

LUBYS INC
Form 10-Q
March 11, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 9, 2011

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From _____ to _____

Commission file number: 001-08308

Luby s, Inc.

(Exact name of registrant as specified in its charter)

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

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

13111 Northwest Freeway, Suite 600

Houston, Texas
(Address of principal executive offices)

77040
(Zip Code)

(713) 329-6800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of March 4, 2011, there were 28,111,146 shares of the registrant's common stock outstanding.

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Luby's, Inc.

Form 10-Q

Quarter ended February 9, 2011

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

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

	February 9, 2011 <i>(Unaudited)</i>	August 25, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 977	\$ 2,300
Trade accounts and other receivables, net	2,506	2,213
Food and supply inventories	3,647	3,097
Prepaid expenses	1,413	1,041
Assets related to discontinued operations	202	78
Deferred income taxes	789	431
Total current assets	9,534	9,160
Property held for sale	1,077	1,828
Assets related to discontinued operations	13,041	18,419
Property and equipment, net	167,437	172,040
Intangible assets, net	28,646	29,292
Goodwill	195	195
Deferred incomes taxes	10,877	9,672
Other assets	1,650	1,737
Total assets	\$ 232,457	\$ 242,343
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 11,974	\$ 12,514
Liabilities related to discontinued operations	297	924
Credit facility debt	36,000	
Accrued expenses and other liabilities	17,443	19,007
Total current liabilities	65,714	32,445
Credit facility debt		41,500
Liabilities related to discontinued operations	815	940
Other liabilities	5,778	6,097
Total liabilities	72,307	80,982
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Common stock, \$0.32 par value; 100,000,000 shares authorized; shares issued were 28,611,146 and 28,564,024, respectively; shares outstanding were 28,111,146 and 28,064,024, respectively	9,156	9,140
Paid-in capital	23,433	23,089

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Retained earnings	132,336	133,907
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders' equity	160,150	161,361
Total liabilities and shareholders' equity	\$ 232,457	\$ 242,343

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

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

	Quarter Ended		Two Quarters Ended	
	February 9, 2011 (12 weeks)	February 10, 2010 (12 weeks)	February 9, 2011 (24 weeks)	February 10, 2010 (24 weeks)
SALES:				
Restaurant sales	\$ 71,757	\$ 50,800	\$ 142,047	\$ 99,828
Culinary contract services	3,127	2,959	6,459	6,251
Franchise revenue	1,520		3,021	
Vending revenue	132		285	
TOTAL SALES	76,536	53,759	151,812	106,079
COSTS AND EXPENSES:				
Cost of food	21,399	13,928	42,259	27,113
Payroll and related costs	25,190	18,108	50,234	36,877
Other operating expenses	16,843	10,834	35,040	22,950
Opening costs	38	121	144	152
Cost of culinary contract services	2,879	2,788	5,864	5,716
Depreciation and amortization	3,983	3,487	8,180	7,041
General and administrative expenses	6,491	5,003	13,004	10,485
Provision for asset impairments, net		32		32
Net gain on disposition of property and equipment	(35)	(1,041)	(28)	(724)
Total costs and expenses	76,788	53,260	154,697	109,642
INCOME (LOSS) FROM OPERATIONS	(252)	499	(2,885)	(3,563)
Interest income	1	7	4	16
Interest expense	(553)	(44)	(1,171)	(172)
Impairment charge for decrease in fair value of investments		20		(438)
Other income, net	318	215	559	412
Income (loss) before income taxes and discontinued operations	(486)	697	(3,493)	(3,745)
Provision (benefit) for income taxes	(275)	556	(1,181)	(811)
Income (loss) from continuing operations	(211)	141	(2,312)	(2,934)
Income (loss) from discontinued operations, net of income taxes	928	(563)	741	(1,205)
NET INCOME (LOSS)	\$ 717	\$ (422)	\$ (1,571)	\$ (4,139)
Loss per share from continuing operations:				
Basic	\$ (0.01)	\$	\$ (0.08)	\$ (0.11)
Assuming dilution	(0.01)		(0.08)	(0.11)
Income (loss) per share from discontinued operations:				
Basic	\$ 0.03	\$ (0.02)	\$ 0.02	\$ (0.04)
Assuming dilution	0.03	(0.02)	0.02	(0.04)
Net income (loss) per share:				
Basic	\$ 0.02	\$ (0.02)	\$ (0.06)	\$ (0.15)

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Assuming dilution	0.02	(0.02)	(0.06)	(0.15)
Weighted average shares outstanding:				
Basic	28,172	28,121	28,168	28,117
Assuming dilution	28,172	28,127	28,168	28,117

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

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

	Common Stock Issued		Common Stock Treasury		Paid-In Capital	Retained Earnings	Total Shareholders Equity
	Shares	Amount	Shares	Amount			
BALANCE AT AUGUST 25, 2010	28,564	\$ 9,140	(500)	\$ (4,775)	\$ 23,089	\$ 133,907	\$ 161,361
Net loss						(1,571)	(1,571)
Common stock issued under nonemployee director plans	2	1			3		4
Common stock issued under employee benefit plans	5	2			21		23
Excess tax benefits from stock options					2		2
Share-based compensation expense	40	13			318		331
BALANCE AT FEBRUARY 9, 2011	28,611	\$ 9,156	(500)	\$ (4,775)	\$ 23,433	\$ 132,336	\$ 160,150

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

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

	Two Quarters ended	
	February 9, 2011 (24 weeks)	February 10, 2010 (24 weeks)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,571)	\$ (4,139)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for asset impairments, net of gains and losses on property sales	(1,705)	(2,267)
Depreciation and amortization	8,182	7,288
Impairment charge for decrease in fair value of investments, net of gains		438
Amortization of debt issuance cost	417	85
Non-cash compensation expense	129	126
Share-based compensation expense	202	466
Tax benefit on stock options	(2)	
Deferred tax benefit	(1,195)	(1,626)
Cash provided by operating activities before changes in operating assets and liabilities	4,457	371
Changes in operating assets and liabilities:		
Increase in trade accounts and other receivables, net	(293)	(478)
Decrease (increase) in food and supply inventories	(551)	302
Decrease (increase) in prepaid expenses and other assets	(521)	419
Decrease in accounts payable, accrued expenses and other liabilities	(3,010)	(6,277)
Net cash provided by (used in) operating activities	82	(5,663)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from redemption or maturity of investments		1,414
Proceeds from disposal of assets and property held for sale	7,541	5,768
Acquisition of Fuddrucker's assets	(265)	
Purchases of property and equipment	(2,985)	(1,542)
Net cash provided by investing activities	4,291	5,640
CASH FLOWS FROM FINANCING ACTIVITIES:		
Credit facility borrowings	88,100	20,100
Credit facility repayments	(93,600)	(20,100)
Debt issuance costs	(225)	(105)
Tax benefit on stock options	2	
Proceeds received on the exercise of stock options	27	
Net cash used in financing activities	(5,696)	(105)
Net decrease in cash and cash equivalents	(1,323)	(128)
Cash and cash equivalents at beginning of period	2,300	882
Cash and cash equivalents at end of period	\$ 977	\$ 754
Cash paid for:		

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Income taxes	\$	\$
Interest	876	68

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

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Luby s, Inc.

Notes to Consolidated Financial Statements (unaudited)

February 9, 2011

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Luby s, Inc. (the Company or Luby s) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements that are prepared for the Company s Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the period ended February 9, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2011.

The consolidated balance sheet dated August 25, 2010, included in this Form 10-Q, has been derived from the audited consolidated financial statements at that date. However, this Form 10-Q does not include all of the information and footnotes required by GAAP for an annual filing of complete financial statements. Therefore, these financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended August 25, 2010.

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

Note 2. Accounting Periods

The Company s fiscal year ends on the last Wednesday in August. As such, each fiscal year normally consists of 13 four-week periods, accounting for 364 days. Each of the first three quarters of each fiscal year consists of three four-week periods (12 weeks), while the fourth quarter normally consists of four four-week periods (16 weeks). Comparability between accounting periods will be affected by varying lengths of the periods, as well as the seasonality associated with the restaurant business.

Note 3. Acquisition

Luby s, Inc., through its subsidiary, Luby s Fuddruckers Restaurants, LLC (LFR), purchased substantially all of the assets of Fuddruckers, Inc., Magic Brands, LLC and certain of their affiliates (collectively, Fuddruckers) on July 26, 2010 for \$63.1 million in cash. LFR assumed \$4.3 million of Fuddruckers obligations, real estate leases and contracts. The Company funded the purchase with cash and an expansion of its credit facility. During the first quarter ended November 17, 2010, the Company acquired one additional Fuddruckers location for additional consideration of approximately \$0.3 million.

The allocation of the purchase price for the acquisition required extensive use of accounting estimates and judgments to allocate the purchase price to tangible and intangible assets acquired and liabilities assumed based on respective fair values. The purchase price for the Company s acquisition of substantially all of the assets of Fuddruckers and the assumption of certain liabilities is based on estimates of fair values at the acquisition date. Such valuations require significant estimates and assumptions. The Company believes the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. The fair value estimates for the purchase price allocation for the Company s acquisition are considered final.

The trade name primarily relates to Fuddruckers, which the Company believes has an estimated accounting life of 21 years based on the expected use of its assets and the restaurant environment in which it is being used. The value assigned to the trade name will be amortized over the estimated accounting life of 21 years. The trade name represents a respected brand with positive customer loyalty; which the Company intends to cultivate and protect the use of the trade name. The franchise agreements, after considering renewal periods, have an estimated accounting life of 21 years and will be amortized over this period of time. The Company recorded \$0.6 million of amortization expense during the first two quarters of fiscal year 2011, which is classified as depreciation and amortization expense in the accompanying consolidated statement of operations. The full year amortization of the trade name and the franchise agreements is expected to total \$1.4 million. Because the value of these assets will be amortized using the straight-line method over 21 years, the annual amortization will be the same total each year.

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A portion of the acquired lease portfolio contained favorable and unfavorable leases. Acquired lease terms were compared to current market lease terms to determine if the acquired leases were below or above the current rates tenants would pay for similar leases. The favorable lease assets totaled \$0.7 million and \$0.8 million at February 9, 2011 and August 25, 2010, respectively, and are recorded in other assets and, after considering renewal periods, have an estimated weighted average life of approximately 5.8 years at February 9, 2011. The unfavorable leases totaled \$2.6 million and \$2.9 million at February 9, 2011 and August 25, 2010, respectively, and are recorded in other liabilities and, after considering renewal periods, have an estimated weighted average life of approximately 6.9 years at February 9, 2011. The favorable and unfavorable leases are amortized to rent expense on a straight line basis over the lives of the related leases. The following table shows the prospective amortization of the favorable lease assets and unfavorable lease liabilities:

	August 31, 2011	August 29, 2012	Fiscal Year Ended August 28, 2013 (In thousands)	August 27, 2014	August 26, 2015
Favorable	\$ 130	\$ 130	\$ 130	\$ 130	\$ 130
Unfavorable	\$ 570	\$ 448	\$ 380	\$ 380	\$ 228

The Company also recorded an intangible asset for goodwill in the amount of \$0.2 million. Goodwill is considered to have an indefinite useful life and is not amortized. Goodwill was \$0.2 million as of February 9, 2011 and August 25, 2010.

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:

Two Quarters Ended February 9, 2011	Quoted Prices in Active	Fair Value Measurement Using Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)	Total Impairments
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Markets for
Identical
Assets
(Level
1)

			(Level 2)		
Long-lived assets related to discontinued operations	\$	5,218	\$	\$	\$ 5,218 \$ (467)

There were no impairments of assets related to discontinued operations during the two quarters ended February 10, 2010.

As of February 9, 2011 and August 25, 2010, the Company had no assets required to be measured at fair value on a recurring basis. The carrying value of cash and cash equivalents, trade accounts and other receivable, accounts payable, accrued expenses and debt approximate fair value based on the short-term nature of these accounts.

Table of Contents**Note 5. Income Taxes**

No cash payments of estimated federal income taxes were made during the two quarters ended February 9, 2011.

Deferred tax assets and liabilities are recorded based on differences between the financial reporting basis and the tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized to the extent future taxable income is expected to be sufficient to utilize those assets prior to their expiration. If current available information and projected future results raises doubt about the realization of the deferred tax assets, a valuation allowance is necessary. Such a valuation allowance was established in the fourth quarter ended August 26, 2009 of fiscal year 2009 through a charge to income tax expense which adversely affected the Company's reported operating results. Management concluded that for the quarter ended November 17, 2010, an increase in the valuation allowance of \$0.1 million was necessary. No adjustment was made to the valuation allowance for the quarter ended February 9, 2011. The valuation allowance partially offsets the Company's deferred tax assets related to net operating loss carryovers to future years and its carryover of employment tax credits.

Management believes that adequate provisions for income taxes have been reflected in the financial statements and is not aware of any significant exposure items that have not been reflected in the financial statements. Amounts considered probable of settlement within one year have been included in the accrued expenses and other liabilities in the accompanying consolidated balance sheet. The Company does not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next thirteen four-week periods.

Note 6. Property and Equipment

The cost, net of impairment, and accumulated depreciation of property and equipment at February 9, 2011 and August 25, 2010, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	February 9, 2011	August 25, 2010	Estimated Useful Lives
	<i>(In thousands)</i>		
Land	\$ 55,468	\$ 55,468	
Restaurant equipment and furnishings	101,683	100,118	3 to 15 years
Buildings	164,768	164,421	20 to 33 years Lesser of lease term or estimated
Leasehold and leasehold improvements	27,877	27,516	useful life
Office furniture and equipment	6,617	6,322	3 to 10 years
Construction in progress	389	336	
	356,802	354,181	
Less accumulated depreciation and amortization	(189,365)	(182,141)	
Property and equipment, net	\$ 167,437	\$ 172,040	

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.

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For assets held for use, the Company estimates future cash flows using assumptions based on possible outcomes of the areas analyzed. If the undiscounted future cash flows are less than the carrying value of the location's assets, the Company records an impairment loss based on an estimate of discounted cash flows. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. Assumptions and estimates used include operating results, changes in working capital, discount rate, growth rate, anticipated net proceeds from disposition of the property and if applicable, lease terms. The span of time for which future cash flows are estimated is often lengthy, increasing the sensitivity to assumptions made. The time span is longer and could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. The Company considers the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows.

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

	Two Quarters ended	
	February 9, 2011 (24 weeks) <i>(In thousands, except per share data)</i>	February 10, 2010 (24 weeks)
Provision for asset impairments	\$	\$ 32
Net gain on disposition of property and equipment	(28)	(724)
	\$ (28)	\$ (692)

Effect on EPS:

Basic	(0.02)
Assuming dilution	(0.02)

The net gain for the two quarters ended February 9, 2011 includes the results of normal asset retirements and the sale of one previously closed restaurant property that was held for sale.

The net gain for the two quarters ended February 10, 2010 includes the results of normal asset retirements and the sale of an easement right associated with a restaurant property.

Discontinued Operations

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

Assets related to discontinued operations include food inventory, prepaid expenses, deferred tax assets, unimproved land, closed restaurant properties and related equipment for locations classified as discontinued operations. The following table sets forth the assets and liabilities for all discontinued operations:

	February 9, 2011	August 25, 2010
	<i>(in thousands)</i>	
Prepaid expenses	\$ 76	\$ 78
Deferred income taxes	126	
Assets related to discontinued operations - current	\$ 202	\$ 78
Property and equipment	\$ 12,971	\$ 17,692
Deferred income taxes	62	717
Other assets	8	10
Assets related to discontinued operations - non-current	\$ 13,041	\$ 18,419
Deferred income taxes	\$	\$ 162
Accrued expenses and other liabilities	297	762
Liabilities related to discontinued operations - current	\$ 297	\$