets and utilized a mix of lower cost marketing mediums.

Opening Costs

Opening costs were approximately $0.4 million in fiscal year 2008 and reflect the labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period.

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Cost of Culinary Contract Services

Cost of culinary contract services increased by approximately $5.4 million in fiscal year 2008 compared to fiscal year 2007. This increase was related to the food, labor and other operating expenses associated with the increase in revenue for this line of business.

Depreciation and Amortization

Depreciation and amortization expense increased by approximately $1.7 million, or 10.7%, in fiscal year 2008 compared to fiscal year 2007 due to increased capital expenditures, including the opening of three restaurants in fiscal year 2008 as well as upgrades and remodels to existing units.

General and Administrative Expenses

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. General and administrative expenses increased by approximately $4.3 million, or 19.7%, in fiscal year 2008 compared to fiscal year 2007. As a percentage of total sales, general and administrative expenses increased to 8.2% in fiscal year 2008 compared to 6.8% in fiscal year 2007. The increase was primarily due to 1) a $2.3 million in corporate salary expense related to staffing costs to support the culinary contract services businesses and other departments to support our strategic growth plan and 2) an approximate $1.4 million expense relating to the solicitation of proxies in connection with our 2008 annual meeting of shareholders in the second quarter of fiscal year 2008.

Asset Charges

The provision for asset impairments and restaurant closings increased by approximately $1.6 million in fiscal year 2008 compared to fiscal year 2007 primarily due to the write-down of selected underperforming units to net realizable value based on an estimate of net sales proceeds, partially offset by a reversal of previously recognized impairment related to one ground lease unit which is expected to be reopened in fiscal year 2009. This unit was also reclassified in the first quarter of fiscal year 2008 from property held for sale to property and equipment, net.

The net loss (gain) on disposition of property and equipment decreased by approximately $0.7 million in fiscal year 2008 compared to fiscal year 2007. This decrease is primarily related to a gain on the sale of one unit offset by the losses associated with the disposal of restaurant equipment due in part to increased remodel activity.

Interest Income

Interest income decreased approximately $17,000 in fiscal year 2008 due to reduced cash balance and lower interest rates.

Interest Expense

Interest expense decreased $0.7 million due to lower amortization of pre-paid financing cost as a result of executing a new line of credit extending the amortization period through the maturity of the 2007 revolving credit facility in July 2012.

Other Income, net

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our

participation in state tax prepayment programs; and de-recognition of gift certificate liability resulting from the expiration of state statutes of limitation on gift certificate amounts. Other income, net, increased by approximately $0.1 million in fiscal year 2008 compared to fiscal year 2007. The increase in other income, net was primarily due to the de-recognition of our gift certificate liability in fiscal year 2008. Other components of other income, net had no significant increase or decrease in fiscal year 2008 compared to fiscal year 2007.

Impairment charge for decrease in fair value of investments

The provision for impairment charges for decreased fair value of investments increased by approximately $0.8 million in fiscal year 2008 compared to fiscal year 2007. The entire increase was recorded in fiscal year 2008 due to the continued illiquidity of the auction rate securities markets. The reduction in fair value of the investments was derived through valuation and is considered to be other-than-temporary. See Liquidity and Capital Resources below for additional information regarding this provision of the fair value of these investments at August 26, 2009.

Interest Related to Income Taxes

Interest related to income taxes includes the reversal of previously recognized interest expense associated with the settled tax audit contingencies and the interest portion of an income tax refund. The refund and related interest were received subsequent to the end of the second quarter. For fiscal year 2008 interest related to income taxes was $1.3 million. For additional information, see Note 6, Income Taxes, to our Consolidated Financial Statements included in Item 8 of Part II of this report.

Taxes

The income tax provision related to continuing operations for fiscal year 2008 was a $3.6 million benefit compared to an income tax provision of $6.3 million expense in fiscal year 2007. Our income tax benefit in fiscal year 2008 includes approximately $3.1 million of items that are expected to be nonrecurring. The remaining tax benefit recorded for fiscal year 2008 is the net of the federal tax benefit and state tax expense based on our effective tax rate applied to the pre-tax loss from continuing operations.

The provision for income taxes for fiscal year 2007 is the federal and state tax expense based on our effective tax rate for the year without the significant nonrecurring items described above for fiscal year 2008. Because we had pre-tax income in fiscal year 2007 and a pre-tax loss in fiscal year 2008, we had tax expense in fiscal year 2007 compared to a tax benefit in fiscal year 2008.

Discontinued Operations

The net loss from discontinued operations decreased by approximately $20,000 in fiscal year 2008 compared to fiscal year 2007, principally due to lease settlement and asset impairment costs associated with discontinued operations in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

General. Our primary sources of short-term and long-term liquidity are cash flows from operations and our revolving credit facility. The current macroeconomic conditions have adversely affected our cash flows from operations. We have reduced our discretionary capital expenditures but plan to continue the level of capital and repair and maintenance expenditures necessary to keep our restaurants attractive and operating efficiently.

Our cash requirements consist principally of:

- capital expenditures for culinary contract services development and construction, restaurant renovations and upgrades and information technology; and

- working capital primarily for our owned restaurants and culinary contract service agreements.

The continued decline in our cash flow from operations in fiscal year 2009 required us to utilize our 2007 Revolving Credit Facility; however, as of August 26, 2009, we had no outstanding balance under this facility. Proceeds from the sale of assets contributed capital for debt repayments. Under the current terms of our New Credit Facility, dated November 9, 2009, capital expenditures and the amount of borrowings are limited based on our EBITDA, as defined in the credit agreement, as amended, governing the 2007 Revolving Credit Facility. Based upon our level of past and projected capital requirements, we expect that proceeds from the sale of assets and cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditures and working capital requirements during the next twelve months.

As is common in the restaurant industry, we maintain relatively low levels of accounts receivable and inventories, and our vendors grant trade credit for purchases such as food and supplies. However, high levels of accounts receivable are typical for culinary contract services. We also continually invest in our business through the addition of new units and refurbishment of existing units, which are reflected as long-term assets.

Cash and cash equivalents decreased to $0.9 million from $4.6 million at the beginning of the fiscal year. This decrease is primarily due to a decrease in cash provided by operating activities. We generally reinvest available cash flows from operations to develop new restaurants, enhance existing restaurants and to support culinary contract services.

The following table summarizes our cash flows from operating, investing and financing activities:

		Year Ended	
	August 26, 2009	**August 27, 2008**	**August 29, 2007**
		(In thousands)	
Total cash provided by (used in):			
Operating activities	$ 4,760	$ 17,601	$ 33,465
Investing activities	(8,416)	(37,001)	(26,328)
Financing activities	(28)	6,452	662
Increase (decrease) in cash and cash equivalents	$ (3,684)	$ (12,948)	$ 7,799

Operating Activities. In fiscal year 2009, operating cash flow decreased $12.8 million to $4.8 million compared to fiscal year 2008, primarily due to a decline in restaurant sales and profitability.

Investing Activities. Cash flows used in investing activities were $8.4 million in fiscal year 2009 compared to $37.0 million in fiscal year 2008, primarily due to decreased purchases of property and equipment and new restaurant construction in progress. Our capital expenditure program includes, among other things, investments in new restaurant and culinary contract service locations, restaurant remodeling, and information technology enhancements. We used $12.3 million for purchases of property and equipment in fiscal year 2009 compared to $40.2 million in fiscal year 2008.

Financing Activities. Cash provided by financing activities decreased $6.5 million to zero compared to fiscal year 2008, due to a reduced number of stock option exercises in fiscal year 2009 compared to fiscal year 2008.

Status of Long-Term Investments and Liquidity

At August 26, 2009, we held $8.7 million, par value ($6.9 million, fair value), in auction rate municipal bond securities as long-term investments. These securities are long-term bonds with underlying maturities in years 2019 through 2042 but have historically had short-term features intended for the investor s liquidity. Prior to the collapse of the auction rate securities market in February 2008, these bonds were purchased or sold through a Dutch-auction process in short-term intervals of 7, 28 or 35 days, whereby the interest rate on the security was reset. The prevailing market auction failures resulted in the long-term investments classification and an other than temporary impairment loss of $1.0 million and $0.8 million in fiscal years 2009 and 2008, respectively. For additional information, see Note 3, Investments, to our Consolidated Financial Statements included in Item 8 of Part II of this report.

Given our current cash position, liquid cash equivalents, expected proceeds from the sale of assets, expected future cash flow from operations and our available borrowing capacity under our New Credit Facility, we believe the current and near term illiquidity of the auction rate municipal bonds will not adversely affect management s ability to achieve its operating goals.

Status of Trade Accounts and Other Receivables, Net

We monitor our receivables aging and record provisions for uncollectability as appropriate. Credit terms of accounts receivable associated with our culinary contract services business vary from 30 to 45 days based on contract terms.

Working Capital

We had a working capital deficit of $21.1 million as of August 26, 2009, compared to a working capital deficit of $17.8 million as of August 27, 2008, primarily due to a $3.3 million decrease in cash. We expect to meet our working capital requirements through cash flows from operations, proceeds from property sales and availability under our amended 2007 Revolving Credit Facility.

Capital Expenditures

Capital expenditures consist of purchases of real estate for future restaurant sites, culinary contract services investments, new units construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for fiscal year 2009 were approximately $12.3 million and related to upgrades of existing units, to improvement of our culinary contract services business and to development of future restaurant sites. We expect to be able to fund all capital expenditures in fiscal year 2010 using proceeds from the sale of assets, cash flows from operations and our available credit. We expect to spend approximately $4.5 million to $10.0 million on capital expenditures in fiscal year 2010.

Stock Purchases

On February 15, 2008, in a privately negotiated block trade, we purchased 500,000 shares of common stock for $4.8 million. We neither purchased or sold stock in fiscal year 2009.

DEBT

Amended and Restated 2007 Revolving Credit Facility (the New Credit Facility)

On November 9, 2009, we entered into an amended and restated revolving credit facility which consisted primarily of the following changes:

- Reduced the aggregate amount of the lenders commitments from $30.0 million to $20.0 million. The amounts available under the New Credit Facility may still be increased by up to $10.0 million, subject to certain terms and conditions, for a maximum total facility size of $30.0 million.

- Changed the maturity date to June 30, 2011.

- Required security interest in selected real estate and other company assets

- Increased interest rate margins from a range of 1.75% to 2.50%, subject to an interest rate floor of 3.50%, to a range of 2.75% to 3.50%, subject to a 4.00% interest rate floor. The applicable spread continues to be dependent upon the ratio of our debt to EBITDA at the most recent determination date, as defined in the credit agreement, as amended.

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Modified certain financial covenants for the fiscal year 2010, including the addition of minimum fiscal year 2010 quarterly EBITDA requirements, and reduced restaurant capital expenditures in fiscal year 2010, as defined. Related financial covenants revert back to the Amended Facility terms as of the first quarter of fiscal year 2011.

Management estimates approximately $0.3 million to $0.5 million in related fees and expenses to be incurred associated with the closing of the Secured Credit Facility. We expect to write-off a portion of the unamortized pre-paid financing fees outstanding in fiscal year 2010 as a result of the reduction in the facility size and maturity.

First Amendment to 2007 Revolving Credit Facility

On March 18, 2009, we amended the 2007 Revolving Credit Facility as follows:

Reduced the aggregate amount of the lenders commitments from $50.0 million to $30.0 million. The amounts available under the 2007 Revolving Credit Facility, as amended by Amendment No. 1 thereto (the Amended Facility), may still be increased by up to $70.0 million, subject to certain terms and conditions, for a maximum total facility size of $100 million.

Modified the restriction on capital expenditures in fiscal years 2009 through June 30, 2012. In the original 2007 Revolving Credit Facility, capital expenditures were limited to the extent of our annual four-quarter rolling EBITDA plus 75% of the unused availability for capital expenditures from the immediately preceding fiscal year. We revised the level of spending allowed for capital expenditures by creating a floor of $20.0 million. The amount of agreed capital expenditures will be the greater of (1) $20.0 million in each fiscal year, or (2) the amount of 100% of the preceding fiscal year s EBITDA; plus, in either case, all of the unused availability for capital expenditures from the immediately preceding fiscal year.

Modified the interest rate margins to a range of 1.75% to 2.50% per annum. The applicable spread under each option continues to be dependent upon the ratio of our debt to EBITDA at the most recent determination date.

Amended the quarterly commitment fee, which is dependent upon the ratio of our debt to EBITDA, to a range of 0.30% to 0.45% per annum. We also will continue to pay quarterly fees with respect to any letters of credit issued and outstanding. In addition, we were obligated to pay the lenders a one-time fee in connection with the closing of the Amended Facility.

In the original 2007 Revolving Credit Facility, we were permitted to invest in any auction rate securities rated Aaa by Moody s or AAA by S&P. Because the ratings of our auction rate securities have dropped below these thresholds, the Amended Facility now limits these types of investments to a specific list of auction rate securities which we hold.

Modified certain financial covenants: including (1) the Interest Coverage Ratio from not less than 2.50 to not less than 2.00 and (2) the debt-to-EBITDA ratio from not greater than 3.00 to not greater than 2.75. The Amended Facility also amends the Interest Coverage Ratio calculation to now include one-fifth of the principal balance of the loans in the denominator.

The Amended Facility contains customary covenants and restrictions on our ability to engage in certain activities, asset sales, letters of credit, and acquisitions, and contains customary events of default. As of August 26, 2009, we were in compliance with all covenants.

Quarterly commitment fee, which is dependent upon the ratio of our debt to EBITDA, amended to a range of 0.30% to 0.45% per annum. We also continue to pay quarterly fees with respect to any letters of credit issued and outstanding. In addition, we were obligated to pay the lenders a one-time fee in connection with the closing of the Amended Facility.

As of August 26, 2009, we had no loans outstanding and $1.6 million committed under letters of credit, which were issued as security for the payment of insurance obligations classified as accrued expenses on the balance sheet.

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At August 26, 2009, $28.4 million was available under the Amended Facility.

The final maturity date of the New Credit Facility is June 30, 2011.

2007 Revolving Credit Facility

On July 13, 2007, we entered into a $50.0 million unsecured Revolving Credit Facility (the 2007 Revolving Credit Facility) with Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The 2007 Revolving Credit Facility may, subject to certain terms and conditions, be increased once by an amount up to $50.0 million for a maximum total facility size of $100.0 million. The 2007 Revolving Credit Facility allowed for up to $15.0 million of the available credit to be extended in the form of letters of credit. All amounts owed by us under the 2007 Revolving Credit Facility were guaranteed by our subsidiaries and must be repaid in full upon the maturity date on June 30, 2012. We amended the 2007 Revolving Credit Facility on March 18, 2009, as described above under First Amendment to 2007 Revolving Credit Facility.

At any time throughout the term of the facility, we had the option to elect one of two bases of interest rates. One interest rate option was the greater of (a) the Federal Funds Effective Rate plus 0.50%, or (b) prime, plus, in either case, an applicable spread that ranges from zero to 0.50% per annum. The other interest rate option was the London InterBank Offered Rate plus a spread that ranges from 0.75% to 2.00% per annum. The applicable spread under each option was dependent upon the ratio of our debt to EBITDA at the most recent determination date.

We paid a quarterly commitment fee based on the unused available balance of the 2007 Revolving Credit Facility, which was also dependent upon the ratio of our debt to EBITDA, ranging from 0.20% to 0.30% per annum. We also paid quarterly fees with respect to any letters of credit issued and outstanding. In addition, we paid the lenders a one-time fee in connection with the closing of the 2007 Revolving Credit Facility.

COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Pending Claims

Certain current and former hourly restaurant employees filed a lawsuit against us in the U.S. District Court for the Southern District of Texas alleging violations of the Fair Labor Standards Act with respect to the inclusion of certain employees in a tip pool. The lawsuit seeks penalties and attorney s fees and was conditionally certified as a collective action in October 2008. We intend to vigorously defend our position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

From time to time, we are subject to various other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employees and others related to issues common to the restaurant industry. We currently believe that the final disposition of these types of lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.

Construction Activity

From time to time, we enter into non-cancelable contracts for the construction of our new restaurants. This construction activity exposes us to the risks inherent in new construction including but not limited to rising material prices, labor shortages, delays in getting required permits and inspections, adverse weather conditions, and injuries sustained by workers.

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Contractual Obligations

At August 26, 2009, we had contractual obligations and other commercial commitments as described below:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
		Payments due by Period	(In thousands)		
Operating lease obligations [a]	$ 31,513	$ 4,227	$ 7,481	$ 5,316	$ 14,489
FIN 48 liability [b]	76				

Other Commercial Commitments	Total	Fiscal Year 2009	Fiscal Years 2010-2011	Fiscal Years 2012-2013	Thereafter
		Amount of Commitment by Expiration Period	(In thousands)		
Letters of credit	$ 2,735	$ 2,735	$	$	$

[a] Operating lease obligations contain rent escalations and renewal options ranging from one to thirty years.

[b] The $78,000 of unrecognized tax benefits have been recorded as liabilities in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). The timing and amounts of future cash payments related to the FIN 48 liabilities are uncertain.

We had no long-term debt, capital lease or purchase obligations at August 26, 2009.

In addition to the commitments described above, we enter into a number of cancelable and noncancelable commitments during each fiscal year. Typically, these commitments expire within one year and are generally focused on food inventory. We do not maintain any long-term or exclusive commitments or arrangements to purchase products from any single supplier. Substantially all of our product purchase commitments are cancelable up to 30 days prior to the vendor s scheduled shipment date.

Long-term liabilities reflected in our consolidated financial statements as of August 26, 2009 included amounts accrued for benefit payments under our supplemental executive retirement plan of $0.2 million, accrued insurance reserves of $0.9 million and deferred rent liabilities of $2.7 million.

We are also contractually obligated to our Chief Executive Officer and Chief Operating Officer pursuant to employment agreements. See Affiliations and Related Parties below for further information.

AFFILIATIONS AND RELATED PARTIES

Affiliate Services

Our Chief Executive Officer, Christopher J. Pappas, and our Chief Operating Officer, Harris J. Pappas, own two restaurant entities (the Pappas entities) that may provide services to Luby s, Inc. and its subsidiaries, as detailed in the Master Sales Agreement dated December 9, 2005 among us and the Pappas entities.

Under the terms of the Master Sales Agreement, the Pappas entities continue to provide specialized (customized) equipment fabrication primarily for new construction and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. The total costs under the Master Sales Agreement of custom-fabricated and refurbished equipment were $367,000, $521,000, and $261,000 in fiscal years 2009, 2008, and 2007, respectively. The decrease in fiscal year 2009 was primarily due to fewer restaurant openings in fiscal year 2009 than fiscal year 2008. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of our Board of Directors.

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Operating Leases

We previously leased from the Pappas entities property that was used to accommodate our in-house repair and fabrication center, referred to as the Houston Service Center. We terminated this lease in August 2008. We paid approximately zero, $74,800, and $82,000, in fiscal years 2009, 2008, and 2007, respectively, pursuant to the terms of this lease. We lease a new property that combines both the offices of our Facility Services and Warehouse Operations from an unrelated third party. The property is approximately 60,000 square feet.

We previously leased approximately 27,000 square feet of warehouse space from the Pappas entities to complement the Houston Service Center, at a monthly rate of approximately $0.21 per square foot. We paid approximately zero, $27,800, and $67,000 in fiscal years 2009, 2008 and 2007, respectively, pursuant to the terms of this lease. On February 29, 2008, we terminated this lease with the Pappas entities.

In the third quarter of fiscal year 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited partner interest and a 50% general partner interest in the limited partnership. A third party company manages the center. One of our restaurants has rented approximately 7% of the space in that center since 1969. No changes were made to our lease terms as a result of the transfer of ownership of the center to the new partnership. We made payments of approximately $339,000, $276,000, and $260,000 during fiscal years 2009, 2008, and 2007, respectively, pursuant to the terms of the lease agreement, which currently includes an annual base rate of $14.64 per square foot per year plus maintenance taxes and insurance.

On November 22, 2006, we executed a new lease agreement with respect to this property. Effective upon our relocation and occupancy into the new space in July 2008, the new lease agreement provides for a primary term of approximately 12 years with two subsequent five-year options and gives the landlord an option to buy out the tenant on or after the calendar year 2015 by paying the then unamortized cost of improvements to the tenant. We owed, under the lease, $16.65 per square foot per year plus maintenance, taxes, and insurance for the calendar year 2008. For calendar year 2009, we will pay $20.00 per square foot per year plus maintenance, taxes and insurance. Thereafter, the lease provides for reasonable increases in rent at set intervals which is accounted for on a straight line basis. The new lease agreement was approved by the Finance and Audit Committee of our Board of Directors.

Affiliated rents paid for the Houston Service Center, the separate storage facility, and the Houston property lease combined represented 6.2%, 7.2%, and 8.8% of total rents for continuing operations in fiscal years 2009, 2008, and 2007, respectively.

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The following table compares current and prior fiscal year-to-date charges incurred under the Master Sales Agreement, affiliated property leases and other related party agreements to our total capital expenditures, as well as relative general and administrative expenses and other operating expenses included in continuing operations:

	Year Ended		
	August 26, 2009 *(364 days)*	**August 27, 2008** *(364 days)*	**August 29, 2007** *(364 days)*
		(In thousands)	
AFFILIATED COSTS INCURRED:			
General and administrative expenses professional and other costs	$ 128	$ 165	$ 38
Capital expenditures custom-fabricated and refurbished equipment	367	521	261
Other operating expenses and opening costs, including property leases	356	423	446
Total	$ 851	$ 1,109	$ 745
RELATIVE TOTAL COMPANY COSTS:			
General and administrative expenses	$ 24,724	$ 26,134	$ 21,841
Capital expenditures	12,348	40,228	19,495
Other operating expenses and opening costs	68,423	73,468	69,372
Total	$ 105,495	$ 139,830	$ 110,708
AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS	0.81%	0.79%	0.67%

In November 2005, Christopher and Harris Pappas entered into new employment agreements that were subsequently amended in November 2008 to extend the termination date thereof to August 2010. Both continue to devote their primary time and business efforts to Luby s while maintaining their roles at Pappas Restaurants, Inc.

On April 20, 2009, our Board of Directors approved the renewal of a consultant agreement with Ernest Pekmezaris, our former Chief Financial Officer. Under the agreement, Mr. Pekmezaris will continue to furnish us advisory and consulting services related to finance and accounting matters and other related consulting services. The agreement expires on January 31, 2010. Mr. Pekmezaris is also the Treasurer of Pappas Restaurants, Inc. Compensation for the services provided by Mr. Pekmezaris to Pappas Restaurants, Inc. is paid entirely by that entity.

Peter Tropoli, our Senior Vice President, Administration, General Counsel and Secretary, is an attorney who, in the past, has provided litigation services to entities controlled by Christopher J. Pappas and Harris J. Pappas. Mr. Tropoli is the stepson of Frank Markantonis, who is a director of Luby s.

Paulette Gerukos, our Vice President of Human Resources, is the sister-in-law of Harris J. Pappas, our Chief Operating Officer.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1, Nature of Operations and Significant Accounting Policies, to our Consolidated Financial Statements included in Item 8 of Part II of this report. The Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. Management believes the following are critical accounting policies due to the significant, subjective and complex judgments and estimates used when preparing our consolidated financial statements. Management regularly reviews these assumptions and estimates with the Finance and Audit Committee of our Board of Directors.

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Income Taxes

Income taxes are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, as interpreted by Financial Accounting Standards Board (FASB) Interpretation No. 48 (SFAS 109). The estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carrybacks and carryforwards are recorded. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We periodically review the recoverability of tax assets recorded on the balance sheet and provide valuation allowances as management deems necessary.

If the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a net deferred tax asset, management will evaluate the probability of our ability to realize the future benefits of such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that all or some portion of the deferred tax asset will not be realized. The realization of such net deferred tax will generally depend on whether we will have sufficient taxable income of an appropriate character within the carryforward period permitted by the tax law.

We had deferred tax assets at August 26, 2009 of approximately $24.7 million. Management has evaluated both positive and negative evidence, including its forecasts of our future taxable income adjusted by varying probability factors, in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will be realized. Based on its analysis, management concluded that for fiscal year 2009 a valuation allowance of approximately $5.1 million is necessary in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. The valuation allowance partially offsets our operating loss (NOL) carryovers to future years and our carryover of general business tax credits.

Two of the most significant items included in deferred tax assets are net operating loss carryovers and general business tax credits. Both of these items may be carried over up to twenty years in the future for possible utilization in the future. The benefit of the NOL carryover will expire at the end of fiscal year 2029 if not utilized by then. The carryover of the general business credits began in fiscal year 2006 and will begin to expire at the end of fiscal year 2026 through the end of fiscal year 2029 if not utilized by then.

Management makes judgments regarding the interpretation of tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions as well as by the Internal Revenue Service. In management s opinion, adequate provisions for income taxes have been made for all open tax years. The potential outcomes of examinations are regularly assessed in determining the adequacy of the provision for income taxes and income tax liabilities. Management believes that adequate provisions have been made for reasonable and foreseeable outcomes related to uncertain tax matters. There are no audits or reviews with respect to our company currently underway in any jurisdiction for any fiscal years.

Impairment of Long-Lived Assets

We periodically evaluate long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We estimate future cash flows expected to result from the use and possible disposition of the asset and will recognize an impairment loss when the sum of the undiscounted estimated future cash flows is less than the carrying amounts of such assets. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management s subjective judgments. The span of time for which future cash flows are estimated is often lengthy, which increases the sensitivity to assumptions made. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. We consider the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows or appraisals, if available.

Investments

Investments include available-for-sale securities, classified as long-term and reported at fair value. Securities available-for-sale consist of auction rate securities. Declines in fair value of available-for-sale securities are analyzed to determine if the decline is temporary or other-than-temporary. Temporary unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in shareholders equity. Other-than-temporary declines reduce earnings. Any increases in other-than-temporary declines in fair value will not be realized until the securities are sold.

Property Held for Sale

We periodically review long-lived assets against our plans to retain or ultimately dispose of properties. If we decide to dispose of a property, it will be moved to property held for sale and actively marketed. Property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. We routinely monitor the estimated value of property held for sale and record adjustments to these values as required.

Insurance and Claims

We self-insure a significant portion of risks and associated liabilities under our employee injury, workers compensation and general liability programs. We maintain insurance coverage with third party carriers to limit our per-occurrence claim exposure. We have recorded accrued liabilities for self-insurance based upon analysis of historical data and actuarial estimates, and we review these amounts on a quarterly basis to ensure that the liability is appropriate.

The significant assumptions made by the actuary to estimate self-insurance reserves, including incurred but not reported claims, are as follows: (1) historical patterns of loss development will continue in the future as they have in the past (Loss Development Method), (2) historical trend patterns and loss cost levels will continue in the future as they have in the past (Bornhuetter-Ferguson Method), and (3) historical claim counts and exposures are used to calculate historical frequency rates and average claim costs are analyzed to get a projected severity (Frequency and Severity Method). The results of these methods are blended by the actuary to provide the reserves estimates.

Actual workers compensation and employee injury claims expense may differ from estimated loss provisions. The ultimate level of claims under the in-house safety program are not known, and declines in incidence of claims as well as claims costs experiences or reductions in reserve requirements under the program may not continue in future periods.

Share-Based Compensation

We adopted the provisions of SFAS No. 123, Share-Based Payments (Revised 2004) (SFAS 123R), effective September 1, 2005. Among other things, SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement utilizing the fair values on the date of the grant. See Note 14, Share-Based Compensation, to our Consolidated Financial Statements included in Item 8 of Part II of this report for additional information.

NEW ACCOUNTING PRONOUNCEMENTS

On August 28, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including amendments of SFAS No. 115 (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value and provides guidance for recognition and presentation of other- than-temporary impairments. The impact of SFAS 157 is reflected on our consolidated financial statements for the first quarter of fiscal year 2009; however, we have not elected the fair value option for any of our financial assets or liabilities under SFAS 159.

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On August 26, 2009, we adopted SFAS No.165, *Subsequent Events* (SFAS 165). SFAS 165 which introduces the concept of financial statements being available to be issued and requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for reporting periods ending after June 15, 2009. The impact of the implementation of SFAS 165 is reflected in our consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 (SFAS 157-2), which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until August 27, 2009. We determined we will not elect the fair value option under SFAS 157-2, for non-financial assets and liabilities.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly,* (FSP FAS No. 157-4). FSP FAS No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 and includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS No. 157-4 is effective for reporting periods ending after June 15, 2009. We adopted FSP FAS No. 157-4 during the fourth quarter of fiscal year 2009. Adoption of SFAS 157-4 had no material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS No.107-1 and Accounting Principles Board (APB) No. 28- 1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP FAS No. 107-1 and APB No. 28-1). FSP FAS No. 107-1 and APB No. 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* to require disclosures about fair value of financial instruments for annual and interim reporting periods of publicly traded companies and amends APB No. 28, *Interim Financial Reporting,* to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 and APB No. 28-1 are effective in reporting periods ending after June 15, 2009. We determined the impact of the implementation of FSP FAS No. 107-1 and APB No. 28-1 will not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which replaces SFAS No. 141. SFAS 141(R) requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair values as of the date of acquisition. SFAS 141(R) also requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and will be effective for business combinations entered into during fiscal year 2010.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). SFAS 160 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of equity. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We do not currently have any minority interests.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires entities to provide enhanced disclosures about derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not currently have any derivative instruments or hedging activities.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share*. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and requires all prior-period earnings per share data presented to be adjusted retrospectively. We are assessing the potential impact of this FSP on our earnings per share calculation.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 eliminates FIN 46(R) s exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity s status as variable interest entity, a company s power over a variable interest entity, or a company s obligation to absorb losses or its right to receive benefits of an entity must be disregarded in applying FIN 46(R) s provisions. SFAS 167 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact of SFAS 167 on our Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 provides for the FASB Accounting Standards Codification (the Codification) to become the single source of authoritative, nongovernmental U.S. GAAP. The Codification did not change or alter GAAP but reorganizes the literature and changes the referencing of financial standards. SFAS 168 is effective for interim and annual periods ending after September 15, 2009.

In April 2009, the FASB issued FSP No. FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, (FSP FAS No.115-2 and 124-2) which provides guidance for measuring and expands the presentation and disclosure requirements of other-than-temporary impairments on debt and equity securities in interim and annual financial statements. SFAS 115-2 and 124-2 are effective for interim and annual periods ending after June 15, 2009. We adopted SFAS 115-2 and 124-2 in the fourth quarter of fiscal year 2009. The adoption did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination (FSP FAS 141(R)-1). FSP FAS 141(R)-1, which became effective for business combinations having an acquisition date on or after January 1, 2009, requires an asset or liability arising from a contingency in a business combination to be recognized at fair value if fair value can be reasonably determined. If it cannot, the asset or liability must be recognized in accordance with FASB Statement No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of the Loss*. The implementation of this guidance will affect our consolidated financial statements only to the extent we complete business combinations in the future.

INFLATION

It is generally our policy is to maintain stable menu prices without regard to seasonal variations in food costs. Certain increases in costs of food, wages, supplies, transportation and services may require us to increase our menu prices from time to time. To the extent prevailing market conditions allow, we intend to adjust menu prices to maintain profit margins.

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Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risk from changes in interest rates affecting our variable-rate debt. As of August 26, 2009, the total amount of debt subject to interest rate fluctuations outstanding under our amended 2007 Revolving Credit Facility was zero.

Although we are not currently using interest rate swaps, we have previously used and may in the future use these instruments to manage cash flow risk on a portion of our variable-rate debt.

Many ingredients in the products sold in our restaurants are commodities, subject to unpredictable price fluctuations. We attempt to minimize price volatility by negotiating fixed price contracts for the supply of key ingredients and in some cases by passing increased commodity costs through to the customer by adjusting menu prices or menu offerings. Our ingredients are available from multiple suppliers so we are not dependant on a single vendor for our ingredients.

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Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Luby s, Inc.

We have audited the accompanying consolidated balance sheets of Luby s, Inc. (a Delaware corporation) and its subsidiaries as of August 26, 2009 and August 27, 2008, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended August 26, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Luby s, Inc. and its subsidiaries as of August 26, 2009 and August 27, 2008, and the results of its operations and its cash flows for each of the three years in the period ended August 26, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, effective August 30, 2007, the Company adopted the provisions of Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Luby s, Inc. and its subsidiaries internal control over financial reporting as of August 26, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 9, 2009 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas

November 9, 2009

Report of Independent Registered Public Accounting Firm on

Internal Control over Financial Reporting

Board of Directors and Shareholders

Luby s, Inc.

We have audited Luby s, Inc. (a Delaware corporation) and its subsidiaries internal control over financial reporting as of August 26, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Luby s, Inc. and its subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on Luby s, Inc. and its subsidiaries internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Luby s, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of August 26, 2009, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Luby s, Inc. and its subsidiaries as of August 26, 2009 and August 27, 2008, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years ended August 26, 2009 and our report dated November 9, 2009 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas

November 9, 2009

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Luby s, Inc.

Consolidated Balance Sheets

	August 26, 2009	August 27, 2008
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 882	$ 4,566
Trade accounts and other receivables, net	1,479	3,368
Food and supply inventories	3,031	3,048
Prepaid expenses	800	1,627
Deferred income taxes	45	1,580
Total current assets	6,237	14,189
Property and equipment, net	171,185	198,118
Long-term investments	6,903	8,525
Deferred incomes taxes	5,941	
Property held for sale	3,858	5,282
Other assets	241	407
Total assets	$ 194,365	$ 226,521
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 11,642	$ 14,268
Accrued expenses and other liabilities	15,685	17,712
Total current liabilities	27,327	31,980
Deferred income taxes		1,940
Credit facility debt		
Other liabilities	3,906	4,652
Total liabilities	31,233	38,572
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
Common stock, $0.32 par value; 100,000,000 shares authorized; Shares issued were 28,494,511 and 28,439,214, respectively; Shares outstanding were 27,994,511 and 27,939,214, respectively	9,118	9,101
Paid-in capital	21,989	20,405
Retained earnings	136,800	163,218
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders equity	163,132	187,949
Total liabilities and shareholders equity	$ 194,365	$ 226,521

The accompanying notes are an integral part of these consolidated financial statements.

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Luby s, Inc.

Consolidated Statements of Operations

	Year Ended		
	August 26, 2009	**August 27, 2008**	**August 29, 2007**
	(In thousands except per share data)		
SALES:			
Restaurant sales	$ 279,893	$ 309,457	$ 318,323
Culinary contract services	12,970	8,205	2,065
TOTAL SALES	292,863	317,662	320,388
COSTS AND EXPENSES:			
Cost of food	78,254	86,339	85,733
Payroll and related costs	104,223	108,391	108,381
Other operating expenses	67,402	73,070	69,372
Opening costs	1,021	398	
Cost of culinary contract services	11,747	7,228	1,841
Depreciation and amortization			