

LUBYS INC  
Form 10-Q  
June 15, 2015

---

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

FORM 10-Q

---

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

For the quarterly period ended May 6, 2015

or

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 (State or other jurisdiction of incorporation or organization)	74-1335253 (IRS Employer Identification No.)
---	--

13111 Northwest Freeway, Suite 600  
Houston, Texas  
77040

(Address of principal executive offices) (Zip Code)  
(713) 329-6800

**(Registrant's telephone number, including area code)**

---

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

Indicate by check mark 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 (§232.405 of this chapter) 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 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:

Large accelerated filer Accelerated filer  
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

As of June 10, 2015 there were 28,597,902 shares of the registrant's common stock outstanding.

**Luby's, Inc.**

**Form 10-Q**

**Quarter ended May 6, 2015**

**Table of Contents**

	<b>Page</b>
<b>Part I—Financial Information</b>	
<b>Item 1 Financial Statements</b>	<b>3</b>
<b>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>20</b>
<b>Item 3 Quantitative and Qualitative Disclosures About Market Risk</b>	<b>35</b>
<b>Item 4 Controls and Procedures</b>	<b>35</b>
<b>Part II—Other Information</b>	
<b>Item 1 Legal Proceedings</b>	<b>36</b>
<b>Item 1A Risk Factors</b>	<b>36</b>
<b>Item 6 Exhibits</b>	<b>36</b>
<b>Signatures</b>	<b>37</b>

**Additional Information**

We file reports with the Securities and Exchange Commission (the "SEC"), 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 its 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 <http://www.lubysinc.com>. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website our 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.

2

---

**Part I—FINANCIAL INFORMATION****Item 1. Financial Statements****Luby's, Inc.****Consolidated Balance Sheets***(In thousands, except share data)*

	<b>May 6, 2015</b>	<b>August 27, 2014</b>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,575	\$2,788
Trade accounts and other receivables, net	4,220	4,112
Food and supply inventories	4,422	5,556
Prepaid expenses	4,964	2,815
Assets related to discontinued operations	26	52
Deferred income taxes	605	587
Total current assets	15,812	15,910
Property held for sale	6,261	991
Assets related to discontinued operations	4,725	4,204
Property and equipment, net	205,497	213,492
Intangible assets, net	23,014	24,014
Goodwill	1,643	1,681
Deferred income taxes	13,254	11,294
Other assets	3,764	3,849
Total assets	\$ 273,970	\$275,435
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 19,183	\$26,269
Liabilities related to discontinued operations	469	590
Accrued expenses and other liabilities	24,639	23,107
Total current liabilities	44,291	49,966
Credit facility debt	48,000	42,000
Liabilities related to discontinued operations	62	278
Other liabilities	7,517	8,167
Total liabilities	99,870	100,411

Edgar Filing: LUBYS INC - Form 10-Q

Commitments and Contingencies

SHAREHOLDERS' EQUITY

Common stock, \$0.32 par value; 100,000,000 shares authorized; shares issued were 29,097,902 and 28,949,523, respectively; shares outstanding were 28,597,902 and 28,449,523, respectively	9,311	9,264
Paid-in capital	28,410	27,356
Retained earnings	141,154	143,179
Less cost of treasury stock, 500,000 shares	(4,775 )	(4,775 )
Total shareholders' equity	174,100	175,024
Total liabilities and shareholders' equity	\$ 273,970	\$ 275,435

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Luby's, Inc.****Consolidated Statements of Operations (unaudited)***(In thousands, except per share data)*

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(12</b>	<b>(12</b>	<b>(36</b>	<b>(36</b>
	<b>weeks)</b>	<b>weeks)</b>	<b>weeks)</b>	<b>weeks)</b>
<b>SALES:</b>				
Restaurant sales	\$88,788	\$90,010	\$254,832	\$252,891
Culinary contract services	3,624	4,534	11,993	12,783
Franchise revenue	1,578	1,684	4,764	4,744
Vending revenue	112	131	355	358
<b>TOTAL SALES</b>	<b>94,102</b>	<b>96,359</b>	<b>271,944</b>	<b>270,776</b>
<b>COSTS AND EXPENSES:</b>				
Cost of food	25,225	25,754	74,189	72,665
Payroll and related costs	30,216	29,971	89,372	87,384
Other operating expenses	15,442	15,967	47,144	46,511
Occupancy costs	4,759	4,845	14,167	14,374
Opening costs	427	334	2,035	1,365
Cost of culinary contract services	3,087	3,974	10,369	11,142
Depreciation and amortization	4,750	4,674	14,580	13,466
General and administrative expenses	7,312	8,342	23,088	24,526
Provision for asset impairments, net	—	—	218	1,539
Net gain on disposition of property and equipment	(609 )	(1,023 )	(1,696 )	(956 )
Total costs and expenses	90,609	92,838	273,466	272,016
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>3,493</b>	<b>3,521</b>	<b>(1,522 )</b>	<b>(1,240 )</b>
Interest income	1	1	3	4
Interest expense	(599 )	(410 )	(1,624 )	(955 )
Other income, net	29	250	301	806
Income (loss) before income taxes and discontinued operations	2,924	3,362	(2,842 )	(1,385 )
Provision (benefit) for income taxes	395	1,621	(1,326 )	(853 )
Income (loss) from continuing operations	2,529	1,741	(1,516 )	(532 )
Loss from discontinued operations, net of income taxes	(176 )	(12 )	(509 )	(1,468 )
<b>NET INCOME (LOSS)</b>	<b>\$2,353</b>	<b>\$1,729</b>	<b>\$(2,025 )</b>	<b>\$(2,000 )</b>
Income (loss) per share from continuing operations:				
Basic	\$0.09	\$0.06	\$(0.05 )	\$(0.02 )
Assuming dilution	0.09	0.06	(0.05 )	(0.02 )
Loss per share from discontinued operations:				
Basic	\$(0.01 )	\$—	\$(0.02 )	\$(0.05 )
Assuming dilution	(0.01 )	—	(0.02 )	(0.05 )

Edgar Filing: LUBYS INC - Form 10-Q

Net income (loss) per share:

Basic	\$0.08	\$0.06	\$(0.07 )	\$(0.07 )
Assuming dilution	0.08	0.06	(0.07 )	(0.07 )
Weighted average shares outstanding:				
Basic	29,009	28,791	28,940	28,777
Assuming dilution	29,111	29,476	28,940	28,777

The accompanying notes are an integral part of these Consolidated Financial Statements.



**Luby's, Inc.****Consolidated Statement of Shareholders' Equity (unaudited)***(In thousands)*

	<b>Common Stock</b>		<b>Treasury</b>		<b>Paid-In</b>	<b>Retained</b>	<b>Total</b>
	<b>Issued</b>		<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	<b>Shareholders'</b>
	<b>Shares</b>	<b>Amount</b>					<b>Equity</b>
BALANCE AT AUGUST 27, 2014	28,950	\$ 9,264	(500)	\$(4,775 )	\$27,356	\$ 143,179	\$ 175,024
Net loss	—	—	—	—	—	(2,025 )	(2,025 )
Share-based compensation expense	48	15	—	—	224	—	239
Common stock issued under nonemployee benefit plans	40	13	—	—	220	—	233
Common stock issued under employee benefit plans	60	19	—	—	610	—	629
BALANCE AT MAY 6, 2015	29,098	\$ 9,311	(500)	\$(4,775 )	\$28,410	\$ 141,154	\$ 174,100

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Luby's, Inc.****Consolidated Statements of Cash Flows (unaudited)***(In thousands)*

	<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>
	<b>(36</b>	<b>(36</b>
	<b>weeks)</b>	<b>weeks)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(2,025 )	\$(2,000 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for asset impairments, net of gains/losses on property sales	(1,386 )	1,352
Depreciation and amortization	14,624	13,604
Amortization of debt issuance cost	127	78
Non-cash compensation expense	862	254
Share-based compensation expense	240	573
Increase in tax benefits from share-based compensation	—	(53 )
Deferred tax benefit	(1,978 )	(1,889 )
Cash provided by operating activities before changes in operating assets and liabilities	10,464	11,919
Changes in operating assets and liabilities, net of business acquisition:		
Decrease (increase) in trade accounts and other receivables	(108 )	112
Decrease (increase) in food and supply inventories	1,135	(466 )
Decrease (increase) in prepaid expenses and other assets	(1,979 )	840
Decrease in accounts payable, accrued expenses and other liabilities	(5,350 )	(617 )
Net cash provided by operating activities	4,162	11,788
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of assets and property held for sale	5,142	2,713
Purchases of property and equipment	(16,429)	(31,124)
Decrease in note receivable	50	23
Net cash used in investing activities	(11,237)	(28,388)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Credit facility borrowings	80,100	77,800
Credit facility repayments	(74,100)	(61,000)
Debt issuance costs	(253 )	—
Proceeds from exercise of stock options	115	32
Tax benefit on stock options	—	53
Net cash provided by financing activities	5,862	16,885
Net (decrease) increase in cash and cash equivalents	(1,213 )	285
Cash and cash equivalents at beginning of period	2,788	1,528
Cash and cash equivalents at end of period	\$1,575	\$1,813
Cash paid for:		

Edgar Filing: LUBYS INC - Form 10-Q

Income taxes	\$—	\$—
Interest	1,505	834

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Luby's, Inc.**

**Notes to Consolidated Financial Statements (unaudited)**

**Note 1. Basis of Presentation**

The accompanying unaudited Consolidated Financial Statements of Luby's, Inc. (the "Company" or "Luby's") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements that are prepared for the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarter ended May 6, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending August 26, 2015.

The Consolidated Balance Sheet dated August 27, 2014, included in this Quarterly Report on Form 10-Q (this "Form 10-Q"), has been derived from the audited Consolidated Financial Statements as of that date. However, this Form 10-Q does not include all of the information and footnotes required by GAAP for an annual filing of complete financial statements. Therefore, these financial statements should be read in conjunction with the audited Consolidated Financial Statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2014.

The results of operations, assets and liabilities for all units included in the Company's disposal plans discussed in Note 7 have been reclassified to discontinued operations in the statements of operations and balance sheets for all periods presented.

**Note 2. Accounting Periods**

The Company's 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 2015 and 2014 contained 52 weeks. Comparability between quarters may be affected by the varying lengths of the quarters, as well as the seasonality associated with our business segments. Seasonality factors affecting a quarter include timing of holidays, weather and school years. Interim results may not be indicative of full

year results.

### **Note 3. Reportable Segments**

The Company has three reportable segments: Company-owned restaurants, Culinary Contract Services (“CCS”) and franchise operations.

#### ***Company-owned restaurants***

Company-owned restaurants consists of several brands which are aggregated into one reportable segment because the nature of the products and services, the production processes, the customers, the methods used to distribute the products and services, the nature of the regulatory environment and the store level profit margin are similar. The chief operating decision maker analyzes Company-owned restaurants at store level profit, which is revenue less cost of food, payroll and related costs, other operating expenses and occupancy costs. The brands are Luby’s Cafeterias, Fuddruckers and Cheeseburger in Paradise, with a couple of non-core restaurant locations under other brand names (i.e., Koo Koo Roo Chicken Bistro and Bob Luby’s Seafood). All company-owned restaurants are casual dining restaurants. Each restaurant is an operating segment because operating results and cash flow can be determined for each restaurant.

The total number of Company-owned restaurants was 175 at May 6, 2015 and 174 at August 27, 2014.

### *Culinary Contract Services*

CCS, 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. CCS has contracts with long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, behavioral hospitals, business and industry clients, and higher education institutions. CCS has the unique ability to deliver quality services that include facility design and procurement as well as nutrition and branded food services to our clients. The costs of CCS on the Consolidated Statements of Operations include all food, payroll and related costs and other operating expenses related to CCS sales.

The total number of CCS contracts was 21 at May 6, 2015 and 25 at August 27, 2014.

### *Franchise Operations*

We offer franchises for the Fuddruckers brand only. Franchises are sold in markets where expansion is deemed advantageous to the development of the Fuddruckers concept and system of restaurants. Initial franchise agreements have a term of 20 years. Franchise agreements typically grant franchisees an exclusive territorial license to operate a single restaurant within a specified area, usually a four-mile radius surrounding the franchised restaurant.

Franchisees bear all direct costs involved in the development, construction and operation of their restaurants. In exchange for a franchise fee, the Company provides franchise assistance in the following areas: site selection, prototypical architectural plans, interior and exterior design and layout, training, marketing and sales techniques, assistance by a Fuddruckers "opening team" at the time a franchised restaurant opens, and operations and accounting guidelines set forth in various policies and procedures manuals.

All franchisees are required to operate their restaurants in accordance with the Company's standards and specifications for Fuddruckers, including controls over menu items, food quality and preparation. The Company requires the successful completion of its training program by a minimum of three managers for each franchised restaurant. In addition, franchised restaurants are evaluated regularly by the Company for compliance with franchise agreements, including standards and specifications through the use of periodic, unannounced, on-site inspections and standard evaluation reports.

We recognize franchise and area development fees as revenue when the Company has performed all material obligations as per the respective agreements upon opening of each franchise restaurant. We accrue franchise and area

development fees as an accrued liability until our obligations are met and the revenue is earned.

The number of franchised restaurants was 105 at May 6, 2015 and 110 at August 27, 2014.

*Licensee*

In November 1997, a prior owner of the “Fuddruckers—World’s Greatest Hamburgers®” brand granted to a licensee the exclusive right to use the Fuddruckers proprietary marks, trade dress and system to develop Fuddruckers restaurants in a territory consisting of certain countries in Africa, the Middle East and parts of Asia. As of June 2015, this licensee operated 34 restaurants that are licensed to use the Fuddruckers proprietary marks in Saudi Arabia, Egypt, Lebanon, United Arab Emirates, Qatar, Jordan, Bahrain, Kuwait, Morocco and Malaysia. The Company does not receive revenue or royalties from these restaurants.

The table on the following page shows financial information as required by Accounting Standards Codification Topic 280 (“ASC 280”) for segment reporting. ASC 280 requires depreciation and amortization be disclosed for each reportable segment, even if not used by the chief operating decision maker. The table also lists total assets for each reportable segment. Corporate assets include cash and cash equivalents, tax refunds receivable, property and equipment, assets related to discontinued operations, property held for sale, deferred tax assets and prepaid expenses.

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(12</b>	<b>(12</b>	<b>(36</b>	<b>(36</b>
	<b>weeks)</b>	<b>weeks)</b>	<b>weeks)</b>	<b>weeks)</b>
	<i>(In thousands)</i>			
Sales:				
Company-owned restaurants <sup>(1)</sup>	\$88,900	\$90,141	\$255,187	\$253,249
Culinary contract services	3,624	4,534	11,993	12,783
Franchise operations	1,578	1,684	4,764	4,744
Total	94,102	96,359	271,944	270,776
Segment level profit:				
Company-owned restaurants	\$13,258	\$13,604	\$30,315	\$32,315
Culinary contract services	537	560	1,624	1,641
Franchise operations	1,578	1,684	4,764	4,744
Total	15,373	15,848	36,703	38,700
Depreciation and amortization:				
Company-owned restaurants	\$4,038	\$4,062	\$12,510	\$11,675
Culinary contract services	28	93	127	269
Franchise operations	177	177	531	531
Corporate	507	342	1,412	991
Total	4,750	4,674	14,580	13,466
Capital expenditures:				
Company-owned restaurants	\$5,023	\$11,780	\$15,368	\$30,277
Culinary contract services	—	43	—	43
Franchise operations	—	—	—	—
Corporate	418	220	1,061	804
Total	\$5,441	\$12,043	\$16,429	\$31,124
Segment level profit	\$15,373	\$15,848	\$36,703	\$38,700
Opening costs	(427 )	(334 )	(2,035 )	(1,365 )
Depreciation and amortization	(4,750 )	(4,674 )	(14,580 )	(13,466 )
General and administrative expenses	(7,312 )	(8,342 )	(23,088 )	(24,526 )
Provision for asset impairments, net	—	—	(218 )	(1,539 )
Net gain on disposition of property and equipment	609	1,023	1,696	956
Interest income	1	1	3	4
Interest expense	(599 )	(410 )	(1,624 )	(955 )
Other income, net	29	250	301	806
Income (loss) before income taxes and discontinued operations	\$2,924	\$3,362	\$(2,842 )	\$(1,385 )

**May 6,** **August**  
**2015** **27,**  
**2014**

Total assets:



Edgar Filing: LUBYS INC - Form 10-Q

Company-owned restaurants <sup>(2)</sup>	\$223,675	\$222,474
Culinary contract services	1,994	2,724
Franchise operations <sup>(3)</sup>	13,350	13,906
Corporate <sup>(4)</sup>	34,951	36,331
Total	\$273,970	\$275,435

(1) Includes vending revenue of \$112 and \$131 thousand for the quarters ended May 6, 2015 and May 7, 2014, respectively and \$355 and \$358 thousand for the three quarters ended May 6, 2015 and May 7, 2014, respectively.

(2) Company-owned restaurants segment includes \$10.7 million of Fuddruckers trade name, Cheeseburger in Paradise liquor licenses, and Jimmy Buffett intangibles.

(3) Franchise operations segment includes approximately \$12.4 million in royalty intangibles.

Goodwill was disclosed in corporate segment in our fiscal 2014 Annual Report on Form 10-K and our first quarter (4) fiscal 2015 Quarterly Report on Form 10-Q. The current draft reflects a revised classification of goodwill into the Company-owned restaurants segment.

**Note 4. Fair Value Measurements**

GAAP establishes a framework for using fair value to measure assets and liabilities, and expands disclosure about fair value measurements. Fair value measurements guidance applies whenever other statements require or permit asset or liabilities to be measured at fair value.

GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers include:

Level 1: Defined as observable inputs such as quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Defined as pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

Level 3: Defined as pricing inputs that are unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

Non-recurring fair value measurements related to impaired property and equipment consisted of the following for the three quarters ended May 6, 2015 and May 7, 2014, respectively:

	Fair Value			
	Measurement Using	Significant	Significant	Total
Three	Quoted	Other	Unobservable	Impairments
Quarters	Prices	in	Inputs	
Ended	in	Observable	(Level 3)	
May 6,	Active	Inputs	(Level 2)	
2015	Markets	for		
	for	(Level 2)		

Edgar Filing: LUBYS INC - Form 10-Q

	Identical			
	Assets			
	(Level 1)			
	(In thousands)			
Continuing Operations				
Property and equipment related to company-owned restaurant assets	\$ 5,043	\$—\$ —	\$ 5,043	\$ (218 )
Discontinued Operations				
Property and equipment related to corporate assets	\$ 1,563	\$—\$ 660	\$ 903	\$ (90 )

Fair Value  
Measurement Using  
Quoted  
Prices  
in Significant  
Active Other Significant  
Markets for Observable Unobservable Total  
for Inputs Impairments  
Identical (Level 3)  
(Level 2)  
Assets  
(Level  
1)  
(In thousands)

Continuing Operations					
Property and equipment related to company- owned restaurant assets	\$ 3,498	\$—	\$ —	\$ 3,498	\$ (1,539 )
Discontinued Operations					
Property and equipment related to corporate assets	\$ 1,567	\$—	\$ —	\$ 1,567	\$ (762 )

**Note 5. Income Taxes**

No cash payments of estimated federal income taxes were made during the quarter ended May 6, 2015.

Deferred tax assets and liabilities are recorded based on differences between the financial reporting basis and the tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized to the extent future taxable income is expected to be sufficient to utilize those assets prior to their expiration.

Management believes that adequate provisions for income taxes have been reflected in the financial statements and is not aware of any significant exposure items that have not been reflected in the financial statements. Amounts considered probable of settlement within one year have been included in the accrued expenses and other liabilities in the accompanying Consolidated Balance Sheet.

**Note 6. Property and Equipment, Intangible Assets and Goodwill**

The costs, net of impairment, and accumulated depreciation of property and equipment at May 6, 2015 and August 27, 2014, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	<b>May 6, 2015</b>	<b>August 27, 2014</b>	<b>Estimated Useful Lives (years)</b>
	<i>(In thousands)</i>		
Land	\$65,218	\$69,767	—
Restaurant equipment and furnishings	140,570	131,932	3 to 15
Buildings	184,534	181,535	20 to 33 Lesser of lease term or estimated useful life
Leasehold and leasehold improvements	42,785	40,835	term or estimated useful life
Office furniture and equipment	7,964	7,537	3 to 10
Construction in progress	771	10,313	—
	441,842	441,919	
Less accumulated depreciation and amortization	(236,345)	(228,427)	
Property and equipment, net	\$205,497	\$213,492	
Intangible assets, net	\$23,014	\$24,014	21
Goodwill	\$1,643	\$1,681	—

Intangible assets, net, consist of the Fuddruckers trade name and franchise agreements and the Cheeseburger in Paradise trade name and license agreements and are subject to amortization. The Company believes the Fuddruckers trade name has an expected accounting life of 21 years from the date of acquisition based on the expected use of its assets and the restaurant environment in which it is being used. The trade name represents a respected brand with customer loyalty, and the Company intends to cultivate and protect the use of the trade name. The franchise agreements, after considering renewal periods, have an estimated accounting life of 21 years from the date of acquisition and will be amortized over this period of time. The Cheeseburger in Paradise intangible assets, net, have an expected accounting life of 15 years from the date of acquisition.

The aggregate amortization expense related to intangible assets subject to amortization was \$0.3 million for the quarters ended May 6, 2015 and May 7, 2014. For the three quarters ended May 6, 2015 and May 7, 2014, the aggregate amortization expense was \$1.0 million and is expected to be \$1.4 million in each of the next five successive years.

The following table presents intangible assets as of May 6, 2015 and August 27, 2014:

	May 6, 2015 (In thousands)		Net	August 27, 2014 (In thousands)		Net
	Gross			Gross		
	Carrying	Accumulated Amortization	Carrying	Carrying	Accumulated Amortization	Carrying
	Amount		Amount	Amount		Amount
Intangible Assets Subject to Amortization:						
Fuddruckers trade name and franchise agreements	\$29,607	\$ (6,749 )	\$22,858	\$29,607	\$ (5,767 )	\$23,840
Cheeseburger in Paradise trade name and license agreements	\$416	\$ (260 )	\$156	\$416	\$ (242 )	\$174
Intangible assets, net	\$30,023	\$ (7,009 )	\$23,014	\$30,023	\$ (6,009 )	\$24,014

The Company recorded an intangible asset for goodwill in the amount of approximately \$0.2 million related to the acquisition of substantially all of the assets of Fuddruckers. The Company also recorded an intangible asset for goodwill in the amount of approximately \$2.0 million related to the acquisition of Cheeseburger in Paradise. Goodwill is considered to have an indefinite useful life and is not amortized.

The Company performs a goodwill impairment test annually and more frequently when negative conditions or a triggering event arise. After an assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test(s) become optional. For the initial annual analysis in fiscal 2014, the Company elected to bypass the qualitative assessment and proceeded directly to performing the first step of the goodwill impairment test. In future periods, the Company may determine that facts and circumstances indicate use of the qualitative assessment may be the most reasonable approach. Management will perform its formal annual assessment as of the second quarter each fiscal year and will formally perform additional assessments on an interim basis if an event occurs or circumstances exist that indicate that it is more likely than not that a goodwill impairment exists. The individual restaurant level is the level at which goodwill is assessed for impairment under ASC 350. In accordance with our understanding of ASC 350, we have allocated the goodwill value to each reporting unit in proportion to each location's fair value at the date of acquisition. Of the 23 locations that were acquired, 5 locations were closed including one location where the option to extend the lease was not exercised. The remaining 18 locations not closed may be converted to Fuddruckers, which was part of a contingency strategy when the acquisition was initially consummated. As we are not moving any of the former Cheeseburger in Paradise restaurants out of their respective market, the goodwill associated with the acquired location and market area is expected to be realized through operating these former Cheeseburger in Paradise branded restaurants as Fuddruckers branded restaurants. The Company has experience converting and opening new restaurant locations and the Fuddruckers brand units have positive cash flow history. This historical data was considered when completing our fair value estimates for recovery of the remaining net book value including goodwill. In addition, we included the incremental conversion costs in our cash flow projections when completing our routine impairment of long-lived assets testing. Management has therefore performed valuations using a discounted cash flow analysis for each of its restaurants to determine the fair value of each reporting unit for comparison with the reporting unit's carrying value.

Since the acquisition of the 23 Cheeseburger in Paradise locations in fiscal year 2013, we implemented many initiatives to improve the food quality and service. Many locations continued to experience sales declines which led to the implementation of our contingency strategy of conversion of certain locations to Fuddruckers restaurants. In considering this change, certain units were determined to be disposed of, 8 locations to remain operating as Cheeseburger in Paradise and other locations to be closed for future conversion. In performing our periodic assessment of long-lived assets and goodwill recoverability, we estimated the fair value of the cash flows at selected units were not sufficient to recover the carrying values of certain locations which resulted in impairment charges including a write-off of approximately \$0.5 million in goodwill associated with five Cheeseburger in Paradise locations in fiscal year 2014. As of August 27, 2014 eight locations remained open and operating as Cheeseburger in Paradise locations and ten locations were closed to be converted to new Fuddruckers locations. Four such locations have been converted to Fuddruckers restaurants as of June 11, 2015.

Goodwill was approximately \$1.6 million as of May 6, 2015 and approximately \$1.7 million as of August 27, 2014 and relates to our Company-owned restaurants reportable segment.

There were no impairments related to goodwill during the quarter ended May 6, 2015. For the three quarters ended May 6, 2015, management determined approximately \$38 thousand in goodwill impairment losses related to one underperforming converted Cheeseburger in Paradise leasehold location.





**Note 7. Impairment of Long-Lived Assets, Discontinued Operations and Property Held for Sale*****Impairment of Long-Lived Assets and Store Closings***

The Company periodically evaluates long-lived assets held for use and held for sale whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. The Company analyzes historical cash flows of operating locations and compares results of poorer performing locations to more profitable locations. The Company also analyzes lease terms, condition of the assets and related need for capital expenditures or repairs, as well as construction activity and the economic and market conditions in the surrounding area.

For assets held for use, the Company estimates future cash flows using assumptions based on possible outcomes of the areas analyzed. If the undiscounted future cash flows are less than the carrying value of the location's assets, the Company records an impairment loss based on an estimate of discounted cash flows. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. Assumptions and estimates used include operating results, changes in working capital, discount rate, growth rate, anticipated net proceeds from disposition of the property and, if applicable, lease terms. The span of time for which future cash flows are estimated is often lengthy, increasing the sensitivity to assumptions made. The time span could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. 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. The Company considers 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.

The Company recognized the following impairment charges and gains on disposition of property and equipment included in income from operations:

	<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>
	<b>(36</b>	<b>(36</b>
	<b>weeks)</b>	<b>weeks)</b>
	<b>(In thousands, except per share data)</b>	
Provision for asset impairments	\$218	\$1,539
Net gain on disposition of property and equipment	(1,696)	(956)

Edgar Filing: LUBYS INC - Form 10-Q

		\$ (1,478)	\$ 583
Effect on EPS:			
Basic	\$0.05	\$ (0.02 )	
Assuming dilution	\$0.05	\$ (0.02 )	

The impairment charge for the three quarters ended May 6, 2015 was \$0.2 million and primarily related to three Fuddruckers locations and included \$38 thousand in goodwill related to one underperforming converted Cheeseburger in Paradise leasehold location.

The impairment charge for the three quarters ended May 7, 2014 was \$1.5 million and primarily related to assets at two Fuddruckers locations and assets and allocated goodwill at six Cheeseburger in Paradise leasehold locations.

The \$1.7 million net gain for the three quarters ended May 6, 2015 is related to the sale of property and equipment.

The \$1.0 million net gain for the three quarters ended May 7, 2014 is related to the sale of property and equipment.

***Discontinued Operations***

As a result of the first quarter fiscal 2010 adoption of the Company's Cash Flow Improvement and Capital Redeployment Plan ("the Plan"), the Company reclassified 23 operating stores and one previously closed location to discontinued operations. The results of operations, assets and liabilities for all units included in the Plan have been reclassified to discontinued operations in the statement of operations and balance sheets for all periods presented.

On March 21, 2014, the Company adopted a disposal plan for selected under-performing recently acquired leaseholds operating as Cheeseburger in Paradise restaurants. As of May 6, 2015, five Cheeseburger in Paradise locations have been reclassified to discontinued operations in the statements of operations and balance sheet accordingly.

The following table sets forth the assets and liabilities for all discontinued operations:

	<b>May 6,</b>	<b>August 27,</b>
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Prepaid expenses	\$26	52
Assets related to discontinued operations—current	\$26	\$52
Property and equipment, net	3,340	2,817
Other assets	1,385	1,387
Assets related to discontinued operations—non-current	\$4,725	\$4,204
Accrued expenses and other liabilities	\$469	590
Liabilities related to discontinued operations—current	\$469	\$590
Other liabilities	\$62	\$278
Liabilities related to discontinued operations—non-current	\$62	\$278

As of May 6, 2015, the Company had nine restaurant properties classified as discontinued operations assets. The carrying value of three Company-owned properties was \$3.3 million at May 6, 2015. The carrying values of one ground lease and five in-line leases were previously impaired to zero.

As of August 27, 2014, the Company had nine restaurant properties classified as discontinued operations. The carrying value of the Company-owned properties was \$3.4 million at August 27, 2014.



The Company is actively marketing all of these properties for lease or sale and the Company's results of discontinued operations will be affected by the disposal of properties related to discontinued operations to the extent proceeds from the sales exceed or are less than net book value.

The following table sets forth the sales and pretax loss reported for discontinued operations:

	<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>
	<b>(36 weeks)</b>	<b>(36 weeks)</b>
	<b>(In thousands, except discontinued locations)</b>	
Sales	\$ —	\$ 3,738
Pretax loss	(807 )	(1,985 )
Income tax benefit from discontinued operations	298	517
Loss from discontinued operations	(509 )	(1,468 )
Discontinued locations closed during the period	—	3

The following table summarizes discontinued operations for the first three quarters of fiscal 2015 and 2014:

	<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>
	<b>(36 weeks)</b>	<b>(36 weeks)</b>
	<b>(In thousands, except per share data)</b>	
Discontinued operating losses	\$ (715 )	\$ (1,217 )
Impairments	(90 )	(762 )
Losses	(2 )	(6 )
Net loss	\$ (807 )	\$ (1,985 )
Income tax benefit from discontinued operations	298	517
Loss from discontinued operations	\$ (509 )	\$ (1,468 )
Effect on EPS from discontinued operations—basic	\$ (0.02 )	\$ (0.05 )

The impairment charges included above relate to properties closed and designated for immediate disposal. The assets of these individual operating units have been written down to their net realizable values. In turn, the related properties have either been sold or are being actively marketed for sale. All dispositions are expected to be completed within one to three years. Within discontinued operations, the Company also recorded the related fiscal year-to-date net operating results, employee terminations and carrying costs of the closed units.

***Property Held for Sale***

The Company periodically reviews long-lived assets against its plans to retain or ultimately dispose of properties. If the Company decides to dispose of a property, it will be moved to property held for sale and actively marketed. The Company analyzes market conditions each reporting period and records additional impairments due to declines in market values of like assets. The fair value of the property is determined by observable inputs such as appraisals and prices of comparable properties in active markets for assets like the Company's. Gains are not recognized until the properties are sold.

Property held for sale includes unimproved land, closed restaurant properties and related equipment for locations not classified as discontinued operations. The specific assets are valued at the lower of net depreciable value or net realizable value.

At May 6, 2015, the Company had five owned properties recorded at approximately \$6.3 million in property held for sale. The Company is actively marketing the locations currently classified as property held for sale.

At August 27, 2014, the Company had one owned property recorded at approximately \$1.0 million in property held for sale.

## **Note 8. Commitments and Contingencies**

### *Off-Balance Sheet Arrangements*

The Company has no off-balance sheet arrangements, except for operating leases as disclosed in Note 13 to the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2014.

### *Pending Claims*

From time to time, the Company is subject to various private lawsuits, administrative proceedings and claims that arise in the ordinary course of its 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. The Company currently believes that the final disposition of these types of lawsuits, proceedings and claims will not have a material adverse effect on the Company's financial position, results of operations or liquidity. It is possible, however, that the Company's future results of operations for a particular fiscal quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.

### *Construction Activity*

From time to time, the Company enters into non-cancelable contracts for the construction of its new restaurants. This construction activity exposes the Company 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 and contract termination expenses. The Company had no non-cancelable contracts as of May 6, 2015.

## **Note 9. Related Parties**

### *Affiliate Services*

Christopher J. Pappas, the Company's Chief Executive Officer, and Harris J. Pappas, director and former Chief Operating Officer of the Company, own two restaurant entities (the "Pappas entities") that from time to time may provide services to the Company and its subsidiaries, as detailed in the Amended and Restated Master Sales Agreement effective November 8, 2013 among the Company and the Pappas entities.

Under the terms of the Amended and Restated Master Sales Agreement, the Pappas entities may provide specialized (customized) equipment fabrication and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. The total costs under the Amended and Restated Master Sales Agreement of custom-fabricated and refurbished equipment in the three quarters ended May 6, 2015 and May 7, 2014 were zero and \$4 thousand, respectively. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Board of Directors of the Company (the "Board").

### *Operating Leases*

During the third quarter fiscal 2014, a company owned by Messrs. Pappas purchased from the landlord the land underlying an existing leased Fuddrucker's restaurant in Houston, Texas. Messrs. Pappas each own a 50% interest in the company that purchased the land. There were no changes to the existing lease. The company is currently obligated to pay \$27.56 per square foot, plus maintenance fees, taxes and insurance, during the present term of the lease which expires May 31, 2020 with two five-year options remaining. The Company made payments of \$107 thousand and \$27 thousand in the three quarters ended May 6, 2015 and May 7, 2014, respectively.



On November 22, 2006, the Company executed a new lease agreement in connection with the replacement and relocation of the existing Fuddruckers restaurant with a new prototype restaurant in the retail strip center described above. The new restaurant opened in July 2008 and the new lease agreement provides for a primary term of approximately twelve years with two subsequent five-year options. The new lease also gives the landlord an option to buy out the agreement on or after the calendar year 2015 by paying the unamortized cost of the Company's improvements. The Company is currently obligated to pay rent of \$22.00 per square foot plus maintenance, taxes, and insurance during the primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The lease agreement was approved by the Finance and Audit Committee and full Board of Directors. The Company made payments, under the lease agreement, of \$278 thousand and \$241 thousand in the three quarters ended May 6, 2015 and May 7, 2014, respectively.

	<b>Three Quarters Ended</b>			
	<b>May 6,</b>	<b>May 7,</b>		
	<b>2015</b>	<b>2014</b>		
	<b>(36</b>	<b>(36</b>		
	<b>weeks)</b>	<b>weeks)</b>		
	<b>(In thousands, except percentages)</b>			
<b>AFFILIATED COSTS INCURRED:</b>				
General and administrative expenses – professional and other costs	\$—	\$—		
Capital expenditures – custom-fabricated and refurbished equipment and furnishings	—	4		
Other operating expenses and opening costs, including property leases	386	276		
Total	\$386	\$280		
<b>RELATIVE TOTAL COMPANY COSTS:</b>				
General and administrative expenses	\$23,088	\$24,526		
Capital expenditures	16,429	31,124		
Other operating expenses, occupancy costs and opening costs	63,346	62,250		
Total	\$102,863	\$117,900		
<b>AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS</b>	0.37	%	0.24	%

### ***Board of Directors***

Christopher J. Pappas is a member of the Board of Directors of Amegy Bank, National Association, which is a lender and syndication agent under the Company's 2013 Revolving Credit Facility.

### ***Key Management Personnel***

The Company entered into a new employment agreement with Christopher Pappas on January 24, 2014. The employment agreement was amended on December 1, 2014, to extend the termination date thereof to August 31, 2016, unless earlier terminated. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc.

Peter Tropoli, a director of the Company and the Company's Chief Operating Officer, and formerly the Company's Senior Vice President, Administration, General Counsel and Secretary, is an attorney and stepson of Frank Markantonis, who is a director of the Company.

Paulette Gerukos, Vice President of Human Resources of the Company, is the sister-in-law of Harris J. Pappas, who is a director of the Company.

#### **Note 10. Share-Based Compensation**

We have two active share-based stock plans: the Employee Stock Plan and the Nonemployee Director Stock Plan. Both plans authorize the granting of stock options, restricted stock and other types of awards consistent with the purpose of the plans.

Of the 1.1 million shares approved for issuance under the Nonemployee Director Stock Plan, 0.8 million options, restricted stock units and restricted stock awards were granted, and 0.1 million options were cancelled or expired and added back into the plan. Approximately 0.4 million shares remain available for future issuance as of May 6, 2015. Compensation cost for share-based payment arrangements under the Nonemployee Director Stock Plan, recognized in general and administrative expenses for the three quarters ended May 6, 2015 and May 7, 2014, were approximately \$472 thousand and \$441 thousand, respectively.

Of the 2.6 million shares approved for issuance under the Employee Stock Plan, 5.3 million options and restricted stock units were granted, and 3.1 million options and restricted stock units were cancelled or expired and added back into the plan. Approximately 0.4 million shares remain available for future issuance as of May 6, 2015. Compensation cost for share-based payment arrangements under the Employee Stock Plan, recognized in general and administrative expenses for the three quarters ended May 6, 2015 and May 7, 2014, were approximately \$543 thousand and \$476 thousand, respectively.

### *Stock Options*

Stock options granted under either the Employee Stock Plan or the Nonemployee Director Stock Plan have exercise prices equal to the market price of the Company's common stock at the date of the grant.

Option awards under the Nonemployee Director Stock Plan generally vest 100% on the first anniversary of the grant date and expire ten years from the grant date. No options were granted under the Nonemployee Director Stock Plan in the quarter ended May 6, 2015. No options to purchase shares remain outstanding as of May 6, 2015.

Beginning in fiscal 2015, options granted under the Employee Stock Plan vest 50% on the first anniversary date of the grant date, 25% on the second anniversary of the grant date and 25% on the third anniversary of the grant date, with all options expiring ten years from the grant date. Previously, options granted to employees under the Employee Stock Plan generally vested 25% on the anniversary date of each grant and expired six years from the date of the grant, and options granted to executive officers under the Employee Stock Plan generally vested 25% on the anniversary date of each grant and expired ten years from the date of the grant. All options granted in fiscal 2015 and fiscal 2014 were granted under the Employee Stock Plan. Options to purchase 1,313,248 shares at option prices of \$3.44 to \$11.10 per share remain outstanding as of May 6, 2015.

A summary of the Company's stock option activity for the quarter ended May 6, 2015 is presented in the following table:

<b>Shares</b>	<b>Weighted-</b>	<b>Weighted-</b>	<b>Aggregate</b>
<b>Under</b>	<b>Average</b>	<b>Average</b>	<b>Intrinsic</b>
<b>Fixed</b>	<b>Exercise</b>	<b>Remaining</b>	<b>Value</b>
<b>Options</b>	<b>Price</b>	<b>Contractual</b>	

			<b>Term</b>	<b>(In</b>
			<b>(Years)</b>	<b>thousands)</b>
Outstanding at August 27, 2014	800,754	\$ 4.95	4.1	\$ 635
Granted	628,060	4.49	—	—
Exercised	(33,383 )	3.46	—	54
Forfeited/Expired	(82,185 )	5.47	—	—
Outstanding at May 6, 2015	1,313,246	\$ 4.73	6.7	\$ 881
Exercisable at May 6, 2015	619,696	\$ 4.88	3.9	\$ 411

The intrinsic value for stock options is defined as the difference between the current market value, or closing price on May 6, 2015, and the grant price on the measurement dates in the table above.

### ***Restricted Stock Units***

Grants of restricted stock units consist of the Company's common stock and generally vest after three years. All restricted stock units are cliff-vested. Restricted stock units are valued at the closing market price of the Company's common stock at the date of grant.

A summary of the Company's restricted stock unit activity during the quarter ended May 6, 2015 is presented in the following table:

	<b>Restricted Stock Units</b>	<b>Weighted Average Fair Value  (Per share)</b>	<b>Weighted- Average Remaining Contractual Term (In years)</b>
Unvested at August 27, 2014	397,837	\$ 6.03	1.6
Granted	84,495	4.54	
Vested	(72,915 )	4.55	
Forfeited	—	5.98	1.7
Unvested at May 6, 2015	409,417		

At May 6, 2015, there was approximately \$0.9 million of total unrecognized compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 1.7 years.

### ***Restricted Stock Awards***

Under the Nonemployee Director Stock Plan, directors are granted restricted stock in lieu of cash payments, for all or a portion of their compensation as directors. The number of shares granted is valued at the closing market price of the Company's stock at the date of the grant. Restricted stock awards vest when granted because they are granted in lieu of a cash payment. However, directors are restricted from selling their shares until after the third anniversary of the date of the grant. Directors may receive a 20% premium of additional restricted stock by opting to receive stock in lieu of cash.

### **Note 11. Earnings Per Share**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and unvested restricted stock for the reporting period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock

were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options determined using the treasury stock method. Stock options excluded from the computation of net income per share for the quarter ended May 6, 2015 include approximately 366,000 shares with exercise prices exceeding market prices and approximately 85,000 shares whose inclusion would also be anti-dilutive.

The components of basic and diluted net income per share are as follows:

	Quarter Ended		Three Quarters Ended	
	May 6, 2015 (12 weeks) <i>(In thousands except per share data)</i>	May 7, 2014 (12 weeks) <i>(In thousands except per share data)</i>	May 6, 2015 (36 weeks) <i>(In thousands except per share data)</i>	May 7, 2014 (36 weeks) <i>(In thousands except per share data)</i>
Numerator:				
Income (loss) from continuing operations	\$2,529	\$1,741	\$(1,516)	\$(532 )
Loss from discontinued operations	(176 )	(12 )	(509 )	(1,468 )
Net income (loss)	\$2,353	\$1,729	\$(2,025)	\$(2,000 )
Denominator:				
Denominator for basic earnings per share – weighted-average shares	29,009	28,791	28,940	28,777
Effect of potentially dilutive securities:				
Employee and non-employee stock options	102	685	—	—
Denominator for earnings per share assuming dilution	29,111	29,476	28,940	28,777
Income (loss) per share from continuing operations:				
Basic	\$0.09	\$0.06	\$(0.05 )	\$(0.02 )
Assuming dilution	\$0.09	\$0.06	\$(0.05 )	\$(0.02 )
Loss per share from discontinued operations:				
Basic	\$(0.01 )	\$—	\$(0.02 )	\$(0.05 )
Assuming dilution	\$(0.01 )	\$—	\$(0.02 )	\$(0.05 )
Net income (loss) per share:				
Basic	\$0.08	\$0.06	\$(0.07 )	\$(0.07 )
Assuming dilution	\$0.08	\$0.06	\$(0.07 )	\$(0.07 )

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*Management’s discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited Consolidated Financial Statements and footnotes for the quarter ended May 6, 2015 included in Item 1 of Part I of this Quarterly Report on Form 10 (this “Form 10-Q”), and the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 27, 2014.*

The following presents an analysis of the results and financial condition of our continuing operations. Except where indicated otherwise, the results of discontinued operations are excluded from this discussion.



The following table sets forth selected operating data as a percentage of total revenues (unless otherwise noted) for the periods indicated. All information is derived from the accompanying Consolidated Statements of Operations. Percentages may not add due to rounding.

	Quarter Ended		Three Quarters Ended	
	May 6, 2015 (12 weeks)	May 7, 2014 (12 weeks)	May 6, 2015 (36 weeks)	May 7, 2014 (36 weeks)
Restaurant sales	94.4 %	93.4 %	93.7 %	93.4 %
Culinary contract services	3.9 %	4.7 %	4.4 %	4.7 %
Franchise revenue	1.7 %	1.7 %	1.8 %	1.8 %
Vending revenue	0.1 %	0.1 %	0.1 %	0.1 %
<b>TOTAL SALES</b>	<b>100.0%</b>	<b>100.0 %</b>	<b>100.0%</b>	<b>100.0 %</b>
<b>STORE COSTS AND EXPENSES:</b>				
<i>(as a percentage of restaurant sales)</i>				
Cost of food	28.4 %	28.6 %	29.1 %	28.7 %
Payroll and related costs	34.0 %	33.3 %	35.1 %	34.6 %
Other operating expenses	17.4 %	17.7 %	18.5 %	18.4 %
Occupancy costs	5.4 %	5.4 %	5.6 %	5.7 %
Store Level Profit	14.8 %	15.0 %	11.8 %	12.6 %
<b>COMPANY COSTS AND EXPENSES:</b>				
<i>(as a percentage of total sales)</i>				
Opening costs	0.5 %	0.3 %	0.7 %	0.5 %
Depreciation and amortization	5.0 %	4.9 %	5.4 %	5.0 %
General and administrative expenses	7.8 %	8.7 %	8.5 %	9.1 %
Provision for asset impairments, net	0.0 %	0.0 %	0.1 %	0.6 %
Net gain on disposition of property and equipment	(0.6 )%	(1.1 )%	(0.6 )%	(0.4 )%
<b>Culinary Contract Services Costs</b>				
<i>(as a percentage of culinary contract services sales)</i>				
Cost of culinary contract services	85.2 %	87.6 %	86.5 %	87.2 %
Culinary Contract Services profit margin	14.8 %	12.4 %	13.5 %	12.8 %
<i>(as a percentage of total sales)</i>				
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>3.7 %</b>	<b>3.7 %</b>	<b>(0.6 )%</b>	<b>(0.5 )%</b>
Interest income	0.0 %	0.0 %	0.0 %	0.0 %

Edgar Filing: LUBYS INC - Form 10-Q

Interest expense	(0.6 )%	(0.4 )%	(0.6 )%	(0.4 )%
Other income, net	0.0 %	0.3 %	0.1 %	0.3 %
Income (loss) before income taxes and discontinued operations	3.1 %	3.5 %	(1.0 )%	(0.5 )%
Provision (benefit) for income taxes	0.4 %	1.7 %	(0.5 )%	(0.3 )%
Income (loss) from continuing operations	2.7 %	1.8 %	(0.6 )%	(0.2 )%
Loss from discontinued operations, net of income taxes	(0.2 )%	0.0 %	(0.2 )%	(0.5 )%
NET INCOME (LOSS)	2.5 %	1.8 %	(0.7 )%	(0.7 )%

Although store level profit, defined as restaurant sales less cost of food, payroll and related costs, other operating expenses and occupancy costs is a non-GAAP measure, we believe its presentation is useful because it explicitly shows the results of our most significant reportable segment. The following table reconciles between store level profit, a non-GAAP measure to income from continuing operations, a GAAP measure:

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>May 6, 2015</b> <i>(12 weeks)</i> <i>(In thousands)</i>	<b>May 7, 2014</b> <i>(12 weeks)</i> <i>(In thousands)</i>	<b>May 6, 2015</b> <i>(36 weeks)</i> <i>(In thousands)</i>	<b>May 7, 2014</b> <i>(36 weeks)</i> <i>(In thousands)</i>
Store Level Profit	\$ 13,146	\$ 13,473	\$ 29,960	\$ 31,957
Plus:				
Sales from vending revenue	112	131	355	358
Sales from culinary contract services	3,624	4,534	11,993	12,783
Sales from franchise revenue	1,578	1,684	4,764	4,744
Less:				
Opening costs	427	334	2,035	1,365
Cost of culinary contract services	3,087	3,974	10,369	11,142
Depreciation and amortization	4,750	4,674	14,580	13,466
General and administrative expenses	7,312	8,342	23,088	24,526
Provision for asset impairments, net	—	—	218	1,539
Net gain on disposition of property and equipment	(609 )	(1,023 )	(1,696 )	(956 )
Interest income	(1 )	(1 )	(3 )	(4 )
Interest expense	599	410	1,624	955
Other income, net	(29 )	(250 )	(301 )	(806 )
Provision (benefit) for income taxes	395	1,621	(1,326 )	(853 )
Income (loss) from continuing operations	\$ 2,529	\$ 1,741	\$ (1,516 )	\$ (532 )

The following table shows our restaurant unit count as of August 27, 2014 and May 6, 2015.

#### Restaurant Counts:

<b>FY2015</b>	<b>FY15 YTDQ3</b>	<b>FY15 YTDQ3</b>	<b>FY2015</b>
<b>Year Begin</b>	<b>Openings</b>	<b>Closings</b>	<b>Q3 End</b>

Luby's Cafeterias <sup>(1)</sup>	<b>94</b>	1	(1 )	94
Fuddruckers Restaurants <sup>(1)</sup>	<b>71</b>	4	(3 )	72
Cheeseburger in Paradise	<b>8</b>			8
Other restaurants <sup>(2)</sup>	<b>1</b>			1
Total	<b>174</b>	5	(4 )	175

<sup>(1)</sup> Includes 6 restaurants that are part of "Combo" locations

<sup>(2)</sup> Other restaurants include one Bob Luby's Seafood

### ***Overview***

Luby's, Inc. ("Luby's" or "Company") is a multi-branded company operating in the restaurant industry and in the contract food services industry. Our primary brands include Luby's Cafeteria, Fuddruckers—World's Greatest Hamburgers, Luby's Culinary Services and Cheeseburger in Paradise. Our other brands include Bob Luby's Seafood and Koo Koo Roo Chicken Bistro.

Our Company's vision is that our guests, employees and shareholders stay loyal to our restaurant brands and value them as a significant part of their lives. We want our company's performance to make it a leader in our industry.

We are headquartered in Houston, Texas. 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.lubysinc.com](http://www.lubysinc.com). The information on our website is not, and shall not be deemed to be, a part of this Quarterly Report on Form 10-Q or incorporated by reference into any of our other filings with the SEC.

As of May 6, 2015, we owned and operated 175 restaurants, of which 94 are traditional cafeterias, 72 are gourmet hamburger restaurants, 8 are casual dining restaurants and bars, and one primarily serves seafood. These establishments are located in close proximity to retail centers, business developments and residential areas mostly throughout the United States. Included in the 175 restaurants that we own and operate are 12 restaurants located at 6 property locations where we operate a side-by-side Luby's Cafeteria and Fuddrucker's on the same property. We refer to these locations as "Combo locations."

As of May 6, 2015, we operated 21 Culinary Contract Services locations: 14 in the Houston, Texas area, two in Louisiana, two in Austin, Texas, one in Florida, one in North Carolina and one in Oklahoma. Luby's Culinary Contract Services provides food service management to healthcare, educational and corporate dining facilities.

As of May 6, 2015, we had 48 franchisees operating 105 Fuddrucker's restaurants. Our largest five franchise owners own five to eleven restaurants each. Fourteen franchise owners each own two to four restaurants. The 29 remaining franchise owners each own one restaurant.

### ***Accounting Periods***

Our fiscal year ends on the last Wednesday in August. As such, 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. Comparability between quarters may be affected by 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. A restaurant's sales results are included in the same-store sales calculation in the quarter after a store has been open for six consecutive fiscal quarters. Our Company-owned Fuddruckers restaurants were included in this measurement beginning with the third quarter fiscal 2012. The Cheeseburger in Paradise stores that were acquired in December 2012 were included in the same-store metric beginning in the first quarter fiscal 2015. 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.

## RESULTS OF OPERATIONS

### *For the Third Quarter and Year-to-Date Fiscal 2015 versus the Third Quarter and Year-to-Date Fiscal 2014*

#### *Sales*

Total sales decreased approximately \$2.3 million, or 2.3%, in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014 consisting primarily of a \$1.2 million decrease in restaurant sales, a \$0.9 million decrease in Culinary Contract Services sales, and a \$0.1 million decrease in franchise revenue. The other component of total sales is vending revenue, which decreased \$19 thousand in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014.

Total sales increased approximately \$1.2 million, or 0.4%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014 consisting primarily of an approximate \$1.9 million increase in restaurant sales offset by an approximate \$0.8 million decrease in Culinary Contract Services revenues. The other components of the total sales increase was franchise revenue and vending revenue which increased less than \$0.1 million in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014.

The Company has three reportable business segments: Company-owned restaurants, franchise operations, and Culinary Contract Services (“CCS”).

### **Company-Owned Restaurants**

#### ***Restaurant Sales***

#### ***Quarter ended May 6, 2015 compared to the quarter ended May 7, 2014***

Restaurant sales decreased approximately \$1.2 million to approximately \$88.8 million in the quarter ended May 6, 2015 compared to approximately \$90.0 million in the quarter ended May 7, 2014. Sales from Combo locations increased by approximately \$3.5 million to approximately \$6.4 million; sales at stand-alone Fuddruckers restaurants increased by approximately \$0.6 million. Sales at Cheeseburger in Paradise locations decreased approximately \$3.2 million and sales at Luby’s Cafeteria stand-alone locations decreased approximately \$1.9 million. Additionally, we ceased operations at the one Koo Koo Roo Chicken Bistro restaurant that we operated a year ago, resulting in a decrease of approximately \$0.2 million in sales.

The \$3.5 million increase in sales at our Combo locations was due to the addition of three new Combo locations, offset by a 3.7% decrease in sales at our first combo location. The \$0.6 million sales increase at our stand-alone Fuddruckers restaurants resulted from a 0.2% increase in same-store sales and the incremental sales contribution from five new Fuddruckers restaurants (including two converted from Cheeseburger in Paradise restaurants), partially offset by the absence of sales from four closed Fuddruckers restaurants. The 0.2% increase in same-store sales at Fuddruckers restaurants resulted from a 1.5% increase in average spend per guest offset by a 1.3% decrease in guest traffic. The \$3.2 million decrease in sales at our Cheeseburger in Paradise restaurants was due to a reduction in operating restaurants, down from 19 restaurants in the quarter ended May 7, 2014 to eight restaurants in the quarter ended May 6, 2015. Partially offsetting the \$3.2 million sales decline at the Cheeseburger in Paradise locations, was \$1.3 million in sales recaptured at the four locations that were converted from a Cheeseburger in Paradise restaurant to a Fuddruckers restaurant. The \$1.9 million sales decrease at our stand-alone Luby’s Cafeteria restaurants resulted from a 1.0% decrease in same-store sales and the absence in sales from three closed Luby’s Cafeterias. The 1.0% decrease in same-store Luby’s Cafeteria sales resulted from a 2.7% decrease in guest traffic offset by a 1.7% increase in average

spend per guest.

*Three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014*

Restaurant sales, which is comprised of food and beverage sales, increased approximately \$1.9 million in the three quarters ended May 6, 2015 compared to the three quarter ended May 7, 2014. Sales from Combo locations increased by approximately \$10.9 million to approximately \$16.3 million; sales at stand-alone Fuddruckers restaurants increased by approximately \$4.8 million. Partially offsetting these increases, sales at Cheeseburger in Paradise locations decreased approximately \$10.1 million; and sales at Luby's Cafeteria stand-alone locations decreased approximately \$2.8 million. Additionally, we ceased operations at the one Koo Koo Roo Chicken Bistro restaurant that we operated a year ago, resulting in a decrease of approximately \$0.9 million in sales.

The \$10.9 million increase in sales at our Combo locations was due to the addition of five new Combo locations and a 0.2% increase in sales at our first Combo location. The \$4.8 million sales increase at our stand-alone Fuddruckers restaurants resulted from a 0.8% increase in same-store sales and the incremental sales contribution from nine new Fuddruckers restaurants (including four converted from Cheeseburger in Paradise restaurants), partially offset by the absence of sales from four closed Fuddruckers restaurants. The 0.8% increase in same-store sales at Fuddruckers restaurants resulted from a 0.7% increase in guest traffic and a 0.1% increase in average spend per guest. The \$10.1 million decrease in sales at our Cheeseburger in Paradise restaurants was due to a reduction in operating restaurants, down from 23 restaurants in the three quarter ended May 7, 2014 to eight restaurants in the three quarter ended May 6, 2015. Offsetting the \$10.1 million sales decline at the Cheeseburger in Paradise locations, was \$3.7 million in sales recaptured at the four locations that were converted from a Cheeseburger in Paradise restaurant to a Fuddruckers restaurant. The \$2.8 million sales decrease at our stand-alone Luby's Cafeteria restaurants resulted from the absence of sales from four closed Luby's Cafeterias offset by a 0.7% increase in same-store sales. The 0.7% increase in same-store Luby's Cafeteria sales resulted from a 1.0% increase in average spend per guest offset by a 0.3% decrease in guest traffic.



### ***Cost of Food***

Cost of food, which is comprised of food and beverage costs, is variable and generally fluctuates with product mix and sales volume as well as changes in menu prices and changes in commodity costs. Cost of food decreased approximately \$0.5 million, or 2.1%, in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014, due primarily to an overall decrease in sales volume partially offset by increases in food commodity prices. Food commodity prices for our basket of food commodity purchases were higher by approximately 6% at our Fuddruckers restaurants and stable at our Luby's Cafeterias restaurants in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014. As a percentage of restaurant sales, food cost decreased 0.2% to 28.4% in the quarter ended May 6, 2015, compared to 28.6% in the quarter ended May 7, 2014 due to higher average menu prices partially offsetting food commodity cost increases.

Cost of food increased approximately \$1.5 million, or 2.1%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014, primarily due to increases in food commodity prices. For the three quarters ended May 6, 2015, food commodity prices for our basket of food commodity purchases were higher by approximately 4% at our Luby's Cafeteria restaurants and by approximately 9% at our Fuddruckers restaurants. As a percentage of restaurant sales, cost of food increased 0.4% to 29.1% in the three quarters ended May 6, 2015 compared to 28.7% in the three quarters ended May 7, 2014.

### ***Payroll and Related Costs***

Payroll and related costs include store-level hourly crew and supervisor wages and management salaries as well as related taxes and benefits. Payroll and related costs increased approximately \$0.2 million, or 0.8%, in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014, due primarily to increases in restaurant management costs. Increase in restaurant management costs is primarily the result of higher average wages and staffing of our restaurants in order to enhance guest service. As a percentage of restaurant sales, payroll and related costs increased 0.7%, to 34.0% in the quarter ended May 6, 2015 compared to 33.3% in the quarter ended May 7, 2014. The increase in payroll and related costs as a percentage of restaurant sales is primarily due to (1) the fixed component of management labor costs, and to a lesser extent hourly labor costs, over lower sales volumes, partially offset by (2) lower management and hourly labor costs as a percentage of restaurants sales at our Combo locations with comparisons against prior fiscal year 2014 when increased labor was deployed during the first several months of operations at newly opened stores.

Payroll and related costs increased approximately \$2.0 million, or 2.3%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014. As a percentage of restaurant sales, payroll and related costs increased 0.5% to 35.1% in the three quarters ended May 6, 2015 compared to 34.6% in the three quarters ended May 7, 2014. These increases primarily reflect additional investments in restaurant management in order to enhance guest service and motivate increased guest traffic.

*Other Operating Expenses*

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services and supplies. Other operating expenses decreased by approximately \$0.5 million, or 3.3%, in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014, due primarily to (1) an approximate \$0.7 million decrease in utilities costs; (2) an approximate \$0.3 million decrease in marketing and advertising expense; and (3) an approximate \$0.2 million decrease in general liability and property insurance costs; offset by (4) an approximate \$0.7 million increase in repairs and maintenance costs. As a percentage of restaurant sales, other operating expenses decreased 0.3% to 17.4% in the quarter ended May 6, 2015 compared to 17.7% in the quarter ended May 7, 2014.

Other operating expenses increased by approximately \$0.6 million, or 1.4%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014, primarily due to (1) an approximate \$1.3 million increase in repairs and maintenance expense; (2) an approximate \$0.3 million increase in restaurant supplies and services expense; and (3) an approximate \$0.2 million increase in restaurant related travel and other restaurant expenses; partially offset by; (4) an approximate \$0.9 million decrease in utilities costs; (5) an approximate \$0.2 million decrease in property insurance and general liability insurance expense; and (6) an approximate \$0.1 million decrease in marketing and advertising costs. As a percentage of restaurant sales, other operating expenses increased 0.1% to 18.5% in the three quarters ended May 6, 2015 compared to 18.4% in the three quarters ended May 7, 2014, due to the net cost increases enumerated above offset by our ability to leverage certain costs over higher sales volumes.

### ***Occupancy Costs***

Occupancy costs include property lease expense, property taxes, common area maintenance charges and permits and licenses. Occupancy costs were approximately \$4.8 million in the quarter ended May 6, 2015 and in the quarter ended May 7, 2014. Occupancy costs decreased \$0.2 million to \$14.2 million in the three quarters ended May 6, 2015 compared to \$14.4 million in the three quarters ended May 7, 2014 primarily due to the closure of leased locations partially offset by higher property taxes at certain locations.

### **Franchise Operations**

We only offer franchises for the Fuddruckers brand. Franchises are sold in markets where expansion is deemed advantageous to the development of the Fuddruckers concept and system of restaurants. Franchise revenue includes (1) franchise royalties and (2) franchise and area development agreement fees. Franchise revenue decreased approximately \$0.1 million to \$1.6 million in the quarter ended May 6, 2015, compared to \$1.7 million in the quarter ended May 7, 2014. The \$0.1 million decrease in franchise revenue includes an \$84 thousand decrease in franchise royalties and a \$22 thousand decrease in non-royalty related fee income.

Franchise revenue increased \$20 thousand for the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014. The \$20 thousand increase in franchise revenue includes a \$28 thousand increase in franchise fees offset by an \$8 thousand decrease in franchise royalties.

At the quarter ended May 6, 2015 there were 105 Fuddruckers franchise units in the system. Over the prior one year period ended May 6, 2015 our franchisees have opened five units. Over the prior one year period ended May 6, 2015 there were also 12 franchise units that closed. Of the 12 franchise units that closed, 11 closed on a permanent basis and one is temporarily closed for relocation.

### **Culinary Contract Services**

Culinary Contract Services is 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. We operated 21 Culinary Contract Services locations at the end of the quarter ended May 6, 2015 and 26 at the end of the quarter ended May 7, 2014. In fiscal 2012, we refined our operating model by concentrating on clients able to enter into agreements where all operating costs are reimbursed to us and we generally charge a fixed fee. These agreements typically present lower financial risk to the company.

***Culinary Contract Services Revenue***

Culinary Contract Services revenue decreased approximately \$0.9 million, or 20.1%, to \$3.6 million in the quarter ended May 6, 2015 compared to \$4.5 million in the quarter ended May 7, 2014. The decrease in revenue was primarily due to a reduction in the number of locations where we operate and a change in the mix of locations that produce higher profit margins on lower sales volumes.

Culinary Contract Services revenue decreased \$0.8 million, or 6.2%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014. The decrease in revenue was primarily due to a reduction in the number of locations where we operate and a change in the mix of locations that produce higher profit margins on lower sales volumes.

***Cost of Culinary Contract Services***

Cost of Culinary Contract Services includes the food, payroll and related costs, and other direct operating expenses associated with generating Culinary Contract Services revenue. Cost of Culinary Contract Services decreased approximately \$0.9 million, or 22.3%, in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014, consistent with a decrease in Culinary Contract Services revenue. Culinary Contract Services profit margin, defined as Culinary Contract Services revenue less Cost of Culinary Cost Services, increased to 14.8% of Culinary Contract Services revenue in the quarter ended May 6, 2015 compared to 12.4% in the quarter ended May 7, 2014.

Cost of Culinary Contract Services decreased approximately \$0.8 million, or 6.9%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014, due to a commensurate increase in Culinary Contract Services sales volume. Our profit margin in this business segment increased to 13.5% of Culinary Contract Services revenue in the three quarters ended May 6, 2015 compared to 12.8% in the three quarters ended May 7, 2014.

## **Company-wide Expenses**

### ***Opening Costs***

Opening costs include labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were approximately \$0.4 million in the quarter ended May 6, 2015 compared to \$0.3 million in the quarter ended May 7, 2014. Both quarters included carrying costs of locations to be developed for future restaurant openings. Included in the opening costs in the quarter ended May 6, 2015 are carrying costs of approximately \$0.3 million associated with six locations that were previously operated as Cheeseburger in Paradise restaurants and one location that was previously operated as a Koo Koo Roo Chicken Bistro and are selected for conversion to Fuddruckers restaurants.

Opening costs were approximately \$2.0 million in the three quarters ended May 6, 2015 compared to \$1.4 million in the three quarters ended May 7, 2014. The three quarters ended May 6, 2015 and the three quarters ended May 7, 2014 included carrying costs of locations to be developed for future restaurant openings. Included in the opening costs in the three quarters ended May 6, 2015 are carrying costs of approximately \$1.1 million associated with six locations that were previously operated as Cheeseburger in Paradise restaurants and are in the process of conversion to Fuddruckers restaurants. The three quarters ended May 6, 2015 also include the labor, supplies and other costs necessary to support the opening of three Fuddruckers restaurants. The three quarters ended May 7, 2014, also included the labor, supplies, and other costs necessary to support the opening of six Fuddruckers restaurants and three Luby's Cafeterias. Two of the Fuddruckers restaurants that opened during the three quarters ended May 7, 2014 previously operated as Cheeseburger in Paradise restaurants.

### ***Depreciation and Amortization***

Depreciation and amortization expense increased by approximately \$0.1 million, or 1.6%, to \$4.8 million in the quarter ended May 6, 2015 compared to \$4.7 million in the quarter ended May 7, 2014, due primarily to the addition of depreciation related to capital expenditures for new construction and restaurant conversion activity partially offset by the reduction in depreciation related to certain assets reaching the end of their depreciable lives.

Depreciation and amortization expense increased by approximately \$1.1 million, or 8.3%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014, due primarily to the addition of depreciation related to capital expenditures for new construction and restaurant conversion activity partially offset by the reduction in depreciation related to certain assets reaching the end of their depreciable lives.

***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 decreased by approximately \$1.0 million, or 12.3%, in the quarter ended May 6, 2015 compared to the quarter ended May 7, 2014. General and administrative expenses included decreased spending on outside professional fees and services, office supplies and equipment and travel expenses, and lower overall compensation expenses. As a percentage of total revenue, general and administrative expenses decreased to 7.8% in the quarter ended May 6, 2015 compared to 8.7% in the quarter ended May 7, 2014.

General and administrative expenses decreased by approximately \$1.4 million, or 5.9%, in the three quarters ended May 6, 2015 compared to the three quarters ended May 7, 2014. The decrease was due primarily to decreases in outside professional services costs, office supplies and equipment, lower group health insurance expense, and the absence of penalties related to income and payroll taxes that were incurred in the comparable period in fiscal 2014. As a percentage of total revenue, general and administrative expenses decreased to 8.5% in the three quarters ended May 6, 2015 compared to 9.1% in the three quarters ended May 7, 2014.

***Provision for Asset Impairments***

There were no asset impairments in the quarter ended May 6, 2015 and in the quarter ended May 7, 2014.

The asset impairment of \$0.2 million in the three quarters ended May 6, 2015 reflects the impairment of three leased Fuddruckers locations (two of which were converted from Cheeseburger in Paradise locations) and the goodwill related to one underperforming converted Cheeseburger in Paradise leasehold location. The asset impairment of \$1.5 million in the three quarters ended May 7, 2014 reflects the impairment of one Company-owned Fuddruckers location, one leased Fuddruckers locations and goodwill related to six Cheeseburger in Paradise locations.

***Net Loss (Gain) on Disposition of Property and Equipment***

Gain on disposition of property and equipment was approximately \$0.6 million in the quarter ended May 6, 2015 and includes gains on the sale of one property location where we previously operated a Luby's Cafeteria, offset by normal asset retirement activity. The gain on disposition of property and equipment was approximately \$1.0 million in the quarter ended May 7, 2014 and was primarily related to the sale of one property location where we previously operated a Luby's Cafeteria, offset by normal asset retirement activity.

The gain on dispositions of property and equipment for the three quarters ended May 6, 2015 was approximately \$1.7 million and was primarily related to gains on the sale of two property locations where we previously operated a Luby's Cafeteria, partially offset by losses on the sale of one property location where we previously operated a Fuddrucker's restaurant and normal asset retirement activity. The gain on dispositions of property and equipment for the three quarters ended May 7, 2014 was approximately \$1.0 million and was primarily related to a gain on the sale of one property location where we previously operated a Luby's Cafeteria, offset by normal asset retirement activity.

***Interest Income***

Interest income was \$1 thousand in the quarter ended May 6, 2015 and in the quarter ended May 7, 2014.

Interest income was \$3 thousand in the three quarters ended May 6, 2015 compared to \$4 thousand in the three quarters ended May 7, 2014.

***Interest Expense***

Interest expense in the quarter ended May 6, 2015 was \$0.6 million, compared to \$0.4 million in the quarter ended May 7, 2014. The increase was due to higher average debt balances.

Interest expense in the three quarters ended May 6, 2015 was \$1.6 million, compared to \$1.0 million in the three quarters ended May 7, 2014. The increase was due to higher average debt balances.

***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; oil and gas royalty income; and dining card sales discounts. Other income, net in the quarter ended May 6, 2015 decreased approximately \$0.2 million compared to the quarter ended May 7, 2014. The decrease was primarily due to lower net rental income on properties that we lease to third parties and higher dining card sales discounts.

Other income, net in the three quarters ended May 6, 2015 decreased approximately \$0.5 million to \$0.3 million in the three quarters ended May 7, 2014. The decrease was primarily due to lower net rental income on properties that we lease to third parties and higher dining card sales discounts.

***Taxes***

For the quarter ended May 6, 2015 the income taxes related to continuing operations resulted in an income tax provision of approximately \$0.4 million compared to an income tax provision of approximately \$1.6 million for the quarter ended May 7, 2014.

For the three quarters ended May 6, 2015 the income taxes related to continuing operations resulted in an income tax benefit of approximately \$1.3 million compared to an income tax benefit of approximately \$0.9 million for the three quarters ended May 7, 2014.



### *Discontinued Operations*

The loss from discontinued operations was approximately \$0.2 million in the quarter ended May 6, 2015 compared to a loss of \$12 thousand in the quarter ended May 7, 2014. The loss from discontinued operations of approximately \$0.2 million in the quarter ended May 6, 2015 included an approximate \$0.2 million loss in carrying costs associated with assets related to discontinued operations, an approximate \$0.1 million impairment of assets that are classified as discontinued operations assets, offset by an income tax benefit of approximately \$0.1 million. The loss from discontinued operations of \$12 thousand in the quarter ended May 7, 2014 included a \$0.2 million loss in carrying costs associated with assets related to discontinued operations, offset by an income tax benefit of approximately the same.

The loss from discontinued operations was \$0.5 million in the three quarters ended May 6, 2015 compared to a loss of \$1.5 million in the three quarters ended May 7, 2014. The loss of \$0.5 million for the three quarters ended May 6, 2015 included \$0.7 million loss in carrying costs associated with assets that are classified as discontinued operations assets, an approximate \$0.1 million impairment of assets that are classified as discontinued operations, offset by a \$0.3 million income tax benefit. The loss of \$1.5 million for the three quarters ended May 7, 2014 included \$1.2 million loss in carrying costs associated with assets that are classified as discontinued operations assets; and a \$0.8 million impairment charge for assets that are classified as discontinued operations assets; offset by a \$0.5 million income tax benefit.

## **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. During the three quarters ended May 6, 2015, cash provided by operating activities was approximately \$4.1 million and cash provided by financing activities was approximately \$5.9 million partially offset by cash used in investing activities of approximately \$11.2 million. Cash and cash equivalents decreased approximately \$1.2 million in the first three quarters of fiscal 2015 compared to an approximate increase of \$0.3 million in the first three quarters of fiscal 2014. We 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 new restaurant construction, restaurant renovations and remodels, purchase of property for development of our restaurant brands and for use as rental property and upgrades in information technology; and working capital primarily for our Company-owned restaurants and Culinary Contract Services agreements.

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, higher levels of accounts receivable are typical for our culinary contract services and franchise business segments.

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

	<b>Three Quarters Ended</b>	
	<b>May 6,</b>	<b>May 7,</b>
	<b>2015</b>	<b>2014</b>
	<b>(36</b>	<b>(36</b>
	<b>weeks)</b>	<b>weeks)</b>
	<i>(In thousands)</i>	
Total cash provided by (used in):		
Operating activities	\$4,162	\$11,788
Investing activities	(11,237)	(28,388)
Financing activities	5,862	16,885
Net increase (decrease) in cash and cash equivalents	\$(1,213)	\$285

*Operating Activities.* Cash provided by operating activities was approximately \$4.1 million in the first three quarters of fiscal 2015, a \$7.6 million decrease from the first three quarters of fiscal 2014. The \$7.6 million decrease in cash is due to a \$1.4 million decrease in cash from operations before changes in operating assets and liabilities plus a \$6.2 million decrease in cash generated by changes in operating assets and liabilities for the quarter ended May 6, 2015.

Cash generated by operating activities before changes in operating assets and liabilities was approximately \$10.5 million in the first three quarters of fiscal 2015, a \$1.4 million decrease compared to the first three quarters of fiscal 2014. The \$1.4 million decrease in cash provided by operating activities before changes in operating assets and liabilities was primarily due to less cash generated by segment level profit of \$2.0 million partially offset by less cash used in other operating activities.

Changes in operating assets and liabilities was an approximate \$6.3 million use of cash in the first three quarters of fiscal 2015 and an approximate \$0.1 million use of cash during the first three quarters of fiscal 2014. The \$6.2 million increase in the use of cash was due to differences in the change in asset and liability balances during the three quarters ended May 6, 2015 and May 7, 2014. Increases in assets are uses of cash whereas decreases in assets are sources of cash. During the three quarters ended May 6, 2015, the change in trade accounts receivable and other receivables was an approximate \$0.1 million use of cash compared to an approximate \$0.1 million source of cash during the three quarters ended May 7, 2014. The change in inventory during the three quarters ended May 6, 2015 was an approximate \$1.1 million source of cash compared to approximately \$0.5 million use of cash during the three quarters ended May 7, 2014. The change in prepaid expenses and other assets was an approximate \$2.0 million use of cash compared to an approximate \$0.8 million source of cash during the three quarters ended May 7, 2014.

Increases in current liability accounts are a source of cash, while decreases in current liability accounts are a use of cash. During the three quarters ended May 6, 2015, changes in the balances of accounts payable, accrued expenses and other liabilities was an approximate \$5.4 million use of cash, compared to an approximate \$0.6 million use of cash during the three quarters ended May 7, 2014, primarily due to a reduction in accounts payable related to capital expenditures.

*Investing Activities.* We generally reinvest available cash flows from operations to develop new restaurants, enhance existing restaurants and to support Culinary Contract Services. Cash used by investing activities was approximately \$11.2 million in the three quarters ended May 6, 2015 and \$28.4 million in the three quarters ended May 7, 2014. Capital expenditures were approximately \$16.4 million in the three quarters ended May 6, 2015; a \$14.7 million decrease compared to the three quarters ended May 7, 2014. Proceeds from the disposal of assets were approximately \$5.1 million in the first three quarters of fiscal 2015 and approximately \$2.7 million in the first three quarters of fiscal 2014.

*Financing Activities.* Cash provided by financing activities was approximately \$5.9 million in the three quarters ended May 6, 2015, an \$11.0 million decrease compared to the three quarters ended May 7, 2014. Cash provided by financing activities was primarily the result of borrowings and repayments related to our revolving credit facility. During the three quarters ended May 6, 2015, borrowings exceeded repayments by \$6.0 million. During the three quarters ended May 7, 2014, borrowings from the credit facility exceeded repayments by \$16.8 million. Debt issue costs were approximately \$0.2 million during the three quarters ended May 6, 2015.

***Status of Long-Term Investments and Liquidity***

At May 6, 2015, we did not hold any long-term investments.

***Status of Trade Accounts and Other Receivables, Net***

We monitor the aging of our receivables, including Fuddruckers franchising related receivables, and record provisions for uncollectable accounts, 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***

Current assets decreased approximately \$0.1 million in the first three quarters of fiscal 2015 compared to an increase of approximately \$0.2 million in the first three quarters of fiscal 2014. In the first three quarters of fiscal 2015, prepaid expenses increased approximately \$2.1, due to a prepayment of sales taxes, and trade accounts and other receivables increased approximately \$0.1 million; partially offset by decreases in cash of approximately \$1.2 million and food and supplies inventory of approximately \$1.1 million. In the first three quarters of fiscal 2014, cash increased approximately \$0.3 million and food and supply inventory increased approximately \$0.5 million; offset by decreases in prepaid expenses of approximately \$0.5 million and trade accounts and other receivables of approximately \$0.1 million.

Current liabilities decreased approximately \$5.7 million in the first three quarters of fiscal 2015 compared to a \$0.1 million increase in the first three quarters of fiscal 2014. In the first three quarters of fiscal 2015, accounts payable decreased approximately \$7.1 million, primarily due to a reduction in capital expenditures, partially offset by increase in accrued expenses and other liabilities of approximately \$1.4 million. In the first three quarters of fiscal 2014, accrued expenses and other liabilities increased approximately \$0.1 million.

### ***Capital Expenditures***

Capital expenditures consist of purchases of real estate for future restaurant sites, new unit construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for the first three quarters of fiscal 2015 were approximately \$16.4 million and related to new restaurant construction, existing unit remodels, purchases of land, technology infrastructure, recurring capital maintenance of our existing units, and the development of future restaurant sites. We expect to be able to fund all capital expenditures in fiscal 2015 using proceeds from the sale of assets, cash flows from operations and our available credit. We expect to spend approximately \$20 million to \$22 million on capital expenditures in fiscal 2015.

## **DEBT**

### ***Revolving Credit Facility***

In August 2013, we entered into a revolving credit facility with Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The following description summarizes the material terms of the revolving credit facility, as subsequently amended on March 21, 2014 and November 7, 2014 (the "2013 Credit Facility"). The 2013 Credit Facility is governed by the credit agreement dated as of August 14, 2013 (the "2013 Credit Agreement") among us, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The maturity date of the 2013 Credit Facility is September 1, 2017.

The aggregate amount of the lenders' commitments under the 2013 Credit Facility was \$70.0 million as of August 28, 2013. The 2013 Credit Facility also provides for the issuance of letters of credit in a maximum aggregate amount of \$5.0 million outstanding as of August 14, 2013 and \$15.0 million outstanding at any one time with prior written consent of the Administrative Agent and the Issuing Bank. At May 6, 2015, under the 2013 Credit Facility, the total borrowing capacity was up to \$70.0 million; after applying the Lease Adjusted Leverage Ratio limitation and the 50% loan-to-value ratio, the additional available borrowing capacity was \$20.1 million. As of March 23, 2015, additional properties were scheduled in accordance with the credit agreement raising the borrowing capacity to the full \$70 million under the credit agreement.

The 2013 Credit Facility is guaranteed by all of our present subsidiaries and will be guaranteed by our future subsidiaries. In addition to the bank's increased commitment under the 2013 Credit Agreement, it may be increased to a maximum commitment of \$90 million.

At any time throughout the term of the 2013 Credit Facility, we have the option to elect one of two bases of interest rates. One interest rate option is 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 0.75% to 2.25% per annum. The other interest rate option is the London InterBank Offered Rate plus a spread that ranges from 2.50% to 4.00% per annum. The applicable spread under each option is dependent upon the ratio of our debt to EBITDA at the most recent determination date.

We are obligated to pay to the Administrative Agent for the account of each lender a quarterly commitment fee based on the average daily unused amount of the commitment of such lender, ranging from 0.30% to 0.40% per annum depending on the Total Leverage Ratio at the most recent determination date.

The proceeds of the 2013 Credit Facility are available for our general corporate purposes and general working capital purposes and capital expenditures.

Borrowings under the 2013 Credit Facility are subject to mandatory repayment with the proceeds of sales of certain of our real property, subject to certain exceptions.

The 2013 Credit Facility is secured by a perfected first priority lien on certain of our real property and all of the material personal property owned by us or any of our subsidiaries, other than certain excluded assets (as defined in the Credit Agreement). At May 6, 2015, the net book value of the collateral securing the 2013 Credit Facility was \$82.2 million.

The 2013 Credit Agreement, as amended, contains the following covenants among others:

maintenance of a ratio of (a) EBITDA minus \$7.5 million (for maintenance capital expenditures) for the four fiscal quarters ending on the last day of any fiscal quarter to (b) the sum of (x) interest expense (as defined in the 2013 Credit Agreement) for such four fiscal-quarter-period plus (y) the outstanding principal balance of the loans as of the last day of such fiscal quarter divided by ten (the “Debt Service Coverage” Ratio), of not less than 1.10 to 1.00 during the first, second and third fiscal quarters of fiscal 2015; 1.25 to 1.00 during the fourth fiscal quarter of fiscal 2015 and the first and second fiscal quarters of fiscal 2016; and 1.50 to 1.00 at all times thereafter.

maintenance of minimum net profit of \$1.00 (1) for at least one of any two consecutive fiscal quarters starting with the third fiscal quarter of 2016 (the “Net Profit – Two Consecutive Quarters” covenant), and (2) for any period of four consecutive fiscal quarters starting with the fourth fiscal quarter of 2015 (for the fiscal year 2015).

maintenance of a ratio of (a) the sum of (x) indebtedness as of the last day of any fiscal quarter plus (y) eight times rental expense for the four fiscal quarters ending on the last day of any fiscal quarter to (b) the sum of (x) EBITDA for such four fiscal-quarter-period plus (y) rental expense for such four fiscal-quarter-period (the “Lease Adjusted Leverage Ratio”) of no more than (i) 5.75 to 1.00 during the first, second and third quarters of fiscal 2015, (ii) 5.50 to 1.00 during the fourth quarter of fiscal 2015, (iii) 5.25 to 1.00 during the first quarter of fiscal 2016, (iv) 5.00 to 1.00 during the second quarter of fiscal 2016 and, (v) 4.75 to 1.00 at all times thereafter.

capital expenditures limited to \$25.0 million per year,

restrictions on incurring indebtedness, including certain guarantees and capital lease obligations,

restrictions on incurring liens on certain of our property and the property of our subsidiaries,

restrictions on transactions with affiliates and materially changing our business,

restrictions on making certain investments, loans, advances and guarantees,

restrictions on selling assets outside the ordinary course of business,

restrictions on entering into sale and leaseback transactions,

restrictions on certain acquisitions of all or a substantial portion of the assets, property and/or equity interests of any person, including share repurchases and dividends.

At February 12, 2014, as the result of losses incurred from our recently acquired leaseholds operating as Cheeseburger in Paradise restaurants, we reported our second consecutive quarterly net profit below our required minimum net profit as defined in the 2013 Credit Agreement. As part of the March 21, 2014 amendment we received a waiver of non-compliance related to this minimum consecutive quarterly net profit debt covenant for the second quarter fiscal 2014. The November 7, 2014 amendment revised the net profit, debt service, lease adjusted leverage ratio, borrowing rates, provided for a \$25.0 million annual capital expenditure limit, and required liens to be perfected on all real property by January 31, 2015. Although we expect to meet the requirements of the Net Profit – Two Consecutive Quarters covenant in the future, which testing will be reinstated starting with the third quarter of fiscal 2016, non-compliance could have had a material adverse affect on our financial condition and would have represented an event of default under the 2013 Credit Agreement.

The 2013 Credit Agreement also includes customary events of default. If a default occurs and is continuing, the lenders' commitments under the 2013 Credit Facility may be immediately terminated and/or we may be required to repay all amounts outstanding under the 2013 Credit Facility.

As of May 6, 2015, we had \$48.0 million in outstanding loans and \$1.1 million committed under letters of credit, which were issued as security for the payment of insurance obligations and \$0.8 million in capital lease commitments.

We were in compliance with the covenants contained in the 2013 Credit Agreement as of May 6, 2015.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Consolidated Financial Statements included in Item 1 of Part 1 of this Form 10-Q were prepared in conformity with GAAP. 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. 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. Management believes the following are critical accounting policies used in the preparation of these financial statements. Actual results may differ from these estimates, including our estimates of future cash flows, which are subject to the current economic environment and changes in estimates. We had no changes in our critical accounting policies and estimates which were disclosed in our Annual Report on Form 10-K for the fiscal year end August 27, 2014.



## **NEW ACCOUNTING PRONOUNCEMENTS**

In April 2015, the Financial Accounting Standards Board (“FASB”) issued guidance on the financial statement presentation of debt issuance costs. This guidance required debt issuance costs to be presented in the balance sheet as a reduction of the related liability rather than be presented as an asset. The guidance is effective for reporting periods beginning after December 15, 2015 and will result in a change in presentation of these costs on our consolidated balance sheets.

In April 2014, the FASB issued ASU No 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360). The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, after December 31, 2015. We are evaluating the impact of this pronouncement on the Company’s Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The guidance is effective for reporting periods beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on the Company’s Consolidated Financial Statements.

## **INFLATION**

It is generally our policy 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.

## **FORWARD-LOOKING STATEMENTS**

This Form 10-Q 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 (the “Exchange Act”). All statements contained in this Form 10-Q, 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 and expected sources of funds for capital expenditures,

future debt, including liquidity and the sources and availability of funds related to debt, and expected repayment of debt, as well as our ability to refinance the existing credit facility or enter into a new credit facility on a timely basis,

expected sources of funds for working capital requirements,

plans for our new prototype restaurants,

plans for expansion of our business,

scheduled openings of new units,

closing existing units,

effectiveness of the Plan,

future sales of assets and the gains or losses that may be recognized as a result of any such sales, and

continued compliance with the terms of our 2013 Credit Facility, as amended.

In some cases, investors can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may” “outlook,” “should,” “will,” and “would” or similar words. Forward-looking statements 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 our Annual Report on Form 10-K for the fiscal year ended August 27, 2014 and any other cautionary language in this Form 10-Q, 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 customer 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,

the ability to realize property values,

the availability and cost of credit,

the ability to effectively integrate and improve the profitability of the acquired Cheeseburger in Paradise restaurants,

effectiveness of the Cheeseburger in Paradise conversions to Fuddruckers restaurants,

the effectiveness of our credit card controls and PCI compliance,

weather conditions in the regions in which 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-Q, 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-Q could have material adverse effect on our business, results of operations, cash flows and financial condition.

### **Item 3. 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 May 6, 2015, the total amount of debt subject to interest rate fluctuations outstanding under our 2013 Credit Facility was \$48.0 million. Assuming an average debt balance of \$48.0 million, a 1.0% increase in prevailing interest rates would increase our annual interest expense by \$0.5 million.

We are not currently using interest rate swaps to manage interest rate risk on 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 dependent on a single vendor for our ingredients.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), as of May 6, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of May 6, 2015, our disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended May 6, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## Part II—OTHER INFORMATION

### Item 1. Legal Proceedings

There have been no material changes during the quarter ended May 6, 2015 to our legal proceedings as disclosed in “Legal Proceedings” in Item 3 of Part I of our Annual Report on Form 10-K for the fiscal year ended August 27, 2014.

### Item 1A. Risk Factors

There have been no material changes during the quarter ended May 6, 2015 to the Risk Factors discussed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended August 27, 2014.

### Item 6. Exhibits

- 31.1 Rule 13a-14(a)/15d-14(a) certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Rule 13a-14(a)/15d-14(a) certification of the Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Section 1350 certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Section 1350 certification of the Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

36

---



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LUBY'S, INC.

(Registrant)

Date: June 15, 2015 By: /s/ Christopher J. Pappas  
Christopher J. Pappas  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: June 15, 2015 By: /s/ K. Scott Gray  
K. Scott Gray  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

- 31.1 Rule 13a-14(a)/15d-14(a) certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Rule 13a-14(a)/15d-14(a) certification of the Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Section 1350 certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Section 1350 certification of the Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document