

LUBYS INC  
Form 10-Q  
December 19, 2014  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

**For the quarterly period ended November 19, 2014**

**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**

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**Luby's, Inc.**

**(Exact name of registrant as specified in its charter)**

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|---|---|
| <b>Delaware</b><br><b>(State or other jurisdiction of</b> | <b>74-1335253</b><br><b>(IRS Employer</b> |
| <b>incorporation or organization)</b>                     | <b>Identification No.)</b>                |

**13111 Northwest Freeway, Suite 600**  
**Houston, Texas**  
**(Address of principal executive offices) (Zip Code)**

**(713) 329-6800**

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

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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 17, 2014 there were 28,535,076 shares of the registrant's common stock outstanding.

**Luby's, Inc.**

**Form 10-Q**

**Quarter ended November 19, 2014**

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**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.

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

|  | <b>November<br/>19,<br/>2014</b> | <b>August<br/>27,<br/>2014</b> |
|--|----------------------------------|--------------------------------|
|  | <i>(Unaudited)</i>               |                                |
| <b>ASSETS</b>                                  |                                  |                                |
| Current Assets:                                |                                  |                                |
| Cash and cash equivalents                      | \$ 1,814                         | \$2,788                        |
| Trade accounts and other receivables, net      | 4,802                            | 4,112                          |
| Food and supply inventories                    | 7,554                            | 5,556                          |
| Prepaid expenses                               | 1,766                            | 2,815                          |
| Assets related to discontinued operations      | 17                               | 52                             |
| Deferred income taxes                          | 587                              | 587                            |
| Total current assets                           | 16,540                           | 15,910                         |
| Property held for sale                         | 991                              | 991                            |
| Assets related to discontinued operations      | 4,820                            | 4,817                          |
| Property and equipment, net                    | 211,046                          | 212,879                        |
| Intangible assets, net                         | 23,681                           | 24,014                         |
| Goodwill                                       | 1,681                            | 1,681                          |
| Deferred income taxes                          | 13,321                           | 11,294                         |
| Other assets                                   | 3,831                            | 3,849                          |
| Total assets                                   | \$ 275,911                       | \$275,435                      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>    |                                  |                                |
| Current Liabilities:                           |                                  |                                |
| Accounts payable                               | \$ 22,422                        | \$26,269                       |
| Liabilities related to discontinued operations | 564                              | 590                            |
| Accrued expenses and other liabilities         | 24,188                           | 23,107                         |
| Total current liabilities                      | 47,174                           | 49,966                         |
| Credit facility debt                           | 48,300                           | 42,000                         |
| Liabilities related to discontinued operations | 121                              | 278                            |
| Other liabilities                              | 7,989                            | 8,167                          |
| Total liabilities                              | 103,584                          | 100,411                        |

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Commitments and Contingencies

SHAREHOLDERS' EQUITY

|  |            |            |
|--|------------|------------|
| Common stock, \$0.32 par value; 100,000,000 shares authorized; shares issued were 28,966,641 and 28,949,523, respectively; shares outstanding were 28,466,641 and 28,449,523, respectively | 9,269      | 9,264      |
| Paid-in capital  | 27,673     | 27,356     |
| Retained earnings  | 140,160    | 143,179    |
| Less cost of treasury stock, 500,000 shares  | (4,775 )   | (4,775 )   |
| Total shareholders' equity   | 172,327    | 175,024    |
| Total liabilities and shareholders' equity   | \$ 275,911 | \$ 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>November</b>      | <b>November</b>    |
|  | <b>19,</b>           | <b>20,</b>         |
|  | <b>2014</b>          | <b>2013</b>        |
|  | <b>(12</b>           | <b>(12</b>         |
|  | <b>weeks)</b>        | <b>weeks)</b>      |
| <b>SALES:</b>  |                      |                    |
| Restaurant sales                                       | \$ 80,557            | \$ 79,952          |
| Culinary Contract Services                             | 4,598                | 4,270              |
| Franchise revenue                                      | 1,581                | 1,514              |
| Vending revenue  | 125                  | 112                |
| <b>TOTAL SALES</b>                                     | <b>86,861</b>        | <b>85,848</b>      |
| <b>COSTS AND EXPENSES:</b>                             |                      |                    |
| Cost of food   | 23,493               | 22,869             |
| Payroll and related costs                              | 29,319               | 28,164             |
| Other operating expenses                               | 15,823               | 15,143             |
| Occupancy costs  | 4,629                | 4,689              |
| Opening costs  | 925                  | 350                |
| Cost of Culinary Contract Services                     | 3,951                | 3,672              |
| Depreciation and amortization                          | 5,058                | 4,319              |
| General and administrative expenses                    | 7,703                | 8,067              |
| Provision for asset impairments                        | —                    | 210                |
| Net loss on disposition of property and equipment      | 290                  | 51                 |
| Total costs and expenses                               | 91,191               | 87,534             |
| <b>LOSS FROM OPERATIONS</b>                            | <b>(4,330 )</b>      | <b>(1,686 )</b>    |
| Interest income  | 1                    | 2                  |
| Interest expense                                       | (456 )               | (253 )             |
| Other income, net                                      | 187                  | 296                |
| Loss before income taxes and discontinued operations   | (4,598 )             | (1,641 )           |
| Benefit for income taxes                               | (1,782 )             | (948 )             |
| Loss from continuing operations                        | (2,816 )             | (693 )             |
| Loss from discontinued operations, net of income taxes | (203 )               | (853 )             |
| <b>NET LOSS</b>  | <b>(3,019 )</b>      | <b>\$ (1,546 )</b> |
| Loss per share from continuing operations:             |                      |                    |
| Basic  | \$(0.10 )            | \$ (0.02 )         |
| Assuming dilution                                      | (0.10 )              | (0.02 )            |
| Loss per share from discontinued operations:           |                      |                    |
| Basic  | \$(0.01 )            | \$ (0.03 )         |
| Assuming dilution                                      | (0.01 )              | (0.03 )            |
| Net loss per share:                                    |                      |                    |

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|                                      |            |            |
|--------------------------------------|------------|------------|
| Basic                                | \$ (0.11 ) | \$ (0.05 ) |
| Assuming dilution                    | (0.11 )    | (0.05 )    |
| Weighted average shares outstanding: |            |            |
| Basic                                | 28,890     | 28,765     |
| Assuming dilution                    | 28,890     | 28,765     |

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   | —                   | —             | —               | —             | —              | (3,019 )        | (3,019 )             |
| Share-based compensation expense                 | 17                  | 5             | —               | —             | 277            | —               | 282                  |
| Common stock issued under employee benefit plans | —                   | —             | —               | —             | 40             | —               | 40                   |
| BALANCE AT NOVEMBER 19, 2014                     | 28,967              | \$ 9,269      | (500)           | \$(4,775 )    | \$27,673       | \$ 140,160      | \$ 172,327           |

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

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

|  | <b>Quarter Ended</b> |                 |
|--|----------------------|-----------------|
|  | <b>November</b>      | <b>November</b> |
|  | <b>19,</b>           | <b>20,</b>      |
|  | <b>2014</b>          | <b>2013</b>     |
|  | <b>(12</b>           | <b>(12</b>      |
|  | <b>weeks)</b>        | <b>weeks)</b>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                      |                 |
| Net loss   | \$(3,019 )           | \$(1,546 )      |
| Adjustments to reconcile net loss to net cash provided by operating activities:          |                      |                 |
| Provision for asset impairments, net of gains/losses on property sales                   | 290                  | 538             |
| Depreciation and amortization  | 5,073                | 4,413           |
| Amortization of debt issuance cost   | 36                   | 26              |
| Share-based compensation expense   | 322                  | 325             |
| Deferred tax benefit   | (2,028 )             | (1,271 )        |
| Cash provided by operating activities before changes in operating assets and liabilities | 674                  | 2,485           |
| Changes in operating assets and liabilities:   |                      |                 |
| Decrease (Increase) in trade accounts and other receivables                              | (690 )               | 262             |
| Increase in food and supply inventories  | (1,998 )             | (1,996 )        |
| Decrease in prepaid expenses and other assets  | 1,118                | 1,281           |
| Increase (Decrease) in accounts payable, accrued expenses and other liabilities          | (3,431 )             | 1,908           |
| Net cash provided by (used in) operating activities                                      | (4,327 )             | 3,940           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                      |                 |
| Proceeds from disposal of assets and property held for sale                              | 692                  | 467             |
| Purchases of property and equipment  | (3,589 )             | (9,207 )        |
| Net cash used in investing activities  | (2,897 )             | (8,740 )        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                      |                 |
| Credit facility borrowings   | 25,800               | 22,300          |
| Credit facility repayments   | (19,500)             | (17,200 )       |
| Debt issuance costs  | (50 )                | —               |
| Net cash provided by financing activities  | 6,250                | 5,100           |
| Net increase (decrease) in cash and cash equivalents                                     | (974 )               | 300             |
| Cash and cash equivalents at beginning of period   | 2,788                | 1,528           |
| Cash and cash equivalents at end of period   | 1,814                | \$ 1,828        |
| Cash paid for:   |                      |                 |
| Income taxes   | \$—                  | \$—             |
| Interest   | 451                  | 200             |

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 November 19, 2014 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 8 have been reclassified to discontinued operations in the statements of operations and balance sheets for all periods presented. All prior period corrections, discussed below, have been reflected in the statements of operations, statement of shareholders equity, statements of cash flows and balance sheets.

**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 2014 and 2013 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.

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

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

#### ***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 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 primary 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 November 19, 2014 and 174 at August 27, 2014.

#### ***Culinary Contract Services***

CCS, branded as Luby’s Culinary Contract 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 26 at November 19, 2014 and 25 at August 27, 2014.



### *Franchise Operations*

We offer franchises for only the Fuddruckers brand. 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 Fuddruckers’ standards and specifications, 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.

The number of franchised restaurants was 110 at November 19, 2014 and at August 27, 2014.

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, prepaid expenses, intangible assets and goodwill.

### *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 November 2014, this licensee operated 31 restaurants that are licensed to use the Fuddruckers Proprietary Marks in Saudi Arabia, Egypt,



Lebanon, United Arab Emirates, Qatar, Jordon, Bahrain and Kuwait. The Company does not receive revenue or royalties from these restaurants.

|   | <b>Quarter Ended</b>  |                     |
|---|-----------------------|---------------------|
|   | <b>November 19,</b>   | <b>November 20,</b> |
|   | <b>2014</b>           | <b>2013</b>         |
|   | <i>(12 weeks)</i>     | <i>(12 weeks)</i>   |
|   | <i>(In thousands)</i> |                     |
| Sales:  |                       |                     |
| Company-owned restaurants <sup>(1)</sup>              | \$80,682              | \$ 80,064           |
| Culinary Contract Services                            | 4,598                 | 4,270               |
| Franchise Operations                                  | 1,581                 | 1,514               |
| <b>Total</b>  | <b>86,861</b>         | <b>85,848</b>       |
| Segment level profit:                                 |                       |                     |
| Company-owned restaurants                             | \$7,418               | \$ 9,199            |
| Culinary Contract Services                            | 647                   | 598                 |
| Franchise Operations                                  | 1,581                 | 1,514               |
| <b>Total</b>  | <b>9,646</b>          | <b>11,311</b>       |
| Depreciation and amortization:                        |                       |                     |
| Company-owned restaurants                             | \$4,374               | \$ 3,734            |
| Culinary Contract Services                            | 69                    | 89                  |
| Franchise Operations                                  | 177                   | 177                 |
| Corporate   | 438                   | 319                 |
| <b>Total</b>  | <b>5,058</b>          | <b>4,319</b>        |
| Total assets:   |                       |                     |
| Company-owned restaurants                             | \$229,860             | \$ 214,647          |
| Culinary Contract Services                            | 1,796                 | 1,952               |
| Franchise Operations                                  | 12,952                | 13,699              |
| Corporate   | 31,303                | 26,193              |
| <b>Total</b>  | <b>275,911</b>        | <b>256,491</b>      |
| Capital expenditures:                                 |                       |                     |
| Company-owned restaurants                             | \$3,169               | \$ 9,058            |
| Culinary Contract Services                            | —                     | —                   |
| Franchise Operations                                  | —                     | —                   |
| Corporate   | 420                   | 149                 |
| <b>Total</b>  | <b>3,589</b>          | <b>9,207</b>        |
| Loss before income taxes and discontinued operations: |                       |                     |
| Segment level profit                                  | \$9,646               | \$ 11,311           |
| Opening costs   | (925 )                | (350 )              |

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|   |            |            |
|---|------------|------------|
| Depreciation and amortization                     | (5,058 )   | (4,319 )   |
| General and administrative expenses               | (7,703 )   | (8,067 )   |
| Provision for asset impairments                   | —          | (210 )     |
| Net loss on disposition of property and equipment | (290 )     | (51 )      |
| Interest income                                   | 1          | 2          |
| Interest expense                                  | (456 )     | (253 )     |
| Other income, net                                 | 187        | 296        |
| Total   | \$(4,598 ) | \$(1,641 ) |

<sup>(1)</sup> Includes vending revenue of \$125 thousand and \$112 thousand for the quarters ended November 19, 2014 and November 20, 2013, respectively.

**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:

|   |  |   |  |                      |
|---|--|---|--|----------------------|
|   | Fair Value<br>Measurement Using<br>Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1)<br>(In thousands) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Impairments |
| Quarter<br>Ended<br>November<br>19,<br>2014 |  |   |  |                      |

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Continuing Operations

|   |          |     |      |          |      |
|---|----------|-----|------|----------|------|
| Property and equipment related to company-owned restaurants | \$ 6,446 | \$— | \$ — | \$ 6,446 | \$ — |
|---|----------|-----|------|----------|------|

| Quarter Ended November 20, 2013 | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Impairments |
|---------------------------------|---|---|---|-------------------|
|---------------------------------|---|---|---|-------------------|

(In thousands)

Discontinued Operations

|  |          |     |      |          |      |
|--|----------|-----|------|----------|------|
| Property and equipment related to corporate assets | \$ 1,144 | \$— | \$ — | \$ 1,144 | \$ — |
|--|----------|-----|------|----------|------|

**Note 5. Income Taxes**

No cash payments of estimated federal income taxes were made during the quarter ended November 19, 2014.

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 November 19, 2014 and August 27, 2014, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

|                                      | <b>November 19,<br/>2014</b> | <b>August 27,<br/>2014</b> | <b>Estimated<br/>Useful<br/>Lives<br/><br/>(years)</b> |
|--------------------------------------|------------------------------|----------------------------|--|
|                                      | <i>(In thousands)</i>        |                            |  |
| Land                                 | \$69,767                     | \$69,767                   | —  |
| Restaurant equipment and furnishings | 133,998                      | 131,932                    | 3 to 15  |
| Buildings                            | 182,104                      | 180,922                    | 20 to 33   |
| Leasehold and leasehold improvements | 42,717                       | 40,835                     | Lesser of<br>lease<br><br>term or<br>estimated         |

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|  |           |           | useful life |
|--|-----------|-----------|-------------|
| Office furniture and equipment                 | 7,859     | 7,537     | 3 to 10     |
| Construction in progress                       | 7,815     | 10,313    | —           |
|  | 444,260   | 441,306   |             |
| Less accumulated depreciation and amortization | (233,214) | (228,427) |             |
| Property and equipment, net                    | \$211,046 | \$212,879 |             |
| Intangible assets, net                         | \$23,681  | \$24,014  | 21          |
| Goodwill                                       | \$1,681   | \$1,681   | —           |

Intangible assets, net, consist of the Fuddruckers trade name and franchise agreements and will be amortized. 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 Company recorded approximately \$0.3 million of accumulated amortization as of November 19, 2014 and approximately \$6.0 million of accumulated amortization as of August 27, 2014.

Intangible assets, net, also includes the license agreement and trade name related to Cheeseburger in Paradise and the value of the acquired licenses and permits allowing the sale of beverages with alcohol. These assets have an expected accounting life of 15 years from the date of acquisition. The Company recorded accumulated amortization of approximately \$6 thousand as of November 19, 2014 and approximately \$42 thousand of accumulated amortization as of August 27, 2014.

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. Goodwill was approximately \$1.7 million as of November 19, 2014 and approximately \$1.7 million as of August 27, 2014 and relates to our Company-owned restaurants reportable segment.

Generally accepted accounting principles in the United States require the Company to perform a goodwill impairment test annually and more frequently when negative conditions or a triggering event arise. In September 2011, the Financial Accounting Standards Board (“FASB”) issued amended guidance that simplified how entities test goodwill for impairment. 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 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; however, management has determined that goodwill resulting from the Cheeseburger in Paradise acquisition will be evaluated using the quantitative approach for fiscal 2014. Management will be performing 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 Company considers each of its restaurants to be a reporting unit. 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.

Management determined approximately \$0.5 million in impairment losses related to goodwill, which was recognized in full in fiscal 2014.

## **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 to income from operations:

|   | <b>Quarter Ended</b>                         |               |
|---|--|---------------|
|   | <b>November</b>                              |               |
|   | <b>19,</b>                                   | <b>20,</b>    |
|   | <b>2014</b>                                  | <b>2013</b>   |
|   | <i>(12 weeks) (12 weeks)</i>                 |               |
|   | <i>(In thousands, except per share data)</i> |               |
| Provision for asset impairments                   | \$—  | \$ 210        |
| Net loss on disposition of property and equipment | 290  | 51            |
|   | <b>\$290</b>                                 | <b>\$ 261</b> |
| Effect on EPS:                                    |  |               |
| Basic   | \$(0.01)                                     | \$ (0.01 )    |
| Assuming dilution                                 | \$(0.01)                                     | \$ (0.01 )    |

There was no impairment charge for the quarter ended November 19, 2014.

The impairment charge for the quarter ended November 20, 2013 is related to one operating Fuddruckers location, two operating Cheeseburger in Paradise locations that were closed after the end of the quarter and one Cheeseburger in Paradise location that was converted to a Fuddruckers.

The net loss for the quarter ended November 19, 2014 includes losses on the sale of equipment and other normal asset retirement activity.

The net loss for the quarter ended November 20, 2013 includes the sale of one property held for sale and other normal asset retirement activity.

### *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 November 19, 2014, 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>November</b>       | <b>August</b> |
|---|-----------------------|---------------|
|   | <b>19,</b>            | <b>27,</b>    |
|   | <b>2014</b>           | <b>2014</b>   |
|   | <i>(in thousands)</i> |               |
| Cash  | \$—                   | \$—           |
| Food and supply inventories                       | —                     | —             |
| Prepaid expenses                                  | 17                    | 52            |
| Assets related to discontinued operations—current | \$17                  | \$52          |
| Property and equipment, net                       | 3,435                 | 3,430         |
| Other assets                                      | 1,385                 | 1,387         |

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|  |         |         |
|--|---------|---------|
| Assets related to discontinued operations—non-current      | \$4,820 | \$4,817 |
| Deferred income taxes                                      | \$—     | \$—     |
| Accrued expenses and other liabilities                     | 564     | 590     |
| Liabilities related to discontinued operations—current     | \$564   | \$590   |
| Other liabilities  | \$121   | \$278   |
| Liabilities related to discontinued operations—non-current | \$121   | \$278   |

As of August 27, 2014, the Company had nine restaurant properties classified as discontinued operations assets. The carrying value of four Company-owned properties was \$5.3 million at August 27, 2014. The carrying values of two ground leases were previously impaired to zero.

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 income (losses) reported from discontinued operations:

|   | <b>Quarter Ended</b>  |               |
|---|-----------------------|---------------|
|   | <b>November</b>       |               |
|   | <b>19,</b>            | <b>20,</b>    |
|   | <b>2014</b>           | <b>2013</b>   |
|   | <b>(12</b>            | <b>(12</b>    |
|   | <b>weeks)</b>         | <b>weeks)</b> |
|   | <b>(In thousands,</b> |               |
|   | <b>except</b>         |               |
|   | <b>discontinued</b>   |               |
|   | <b>locations)</b>     |               |
| Sales   | \$—                   | \$ 1,494      |
| Pretax loss                                     | (308)                 | (910 )        |
| Income tax benefit from discontinued operations | 105                   | 57            |
| Loss from discontinued operations               | (203)                 | (853 )        |
| Discontinued locations closed during the period | —                     | —             |

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

|  | <b>Quarter Ended</b>    |               |
|--|-------------------------|---------------|
|  | <b>November</b>         |               |
|  | <b>19,</b>              | <b>20,</b>    |
|  | <b>2014</b>             | <b>2013</b>   |
|  | <b>(12</b>              | <b>(12</b>    |
|  | <b>weeks)</b>           | <b>weeks)</b> |
|  | <b>(In thousands,</b>   |               |
|  | <b>except per share</b> |               |
|  | <b>data)</b>            |               |
| Discontinued operating losses                    | \$(308 )                | \$ (633 )     |
| Impairments                                      | —                       | (277 )        |
| Net gains (losses)                               | —                       | —             |
| Pretax loss                                      | \$(308 )                | (910 )        |
| Income tax benefit from discontinued operations  | 105                     | 57            |
| Loss from discontinued operations                | \$(203 )                | \$ (853 )     |
| Effect on EPS from discontinued operations—basic | \$(0.01)                | \$ (0.03 )    |

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 November 19, 2014 and August 27, 2014, the Company had one owned property 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.

At August 28, 2013, the Company had one owned property recorded at approximately \$0.6 million in property held for sale. The Company sold this property during the quarter ended November 20, 2013.

## **Note 8. 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 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 November 19, 2014.

## **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 quarters ended November 19, 2014 and November 20, 2013 were zero and zero, 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 \$27,000 and zero in the quarters ended November 19, 2014 and November 20, 2013, respectively.

On November 14, 2012, the Company executed an additional lease agreement in connection with a proposed future restaurant concept in the retail strip center described above. This lease agreement provided for a primary term of approximately eight years with no renewal options. This lease agreement was approved by the Finance and Audit Committee of the Board. The Company made payments of zero and \$8,000 in the quarters ended November 19, 2014 and November 20, 2013, respectively. The Company terminated the lease on October 31, 2013.

On November 22, 2006, the Company executed a new lease agreement in connection with the replacement and relocation 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 new lease agreement was approved by the Finance and Audit Committee and full Board of Directors. The Company made payments of \$68,000 and \$60,000 in the quarters ended November 19, 2014 and November 20, 2013, respectively.

|  | <b>Quarter Ended</b>                      |                          |
|--|---|--------------------------|
|  | <b>November 19, 2014</b>                  | <b>November 20, 2013</b> |
|  | <i>(12 weeks)</i>                         | <i>(12 weeks)</i>        |
|  | <i>(In thousands, except percentages)</i> |                          |
| <b>AFFILIATED COSTS INCURRED:</b>  |   |                          |
| General and administrative expenses—professional and other costs                       | \$—                                       | \$—                      |
| Capital expenditures   | —   | —                        |
| Other operating expenses, occupancy costs and opening costs, including property leases | 94  | 69                       |
| Total  | \$94                                      | \$ 69                    |
| <b>RELATIVE TOTAL COMPANY COSTS:</b>   |   |                          |
| General and administrative expenses  | \$7,703                                   | \$ 8,067                 |
| Capital expenditures   | 3,589                                     | 9,207                    |
| Other operating expenses, occupancy costs and opening costs                            | 21,377                                    | 20,182                   |
| Total  | \$32,669                                  | \$ 37,456                |
| <b>AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS</b>       | 0.29 %                                    | 0.18 %                   |

### ***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. In January 2014, Christopher J. Pappas was also appointed to the Amegy Bank Legal Board.

### ***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, 0.7 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 0.5 million shares remain available for future issuance as of November 19, 2014. Compensation cost for share-based payment arrangements under the Nonemployee Director Stock Plan, recognized in general and administrative expenses for the quarters ended November 19, 2014 and November 20, 2013 were approximately \$167,000 and \$130,000, respectively.

Of the 2.6 million shares approved for issuance under the Employee Stock Plan, 4.6 million options and restricted stock units were granted, and 3.0 million options and restricted stock units were cancelled or expired and added back into the plan. Approximately 1.0 million shares remain available for future issuance as of November 19, 2014. Compensation cost for share-based payment arrangements under the Employee Stock Plan, recognized in general and administrative expenses for the quarters ended November 19, 2014 and November 20, 2013, were approximately \$154,000 and \$194,000, 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 November 19, 2014. However, options to purchase 14,000 shares at option prices of \$6.45 per share remain outstanding as of November 19, 2014.

Options granted under the Employee Stock Plan generally vest 25% on the anniversary date of each grant and expire six years from the date of the grant. However, options granted to executive officers 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. All options granted in fiscal 2014 were granted under the Employee Stock Plan. Options to purchase 719,000 shares at option prices of \$3.44 to \$11.10 per share remain outstanding as of November 19, 2014.

A summary of the Company's stock option activity for the quarter ended November 19, 2014 is presented in the following table:

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

|                                  |         |         | <i>(Years)</i> | <i>(In<br/>thousands)</i> |
|----------------------------------|---------|---------|----------------|---------------------------|
| Outstanding at August 27, 2014   | 800,754 | \$ 4.95 | 4.1            | \$ 583                    |
| Granted                          | —       | —       | —              | —                         |
| Exercised                        | —       | —       | —              | —                         |
| Forfeited/Expired                | —       | —       | —              | —                         |
| Outstanding at November 19, 2014 | 800,754 | \$ 4.95 | 3.9            | \$ 343                    |
| Exercisable at November 19, 2014 | 732,738 | \$ 4.88 | 3.7            | \$ 338                    |

The intrinsic value for stock options is defined as the difference between the current market value, or closing price on November 19, 2014, 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 November 19, 2014 is presented in the following table:

|                               | <b>Restricted<br/>Stock<br/>Units</b> | <b>Weighted<br/>Average<br/>Fair<br/>Value<br/><br/>(Per<br/>share)</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/><br/>(In years)</b> |
|-------------------------------|---------------------------------------|---|---|
| Unvested at August 27, 2014   | 397,837                               | \$ 6.03   | 1.6   |
| Granted                       | 4,000                                 | 5.15  | —   |
| Vested                        | —                                     | —   | —   |
| Forfeited                     | —                                     | —   | —   |
| Unvested at November 19, 2014 | 401,837                               | \$ 6.02   | 1.5   |

At November 19, 2014, 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 1.5 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 November 19, 2014 include approximately 431,000 shares with exercise prices exceeding market prices and approximately 200 shares whose inclusion would also be anti dilutive.

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

|  | <b>Quarter Ended</b>                        |                   |
|--|---|-------------------|
|  | <b>November</b>                             | <b>November</b>   |
|  | <b>19,</b>                                  | <b>20,</b>        |
|  | <b>2014</b>                                 | <b>2013</b>       |
|  | <i>(12</i>                                  | <i>(12 weeks)</i> |
|  | <i>weeks)</i>                               | <i>(12 weeks)</i> |
|  | <i>(In thousands except per share data)</i> |                   |
| Numerator:   |   |                   |
| Loss from continuing operations                                  | \$(2,816 )                                  | \$ (693 )         |
| Loss from discontinued operations                                | (203 )                                      | (853 )            |
| Net loss   | \$(3,019 )                                  | \$ (1,546 )       |
| Denominator:   |   |                   |
| Denominator for basic earnings per share—weighted-average shares | 28,890                                      | 28,765            |
| Effect of potentially dilutive securities:                       |   |                   |
| Employee and non-employee stock options                          | —   | —                 |
| Denominator for earnings per share assuming dilution             | 28,890                                      | 28,765            |
| Loss per share from continuing operations:                       |   |                   |
| Basic  | \$(0.10 )                                   | \$ (0.02 )        |
| Assuming dilution  | (0.10 )                                     | (0.02 )           |
| Loss per share from discontinued operations:                     |   |                   |
| Basic  | \$(0.01 )                                   | \$ (0.03 )        |
| Assuming dilution  | (0.01 )                                     | (0.03 )           |
| Net loss per share:  |   |                   |
| Basic  | \$(0.11 )                                   | \$ (0.05 )        |
| Assuming dilution  | (0.11 )                                     | (0.05 )           |

**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 November 19, 2014 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 notes) for the periods indicated. All information is derived from the accompanying consolidated statements of income:

|  | <b>Quarter Ended</b>  |               |                 |          |
|--|-----------------------|---------------|-----------------|----------|
|  | <b>November</b>       |               | <b>November</b> |          |
|  | <b>19,</b>            | <b>20,</b>    |                 |          |
|  | <b>2014</b>           | <b>2013</b>   |                 |          |
|  | <b>(12</b>            | <b>(12</b>    |                 |          |
|  | <b>weeks)</b>         | <b>weeks)</b> |                 |          |
|  | <i>(In thousands)</i> |               |                 |          |
| Restaurant sales                             | 92.7                  | 93.1          | %               | %        |
| Culinary Contract Services                   | 5.3                   | 5.0           | %               | %        |
| Franchise revenue                            | 1.8                   | 1.8           | %               | %        |
| Vending revenue                              | 0.1                   | 0.1           | %               | %        |
| <b>TOTAL SALES</b>                           | <b>100.0</b>          | <b>100.0</b>  | <b>%</b>        | <b>%</b> |
| <b>STORE COSTS AND EXPENSES:</b>             |                       |               |                 |          |
| <i>(As a percentage of restaurant sales)</i> |                       |               |                 |          |
| Cost of food                                 | 29.2                  | 28.6          | %               | %        |
| Payroll and related costs                    | 36.4                  | 35.2          | %               | %        |
| Other operating expenses                     | 19.6                  | 18.9          | %               | %        |
| Occupancy costs                              | 5.7                   | 5.9           | %               | %        |
| Store level profit margin                    | 9.1                   | 11.4          | %               | %        |
| <b>COMPANY COSTS AND EXPENSES:</b>           |                       |               |                 |          |
| <i>(As a percentage of total sales)</i>      |                       |               |                 |          |
| Opening costs                                | 1.1                   | 0.4           | %               | %        |

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|   |     |   |     |   |
|---|-----|---|-----|---|
| Depreciation and amortization                     | 5.8 | % | 5.0 | % |
| General and administrative expenses               | 8.9 | % | 9.4 | % |
| Provision for asset impairments                   | —   |   | 0.2 | % |
| Net loss on disposition of property and equipment | 0.3 | % | 0.1 | % |

Culinary Contract Services Costs

*(As a percentage of Culinary Contract Services sales)*

|  |      |   |      |   |
|--|------|---|------|---|
| Cost of Culinary Contract Services       | 85.9 | % | 86.0 | % |
| Culinary Contract Services Profit Margin | 14.1 | % | 14.0 | % |

*(As a percentage of total sales)*

|  |       |    |       |    |
|--|-------|----|-------|----|
| LOSS FROM OPERATIONS                                   | (5.0) | )% | (2.0) | )% |
| Interest income  | —     |    | —     |    |
| Interest expense                                       | 0.5   | %  | 0.3   | %  |
| Other income, net                                      | (0.2) | )% | (0.3) | )% |
| Loss before income taxes and discontinued operations   | (4.7) | )% | (2.0) | )% |
| Benefit for income taxes                               | (2.1) | )% | (1.1) | )% |
| Loss from continuing operations                        | (2.6) | )% | (0.9) | )% |
| Loss from discontinued operations, net of income taxes | (0.1) | )% | (0.1) | )% |
| NET LOSS   | (2.7) | )% | (1.0) | )% |

Percentages may not add due to rounding.



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>November</b>       | <b>November</b>   |
|   | <b>19,</b>            | <b>20,</b>        |
|   | <b>2014</b>           | <b>2013</b>       |
|   | <i>(12</i>            | <i>12 weeks)</i>  |
|   | <i>weeks)</i>         | <i>(12 weeks)</i> |
|   | <i>(In Thousands)</i> |                   |
| Store level profit                                | \$7,293               | \$ 9,087          |
| Plus:   |                       |                   |
| Sales from vending revenue                        | 125                   | 112               |
| Sales from culinary contract services             | 4,598                 | 4,270             |
| Sales from franchise revenue                      | 1,581                 | 1,514             |
| Less:   |                       |                   |
| Opening costs                                     | 925                   | 350               |
| Cost of culinary contract services                | 3,951                 | 3,672             |
| Depreciation and amortization                     | 5,058                 | 4,319             |
| General and administrative expenses               | 7,703                 | 8,067             |
| Provision for asset impairments                   | —                     | 210               |
| Net loss on disposition of property and equipment | 290                   | 51                |
| Interest income                                   | (1 )                  | (2 )              |
| Interest expense                                  | 456                   | 253               |
| Other income, net                                 | (187 )                | (296 )            |
| Provision for income taxes                        | (1,782)               | (948 )            |
| Loss from continuing operations                   | \$(2,816)             | \$ (693 )         |

The following table shows our restaurant unit count as of August 27, 2014 and November 19, 2014.

#### **Restaurant Counts:**

| <b>August</b> | <b>FY15 Q1</b> | <b>FY15</b> | <b>November</b> |
|---------------|----------------|-------------|-----------------|
| <b>27,</b>    |                | <b>Q1</b>   | <b>19,</b>      |

|                                | <b>2014</b> | Openings | Closings | <b>2014</b> |
|--------------------------------|-------------|----------|----------|-------------|
| Luby's Cafeterias              | <b>94</b>   |          |          | <b>94</b>   |
| Fuddruckers Restaurants        | <b>71</b>   | 2        | (1 )     | <b>72</b>   |
| Cheeseburger in Paradise       | <b>8</b>    |          |          | <b>8</b>    |
| Other restaurants <sup>1</sup> | <b>1</b>    |          |          | <b>1</b>    |
| Total                          | <b>174</b>  | 2        | (1 )     | <b>175</b>  |

<sup>(1)</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 Hamburger®, Luby's Culinary Contract Services and Cheeseburger in Paradise. Our other brands include Bob Luby's Seafood, Luby's, Etc. 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 November 19, 2014, we owned and operated 175 restaurants, of which 94 are traditional cafeterias, 72 are gourmet hamburger restaurants, eight 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 ten restaurants located at five property locations where we operate a side-by-side Luby's Cafeteria and Fuddruckers on the same property. We refer to these locations as "Combo locations."

As of November 19, 2014, we operated 26 Culinary Contract Services locations; 18 in the Houston, Texas area, 3 in Louisiana, 2 in Austin, Texas, 1 in Florida, 1 in North Carolina and 1 in Oklahoma. Luby's Culinary Contract Services provides food service management to healthcare, educational and corporate dining facilities.

As of November 19, 2014, we had 50 franchisees operating 110 Fuddruckers restaurants in locations. Our largest five franchise owners own five to twelve restaurants each. Fourteen franchise owners each own two to four restaurants. The 31 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 the first quarter fiscal 2015. Stores that close on a permanent basis are removed from the group in the quarter when operations cease at the restaurant, but remain in the same-store group for previously reported 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**

### *Quarter Ended November 19, 2014 Compared to Quarter Ended November 20, 2013*

#### *Sales*

Total sales increased approximately \$1.0 million, or 1.2%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013, consisting primarily of a \$0.6 million increase in restaurant sales, a \$0.3 million increase in Culinary Contract Services sales, and a \$0.1 million increase in franchise revenue. The other component of total sales is vending revenue, which was consistent in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013.

The Company has three reportable segments: Company-owned restaurants, Franchise operations, and Culinary Contract Services.

### **Company-Owned Restaurants**

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

Restaurant sales increased approximately \$0.6 million in the quarter ended November 19, 2014, compared to the quarter ended November 20, 2013. Sales from Combo locations increased by approximately \$4.0 million to approximately \$5.0 million, and sales at stand-alone Fuddruckers restaurants increased by approximately \$1.9 million. These sales increases were offset by a sales decline at Luby's Cafeteria stand-alone locations of approximately \$1.2 million and a sales decline at Cheeseburger in Paradise locations of approximately \$3.8 million. Additionally, we ceased operations at the two Koo Koo Roo Chicken Bistro restaurants that we operated a year ago, resulting in a decrease of approximately \$0.3 million in sales. The sales increase at Fuddruckers restaurants resulted from a 0.2% increase in same-store sales and the incremental sales contribution from eight new Fuddruckers restaurants, with these additions partially offset by the absence of sales from two closed Fuddruckers restaurants. The 0.2% increase in same-store sales at Fuddruckers restaurants resulted from a 1.9% increase in guest traffic offset by a 1.7% decline in average spend per guest. The increase in sales at our Combo locations was due to the addition of four new Combo locations, as well as a 2.4% increase in sales at our first combo location. The decline in sales at Luby's Cafeteria restaurants resulted from the absence of sales from three closed Luby's Cafeteria locations, and the sales decline at one Luby's Cafeteria that is not yet included in the same-store grouping, and a 0.2% increase in same-store sales. The 0.2% increase in same-store Luby's Cafeteria sales resulted from a 0.1% increase in guest traffic and a 0.1% increase in average spend per guest.

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

Cost of food increased approximately \$0.6 million, or 2.7%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013 due primarily to increases in food commodity costs, particularly with beef costs that were 25.0% higher leading to the greatest impact at our Fuddruckers brand where the core menu items include hamburgers. As a percentage of restaurant sales, cost of food increased 0.6% to 29.2% in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013. Food commodity prices for our basket of food commodity purchases increased 5.0% at our Luby's Cafeterias locations and 11.0% at our Fuddruckers restaurants.

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

Payroll and related costs increased approximately \$1.2 million in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013 due to increases in both hourly restaurant labor costs and restaurant management costs. As a percentage of restaurant sales, payroll and related costs increased 1.2%, to 36.4% in the quarter ended November 19, 2014 compared to 35.2% in the quarter ended November 20, 2013. The increase in hourly labor costs as a percentage of restaurant sales is primarily due to increases at our Fuddruckers brand and to a lesser extent at our Combo locations. These increases include costs associated with efforts to deploy additional hourly labor at our Fuddruckers restaurants in order to enhance guest service and motivate increased guest traffic as well as the higher hourly labor costs typically realized during the first eight weeks of operations at newly opened restaurants. The increase in management labor as a percentage of sales is also primarily due to increased management support during the first eight weeks of operations of newly opened stores as well as increases in average wages. Increased costs of health care coverage for both hourly and management restaurant employees contributed 0.2% of the 1.2% increase in payroll and related cost as a percentage of restaurant sales. Newly opened stores driving a portion of the increase in payroll and related costs included two new Combo locations opened shortly prior to the start of the quarter ended November 19, 2014 and two Fuddruckers restaurants opened in the quarter ended November 19, 2014.

### *Other Operating Expenses*

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services and supplies. Other operating expenses increased by approximately \$0.7 million, or 4.5%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013, due primarily to (1) an approximate \$0.3 million increase in repairs and maintenance costs; (2) and an approximate \$0.3 million increase in restaurant supplies expense; (3) an approximate \$0.3 million increase in insurance and other costs; and (4) a \$0.1 million increase in utility costs; offset by an approximate \$0.3 million decrease in restaurant service costs. As a percentage of restaurant sales, other operating expenses increased 0.7%, to 19.6%, in the quarter ended November 19, 2014, compared to 18.9% in the quarter ended November 20, 2013.

### ***Occupancy Costs***

Occupancy costs include property lease expense, property taxes, and common area maintenance charges. Occupancy costs decreased approximately \$0.1 million to approximately \$4.6 million in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013.

### **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) royalties paid to us as the franchisor for the Fuddruckers brand and (2) franchise fees paid to us when franchise units are opened for business or transferred to new owners. Franchise revenue increased approximately \$66 thousand in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013. The \$66 thousand increase in franchise revenue includes an approximate \$33 thousand increase in franchise royalties and an approximate \$33 thousand increase in non-royalty related fee income.

### **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 26 Culinary Contract Services locations at the end of the quarter ended November 19, 2014 and 21 at the end of the quarter ended November 20, 2013. 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 increased approximately \$0.3 million, or 7.7%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013. The increase in revenue was primarily due to an increase in the number of locations where we operate.

### ***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 sales. Cost of Culinary Contract Services increased approximately \$0.3 million, or 7.6%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013, consistent with an increase in Culinary Contract Services revenue. Culinary Contract Services profit margin, defined as Culinary Contract Services revenue less Cost of Culinary Cost Services, increased to 14.1% in the quarter ended November 19, 2014 from 14.0% in the quarter ended November 20, 2013.

### **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 \$0.9 million in the quarter ended November 19, 2014 compared to approximately \$0.3 million in the quarter ended November 20, 2013. Both quarters included carrying costs of locations to be developed for future restaurant openings. The opening costs in the quarter ended November 19, 2014 included the opening costs for five Fuddruckers restaurants, two that opened in the quarter ended November 19, 2014, two that opened prior the start of the quarter ended November 19, 2014, and one that opened after the end of the quarter ended November 19, 2014. Also included in the opening costs in the quarter ended November 19, 2014 are the carrying costs associated with six locations that were previously operated as Cheeseburger in Paradise restaurants and are in the process of conversion to Fuddruckers restaurants. The opening costs in the quarter ended November 20, 2013 included the carrying costs of two Combo locations prior to their opening for operations and the opening cost for a new Luby's Cafeteria location.



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

Depreciation and amortization expense increased by approximately \$0.7 million, or 17.1%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013, due primarily to the addition of depreciation related to new capital expenditures for new construction and restaurant conversion activity 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 approximately \$0.4 million, or 4.5%, in the quarter ended November 19, 2014 compared to the quarter ended November 20, 2013. Decreases in general and administrative expense are attributable to decreased spending on outside professional fees and services, office supplies and equipment. As a percentage of total revenue, general and administrative expenses decreased to 8.9% in the quarter ended November 19, 2014, compared to 9.4% in the quarter ended November 20, 2013.

### ***Provision for Asset Impairments***

There was no impairment charge for the quarter ended November 19, 2014.

The impairment charge of \$0.2 million for the quarter ended November 20, 2013 is related to one operating Fuddruckers restaurant and one location that was previously operated as a Cheeseburger in Paradise and was subsequently converted to a Fuddruckers.

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

Loss on disposition of property and equipment was approximately \$0.3 million in the quarter ended November 19, 2014 and includes loss on the sale of equipment and other normal asset retirement activity. Loss on disposition of property and equipment was approximately \$0.1 million in the quarter ended November 20, 2013 and included the sale of one property held for sale and other normal asset retirement activity.

***Interest Income***

Interest income was \$1,000 in the quarter ended November 19, 2014 and \$2,000 in the quarter ended November 20, 2013.

***Interest Expense***

Interest expense increased to approximately \$0.5 million in the quarter ended November 19, 2014 from approximately \$0.3 million in the quarter ended November 20, 2013 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; and oil and gas royalty income. Other income, net, in the quarter ended November 19, 2014 decreased approximately \$0.1 million compared to the quarter ended November 20, 2013 due to lower prepaid sales tax discounts and lower net rental property income.

***Taxes***

For the quarter ended November 19, 2014, the income taxes related to continuing operations resulted in a tax benefit of \$1.8 million compared to a tax benefit of \$0.9 million for the quarter ended November 20, 2013. These tax benefits were due to the loss before taxes and discontinued operations in the quarter ended November 19, 2014 and in the quarter ended November 20, 2013.

### *Discontinued Operations*

Loss from discontinued operations was \$0.2 million in the quarter ended November 19, 2014 and \$0.9 million in the quarter ended November 20, 2013. Loss from discontinued operations of approximately \$0.2 million in the quarter ended November 19, 2014 consisted of approximately \$0.3 million in carrying costs associated with assets related to discontinued operations offset by an approximate \$0.1 million tax benefit. The loss from discontinued operations of approximately \$0.9 million in the quarter ended November 20, 2013 consisted of \$0.6 million in carrying costs associated with assets related to discontinued operations and a \$0.3 million impairment of assets 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. During the quarter ended November 19, 2014, cash used in operating activities was approximately \$4.3 million, and cash used in investing activities was approximately \$2.9 million offset by cash provided by financing activities of approximately \$6.2 million. Cash and cash equivalents decreased approximately \$1.0 million in the quarter ended November 19, 2014 compared to approximately \$0.3 million increase in the quarter ended November 20, 2013. 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 construction, restaurant renovations, purchase of property for development of our restaurant brands and for use as rental property and upgrades and 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 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.

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

|  | <b>Quarter Ended</b>  |                 |
|--|-----------------------|-----------------|
|  | <b>November</b>       | <b>November</b> |
|  | <b>19,</b>            | <b>20,</b>      |
|  | <b>2014</b>           | <b>2013</b>     |
|  | <b>(12</b>            | <b>(12</b>      |
|  | <b>weeks)</b>         | <b>weeks)</b>   |
|  | <b>(In thousands)</b> |                 |
| Total cash provided by (used in):                    |                       |                 |
| Operating activities                                 | \$(4,327)             | \$ 3,940        |
| Investing activities                                 | (2,897)               | (8,740 )        |
| Financing activities                                 | 6,250                 | 5,100           |
| Net increase (decrease) in cash and cash equivalents | \$(974 )              | \$ 300          |

*Operating Activities.* Cash used in operating activities was approximately \$4.3 million in the quarter ended November 19, 2014, an \$8.2 million decrease from the quarter ended November 20, 2013. The \$8.2 million decrease in cash is due to a \$1.8 million decrease in cash from operations before changes in operating assets and liabilities plus a \$6.4 million decrease in cash generated by changes in operating assets and liabilities for the quarter ended November 19, 2014.

Cash generated by operating activities before changes in operating assets and liabilities was approximately \$0.7 million in the quarter ended November 19, 2014, a \$1.8 million decrease compared to the quarter ended November 20, 2013. The \$1.8 million decrease in cash provided by operating activities before changes in operating assets and liabilities was due to less cash generated by segment level profit of \$1.8 million for Company-owned restaurants.

Changes in operating assets and liabilities was an approximate \$5.0 million use of cash in the quarter ended November 19, 2014 and an approximate \$1.4 million source of cash in the quarter ended November 20, 2013. The \$6.4 million decrease in the source of cash was due to differences in the change in asset and liability balances between the quarter ended November 19, 2014 and the quarter ended November 20, 2013. Increases in current asset accounts are a use of cash while decreases in current asset accounts are a source of cash. During the quarter ended November 19, 2014, the change in trade accounts and other receivables was an approximate \$0.7 million use of cash which was \$1.0 million greater than in the quarter ended November 20, 2013. The change in inventory during the quarter ended November 19, 2014 was an approximate \$2.0 million use of cash which was equal to the quarter ended November 20, 2013. The change in prepaid expenses and other assets was an approximate \$1.1 million source of cash during the quarter ended November 19, 2014, which was a \$0.2 million increase from the quarter ended November 20, 2013.

Increase in current liability accounts are a source of cash, while decreases in current liability accounts are a use of cash. During the quarter ended November 19, 2014, changes in the balances of accounts payable, accrued expenses and other liabilities was an approximate \$3.4 million use of cash, compared to a source of cash of approximately \$1.9 million during the quarter ended November 20, 2013.

*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 \$2.9 million in the quarter ended November 19, 2014 and approximately \$8.7 million in the quarter ended November 20, 2013. Capital expenditures were approximately \$3.6 million in the quarter ended November 19, 2014, a \$5.6 million decrease compared to the quarter ended November 20, 2013. Proceeds from the disposal of assets were approximately \$0.7 million in the quarter ended November 19, 2014 and approximately \$0.5 million in the quarter ended November 20, 2013.

*Financing Activities.* Cash provided by financing activities was approximately \$6.2 million in the quarter ended November 19, 2014 compared to an approximate \$5.1 million use of cash during the quarter ended November 20, 2013. Cash flows from financing activities was primarily the result of borrowings and repayments related to our revolving credit facility. During the quarter ended November 19, 2014, borrowings exceeded repayments by approximately \$6.3 million. During the quarter ended November 20, 2013, repayments of the credit facility exceeded borrowings by approximately \$5.1 million. Debt issue costs were approximately \$0.1 million in the quarter ended November 19, 2014.

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

At November 19, 2014, 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 increased approximately \$0.6 million in the quarter ended November 19, 2014 compared to an increase of approximately \$0.8 million in the quarter ended November 20, 2013. In the quarter ended November 19, 2014, food and supply inventory increased approximately \$2.0 million and trade accounts and other receivables increased approximately \$0.7 million; partially offset by decreases in prepaid expenses of approximately \$1.1 million and cash of approximately \$1.0 million. In the quarter ended November 20, 2013, cash increased approximately \$0.3 million and food and supply inventory increased approximately \$2.0 million while trade accounts and other receivables decreased approximately \$0.3 million and prepaid expenses decreased approximately \$1.2 million.

Current liabilities decreased approximately \$2.8 million in the quarter ended November 19, 2014 compared to an approximate \$1.7 million increase in the quarter ended November 19, 2013. In the quarter ended November 19, 2014, unredeemed gift cards increased approximately \$1.1 million, taxes other than income taxes increased approximately \$0.8 million and income taxes and other increased approximately \$0.3 million; partially offset by decrease in accounts payable of approximately \$3.8 million, salaries and incentives of approximately \$1.1 million and accrued operating expenses of approximately \$0.1 million. In the quarter ended November 20, 2013, accounts payable increased approximately \$1.0 million, income taxes and other increased approximately \$0.5 million and salaries and incentives increased approximately \$0.2 million.

### ***Capital Expenditures***

Capital expenditures consist of purchases of real estate for future restaurant sites, Culinary Contract Services investments, new unit construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for the quarter ended November 19, 2014 were approximately \$3.6 million and related to recurring maintenance of our existing units, improvement of our culinary contract services business 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 to \$25 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 November 19, 2014, under the 2013 Credit Facility, the total available borrowing capacity was up to \$70.0 million; after applying the Lease Adjusted Leverage Ratio limitation, the available borrowing capacity was \$19.4 million.

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 November 19, 2014, the carrying value of the collateral securing the 2013 Credit Facility was \$83.6 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, 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,  
prohibitions 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 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 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, 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.

We were in compliance with the covenants contained in the 2013 Credit Agreement as of November 19, 2014.

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 November 19, 2014, we had \$48.3 million in outstanding loans and \$1.2 million committed under letters of credit, which were issued as security for the payment of insurance obligations and \$1.1 million in capital lease commitments.

## **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.

### *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 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 assess the need for a valuation allowance by considering both positive and negative evidence. 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. A three-year cumulative pre-tax loss is an example of negative evidence that raises doubt as to the realization of the deferred tax assets. The realization of such net deferred tax asset will generally depend on whether we will have sufficient taxable income of an appropriate character within the carry forward period permitted by the tax law.

General business tax credits carryovers are one of our more significant deferred tax asset items. These may be carried over up to twenty years in the future for possible utilization in the future. The carryover of general business tax credits and other credits were also impacted by amended federal returns, and subsequent to these filings, general business tax credit amounts carryover beginning in fiscal 2002 and will begin to expire at the end of fiscal 2022 through fiscal 2033, if not utilized by then.

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 carry forward period permitted by the tax law.

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 (“IRS”). 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.

### ***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 175 restaurants as of November 19, 2014 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 loss.

We believe we have 5 locations, with an aggregate net carrying value of assets held for use of approximately \$3.8 million, with respect to which it is possible that an impairment charge could be taken over the next 12 months.

We also evaluate the useful lives of our intangible assets, primarily the Fuddruckers trade name and franchise agreements and Cheeseburger in Paradise trade name and license agreement, to determine if they are definite-lived 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 our 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 February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-04, Liabilities (Topic 405), which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. Examples of obligations within this guidance are debt arrangements, other contractual obligations and

settled litigation and judicial rulings. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, after December 15, 2013. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

In April 2013, the FASB issued ASU No. 2013-007, Liquidation Basis of Accounting (Topic 205), which requires a company to prepare its financial statements using liquidation basis of accounting when liquidation is imminent. The pronouncement is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740), which provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss or a tax credit carry forward, except to the extent that a net operating loss carry forward, a similar tax loss or a tax credit carry forward is not available at the reporting date to settle any additional income taxes that would result from disallowance or a tax provision, or the tax law does not require the entity to use and the entity does not intend to use the deferred tax asset for such purposes, then the unrecognized tax benefit should be presented as a liability. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, after December 15, 2013. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

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 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.

## 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,” “outlook,” “may” “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 Fuddrucker's 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 November 19, 2014, the total amount of debt subject to interest rate fluctuations outstanding under our 2013 Credit Facility was \$48.3 million. Assuming an average debt balance of \$48.3 million, a 1.0% increase in prevailing interest rates would increase our annual interest expense by \$0.5 million.

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 defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, as of November 19, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of November 19, 2014, 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 19, 2014 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 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 November 19, 2014 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

- 10.1 Second Amendment to Credit Agreement, dated as of November 7, 2014, among the Company, the lenders from time to time party thereto, Wells Fargo Bank National Association, as administrative agent (incorporated by reference to exhibit 10.1 to the Company’s Current Report on Form 8-K, filed November 12, 2014).
  - 10.2 First Amendment dated as of December 1, 2014 to Employment Agreement dated as of January 24, 2014 between Luby’s, Inc. And Christopher J. Pappas (incorporated by reference to exhibit 10.1 to the Company’s Current Report on Form 8-K, filed December 3, 2014).
  - 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.
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- 101.INS XBRL Instance Document

101.SCHXBRL Schema Document

101.CALXBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LABXBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

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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 19, 2014 By: /s/ Christopher J. Pappas  
Christopher J. Pappas  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: December 19, 2014 By: /s/ K. Scott Gray  
K. Scott Gray  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

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