

LUBYS INC  
Form 10-Q  
June 12, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended May 6, 2009

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.**

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

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

**74-1335253**  
*(IRS Employer  
Identification Number)*

**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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of June 4, 2009, there were 27,982,316 shares of the registrant's common stock outstanding.

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Luby's, Inc.

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Quarter ended May 6, 2009

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

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

	<b>May 6, 2009</b>	<b>August 27, 2008</b>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,395	\$ 4,566
Trade accounts and other receivables, net	3,192	3,368
Food and supply inventories	3,253	3,048
Prepaid expenses	1,345	1,627
Deferred income taxes	2,408	1,580
Total current assets	12,593	14,189
Property and equipment, net	193,211	198,118
Long-term investments	7,206	8,525
Property held for sale	5,199	5,282
Other assets	343	407
Total assets	\$ 218,552	\$ 226,521
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 10,807	\$ 14,268
Accrued expenses and other liabilities	14,829	17,712
Total current liabilities	25,636	31,980
Credit facility debt	2,000	
Deferred rent	2,815	2,985
Other liabilities	2,150	3,607
Total liabilities	32,601	38,572
Commitments and Contingencies		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.32 par value; 100,000,000 shares authorized; Shares issued were 28,482,316 and 28,439,214, respectively; Shares outstanding were 27,982,316 and 27,939,214, respectively	9,114	9,101
Paid-in capital	21,493	20,405
Retained earnings	160,119	163,218
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders' equity	185,951	187,949
Total liabilities and shareholders' equity	\$ 218,552	\$ 226,521

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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)*

	<b>Quarter Ended</b>		<b>Three Quarters Ended</b>	
	<b>May 6, 2009</b>	<b>May 7, 2008</b>	<b>May 6, 2009</b>	<b>May 7, 2008</b>
	<i>(12 weeks)</i>	<i>(12 weeks)</i>	<i>(36 weeks)</i>	<i>(36 weeks)</i>
<b>SALES:</b>				
Restaurant sales	\$ 66,030	\$ 72,753	\$ 199,645	\$ 215,360
Culinary contract services	2,968	1,843	9,001	5,239
<b>TOTAL SALES</b>	<b>68,998</b>	<b>74,596</b>	<b>208,646</b>	<b>220,599</b>
<b>COSTS AND EXPENSES:</b>				
Cost of food	18,022	19,965	55,152	59,560
Payroll and related costs	24,132	25,322	72,731	74,256
Other operating expenses	14,930	17,125	45,753	48,458
Opening costs	292	190	785	212
Cost of culinary contract services	2,866	1,582	8,207	4,660
Depreciation and amortization	4,347	4,088	13,051	12,058
General and administrative expenses	5,955	5,711	17,703	18,568
Provision for asset impairments, net			233	717
Net (gain) loss on disposition of property and equipment	(388)	114	(533)	209
<b>Total costs and expenses</b>	<b>70,156</b>	<b>74,097</b>	<b>213,082</b>	<b>218,698</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(1,158)</b>	<b>499</b>	<b>(4,436)</b>	<b>1,901</b>
Interest income	22	231	181	904
Interest expense	(66)	(58)	(208)	(158)
Impairment charge for decrease in fair value of investments	(664)		(794)	
Interest income related to income taxes				1,319
Other income, net	263	308	754	720
<b>Income (loss) before income taxes and discontinued operations</b>	<b>(1,603)</b>	<b>980</b>	<b>(4,503)</b>	<b>4,686</b>
Benefit for income taxes	(599)	(27)	(1,552)	(1,435)
<b>Income (loss) from continuing operations</b>	<b>(1,004)</b>	<b>1,007</b>	<b>(2,951)</b>	<b>6,121</b>
Loss from discontinued operations, net of income taxes	(49)	(58)	(148)	(116)
<b>NET INCOME (LOSS)</b>	<b>\$ (1,053)</b>	<b>\$ 949</b>	<b>\$ (3,099)</b>	<b>\$ 6,005</b>
<b>Income (loss) per share from continuing operations:</b>				
Basic	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.22
Assuming dilution	(0.04)	0.03	(0.11)	0.21
<b>Loss per share from discontinued operations:</b>				
Basic	\$	\$	\$	\$
Assuming dilution				
<b>Net income (loss) per share:</b>				
Basic	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.22
Assuming dilution	(0.04)	0.03	(0.11)	0.21

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Weighted average shares outstanding:

Basic	27,976	27,925	27,961	27,739
Assuming dilution	27,976	28,042	27,961	28,074

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				Paid-In Capital	Retained Earnings	Total Shareholders Equity
	Issued Shares	Amount	Treasury Shares	Amount			
BALANCE AT AUGUST 27, 2008	28,439	\$ 9,101	(500)	\$ (4,775)	\$ 20,405	\$ 163,218	\$ 187,949
Net loss						(3,099)	(3,099)
Common stock issued under nonemployee director benefit plans	29	9			186		195
Share-based compensation expense	14	4			902		906
BALANCE AT MAY 6, 2009	28,482	\$ 9,114	(500)	\$ (4,775)	\$ 21,493	\$ 160,119	\$ 185,951

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



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

	<b>Three Quarters Ended</b>	
	<b>May 6, 2009</b>	<b>May 7, 2008</b>
	<i>(36 weeks)</i>	<i>(36 weeks)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (3,099)	\$ 6,005
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for asset impairments, net of gains and losses on property sales	(859)	926
Depreciation and amortization	13,051	12,058
Impairment charge for decrease in fair value of investments	794	
Amortization of debt issuance cost	60	61
Non-cash compensation expense	195	169
Share-based compensation expense	906	864
Interest related to income taxes		(1,319)
Deferred tax provision (benefit)	(1,816)	1,400
Cash provided by operating activities before changes in operating assets and liabilities	9,232	20,164
Changes in operating assets and liabilities:		
Decrease in trade accounts and other receivables, net	176	162
Increase in food and supply inventories	(205)	(313)
Decrease in prepaid expenses and other assets	286	613
Decrease in accounts payable, accrued expenses and other liabilities	(6,094)	(3,833)
Net cash provided by operating activities	3,395	16,793
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from redemption or maturity of short-term investments		19,600
Purchases of short-term investments		(25,650)
Proceeds from redemption or maturity of long-term investments	525	
Proceeds from disposal of assets and property held for sale	2,244	2,353
Purchases of property and equipment	(10,335)	(25,350)
Net cash used in investing activities	(7,566)	(29,047)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Credit facility borrowings	14,000	
Credit facility repayments	(12,000)	
Purchase of treasury stock		(4,775)
Proceeds received on the exercise of stock options		11,243
Net cash provided by financing activities	2,000	6,468
Net decrease in cash and cash equivalents	(2,171)	(5,786)
Cash and cash equivalents at beginning of period	4,566	17,514

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Cash and cash equivalents at end of period	\$ 2,395	\$ 11,728
Cash paid for:		
Income taxes	\$	\$ 1,602
Interest	135	87

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)**

May 6, 2009

**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 accruals) considered necessary for a fair presentation have been included. Operating results for the period ended May 6, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending August 26, 2009.

The balance sheet dated August 27, 2008, included in this Form 10-Q, has been derived from the audited 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 consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended August 27, 2008.

Certain accounts and prior period results have been reclassified to provide more meaningful comparability to the Company s current presentation.

**Note 2. Hurricane Ike**

Hurricane Ike struck southeast Texas in September 2008 causing massive power outages and inflicting wide-spread damage in the greater Houston area. Over 40 Luby s locations in the Houston area were closed over varying lengths of time due to the storm. Restaurant sales were negatively impacted by approximately 273 days in the aggregate when some locations were unable to open due to storm damage or loss of power. The Company estimates approximately \$1.5 million in lost sales from these store closures, partially offset by post hurricane sales. During the three quarters ended May 6, 2009, the Company incurred direct costs of \$1.3 million for damages, auxiliary power, food loss and other miscellaneous costs. The Company continues to seek to recover a portion of lost profits, property damages, and some expenses incurred through insurance claims.

The Company received insurance proceeds of approximately \$0.6 million related to a hurricane property damage claim arising due to the hurricane which were recognized in income in the third quarter ended May 6, 2009.

**Note 3. Fair Value Measurement**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement No. 157, *Fair Value Measurements* ( FAS 157 ), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosure about fair value measurements. FAS 157 applies whenever other statements require or permit asset or liabilities to be measured at fair value. The Company adopted the provisions of FAS 157 at the beginning of the first quarter of fiscal year 2009.

FAS 157 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.

As of May 6, 2009, the Company held auction rate securities, which are classified as available-for-sale investments under long-term investments on the balance sheet and are required to be measured at fair value on a recurring basis. As discussed in Note 5 below, the continued illiquidity in the auction rate market has affected the fair market value of the Company's auction rate securities because the auctions continue to fail.

Therefore, in the absence of an active market, the Company estimated the fair value of these investments using price submissions from traders specializing in the securities. These traders considered, among other things, the collateralization underlying the security, the creditworthiness of the counterparty, the timing of the expected future cash flows, the interest rate of the Company's investments compared to similar investments, the current illiquidity of the investments, and the estimated next successful auction of the security.

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Although management currently has the intent and believes it has the ability to hold the Company's auction rate securities until maturity or until the securities can be sold for par value, there is significant uncertainty in the long-term. The market for the Company's auction rate securities has not been liquid for an extended time and the credit risk of the security issuers and related insurers is uncertain. Therefore, the Company considers the impairment of its auction rate securities to be other-than-temporary.

As a result of the other-than-temporary decline in the fair value of the Company's auction rate securities investments, the Company recorded a realized holding loss of approximately \$0.8 million during the fourth quarter of fiscal year 2008 and \$0.8 million during the three quarters ended May 6, 2009. Any recoveries of previous recognized losses will not be recorded until the security is sold. Any future decrease in fair value related to these investments will increase the Company's realized loss in these securities.

The assets measured at fair value on a recurring basis subject to the disclosure requirements of FAS 157 were as follows:

	Fair Value Measurement at May 6, 2009 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) <i>(In thousands)</i>	Significant Unobservable Inputs (Level 3)
<b>Auction rate securities investments:</b>			
Balance at August 27, 2008	\$	\$	\$ 8,525
Sale of long-term investments			(525)
Total gains or losses (realized and unrealized):			
Included in net income (loss)			(794)
Balance at May 6, 2009	\$	\$	\$ 7,206

**Note 4. 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 5. Investments****Short-term Investments**

Short-term investments include two types of securities: held-to-maturity and available-for-sale. Securities held-to-maturity are reported at amortized cost. Available-for-sale securities are reported at fair value with unrealized gains and losses excluded from earnings and reported in shareholders' equity unless such losses are considered other-than-temporary. At May 6, 2009 and August 27, 2008, the Company held no securities as short-term investments.

**Long-term Investments**

At May 6, 2009, the Company held \$8.8 million, par value (\$7.2 million, fair value), of auction rate municipal bonds as long-term investments. The auction rate municipal securities are long-term debt obligations that are secured by certain revenue streams (sewer, hospital, etc.). These auction rate securities have insurance policies guaranteeing the payment of principal and accrued interest, as scheduled, on each of the bonds if the issuer is unable to service the debt. These securities have been issued ratings ranging from A2 Aa3 (Moody's) and A AAA (Standard and Poor's). The bonds have experienced this disparity in credit ratings because of the insurance company's revised credit ratings issued by Moody's.

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and Standard and Poor's. If these securities continue to fail at auction, interest income will continue to accrue at a designated benchmark rate plus a premium; otherwise, they will be sold. At each of the resets between February 12, 2008 and May 6, 2009, the Company received all accrued interest due.

Although the Company intends to hold the investments until liquidity returns to the auction rate securities market or the bonds are called or refunded by the issuer or other types of remedy, the Company has recorded these available-for-sale securities as long-term investments and recorded a realized loss as other-than-temporary impairment in the consolidated statement of operations because a majority of auction sell orders have failed. The length of time required for liquidity to return to the market by normal or other means is uncertain.

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As of the date of this report, there continues to be a lack of active markets for the Company's auction rate securities. Therefore, the Company continues to estimate the fair value using price submissions from traders specializing in these securities. Based on the price submissions and on the possible long-term illiquidity of the markets, adjustments to fair value were recorded in the fourth quarter of fiscal year 2008 and the quarters ended February 11, 2009 and May 6, 2009 based on the continued illiquidity of the auction rate securities market and an assessment of the securities. The Company has recorded charges to earnings totaling \$1.6 million on the \$8.8 million par value portfolio of auction rate securities in accordance with FAS 157. During fiscal year 2009, \$0.5 million of auction rate municipal bonds have been called at their par value by the issuer, with no gain or loss recognized related to this transaction.

These municipal bonds have underlying maturity dates ranging from June 1, 2019 through February 1, 2042; and had taxable equivalent yield rates ranging from 0.76% to 1.81% during the quarter ended May 6, 2009. Historically, the auction process allowed investors to obtain immediate liquidity by selling the securities at their face amounts. Liquidity for these securities was historically provided by entering sell orders through a Dutch-auction process that resets interest rates on these securities every 7, 28 or 35 days. However, the disruptions in the credit markets have continued to adversely affect the auction market for these types of securities.

**Note 6. Income Taxes**

For the three quarters ended May 6, 2009, including both continuing and discontinued operations, the Company generated a gross taxable loss of approximately \$1.4 million. No cash payments of estimated income taxes were made during the three quarters ended May 6, 2009.

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 raises doubt about the realization of the deferred tax assets, a valuation allowance would be necessary. A valuation allowance for deferred tax assets may be required if recovery of prior taxes by carrying back current losses to prior years is not available, if the Company projects lower levels of future taxable income, or if the Company recently experienced consecutive pretax losses. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect the Company's reported operating results. Through the three quarters ended May 6, 2009, the Company did not record a charge to establish a valuation allowance against its deferred tax assets.

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 7. Property and Equipment**

The cost and accumulated depreciation of property and equipment at May 6, 2009 and August 27, 2008, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	May 6, 2009	August 27, 2008	Estimated Useful Lives
	<i>(In thousands)</i>		
Land	\$ 53,270	\$ 53,904	
Restaurant equipment and furnishings	118,471	120,426	3 to 15 years
Buildings	187,720	183,385	20 to 33 years
Leasehold and leasehold improvements	23,267	20,923	Lesser of lease term or estimated useful life
Office furniture and equipment	6,247	6,029	3 to 10 years
Construction in progress	1,241	880	
	390,216	385,547	
Less accumulated depreciation and amortization	(197,005)	(187,429)	
Property and equipment, net	\$ 193,211	\$ 198,118	





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**Note 8. Impairment of Long-Lived Assets and Property Held for Sale**

***Impairment of Long-Lived Assets and Store Closings***

The Company periodically evaluates long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company estimates future cash flows expected to result from the use and possible disposition of the asset and will recognize an impairment loss when the sum of the undiscounted estimated future cash flows is less than the carrying amounts of such assets. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. The span of time for which future cash flows are estimated is often lengthy, which increases the sensitivity to assumptions made. 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 either discounted cash flows, appraisals or the estimated net proceeds upon sale. With respect to continuing operations, write-downs associated with these impairment analyses, as well as actual exit costs incurred for store closings are reflected in the Consolidated Statements of Operations in Provision for asset impairments, net .

***Property Held for Sale***

Property held for sale consists of already-closed restaurant properties and are valued at the lower of net depreciable value or net realizable value.

At August 27, 2008, the Company had a total of six owned properties and three ground leases recorded at approximately \$5.3 million in property held for sale.

In the first quarter of fiscal year 2009, one owned property was sold and removed from property held for sale. Also, in the first quarter of fiscal year 2009, one owned property and one ground lease property were closed and classified as property held for sale.

In the second quarter of fiscal year 2009, impairment charges totaling approximately \$0.2 million reduced the net realizable value of the remaining properties held for sale.

In the third quarter of fiscal year 2009, one owned property was sold for \$0.9 million, the property's approximate net book value after impairment, and was removed from property held for sale.

At May 6, 2009, the Company had five owned properties and four ground leases recorded at approximately \$5.2 million in property held for sale. The Company is actively marketing the locations currently classified as property held for sale.

The Company's results of discontinued operations will be affected by the disposal of two of the nine properties held for sale to the extent proceeds from the sales exceed or are less than net book value.

**Note 9. Commitments and Contingencies**

***Off-Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements.

***Pending Claims***

Certain current and former hourly restaurant employees filed a lawsuit against the Company in the U.S. District Court for the Southern District of Texas alleging violations of the Fair Labor Standards Act with respect to the inclusion of certain employees in a tip pool. The lawsuit seeks penalties and attorney's fees and was conditionally certified as a collective action in October 2008. The Company intends to vigorously defend its position. It is not possible at this time to reasonably estimate the possible loss or range of loss, if any.

From time to time, the Company is subject to various other private lawsuits, administrative proceedings and claims that arise in the ordinary course of its business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employees and others related to issues common to the restaurant industry. We currently believe that the final disposition of these types of lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances

relating to lawsuits, proceedings or claims.

***Construction Activity***

From time to time, the Company enters into non-cancelable contracts for the construction of its new restaurants. This construction activity exposes the Company to the risks inherent in new construction including but not limited to rising material prices, labor shortages, delays in getting required permits and inspections, adverse weather conditions and injuries sustained by workers. During the three quarters ended May 6, 2009, the Company paid \$0.2 million to terminate a construction contract.

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**Note 10. Related Parties**

*Affiliate Services*

The Company's Chief Executive Officer, Christopher J. Pappas, and Chief Operating Officer, Harris J. Pappas, own two restaurant entities (the Pappas entities) that may provide services to the Company and its subsidiaries, as detailed in the Master Sales Agreement dated December 9, 2005 among the Company and the Pappas entities.

Under the terms of the Master Sales Agreement, the Pappas entities may provide specialized (customized) equipment fabrication and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. The total costs under the Master Sales Agreement of custom-fabricated and refurbished equipment in the three quarters ended May 6, 2009 and May 7, 2008 were \$0.3 million and \$0.4 million, respectively. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee.

*Operating Leases*

The Company previously leased from the Pappas entities property that was used to accommodate the Company's in-house repair and fabrication center, and which was referred to as the Houston Service Center. The Company terminated this lease in August 2008. The Company paid zero and \$34,000 pursuant to the terms of this lease in the three quarters ended May 6, 2009 and May 7, 2008, respectively. The Company leases from an unrelated third party a new property that combines both the offices of the Company's Facility Services and Warehouse Operations. The property is approximately 60,000 square feet.

The Company also previously leased from the Pappas entities approximately 27,000 square feet of warehouse space to complement the Houston Service Center, at a monthly rate of approximately \$0.21 per square foot. The Company paid zero and \$27,800 pursuant to the terms of this lease in the three quarters ended May 6, 2009 and May 7, 2008, respectively. On February 29, 2008, the Company terminated this lease.

In the third quarter of fiscal year 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited partnership interest and a 50% general partnership interest in the limited partnership. A third party company manages the center. One of the Company's restaurants has rented approximately 7% of the space in that center since July 1969. No changes were made to the Company's lease terms as a result of the transfer of ownership of the center to the new partnership. The Company made payments of \$0.2 million and \$0.2 million in the three quarters ended May 6, 2009 and May 7, 2008, respectively, under the lease agreement that currently includes an annual base rate of \$14.64 per square foot.

On November 22, 2006, the Company executed a new lease agreement with respect to this shopping center. Effective upon the Company's relocation and occupancy into the new space in July 2008, the new lease agreement provides for a primary term of approximately twelve years with two subsequent five-year options and gives the landlord an option to buy out the tenant on or after the calendar year 2015 by paying the then unamortized cost of improvements to the tenant. The Company owed, under the lease, \$16.65 per square foot plus maintenance, taxes, and insurance for the calendar year 2008. For calendar year 2009 the Company will pay \$20.00 per square foot plus maintenance, taxes and insurance. Thereafter, the lease provides for reasonable increases in rent at set intervals. The new lease agreement was approved by the Finance and Audit Committee.

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Affiliated rents paid for the Houston Service Center, the separate storage facility and the Houston property leases combined represented 5.9% and 7.2% of total rents for continuing operations for the three quarters ended May 6, 2009 and May 7, 2008, respectively.

	<b>Three Quarters Ended</b>	
	<b>May 6, 2009 (36 weeks)</b>	<b>May 7, 2008 (36 weeks)</b>
	<i>(In thousands, except percentages)</i>	
<b>AFFILIATED COSTS INCURRED:</b>		
General and administrative expenses – professional and other costs	\$ 101	\$ 114
Capital expenditures – custom-fabricated and refurbished equipment and furnishings	312	405
Other operating expenses and opening costs, including property leases	141	286
<b>Total</b>	<b>\$ 554</b>	<b>\$ 805</b>
<b>RELATIVE TOTAL COMPANY COSTS:</b>		
General and administrative expenses	\$ 17,703	\$ 18,568
Capital expenditures	10,335	25,350
Other operating expenses and opening costs	46,538	48,670
<b>Total</b>	<b>\$ 74,576</b>	<b>\$ 92,588</b>
<b>AFFILIATED COSTS INCURRED AS A PERCENTAGE OF</b>		
<b>RELATIVE TOTAL COMPANY COSTS</b>		
Fiscal year to date	0.74%	0.87%

**Board of Directors**

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

As amended in June 2004, the Purchase Agreement allows Messrs. Pappas to continue to nominate persons for election to the board, which, if such nominees are elected, would result in Messrs. Pappas having nominated three of the then-serving directors of the Company. Messrs. Pappas retain their right for so long as they both are executive officers of the Company.

Christopher J. Pappas is a member of the advisory board of Amegy Bank, National Association, which is a lender and syndication agent under the Company's 2007 Revolving Credit Facility.

**Key Management Personnel**

In November 2005, Christopher and Harris Pappas entered into new employment agreements that were subsequently amended in November 2008 to extend the termination date thereof to August 2010. Both continue to devote their primary time and business efforts to the Company while maintaining their roles at Pappas Restaurants, Inc.

On April 20, 2009, the Board of Directors of the Company approved the renewal of a consultant agreement with Ernest Pekmezaris, the Company's former Chief Financial Officer. Under the agreement, Mr. Pekmezaris will continue to furnish to the Company advisory and consulting services related to finance and accounting matters and other related consulting services. The agreement expires on January 31, 2010. Mr. Pekmezaris is also the Treasurer of Pappas Restaurants, Inc. Compensation for the services provided by Mr. Pekmezaris to Pappas Restaurants, Inc. is paid entirely by that entity.

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Peter Tropoli, Senior Vice President, Administration, General Counsel and Secretary of the Company, is an attorney who, in the past, has provided litigation services to entities controlled by Christopher J. Pappas and Harris J. Pappas. Mr. Tropoli is the stepson of Frank Markantonis, who is a director of the Company.

Paulette Gerukos, Vice President of Human Resources of the Company, is the sister-in-law of Harris J. Pappas, the Chief Operating Officer.

**Table of Contents****Note 11. Share-Based Compensation****Stock Options**

The Company has an Incentive Stock Plan for officers and employees together ( Employee Stock Plans ) and a Non-employee Director Stock Option Plan for non-employee directors. These plans authorize the granting of stock options, restricted stock and other types of awards consistent with the purpose of the plans. The number of shares authorized for issuance under the Company's plans as of May 6, 2009 totals approximately 2.8 million, of which approximately 1.3 million shares are available for future issuance. Stock options granted under the Incentive Stock Plan and the Non-employee Director Stock Option Plan have an exercise price equal to the market price of the Company's common stock at the date of grant. Option awards under the Employee Stock Plans generally vest 25% each year on the anniversary of the grant date and expire six to ten years from the grant date. Option awards under the Non-employee Director Stock Option Plan generally vest 100% on the first anniversary of the grant date and expire ten years from the grant date.

A summary of the Company's stock option activity for the three quarters ended May 6, 2009 is presented below:

	Shares Under Fixed Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at August 27, 2008	689,254	\$ 10.73	3.90	\$ 145
Granted	363,010	5.27		
Exercised				
Forfeited or Expired	(18,701)	13.59		
Outstanding at May 6, 2009	1,033,563	8.76	4.89	52
Exercisable at May 6, 2009	404,811	\$ 10.46	3.24	\$ 52

**Restricted Stock**

Restricted stock grants consist of the Company's common stock and generally vest after three years, with the exception of grants under the Nonemployee Director Stock Option Plan, which vest when granted because they are granted in lieu of a cash payment. All restricted stock grants are cliff-vested. Restricted stock awards are valued at the average market price of the Company's common stock at the date of grant.

A summary of the Company's restricted stock activity during the three quarters ended May 6, 2009 is presented in the following table:

	Restricted Stock Units	Fair Value (Per share)	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Grant Date
Unvested at August 27, 2008	95,190	\$ 10.04	1.79	6/11/07
Granted	29,152	5.42		1/9/09
Vested	(43,092)	7.65		1/5/08
Unvested at May 6, 2009	81,250	\$ 9.64	1.37	9/16/07

**Table of Contents****Note 12. 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 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 restricted stock, phantom stock, and stock options determined using the treasury stock method. Stock options with exercise prices exceeding current market prices that were excluded from the computation of net income per share amounted to approximately 868,000 shares and 627,000 shares for the three quarters ended May 6, 2009 and May 7, 2008, respectively.

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

	Quarter Ended		Three Quarters Ended	
	May 6, 2009 (12 weeks)	May 7, 2008 (12 weeks)	May 6, 2009 (36 weeks)	May 7, 2008 (36 weeks)
<i>(In thousands except share data)</i>				
<b>Numerator:</b>				
Income (loss) from continuing operations	\$ (1,004)	\$ 1,007	\$ (2,951)	\$ 6,121
Net income (loss)	\$ (1,053)	\$ 949	\$ (3,099)	\$ 6,005
<b>Denominator:</b>				
Denominator for basic earnings per share weighted-average shares	27,976	27,925	27,961	27,739
Effect of potentially dilutive securities:				
Employee and non-employee stock options				235
Phantom stock		30		30
Restricted stock		87		70
Denominator for earnings per share assuming dilution	27,976	28,042	27,961	28,074
<b>Income (loss) per share from continuing operations:</b>				
Basic	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.22
Assuming dilution	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.21
<b>Net income (loss) per share:</b>				
Basic	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.22
Assuming dilution	\$ (0.04)	\$ 0.03	\$ (0.11)	\$ 0.21

**Note 13. New Accounting Pronouncements**

On August 28, 2008, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements, which defines fair value, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including amendments of SFAS No. 115, which permits entities to choose to measure many financial instruments and certain other items at fair value and provides guidance for recognition and presentation of other-than-temporary impairments. The impact of FAS 157 is reflected on the Company's consolidated financial statements for the first quarter of fiscal year 2009; however, the Company has not elected the fair value option for any of its financial assets or liabilities under FAS 159.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until August 27, 2009. The Company has not yet determined the impact, if any, that the implementation of SFAS 157-2, for non-financial assets and liabilities, will have on its consolidated financial statements.

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In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*, ( FSP FAS No. 157-4 ). FSP FAS No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 and includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for reporting periods ending after June 15, 2009. The Company has not yet determined the impact, if any, that the implementation of FSP FAS No. 157-4 will have on its consolidated financial statements.



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In April 2009, the FASB issued FSP FAS No.107-1 and Accounting Principles Board ( APB ) No. 28- 1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP FAS No. 107-1 and APB No. 28-1 ). FSP FAS No. 107-1 and APB No. 28-1 amends SFAS No. 107,

*Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for annual and interim reporting periods of publicly traded companies and amends APB No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 and APB No. 28-1 are effective in reporting periods ending after June 15, 2009. The Company has not yet determined the impact, if any, that the implementation of FSP FAS No. 107-1 will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ( SFAS 141(R) ), which replaces SFAS 141. SFAS 141(R) requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair values as of the date of acquisition. SFAS 141(R) also requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and will be effective for business combinations entered into during fiscal year 2010.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of equity. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not currently have any minority interests.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS 161 ). SFAS 161 requires entities to provide enhanced disclosures about derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not currently have any derivative instruments or hedging activities.

In June 2008, the FASB issued FASB Staff Position ( FSP ) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share*. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is assessing the potential impact of this FSP on its earnings per share calculation.

In May 2009, the FASB issued FSP FAS No.165, *Subsequent Events*, ( FSP FAS No. 165 ). FSP FAS No. 165 introduces the concept of financial statements being available to be issued and requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. FSP FAS 165 is effective for reporting periods ending after June 15, 2009. The Company has not yet determined the impact, if any, that the implementation of FSP FAS No. 165 will have on its consolidated financial statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and footnotes for the period ended May 6, 2009 included in Item 1 of Part I of this Quarterly Report on Form 10-Q, and the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended August 27, 2008.

**Overview**

As of May 6, 2009, we operated 121 restaurants, of which 119 are traditional cafeterias and two primarily serve seafood. These establishments are located in close proximity to retail centers, business developments and residential areas in four states. Of the 121 restaurants, 89 are located on property that we own and 32 are on leased premises.

**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

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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.

**Table of Contents*****Same-Store Sales***

The restaurant business is highly competitive with respect to food quality, concept, location, price, and service, all of which may have an effect on same-store sales. Our same-store sales calculation measures the relative performance of a certain group of restaurants. To qualify for inclusion in this group, a store must have been in operation for 18 consecutive accounting periods. Stores that close on a permanent basis are removed from the group in the fiscal quarter when operations cease at the restaurant, but remain in the same-store group for previously reported fiscal quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies.

***Hurricane Ike***

Hurricane Ike struck southeast Texas in September 2008 causing massive power outages and inflicting wide-spread damage in the greater Houston area. Over 40 Luby's locations in the Houston area were closed over varying lengths of time due to the storm. Restaurant sales were negatively impacted by approximately 273 days in the aggregate when some of our locations were unable to open due to storm damage or loss of power. We estimate approximately \$1.5 million in lost sales from these store closures which were partially offset by post-hurricane sales. During the three quarters ended May 6, 2009, we incurred direct costs of \$1.3 million for damages, auxiliary power, food loss and other miscellaneous costs. We continue to seek to recover a portion of lost profits, property damages, and some expenses incurred through insurance claims.

In March 2009, we received insurance proceeds of approximately \$0.6 million related to a hurricane property damage claim. These proceeds were recognized in income in the third quarter.

**RESULTS OF OPERATIONS*****For the Third Quarter and Year-to-Date Fiscal Year 2009 versus the Third Quarter and Year-to-Date Fiscal Year 2008******Sales***

Total sales decreased approximately \$5.6 million, or 7.5%, in the quarter ended May 6, 2009, compared to the quarter ended May 7, 2008, consisting of a \$6.7 million decrease in restaurant sales and a \$1.1 million increase in culinary contract services revenue due to increases in the number of facilities operated. The \$6.7 million decline in restaurant sales included a \$1.5 million reduction in sales related to closed operations partially offset by new restaurant sales. On a same-store basis, sales decreased approximately \$6.3 million, or 8.9%, due primarily to declines in guest traffic partially offset by higher menu prices. Adjusting for the favorable impact of the timing of Lent in the quarter ended May 6, 2009, we estimate same store sales were down 9.4%. One restaurant was opened during the quarter ended May 6, 2009. One restaurant was opened during the quarter ended May 7, 2008.

Total sales decreased approximately \$12.0 million, or 5.4%, in the three quarters ended May 6, 2009, compared to the three quarters ended May 7, 2008, consisting of a \$15.7 million decrease in restaurant sales and a \$3.8 million increase in culinary contract services revenue due to increases in the number of facilities operated. The \$15.7 million decline in restaurant sales included a \$6.9 million reduction in sales related to closed operations partially offset by new restaurant sales. On a same-store basis, sales decreased approximately \$13.0 million, or 6.3%, due primarily to declines in guest traffic partially offset by higher menu prices. Excluding the lost sales from Hurricane Ike, we estimate same-store sales were down 6.1%. Sales from stores open fewer than 18 periods, and therefore not included in our same-store sales measure, contributed \$4.2 million more to restaurant sales for the three quarters ended May 6, 2009 than the three quarters ended May 7, 2008. We closed three restaurants during the three quarters ended May 6, 2009 and six restaurants during the three quarters ended May 7, 2008. We opened one restaurant during the three quarters ended May 6, 2009 and one restaurant during the three quarters ended May 7, 2008.

***Cost of Food***

Food costs decreased approximately \$1.9 million, or 9.7%, in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008 due to lower sales volumes and lower commodity costs. As a percentage of restaurant sales, food costs decreased 0.1%, to 27.3%, in the quarter ended May 6, 2009 compared to 27.4% in the quarter ended May 7, 2008, primarily due to lower commodity prices and higher average menu prices.

Food costs decreased approximately \$4.4 million, or 7.4%, in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008, due to lower sales volumes and lower commodity costs. As a percentage of restaurant sales, food costs decreased 0.1%, to 27.6% in the three quarters ended May 6, 2009 compared to 27.7% in the three quarters ended May 7, 2008, primarily due to lower commodity prices and higher average menu prices.



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**Table of Contents*****Payroll and Related Costs***

Payroll and related costs decreased approximately \$1.2 million in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008. Payroll and related expenses decreased primarily due to lower crew overtime and lower management costs offset by higher average wages paid to our crew employees. As a percentage of restaurant sales, these costs increased 1.7%, to 36.5%, in the quarter ended May 6, 2009 compared to 34.8% in the quarter ended May 7, 2008, due to reduced restaurant sales.

Payroll and related costs decreased approximately \$1.5 million in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008, due primarily to lower use of crew overtime and lower management costs offset by higher average wages paid to our crew employees and higher workers' compensation expense. As a percentage of restaurant sales, payroll and related costs increased 1.9%, to 36.4%, in the three quarters ended May 6, 2009 compared to 34.5% in the three quarters ended May 7, 2008, primarily due to reduced restaurant sales. The change in the workers' compensation expense, as a percentage of restaurant sales, increased payroll and related costs by approximately 0.4% in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008.

***Other Operating Expenses***

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services, supplies and occupancy costs. Other operating expenses decreased by approximately \$2.2 million, or 12.8%, in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008. Other operating expenses decreased primarily due to 1) an approximate \$0.7 million reduction in repairs and maintenance expense related to improvements in cost controls, 2) an approximate \$0.8 million net decrease in restaurant supplies, services and other operating expenses on reduced restaurant sales, and 3) an approximate \$0.7 million reduction in utility expense. As a percentage of restaurant sales, other operating expenses decreased 0.9%, to 22.6%, in the quarter ended May 6, 2009 compared to 23.5% in the quarter ended May 7, 2008.

Other operating expenses decreased by approximately \$2.7 million, or 5.6%, in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008. Other operating expenses decreased primarily due to 1) an approximate \$1.9 million reduction in repairs and maintenance expense related to cost control and preventative maintenance efforts, 2) an approximate \$1.1 million reduction in supplies and services expense on reduced restaurant sales and reduced need for replacing restaurant supplies and 3) an approximate \$0.8 million reduction in utility expense. The decrease in other operating expenses was partially offset by \$1.3 million in Hurricane Ike-related expenses recognized in the three quarters ended May 6, 2009. As a percentage of restaurant sales, other operating expenses increased 0.4%, to 22.9%, in the three quarters ended May 6, 2009 compared to 22.5% in the three quarters ended May 7, 2008 due to lower sales revenue.

***Opening Costs***

Opening costs include labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were approximately \$0.3 million in the quarter ended May 6, 2009 compared to approximately \$0.2 million in the quarter ended May 7, 2008. The quarter ended May 6, 2009 included the costs incurred in preparation for a new restaurant opening in addition to the carrying costs of locations which are to be developed for future restaurant openings.

Opening costs were approximately \$0.8 million in the three quarters ended May 6, 2009 compared to approximately \$0.2 million in the three quarters ended May 7, 2008. Opening costs in the three quarters ended May 6, 2009 included the costs incurred in preparation for a new restaurant opening in addition to the carrying costs of locations which are to be developed for future restaurant openings.

***Cost of Culinary Contract Services***

Cost of culinary contract services increased by approximately \$1.3 million in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008. Cost of culinary contract services includes the food, labor, and other direct operating expenses associated with culinary contract services. Substantially all of these costs are reimbursable costs incurred within the contract terms. During the quarter ended May 6, 2009, culinary services operated thirteen facilities compared to nine for the quarter ended May 7, 2008.

Cost of culinary contract services increased by approximately \$3.5 million in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008. Cost of culinary contract services includes the food, labor, and other direct operating expenses associated with culinary contract services. Substantially all of these costs are reimbursable costs incurred within the contract terms. During the three quarters ended May 6, 2009, culinary services increased the number of operated facilities compared to the three quarters ended May 7, 2008. The increase was due to culinary contract services operating thirteen facilities as of May 6, 2009, compared to operating nine facilities as of May 7, 2008.



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

Depreciation and amortization expense increased by approximately \$0.3 million, or 6.4%, in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008 due to the higher depreciable asset base generated by increased capital expenditures in fiscal year 2008, including the opening of three restaurants and relocation of one unit in fiscal year 2008 as well as upgrades and remodels to existing units.

Depreciation and amortization expense increased by approximately \$1.0 million, or 8.2%, in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008 due to the higher depreciable asset base generated by increased capital expenditures in fiscal year 2008, including the opening of three restaurants and relocation of one unit in fiscal year 2008 as well as upgrades and remodels to existing units.

### ***General and Administrative Expenses***

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. General and administrative expenses increased by approximately \$0.2 million, or 4.3%, in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008. The increase was due to approximately \$0.3 million in professional fees primarily related to the defense of pending claims and \$0.1 million in severance payments partially offset by reductions in travel expenses of \$0.1 million and other smaller reductions in labor and supplies. As a percentage of total sales, general and administrative expenses increased to 8.6% in the quarter ended May 6, 2009 compared to 7.7% in the quarter ended May 7, 2008.

General and administrative expenses decreased by approximately \$0.9 million, or 4.7%, in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008. The decrease was mainly due to a reduction of approximately \$0.9 million in professional service fees primarily related to costs in the solicitation of proxies in connection with our 2008 annual meeting of shareholders, for the three quarters ended May 7, 2008, which were partially offset by costs incurred during the three quarters ended May 6, 2009 defending pending claims. As a percentage of total sales, general and administrative expenses increased to 8.5% in the three quarters ended May 6, 2009 compared to 8.4% in the three quarters ended May 7, 2008.

### ***Provision for Asset Impairments, net***

There were no impairments to restaurant assets during the quarter ended May 6, 2009 or May 7, 2008.

The provision for asset impairments, net decreased by approximately \$0.5 million in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008. The decrease is primarily related to impairment charges on properties held for sale recognized in the three quarters ended May 6, 2009 amounting to less than the impairment charges related to the closing of underperforming units recognized in the three quarters ended May 7, 2008.

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

The net gain on disposition of property and equipment was a gain of approximately \$0.4 million in the quarter ended May 6, 2009. The net gain reflects insurance proceeds of approximately \$0.6 million related to property damage associated with Hurricane Ike, which were received in March 2009 and recognized in the quarter ended May 6, 2009. The insurance proceeds were partially offset by normal asset retirement activity. The net loss (gain) on disposition of property and equipment was a net loss primarily due to asset retirement activity associated with restaurant remodels partially offset by the sale of one restaurant unit recognized during the quarter ended May 7, 2008.

The net gain on disposition of property and equipment was a net gain of approximately \$0.5 million in the three quarters ended May 6, 2009. The net gain in the three quarters ended May 6, 2009 reflects the gain on the sale of one closed restaurant property, partially offset by normal asset retirement activity. The net loss (gain) on disposition of property and equipment was a net loss of approximately \$0.2 million in the three quarters ended May 7, 2008. The net loss in the first three quarters ended May 7, 2008 reflects the disposal of property and equipment due in part to increased remodel activity, partially offset by the gain on the sale of one closed restaurant property.

### ***Interest Income***

Interest income decreased by approximately \$0.2 million in the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008, primarily related to lower cash and cash equivalents and lower interest rates.

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Interest income decreased by approximately \$0.7 million in the three quarters ended May 6, 2009 compared to the three quarters ended May 7, 2008, primarily related to lower cash and cash equivalents and lower interest rates.



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### ***Interest Expense***

Interest expense in the quarter and three quarters ended May 6, 2009 increased slightly compared to the interest expense in the quarter and three quarters ended May 7, 2008 due to borrowing under our revolving credit facility in the three quarters ended May 6, 2009.

### ***Impairment of Fair Market Value of Investment***

The provision for impairment charges for decreased fair value of investments increased by approximately \$0.7 million during the quarter ended May 6, 2009 compared to the quarter ended May 7, 2008. This impairment charge was recorded in the quarter ended May 6, 2009 due to the continued illiquidity of the auction rate securities markets. The reduction in fair value of the investments was derived through valuation and is considered other-than-temporary. See Liquidity and Capital Resources Status of Long-Term Investments and Liquidity below for additional information regarding these investments.

### ***Interest Related to Income Taxes***

The interest related to income taxes in the three quarters ended May 7, 2008 included the reversal of previously recognized interest expense associated with the settled tax audit contingencies and the interest portion of an income tax refund.

### ***Other Income, Net***

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; oil and gas royalty income; and de-recognition of gift certificate liability resulting from the expiration of state statutes of limitation on gift certificate amounts. Other income in the quarter ended May 6, 2009 decreased slightly compared to the quarter ended May 7, 2008.

Other income, net in the three quarters ended May 6, 2009 increased slightly compared to the three quarters ended May 7, 2008.

### ***Taxes***

The income tax benefit for the quarter ended May 6, 2009 increased \$0.6 million compared to the quarter ended May 7, 2008.

The income tax benefit for the three quarters ended May 6, 2009 primarily reflects the tax benefit recognized due to the net pre-tax loss from continuing operations at an effective tax rate of 34.3%.

The income tax benefit recorded for the three quarters ended May 7, 2008 reflects an effective tax rate of 29.8% of the results of continuing operations. The net tax benefit for the period included a \$2.8 million nonrecurring tax benefit partially offset by \$1.3 million in income tax expense. The income tax benefit of \$2.8 million included a reversal of tax accruals for contingencies that did not materialize following the completion of tax audits and an income tax refund receivable, partially offset by the reversal of unrealized deferred tax assets related to stock options.

### ***Discontinued Operations***

The loss from discontinued operations remained comparable in the three quarters ended May 6, 2009 to the three quarters ended May 7, 2008.

## **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. The current macro economic conditions have adversely affected our cash flows from operations. In this environment, we have taken steps to improve customer traffic and increase restaurant sales as well as reduce controllable costs. We have also reduced our discretionary capital expenditures, but will continue the level of capital and repair and maintenance expenditures necessary to keep our restaurants attractive and operating efficiently. In March 2009, we amended our revolving credit facility with our original two banking partners and believe the amended revolving credit facility will provide the needed capital resources to operate.

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Our cash requirements consist principally of:

capital expenditures for new store development and construction, restaurant renovations and upgrades and information technology; and

working capital primarily for Company owned restaurants and culinary contract service agreements.

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The continued decline in our cash flow from operations required us to utilize our credit facility; as of May 6, 2009, \$2.0 million was outstanding. Under the current terms of our amended revolving credit facility, capital expenditures and the amount of borrowings are limited based on our EBITDA, as defined in the agreement. Based upon our level of past and projected capital requirements, we expect that cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditures and working capital requirements during the next twelve months.

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

Cash and cash equivalents decreased to \$2.4 million from \$4.6 million at the beginning of the fiscal year. This decrease is primarily due to a decrease in cash provided by operating activities. We generally reinvest available cash flows from operations to develop new restaurants or enhance existing restaurants.

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

	<b>Three Quarters Ended</b>	
	<b>May 6, 2009</b>	<b>May 7, 2008</b>
	<i>(36 weeks)</i>	<i>(36 weeks)</i>
	<i>(In thousands)</i>	
Total cash provided by (used in):		
Operating activities	\$ 3,395	\$ 16,793
Investing activities	(7,566)	(29,047)
Financing activities	2,000	6,468
Increase (decrease) in cash and cash equivalents	\$ (2,171)	\$ (5,786)

**Operating Activities.** In the three quarters ended May 6, 2009, operating cash flow decreased \$13.4 million compared to the three quarters ended May 7, 2008, primarily due to a decline in restaurant sales and increased restaurant expenses and culinary contract services expenses.

**Investing Activities.** Cash flows used in investing activities were \$7.6 million in the three quarters ended May 6, 2009 compared to \$29.0 million in the three quarters ended May 7, 2008, primarily due to decreased purchases of short-term investments and decreased purchases of property and equipment, which includes new restaurant construction in progress. Our capital expenditure program includes, among other things, investments in new locations, restaurant remodeling, and information technology enhancements. We used \$10.3 million for purchases of property and equipment in the three quarters ended May 6, 2009 compared to \$25.4 million in the three quarters ended May 7, 2008. We expect to spend approximately \$11.0 million to \$13.0 million on capital expenditures in fiscal year 2009.

**Financing Activities.** Cash provided by financing activities decreased \$4.5 million, to \$2.0 million, compared to the three quarters ended May 7, 2008, due primarily to the non-recurrence of proceeds from the exercise of stock options, net of treasury stock purchases. Net borrowings under our revolving credit facility during the three quarters ended May 6, 2009 were \$2.0 million.

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

At May 6, 2009, we held \$8.8 million, par value (\$7.2 million, net book value) in auction rate municipal bonds as long-term investments. These securities are long-term bonds with underlying maturities in years 2019 through 2042 but have historically had short-term features intended for the investor's liquidity. Prior to the collapse of the auction rate securities market in February 2008, these bonds were purchased or sold through a Dutch-auction process in short-term intervals of 7, 28 or 35 days, whereby the interest rate on the security is reset. The prevailing market auction failures resulted in the long-term investments classification and an other than temporary impairment loss of \$0.8 million in fiscal year 2008 and \$0.8 million in the three quarters ended May 6, 2009. For additional information, see Note 5, Investments, to our Consolidated Financial Statements included in Item 1 of Part I of this report.

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Given our current cash position, expected future cash flow from operations and our available borrowing capacity under our revolving credit facility, we believe the current and near term illiquidity of the auction rate municipal bonds will not adversely affect management's ability to achieve its operating goals.

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

We monitor our receivables aging and record provisions for uncollectability as appropriate. Credit terms of accounts receivable associated with our culinary contract service business vary from 30 to 60 days based on contract terms.

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### ***Working Capital***

We had a working capital deficit of \$13.0 million as of May 6, 2009, compared to a working capital deficit of \$17.8 million as of August 27, 2008, primarily due to a \$2.2 million decrease in cash. We expect to meet our working capital requirements through cash flows from operations and availability under our Amended Revolving Credit Facility.

### ***Capital Expenditures***

Capital expenditures consist of purchases of real estate for future restaurant sites, new units construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for the three quarters ended May 6, 2009 were approximately \$10.3 million, and related to maintaining our investment in existing operating units as well as constructing new units. We expect to be able to fund all capital expenditures in fiscal year 2009 using cash flows from operations and our available credit. We expect to spend approximately \$11.0 million to \$13.0 million on capital expenditures in fiscal year 2009.

## **DEBT**

### ***2007 Revolving Credit Facility***

On July 13, 2007, we entered into a \$50.0 million unsecured Revolving Credit Facility (the *2007 Revolving Credit Facility*) with Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The 2007 Revolving Credit Facility may, subject to certain terms and conditions, be increased once by an amount up to \$50.0 million for a maximum total facility size of \$100.0 million. The 2007 Revolving Credit Facility allowed for up to \$15.0 million of the available credit to be extended in the form of letters of credit. All amounts owed by us under the 2007 Revolving Credit Facility were guaranteed by our subsidiaries and must be repaid in full upon the maturity date on June 30, 2012. We amended the 2007 Revolving Credit Facility on March 18, 2009, as described below under *First Amendment to 2007 Revolving Credit Facility*.

At any time throughout the term of the facility, we had the option to elect one of two bases of interest rates. One interest rate option was 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 zero to 0.50% per annum. The other interest rate option was the London InterBank Offered Rate plus a spread that ranges from 0.75% to 2.00% per annum. The applicable spread under each option was dependent upon the ratio of our debt to EBITDA at the most recent determination date.

We paid a quarterly commitment fee based on the unused available balance of the 2007 Revolving Credit Facility, which was also dependent upon the ratio of our debt to EBITDA, ranging from 0.20% to 0.30% per annum. We also paid quarterly fees with respect to any letters of credit issued and outstanding. In addition, we paid the lenders a one-time fee in connection with the closing of the 2007 Revolving Credit Facility.

### ***First Amendment to 2007 Revolving Credit Facility***

On March 18, 2009, we amended the 2007 Revolving Credit Facility to, among other things, reduce the aggregate amount of the lenders commitments from \$50.0 million to \$30.0 million. The amounts available under the Amended 2007 Revolving Credit Facility (the *Amended Facility*) may still be increased by up to \$70.0 million, subject to certain terms and conditions, for a maximum total facility size of \$100 million.

The Amended Facility modifies the restriction on capital expenditures in fiscal years 2009 through June 30, 2012. In the original 2007 Revolving Credit Facility, capital expenditures were limited to the extent of our annual four-quarter rolling EBITDA plus 75% of the unused availability for capital expenditures from the immediately preceding fiscal year. We revised the level of spending allowed for capital expenditures by creating a floor of \$20.0 million. The amount of agreed capital expenditures will be the greater of (i) \$20.0 million in each fiscal year, or (ii) the amount of 100% of the preceding fiscal year's EBITDA; plus, in either case, all of the unused availability for capital expenditures from the immediately preceding fiscal year.

In addition, the Amended Facility includes adjustments to pricing. At any time throughout the term of the 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; but, in either case, no less than 3.50%. The applicable spread, which is added to this rate, has been amended to range from zero to 0.75% per annum. The other interest rate option is the London InterBank Offered Rate, so long as it is not less than 3.50%. The applicable spread, which is added to this rate, has been amended to range from 1.75% to 2.50% per annum. The applicable spread under each option continues to be dependent upon the ratio of our debt to EBITDA at the most recent determination date.

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In the original 2007 Revolving Credit Facility, we were permitted to invest in any auction rate securities rated Aaa by Moody's or AAA by S&P. Because the ratings of our auction rate securities have dropped below these thresholds, the Amended Facility now limits these types of investments to a specific list of auction rate securities which we hold.

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Additionally, the Amended Facility modifies certain financial covenants. The Amended Facility reduces the Interest Coverage Ratio requirement from not less than 2.50 to not less than 2.00 and the debt-to-EBITDA ratio requirement from not greater than 3.00 to not greater than 2.75. The Amended Facility also amends the Interest Coverage Ratio calculation to now include one-fifth of the principal balance of the loans in the denominator, which therefore requires us to maintain a sufficiently low loan balance to comply with the covenant.

The Amended Facility contains customary covenants and restrictions on our ability to engage in certain activities, asset sales, letters of credit, and acquisitions, and contains customary events of default. As of May 6, 2009, we were in compliance with all covenants.

We continue to pay a quarterly commitment fee based on the unused available balance of the Amended Facility, which is also dependent upon the ratio of our debt to EBITDA, which the Amended Facility has amended to permit a range from 0.30% to 0.45% per annum. We also continue to pay quarterly fees with respect to any letters of credit issued and outstanding. In addition, we were obligated to pay the lenders a one-time fee in connection with the closing of the Amended Facility.

As of May 6, 2009, we had a total of \$2.0 million in outstanding advances under the Amended Facility at an average annual rate of 3.50%. We had approximately \$1.7 million committed under letters of credit, which were issued as security for the payment of insurance obligations classified as accrued expenses on the balance sheet.

At May 6, 2009 \$26.3 million was available under the Amended Facility.

The final maturity date of the Amended Facility remains June 30, 2012.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Consolidated Financial Statements included in Item 1 of Part 1 of this report are prepared in conformity with U.S. generally accepted accounting principles. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. Due to the significant, subjective and complex judgments and estimates used when preparing our consolidated financial statements, management regularly reviews these assumptions and estimates with the Finance and Audit Committee of our Board of Directors. Management believes the following are critical accounting policies used in the preparation of these financial statements.

### ***Income Taxes***

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, as interpreted by FASB Interpretation No. (FIN) 48. We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carrybacks and carryforwards. We periodically review the recoverability of tax assets recorded on the balance sheet and provide valuation allowances as management deems necessary.

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. In addition, we operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions as well as by the Internal Revenue Service. In management's opinion, adequate provisions for income taxes have been made for all years. We regularly assess the potential outcomes of examinations in determining the adequacy of our provision for income taxes and our income tax liabilities. We believe that we have adequately provided for any reasonable and foreseeable outcome related to uncertain tax matters.

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

We periodically evaluate long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We estimate future cash flows expected to result from the use and possible disposition of the asset and will recognize an impairment loss when the sum of the undiscounted estimated future cash flows is less than the carrying amounts of such assets. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. The span of time for which future cash flows are estimated is often lengthy, which increases the sensitivity to assumptions made. 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 either discounted cash flows or appraisals.





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### ***Investments***

We invest in two types of securities, held-to-maturity and available-for-sale. Securities held-to-maturity are reported at amortized cost. Available-for-sale securities are reported at fair value. Fair value is a subjective estimate based on our judgment. Securities available-for-sale consist of auction rate securities. Declines in fair value of held to maturity and available-for-sale securities are analyzed to determine if the decline is temporary or other-than-temporary. Temporary unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in shareholders' equity. Other than temporary declines reduce earnings. Any increases in other than temporary declines in fair value will not be realized until the securities are sold.

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

We also periodically review long-lived assets against our plans to retain or ultimately dispose of properties. Property is moved into property held for sale when the restaurant is closed. Property held for sale is 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 routinely monitor the estimated value of property held for sale and record adjustments to these values as required. We periodically measure and analyze our estimates against third-party appraisals.

### ***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. The third party actuary utilizes methods and assumptions that are in accordance with generally accepted actuarial practices and we believe the conclusions reached are reasonable.

Actual workers' compensation, employee injury and general liability 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***

We adopted the provisions of SFAS No. 123, Share-Based Payments (Revised 2004) (SFAS 123R), effective September 1, 2005. Among other things, SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement utilizing the fair values on the date of the grant.

## **INFLATION**

Our policy is to maintain stable menu prices without regard to seasonal variations in food costs. General increases in cost 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.

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements contained in this Form 10-Q, other than statements of historical facts, are forward-looking statements for purposes of these provisions, including any statements regarding:

future operating results;

future capital expenditures;

future debt, including liquidity and the sources and availability of funds related to debt;

projections regarding the financial performance of our new prototype restaurants;

plans for expansion of our business;

scheduled openings of new units;

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

plans relating to our short-term and long-term investments; and

continued compliance with the terms of our 2007 Revolving 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 are based on certain assumptions and analyses made by management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although management believes that their 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, 2008 and any other cautionary language in this Quarterly Report on 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;

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fluctuations in the costs of commodities, including beef, poultry, seafood, dairy, cheese, oils and produce;

ability to raise menu prices

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

changes in the availability and cost of labor;

changes in fair value of investments;

the seasonality of the business;

collectability of accounts receivable;

changes in governmental regulations, including changes in minimum wages;

the effects of inflation;

the availability of credit;

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.

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**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. During the three quarters ended May 6, 2009, the total amount of debt subject to interest rate fluctuations outstanding under our 2007 Revolving Credit Facility was \$8.0 million. Assuming an average debt balance of \$8.0 million, a 1.0% increase in prevailing interest rates above our 3.5% interest rate floor per our Amended Facility, effective March 18, 2009, would increase our annual interest expense by \$80,000.

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

Many ingredients in the products sold in our restaurants are commodities, subject to unpredictable price fluctuations. We attempt to minimize price volatility by negotiating fixed price contracts for the supply of key ingredients and in some cases by passing increased commodity costs through to the customer by adjusting menu prices or menu offerings. Our ingredients are available from multiple suppliers so we are not dependent on a single vendor for our ingredients.

**Item 4. Controls and Procedures**

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

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of May 6, 2009. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of May 6, 2009, our disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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

There were no changes in our internal control over financial reporting during the quarter ended May 6, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

There have been no material changes to our legal proceedings as disclosed in Legal Proceedings in Item 3 of Part I of our Annual Report on Form 10-K for the fiscal year ended August 27, 2008.

**Item 6. Exhibits**

- 4.1 Amendment No. 8 dated as of February 20, 2009 to Rights Agreement dated April 16, 1991, as amended, between Luby's, Inc. and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 9 to the Company's Form 8-A/A filed with the Securities and Exchange Commission on February 23, 2009).
- 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 Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Section 1350 certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Section 1350 certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

LUBY S, INC.

(Registrant)

Date: June 12, 2009

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

Date: June 12, 2009

By: /s/ K. Scott Gray  
K. Scott Gray  
Senior Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

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