

LUBYS INC  
Form 10-Q  
July 11, 2016

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  
<sup>x</sup> 1934

For the quarterly period ended June 1, 2016

or

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

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

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

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

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

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

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

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

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

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

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

As of July 6, 2016 there were 28,940,041 shares of the registrant's common stock outstanding.

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Luby's, Inc.  
 Form 10-Q  
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#### Additional Information

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

## Part I—FINANCIAL INFORMATION

## Item 1. Financial Statements

Luby's, Inc.

Consolidated Balance Sheets

(In thousands, except share data)

|  | June 1,<br>2016<br>(Unaudited) | August 26,<br>2015 |
|--|--------------------------------|--------------------|
| <b>ASSETS</b>  |                                |                    |
| Current Assets:  |                                |                    |
| Cash and cash equivalents  | \$ 1,409                       | \$ 1,501           |
| Trade accounts and other receivables, net  | 6,142                          | 5,175              |
| Food and supply inventories  | 4,495                          | 4,483              |
| Prepaid expenses   | 3,911                          | 3,402              |
| Assets related to discontinued operations  | 1                              | 10                 |
| Deferred income taxes  | 581                            | 577                |
| Total current assets   | 16,539                         | 15,148             |
| Property held for sale   | 4,238                          | 4,536              |
| Assets related to discontinued operations  | 3,667                          | 3,671              |
| Property and equipment, net  | 196,008                        | 200,202            |
| Intangible assets, net   | 21,367                         | 22,570             |
| Goodwill   | 1,605                          | 1,643              |
| Deferred income taxes  | 14,896                         | 12,917             |
| Other assets   | 3,452                          | 3,571              |
| Total assets   | \$ 261,772                     | \$ 264,258         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                |                    |
| Current Liabilities:   |                                |                    |
| Accounts payable   | \$ 19,677                      | \$ 20,173          |
| Liabilities related to discontinued operations   | 411                            | 408                |
| Accrued expenses and other liabilities   | 24,704                         | 23,967             |
| Total current liabilities  | 44,792                         | 44,548             |
| Credit facility debt   | 36,000                         | 37,500             |
| Liabilities related to discontinued operations   | 17                             | 182                |
| Other liabilities  | 7,631                          | 7,369              |
| Total liabilities  | 88,440                         | 89,599             |
| Commitments and Contingencies  |                                |                    |
| <b>SHAREHOLDERS' EQUITY</b>  |                                |                    |
| Common stock, \$0.32 par value; 100,000,000 shares authorized; shares issued were 29,420,690 and 29,134,603, respectively; shares outstanding were 28,920,690 and 28,634,603, respectively | 9,414                          | 9,323              |
| Paid-in capital  | 30,133                         | 29,006             |
| Retained earnings  | 138,560                        | 141,105            |
| Less cost of treasury stock, 500,000 shares  | (4,775 )                       | (4,775 )           |
| Total shareholders' equity   | 173,332                        | 174,659            |
| Total liabilities and shareholders' equity   | \$ 261,772                     | \$ 264,258         |

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

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Luby's, Inc.

Consolidated Statements of Operations (unaudited)

(In thousands, except per share data)

|   | Quarter Ended                    |                                 | Three Quarters Ended             |                                 |
|---|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|   | June 1,<br>2016<br>(12<br>weeks) | May 6,<br>2015<br>(12<br>weeks) | June 1,<br>2016<br>(40<br>weeks) | May 6,<br>2015<br>(36<br>weeks) |
| <b>SALES:</b>   |                                  |                                 |                                  |                                 |
| Restaurant sales  | \$86,476                         | \$88,788                        | \$286,336                        | \$254,832                       |
| Culinary contract services                                      | 3,892                            | 3,624                           | 12,726                           | 11,993                          |
| Franchise revenue   | 1,586                            | 1,578                           | 5,411                            | 4,764                           |
| Vending revenue   | 143                              | 112                             | 437                              | 355                             |
| <b>TOTAL SALES</b>  | <b>92,097</b>                    | <b>94,102</b>                   | <b>304,910</b>                   | <b>271,944</b>                  |
| <b>COSTS AND EXPENSES:</b>                                      |                                  |                                 |                                  |                                 |
| Cost of food  | 24,221                           | 25,218                          | 81,256                           | 74,171                          |
| Payroll and related costs                                       | 30,748                           | 29,971                          | 100,007                          | 88,177                          |
| Other operating expenses  | 13,572                           | 14,276                          | 45,728                           | 42,688                          |
| Occupancy costs   | 5,065                            | 4,826                           | 17,242                           | 14,797                          |
| Opening costs   | 117                              | 427                             | 688                              | 2,022                           |
| Cost of culinary contract services                              | 3,534                            | 3,232                           | 11,476                           | 10,809                          |
| Cost of franchise operations                                    | 441                              | 410                             | 1,480                            | 1,147                           |
| Depreciation and amortization                                   | 5,304                            | 4,759                           | 17,538                           | 14,608                          |
| Selling, general and administrative expenses                    | 9,227                            | 8,139                           | 32,312                           | 26,671                          |
| Provision for asset impairments                                 | 172                              | —                               | 209                              | 218                             |
| Net loss (gain) on disposition of property and equipment        | 42                               | (609)                           | (793)                            | (1,696)                         |
| <b>Total costs and expenses</b>                                 | <b>92,443</b>                    | <b>90,649</b>                   | <b>307,143</b>                   | <b>273,612</b>                  |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                            | <b>(346)</b>                     | <b>3,453</b>                    | <b>(2,233)</b>                   | <b>(1,668)</b>                  |
| Interest income   | —                                | 1                               | 3                                | 3                               |
| Interest expense  | (482)                            | (599)                           | (1,674)                          | (1,624)                         |
| Other income (expense), net                                     | 88                               | 24                              | (2)                              | 282                             |
| Income (loss) before income taxes and discontinued operations   | (740)                            | 2,879                           | (3,906)                          | (3,007)                         |
| Provision (benefit) for income taxes                            | (593)                            | 395                             | (1,438)                          | (1,326)                         |
| Income (loss) from continuing operations                        | (147)                            | 2,484                           | (2,468)                          | (1,681)                         |
| Income (loss) from discontinued operations, net of income taxes | 13                               | (131)                           | (77)                             | (344)                           |
| <b>NET INCOME (LOSS)</b>  | <b>\$(134)</b>                   | <b>\$2,353</b>                  | <b>\$(2,545)</b>                 | <b>\$(2,025)</b>                |
| Income (loss) per share from continuing operations:             |                                  |                                 |                                  |                                 |
| Basic   | \$(0.01)                         | \$0.09                          | \$(0.09)                         | \$(0.06)                        |
| Assuming dilution   | \$(0.01)                         | \$0.09                          | \$(0.09)                         | \$(0.06)                        |
| Income (loss) per share from discontinued operations:           |                                  |                                 |                                  |                                 |
| Basic   | \$0.00                           | \$(0.01)                        | \$(0.00)                         | \$(0.01)                        |
| Assuming dilution   | \$0.00                           | \$(0.01)                        | \$(0.00)                         | \$(0.01)                        |
| Net income (loss) per share:                                    |                                  |                                 |                                  |                                 |
| Basic   | \$(0.01)                         | \$0.08                          | \$(0.09)                         | \$(0.07)                        |
| Assuming dilution   | \$(0.01)                         | \$0.08                          | \$(0.09)                         | \$(0.07)                        |
| Weighted average shares outstanding:                            |                                  |                                 |                                  |                                 |
| Basic   | 29,259                           | 29,009                          | 29,207                           | 28,940                          |
| Assuming dilution   | 29,259                           | 29,111                          | 29,207                           | 28,940                          |

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

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Luby's, Inc.

Consolidated Statement of Shareholders' Equity (unaudited)

(In thousands)

|   | Common Stock     |          |                    |           | Paid-In<br>Capital | Retained<br>Earnings | Total<br>Shareholders'<br>Equity |
|---|------------------|----------|--------------------|-----------|--------------------|----------------------|----------------------------------|
|   | Issued<br>Shares | Amount   | Treasury<br>Shares | Amount    |                    |                      |                                  |
| Balance at August 26, 2015                          | 29,135           | \$ 9,323 | (500)              | \$(4,775) | \$29,006           | \$ 141,105           | \$ 174,659                       |
| Net loss  | —                | —        | —                  | —         | —                  | (2,545 )             | (2,545 )                         |
| Share-based compensation expense                    | 50               | 16       | —                  | —         | 1,127              | —                    | 1,143                            |
| Common stock issued under employee benefit plans    | 176              | 56       | —                  | —         | 19                 | —                    | 75                               |
| Common stock issued under nonemployee benefit plans | 60               | 19       | —                  | —         | (19)               | —                    | —                                |
| Balance at June 1, 2016                             | 29,421           | \$ 9,414 | (500)              | \$(4,775) | \$30,133           | \$ 138,560           | \$ 173,332                       |

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



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

|  | Three Quarters<br>Ended          |                                 |
|--|----------------------------------|---------------------------------|
|  | June 1,<br>2016<br>(40<br>weeks) | May 6,<br>2015<br>(36<br>weeks) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                  |                                 |
| Net loss   | \$(2,545)                        | \$(2,025)                       |
| Adjustments to reconcile net loss to net cash provided by operating activities:          |                                  |                                 |
| Net gain on disposition of property and equipment  | (609 )                           | (1,386 )                        |
| Depreciation and amortization  | 17,555                           | 14,624                          |
| Amortization of debt issuance cost   | 255                              | 127                             |
| Share-based compensation expense   | 1,143                            | 1,102                           |
| Deferred tax benefit   | (1,983 )                         | (1,978 )                        |
| Cash provided by operating activities before changes in operating assets and liabilities | 13,816                           | 10,464                          |
| Changes in operating assets and liabilities:   |                                  |                                 |
| Increase in trade accounts and other receivables   | (967 )                           | (108 )                          |
| Decrease (Increase) in food and supply inventories                                       | (516 )                           | 1,135                           |
| Decrease (increase) in prepaid expenses and other assets                                 | (614 )                           | 41                              |
| Decrease in accounts payable, accrued expenses and other liabilities                     | (311 )                           | (7,371 )                        |
| Net cash provided by operating activities  | 11,408                           | 4,161                           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                  |                                 |
| Proceeds from disposal of assets and property held for sale                              | 4,308                            | 5,142                           |
| Decrease in notes receivable   | 17                               | 50                              |
| Purchases of property and equipment  | (14,358 )                        | (16,429 )                       |
| Net cash used in investing activities  | (10,033 )                        | (11,237 )                       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                  |                                 |
| Credit facility borrowings   | 77,900                           | 80,100                          |
| Credit facility repayments   | (79,400 )                        | (74,100 )                       |
| Debt issuance costs  | (42 )                            | (253 )                          |
| Proceeds received on the exercise of employee stock options                              | 75                               | 115                             |
| Net cash provided by (used in) financing activities                                      | (1,467 )                         | 5,862                           |
| Net decrease in cash and cash equivalents  | (92 )                            | (1,214 )                        |
| Cash and cash equivalents at beginning of period   | 1,501                            | 2,788                           |
| Cash and cash equivalents at end of period   | \$1,409                          | \$1,574                         |
| Cash paid for:   |                                  |                                 |
| Income taxes   | \$—                              | \$—                             |
| Interest   | 1,368                            | 1,505                           |

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

Luby's, Inc.

Notes to Consolidated Financial Statements (unaudited)

#### Note 1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Luby's, Inc. (the "Company" or "Luby's") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements that are prepared for the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarter ended June 1, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2016.

The Consolidated Balance Sheet dated August 26, 2015, included in this Quarterly Report on Form 10-Q (this "Form 10-Q"), has been derived from the audited Consolidated Financial Statements as of that date. However, this Form 10-Q does not include all of the information and footnotes required by GAAP for an annual filing of complete financial statements. Therefore, these financial statements should be read in conjunction with the audited Consolidated Financial Statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended August 26, 2015.

#### Note 2. Accounting Periods

The Company's fiscal year ends on the last Wednesday in August. Accordingly, each fiscal year normally consists of 13 four-week periods, or accounting periods, accounting for 364 days in the aggregate. However, every fifth or sixth year, we have a fiscal year that consists of 53 weeks, accounting for 371 days in the aggregate; fiscal year 2016 will be such a year. Each of the first three quarters of each fiscal year, prior to fiscal year 2016, consisted of three four-week periods, while the fourth quarter normally consisted of four four-week periods.

Beginning in fiscal 2016, we changed our fiscal quarter ending dates with the first fiscal quarter end extended by one accounting period and the fiscal fourth quarter being reduced by one accounting period. The purpose of this change is in part to minimize the Thanksgiving calendar shift by extending the first fiscal quarter until after Thanksgiving. With this change in fiscal quarter ending dates, our first quarter is 16 weeks, and the remaining three quarters will typically be 12 weeks in length. The fourth fiscal quarter will be 13 weeks in certain fiscal years to adjust for our standard 52 week, or 364 day, fiscal year compared to the 365 day calendar year. Fiscal 2016 is such a year where the fourth quarter will have 13 weeks, resulting in a 53 week fiscal year. Comparability between quarters may be affected by varying lengths of the quarters, as well as the seasonality associated with the restaurant business.

#### Note 3. Reportable Segments

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

##### Company-owned restaurants

Company-owned restaurants consists of several brands which are aggregated into one reportable segment because the nature of the products and services, the production processes, the customers, the methods used to distribute the products and services, the nature of the regulatory environment and store level profit margin are similar. The chief

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operating decision maker analyzes Company-owned restaurants at store level profit which is revenue less cost of food, payroll and related costs, other operating expenses and occupancy costs. The primary brands are Luby's Cafeterias, Fuddruckers and Cheeseburger in Paradise, with a non-core restaurant location operating under the brand name Bob Luby's Seafood Grill. All company-owned restaurants are casual dining restaurants. Each restaurant is an operating segment because operating results and cash flow can be determined for each restaurant.

The total number of Company-owned restaurants was 178 at June 1, 2016 and 177 at August 26, 2015.

### Culinary Contract Services

CCS, branded as Luby's Culinary Contract Services, consists of a business line servicing healthcare, higher education and corporate dining clients. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service and retail dining. CCS has contracts with long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, behavioral hospitals and business and industry clients. CCS has the unique ability to deliver quality services that include facility design and procurement as well as nutrition and branded food services to our clients. The cost of Culinary Contract Services on the Consolidated Statements of Operations include all food, payroll and related costs and other operating expenses related to CCS sales.

The total number of CCS contracts was 26 at June 1, 2016 and 23 at August 26, 2015.

### Franchise Operations

We offer franchises for only the Fuddruckers brand. Franchises are sold in markets where expansion is deemed advantageous to the development of the Fuddruckers concept and system of restaurants. Initial franchise agreements have a term of 20 years. Franchise agreements typically grant franchisees an exclusive territorial license to operate a single restaurant within a specified area, usually a four-mile radius surrounding the franchised restaurant.

Franchisees bear all direct costs involved in the development, construction and operation of their restaurants. In exchange for a franchise fee, the Company provides franchise assistance in the following areas: site selection, prototypical architectural plans, interior and exterior design and layout, training, marketing and sales techniques, assistance by a Fuddruckers "opening team" at the time a franchised restaurant opens, and operations and accounting guidelines set forth in various policies and procedures manuals.

All franchisees are required to operate their restaurants in accordance with Fuddruckers' standards and specifications, including controls over menu items, food quality and preparation. The Company requires the successful completion of its training program by a minimum of three managers for each franchised restaurant. In addition, franchised restaurants are evaluated regularly by the Company for compliance with franchise agreements, including standards and specifications through the use of periodic, unannounced, on-site inspections and standard evaluation reports.

The number of franchised restaurants was 114 at June 1, 2016 and 106 at August 26, 2015.

### Licensee

In November 1997, a prior owner of the Fuddruckers – World's Greatest Hamburgers ® brand granted to a licensee the exclusive right to use the Fuddruckers proprietary marks, trade dress and system to develop Fuddruckers restaurants in a territory consisting of certain countries in Africa, the Middle East and parts of Asia. As of July 2016, this licensee operated 35 restaurants that are licensed to use the Fuddruckers Proprietary Marks in Saudi Arabia, Egypt, Lebanon, United Arab Emirates, Qatar, Jordan, Bahrain, Kuwait, Morocco and Malaysia. The Company does not receive revenue or royalties from these restaurants.

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

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|   | Quarter Ended  |          | Three Quarters Ended |            |
|---|----------------|----------|----------------------|------------|
|   | June 1,        | May 6,   | June 1,              | May 6,     |
|   | 2016           | 2015     | 2016                 | 2015       |
|   | (12            | (12      | (40                  | (36        |
|   | weeks)         | weeks)   | weeks)               | weeks)     |
|   | (In thousands) |          |                      |            |
| Sales:  |                |          |                      |            |
| Company-owned restaurants <sup>(1)</sup>                      | \$86,619       | \$88,900 | \$286,773            | \$255,187  |
| Culinary contract services                                    | 3,892          | 3,624    | 12,726               | 11,993     |
| Franchise operations  | 1,586          | 1,578    | 5,411                | 4,764      |
| Total   | \$92,097       | \$94,102 | \$304,910            | \$271,944  |
| Segment level profit:   |                |          |                      |            |
| Company-owned restaurants                                     | \$13,013       | \$14,609 | \$42,540             | \$35,354   |
| Culinary contract services                                    | 358            | 392      | 1,250                | 1,184      |
| Franchise operations  | 1,145          | 1,168    | 3,931                | 3,617      |
| Total   | \$14,516       | \$16,169 | \$47,721             | \$40,155   |
| Depreciation and amortization:                                |                |          |                      |            |
| Company-owned restaurants                                     | \$4,386        | \$4,047  | \$14,512             | \$12,538   |
| Culinary contract services                                    | 19             | 28       | 83                   | 127        |
| Franchise operations  | 192            | 177      | 641                  | 531        |
| Corporate   | 707            | 507      | 2,302                | 1,412      |
| Total   | \$5,304        | \$4,759  | \$17,538             | \$14,608   |
| Capital expenditures:   |                |          |                      |            |
| Company-owned restaurants                                     | \$3,217        | \$5,023  | \$13,839             | \$15,368   |
| Culinary contract services                                    | —              | —        | —                    | —          |
| Franchise operations  | —              | —        | —                    | —          |
| Corporate   | 171            | 418      | 519                  | 1,061      |
| Total   | \$3,388        | \$5,441  | \$14,358             | \$16,429   |
| Loss before income taxes and discontinued operations:         |                |          |                      |            |
| Segment level profit  | \$14,516       | \$16,169 | \$47,721             | \$40,155   |
| Opening costs   | (117 )         | (427 )   | (688 )               | (2,022 )   |
| Depreciation and amortization                                 | (5,304 )       | (4,759 ) | (17,538 )            | (14,608 )  |
| Selling, general and administrative expenses                  | (9,227 )       | (8,139 ) | (32,312 )            | (26,671 )  |
| Provision for asset impairments                               | (172 )         | —        | (209 )               | (218 )     |
| Net loss (gain) on disposition of property and equipment      | (42 )          | 609      | 793                  | 1,696      |
| Interest income   | —              | 1        | 3                    | 3          |
| Interest expense  | (482 )         | (599 )   | (1,674 )             | (1,624 )   |
| Other income (expense), net                                   | 88             | 24       | (2 )                 | 282        |
| Income (loss) before income taxes and discontinued operations | \$(740 )       | \$2,879  | \$(3,906 )           | \$(3,007 ) |

|  | June 1,   | August 26, |
|--|-----------|------------|
|  | 2016      | 2015       |
| Total assets:                            |           |            |
| Company-owned restaurants <sup>(2)</sup> | \$213,995 | \$218,492  |
| Culinary contract services               | 3,560     | 1,644      |
| Franchise operations <sup>(3)</sup>      | 12,538    | 13,034     |
| Corporate                                | 31,679    | 31,088     |
| Total                                    | \$261,772 | \$264,258  |

- (1) Includes vending revenue of \$143 and \$112 thousand for the quarters ended June 1, 2016 and May 6, 2015, respectively, and \$437 and \$355 thousand for the three quarters ended June 1, 2016 and May 6, 2015, respectively.
- (2) Company-owned restaurants segment includes \$10.0 million of Fuddruckers trade name, Cheeseburger in Paradise liquor licenses, and Jimmy Buffett intangibles.
- (3) Franchise operations segment includes approximately \$11.7 million in royalty intangibles.

## Note 4. Fair Value Measurements

GAAP establishes a framework for using fair value to measure assets and liabilities. Fair value measurement guidance applies whenever other statements require or permit assets or liabilities to be measured at fair value.

GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers include:

Level 1: Defined as observable inputs such as quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Defined as pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

Level 3: Defined as pricing inputs that are unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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

|   | Three<br>Quarters<br>Ended<br>June 1,<br>2016 | Fair Value<br>Measurement Using<br>Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Impairments |
|---|---|--|---|--|----------------------|
| Nonrecurring Fair Value Measurements                        |   |  |   |  |                      |
| Continuing Operations                                       |   |  |   |  |                      |
| Property and equipment related to company-owned restaurants | \$ —  | \$—  | —   | \$ —   | \$ —                 |
| Goodwill <sup>(1)</sup>                                     | 1,605   | —  | 1,605   | (38)   | (38)                 |
| Total Nonrecurring Fair Value Measurements                  | \$ 1,605                                      | \$—  | —   | \$ 1,605   | \$ (38)              |
| Discontinued Operations                                     |   |  |   |  |                      |
| Property and equipment related to company-owned restaurants | \$ —  | \$—  | —   | \$ —   | \$ —                 |

(1) In accordance with Subtopic 360-20, goodwill with a carrying amount of approximately \$1.6 million was written down to its implied fair value of approximately \$1.6 million, resulting in an impairment charge of \$38 thousand, in the quarter ended March 9, 2016.





|  | Three<br>Quarters<br>Ended<br>May 6,<br>2015 | Fair Value<br>Measurement Using<br>Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Impairments |
|--|--|--|---|--|----------------------|
| Nonrecurring Fair Value Measurements                                       |  |  |   |  |                      |
| Continuing Operations  |  |  |   |  |                      |
| Property and equipment related to company-owned restaurants <sup>(1)</sup> | \$ 1,323                                     | \$—  | —   | \$ 1,323   | \$ (180 )            |
| Goodwill <sup>(2)</sup>  | 1,643  | —  | —   | 1,643  | (38 )                |
| Total Nonrecurring Fair Value Measurements                                 | \$ 2,966                                     | \$—  | —   | \$ 2,966   | \$ (218 )            |
| Discontinued Operations  |  |  |   |  |                      |
| Property and equipment related to company-owned restaurants                | \$ —   | \$—  | —   | \$ —   | \$ —                 |

(1) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of approximately \$1.5 million were written down to their fair value of approximately \$1.3 million, resulting in an impairment charge of approximately \$0.2 million, which was included in earnings for the period.

(2) In accordance with Subtopic 360-20, goodwill with a carrying amount of approximately \$1.7 million was written down to its implied fair value of approximately \$1.6 million, resulting in an impairment charge of \$38 thousand.

#### Note 5. Income Taxes

No cash payments of estimated federal income taxes were made during the three quarters ended June 1, 2016.

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.

The effective tax rate, (ETR), from continuing operations was 80% and 37% for the quarter and three quarters ended June 1, 2016, respectively. The ETR for the quarter and three quarters ended June 1, 2016 differs from the federal statutory rate of 34% due to the federal jobs credits, state income taxes and other discrete items. The additional deferred income tax benefit recognized in the quarter ended June 1, 2016 was attributable to the increase in the full year estimated pre-tax loss and a discrete deferred income tax benefit concerning the extension of the federal jobs credit.

Management believes that adequate provisions for income taxes have been reflected in the financial statements and is not aware of any significant exposure items that have not been reflected in the financial statements. Amounts considered probable of settlement within one year have been included in the accrued expenses and other liabilities in the accompanying Consolidated Balance Sheet.



## Note 6. Property and Equipment, Intangible Assets and Goodwill

The costs, net of impairment, and accumulated depreciation of property and equipment at June 1, 2016 and August 26, 2015, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

|  | June 1,<br>2016 | August 26,<br>2015 | Estimated<br>Useful<br>Lives<br>(years)                   |
|--|-----------------|--------------------|---|
|  | (In thousands)  |                    |   |
| Land   | \$62,498        | \$63,298           | —   |
| Restaurant equipment and furnishings           | 74,876          | 85,679             | 3 to 15   |
| Buildings                                      | 157,122         | 159,391            | 20 to 33  |
| Leasehold and leasehold improvements           | 25,679          | 29,229             | Lesser of<br>lease term<br>or<br>estimated<br>useful life |
| Office furniture and equipment                 | 3,281           | 3,559              | 3 to 10   |
| Construction in progress                       | 145             | 810                | —   |
|  | 323,601         | 341,966            |   |
| Less accumulated depreciation and amortization | (127,593 )      | (141,764 )         |   |
| Property and equipment, net                    | \$196,008       | \$200,202          |   |
| Intangible assets, net                         | \$21,367        | \$22,570           | 15 to 21  |
| Goodwill                                       | \$1,605         | \$1,643            | —   |

Intangible assets, net, consist of the Fuddruckers trade name and franchise agreements and will be amortized. The Company believes the Fuddruckers brand name has an expected accounting life of 21 years from the date of acquisition based on the expected use of its assets and the restaurant environment in which it is being used. The trade name represents a respected brand with customer loyalty and the Company intends to cultivate and protect the use of the trade name. The franchise agreements, after considering renewal periods, have an estimated accounting life of 21 years from the date of acquisition and will be amortized over this period of time.

Intangible assets, net, also includes the license agreement and trade name related to Cheeseburger in Paradise and the value of the acquired licenses and permits allowing the sales of beverages with alcohol. These assets have an expected accounting life of 15 years from the date of acquisition, December 6, 2012.

The aggregate amortization expense related to intangible assets subject to amortization was \$1.2 million for the three quarters ended June 1, 2016 and \$1.0 million for the three quarters ended May 6, 2015. The aggregate amortization expense related to intangible assets subject to amortization is expected to be \$1.4 million in each of the next five successive fiscal years.

The following table presents intangible assets as of June 1, 2016 and August 26, 2015:

|  | June 1, 2016<br>(In thousands) |                             |                           | August 26, 2015<br>(In thousands) |                             |                           |
|--|--------------------------------|-----------------------------|---------------------------|-----------------------------------|-----------------------------|---------------------------|
|  | Gross<br>Carrying<br>Amount    | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount       | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Intangible Assets Subject to Amortization:                 |                                |                             |                           |                                   |                             |                           |
| Fuddruckers trade name and franchise agreements            | \$29,607                       | \$ (8,333 )                 | \$ 21,274                 | \$29,607                          | \$ (7,166 )                 | \$ 22,441                 |
| Cheeseburger in Paradise trade name and license agreements | \$421                          | \$ (328 )                   | \$ 93                     | \$421                             | \$ (292 )                   | \$ 129                    |
| Intangible assets, net                                     | \$30,028                       | \$ (8,661 )                 | \$ 21,367                 | \$30,028                          | \$ (7,458 )                 | \$ 22,570                 |

In fiscal 2010, the Company recorded an intangible asset for goodwill in the amount of approximately \$0.2 million related to the acquisition of substantially all of the assets of Fuddruckers. The Company also recorded, in fiscal 2013, an intangible asset for goodwill in the amount of approximately \$2.0 million related to the acquisition of Cheeseburger in Paradise. Goodwill is considered to have an indefinite useful life and is not amortized. Management performs its formal annual assessment as of the second quarter each fiscal year. The individual restaurant level is the level at which goodwill is assessed for impairment under ASC 350. In accordance with our understanding of ASC 350, we have allocated the goodwill value to each reporting unit in proportion to each location's fair value at the date of acquisition. The result of these second quarter fiscal 2016 assessments was impairment of goodwill of \$38 thousand. Goodwill impairments in fiscal years 2015 and 2014 were \$38 thousand and \$0.5 million, respectively. The Company will formally perform additional assessments on an interim basis if an event occurs or circumstances exist that indicate that it is more likely than not that a goodwill impairment exists. As of June 1, 2016, of the 23 locations that were acquired, eight locations remain operating as Cheeseburger in Paradise restaurants, seven locations were closed and converted to Fuddruckers restaurants, three locations where the option to extend the lease was not exercised, two locations subleased to franchisees and three closed and held for future use.

Goodwill, net of accumulated impairments of approximately \$0.6 million, was approximately \$1.6 million as of June 1, 2016 and as of August 26, 2015, and relates to our Company-owned restaurants reportable segment.

#### Note 7. Impairment of Long-Lived Assets, Discontinued Operations and Property Held for Sale

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

The Company periodically evaluates long-lived assets held for use and held for sale whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. The Company analyzes historical cash flows of operating locations and compares results of poorer performing locations to more profitable locations. The Company also analyzes lease terms, condition of the assets and related need for capital expenditures or repairs, as well as construction activity and the economic and market conditions in the surrounding area.

For assets held for use, the Company estimates future cash flows using assumptions based on possible outcomes of the areas analyzed. If the undiscounted future cash flows are less than the carrying value of the location's assets, the Company records an impairment loss based on an estimate of discounted cash flows. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. Assumptions and estimates used include operating results, changes in working capital, discount rate, growth rate,

anticipated net proceeds from disposition of the property and, if applicable, lease terms. The span of time for which future cash flows are estimated is often lengthy, increasing the sensitivity to assumptions made. The time span could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. The Company considers the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows.

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

|  | Three Quarters<br>Ended<br>June 1, May 6,<br>2016 2015<br>(40 (36<br>weeks) weeks)<br>(In thousands,<br>except per share<br>data) |           |
|--|---|-----------|
| Provision for asset impairments                          | \$209   | \$218     |
| Net loss (gain) on disposition of property and equipment | (793 )  | (1,696 )  |
|  | \$(584)   | \$(1,478) |
| Effect on EPS:   |   |           |
| Basic  | \$0.02  | \$0.05    |
| Assuming dilution  | \$0.02  | \$0.05    |

The \$0.2 million impairment charge for the three quarters ended June 1, 2016 is primarily related to goodwill at one underperforming converted Cheeseburger in Paradise leasehold location and approximately \$0.2 million in lease termination costs at two property locations.

The \$0.2 million impairment charge for the three quarters ended May 6, 2015 is related to assets at three Fuddruckers locations and included \$38 thousand in goodwill related to one underperforming converted Cheeseburger in Paradise leasehold location.

The \$0.8 million net gain for the three quarters ended June 1, 2016 is related to the sale of property and equipment.

The \$1.7 million net gain for the three quarters ended May 6, 2015 is related to the sale of property and equipment.

#### Discontinued Operations

On March 21, 2014, the Board of Directors of the Company approved a plan focused on improving cash flow from the acquired Cheeseburger in Paradise leasehold locations. This underperforming Cheeseburger in Paradise leasehold disposal plan called for certain Cheeseburger in Paradise restaurants closure or conversion to Fuddruckers restaurants. As of June 1, 2016, two locations were reclassified to continuing operations. Of the two locations, one location reopened as a Company-owned Fuddruckers restaurant and one location was sub-leased to a Fuddruckers franchisee. Additionally, one lease was terminated and one lease expired during the three quarters ended June 1, 2016. As of June 1, 2016, no locations were classified as discontinued operations in this plan.

As a result of the first quarter fiscal year 2010 adoption of the Company's Cash Flow Improvement and Capital Redeployment Plan, the Company reclassified 24 Luby's Cafeterias to discontinued operations. As of June 1, 2016, one location remains held for sale.

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

|  | June 1, August 26,<br>2016 2015<br>(In thousands) |          |
|--|---|----------|
| Prepaid expenses   | 1   | 10       |
| Assets related to discontinued operations—current          | \$1   | \$ 10    |
| Property and equipment                                     | 1,872   | 1,872    |
| Other assets   | 1,795   | 1,799    |
| Assets related to discontinued operations—non-current      | \$3,667   | \$ 3,671 |
| Deferred income taxes                                      | \$343   | \$ 343   |
| Accrued expenses and other liabilities                     | 68  | 65       |
| Liabilities related to discontinued operations—current     | \$411   | \$ 408   |
| Other liabilities  | \$17  | \$ 182   |
| Liabilities related to discontinued operations—non-current | \$17  | \$ 182   |

As of June 1, 2016, under both closure plans, the Company had one property classified as discontinued operations. The asset carrying value of the owned property was \$1.9 million and is included in assets related to discontinued operations. The Company is actively marketing this property for sale. The asset carrying values of the ground leases were previously impaired to zero.

The following table sets forth the sales and pretax losses reported from discontinued operations:

|   | Three<br>Quarters<br>Ended<br>June 1, May 6,<br>2016 2015<br>(40 (36<br>weeks)weeks)<br>(In thousands,<br>except<br>discontinued<br>locations) |          |
|---|--|----------|
| Sales   | \$—  | \$—      |
| Pretax loss   | (131 )   | (642 )   |
| Income tax benefit from discontinued operations                 | 54   | 298      |
| Income (loss) from discontinued operations, net of income taxes | \$(77)   | \$(344 ) |
| Discontinued locations closed during the period                 | —  | —        |

The following table summarizes discontinued operations for the first three quarters of fiscal 2016 and 2015:

|  | Three Quarters<br>Ended<br>June 1, May 6,<br>2016 2015<br>(40 (36<br>weeks) weeks) |  |
|--|--|--|
|--|--|--|

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(In thousands,  
except per share  
data)

|   |          |          |
|---|----------|----------|
| Discontinued operating loss                                     | \$(156 ) | \$(550 ) |
| Impairments   | —        | (90 )    |
| Net gains (losses)  | 25       | (2 )     |
| Pretax loss   | \$(131 ) | \$(642 ) |
| Income tax benefit from discontinued operations                 | 54       | 298      |
| Income (loss) from discontinued operations, net of income taxes | \$(77 )  | \$(344 ) |
| Effect on EPS from discontinued operations—basic                | \$(0.00) | \$(0.01) |



Impairment charges included above relate to properties closed and designated for immediate disposal. The assets of these individual operating units have been written down to their net realizable values. In turn, the related properties have either been sold or are being actively marketed for sale. Dispositions are expected to be completed within one to three years. Within discontinued operations, the Company also recorded the related fiscal year-to-date net operating results, employee terminations and carrying costs of the closed units.

#### Property Held for Sale

The Company periodically reviews long-lived assets against its plans to retain or ultimately dispose of properties. If the Company decides to dispose of a property, it will be moved to property held for sale, actively marketed and recorded at fair value less transaction costs. The Company analyzes market conditions each reporting period and records additional impairments due to declines in market values of like assets. The fair value of the property is determined by observable inputs such as appraisals and prices of comparable properties in active markets for assets like the Company's. Gains are not recognized until the properties are sold.

Property held for sale includes unimproved land, closed restaurant properties and related equipment for locations not classified as discontinued operations. The specific assets are valued at the lower of net depreciable value or net realizable value.

At June 1, 2016, the Company had four owned properties recorded at approximately \$4.2 million in property held for sale.

At August 26, 2015, the Company had four owned properties recorded at approximately \$4.5 million in property held for sale.

The Company is actively marketing the locations currently classified as property held for sale

#### Note 8. Commitments and Contingencies

##### Off-Balance Sheet Arrangements

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

##### Pending Claims

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

##### Construction Activity

From time to time, the Company enters into non-cancelable contracts for the construction of its new restaurants. This construction activity exposes the Company to the risks inherent in new construction, including but not limited to rising material prices, labor shortages, delays in getting required permits and inspections, adverse weather conditions, and injuries sustained by workers and contract termination expenses. The Company had four non-cancelable contracts as

of June 1, 2016.

Note 9. Related Parties

Affiliate Services

Christopher J. Pappas, the Company's Chief Executive Officer, and Harris J. Pappas, director and former Chief Operating Officer of the Company, own two restaurant entities (the "Pappas entities") that from time to time may provide services to the Company and its subsidiaries, as detailed in the Amended and Restated Master Sales Agreement effective November 8, 2013 among the Company and the Pappas entities.

Under the terms of the Amended and Restated Master Sales Agreement, the Pappas entities may provide specialized (customized) equipment fabrication and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. There were no costs incurred under the Amended and Restated Master Sales Agreement of custom-fabricated and refurbished equipment in the three quarters ended June 1, 2016 and May 6, 2015. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Board of Directors of the Company (the “Board”).

#### Operating Leases

In the third quarter of fiscal 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.

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 12 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 is currently obligated to pay rent of \$22.00 per square foot plus maintenance, taxes, and insurance during the remaining primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The Company made payments of \$314,000 and \$278,000 in the three quarters ended June 1, 2016 and May 6, 2015, respectively. The new lease agreement was approved by the Finance and Audit Committee.

In the third quarter of fiscal year 2014, on March 12, 2014, the Company executed a new lease agreement in which one of the Company’s Houston Fuddrucker’s locations was purchased from a prior landlord by Pappas Restaurants, Inc., a 100% undivided interest. No changes were made to our lease terms as a result of the transfer of ownership. The lease provides for a primary term of approximately six years with two subsequent five-year options. Pursuant to the new ground lease agreement, the Company is currently obligated to pay \$27.56 per square foot plus maintenance, taxes, and insurance from March 12, 2014 until November 30, 2016. Thereafter, the new ground lease agreement provides for increases in rent at set intervals. The Company made payments of \$120,000 and \$107,000 in the three quarters ended June 1, 2016 and May 6, 2015, respectively

|  | Three Quarters Ended               |                              |
|--|------------------------------------|------------------------------|
|  | June 1,<br>2016<br>(40 weeks)      | May 6,<br>2015<br>(36 weeks) |
|  | (In thousands, except percentages) |                              |
| <b>AFFILIATED COSTS INCURRED:</b>  |                                    |                              |
| General and administrative expenses—professional and other costs                       | \$—                                | \$—                          |
| Capital expenditures   | —                                  | —                            |
| Other operating expenses, occupancy costs and opening costs, including property leases | 434                                | 385                          |
| Total  | \$434                              | \$385                        |
| <b>RELATIVE TOTAL COMPANY COSTS:</b>   |                                    |                              |
| Selling, general and administrative expenses   | \$32,312                           | \$26,671                     |
| Capital expenditures   | 14,358                             | 16,429                       |
| Other operating expenses, occupancy costs and opening costs                            | 63,658                             | 59,507                       |
| Total  | \$110,328                          | \$102,607                    |
|  | 0.39                               | % 0.38                       |
|  |                                    | %                            |

AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL  
COMPANY COSTS

Board of Directors

Christopher J. Pappas is a member of the Advisory Board of Amegy Bank, a Division of ZB, N.A. (formerly, Amegy Bank, N.A.), which is a lender and syndication agent under the Company's 2013 Revolving Credit Facility.

## Key Management Personnel

The Company entered into a new employment agreement with Christopher Pappas on January 24, 2014. The employment agreement was amended on February 4, 2016, to extend the termination date thereof to August 31, 2017, unless earlier terminated. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc.

Peter Tropoli, a director of the Company and the Company's Chief Operating Officer, and formerly the Company's Senior Vice President, Administration, General Counsel and Secretary, is an attorney and stepson of Frank Markantonis, who is a director of the Company.

Paulette Gerukos, Vice President of Human Resources of the Company, is the sister-in-law of Harris J. Pappas, who is a director of the Company.

## Note 10. Share-Based Compensation

We have two active share based stock plans, the Employee Stock Plan and the Nonemployee Director Stock Plan. Both plans authorize the granting of stock options, restricted stock and other types of awards consistent with the purpose of the plans.

Of the 1.1 million shares approved for issuance under the Nonemployee Director Stock Plan, 0.9 million options, restricted stock units and restricted stock awards were granted, and 0.1 million options were cancelled or expired and added back into the plan, since the plan's inception. Approximately 0.3 million shares remain available for future issuance as of June 1, 2016. Compensation cost for share-based payment arrangements under the Nonemployee Director Stock Plan, recognized in selling, general and administrative expenses for the three quarters ended June 1, 2016 and May 6, 2015 were approximately \$524,000 and \$472,000, respectively.

Of the 4.1 million shares approved for issuance under the Employee Stock Plan, 5.7 million options and restricted stock units were granted, and 3.4 million options and restricted stock units were cancelled or expired and added back into the plan, since the plan's inception. Approximately 1.8 million shares remain available for future issuance as of June 1, 2016. Compensation cost for share-based payment arrangements under the Employee Stock Plan, recognized in selling, general and administrative expenses for the three quarters ended June 1, 2016 and May 6, 2015 were approximately \$827,000 and \$543,000, respectively. Included in the quarter ended December 16, 2015, share based compensation cost was approximately \$252,000, which represented accelerated share-based compensation expense as a result of the cancellation of 312,663 stock options.

In 2015, the Company approved a Total Shareholder Return, (TSR), Performance Based Incentive Plan which provides for a right to receive an unspecified number of shares of common stock under the Employee Stock Plan based on the total shareholder return ranking compared to a selection of peer companies over a three-year cycle. The award value varies from 0% to 200% of a base amount, as a result of the Company's TSR performance in comparison to its peers over the measurement period. The number of shares at the end of the three-year period will be determined as the award value divided by the closing stock price on the last day of each fiscal year accordingly. Since the plan provides for an undeterminable number of shares, the plan is accounted for as a liability based plan. As of June 1, 2016, the estimated fair value of the performance shares liability at the end of fiscal 2017 and fiscal 2018, was \$0.5 million for both years. The estimated liability has been determined based on a Monte Carlo simulation model. Based on this estimate, management accrues expense ratably over the three-year service periods. A valuation estimate of the future liability associated with each fiscal year's performance award plan will be performed periodically with adjustments made to the outstanding liability at each reporting period, as appropriate. As of June 1, 2016, the Company has recorded \$243,000 in non-cash compensation expense in selling, general and administrative expenses

related to its TSR Performance Based Incentive Plans.

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## Stock Options

Stock options granted under either the Employee Stock Plan or the Nonemployee Director Stock Plan have exercise prices equal to the market price of the Company's common stock at the date of the grant.

Option awards under the Nonemployee Director Stock Plan generally vest 100% on the first anniversary of the grant date and expire ten years from the grant date. No options were granted under the Nonemployee Director Stock Plan in the three quarters ended June 1, 2016. No options to purchase shares remain outstanding under this plan as of June 1, 2016.

Options granted under the Employee Stock Plan generally vest 50% on the first anniversary date of the grant date, 25% on the second anniversary of the grant date and 25% on the third anniversary of the grant date, with all options expiring ten years from the grant date. All options granted in the three quarters ended June 1, 2016 were granted under the Employee Stock Plan. Options to purchase 1,208,590 shares at option prices of \$3.44 to \$11.10 per share remain outstanding as of June 1, 2016.

A summary of the Company's stock option activity for the three quarters ended June 1, 2016 is presented in the following table:

|                                | Shares<br>Under<br>Fixed<br>Options | Weighted-<br>Average<br>Exercise<br>Price<br><br>(Per<br>share) | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br><br>(In years) | Aggregate<br>Intrinsic<br>Value<br><br>(In<br>thousands) |
|--------------------------------|-------------------------------------|---|--|--|
| Outstanding at August 26, 2015 | 1,288,099                           | \$ 4.76   | 6.5  | \$ 460   |
| Granted                        | 279,944                             | 4.89  | —  | —  |
| Exercised                      | (21,249 )                           | 3.51  | —  | —  |
| Cancelled                      | (312,663 )                          | 4.98  | —  | —  |
| Forfeited/Expired              | (25,541 )                           | 4.34  | —  | —  |
| Outstanding at June 1, 2016    | 1,208,590                           | \$ 4.76   | 6.8  | \$ 421   |
| Exercisable at June 1, 2016    | 661,099                             | \$ 4.76   | 5.2  | \$ 333   |

The intrinsic value for stock options is defined as the difference between the current market value, or closing price on June 1, 2016, and the grant price on the measurement dates in the table above.

## Restricted Stock Units

Grants of restricted stock units consist of the Company's common stock and generally vest after three years. All restricted stock units are cliff-vested. Restricted stock units are valued at the closing market price of the Company's common stock at the date of grant.

A summary of the Company's restricted stock unit activity during the three quarters ended June 1, 2016 is presented in the following table:

| Restricted<br>Stock<br>Units | Weighted<br>Average | Weighted-<br>Average<br>Remaining |
|------------------------------|---------------------|-----------------------------------|
|------------------------------|---------------------|-----------------------------------|

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|                             |           | Fair<br>Value<br>(Per<br>share) | Contractual<br>Term<br>(In years) |
|-----------------------------|-----------|---------------------------------|-----------------------------------|
| Unvested at August 26, 2015 | 409,417   | \$ 5.98                         | 1.6                               |
| Granted                     | 172,212   | 4.87                            | —                                 |
| Vested                      | (257,482) | 6.19                            | —                                 |
| Forfeited                   | (4,202 )  | 5.95                            | —                                 |
| Unvested at June 1, 2016    | 319,945   | \$ 5.22                         | 2.1                               |



At June 1, 2016, there was approximately \$1.0 million of total unrecognized compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 2.1 years.

#### Restricted Stock Awards

Under the Nonemployee Director Stock Plan, directors are granted restricted stock in lieu of cash payments, for all or a portion of their compensation as directors. The number of shares granted is valued at the closing market price of the Company's stock at the date of the grant. Restricted stock awards vest when granted because they are granted in lieu of a cash payment. However, directors are restricted from selling their shares until after the third anniversary of the date of the grant. Directors may receive a 20% premium of additional restricted stock by opting to receive stock over a minimum required amount of stock, in lieu of cash.

#### Note 11. Earnings Per Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and unvested restricted stock for the reporting period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options determined using the treasury stock method. Stock options excluded from the computation of net income per share for the three quarters ended June 1, 2016 include approximately 513,000 shares with exercise prices exceeding market prices and approximately 98,000 shares whose inclusion would also be anti-dilutive.

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

|  | Quarter Ended                         |             | Three Quarters Ended |             |
|--|---------------------------------------|-------------|----------------------|-------------|
|  | June 1, 2016                          | May 6, 2015 | June 1, 2016         | May 6, 2015 |
|  | (12 weeks)                            | (12 weeks)  | (40 weeks)           | (36 weeks)  |
|  | (In thousands, except per share data) |             |                      |             |
| Numerator:   |                                       |             |                      |             |
| Income (loss) from continuing operations                         | \$(147 )                              | \$2,484     | \$(2,468)            | \$(1,681)   |
| Income (loss) from discontinued operations, net of income taxes  | 13                                    | (131 )      | (77 )                | (344 )      |
| NET INCOME (LOSS)  | \$(134 )                              | \$2,353     | \$(2,545)            | \$(2,025)   |
| Denominator:   |                                       |             |                      |             |
| Denominator for basic earnings per share—weighted-average shares | 29,259                                | 29,009      | 29,207               | 28,940      |
| Effect of potentially dilutive securities:                       |                                       |             |                      |             |
| Employee and non-employee stock options                          | —                                     | 102         | —                    | —           |
| Denominator for earnings per share assuming dilution             | 29,259                                | 29,111      | 29,207               | 28,940      |
| Income (loss) per share from continuing operations:              |                                       |             |                      |             |
| Basic  | \$(0.01)                              | \$0.09      | \$(0.09 )            | \$(0.06 )   |
| Assuming dilution  | \$(0.01)                              | \$0.09      | \$(0.09 )            | \$(0.06 )   |
| Income (loss) per share from discontinued operations:            |                                       |             |                      |             |
| Basic  | \$0.00                                | \$(0.01 )   | \$(0.00 )            | \$(0.01 )   |
| Assuming dilution  | \$0.00                                | \$(0.01 )   | \$(0.00 )            | \$(0.01 )   |
| Net income (loss) per share:                                     |                                       |             |                      |             |
| Basic  | \$(0.01)                              | \$0.08      | \$(0.09 )            | \$(0.07 )   |

Assuming dilution

\$(0.01) \$0.08 \$(0.09 ) \$(0.07 )

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

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited Consolidated Financial Statements and footnotes for the quarter ended June 1, 2016 included in Item 1 of Part I of this Quarterly Report on Form 10 (this "Form 10-Q"), and the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 26, 2015.

The following presents an analysis of the results and financial condition of our continuing operations. Except where indicated otherwise, the results of discontinued operations are excluded from this discussion.

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The following table sets forth selected operating data as a percentage of total revenues (unless otherwise noted) for the periods indicated. All information is derived from the accompanying consolidated statements of income.

Percentages may not total due to rounding.

|                            | Quarter Ended              |                           | Three Quarters Ended       |                           |
|----------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
|                            | June 1, 2016<br>(12 weeks) | May 6, 2015<br>(12 weeks) | June 1, 2016<br>(40 weeks) | May 6, 2015<br>(36 weeks) |
| Restaurant sales           | 93.9 %                     | 94.4 %                    | 93.9 %                     | 93.7 %                    |
| Culinary contract services | 4.2 %                      | 3.9 %                     | 4.2 %                      | 4.4 %                     |
| Franchise revenue          | 1.7 %                      | 1.7 %                     | 1.8 %                      | 1.8 %                     |
| Vending revenue            | 0.2 %                      | 0.1 %                     | 0.1 %                      | 0.1 %                     |
| <b>TOTAL SALES</b>         | <b>100.0 %</b>             | <b>100.0 %</b>            | <b>100.0 %</b>             | <b>100.0 %</b>            |

**STORE COSTS AND EXPENSES:**

(As a percentage of restaurant sales)

|                           |         |         |         |         |
|---------------------------|---------|---------|---------|---------|
| Cost of food              | 28.0 %  | 28.4 %  | 28.4 %  | 29.1 %  |
| Payroll and related costs | 35.6 %  | 33.8 %  | 34.9 %  | 34.6 %  |
| Other operating expenses  | 15.7 %  | 16.1 %  | 16.0 %  | 16.8 %  |
| Occupancy costs           | 5.9 %   | 5.4 %   | 6.0 %   | 5.8 %   |
| Vending revenue           | (0.2 )% | (0.1 )% | (0.2 )% | (0.1 )% |
| Store level profit        | 15.0 %  | 16.4 %  | 14.9 %  | 13.9 %  |

**COMPANY COSTS AND EXPENSES:**

(As a percentage of total sales)

|  |        |         |         |         |
|--|--------|---------|---------|---------|
| Opening costs  | 0.1 %  | 0.5 %   | 0.2 %   | 0.7 %   |
| Depreciation and amortization                            | 5.8 %  | 5.1 %   | 5.8 %   | 5.4 %   |
| Selling, general and administrative expenses             | 10.0 % | 8.6 %   | 10.6 %  | 9.8 %   |
| Net loss (gain) on disposition of property and equipment | — %    | (0.6 )% | (0.3 )% | (0.6 )% |

**Culinary Contract Services Costs**

(As a percentage of Culinary Contract Services sales)

|                                    |        |        |        |        |
|------------------------------------|--------|--------|--------|--------|
| Cost of culinary contract services | 90.8 % | 89.2 % | 90.2 % | 90.1 % |
| Culinary income                    | 9.2 %  | 10.8 % | 9.8 %  | 9.9 %  |

**Franchise Operations Costs**

(As a percentage of Franchise Operations)

|                              |        |        |        |        |
|------------------------------|--------|--------|--------|--------|
| Cost of franchise operations | 27.8 % | 26.0 % | 27.4 % | 24.1 % |
| Franchise income             | 72.2 % | 74.0 % | 72.6 % | 75.9 % |

(As a percentage of total sales)

|                                      |                |              |                |                |
|--------------------------------------|----------------|--------------|----------------|----------------|
| <b>INCOME (LOSS) FROM OPERATIONS</b> | <b>(0.4 )%</b> | <b>3.7 %</b> | <b>(0.7 )%</b> | <b>(0.6 )%</b> |
| Interest income                      | — %            | — %          | — %            | — %            |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Interest expense  | (0.5 )% | (0.6 )% | (0.5 )% | (0.6 )% |
| Other income (expense), net                                     | 0.1 %   | — %     | — %     | 0.1 %   |
| Income (loss) before income taxes and discontinued operations   | (0.8 )% | 3.1 %   | (1.2 )% | (1.1 )% |
| Provision (benefit) for income taxes                            | (0.6 )% | 0.4 %   | (0.5 )% | (0.5 )% |
| Income (loss) from continuing operations                        | (0.2 )% | 2.7 %   | (0.7 )% | (0.6 )% |
| Income (loss) from discontinued operations, net of income taxes | — %     | (0.1 )% | — %     | (0.1 )% |
| NET INCOME (LOSS)   | (0.2 )% | 2.6 %   | (0.7 )% | (0.7 )% |

Although store level profit, defined as restaurant sales less cost of food, payroll and related costs, other operating expenses and occupancy costs is a non-GAAP measure, we believe its presentation is useful because it explicitly shows the results of our most significant reportable segment. The following table reconciles between store level profit, a non-GAAP, measure to loss from continuing operations, a GAAP measure:

|  | Quarter Ended                                |   | Three Quarters Ended                         |   |
|--|--|---|--|---|
|  | June 1, 2016<br>(12 weeks)<br>(In thousands) | May 6, 2015<br>(12 weeks)<br>(In thousands) | June 1, 2016<br>(40 weeks)<br>(In thousands) | May 6, 2015<br>(36 weeks)<br>(In thousands) |
| Store level profit                                       | \$13,013                                     | \$14,609                                    | \$42,540                                     | \$35,354                                    |
| Plus:  |  |   |  |   |
| Sales from culinary contract services                    | 3,892  | 3,624                                       | 12,726                                       | 11,993                                      |
| Sales from franchise operations                          | 1,586  | 1,578                                       | 5,411  | 4,764                                       |
| Less:  |  |   |  |   |
| Opening costs  | 117  | 427   | 688  | 2,022                                       |
| Cost of culinary contract services                       | 3,534  | 3,232                                       | 11,476                                       | 10,809                                      |
| Cost of franchise operations                             | 441  | 410   | 1,480  | 1,147                                       |
| Depreciation and amortization                            | 5,304  | 4,759                                       | 17,538                                       | 14,608                                      |
| Selling, general and administrative expenses             | 9,227  | 8,139                                       | 32,312                                       | 26,671                                      |
| Provision for asset impairments                          | 172  | —   | 209  | 218   |
| Net loss (gain) on disposition of property and equipment | 42   | (609)                                       | (793)  | (1,696)                                     |
| Interest income  | —  | (1)   | (3)  | (3)   |
| Interest expense   | 482  | 599   | 1,674  | 1,624                                       |
| Other income (expense), net                              | (88)   | (24)  | 2  | (282)                                       |
| Provision (benefit) for income taxes                     | (593)  | 395   | (1,438)                                      | (1,326)                                     |
| Income (loss) from continuing operations                 | \$(147)                                      | \$2,484                                     | \$(2,468)                                    | \$(1,681)                                   |

The following table shows our restaurant unit count as of August 26, 2015 and June 1, 2016.

Restaurant Counts:

|                                  | August 26, 2015 | FY16 YTD Q3 Openings | FY16 YTD Q3 Closings | June 1, 2016 |
|----------------------------------|-----------------|----------------------|----------------------|--------------|
| Luby's Cafeterias                | 93              | —                    | (1)                  | 92           |
| Fuddrucker's Restaurants         | 75              | 3                    | (1)                  | 77           |
| Cheeseburger in Paradise         | 8               | —                    | —                    | 8            |
| Other restaurants <sup>(1)</sup> | 1               | —                    | —                    | 1            |
| Total                            | 177             | 3                    | (2)                  | 178          |

<sup>(1)</sup> Other restaurants include one Bob Luby's Seafood Grill.



## Overview

Luby's, Inc. ("Luby's" or "Company") is a multi-branded company operating in the restaurant industry and in the contract food services industry. Our primary brands include Luby's Cafeteria, Fuddruckers - World's Greatest Hamburgers®, Luby's Culinary Contract Services and Cheeseburger in Paradise.

Our Company's vision is that our guests, employees and shareholders stay loyal to our restaurant brands and value them as a significant part of their lives. We want our company's performance to make it a leader in our industry.

We are headquartered in Houston, Texas. Our corporate headquarters is located at 13111 Northwest Freeway, Suite 600, Houston, Texas 77040, and our telephone number at that address is (713) 329-6800. Our website is [www.lubysinc.com](http://www.lubysinc.com). The information on our website is not, and shall not be deemed to be, a part of this Quarterly Report on Form 10-Q or incorporated by reference into any of our other filings with the SEC.

As of June 1, 2016, we owned and operated 178 restaurants, of which 92 are traditional cafeterias, 77 are gourmet hamburger restaurants, eight are casual dining restaurants and bars, and one primarily serves seafood. These establishments are located in close proximity to retail centers, business developments and residential areas mostly throughout the United States. Included in the 178 restaurants that we own and operate are 12 restaurants located at six property locations where we operate a side-by-side Luby's Cafeteria and Fuddruckers on the same property. We refer to these locations as "Combo locations."

As of June 1, 2016, we operated 26 Culinary Contract Services locations; 17 in the Houston, Texas area, three in Louisiana, and one in each of North Carolina, Florida, Georgia, Oklahoma, Missouri, and Massachusetts. Luby's Culinary Contract Services provides food service management to healthcare, educational and corporate dining facilities.

As of June 1, 2016, we had 52 franchisees operating 114 Fuddruckers restaurants. Our largest six franchise owners own five to twelve restaurants each. Fifteen franchise owners each own two to four restaurants. The 31 remaining franchise owners each own one restaurant.

## Accounting Periods

Our fiscal year ends on the last Wednesday in August. Accordingly, each fiscal year normally consists of 13 four-week periods, or accounting periods, accounting for 364 days in the aggregate. In fiscal year 2015, and prior, each of the first three quarters of each fiscal year consisted of three four-week periods, while the fourth quarter normally consisted of four four-week periods. Beginning in fiscal year 2016, the first quarter consisted of four four-week periods, while the last three quarters will normally consist of three four-week periods. However, fiscal year 2016 is a fiscal year consisting of 53 weeks, accounting for 371 days in the aggregate. As such, the fourth quarter of fiscal year 2016 will contain one five-week period, resulting in a 13-week fourth quarter, or 91 days in the aggregate. Comparability between quarters may be affected by the varying lengths of the quarters, as well as the seasonality associated with the restaurant business.

## Same-Store Sales

The restaurant business is highly competitive with respect to food quality, concept, location, price, and service, all of which may have an effect on same-store sales. Our same-store sales calculation measures the relative performance of a certain group of restaurants. A restaurant's sales results are included in the same-store sales calculation in the quarter after a store has been open for six consecutive fiscal quarters. Our Company-owned Fuddruckers restaurants were included in this measurement beginning with the third quarter fiscal 2012. The Cheeseburger in Paradise stores that



were acquired in December 2012 were included in the same-store metric beginning the first quarter fiscal 2015. Stores that close on a permanent basis are removed from the group in the quarter when operations cease at the restaurant, but remain in the same-store group for previously reported quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies.

## RESULTS OF OPERATIONS

## Quarter Ended June 1, 2016 Compared to Quarter Ended May 6, 2015

Comparability between quarters is affected by the varying lengths of the quarters and quarters ending at different points in the calendar year when seasonal patterns for sales are different. The quarter ended June 1, 2016 consisted of 12 weeks and the quarter ended May 6, 2015 consisted of 12 weeks, and while both quarters were 12 weeks in length, the quarters ended at different points in the calendar year. For comparison to the 12-week quarter ended June 1, 2016, certain tables and comments, in this management discussion and analysis, also present a comparable 12-week period ended June 3, 2015. In addition, the three quarters ended June 1, 2016 was 40 weeks in length, while the three quarters ended May 6, 2015 was 36 weeks in length. For comparison to the three quarters ended June 1, 2016, certain tables and comments in this management discussion and analysis also present a comparable 40-week period ended June 3, 2015.

## Sales

|                            | Quarter Ended              | Quarter Ended             | Comparable Period Ended    | Q3FY2016 vs Comparable Period                     |
|----------------------------|----------------------------|---------------------------|----------------------------|---|
| (\$000s)                   | June 1, 2016<br>(12 weeks) | May 6, 2015<br>(12 weeks) | June 3, 2015<br>(12 weeks) | Increase/<br>(Decrease)<br>(12 weeks vs 12 weeks) |
| Restaurant sales           | \$86,476                   | \$88,788                  | \$ 87,805                  | (1.5 )%   |
| Culinary contract services | 3,892                      | 3,624                     | 3,343                      | 16.4 %  |
| Franchise revenue          | 1,586                      | 1,578                     | 1,605                      | (1.2 )%   |
| Vending revenue            | 143                        | 112                       | 116                        | 23.3 %  |
| TOTAL SALES                | \$92,097                   | \$94,102                  | \$ 92,869                  | (0.8 )%   |

Total sales decreased approximately \$2.0 million, or 2.1%, in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015, consisting primarily of an approximate \$2.3 million decrease in restaurant sales offset by an approximate \$0.3 million increase in Culinary Contract Services sales. The other components of total sales are franchise revenue and vending revenue, which increased \$8 thousand and \$31 thousand, respectively, in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015.

Total sales decreased approximately \$0.8 million, or 0.8%, in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015, consisting primarily of an approximate \$1.3 million decrease in restaurant sales offset by an approximate \$0.5 million increase in Culinary Contract Services sales. The other components of total sales are franchise revenue and vending revenue, which decreased \$19 thousand and increased \$27 thousand, respectively, in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015.

|          | Three Quarters Ended | Three Quarters Ended | Comparable Period Ended    | YTDQ3 FY2016 vs Comparable Period |
|----------|----------------------|----------------------|----------------------------|-----------------------------------|
| (\$000s) | June 1, 2016         | May 6, 2015          | June 3, 2015<br>(40 weeks) | Increase/<br>(Decrease)           |

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|                            | (40<br>weeks)    | (36<br>weeks)    |                   | (40 weeks<br>vs 40<br>weeks) |          |
|----------------------------|------------------|------------------|-------------------|------------------------------|----------|
| Restaurant sales           | \$286,336        | \$254,832        | \$ 283,500        | 1.0                          | %        |
| Culinary contract services | 12,726           | 11,993           | 13,058            | (2.5                         | )%       |
| Franchise revenue          | 5,411            | 4,764            | 5,309             | 1.9                          | %        |
| Vending revenue            | 437              | 355              | 398               | 9.8                          | %        |
| <b>TOTAL SALES</b>         | <b>\$304,910</b> | <b>\$271,944</b> | <b>\$ 302,265</b> | <b>0.9</b>                   | <b>%</b> |

Total sales increased approximately \$2.6 million, or 0.9%, in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015, consisting primarily of an approximate \$2.8 million increase in restaurant sales and an approximate \$0.1 million increase in franchise revenue, offset by an approximate \$0.3 million decrease in Culinary Contract

Services sales. The other component of total sales is vending revenue, which increased \$39 thousand in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015.

The Company has three reportable segments: Company-owned restaurants, franchise operations, and culinary contract services.

#### Company-Owned Restaurants

##### Restaurant Sales

| Restaurant Brand<br>(\$000s) | Quarter<br>Ended                 | Quarter<br>Ended                | Comparable<br>Period<br>Ended | Q3FY2016 vs<br>Comparable Period |             |
|------------------------------|----------------------------------|---------------------------------|-------------------------------|----------------------------------|-------------|
|                              | June 1,<br>2016<br>(12<br>weeks) | May 6,<br>2015<br>(12<br>weeks) | June 3,<br>2015<br>(12 weeks) | Increase/(Decrease)<br>\$        | %<br>Change |
| Luby's Cafeterias            | \$51,808                         | \$53,975                        | \$ 52,937                     | \$(1,129 )                       | (2.1 )%     |
| Fuddruckers                  | 24,790                           | 24,204                          | 24,078                        | 712                              | 3.0 %       |
| Combo locations              | 5,280                            | 6,355                           | 6,162                         | (882 )                           | (14.3 )%    |
| Cheeseburger in Paradise     | 4,598                            | 4,254                           | 4,628                         | (30 )                            | (0.6 )%     |
| Restaurant Sales             | \$86,476                         | \$88,788                        | \$ 87,805                     | \$(1,329 )                       | (1.5 )%     |

Restaurant sales decreased approximately \$2.3 million in the quarter ended June 1, 2016, compared to the quarter ended May 6, 2015. Sales at stand-alone Luby's Cafeteria restaurants decreased approximately \$2.2 million to approximately \$51.8 million; sales from stand-alone Fuddruckers locations increased by approximately \$0.6 million to approximately \$24.8 million; sales at Combo locations decreased approximately \$1.1 million to approximately \$5.3 million; and sales at Cheeseburger in Paradise restaurants increased by approximately \$0.3 million to approximately \$4.6 million.

Restaurant sales decreased approximately \$1.3 million in the quarter ended June 1, 2016, compared to the 12-week comparable period ended June 3, 2015. Sales at stand-alone Luby's Cafeteria restaurants decreased approximately \$1.1 million to approximately \$51.8 million; sales from stand-alone Fuddruckers locations increased by approximately \$0.7 million to approximately \$24.8 million; sales at Combo locations decreased approximately \$0.9 million to approximately \$5.3 million; and sales at Cheeseburger in Paradise restaurants decreased by \$30 thousand to approximately \$4.6 million.

The approximate \$1.1 million sales decrease in stand-alone Luby's Cafeteria restaurants was the result of the closure of three locations and a 0.2% decrease in same-store sales. The 0.2% decrease in Luby's Cafeteria same-store sales was the result of a 3.7% increase in guest traffic offset by a 3.9% decrease in average spend per guest. The approximate \$0.7 million sales increase at stand-alone Fuddruckers restaurants was the result of eight restaurant openings offset by the closure of three locations and a 1.0% decrease in same-store sales. The 1.0% decrease in Fuddruckers same-store sales was the result of a 1.9% decline in guest traffic offset by a 0.9% increase in average spend per guest. All eight stores that we operate as Cheeseburger in Paradise are included in our same-store grouping and sales at this group of restaurants decreased 0.6% in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015. The approximate \$0.9 million decrease in sales at our Combo locations was due to a comparison against a high volume sales period in the prior year following the opening of our sixth Combo location; the five Combo locations included in our same-store grouping decreased sales by 3.3%.



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| Restaurant Brand<br>(\$000s) | Three<br>Quarters<br>Ended<br>June 1,<br>2016 | Three<br>Quarters<br>Ended<br>May 6,<br>2015 | Comparable<br>Period<br>Ended<br>June 3,<br>2015<br>(40 weeks) | YTDQ3 FY2016 vs<br>Comparable Period<br>Increase/(Decrease) |             |
|------------------------------|---|--|--|---|-------------|
|                              | (40<br>weeks)                                 | (36<br>weeks)                                | (40 weeks)   | \$ Amount   | %<br>Change |
| Luby's Cafeterias            | \$175,628                                     | \$159,099                                    | \$176,191  | \$ (563)  | (0.3)%      |
| Fuddruckers                  | 80,237  | 68,475                                       | 76,496   | 3,741   | 4.9%        |
| Combo locations              | 17,595  | 16,349                                       | 18,298   | (703)   | (3.8)%      |
| Cheeseburger in Paradise     | 12,876  | 10,909                                       | 12,515   | 361   | 2.9%        |
| Total Restaurant Sales       | \$286,336                                     | \$254,832                                    | \$283,500  | \$2,836   | 1.0%        |

Restaurant sales increased approximately \$2.8 million in the three quarters ended June 1, 2016, compared to the 40-week comparable period ended June 3, 2015. Sales at stand-alone Luby's Cafeteria restaurants decreased approximately \$0.6 million to approximately \$175.6 million; sales from stand-alone Fuddruckers locations increased by approximately \$3.7 million to approximately \$80.2 million; sales at Combo locations decreased approximately \$0.7 million to approximately \$17.6 million; and sales at Cheeseburger in Paradise restaurants increased by approximately \$0.4 million to approximately \$12.9 million.

The approximate \$0.6 million sales decrease in stand-alone Luby's Cafeteria restaurants was the result of a 1.4% increase in same-store sales offset by the closure of three locations. The 1.4% increase in Luby's Cafeteria same-store sales was the result of a 2.9% increase in guest traffic offset by a 1.5% decrease in average spend per guest. The approximate \$3.7 million sales increase at stand-alone Fuddruckers restaurants was the result of eight restaurant openings and a same-store sales increase of 0.2%, offset by the closure of three locations. Fuddruckers same-store sales increase of 0.2% was the result of a 3.2% decline in guest traffic offset by a 3.4% increase in average spend per guest. The approximate \$0.7 million decrease in sales at our Combo locations was due to comparison against a high volume sales period in the prior year following the opening of our sixth Combo location and a decline in Combo same-store sales of 1.9%. All eight stores that we operate as Cheeseburger in Paradise are included in our same-store grouping and this group of restaurants realized a 2.9% increase in sales in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015.

Cost of Food

| (\$000s)                            | Quarter<br>Ended<br>June 1,<br>2016 | Quarter<br>Ended<br>May 6,<br>2015 | Comparable<br>Period<br>Ended<br>June 3,<br>2015<br>(12 weeks) | Q3FY2016<br>vs<br>Comparable<br>Period<br>Increase/<br>(Decrease) |    |
|-------------------------------------|-------------------------------------|------------------------------------|--|---|----|
|                                     | (12<br>weeks)                       | (12<br>weeks)                      | (12 weeks)   | vs 12<br>weeks)   |    |
| Cost of food                        | \$24,221                            | \$25,218                           | \$24,935   | (2.9)   | )% |
| As a percentage of restaurant sales | 28.0                                | % 28.4                             | % 28.4   | % (0.4)   | )% |

Cost of food decreased approximately \$1.0 million in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. As a percentage of restaurant sales, cost of food decreased 0.4% to 28.0% in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015.

Cost of food decreased approximately \$0.7 million in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015 due primarily to decreases in food commodity costs, particularly with beef costs which were 22% lower at Fuddruckers where the core menu items include hamburgers. As a percentage of restaurant sales, cost of food decreased 0.4% to 28.0% in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015. Food commodity prices for our basket of food commodity purchases decreased approximately 3% at our Luby's Cafeterias locations and approximately 8% at our Fuddruckers restaurants in the quarter ended June 1, 2016.

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| (\$000s)                            | Three    | Three    | Comparable | YTDQ3 FY2016 vs     |   |
|-------------------------------------|----------|----------|------------|---------------------|---|
|                                     | Quarters | Quarters | Period     | Comparable Period   |   |
|                                     | Ended    | Ended    | Ended      | Increase/(Decrease) |   |
|                                     | June 1,  | May 6,   | June 3,    |                     |   |
|                                     | 2016     | 2015     | 2015       |                     |   |
|                                     | (40      | (36      | (40 weeks) | (40 weeks vs 40     |   |
|                                     | weeks)   | weeks)   |            | weeks)              |   |
| Cost of food                        | \$81,256 | \$74,171 | \$82,303   | 1.3                 | % |
| As a percentage of restaurant sales | 28.4     | % 29.1   | % 29.0     | % 0.6               | % |

Cost of food decreased approximately \$1.0 million, or 1.3%, for the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015 due primarily to decreases in food commodity costs, particularly with beef costs which were 23% lower at Fuddruckers where the core menu items include hamburgers. As a percentage of restaurant sales, cost of food decreased 0.6% to 28.4% in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015. Food commodity prices for our basket of food commodity purchases decreased approximately 3.0% at our Luby's Cafeterias locations and approximately 7.0% at our Fuddruckers restaurants for the three quarters ended June 1, 2016.

Payroll and Related Costs

| (\$000s)                            | Quarter  | Quarter  | Comparable | Q3FY2016 vs         |   |
|-------------------------------------|----------|----------|------------|---------------------|---|
|                                     | Ended    | Ended    | Period     | Comparable Period   |   |
|                                     | Ended    | Ended    | Ended      | Increase/(Decrease) |   |
|                                     | June 1,  | May 6,   | June 3,    |                     |   |
|                                     | 2016     | 2015     | 2015       |                     |   |
|                                     | (12      | (12      | (12 weeks) | (12 weeks vs 12     |   |
|                                     | weeks)   | weeks)   |            | weeks)              |   |
| Payroll and related costs           | \$30,748 | \$29,971 | \$29,782   | 3.2                 | % |
| As a percentage of restaurant sales | 35.6     | % 33.8   | % 33.9     | % 1.7               | % |

Payroll and related costs increased approximately \$0.8 million in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015 and increased approximately \$1.0 million compared to the 12-week comparable period ended June 3, 2015. The increase is primarily related to higher average hourly wage rates, increased scheduling of hourly overtime, our investments in training and leadership development, as well as higher workers' compensation expense. As a percentage of restaurant sales, payroll and related costs increased 1.8% to 35.6% in the quarter ended June 1, 2016 compared to 33.8% in the quarter ended May 6, 2015. As a percentage of restaurant sales, payroll and related costs increased 1.7%, to 35.6% in the quarter ended June 1, 2016 compared to 33.9% in the 12-week comparable period ended June 3, 2015 due to the cost increases discussed above while we experienced modest same-store sales declines.

| (\$000s)                            | Three      | Three    | Comparable | YTDQ3 FY2016 vs     |   |
|-------------------------------------|------------|----------|------------|---------------------|---|
|                                     | Quarters   | Quarters | Period     | Comparable Period   |   |
|                                     | Ended      | Ended    | Ended      | Increase/(Decrease) |   |
|                                     | June 1,    | May 6,   | June 3,    |                     |   |
|                                     | 2016       | 2015     | 2015       |                     |   |
|                                     | (40 weeks) | (36      | (40 weeks) | (40 weeks vs 40     |   |
|                                     |            | weeks)   |            | weeks)              |   |
| Payroll and related costs           | \$100,007  | \$88,177 | \$98,047   | 2.0                 | % |
| As a percentage of restaurant sales | 34.9       | % 34.6   | % 34.6     | % 0.3               | % |



Payroll and related costs increased approximately \$2.0 million in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015 due to increases in both hourly employee costs and restaurant management costs. Increases in payroll costs is primarily related to investments in training and leadership development as well as higher variable management compensation on improved store level profitability, increased scheduling of hourly overtime, and higher average hourly wage rates, all partially offset by lower workers' compensation expense. As a percentage of restaurant sales, payroll and related costs increased 0.3%, to 34.9% in the quarter ended June 1, 2016 compared to 34.6% in the 40-week comparable period ended June 3, 2015 due the cost increases discussed above which grew more than our 1.0% increase in restaurant sales.

## Other Operating Expenses

|                                     | Quarter<br>Ended                 | Quarter<br>Ended                | Comparable<br>Period<br>Ended | Q3FY2016 vs<br>Comparable Period                     |
|-------------------------------------|----------------------------------|---------------------------------|-------------------------------|--|
| (\$000s)                            | June 1,<br>2016<br>(12<br>weeks) | May 6,<br>2015<br>(12<br>weeks) | June 3,<br>2015<br>(12 weeks) | Increase/(Decrease)<br><br>(12 weeks vs 12<br>weeks) |
| Other operating expenses            | \$13,572                         | \$14,276                        | \$14,215                      | (4.5)%   |
| As a percentage of restaurant sales | 15.7%                            | 16.1%                           | 16.2%                         | (0.5)%   |

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, local store advertising, property and liability insurance losses above insurance deductibles, services and supplies. Other operating expenses decreased approximately \$0.7 million, or 4.9% in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. Other operating expenses decreased by approximately \$0.6 million, or 4.5% in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015, due primarily to (1) an approximate \$0.3 million decrease in repairs and maintenance expense and (2) an approximate \$0.3 million decrease utilities expense. As a percentage of restaurant sales, other operating expenses decreased 0.5%, to 15.7%, in the quarter ended June 1, 2016, compared to 16.2% for the 12-week comparable period ended June 3, 2015.

|                                     | Three<br>Quarters<br>Ended       | Three<br>Quarters<br>Ended      | Comparable<br>Period<br>Ended | YTDQ3 FY2016 vs<br>Comparable Period                 |
|-------------------------------------|----------------------------------|---------------------------------|-------------------------------|--|
| (\$000s)                            | June 1,<br>2016<br>(40<br>weeks) | May 6,<br>2015<br>(36<br>weeks) | June 3,<br>2015<br>(40 weeks) | Increase/(Decrease)<br><br>(40 weeks vs 40<br>weeks) |
| Other operating expenses            | \$45,728                         | \$42,688                        | \$47,363                      | (3.5)%   |
| As a percentage of restaurant sales | 16.0%                            | 16.8%                           | 16.7%                         | (0.7)%   |

Other operating expenses decreased by approximately \$1.6 million, or 3.5% in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015, due primarily to (1) an approximate \$1.0 million decrease in utilities expense; (2) an approximate \$0.8 million decrease in repairs and maintenance expense; (3) an approximate \$0.4 million decrease in store-level marketing expense and (4) an approximate \$0.1 million decrease in losses above insurance deductibles; offset by (5) an approximate \$0.7 million increase in restaurant supplies, services, and other operating expenses. As a percentage of restaurant sales, other operating expenses decreased 0.7%, to 16.0%, in the three quarters ended June 1, 2016, compared to 16.7% for the 40-week comparable period ended June 3, 2015.

## Occupancy Costs

|                                     | Quarter<br>Ended                 | Quarter<br>Ended                | Comparable<br>Period<br>Ended | Q3FY2016 vs<br>Comparable Period                     |
|-------------------------------------|----------------------------------|---------------------------------|-------------------------------|--|
| (\$000s)                            | June 1,<br>2016<br>(12<br>weeks) | May 6,<br>2015<br>(12<br>weeks) | June 3,<br>2015<br>(12 weeks) | Increase/(Decrease)<br><br>(12 weeks vs 12<br>weeks) |
| Occupancy costs                     | \$5,065                          | \$4,826                         | \$4,819                       | 5.1%   |
| As a percentage of restaurant sales | 5.9%                             | 5.4%                            | 5.5%                          | 0.4%   |

Occupancy costs include property lease expense, property taxes, common area maintenance charges, and property insurance expense. Occupancy costs increased approximately \$0.2 million to approximately \$5.1 million in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. Occupancy costs increased approximately \$0.2 million to approximately \$5.1 million in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015. The increase was primarily due to a net increase of three store locations and higher property insurance expense.

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| (\$000s)                            | Three    | Three    | Comparable | YTDQ3 FY2016 vs     |   |
|-------------------------------------|----------|----------|------------|---------------------|---|
|                                     | Quarters | Quarters | Period     | Comparable Period   |   |
|                                     | Ended    | Ended    | Ended      |                     |   |
|                                     | June 1,  | May 6,   | June 3,    | Increase/(Decrease) |   |
|                                     | 2016     | 2015     | 2015       |                     |   |
|                                     | (40      | (36      | (40 weeks) | (40 weeks vs 40     |   |
|                                     | weeks)   | weeks)   |            | weeks)              |   |
| Occupancy costs                     | \$17,242 | \$14,797 | \$16,413   | 5.1                 | % |
| As a percentage of restaurant sales | 6.0      | % 5.8    | % 5.8      | % 0.2               | % |

Occupancy costs increased approximately \$0.8 million to approximately \$17.2 million in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015. The increase was primarily due to a net increase of three locations, higher property tax expense, and higher property insurance expense.

Franchise Operations

| (\$000s)  | Quarter | Quarter | Comparable | Q3FY2016 vs         |    |
|---|---------|---------|------------|---------------------|----|
|   | Ended   | Ended   | Period     | Comparable Period   |    |
|   | Ended   | Ended   | Ended      |                     |    |
|   | June 1, | May 6,  | June 3,    | Increase/(Decrease) |    |
|   | 2016    | 2015    | 2015       |                     |    |
|   | (12     | (12     | (12 weeks) | (12 weeks vs 12     |    |
|   | weeks)  | weeks)  |            | weeks)              |    |
| Franchise revenue                                     | \$1,586 | \$1,578 | \$1,605    | (1.2                | )% |
| Cost of franchise operations                          | 441     | 410     | 403        | 9.4                 | %  |
| Franchise profit                                      | \$1,145 | \$1,168 | \$1,202    | (4.7                | )% |
| Franchise profit as a percentage of franchise revenue | 72.2    | % 74.0  | % 74.9     | % (2.7              | )% |

| (\$000s)  | Three    | Three    | Comparable | YTDQ3 FY2016 vs     |    |
|---|----------|----------|------------|---------------------|----|
|   | Quarters | Quarters | Period     | Comparable Period   |    |
|   | Ended    | Ended    | Ended      |                     |    |
|   | June 1,  | May 6,   | June 3,    | Increase/(Decrease) |    |
|   | 2016     | 2015     | 2015       |                     |    |
|   | (40      | (36      | (40 weeks) | (40 weeks vs 40     |    |
|   | weeks)   | weeks)   |            | weeks)              |    |
| Franchise revenue                                     | \$5,411  | \$4,764  | \$5,309    | 1.9                 | %  |
| Cost of franchise operations                          | 1,480    | 1,147    | 1,283      | 15.4                | %  |
| Franchise profit                                      | \$3,931  | \$3,617  | \$4,026    | (2.4                | )% |
| Franchise profit as a percentage of franchise revenue | 72.6     | % 75.9   | % 75.8     | % (3.2              | )% |

We only offer franchises for the Fuddruckers brand. Franchises are sold in markets where expansion is deemed advantageous to the development of the Fuddruckers concept and system of restaurants. Franchise revenue includes (1) royalties paid to us as the franchisor for the Fuddruckers brand and (2) franchise fees paid to us when franchise units are opened for business or transferred to new owners. Franchise revenue increased \$8 thousand in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015 and decreased \$19 thousand compared to the 12-week comparable period ended June 3, 2015. The \$19 thousand decrease in franchise revenue includes an approximate \$126 thousand decrease in franchise royalties and an approximate \$107 thousand increase in non-royalty related fee income.

Franchise revenue increased approximately \$0.1 million in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015. The \$0.1 million increase in franchise revenue includes an approximate \$0.2 million increase in non-royalty related fee income offset by an approximate \$0.1 million decrease in royalty income.

### Cost of Franchise Operations

Cost of franchise operations includes the direct costs associated with supporting franchisees with opening new Fuddrucker's franchised restaurants and the corporate overhead expenses associated with generating franchise revenue. These corporate expenses primarily include the salaries and benefits, travel and related expenses, and other expenses for employees whose primary job function involves supporting our franchise owners and the development of new franchise locations. Cost of franchise operations increased \$31 thousand in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015 and increased \$38 thousand compared to the 12-week comparable period ended June 3, 2015, primarily as a result of increased overhead cost to support franchise operations and costs associated with four franchise openings in the quarter ended June 1, 2016. Franchise profit, defined as Franchise revenue less Cost of franchise operations, decreased \$23 thousand in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015 and decreased \$57 thousand in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015.

Cost of franchise operations increased approximately \$0.2 million, or 15.4%, in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015, primarily as a result of increased overhead cost to support franchise operations and the opening of new franchise locations. Franchisees opened five international locations (one in each of Colombia, Mexico, and Panama; and two in Italy) and seven domestic locations (one in each of Michigan, Montana, California, Florida, and Texas; and two in Virginia) in the three quarters ended June 1, 2016. Franchise profit, defined as Franchise revenue less Cost of franchise operations, decreased \$95 thousand in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015.

### Culinary Contract Services

Culinary Contract Services is a business line servicing healthcare, higher education, and corporate dining clients. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service and retail dining. We operated 26 Culinary Contract Services locations at the end of the quarter ended June 1, 2016 and 21 at the end of the quarter ended May 6, 2015 and at the end of the comparable period ended June 3, 2015. We focus on clients able to enter into agreements where all operating costs are reimbursed to us and we generally charge a fixed fee. These agreements typically present lower financial risk to the company.

### Culinary Contract Services Revenue

| (\$000s)  | Quarter | Quarter | Comparable | Q3FY2016 vs         |   |
|---|---------|---------|------------|---------------------|---|
|   | Ended   | Ended   | Period     | Comparable Period   |   |
|   | June 1, | May 6,  | Ended      | Increase/(Decrease) |   |
|   | 2016    | 2015    | June 3,    |                     |   |
|   | (12     | (12     | June 3,    |                     |   |
|   | weeks)  | weeks)  | (12 weeks) | (12 weeks vs 12     |   |
|   |         |         |            | weeks)              |   |
| Culinary contract services sales                                    | \$3,892 | \$3,624 | \$ 3,343   | 16.4                | % |
| Cost of culinary contract services                                  | 3,534   | 3,232   | 3,064      | 15.3                | % |
| Culinary contract profit  | \$358   | \$392   | \$ 279     | 28.3                | % |
| Culinary contract profit as a percentage of Culinary contract sales | 9.2     | % 10.8  | % 8.3      | % 0.9               | % |

Culinary Contract Services revenue increased approximately \$0.3 million, or 7.4%, in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. Culinary Contract Services revenue increased approximately \$0.5 million, or 16.4%, in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015. The increase in Culinary Contract Services revenue was primarily the result of an increase in the number of

locations operated.

Cost of Culinary Contract Services includes the food, payroll and related costs, other direct operating expenses, and corporate overhead expenses associated with generating Culinary Contract Services sales. Cost of Culinary Contract Services increased approximately \$0.3 million, or 9.3%, in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. Cost of Culinary Contract Services increased approximately \$0.5 million, or 15.3%, in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015, consistent with the increase in Culinary Contract Services revenue. Culinary Contract Services profit margin, defined as Culinary Contract Services revenue less Cost of Culinary Contract Services, decreased to 9.2% in the quarter ended June 1, 2016 from 10.8% in the the quarter ended May 6, 2015. Culinary Contract Services profit margin increased to 9.2% in the quarter ended June 1, 2016 from 8.3% in the 12-week comparable period ended June 3, 2015.

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| (\$000s)  | Three    | Three    | Comparable | YTDQ3 FY2016        |
|---|----------|----------|------------|---------------------|
|   | Quarters | Quarters | Period     | vs                  |
|   | Ended    | Ended    | Ended      | Comparable          |
|   | June 1,  | May 6,   | June 3,    | Period              |
|   | 2016     | 2015     | 2015       | Increase/(Decrease) |
|   | (40      | (36      | (40 weeks) | (40 weeks vs 40     |
|   | weeks)   | weeks)   |            | weeks)              |
| Culinary contract services sales                                    | \$12,726 | \$11,993 | \$13,058   | (2.5)%              |
| Cost of culinary contract services                                  | 11,476   | 10,809   | 11,771     | (2.5)%              |
| Culinary contract profit  | \$1,250  | \$1,184  | \$1,287    | (2.9)%              |
| Culinary contract profit as a percentage of Culinary contract sales | 9.8%     | 9.9%     | 9.9%       | (0.1)%              |

Culinary Contract Services revenue decreased approximately \$0.3 million, or 2.5%, in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015. The decrease in Culinary Contract Services revenue was the result of higher sales volume locations ceasing operations over the past 12 months, replaced with locations that are smaller in nature and thus generate lower sales volumes.

Cost of Culinary Contract Services includes the food, payroll and related costs, other direct operating expenses, and corporate overhead expenses associated with generating Culinary Contract Services sales. Cost of Culinary Contract Services decreased approximately \$0.3 million, or 2.5%, in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015, consistent with a decrease in Culinary Contract Services revenue. Culinary Contract Services profit margin, defined as Culinary Contract Services revenue less Cost of Culinary Contract Services, decreased to 9.8% in the three quarters ended June 1, 2016 from 9.9% in the 40-week comparable period ended June 3, 2015.

#### Company-wide Expenses

##### Opening Costs

Opening costs include labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were approximately \$0.1 million in the quarter ended June 1, 2016 compared to approximately \$0.4 million in the quarter ended May 6, 2015. Both quarters included carrying costs of locations to be developed for future restaurant openings. The approximate \$0.1 million in opening costs in the quarter ended June 1, 2016 included the carrying costs for two locations where we previously operated as Cheeseburger in Paradise restaurants. The \$0.4 million in opening costs in the quarter ended May 6, 2015 included the carrying costs for six locations where we previously operated as Cheeseburger in Paradise restaurants and one location that we previously operated as a Koo Koo Roo Chicken Bistro.

Opening costs were approximately \$0.7 million in the three quarters ended June 1, 2016 compared to approximately \$2.0 million in the three quarters ended May 6, 2015. Both three-quarter periods included carrying costs of locations to be developed for future restaurant openings. The approximate \$0.7 million in opening costs in the three quarters ended June 1, 2016 included the carrying costs for five locations where we previously operated as Cheeseburger in Paradise restaurants and the opening costs for three Fuddrucker's restaurants that opened in the three quarters ended June 1, 2016. The approximate \$2.0 million in opening costs in the three quarters ended May 6, 2015 included the carrying costs associated with nine locations that were previously operated as Cheeseburger in Paradise restaurants, the opening costs for three Fuddrucker's restaurants that opened in the three quarters ended May 6, 2015, and the opening costs associated with a Combo location that opened in the three quarters ended May 6, 2015.



## Depreciation and Amortization Expense

|                                | Quarter<br>Ended                 | Quarter<br>Ended                | Comparable<br>Period<br>Ended | Q3FY2016 vs<br>Comparable Period                 |   |
|--------------------------------|----------------------------------|---------------------------------|-------------------------------|--|---|
| (\$000s)                       | June 1,<br>2016<br>(12<br>weeks) | May 6,<br>2015<br>(12<br>weeks) | June 3,<br>2015<br>(12 weeks) | Increase/(Decrease)<br>(12 weeks vs 12<br>weeks) |   |
| Depreciation and amortization  | \$5,304                          | \$4,759                         | \$4,832                       | 9.8  | % |
| As a percentage of total sales | 5.8                              | % 5.1                           | % 5.2                         | 0.6  | % |

Depreciation and amortization expense increased by approximately \$0.5 million, or 11.5%, in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. Depreciation and amortization expense increased by approximately \$0.5 million, or 9.8%, in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015 due primarily to the addition of depreciation related to new capital expenditures for restaurant conversions and restaurant remodeling activity, the sixth Combo location opened in fiscal 2015, and information technology infrastructure investments.

| (\$000s)                       | Three    | Three    | Comparable | YTDQ3 FY2016 vs     |   |
|--------------------------------|----------|----------|------------|---------------------|---|
|                                | Quarters | Quarters | Period     | Comparable Period   |   |
|                                | Ended    | Ended    | Ended      |                     |   |
|                                | June 1,  | May 6,   | June 3,    | Increase/(Decrease) |   |
|                                | 2016     | 2015     | 2015       |                     |   |
|                                | (40      | (36      | (40 weeks) | (40 weeks vs 40     |   |
|                                | weeks)   | weeks)   |            | weeks)              |   |
| Depreciation and amortization  | \$17,538 | \$14,608 | \$16,261   | 7.9                 | % |
| As a percentage of total sales | 5.8      | % 5.4    | % 5.4      | % 0.4               | % |

Depreciation and amortization expense increased by approximately \$1.3 million, or 7.9%, in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015 due primarily to the addition of depreciation related to new capital expenditures for restaurant conversions and restaurant remodeling activity, the sixth Combo location opened in fiscal 2015, and information technology infrastructure investments.

#### Selling, General and Administrative Expenses

| (\$000s)                                     | Quarter | Quarter | Comparable | Q3FY2016 vs         |   |
|--|---------|---------|------------|---------------------|---|
|  | Ended   | Ended   | Period     | Comparable Period   |   |
|  | Ended   | Ended   | Ended      |                     |   |
|  | June 1, | May 6,  | June 3,    | Increase/(Decrease) |   |
|  | 2016    | 2015    | 2015       |                     |   |
|  | (12     | (12     | (12 weeks) | (12 weeks vs 12     |   |
|  | weeks)  | weeks)  |            | weeks)              |   |
| General and administrative expenses          | \$8,146 | \$7,593 | \$7,360    | 10.7                | % |
| Marketing and advertising expenses           | 1,081   | 546     | 486        | 122.4               | % |
| Selling, general and administrative expenses | \$9,227 | \$8,139 | \$7,846    | 17.6                | % |
| As a percentage of total sales               | 10.0    | % 8.6   | % 8.4      | % 1.6               | % |

Selling, general and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, marketing and advertising expense, professional fees, travel and recruiting expenses and other office expenses. Selling, general and administrative expenses increased approximately \$1.0 million, or 13.4%, in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. Selling, general and administrative expenses increased approximately \$1.4 million, or 17.6%, in the quarter ended June 1, 2016 compared to the 12-week comparable period ended June 3, 2015. Increases in selling, general and administrative expense include (1) an approximate \$0.6 million increase in marketing and advertising expense; (2) an approximate \$0.5 million increase in outside professional service fees, employee moving costs, and network infrastructure costs and (3) a net increase of approximately \$0.3 million in salaries and benefits expense. The approximate \$0.6 million increase in marketing and advertising expenses is intended to motivate increased guest visits, increased frequency of visits, and increased overall brand awareness. This includes sponsorships and partnerships with sports teams that we believe enhance our visibility and appeal within our core markets. As a percentage of total revenue, selling, general and administrative expenses increased to 10.0% in the quarter ended June 1, 2016, compared to 8.6% in the the quarter ended May 6, 2015. As a percentage of total sales, selling, general and administrative expenses increased to 10.0% in

the quarter ended June 1, 2016, compared to 8.4% in the 12-week comparable period ended June 3, 2015.

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| (\$000s)                                     | Three    | Three    | Comparable | YTDQ3 FY2016 vs     |   |
|--|----------|----------|------------|---------------------|---|
|  | Quarters | Quarters | Period     | Comparable Period   |   |
|  | Ended    | Ended    | Ended      | Increase/(Decrease) |   |
|  | June 1,  | May 6,   | June 3,    |                     |   |
|  | 2016     | 2015     | 2015       |                     |   |
|  | (40      | (36      | (40 weeks) | (40 weeks vs 40     |   |
|  | weeks)   | weeks)   |            | weeks)              |   |
| General and administrative expenses          | \$27,926 | \$24,405 | \$26,922   | 3.7                 | % |
| Marketing and advertising expenses           | 4,386    | 2,266    | 2,386      | 83.8                | % |
| Selling, general and administrative expenses | \$32,312 | \$26,671 | \$29,308   | 10.2                | % |
| As a percentage of total sales               | 10.6     | % 9.8    | % 9.7      | % 0.9               | % |

Selling, general and administrative expenses increased approximately \$3.0 million, or 10.2%, in the three quarters ended June 1, 2016 compared to the 40-week comparable period ended June 3, 2015. Increases in selling, general and administrative expense include (1) an approximate \$2.0 million increase in marketing and advertising expense; (2) an approximate \$0.7 million increase in outside professional service fees, employee moving costs, and network infrastructure costs; (3) a net increase of approximately \$0.1 million in salaries and benefits expense, health insurance costs and employee travel costs and (4) an approximate net increase of \$0.2 million in corporate supplies and other corporate overhead costs. The \$2.0 million increase in marketing and advertising expenses is intended to motivate increased guest visits, increased frequency of visits, and increased overall brand awareness. This includes sponsorships and partnerships with sports teams that we believe enhance our visibility and appeal within our core markets. As a percentage of total sales, selling, general and administrative expenses increased to 10.6% in the three quarters ended June 1, 2016, compared to 9.7% in the 40-week comparable period ended June 3, 2015.

#### Provision for Asset Impairments

The provision for asset impairments of approximately \$0.2 million in the quarter ended June 1, 2016 related to lease termination costs.

The provision for asset impairments of approximately \$0.2 million in the three quarters ended June 1, 2016 related to \$38 thousand in goodwill associated with one Cheeseburger in Paradise assets and approximately \$0.2 million in lease termination costs. The provision for asset impairments in the three quarters ended May 6, 2015 was approximately \$0.2 million and reflected the impairment of three leased Fuddrucker's locations (two of which were converted from Cheeseburger in Paradise locations) and goodwill related to one under-performing converted Cheeseburger in Paradise leasehold location.

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

Loss on disposition of property and equipment was \$42 thousand in the quarter ended June 1, 2016 and primarily reflects normal asset retirements. The gain on disposition of property and equipment was approximately \$0.6 million in the quarter ended May 6, 2015 and primarily reflects the sale of one property where we operated a cafeteria up until the time of the sale, offset by normal asset retirement activity.

Gain on disposition of property and equipment was approximately \$0.8 million in the three quarters ended June 1, 2016 and primarily reflects the gain on the sale of one property that we had previously acquired for possible development and the gain on the sale of property where we operated a cafeteria up until the time of the sale offset by normal asset retirement activity. Gain on disposition of property and equipment was approximately \$1.7 million in the three quarters ended May 6, 2015 related primarily to the sale of one owned property location that served as rental property and the sale of one property where we operated a cafeteria up until the time of the sale, offset by normal asset

retirement activity and by a loss from franchise equipment sales.

#### Interest Income

Interest income was \$1 thousand in the quarter ended May 6, 2015. Interest income was \$3 thousand in the three quarters ended June 1, 2016 and in the three quarters ended May 6, 2015.

### Interest Expense

Interest expense decreased approximately \$0.1 million, or 19.5%, to approximately \$0.5 million in the quarter ended June 1, 2016 compared to the quarter ended May 6, 2015. This decrease was due primarily to lower average debt balances. Interest expense increased \$50 thousand, or 3.1%, to approximately \$1.7 million in the three quarters ended June 1, 2016 compared to the three quarters ended May 6, 2015. This increase was due primarily to lower average debt balances offset by four additional weeks in the three quarters ended June 1, 2016 compared to the three quarters ended May 6, 2015.

### Other Income, Net

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; and oil and gas royalty income. Other income, net, in the quarter ended June 1, 2016 increased \$64 thousand compared to the quarter ended May 6, 2015. Other income, net, in the quarter ended June 1, 2016 increased \$68 thousand compared to the 12-week comparable period ended June 3, 2015 due primarily to (1) higher net rental income and (2) a decrease in discounts related to the volume of sales of pre-paid gift cards. Other income, net, in the three quarters ended June 1, 2016 decreased approximately \$0.3 million compared to the 40-week comparable period ended June 3, 2015 due primarily to (1) an increase in discounts related to a higher volume of sales of pre-paid gift cards and (2) lower net rental income.

### Taxes

For the quarter ended June 1, 2016, the income taxes related to continuing operations resulted in a tax benefit of approximately \$0.6 million compared to a tax provision of approximately \$0.4 million for the quarter ended May 6, 2015. For the three quarters ended June 1, 2016, the income taxes related to continuing operations resulted in a tax benefit of approximately \$1.4 million compared to a tax benefit of approximately \$1.3 million for the three quarters ended May 6, 2015. These tax benefits were due to the loss before taxes and discontinued operations in the three quarters ended June 1, 2016 and in the three quarters ended May 6, 2015.

### Discontinued Operations

Income from discontinued operations was \$13 thousand in the quarter ended June 1, 2016 compared to a loss of approximately \$131 thousand in the quarter ended May 6, 2015. Income from discontinued operations of \$13 thousand in the quarter ended June 1, 2016 consisted of a \$25 thousand gain from the disposal of discontinued assets, offset by \$9 thousand in carrying costs associated with assets related to discontinued operations and a tax provision of \$3 thousand. The loss from discontinued operations of approximately \$131 thousand in the quarter ended May 6, 2015 consisted of approximately \$143 thousand in carrying costs associated with assets related to discontinued, a \$90 thousand impairment of discontinued assets, and a \$2 thousand loss on the the disposal of discontinued assets, offset by an approximate \$104 thousand tax benefit.

Loss from discontinued operations was \$77 thousand in the three quarters ended June 1, 2016 compared to a loss of approximately \$0.3 million in the three quarters ended May 6, 2015. Loss from discontinued operations of \$77 thousand in the three quarters ended June 1, 2016 consisted of approximately \$156 thousand in carrying costs associated with assets related to discontinued operations offset by a \$25 thousand gain from the disposal of discontinued assets and a tax benefit of \$54 thousand. The loss from discontinued operations of approximately \$0.3 million in the three quarters ended May 6, 2015 consisted of approximately \$0.5 million in carrying costs associated with assets related to discontinued operations and an approximate \$0.1 million impairment of discontinued assets, offset by an approximate \$0.3 million tax benefit.



## LIQUIDITY AND CAPITAL RESOURCES

## Cash and Cash Equivalents

General. Our primary sources of short-term and long-term liquidity are cash flows from operations and our revolving credit facility. During the three quarters ended June 1, 2016, cash provided by operating activities was approximately \$11.4 million offset by cash used in investing activities of approximately \$10.0 million and cash used in financing activities of approximately \$1.5 million. Cash and cash equivalents decreased approximately \$0.1 million in the three quarters ended June 1, 2016 compared to approximately \$1.2 million decrease in the three quarters ended May 6, 2015. We plan to continue the level of capital and repair and maintenance expenditures necessary to keep our restaurants attractive and operating efficiently.

Our cash requirements consist principally of:

- payments to reduce our debt;
- capital expenditures for construction, restaurant renovations and upgrades, information technology and culinary contract services development; and
- working capital primarily for our Company-owned restaurants and Culinary Contract Services agreements.

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

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

|   | Three Quarters<br>Ended |                |
|---|-------------------------|----------------|
|   | June 1,<br>2016         | May 6,<br>2015 |
|   | (40<br>weeks)           | (36<br>weeks)  |
|   | (In thousands)          |                |
| Total cash provided by (used in):         |                         |                |
| Operating activities                      | \$11,408                | \$4,161        |
| Investing activities                      | (10,033 )               | (11,237 )      |
| Financing activities                      | (1,467 )                | 5,862          |
| Net decrease in cash and cash equivalents | \$(92 )                 | \$(1,214)      |

Operating Activities. Cash provided by operating activities was approximately \$11.4 million in the three quarters ended June 1, 2016, an approximate \$7.2 million increase from the three quarters ended May 6, 2015. The \$7.2 million increase in cash is due to an approximate \$3.4 million increase in cash provided by by operations before changes in operating assets and liabilities plus an approximate \$3.9 million decrease in cash used in changes in operating assets and liabilities for the three quarters ended June 1, 2016.

Cash generated by operating activities before changes in operating assets and liabilities was approximately \$13.8 million in the three quarters ended June 1, 2016, an approximate \$3.4 million increase compared to the three quarters ended May 6, 2015. The \$3.4 million increase in cash provided by operating activities before changes in operating assets and liabilities was primarily due to increased store level profit from our Company-owned restaurants, partially



due to four additional operating weeks in the first three quarters fiscal 2016.

Changes in operating assets and liabilities was an approximate \$2.4 million use of cash in the three quarters ended June 1, 2016 and an approximate \$6.3 million use of cash in the three quarters ended May 6, 2015. The \$3.9 million decrease in the use of cash was due to differences in the change in asset and liability balances between the three quarters ended June 1, 2016 and the three quarters ended May 6, 2015. Increases in current asset accounts are a use of cash while decreases in current asset accounts are a source of cash. During the three quarters ended June 1, 2016, the change in trade accounts and other receivables was an approximate \$1.0 million use of cash which was an approximate \$0.9 million greater use of cash than in the three quarters ended May 6, 2015. The change in food and supplies inventory during the three quarters ended June 1, 2016 was an approximate \$0.5 million use of cash which was an approximate \$1.7 million decrease from the source of cash in the three quarters ended May 6, 2015. The change in prepaid expenses and other assets was an approximate \$0.6 million use of cash during the three quarters ended June 1, 2016, which was an approximate \$0.7 million decrease in the source of cash from the three quarters ended May 6, 2015.

Increase in current liability accounts are a source of cash, while decreases in current liability accounts are a use of cash. During the three quarters ended June 1, 2016, changes in the balances of accounts payable, accrued expenses and other liabilities was an approximate \$0.3 million use of cash, compared to a use of cash of approximately \$7.4 million during the three quarters ended May 6, 2015.

**Investing Activities.** We generally reinvest available cash flows from operations to develop new restaurants, enhance existing restaurants and support Culinary Contract Services. Cash used by investing activities was approximately \$10.0 million in the three quarters ended June 1, 2016 and approximately \$11.2 million in the three quarters ended May 6, 2015. Capital expenditures were approximately \$14.4 million in the three quarters ended June 1, 2016 and approximately \$16.4 million in the three quarters ended May 6, 2015. Proceeds from the disposal of assets were approximately \$4.3 million in the three quarters ended June 1, 2016 and approximately \$5.1 million in the three quarters ended May 6, 2015.

**Financing Activities.** Cash used in financing activities was approximately \$1.5 million in the three quarters ended June 1, 2016 compared to an approximate \$5.9 million source of cash during the three quarters ended May 6, 2015. Cash flows from financing activities was primarily the result of borrowings and repayments related to our revolving credit facility. During the three quarters ended June 1, 2016, repayments exceeded borrowings by approximately \$1.5 million. During the three quarters ended May 6, 2015, borrowings exceeded repayments of the credit facility by approximately \$6.0 million.

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

At June 1, 2016, we did not hold any long-term investments.

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

We monitor the aging of our receivables, including Fuddruckers franchising related receivables, and record provisions for uncollectable accounts, as appropriate. Credit terms of accounts receivable associated with our Culinary Contract Services business vary from 30 to 45 days based on contract terms.

#### Working Capital

Current assets increased approximately \$1.4 million in the three quarters ended June 1, 2016 compared to a decrease of approximately \$2.1 million in the three quarters ended May 6, 2015. In the three quarters ended June 1, 2016, trade accounts and other receivables increased approximately \$1.0 million, prepaid expenses increased approximately \$0.5 million; partially offset by an approximate \$0.1 million decrease in cash and cash equivalents. Food and supply

inventory was unchanged in the three quarters ended June 1, 2016 compared to the three quarters ended May 6, 2015. In the three quarters ended May 6, 2015, cash decrease approximately \$1.2 million, food and supply inventory decreased approximately \$1.1 million partially offset by increases in trade accounts and other receivables and prepaid expenses of approximately \$0.1 million, respectively.

Current liabilities increased approximately \$0.3 million in the three quarters ended June 1, 2016 compared to a decrease of approximately \$7.7 million in the three quarters ended May 6, 2015. In the three quarters ended June 1, 2016, unredeemed gift cards increased approximately \$0.9 million, salaries and incentives increased approximately \$0.9 million and accrued claims and insurance increased approximately \$0.2 million; partially offset by decreases in taxes other than income of approximately \$1.0 million, accounts payable of approximately \$0.5 million, and accrued operating expenses of approximately \$0.2 million. In the three quarters ended May 6, 2015, accounts payable decreased approximately \$7.1 million, salaries and incentives decreased approximately \$1.1 million, taxes other than income taxes decreased approximately \$0.7 million, other operating expenses decreased approximately \$0.3 million and income taxes, legal and other decreased approximately \$0.2 million; partially offset by increases in unredeemed gift cards of approximately \$1.6 million and accrued claims and insurance of approximately \$0.1 million.

### Capital Expenditures

Capital expenditures consist of purchases of real estate for future restaurant sites, Culinary Contract Services investments, new unit construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for the three quarters ended June 1, 2016 were approximately \$14.4 million and related to recurring maintenance of our existing units, existing restaurant remodels, improvement of our culinary contract services business and the development of future restaurant sites. We expect to be able to fund all capital expenditures in fiscal 2016 using proceeds from the sale of assets, cash flows from operations and our available credit. We expect to spend approximately \$20.0 million on capital expenditures in fiscal 2016.

### DEBT

#### Revolving Credit Facility

Pursuant to the October 2, 2015 amendment, the total aggregate amount of the lenders' commitments was lowered to \$60.0 million from \$70.0 million. The following description summarizes the material terms of the revolving credit facility, as subsequently amended on March 21, 2014, November 7, 2014 and October 2, 2015, (the revolving credit facility is referred to as the "2013 Credit Facility"). The 2013 Credit Facility is governed by the credit agreement dated as of August 14, 2013 (the "2013 Credit Agreement") among us, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as Administrative Agent, and ZB, N.A. dba Amegy Bank (formerly Amegy Bank, N.A.), as Syndication Agent. The maturity date of the 2013 Credit Facility is September 1, 2017. In addition to the \$60.0 million commitment under the 2013 Credit Agreement, it may be increased to a maximum commitment of \$80.0 million.

The 2013 Credit Facility also provides for the issuance of letters of credit in a maximum aggregate amount of \$5.0 million outstanding as of August 14, 2013 and \$15.0 million outstanding at any one time with prior written consent of the Administrative Agent and the Issuing Bank. The 2013 Credit Facility is guaranteed by all of our present subsidiaries and will be guaranteed by our future subsidiaries.

At June 1, 2016, after applying the Lease Adjusted Leverage Ratio Limitation, the available borrowing capacity was \$18.2 million.

At any time throughout the term of the 2013 Credit Facility, we have the option to elect one of two basis of interest rates. One interest rate option is the greater of (a) the Federal Funds Effective Rate plus 0.50%, or (b) prime plus, in either case, an applicable spread that ranges from 0.75% to 2.25% per annum. The other interest rate option is the London InterBank Offered Rate plus a spread that ranges from 2.50% to 4.00% per annum. The applicable spread under each option is dependent upon the ratio of our debt to EBITDA at the most recent determination date.

We are obligated to pay to the Administrative Agent for the account of each lender a quarterly commitment fee based on the average daily unused amount of the commitment of such lender, ranging from 0.30% to 0.40% per annum depending on the Total Leverage Ratio at the most recent determination date.

The proceeds of the 2013 Credit Facility are available for our general corporate purposes and general working capital purposes and capital expenditures.

Borrowings under the 2013 Credit Facility are subject to mandatory repayment with the proceeds of sales of certain of our real property, subject to certain exceptions.

The 2013 Credit Agreement, as amended, contains the following covenants among others:

Debt Service Coverage Ratio of not less than (i) 1.10 to 1.00 at all times during the first, second and third fiscal quarters of the Borrower's fiscal year 2015, (ii) 1.25 to 1.00 at all times during the fourth fiscal quarter of the Borrower's fiscal year 2015, and (iii) 1.50 to 1.00 at all times thereafter,

Lease Adjusted Leverage Ratio of not more than (i) 5.75 to 1.00 at all times during the first, second and third fiscal quarters of the Borrower's fiscal year 2015, (ii) 5.50 to 1.00 at all times during the fourth fiscal quarter of the Borrower's fiscal year 2015, (iii) 5.25 to 1.00 at all times during the first fiscal quarter of the Borrower's fiscal year 2016, (iv) 5.00 to 1.00 at all times during the second fiscal quarter of the Borrower's fiscal year 2016, and (v) 4.75 to 1.00 at all times thereafter,

capital expenditures limited to \$25.0 million per year,

restrictions on incurring liens on certain of our property and the property of our subsidiaries,

restrictions on transactions with affiliates and materially changing our business,

restrictions on making certain investments, loans, advances and guarantees,

restrictions on selling assets outside the ordinary course of business,

prohibitions on entering into sale and leaseback transactions, and

restrictions on certain acquisitions of all or a substantial portion of the assets, property and/or equity interests of any person, including share repurchases and dividends.

The 2013 Credit Agreement also includes customary events of default. If a default occurs and is continuing, the lenders' commitments under the 2013 Credit Facility may be immediately terminated and/or we may be required to repay all amounts outstanding under the 2013 Credit Facility.

The 2013 Credit Facility is secured by a perfected first priority lien on certain of our real property and all of the material personal property owned by us or any of our subsidiaries, other than certain excluded assets (as defined in the Credit Agreement). At June 1, 2016, the carrying value of the collateral securing the 2013 Credit Facility was \$116.3 million.

As of June 1, 2016, we had \$36.0 million in outstanding loans and \$1.3 million committed under letters of credit, which were issued as security for the payment of insurance obligations and \$0.4 million in capital lease commitments.

We were in compliance with the covenants contained in the 2013 Credit Agreement, as amended, as of June 1, 2016.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Consolidated Financial Statements included in Item 1 of Part 1 of this Form 10-Q were prepared in conformity with GAAP. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. Due to the significant, subjective and complex judgments and estimates used when preparing our Consolidated Financial Statements, management regularly reviews these assumptions and estimates with the Finance and Audit Committee of our Board. Management believes the following are critical accounting policies used in the preparation of these financial statements. Actual results may differ from these estimates, including our estimates of future cash flows, which are subject to the current economic environment and changes in estimates. We had no changes in our critical accounting policies and estimates which were disclosed in our Annual Report on Form 10-K for the fiscal year ended August 26, 2015.

## NEW ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued ASU No 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360). The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, after December 15, 2014. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

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

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The update also requires additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2020 using a modified retrospective approach. Early adoption is permitted. We are evaluating the impact on the Company's consolidated financial statements and have not yet selected a transition method.

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

## INFLATION

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





## FORWARD-LOOKING STATEMENTS

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

- future operating results,
- future capital expenditures and expected sources of funds for capital expenditures,
- future debt, including liquidity and the sources and availability of funds related to debt, and expected repayment of debt, as well as our ability to refinance the existing credit facility or enter into a new credit facility on a timely basis,
- expected sources of funds for working capital requirements,
- plans for our new prototype restaurants,
- plans for expansion of our business,
- scheduled openings of new units,
- closing existing units,
- future sales of assets and the gains or losses that may be recognized as a result of any such sales, and
- continued compliance with the terms of our 2013 Credit Facility, as amended.

In some cases, investors can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “outlook,” “may,” “should,” “will,” and “would” or similar words. Forward-looking statements are based on certain assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are relevant. Although management believes that its assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of its 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 26, 2015 and any other cautionary language in this Form 10-Q, provide examples of risks, uncertainties, and events that may cause our financial and operational results to differ materially from the expectations described in our forward-looking statements:

- general business and economic conditions,
- the impact of competition,
- our operating initiatives, changes in promotional, couponing and advertising strategies and the success of management’s business plans,
- fluctuations in the costs of commodities, including beef, poultry, seafood, dairy, cheese, oils and produce,
- ability to raise menu prices and customer acceptance of changes in menu items,
- increases in utility costs, including the costs of natural gas and other energy supplies,
- changes in the availability and cost of labor, including the ability to attract qualified managers and team members,
- the seasonality of the business,
- collectability of accounts receivable,
- changes in governmental regulations, including changes in minimum wages and health care benefit regulation,
  - the effects of inflation and changes in our customers’ disposable income, spending trends and habits,
- the ability to realize property values,
- the availability and cost of credit,
- the ability to effectively integrate and improve the profitability of the acquired Cheeseburger in Paradise restaurants,
- effectiveness of the Cheeseburger in Paradise conversions to Fuddruckers restaurants,
- the effectiveness of our credit card controls and PCI compliance,
- weather conditions in the regions in which our restaurants operate,

- costs relating to legal proceedings,
- impact of adoption of new accounting standards,
- effects of actual or threatened future terrorist attacks in the United States,
- unfavorable publicity relating to operations, including publicity concerning food quality, illness or other health concerns or labor relations, and
- the continued service of key management personnel.

Each forward-looking statement speaks only as of the date of this Form 10-Q, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Investors should be aware that the occurrence of the events described above and elsewhere in this Form 10-Q could have material adverse effect on our business, results of operations, cash flows and financial condition.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates affecting our variable-rate debt. As of June 1, 2016, the total amount of debt subject to interest rate fluctuations outstanding under our 2013 Credit Facility was \$36.0 million. Assuming an average debt balance of \$36.0 million, a 1.0% increase in prevailing interest rates would increase our annual interest expense by \$0.4 million.

We are not currently using interest rate swaps to manage interest risk on our variable-rate debt.

We have exposure to various foreign currency exchange rate fluctuations for revenues generated by our operations outside of the United States, which can adversely impact our net income and cash flows. Sales to customers and royalties from franchisees outside the contiguous United States as a percentage of our total revenues was, approximately, 0.12% and 0.10% in the quarters ended June 1, 2016 and May 6, 2015, respectively, and 0.14% and 0.12% in the three quarters ended June 1, 2016 and May 6, 2015, respectively. All of this business is conducted in the local currency of the country in which the franchise operates. We do not enter into financial instruments to manage this foreign currency exchange risk.

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

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 1, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 1, 2016, 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 three quarters ended June 1, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II—OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to our legal proceedings as disclosed in “Legal Proceedings” in Item 3 of Part I of our Annual Report on Form 10-K for the fiscal year ended August 26, 2015.

Item 1A. Risk Factors

There have been no material changes during the three quarters ended June 1, 2016 to the Risk Factors discussed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended August 26, 2015.

Item 6. Exhibits

- 31.1 Rule 13a-14(a)/15d-14(a) certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Rule 13a-14(a)/15d-14(a) certification of the Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Section 1350 certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

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: 7/11/2016 By: /s/ Christopher J. Pappas  
Christopher J. Pappas  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: 7/11/2016 By: /s/ K. Scott Gray  
K. Scott Gray  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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