

LUBYS INC  
Form 10-Q  
December 27, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended November 23, 2011**

**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)**

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**74-1335253**  
(IRS Employer  
Identification No.)

**13111 Northwest Freeway, Suite 600**

**Houston, Texas**  
(Address of principal executive offices)

**77040**  
(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 December 12, 2011 there were 28,165,862 shares of the registrant's common stock outstanding.

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**Lubys, Inc.**

**Form 10-Q**

**Quarter ended November 23, 2011**

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We file reports with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at 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.lubys.com>. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website 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.

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

	<b>November 23, 2011</b>	<b>August 31, 2011</b>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,864	\$ 1,252
Trade accounts and other receivables, net	4,227	4,429
Food and supply inventories	5,898	4,191
Prepaid expenses	2,573	1,960
Assets related to discontinued operations	79	67
Deferred income taxes	2,890	2,865
<b>Total current assets</b>	<b>17,531</b>	<b>14,764</b>
Note receivable	136	
Property held for sale	599	1,046
Assets related to discontinued operations	7,464	7,837
Property and equipment, net	167,499	166,963
Intangible assets, net	27,770	28,098
Goodwill	195	195
Deferred incomes taxes	7,671	7,680
Other assets	1,369	1,437
<b>Total assets</b>	<b>\$ 230,234</b>	<b>\$ 228,020</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 16,960	\$ 14,226
Liabilities related to discontinued operations	644	609
Accrued expenses and other liabilities	20,436	18,587
<b>Total current liabilities</b>	<b>38,040</b>	<b>33,422</b>
Credit facility debt	17,500	21,500
Liabilities related to discontinued operations	1,227	1,220
Other liabilities	8,017	6,841
<b>Total liabilities</b>	<b>64,784</b>	<b>62,983</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.32 par value; 100,000,000 shares authorized; Shares issued were 28,665,005 and 28,651,277, respectively; Shares outstanding were 28,165,005 and 28,151,277, respectively	9,173	9,168
Paid-in capital	23,976	23,772
Retained earnings	137,076	136,872
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)

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Total shareholders' equity	165,450	165,037
Total liabilities and shareholders' equity	\$ 230,234	\$ 228,020

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

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

	Quarter Ended	
	November 23, 2011 (12 weeks)	November 17, 2010 (12 weeks)
<b>SALES:</b>		
Restaurant sales	\$ 73,159	\$ 70,290
Culinary contract services	4,536	3,332
Franchise revenue	1,482	1,501
Vending revenue	148	153
<b>TOTAL SALES</b>	<b>79,325</b>	<b>75,276</b>
<b>COSTS AND EXPENSES:</b>		
Cost of food	20,504	20,860
Payroll and related costs	25,087	25,043
Other operating expenses	17,516	18,203
Opening costs	35	105
Cost of culinary contract services	4,106	2,985
Depreciation and amortization	4,114	4,181
General and administrative expenses	6,810	6,513
Provision for asset impairments, net	175	
Net loss on disposition of property and equipment	9	7
<b>Total costs and expenses</b>	<b>78,356</b>	<b>77,897</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>969</b>	<b>(2,621)</b>
Interest income	1	2
Interest expense	(279)	(618)
Other income, net	217	225
Income (loss) before income taxes and discontinued operations	908	(3,012)
Provision (benefit) for income taxes	325	(905)
Income (loss) from continuing operations	583	(2,107)
Loss from discontinued operations, net of income taxes	(379)	(181)
<b>NET INCOME (LOSS)</b>	<b>\$ 204</b>	<b>\$ (2,288)</b>
<b>Income (loss) per share from continuing operations:</b>		
Basic	\$ 0.02	\$ (0.07)
Assuming dilution	0.02	(0.07)
<b>Loss per share from discontinued operations:</b>		
Basic	\$ (0.01)	\$ (0.01)
Assuming dilution	(0.01)	(0.01)
<b>Net income (loss) per share:</b>		
Basic	\$ 0.01	\$ (0.08)

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Assuming dilution	0.01	(0.08)
Weighted average shares outstanding:		
Basic	28,262	28,164
Assuming dilution	28,304	28,164

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

**Table of Contents****Lubys, Inc.****Consolidated Statement of Shareholders' Equity (unaudited)***(In thousands)*

	Common Stock		Treasury	Paid-In	Retained	Total	
	Issued	Amount					Shares
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
BALANCE AT AUGUST 31, 2011	28,651	\$ 9,168	(500)	\$ (4,775)	\$ 23,772	\$ 136,872	\$ 165,037
Net income						204	204
Share-based compensation expense	14	5			204		209
BALANCE AT NOVEMBER 23, 2011	28,665	\$ 9,173	(500)	\$ (4,775)	\$ 23,976	\$ 137,076	\$ 165,450

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



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

	<b>Quarter ended</b>	
	<b>November 23, 2011 (12 weeks)</b>	<b>November 17, 2010 (12 weeks)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 204	\$ (2,288)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for asset impairments, net of gains/losses on property sales	551	(43)
Depreciation and amortization	4,114	4,197
Amortization of debt issuance cost	26	209
Non-cash compensation expense		57
Share-based compensation expense	209	189
Tax benefit on stock options		(2)
Deferred tax benefit	(17)	(1,177)
Cash provided by operating activities before changes in operating assets and liabilities	5,087	1,142
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts and other receivables, net	209	(486)
Increase in food and supply inventories	(1,707)	(1,201)
Increase in prepaid expenses and other assets	(582)	(275)
Increase in accounts payable, accrued expenses and other liabilities	5,796	2,884
Net cash provided by operating activities	8,803	2,064
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of assets and property held for sale	465	1,308
Acquisition of Fuddruckers		(265)
Purchases of property and equipment	(4,519)	(1,404)
Increase in note receivable	(136)	
Net cash used in investing activities	(4,190)	(361)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Credit facility borrowings	9,800	17,300
Credit facility repayments	(13,800)	(19,300)
Debt issuance costs	(1)	(220)
Tax benefit on stock option expense		2
Proceeds received on the exercise of nonemployee stock options		4
Net cash used in financing activities	(4,001)	(2,214)
Net increase (decrease) in cash and cash equivalents	612	(511)
Cash and cash equivalents at beginning of period	1,252	2,300
Cash and cash equivalents at end of period	\$ 1,864	\$ 1,789
Cash paid for:		
Income taxes	\$	\$

Interest

228

503

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

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**Luby s, Inc.**

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

November 23, 2011

**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 period ended November 23, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending August 29, 2012.

The consolidated balance sheet dated August 31, 2011, included in this Form 10-Q, has been derived from the audited consolidated financial statements at 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 31, 2011.

The results of operations, assets and liabilities for all units included in the cash flow improvement and capital redeployment plan discussed in Note 6 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. However, every fifth or sixth year, the fiscal year consists of 53 weeks, accounting for 371 days in the aggregate; fiscal year 2011 was such a year. 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. However, the fourth quarter of fiscal year 2011, as a result of the additional week, consisted of three four-week periods and one five-week period, accounting for 17 weeks, or 119 days, in the aggregate. Fiscal year 2012 contains 52 weeks. Comparability between quarters may be affected by the varying lengths of the quarters, as well as the seasonality associated with the restaurant business. 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. 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.

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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.

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Non-recurring fair value measurements related to impaired property and equipment consisted of the following:

	Fair Value Measurement Using				Total Impairments
	Quarter Ended November 23, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-lived assets related to continuing operations	\$ 57	\$	\$	\$ 57	\$ (175)
Long-lived assets related to discontinued operations	\$ 802	\$	\$	\$ 802	\$ (373)
					\$ (548)

	Fair Value Measurement Using				Total Impairments
	Quarter Ended November 17, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-lived assets related to discontinued operations	\$ 2,510	\$	\$	\$ 2,510	\$ (190)

**Note 4. Income Taxes**

No cash payments of estimated federal income taxes were made during the quarter ended November 23, 2011.

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. If current available information and projected future results raises doubt about the realization of the deferred tax assets, a valuation allowance is necessary. Such a valuation allowance was established in the fourth quarter ended August 26, 2009 through a charge to income tax expense which adversely affected the Company's reported operating results. Management concluded that for the quarter ended November 17, 2010, an increase in the valuation allowance of \$0.1 million was necessary. No adjustments were made to the valuation allowance for the quarter ended November 23, 2011. The valuation allowance partially offsets the Company's deferred tax assets related to carryovers to future years of employment tax credits.

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. The Company does not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next thirteen four-week periods.

**Table of Contents****Note 5. Property and Equipment, Intangible Assets and Goodwill**

The cost, net of impairment, and accumulated depreciation of property and equipment at November 23, 2011 and August 31, 2011, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	November 23, 2011	August 31, 2011	Estimated Useful Lives
	<i>(In thousands)</i>		
Land	\$ 56,487	\$ 56,487	
Restaurant equipment and furnishings	108,121	105,263	3 to 15 years
Buildings	162,642	162,327	20 to 33 years
Leasehold and leasehold improvements	31,242	31,026	Lesser of lease term or estimated useful life
Office furniture and equipment	6,826	6,823	3 to 10 years
Construction in progress	1,182	336	
	366,500	362,262	
Less accumulated depreciation and amortization	(199,001)	(195,299)	
<b>Property and equipment, net</b>	<b>\$ 167,499</b>	<b>\$ 166,963</b>	
Intangible assets, net	\$ 27,770	\$ 28,098	21 years
<b>Goodwill</b>	<b>\$ 195</b>	<b>\$ 195</b>	

Intangible assets, net consists of the Fuddruckers trade name and franchise agreements. The Company believes the Fuddruckers brand name has an expected accounting life of 21 years based on the expected use of its assets and the restaurant environment in which it is being used and will be amortized. The trade name represents a respected brand with positive 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 and will be amortized over this period of time. The Company has recorded \$1.8 million of accumulated amortization expense as of November 23, 2011 and \$1.5 million of accumulated amortization expense as of August 31, 2011.

The Company recorded an intangible asset for goodwill in the amount of \$0.2 million related to the acquisition of substantially all of the assets of Fuddruckers. Goodwill is considered to have an indefinite useful life and is not amortized. Goodwill was \$0.2 million as of November 23, 2011 and August 31, 2011.

**Note 6. 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 is longer and 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

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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.

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The Company recognized the following impairment charges (credits) to income from operations:

	Quarter Ended	
	November 23, 2011 (12 weeks)	November 17, 2010 (12 weeks)
<i>(In thousands, except per share data)</i>		
Provision for asset impairments	\$ 175	\$
Net (gain) loss on disposition of property and equipment	9	7
	\$ 184	\$ 7
Effect on EPS:		
Basic	\$ 0.01	\$
Assuming dilution	\$ 0.01	\$

The impairment charge for the quarter ended November 23, 2011 is related to a culinary contract services agreement.

**Discontinued Operations**

As a result of the first quarter fiscal year 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.

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

	November 23, 2011	August 31, 2011
<i>(in thousands)</i>		
Trade accounts and other receivable, net	\$	\$ 8
Prepaid expenses	79	59
Assets related to discontinued operations - current	\$ 79	\$ 67
Property and equipment	\$ 7,456	\$ 7,829
Other assets	8	8
Assets related to discontinued operations - non-current	\$ 7,464	\$ 7,837
Deferred income taxes	\$ 241	\$ 241
Accrued expenses and other liabilities	403	368
Liabilities related to discontinued operations - current	\$ 644	\$ 609
Other liabilities	\$ 572	\$ 565
Deferred income taxes	655	655
Liabilities related to discontinued operations - non-current	\$ 1,227	\$ 1,220

In the first quarter of fiscal year 2012, one property was impaired by a total of \$0.4 million.



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As of August 31, 2011, the Company had 12 properties classified as discontinued operations assets. The carrying value of the owned properties was \$7.8 million. The carrying values of the ground leases were previously impaired to zero.

As of November 23, 2011, the Company had 12 properties classified as discontinued operations assets. The carrying value of the owned properties was \$7.4 million. The carrying values of the ground leases were previously impaired to zero.

The Company is actively marketing 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.

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The following table sets forth the sales and pretax losses reported for all discontinued locations:

	Quarter Ended	
	November 23, 2011 (12 weeks)	November 17, 2010 (12 weeks)
	<i>(In thousands, except discontinued locations)</i>	
Sales	\$	\$
Pretax loss	(594)	(322)
Income tax benefit on discontinued operations	215	141
Loss on discontinued operations	(379)	(181)
Discontinued locations closed during the period	0	0

The following table summarizes discontinued operations for the first quarters of fiscal years 2012 and 2011:

	Quarter Ended	
	November 23, 2011 (12 weeks)	November 17, 2010 (12 weeks)
	<i>(In thousands, except per share data)</i>	
Impairments	\$ (373)	\$ (190)
Gains	6	240
Net (loss) gain	(367)	50
Other	(12)	(231)
Loss from discontinued operations	\$ (379)	\$ (181)
Effect on EPS from discontinued operations basic	\$ (0.01)	\$ (0.01)

Within discontinued operations, the Company offsets gains from applicable property disposals against total impairments. The amounts in the table described as *Other* include employment termination and shut-down costs, as well as operating losses through each restaurant's closing date and carrying costs until the locations are finally disposed.

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 basic 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.

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At November 23, 2011, the Company had one owned property recorded at approximately \$0.6 million in property held for sale. At August 31, 2011, the Company had two owned properties and one ground lease recorded at approximately \$1.0 million in property held for sale. The Company is actively marketing the location currently classified as property held for sale.

The Company sold one property held for sale during the quarter ended November 23, 2011 resulting in no gain or loss.

The Company's results of continuing operations will be affected to the extent proceeds from sales exceed or are less than net book value.

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**Note 7. Commitments and Contingencies**

***Off-Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements, except for operating leases.

***Pending Claims***

From time to time, the Company is subject to various other 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 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. The Company had no non-cancelable contracts as of November 23, 2011.

**Note 8. 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 Master Sales Agreement dated December 9, 2005 among the Company and the Pappas entities.

Under the terms of the 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 Master Sales Agreement of custom-fabricated and refurbished equipment in the quarters ended November 23, 2011 and November 17, 2010 were \$63,000 and zero, respectively. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Company's Board of Directors.

***Operating Leases***

In the third quarter of fiscal year 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited partnership interest and a 50% general partnership interest in the limited partnership. A third party company manages the center. One of the Company's restaurants has rented and occupied space in that center since July 1969. In November 2006, the Company executed a new lease agreement with respect to this restaurant along with a relocation into a new space in that center in July 2008. The new lease agreement was approved by the Finance and Audit Committee of our Board of Directors.

On November 22, 2006, the Company executed a new lease agreement in connection with the replacement of the existing 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 \$20.00 per square foot (\$22.00 per square foot beginning January 2014) plus maintenance, taxes, and insurance during the primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The Company made payments of \$77,000 and \$88,000 in the quarter ended November 23, 2011 and November 17, 2010, respectively. The new lease agreement was approved by the Finance and Audit Committee and full Board of Directors.

Affiliated rents paid for a Houston restaurant property lease represented 2.6% and 3.0% of total rents for continuing operations for the quarters ended November 23, 2011 and November 17, 2010, respectively.



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	Quarter Ended	
	November 23, 2011 (12 weeks) (In thousands, except percentages)	November 17, 2010 (12 weeks)
<b>AFFILIATED COSTS INCURRED:</b>		
General and administrative expenses professional and other costs	\$ 13	\$ 17
Capital expenditures custom-fabricated and refurbished equipment and furnishings	63	
Other operating expenses and opening costs, including property leases	67	90
<b>Total</b>	<b>\$ 143</b>	<b>\$ 107</b>
<b>RELATIVE TOTAL COMPANY COSTS:</b>		
General and administrative expenses	\$ 6,810	\$ 6,513
Capital expenditures	4,519	1,404
Other operating expenses and opening costs	17,551	18,308
<b>Total</b>	<b>\$ 28,880</b>	<b>\$ 26,225</b>
<b>AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS</b>	<b>0.50%</b>	<b>0.41%</b>

**Board of Directors**

Pursuant to the terms of a Purchase Agreement dated March 9, 2001, entered into by and among the Company, Christopher J. Pappas and Harris J. Pappas, the Company agreed to submit three persons designated by Christopher J. Pappas and Harris J. Pappas as nominees for election at the 2002 Annual Meeting of Shareholders. Messrs. Pappas designated themselves and Frank Markantonis as their nominees for directors, all of whom were subsequently elected. Christopher J. Pappas and Harris J. Pappas are brothers and Frank Markantonis is an attorney whose principal client is Pappas Restaurants, Inc., an entity owned by Harris J. Pappas and Christopher J. Pappas.

Christopher J. Pappas is a member of the Advisory Board of Amegy Bank, National Association, which is a lender and syndication agent under the Company's revolving credit facility.

**Key Management Personnel**

In November 2005, Christopher Pappas entered into a new employment agreement that was subsequently amended in April 2011 to extend the termination date thereof to August 2012. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc.

On February 1, 2011, the Board of Directors of the Company approved the renewal of a consultant agreement with Ernest Pekmezaris, the Company's former Chief Financial Officer. Under the agreement, Mr. Pekmezaris will continue to furnish to the Company advisory and consulting services related to finance and accounting matters and other related consulting services. The agreement was renewed for twelve months at the same monthly rate, expiring on January 31, 2012. Mr. Pekmezaris is also the Treasurer of Pappas Restaurants, Inc. Compensation for the services provided by Mr. Pekmezaris to Pappas Restaurants, Inc. is paid entirely by that entity.

On April 20, 2011, Harris Pappas retired as Chief Operating Officer of the Company but continues to serve as a member of the Company's Board of Directors. In addition, pursuant to the Company's plan of succession, the Board of Directors appointed Peter Tropoli as Chief Operating Officer of the Company. Mr. Tropoli formerly served as Senior Vice President, Administration, General Counsel and Secretary of the Company. In the past, Mr. Tropoli provided litigation services to entities controlled by Christopher J. Pappas and Harris J. Pappas. Mr. Tropoli is the stepson of Frank Markantonis, who is a director of 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 and the former Chief Operating Officer.

**Note 9. Share-Based Compensation**

*Stock Options*

The Company has an Incentive Stock Plan for officers and employees ( Employee Stock Plans ) and a Non-employee Director Stock Option Plan for non-employee directors. These plans authorize the granting of stock options, restricted stock and other types of awards consistent with the purpose of the plans. Approximately 2.9 million shares were authorized for

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issuance under the Company's plans as of November 23, 2011, of which approximately 1.1 million shares were available for future issuance. Stock options granted under the Incentive Stock Plan and the Non-employee Director Stock Option Plan have an exercise price equal to the market price of the Company's common stock at the date of grant. Option awards under the Employee Stock Plans generally vest 25% each year on the anniversary of the grant date and expire six to ten years from the grant date. Option awards under the Non-employee Director Stock Option Plan generally vest 100% on the first anniversary of the grant date and expire ten years from the grant date.

A summary of the Company's stock option activity for the first quarter ended November 23, 2011 is presented below:

	Shares Under Fixed Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at August 31, 2011	1,371,926	\$ 7.33	3.9	\$ 375
Granted	59,426	4.42	8.0	
Exercised				
Forfeited or Expired	(205,700)	12.90		
Outstanding at November 23, 2011	1,225,652	\$ 6.26	4.5	\$ 313
Exercisable at November 23, 2011	721,947	\$ 7.39	3.2	\$ 172

**Restricted Stock**

The Company issues restricted stock awards of the Company's common stock to nonemployee directors in lieu of cash payments for director fees. These restricted stock awards vest when granted, but are issued with a restriction that the stock can not be sold or transferred. The restriction is removed three years from its issuance or upon termination of the director. Restricted stock awards are valued at the average market price of the Company's common stock at the date of grant and expense is recognized on the date of the grant. The Company issued approximately 14,000 restricted stock awards in the first quarter of fiscal year 2012.

The Company also issues restricted stock units under the Non-employee Director Stock Option plan and the Employee Stock Plan. Restricted stock units also consist of the Company's common stock and vest after three years. All restricted stock units are cliff-vested. Restricted stock units are also valued at the average market price of the Company's common stock at the date of grant. However, expense is recognized each quarter over the three year vesting period.

A summary of the Company's activity related to restricted stock units for the first quarter ended November 23, 2011 is presented in the following table:

	Restricted Stock Units	Weighted-Average Fair Value (Per share)	Weighted-Average Remaining Contractual Term (Years)
Unvested at August 31, 2011	96,822	\$ 5.11	2.1
Granted	69,713	4.46	3.0
Vested			
Forfeited			
Unvested at November 23, 2011	166,535	\$ 4.84	2.5





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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 with exercise prices exceeding current market prices that were excluded from the computations of net income per share amounted to approximately 865,000 and 961,000 shares for the first quarter ended November 23, 2011 and November 17, 2010. Due to losses from continuing operations for the first quarter ended November 17, 2010, the denominator for earnings per share assuming dilution is equal to the denominator for basic earnings per share.

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

	Quarter Ended	
	November 23, 2011 (12 weeks) <i>(In thousands expect per share data)</i>	November 17, 2010 (12 weeks)
<b>Numerator:</b>		
Income (loss) from continuing operations	\$ 583	\$ (2,107)
Loss from discontinued operations	(379)	(181)
Net income (loss)	\$ 204	\$ (2,288)
<b>Denominator:</b>		
Denominator for basic earnings per share weighted-average shares	28,262	28,164
<b>Effect of potentially dilutive securities:</b>		
Employee and non-employee stock options	42	
Denominator for earnings per share assuming dilution	28,304	28,164
<b>Income (loss) per share from continuing operations:</b>		
Basic	\$ 0.02	\$ (0.07)
Assuming dilution	0.02	(0.07)
<b>Loss per share from discontinued operations:</b>		
Basic	\$ (0.01)	\$ (0.01)
Assuming dilution	(0.01)	(0.01)
<b>Net income (loss) per share:</b>		
Basic	\$ 0.01	\$ (0.08)
Assuming dilution	0.01	(0.08)

**Note 11. Recently Adopted Accounting Pronouncements**

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310), which provides guidance to enhance disclosures about the credit quality of a creditor's financing receivables and the adequacy of its allowance for credit losses. The guidance became effective as of November 23, 2011 and its implementations had no material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350) which provides guidance on financial accounting and reporting related to goodwill and other intangibles, other than the accounting at acquisition for goodwill and other intangibles acquired in a business combination or an acquisition by a not-for-profit. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, the Company early adopted the guidance for fiscal year 2011 and implementation did not have a material impact on its consolidated financial statements.

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In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of supplemental pro forma information for business combinations. The guidance is effective for fiscal years beginning after December 15, 2010 and we adopted ASU 2010-29 in the first quarter of fiscal year 2012 without a material impact on our consolidated financial statements.

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In December 2010, the FASB issued ASU 2010-28, Intangibles – Goodwill and Other (Topic 350): When to perform step two of the goodwill impairment test for reporting units with zero or negative carrying amounts. The guidance is effective for fiscal years beginning after December 15, 2010. We adopted the guidance in the first quarter of fiscal year 2012 and the guidance did not have a material impact on our consolidated financial statements.

### **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 period ended November 23, 2011 included in Item 1 of Part I of this Quarterly Report on Form 10-Q, and the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2011.*

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.

#### ***Overview***

Luby's, Inc. is a multi-branded company operating in the restaurant industry and the contract food services industry. Our primary brands include Luby's Cafeterias, Luby's Culinary Contract Services and Fuddruckers. Also included in our brands are Bob Luby's Seafood, Luby's, Etc. and Koo Koo Roo Chicken Bistro. We purchased substantially all of the assets of Fuddruckers, Inc., Magic Brands, LLC and certain of their affiliates (collectively, Fuddruckers) in July 2010; accordingly, the first quarter ended November 17, 2010 represents the first full fiscal quarter in which the operations of Fuddruckers branded restaurants are included in our results of operations.

As of November 23, 2011, we owned and operated 155 restaurants, which 94 comprise traditional cafeterias, 57 gourmet hamburger restaurants, three upscale fast serve chicken restaurants, and one seafood restaurant. These establishments are located in close proximity to retail centers, business developments and residential areas mostly throughout the United States.

Also as of November 23, 2011, we operated 21 culinary contract service facilities. These facilities are located within healthcare and education settings in Texas and Louisiana. These facilities provide food service options to varied populations including in-hospital-room patient meal service, retail food-court style restaurant dining, and coffee/snack kiosks.

Also as of November 23, 2011, we are a franchisor for a network of 121 Fuddruckers restaurants. The owners of these franchise units pay royalty revenue to us as a franchisor.

#### ***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. The first quarter of fiscal year 2012 ended November 23, 2011 and was favorably impacted by Thanksgiving sales compared to the first quarter of fiscal year 2011 which ended November 17, 2010.

#### ***Same-Store Sales***

The restaurant business is highly competitive with respect to food quality, concept, location, price, and service, all of which may have an effect on same-store sales. Our same-store sales calculation measures the relative performance of a certain group of restaurants. To qualify for inclusion in this group, a store must have been in operation for 18 consecutive accounting periods. Our Fuddruckers units will not be included in this measurement until after we have operated them for the required period. 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 First Quarter Fiscal Year 2012 versus the First Quarter Fiscal Year 2011*

*Sales*

Total sales increased \$4.0 million, or 5.4%, in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010, consisting primarily of a \$2.9 million increase in restaurant sales and a \$1.2 million increase in Culinary Contract Services sales. The \$2.9 million increase in restaurant sales included a \$1.5 million increase in sales at Luby's Cafeteria-branded restaurants and a \$1.4 million increase in sales from Fuddruggers-branded restaurants in the quarter ended

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November 23, 2011. The \$1.2 million increase in Culinary Contract sales resulted from operating in 21 locations in the quarter ended November 23, 2011 compared to operating in 18 locations in the quarter ended November 17, 2010. While the Fuddruckers units do not meet our current definition of same store sale, sales at stores that we acquired and have operated for over one year, increased 4.5%.

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

Food costs decreased \$0.4 million, or 1.7%, in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010 due to total food and beverage rebates of \$0.6 million recognized in the quarter ended November 23, 2011 and careful food cost management and menu mix management; all partially offset by higher food commodity prices on a year-over-year basis, particularly with respect to beef and shortening and oils. As a percentage of restaurant sales, food costs decreased 1.7%, to 28.0%, in the quarter ended November 23, 2011 compared to 29.7% in the quarter ended November 17, 2010. Removing the impact of the rebate, food costs declined 0.8%, to 28.9%, in the quarter ended November 23, 2011 compared to 29.7% in the quarter ended November 17, 2010. Food costs as a percent of sales also decreased due to a higher average spend per customer as a result of modest menu price increases taken at both of our core restaurant brands prior to the quarter ended November 23, 2011 and a reduction in the frequency and breadth of discounted limited time offers at our Luby's Cafeteria Restaurants used to generate customer traffic.

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

Payroll and related costs remained comparable in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010. Hourly labor costs decreased as we improved productivity from further refinement of our labor scheduling processes, with particular emphasis on shift scheduling. The quarter ended November 17, 2010 was a period of increased guest traffic generated from extensive use of limited time offers. The higher guest count in the prior year quarter required deployment of more hourly crew members. Management labor costs increased in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010 as we deployed more restaurant management into our units to support sales building initiatives. As a percentage of restaurant sales, payroll and related costs decreased 1.3%, to 34.3%, in the quarter ended November 23, 2011 compared to 35.6% in the quarter ended November 17, 2010, due in part to leveraging our labor costs on a higher volume of sales.

### ***Other Operating Expenses***

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services, supplies and occupancy costs. Other operating expenses decreased by \$0.7 million, or 3.8%, in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010, primarily due to (1) a \$0.2 million reduction in utility costs; (2) a \$0.2 million reduction in marketing and advertising costs; and (3) a \$0.3 million net reduction in occupancy, insurance, and other operating expenses. As a percentage of restaurant sales, other operating expenses decreased 2.0%, to 23.9%, in the quarter ended November 23, 2011 compared to 25.9% in the quarter ended November 17, 2010, due to the cost reductions enumerated above as well as the ability to leverage the fixed cost components of certain operating costs over an increased sales volume.

### ***Opening Costs***

Opening costs include labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were \$35,000 in the quarter ended November 23, 2011 compared to \$105,000 in the quarter ended November 17, 2010. The quarter ended November 23, 2011 and the quarter ended November 17, 2010 included carrying costs of locations to be developed for future restaurant openings.

### ***Cost of Culinary Contract Services***

Cost of culinary contract services increased by \$1.1 million in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010. Cost of culinary contract services includes the food, labor, and other direct operating expenses associated with culinary contract services. As of the quarter ended November 23, 2011, Culinary Contract Services operated 21 facilities compared to 18 as of the quarter ended November 17, 2010.

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

Depreciation and amortization expense decreased by \$67,000, or 1.6%, in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010 due to certain assets reaching the end of their depreciable lives partially offset by depreciation related to new capital expenditures.



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***General and Administrative Expenses***

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. General and administrative expenses increased by \$0.3 million, or 4.6%, in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010. The increase was primarily due to higher salary and benefits expenses, offset by a \$0.3 million settlement in our favor from a class action lawsuit related to credit card interchange fees. As a percentage of total sales, general and administrative expenses decreased to 8.6% in the quarter ended November 23, 2011 compared to 8.7% in the quarter ended November 17, 2010.

***Asset Impairments***

An impairment charge of \$175,000 related to a culinary contract services agreement was recorded in the quarter ended November 23, 2011. There were no impairments in the quarter ended November 17, 2010.

***Net Loss on Disposition of Property and Equipment***

The net loss on disposition of property and equipment remained comparable in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010.

***Interest Income***

Interest income remained comparable in the quarter ended November 23, 2011 compared to the quarter ended November 17, 2010.

***Interest Expense***

Interest expense in the quarter ended November 23, 2011 decreased \$0.3 million compared to the interest expense in the quarter ended November 17, 2010, due to lower outstanding debt balances resulting from the application of cash from operations and property sales to our debt balance.

***Other Income, Net***

Other income, net consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; and oil and gas royalty income. Other income, net in the quarter ended November 23, 2011 remained comparable to the quarter ended November 17, 2010.

***Taxes***

For the quarter ended November 23, 2011, the income taxes related to continuing operations resulted in a tax provision of \$0.3 million compared to a tax benefit of \$0.9 million for the quarter ended November 17, 2010. For the quarter ended November 23, 2011, there was no change to the valuation allowance related to deferred tax assets. For the quarter ended November 17, 2010, the valuation allowance was increased by \$0.1 million.

***Discontinued Operations***

The loss from discontinued operations was \$0.4 million in the quarter ended November 23, 2011 compared to a loss of \$0.2 million in the quarter ended November 17, 2010. The loss for the quarter ended November 23, 2011 included (1) \$0.2 million in carrying costs associated with assets that are related to discontinued operations; (2) an impairment charge of \$0.4 million; partially offset by (3) a \$0.2 million income tax benefit related to discontinued operations.

The loss from discontinued operations of \$0.2 million in the quarter ended November 17, 2010 included (1) \$0.3 million in carrying costs associated with assets related to discontinued operations; (2) an asset impairment of \$0.2 million; (3) a \$0.2 million gain on sales of assets related to discontinued operations; offset by (4) a net tax benefit of \$0.1 million related to discontinued operations.

**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. Cash flow from operations during the first quarter of fiscal year 2012 was significantly improved over cash flow from operations during the first quarter of fiscal year 2011. However, proceeds from disposal of assets and property held for

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sale were lower in fiscal year 2012 than fiscal year 2011. Due to the improved cash flow from operations, we increased debt repayments and our capital expenditures. We plan to continue the level of capital expenditures necessary to keep our restaurants attractive and operating efficiently.

Our cash requirements consist principally of:

payments to reduce our debt

capital expenditures for construction, restaurant renovations and upgrades and information technology and

working capital primarily from our Company-owned restaurants and CCS agreements

Cash from operations and proceeds from the sale of assets allowed for debt repayments. Under the current terms of our revolving credit facility, as amended through October 20, 2011, capital expenditures and the amount of borrowings are limited based on our EBITDA, as defined in the credit agreement, as amended, governing the revolving credit facility. Based upon our level of past and projected capital requirements, we expect that proceeds from the sale of assets and cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditures and working capital requirements during the next twelve months.

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

Cash and cash equivalents increased \$0.6 million from \$1.3 million at the beginning of fiscal year 2012. This increase is due to cash provided by operating activities of \$8.8 million, offset by cash used in financing activities of \$4.0 million and cash used in investing activities of \$4.2 million.

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

	Quarter Ended	
	November 23, 2011 (12 weeks)	November 17, 2010 (12 weeks)
	<i>(In thousands)</i>	
Total cash provided by (used in):		
Operating activities	\$ 8,803	\$ 2,064
Investing activities	(4,190)	(361)
Financing activities	(4,001)	(2,214)
Increase (decrease) in cash and cash equivalents	\$ 612	\$ (511)

**Operating Activities.** Cash flow from operating activities increased \$6.7 million, from \$2.1 million in the first quarter of fiscal year 2011 to \$8.8 million in the first quarter of fiscal year 2012. For the first quarter of fiscal year 2012, net cash provided by operating activities before changes in operating assets and liabilities was \$5.1 million and cash provided by changes in operating assets and liabilities was \$3.7 million. For the first quarter of fiscal year 2011, cash provided by operating activities was \$1.1 million and cash provided by changes in operating assets and liabilities was \$0.9 million.

Cash provided by operating activities before changes in operating assets and liabilities increased \$4.0 million from \$1.1 million in the first quarter of fiscal year 2011 to \$5.1 million in the first quarter of fiscal year 2012. The \$4.0 million increase was primarily due to improved operating results from the Luby's Cafeteria and Fuddrucker's restaurants. Restaurant sales less cost of food, payroll and other related expenses and other operating expenses increased \$3.9 million from the first quarter of fiscal year 2011 compared to the first quarter of fiscal year 2012.

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Cash provided by changes in operating assets and liabilities is the result of the net changes in asset and liability balances during the quarter. During the first quarter of fiscal year 2012, the net change in current assets was an increase of \$2.1 million, compared to an increase of \$2.0 million in the first quarter of fiscal year 2011. The \$0.9 million higher net change in current assets during the first quarter of fiscal year 2012 compared to the first quarter of fiscal year 2011 was due to increases in food and supply inventories and prepaid insurance and software during the first quarter of fiscal 2012. During the first quarter of fiscal year 2012, the net change in current liabilities was an increase of \$5.8 million, compared to an increase of \$2.9 million in the first quarter of fiscal year 2011. The \$2.9 million increase in the net change in current liabilities during the first quarter of fiscal year 2012 compared to the first quarter of fiscal year 2011 was primarily due to a greater increase in accrued payroll and related costs during the first quarter of fiscal year 2012.

*Investing Activities.* We generally reinvest available cash flows from operations to develop new restaurants, enhance existing restaurants and to support our CCS business. Cash used by investing activities was \$4.2 million in fiscal year 2012 compared to cash used in investing activities of \$0.4 million in fiscal year 2011. In the first quarter of fiscal year 2011, we acquired one franchised location for \$0.3 million. Proceeds from property sales were \$1.3 million in fiscal year 2011 and \$0.5 million in fiscal year 2012. We increased our purchases of equipment and new restaurant construction from \$1.4 million in fiscal year 2011 to \$4.5 million in fiscal year 2012. Our capital expenditure program includes, among other things, investments in new restaurant and CCS locations, restaurant remodeling, and information technology enhancements.

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***Financing Activities.*** Cash used in financing activities was \$4.0 million during the first quarter of fiscal year 2012, primarily due to reducing the debt from \$21.5 million at August 31, 2011 to \$17.5 million at November 23, 2011. Cash used in financing activities was \$2.2 million in the first quarter of fiscal year 2011, primarily due to reducing the debt from \$41.5 million at August 25, 2010 to \$39.5 million at November 17, 2010.

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

We monitor the aging of our receivables, including Fuddruckers franchising-related receivables, and record provisions for uncollectability as appropriate. Credit terms of accounts receivable associated with our CCS business vary from 30 to 60 days based on contract terms.

### ***Working Capital***

We had a working capital deficit of \$20.5 million as of November 23, 2011, compared to a working capital deficit of \$18.7 million as of August 31, 2011. The \$1.8 million increase in the deficit is primarily due to increases in accounts payable and accrued expenses and other liabilities of \$4.6 million and a \$0.2 million decrease in accounts receivables offset by increases in cash of \$0.6 million, food and supply inventories and prepaid expenses of \$2.3 million. We expect to meet our working capital requirements through cash flows from operations, sales of properties and availability under our 2009 Credit Facility.

### ***Capital Expenditures***

Capital expenditures consist of purchases of real estate for future restaurant sites, new units construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for the quarter ended November 23, 2011 were \$4.5 million, and related to maintaining our investment in existing operating units. We expect to be able to fund all capital expenditures in fiscal year 2012 using cash flows from operations and availability under our 2009 Credit Facility. We expect to spend \$15 million to \$20 million on capital expenditures in fiscal year 2012.

## **DEBT**

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

In November 2009, 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 as of January 31, 2010, July 26, 2010, September 30, 2010, October 31, 2010, August 25, 2011, and October 20, 2011 (the revolving credit facility, together with all amendments thereto, is referred to as the 2009 Credit Facility ). The 2009 Credit Facility is governed by the Credit Agreement dated as of November 9, 2009 (as amended to date, the 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 2009 Credit Facility is September 1, 2014.

The aggregate amount of the lenders commitments under the 2009 Credit Facility was \$50.0 million as of November 23, 2011. The 2009 Credit Facility also provides for the issuance of letters of credit in a maximum aggregate amount of \$15.0 million outstanding at any one time. At November 23, 2011, \$31.6 million was available under the 2009 Credit Facility.

The 2009 Credit Facility is guaranteed by all of our present or future subsidiaries. In addition, in connection with the expansion of the 2009 Credit Facility that accompanied our acquisition of substantially all of the assets of Fuddruckers in July 2010, Christopher J. Pappas, our President and Chief Executive Officer, and Harris J. Pappas, a member of our Board of Directors, guaranteed the payment of up to \$13.0 million of our indebtedness under the 2009 Credit Facility. The maximum amount of this guaranty was reduced to \$9.5 million on February 28, 2011, further reduced to \$6.0 million on May 31, 2011 and reduced to zero as of August 25, 2011.

At any time throughout the term of the 2009 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 1.00% to 2.00% per annum. The other interest rate option is the London InterBank Offered Rate plus a spread that ranges from 2.75% to 3.75% 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.



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The proceeds of the 2009 Credit Facility are available for our general corporate purposes and general working capital purposes.

Borrowings under the 2009 Credit Facility are subject to mandatory repayment with the proceeds of sales of certain of our real property, subject to certain exceptions.

The 2009 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 November 23, 2011, the carrying value of the collateral securing the 2009 Credit Facility was \$88.3 million.

The Credit Agreement contains the following covenants among others:

the maintenance of EBTIDA of not less than (1) \$4,500,000 for the fiscal quarter ended August 25, 2010, (2) \$2,500,000 for the fiscal quarter ended November 17, 2010, (3) \$3,500,000 for the fiscal quarter ended February 9, 2011, (4) \$7,000,000 for the fiscal quarter ended May 4, 2011 and (5) \$6,500,000 for the fiscal quarter ended August 31, 2011,

maintenance of a ratio of (a) EBITDA 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 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 seven (the Debt Service Coverage Ratio), of not less than (1) 2.00 to 1.00, beginning with the end of the fourth quarter of fiscal 2011 and ending with the first quarter of fiscal 2012, (2) 2.25 to 1.00 beginning with the end of the second quarter of fiscal 2012 and ending with the first quarter of fiscal 2013, and (3) 2.50 to 1.00 beginning with the end of second quarter of fiscal 2013 and thereafter,

maintenance of minimum Tangible Net Worth (as defined in the Credit Amendment) at all times of not less than (1) \$126.7 million as of the last day of the third fiscal quarter of fiscal 2011 and (2) increasing incrementally thereafter, as of the last day of each subsequent fiscal quarter, by an amount equal to 60% of our consolidated net income (if positive) for the fiscal quarter ending on such date,

maintenance of minimum net profit of \$1.00 (1) for at least one of the first three fiscal quarters of our 2012 fiscal year, (2) for at least one of any two consecutive fiscal quarters beginning with the fourth fiscal quarter of our 2012 fiscal year, and (3) for any period of four consecutive fiscal quarters beginning with the four consecutive fiscal quarters ending with the fourth quarter of our 2011 fiscal 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,

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prohibitions on entering into sale and leaseback transactions,

limiting Capital Expenditures (as defined in the Credit Agreement) to \$10.0 million for the fiscal year ended August 25, 2010, to \$15.0 million for the fiscal year ended August 31, 2011, and for any subsequent fiscal year, to the sum of (1) the lesser of (a) \$38.0 million or (b) an amount equal to 130% of EBITDA for the immediately preceding fiscal year plus (2) any unused availability for capital expenditures from the immediately preceding fiscal year.

restrictions on certain acquisitions of all or a substantial portion of the assets, property and/or equity interests of any person. We were in compliance with the covenants contained in the Credit Agreement as of November 23, 2011.

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

As of November 23, 2011, we had \$17.5 million in outstanding loans and \$0.9 million committed under letters of credit, which were issued as security for the payment of insurance obligations.

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

The Consolidated Financial Statements included in Item 1 of Part 1 of this report were prepared in conformity with U.S. generally accepted accounting principles. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. Due to the significant, subjective and complex judgments and estimates used when preparing our

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consolidated financial statements, management regularly reviews these assumptions and estimates with the Finance and Audit Committee of our Board of Directors. Management believes the following are critical accounting policies used in the preparation of these financial statements.

### ***Income Taxes***

The estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carrybacks and carryforwards are recorded. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We periodically review the recoverability of tax assets recorded on the balance sheet and provide valuation allowances as management deems necessary.

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

Management evaluates both positive and negative evidence, including its forecasts of our future taxable income adjusted by varying probability factors, in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will be realized. Based on its analysis, management concluded that a valuation allowance was necessary.

The valuation allowance partially offsets our carryover of general business tax credits. These credits may be carried over up to twenty years in the future for possible utilization in the future. The carryover of the general business credits began in fiscal year 2006 and will begin to expire at the end of fiscal year 2026 through the end of fiscal year 2032 if not utilized by then.

Management makes judgments regarding the interpretation of tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions as well as by the Internal Revenue Service. In management's opinion, adequate provisions for income taxes have been made for all open tax years. The potential outcomes of examinations are regularly assessed in determining the adequacy of the provision for income taxes and income tax liabilities. Management believes that adequate provisions have been made for reasonable and foreseeable outcomes related to uncertain tax matters. The Company is currently being audited by the State of Texas for franchise taxes for report years 2008 through 2011 based on accounting years 2007 through 2010. There are no other audits or reviews at this time.

### ***Impairment of Long-Lived Assets***

We periodically evaluate 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. We analyze historical cash flows of operating locations and compare results of poorer performing locations to more profitable locations. We also analyze lease terms, condition of the assets and related need for capital expenditures or repairs, construction activity in the surrounding area as well as the economic and market conditions in the surrounding area.

For assets held for use, we estimate 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 our location's assets, we record an impairment 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 is longer and 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. We consider the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows. We operated 155 restaurants as of November 23, 2011 and periodically experience unanticipated changes in our assumptions and estimates. Those changes could have a significant impact on discounted cash flow models with a corresponding significant impact on the measurement of an impairment. We believe we have six locations with an aggregate net carrying value of assets held for use of \$2.0 million where it is possible that an impairment charge could be taken over the next 12 months. Gains are not recognized until the assets are disposed.





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We evaluate the useful lives of our intangible assets, primarily the Fuddrucker's trade name and franchise agreements, to determine if they are definite or indefinite-lived. Reaching a determination of useful life requires significant judgments and assumptions regarding the future effects of obsolescence, contract term, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

### ***Property Held for Sale***

We periodically review long-lived assets against our plans to retain or ultimately dispose of properties. If we decide to dispose of a property, it will be moved to property held for sale and actively marketed. Property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. We analyze market conditions each reporting period and record 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 ours. Gains are not recognized until the properties are sold.

### ***Insurance and Claims***

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

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

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

### ***Share-Based Compensation***

Share-based compensation is recognized as compensation expense in the income statement utilizing the fair value on the date of the grant. The fair value of restricted stock units is valued at the closing market price of the Company's common stock at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions for volatility, expected option life, risk free interest rate and dividend yield are used in the model.

## **NEW ACCOUNTING PRONOUNCEMENTS**

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) which amends the fair value measurement and disclosure requirements. The amendment is effective during interim and annual reporting periods beginning after December 15, 2011. We are currently evaluating the impact on our consolidated financial statements.

## **INFLATION**

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

## **FORWARD-LOOKING STATEMENTS**

This Quarterly Report on 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. 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, including expected reductions in 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, ability to refinance the existing credit facility or enter into a new credit facility on a timely basis,

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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 management's Cash Flow Improvement and Capital Redeployment 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 2009 Credit Facility.

In some cases, investors can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, outlook, may, should, will, and would or similar words. Forward-looking statements are based on certain assumptions and analyses made by management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although management believes that our assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of our control. The following factors, as well as the factors set forth in Item 1A of this Form 10-Q 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 customers acceptance of changes in menu items,

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

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

the seasonality of the business,

collectability of accounts receivable,

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

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

the ability to realize property values,

the availability and cost of credit,

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 November 23, 2011, the total amount of debt subject to interest rate fluctuations outstanding under our 2009 Credit Facility was \$17.5 million. Assuming an average debt balance of \$17.5 million, a 1.0% increase in prevailing interest rates would increase our annual interest expense by \$0.2 million.

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

Many ingredients in the products sold in our restaurants are commodities, subject to unpredictable price fluctuations. We attempt to minimize price volatility by negotiating fixed price contracts for the supply of key ingredients and in some cases by passing increased commodity costs through to the customer by adjusting menu prices or menu offerings. Our ingredients are available from multiple suppliers so we are not 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 such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of November 23, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of November 23, 2011, 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 November 23, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings**

There have been no material changes 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 31, 2011.

**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.

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**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: December 27, 2011

By: /s/ Christopher J. Pappas  
Christopher J. Pappas  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: December 27, 2011

By: /s/ K. Scott Gray  
K. Scott Gray  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)



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**EXHIBIT INDEX**

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