

LUBYS INC
Form 10-Q
July 13, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 7, 2017

or

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

For the Transition Period From to
Commission file number: 001-08308

Luby's, Inc.
(Exact name of registrant as specified in its charter)

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

13111 Northwest Freeway, Suite 600 77040
Houston, Texas
(Address of principal executive offices) (Zip Code)

(713) 329-6800
(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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 July 13, 2017, there were 29,119,828 shares of the registrant's common stock outstanding.

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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.

Part I—FINANCIAL INFORMATION

Item 1. Financial Statements

Luby's, Inc.

Consolidated Balance Sheets

(In thousands, except share data)

	June 7, 2017 (Unaudited)	August 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,326	\$ 1,339
Trade accounts and other receivables, net	6,380	5,919
Food and supply inventories	4,528	4,596
Prepaid expenses	3,894	3,147
Assets related to discontinued operations	—	1
Deferred income taxes	176	540
Total current assets	16,304	15,542
Property held for sale	3,614	5,522
Assets related to discontinued operations	2,817	3,192
Property and equipment, net	182,084	193,218
Intangible assets, net	19,968	21,074
Goodwill	1,068	1,605
Deferred income taxes	6,737	8,738
Other assets	2,623	3,334
Total assets	\$ 235,215	\$ 252,225
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 14,741	\$ 17,539
Liabilities related to discontinued operations	394	412
Current portion of credit facility debt	613	—
Accrued expenses and other liabilities	24,902	23,752
Total current liabilities	40,650	41,703
Credit facility debt, less current portion	39,520	37,000
Liabilities related to discontinued operations	16	17
Other liabilities	7,234	7,752
Total liabilities	87,420	86,472
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Common stock, \$0.32 par value; 100,000,000 shares authorized; shares issued were 29,591,836 and 29,440,041, respectively; shares outstanding were 29,091,836 and 28,940,041, respectively	9,469	9,421
Paid-in capital	31,503	30,348
Retained earnings	111,598	130,759
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders' equity	147,795	165,753
Total liabilities and shareholders' equity	\$ 235,215	\$ 252,225

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

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Luby's, Inc.

Consolidated Statements of Operations (unaudited)

(In thousands, except per share data)

	Quarter Ended		Three Quarters Ended	
	June 7, 2017 (12 weeks)	June 1, 2016 (12 weeks)	June 7, 2017 (40 weeks)	June 1, 2016 (40 weeks)
SALES:				
Restaurant sales	\$82,594	\$86,476	\$271,741	\$286,336
Culinary contract services	4,515	3,892	12,117	12,726
Franchise revenue	1,477	1,586	5,167	5,411
Vending revenue	133	143	417	437
TOTAL SALES	88,719	92,097	289,442	304,910
COSTS AND EXPENSES:				
Cost of food	22,922	24,221	76,353	81,256
Payroll and related costs	29,519	30,748	97,486	100,007
Other operating expenses	13,796	13,572	47,207	45,728
Occupancy costs	4,923	5,065	16,720	17,242
Opening costs	134	117	431	688
Cost of culinary contract services	4,194	3,534	10,966	11,476
Cost of franchise operations	361	441	1,378	1,480
Depreciation and amortization	4,639	5,304	15,977	17,538
Selling, general and administrative expenses	6,764	9,227	29,531	32,312
Provision for asset impairments and restaurant closings	869	172	7,120	209
Net loss (gain) on disposition of property and equipment	(195)	) 42	219	(793)
Total costs and expenses	87,926	92,443	303,388	307,143
INCOME (LOSS) FROM OPERATIONS	793	(346)	(13,946)	(2,233)
Interest income	3	—	5	3
Interest expense	(569)	) (482)	(1,898)	) (1,674)
Other income (expense), net	(173)	) 88	(312)	) (2)
Income (loss) before income taxes and discontinued operations	54	(740)	(16,151)	(3,906)
Provision (benefit) for income taxes	431	(593)	2,576	(1,438)
Loss from continuing operations	(377)	) (147)	(18,727)	) (2,468)
Income (loss) from discontinued operations, net of income taxes	(19)	) 13	(434)	) (77)
NET LOSS	\$(396)	\$(134)	\$(19,161)	\$(2,545)
Loss per share from continuing operations:				
Basic	\$(0.01)	) \$(0.01)	) \$(0.64)	) \$(0.09)
Assuming dilution	\$(0.01)	) \$(0.01)	) \$(0.64)	) \$(0.09)
Income (loss) per share from discontinued operations:				
Basic	\$(0.00)	) \$0.00	) \$(0.01)	) \$(0.00)
Assuming dilution	\$(0.00)	) \$0.00	) \$(0.01)	) \$(0.00)
Net loss per share:				
Basic	\$(0.01)	) \$(0.01)	) \$(0.65)	) \$(0.09)
Assuming dilution	\$(0.01)	) \$(0.01)	) \$(0.65)	) \$(0.09)
Weighted average shares outstanding:				
Basic	29,536	29,259	29,453	29,207
Assuming dilution	29,536	29,259	29,453	29,207

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

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Luby's, Inc.

Consolidated Statement of Shareholders' Equity (unaudited)

(In thousands)

	Common Stock				Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Issued Shares	Amount	Treasury Shares	Amount			
Balance at August 31, 2016	29,440	\$ 9,421	(500)	\$(4,775)	\$30,348	\$ 130,759	\$ 165,753
Net loss	—	—	—	—	—	(19,161)	(19,161)
Share-based compensation expense	66	21	—	—	1,182	—	1,203
Common stock issued under employee benefit plans	3	1	—	—	(1)	—	—
Common stock issued under nonemployee benefit plans	83	26	—	—	(26)	—	—
Balance at June 7, 2017	29,592	\$ 9,469	(500)	\$(4,775)	\$31,503	\$ 111,598	\$ 147,795

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

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

	Three Quarters Ended	
	June 7, 2017	June 1, 2016
	(40 weeks)	(40 weeks)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(19,161)	\$(2,545)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for asset impairments and net (gains) on property sales	7,338	(609)
Depreciation and amortization	15,977	17,555
Amortization of debt issuance cost	316	255
Share-based compensation expense	1,203	1,143
Deferred tax provision (benefit)	2,922	(1,983)
Cash provided by operating activities before changes in operating assets and liabilities	8,595	13,816
Changes in operating assets and liabilities:		
Increase in trade accounts and other receivables	(460)	(967)
Decrease (Increase) in food and supply inventories	68	(516)
Increase in prepaid expenses and other assets	(5)	(614)
Decrease in accounts payable, accrued expenses and other liabilities	(4,522)	(311)
Net cash provided by operating activities	3,676	11,408
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of assets and property held for sale	3,640	4,308
Decrease in notes receivable	—	17
Purchases of property and equipment	(10,114)	(14,358)
Net cash used in investing activities	(6,474)	(10,033)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Revolver borrowings	94,400	77,900
Revolver repayments	(122,900)	(79,400)
Proceeds from term loan	35,000	—
Term loan repayments	(3,063)	—
Debt issuance costs	(652)	(42)
Proceeds received on the exercise of employee stock options	—	75
Net cash provided by (used in) financing activities	2,785	(1,467)
Net decrease in cash and cash equivalents	(13)	(92)
Cash and cash equivalents at beginning of period	1,339	1,501
Cash and cash equivalents at end of period	\$1,326	\$1,409
Cash paid for:		
Income taxes	\$—	\$—
Interest	1,228	1,368

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 June 7, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending August 30, 2017.

The Consolidated Balance Sheet dated August 31, 2016, 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 audited, year-end financial statements. Therefore, these financial statements should be read in conjunction with the audited Consolidated Financial Statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

Recently Adopted Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update requires that debt issuance costs be presented in the balance sheet as a direct deduction from the associated debt liability. Debt issuance costs related to the Company's new 2016 Credit Agreement (defined hereafter) amounted to \$0.6 million. The portion of the debt issuance costs associated with the Term Loan (defined hereafter) are setup as a direct deduction from long-term debt. The adoption of this update did not have a material impact on our consolidated financial statements. See Item 2. Management's Discussion and Analysis in this Form-10Q for more discussion on debt issuance costs.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). This guidance eliminates the requirement to determine the implied fair value of goodwill to measure an impairment of goodwill. Rather, goodwill impairment charges will be calculated as the amount by which a reporting unit's carrying amount exceeds its fair value. Adoption of the provisions in ASU 2017-04 is required for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. The Company adopted ASU 2017-04 in the quarter ended March 15, 2017. The provisions of ASU 2017-04 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

New Accounting Pronouncements - "to be Adopted"

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. Further, in March 2016, the

FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the guidance in ASU No. 2014-09 for evaluating when another party, along with the entity, is involved in providing a good or service to a customer. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," which clarifies the guidance in ASU No. 2014-09 regarding assessing whether promises to transfer goods or services are distinct, and whether an entity's promise to grant a license provides a customer with a right to use or right to access the entity's intellectual property. The Company plans to adopt the standard in the first quarter of fiscal 2019, which is the first fiscal quarter of the annual reporting period beginning after December 15, 2017. We have not yet decided on a method of transition upon adoption. The Company expects the pronouncement may impact the recognition of the initial franchise fee, which is currently recognized upon the opening of a franchise restaurant. We are further evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No 2014-15. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The pronouncement is effective for fiscal years and interim periods within those fiscal years, after December 31, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. The adoption of this pronouncement is not expected to have a material impact on the Company's financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330). This update requires inventory within the scope of the standard to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The update also requires additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2020. This standard requires adoption based upon a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with optional practical expedients. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on our consolidated balance sheet. The Company is continuing its assessment, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). This update was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2018. Early adoption is permitted. We are evaluating the impact on the Company's consolidated financial statements and have not yet selected a transition method.

In March 2016, the FASB issued ASU No. 2016-04, "Liabilities – Extinguishment of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products," which is intended to eliminate current and future diversity in practice related to derecognition of prepaid stored-value product liability in a way that aligns with the new revenue recognition guidance. The update is effective for fiscal years beginning after December 15, 2017; however, early application is permitted. We are evaluating the impact on the Company's consolidated financial statements and do not expect the adoption to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). This update provides clarification regarding how certain cash receipts and cash payment are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for annual and interim periods beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019 using a retrospective approach. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Subsequent Events

Subsequent to June 7, 2017, the Company made a \$1.8 million Term Loan prepayment. As a result of this payment, the current portion of the credit facility was further reduced to zero and the required quarterly principal amount was reduced from \$612,500 to \$525,000 per calendar quarter.

Note 2. Accounting Periods

The Company's fiscal year ends on the last Wednesday in August. Accordingly, each fiscal year normally consists of 13 four-week periods, or accounting periods, accounting for 364 days in the aggregate. However, every fifth or sixth year, we have a fiscal year that consists of 53 weeks, accounting for 371 days in the aggregate; fiscal year 2016 was such a year. The first fiscal quarter consists of four four-week periods, or 16 weeks, and the remaining three quarters typically include three four-week periods, or 12 weeks, in length. The fourth fiscal quarter includes 13 weeks in certain fiscal years to adjust for our standard 52 week, or 364 day, fiscal year compared to the 365 day calendar year.

Note 3. Reportable Segments

The Company has three reportable segments: Company-owned restaurants, Culinary Contract Services ("CCS"), and Franchise Operations.

Company-owned restaurants

Company-owned restaurants consists of several brands which are aggregated into one reportable segment because the nature of the products and services, the production processes, the customers, the methods used to distribute the products and services, the nature of the regulatory environment, and 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, Fuddrucker's - World's Greatest Hamburgers® and Cheeseburger in Paradise, with a non-core restaurant location operating under the brand name Bob Luby's Seafood Grill. 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 170 at June 7, 2017 and 175 at August 31, 2016.

Culinary Contract Services

CCS, branded as Luby's Culinary Contract Services, consists of a business line servicing healthcare, sports stadiums, corporate dining clients, and retail grocery. 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, and business and industry clients. 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 cost of Culinary Contract Services 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 locations was 25 at June 7, 2017 and 24 at August 31, 2016.

CCS began selling Luby's Famous Fried Fish and Macaroni & Cheese in February 2017 and December 2016, respectively, in the freezer section of H-E-B stores, a Texas-born retailer. H-E-B stores now stock the family-sized versions (approximately five servings) of Luby's Classic Macaroni and Cheese and Luby's Jalapeño Macaroni and Cheese varieties and Luby's Fried Fish (two regular size fillets that provide four LuAnn-sized portions).

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. 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 assistance to franchisees 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 112 at June 7, 2017 and 113 at August 31, 2016.

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 July 2017, this licensee operated 34 restaurants that are licensed to use the Fuddruckers Proprietary Marks in Saudi Arabia, Egypt, United Arab Emirates, Qatar, Jordan, Bahrain, and Kuwait. The Company does not receive revenue or royalties from these restaurants.

Segment Table

The table on the following page shows segment financial information. The table also lists total assets for each reportable segment. Corporate assets include cash and cash equivalents, property and equipment, assets related to discontinued operations, property held for sale, deferred tax assets, and prepaid expenses.

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	Quarter Ended		Three Quarters Ended	
	June 7, 2017 (12 weeks) (In thousands)	June 1, 2016 (12 weeks)	June 7, 2017 (40 weeks)	June 1, 2016 (40 weeks)
Sales:				
Company-owned restaurants ⁽¹⁾	\$82,727	\$86,619	\$272,158	\$286,773
Culinary contract services	4,515	3,892	12,117	12,726
Franchise operations	1,477	1,586	5,167	5,411
Total	\$88,719	\$92,097	\$289,442	\$304,910
Segment level profit:				
Company-owned restaurants	\$11,567	\$13,013	\$34,392	\$42,540
Culinary contract services	321	358	1,151	1,250
Franchise operations	1,116	1,145	3,789	3,931
Total	\$13,004	\$14,516	\$39,332	\$47,721
Depreciation and amortization:				
Company-owned restaurants	\$3,825	\$4,386	\$13,260	\$14,512
Culinary contract services	13	19	51	83
Franchise operations	178	192	592	641
Corporate	623	707	2,074	2,302
Total	\$4,639	\$5,304	\$15,977	\$17,538
Capital expenditures:				
Company-owned restaurants	\$1,630	\$3,217	\$8,963	\$13,839
Culinary contract services	—	—	—	—
Franchise operations	—	—	—	—
Corporate	522	171	1,151	519
Total	\$2,152	\$3,388	\$10,114	\$14,358
Loss before income taxes and discontinued operations:				
Segment level profit	\$13,004	\$14,516	\$39,332	\$47,721
Opening costs	(134)	(117)	(431)	(688)
Depreciation and amortization	(4,639)	(5,304)	(15,977)	(17,538)
Selling, general and administrative expenses	(6,764)	(9,227)	(29,531)	(32,312)
Provision for asset impairments and restaurant closings	(869)	(172)	(7,120)	(209)
Net (loss) gain on disposition of property and equipment	195	(42)	(219)	793
Interest income	3	—	5	3
Interest expense	(569)	(482)	(1,898)	(1,674)
Other income (expense), net	(173)	88	(312)	(2)
Income (loss) before income taxes and discontinued operations	\$54	\$(740)	\$(16,151)	\$(3,906)

	June 7, 2017	August 31, 2016
Total assets:		
Company-owned restaurants ⁽²⁾	\$197,698	\$211,182
Culinary contract services	3,663	3,390
Franchise operations ⁽³⁾	11,578	12,266
Corporate	22,276	25,387

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Total \$235,215 \$252,225

Includes vending revenue of \$133 thousand and \$143 thousand for the quarters ended June 7, 2017 and June 1, (1)2016, respectively, and \$417 thousand and \$437 thousand for the three quarters ended June 7, 2017 and June 1, 2016, respectively.

(2) Company-owned restaurants segment includes \$9.3 million of Fuddrucker's trade name, Cheeseburger in Paradise liquor licenses, and Jimmy Buffett intangibles.

(3) Franchise operations segment includes approximately \$10.8 million in royalty intangibles.

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Note 4. Derivative Financial Instruments

The Company enters into derivative instruments, from time to time, to manage its exposure to changes in interest rates on a percentage of its long-term variable rate debt. On December 14, 2016, the Company entered into an interest rate swap, pay fixed - receive floating, with a constant notional amount of \$17.5 million. The fixed swap rate we pay is 1.965%, plus an applicable margin. The variable rate we receive is one-month LIBOR, plus an applicable margin. The term of the interest rate swap is 5 years. The Company does not apply hedge accounting treatment to this derivative, therefore, changes in fair value of the instrument are recognized in Other income (expense), net. During the three quarters ended June 7, 2017 the changes in the interest rate swap fair value resulted in an expense of approximately \$221 thousand.

The Company does not hold or use derivative instruments for trading purposes.

Note 5. 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 assets 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.

Recurring fair value measurements related to liabilities are presented below:

	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)	Valuation Method
June 7, 2017				
Recurring Fair Value - Liabilities	(In thousands)			

Continuing Operations:

TSR Performance Based Incentive Plan ⁽¹⁾	\$ 464	\$ —	\$ 464	\$	—	Monte Carlo Simulation
Derivative - Interest Rate Swap ⁽²⁾	221	—	221	—	—	Discounted Cash Flow
Total liabilities at Fair Value	\$ 685	\$ —	\$ 685	\$	—	

(1) The fair value of the Company's 2015, 2016, and 2017 Performance Based Incentive Plan liabilities were approximately \$117 thousand, \$270 thousand, and \$77 thousand, respectively, and is recorded in Other liabilities on the Company's Consolidated Balance Sheet. See Note 11 to the Company's consolidated financial statements in this Form 10-Q for further discussion of Performance Based Incentive Plan.

(2) The fair value of the interest rate swap is recorded in Other liabilities on the Company's Consolidated Balance Sheet.

	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)	Valuation Method
Recurring Fair Value - Liabilities						
Continuing Operations:						
TSR Performance Based Incentive Plan	\$ 352	\$ —	\$ 352			— Monte Carlo Simulation

(1) The fair value of the Company's 2015 and 2016 Performance Based Incentive Plan liabilities were approximately \$250 thousand and \$102 thousand, respectively, and is recorded in Other liabilities on the Company's Consolidated Balance Sheet.

Non-recurring fair value measurements related to impaired property held for sale, goodwill, and property and equipment consisted of the following:

	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 ⁽⁴⁾
Nonrecurring Fair Value Measurements						
Continuing Operations						
Property held for sale ⁽¹⁾	\$3,626	\$—	\$3,626			\$ (735)
Goodwill ⁽²⁾	—	—	—			(537)
Property and equipment related to company-owned restaurants ⁽³⁾	1,410	—	1,410			(5,476)
Total Nonrecurring Fair Value Measurements	\$5,036	\$—	\$5,036			\$ (6,748)

(1) In accordance with Subtopic 360-10, long-lived assets held for sale with a carrying value of approximately \$5.5 million were written down to their fair value, less approximately \$1.2 million proceeds on sales and costs to sell, of approximately \$3.6 million, resulting in an impairment charge of approximately \$0.7 million.

(2) In accordance with Subtopic 350-20, goodwill with a carrying value of approximately \$537 thousand was written down to zero, resulting in an impairment charge of approximately \$537 thousand. See Note 7 and Note 8 to the Company's consolidated financial statements in this Form 10-Q for further discussion of goodwill.

(3) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of approximately \$6.9 million were written down to their fair value of approximately \$1.4 million, resulting in an impairment charge of

approximately \$5.5 million.

(4) Total impairments are included in Provision for asset impairments and restaurant closings in the Company's Consolidated Statement of Operations for the three quarters ended June 7, 2017.

