

LUBYS INC
Form 10-K/A
December 28, 2004

Table of Contents

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

FORM 10-K/A

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

For the Fiscal Year Ended August 25, 2004

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 1-8308

Lubys, Inc.

(Exact name of registrant as specified in its charter)

Delaware

74-1335253

(State of incorporation)

(IRS Employer Identification Number)

**13111 Northwest Freeway, Suite 600
Houston, TX 77040**

(Address of principal executive offices, including zip code)

(713) 329-6800

www.lubys.com

(Registrant's telephone number, including area code, and Website)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on which registered
Common Stock Par Value (\$.32 par value)	New York Stock Exchange

Common Stock Purchase Rights

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Table of Contents

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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the shares of Common Stock of the registrant held by nonaffiliates of the registrant as October 20, 2004, was approximately \$134,131,624 (based upon the assumption that directors and executive officers are the only affiliates).

The aggregate market value of the shares of Common Stock of the registrant held by nonaffiliates of the registrant as February 11, 2004, was approximately \$78,838,744 (based upon the assumption that directors and executive officers are the only affiliates).

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes No

As of October 20, 2004, there were 22,480,004 shares of the registrant's Common Stock outstanding, which does not include 4,933,063 treasury shares.

EXPLANATORY NOTE: The registrant is hereby amending its Form 10-K for the fiscal year ended August 25, 2004 (SEC File Number 1-8308) to replace the sixth paragraph of *Item 8, Note 13: Related Parties* with the following:

Late in the third quarter of fiscal 2004, Chris and Harris Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas own a 50% limited partnership and a 50% general partnership interest. One of the Company's restaurants has rented approximately 7% of the space in that center since July of 1969. No changes were made to the Company's lease terms as a result of the transfer of ownership of the center to the new partnership. The amount paid by the Company pursuant to the terms of this lease since the inclusion of Chris and Harris Pappas as limited and general partners was \$56,000 in fiscal 2004. Management is under instruction that no amendments can be made to this lease without the approval of the Finance and Audit Committee.

This Amendment No. 1 to Annual Report on Form 10-K amends only the paragraph above. All other components of the original 10-K remain unchanged. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, nor modify or update those disclosures in any way other than to add the information included above.

TABLE OF CONTENTS

Item 8. Financial Statements and Supplementary Data

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

SIGNATURES

Certification Pursuant to Section 302

Certification Pursuant to Section 906

Table of Contents

Item 8. Financial Statements and Supplementary Data

LUBY S, INC.

FINANCIAL STATEMENTS

Years Ended August 25, 2004, August 27, 2003, and August 28, 2002

with Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Luby s, Inc.

We have audited the accompanying consolidated balance sheets of Luby s, Inc. at August 25, 2004, and August 27, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended August 25, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Luby s, Inc. at August 25, 2004, and August 27, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended August 25, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2003 the Company was required to change its method of accounting for discontinued operations.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
October 13, 2004

Table of Contents**Luby's, Inc.****Consolidated Balance Sheets**

	August 25, 2004	August 27, 2003
	<u> </u>	<u> </u>
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,211	\$ 871
Short-term investments (see Note 2)	4,384	20,498
Trade accounts and other receivables	101	283
Food and supply inventories	2,092	1,798
Prepaid expenses	1,028	3,485
Deferred income taxes (see Note 3)	1,073	180
	<u> </u>	<u> </u>
Total current assets	9,889	27,115
Property held for sale	24,594	32,946
Investments and other assets	3,756	547
Property and equipment - at cost, net (see Note 4)	196,541	217,676
	<u> </u>	<u> </u>
Total assets	\$ 234,780	\$ 278,284
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 15,888	\$ 12,488
Accrued expenses and other liabilities (see Note 5)	25,280	28,257
Convertible subordinated notes, net - related party (see Note 6)		6,973
Credit-facility debt (see Note 6)		91,559
	<u> </u>	<u> </u>
Total current liabilities	41,168	139,277
Line of credit debt (see Note 6)	28,000	
Term debt (see Note 6)	23,470	
Convertible subordinated notes, net - related party (see Note 6)	2,091	
Other liabilities	5,385	5,252
Deferred income taxes (see Note 3)	1,073	180
Reserve for restaurant closings (see Note 7)	500	1,663
Commitments and contingencies (see Note 8)		
	<u> </u>	<u> </u>
Total liabilities	101,687	146,372
	<u> </u>	<u> </u>

SHAREHOLDERS EQUITY

Common stock, \$.32 par value; authorized 100,000,000 shares, issued 27,410,567 and 27,403,067 shares in fiscal 2004 and 2003, respectively	8,771	8,769
Paid-in capital	43,564	36,916
Deferred compensation		(679)
Retained earnings	185,529	191,968
Less cost of treasury stock, 4,933,063 and 4,946,771 shares in fiscal 2004 and 2003, respectively	(104,771)	(105,062)
	<u>133,093</u>	<u>131,912</u>
 Total shareholders equity	 133,093	 131,912
 Total liabilities and shareholders equity	 \$ 234,780	 \$ 278,284

See accompanying notes.

Table of Contents

Luby's, Inc.

Consolidated Statements of Operations

	Year Ended		
	August 25, 2004	August 27, 2003	August 28, 2002
	(In thousands except per share data)		
SALES	\$308,817	\$303,959	\$318,656
COSTS AND EXPENSES:			
Cost of food	83,200	82,563	80,841
Payroll and related costs	85,431	87,503	100,899
Occupancy and other operating expenses	94,666	91,325	94,981
Depreciation and amortization	16,876	17,464	17,472
Voluntary severance costs (see Note 5)	860		
General and administrative expenses	19,750	23,313	21,196
Provision for asset impairments and restaurant closings (see Note 7)	727	2,100	271
	<u>301,510</u>	<u>304,268</u>	<u>315,660</u>
INCOME (LOSS) FROM OPERATIONS	7,307	(309)	2,996
Interest expense	(8,094)	(7,610)	(7,676)
Other income, net	2,691	7,071	2,368
	<u>1,904</u>	<u>(848)</u>	<u>(2,312)</u>
Income (loss) before income taxes			
Provision (benefit) for income taxes (see Note 3):			
Current			(2,255)
Deferred			2,217
	<u> </u>	<u> </u>	<u>(38)</u>
Income (loss) from continuing operations	1,904	(848)	(2,274)
Discontinued operations, net of taxes (see Note 7)	(8,343)	(32,246)	(7,379)
	<u> </u>	<u> </u>	<u> </u>
NET INCOME (LOSS)	\$ (6,439)	\$ (33,094)	\$ (9,653)
	<u> </u>	<u> </u>	<u> </u>
Income (loss) per share from continuing operations:			
Basic (see Note 15)	\$ 0.08	\$ (0.04)	\$ (0.10)

Edgar Filing: LUBYS INC - Form 10-K/A

Assuming dilution(see Note 15)	0.08	(0.04)	(0.10)
Income (loss) per share from discontinued operations:			
Basic(see Note 15)	(0.37)	(1.43)	(0.33)
Assuming dilution (see Note 15)	(0.37)	(1.43)	(0.33)
Net income (loss) per share:			
Basic (see Note 15)	(0.29)	(1.47)	(0.43)
Assuming dilution (see Note 15)	\$ (0.29)	\$ (1.47)	\$ (0.43)
	_____	_____	_____
Weighted-average shares outstanding:			
Basic	22,470	22,451	22,428
Assuming dilution	22,619	22,451	22,428
	_____	_____	_____

See accompanying notes.

Table of Contents**Luby s, Inc.****Consolidated Statements of Shareholders Equity***(In thousands)*

	Common Stock				Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
	Issued		Treasury						
	Shares	Amount	Shares	Amount					
Balance at August 31, 2001	27,403	\$8,769	(4,980)	\$(105,771)	\$37,181	\$(3,299)	\$234,715	\$ (592)	\$171,003
Net income (loss) for the year							(9,653)		(9,653)
Reclassification adjustment for loss recognized on termination of interest rate swaps, net of taxes of \$318								592	592
Noncash stock compensation expense						1,310			1,310
Common stock issued under nonemployee director benefit plans			10	214	154				368
Balance at August 28, 2002	27,403	\$8,769	(4,970)	\$(105,557)	\$37,335	\$(1,989)	\$225,062	\$	\$163,620
Net income (loss) for the year							(33,094)		(33,094)
Noncash stock compensation expense						1,310			1,310
Common stock issued under nonemployee director benefit plans			23	495	(419)				76

Edgar Filing: LUBYS INC - Form 10-K/A

Balance at August 27, 2003	27,403	\$8,769	(4,947)	\$(105,062)	\$36,916	\$ (679)	\$191,968	\$	\$131,912
Net income (loss) for the year							(6,439)		(6,439)
Noncash stock compensation expense						679			679
Net change in value of beneficial conversion feature on the convertible subordinated notes					6,901				6,901
Common stock issued under nonemployee director benefit plans		2	14	291	(291)				2
Common stock issued under employee benefit plans	8				38				38
	<u>8</u>	<u></u>	<u></u>	<u></u>	<u>38</u>	<u></u>	<u></u>	<u></u>	<u>38</u>
Balance at August 25, 2004	27,411	\$8,771	(4,933)	\$(104,771)	\$43,564	\$	\$185,529	\$	\$133,093
	<u>27,411</u>	<u>\$8,771</u>	<u>(4,933)</u>	<u>\$(104,771)</u>	<u>\$43,564</u>	<u>\$</u>	<u>\$185,529</u>	<u>\$</u>	<u>\$133,093</u>

See accompanying notes.

Table of Contents

Luby's, Inc.

Consolidated Statements of Cash Flows

	Year Ended		
	August 25, 2004	August 27, 2003	August 28, 2002
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ (6,439)	\$(33,094)	\$ (9,653)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Provision for (reversal of) asset impairments, net of gains on property sales - discontinued operations	2,147	17,013	43
Provision for (reversal of) asset impairments and restaurant closings	727	2,100	271
Depreciation and amortization - continuing operations	16,876	17,464	17,472
Depreciation and amortization - discontinued operations	335	2,619	4,170
Amortization of deferred loss on interest rate swaps			910
Amortization of discount on convertible subordinated notes	2,020	1,090	482
Amortization of debt issuance cost	302		
(Gain) loss on disposal of property held for sale		(3,222)	(1,330)
(Gain) loss on disposal of property and equipment	(2,154)	(3,364)	270
Noncash nonemployee directors' fees		76	313
Noncash executive compensation expense	679	1,310	1,310
Cash (used in) provided by operating activities before changes in operating assets and liabilities	14,493	1,992	14,258
Changes in operating assets and liabilities:			
(Increase) decrease in trade accounts and other receivables	182	(98)	173
(Increase) decrease in food and supply inventories	(294)	399	504
(Increase) decrease in income tax receivable		7,245	(637)
(Increase) decrease in prepaid expenses	2,457	(1,818)	1,098
(Increase) decrease in other assets	408	(201)	251
Increase (decrease) in accounts payable	3,225	(6,589)	5,381
Increase (decrease) in accrued expenses and other liabilities	(2,844)	6,632	(9,560)
Increase (decrease) in deferred income taxes		(2,734)	4,791
Increase (decrease) in reserve for restaurant closings	(1,163)	(210)	(1,651)
Net cash (used in) provided by operating activities	16,464	4,618	14,608
Cash flows from investing activities:			

Edgar Filing: LUBYS INC - Form 10-K/A

(Increase) decrease in short-term investments	16,114	3,624	(4,138)
Proceeds from disposal of property held for sale	17,067	19,178	3,609
Proceeds from disposal of property and equipment	3,585	7,813	
Purchases of property and equipment	(8,921)	(9,057)	(13,097)
	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by investing activities	27,845	21,558	(13,626)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities:			
Repayment of debt	(104,290)	(26,889)	(3,552)
Issuance of debt	64,200		
Debt issuance cost	(3,920)		
Proceeds received on the exercise of employee stock options	41		55
	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities	(43,969)	(26,889)	(3,497)
	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in cash	340	(713)	(2,515)
Cash and cash equivalents at beginning of year	871	1,584	4,099
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year	\$ 1,211	\$ 871	\$ 1,584
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes.

Table of Contents

Luby's, Inc.

Notes to Consolidated Financial Statements

Fiscal Years 2004, 2003, and 2002

Note 1. Nature of Operations and Significant Accounting Policies

Nature of Operations

Luby's, Inc., is based in San Antonio, Texas (through December 3, 2004, thereafter, in Houston, Texas). As of August 25, 2004, the Company owned and operated 138 restaurants, with 128 in Texas and the remainder in four other states. The Company's restaurants are located convenient to shopping and business developments as well as to residential areas. Accordingly, the restaurants appeal primarily to shoppers, travelers, store and office personnel at lunch, and to families at dinner.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Luby's, Inc. and its wholly owned subsidiaries. Luby's, Inc. was restructured into a holding company on February 1, 1997, at which time all of the operating assets were transferred to Luby's Restaurants Limited Partnership, a Texas limited partnership composed of two wholly owned, indirect corporate subsidiaries of the Company. All restaurant operations are conducted by the partnership. Unless the context indicates otherwise, the word Company as used herein includes Luby's, Inc., the partnership, and the consolidated corporate subsidiaries of Luby's, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments such as money market funds that have a maturity of three months or less. Amounts receivable from credit card companies are also considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction.

Inventories

The food and supply inventories are stated at the lower of cost (first-in, first-out) or market.

Property Held for Sale

As further discussed in Note 7, property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. The Company routinely monitors the estimated value of property held for sale and records adjustments to these values as required.

Debt Issuance Costs

Debt issuance costs include costs incurred in connection with the refinancing of the Company's debt in fiscal

Table of Contents

year 2004. These costs are amortized using the effective interest method over the respective term of the debt to which they specifically relate.

Financial Instruments

The estimated fair value of financial instruments held by the Company approximates the carrying value.

Self-Insurance Accruals

The Company self-insures a significant portion of expected losses under our workers' compensation, work injury, and general liability programs. Accrued liabilities have been recorded based on estimates of the ultimate costs to settle incurred claims, both reported and not yet reported. These recorded estimated liabilities are based on judgments and independent actuarial estimates, which include the use of claim-development factors based on loss history; economic conditions; the frequency or severity of claims and claim development patterns; and claim reserve, management, and settlement practices.

Comprehensive Income

Comprehensive income (loss) includes adjustments for certain revenues, expenses, gains, and losses that are excluded from net income in accordance with U.S. generally accepted accounting principles, such as adjustments to the interest rate swaps.

Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Unearned revenues are recorded as a liability for dining cards that have been sold but not yet redeemed and are recorded at their expected redemption value. When dining cards are redeemed, revenue is recognized and unearned revenue is reduced.

Advertising Expenses

Advertising costs are expensed as incurred. Management changed its strategic focus in fiscal 2004 to an increased emphasis in this area. Total advertising expense was \$4.1 million, \$1.1 million, and \$889,000 in fiscal 2004, 2003, and 2002, respectively, of which \$54,000, \$120,000, and \$0 in fiscal 2004, 2003, and 2002, respectively, related to stores included in discontinued operations and was reclassified accordingly.

Depreciation and Amortization

The Company depreciates the cost of plant and equipment over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the related lease lives, which are in some cases shorter than the estimated useful lives of the improvements.

Impairment of Long-Lived Assets

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount. The Company evaluates impairments on a restaurant-by-restaurant basis and uses three or more years of negative cash flows and other market conditions as indicators of impairment.

Income Taxes

Deferred income taxes are computed using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management's opinion, adequate provisions for income taxes have been made for all years. Historically, the Company has been periodically reviewed by the Internal Revenue Service. The Company is currently under review for the 2002, 2001, and 2000 fiscal years.

Table of Contents***Discontinued Operations***

In August 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company was required to adopt SFAS No. 144 as of August 29, 2002. The adoption of SFAS No. 144 extended the reporting of discontinued operations to all components of an entity from a segment of an entity. Beginning in fiscal 2003, all qualifying disposal plans were reported as discontinued operations, and operations related to those disposals in prior years were reclassified as required. The results of disposal plans prior to the adoption continue to be included in continuing operations for all periods presented.

Stock-Based Compensation

The Company accounts for its employee stock compensation plans using the intrinsic value method of accounting set forth in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and the related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had converted to the fair-value method of expensing stock options, as alternatively allowed under SFAS No. 123:

	August 25, 2004	August 27, 2003	August 28, 2002
		(In thousands)	
Net income (loss), as reported	\$(6,439)	\$(33,094)	\$ (9,653)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects ^(a)	679	1,310	852
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects ^(a)	(1,208)	(2,861)	(3,662)
Pro forma net income (loss)	\$(6,968)	\$(34,645)	\$(12,463)
Earnings per share as reported:			
Basic	\$ (0.29)	\$ (1.47)	\$ (0.43)
Assuming dilution	\$ (0.29)	\$ (1.47)	\$ (0.43)
Pro forma earnings per share:			
Basic	\$ (0.31)	\$ (1.54)	\$ (0.56)
Assuming dilution	\$ (0.31)	\$ (1.54)	\$ (0.56)

(a)

Income taxes have been offset by a valuation allowance. See Note 3 of Notes to Consolidated Financial Statements.

Derivative Financial Instruments

The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its amendments, Statement Nos. 137 and 138, on September 1, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. The Company did not have any derivative instruments in fiscal 2004 or 2003.

Table of Contents

Earnings Per Share

The Company presents basic income (loss) per common share and diluted loss per common share in accordance with SFAS No. 128, Earnings Per Share. The convertible subordinated notes have been excluded from the calculation of potentially dilutive shares since they are antidilutive. Basic income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding during each period presented. In fiscal years 2004, 2003, and 2002, dilutive shares had a minimal effect on income (loss) per share.

Accounting Periods

The Company's fiscal year consists of 13 four-week periods ending on the last Wednesday in August.

Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

New Accounting Pronouncements

SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123, was issued in December 2002 and is effective for fiscal years ending after December 15, 2002. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this pronouncement amends the disclosure requirements of SFAS No. 123 to require more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company currently plans to continue to apply the intrinsic-value based method to account for stock options and is complying with the disclosure requirements of SFAS No. 148.

Reclassifications

Where applicable, prior period results have been reclassified to show the retroactive effect of discontinued operations per the business plan. Reclassification facilitates more meaningful comparability to the Company's current information. As stores are closed in the future and presented in discontinued operations, quarterly and annual financial amounts, where applicable, will be reclassified for further comparability. Certain other reclassifications of prior period results have been made to conform to the current year presentation.

Note 2. Cash and Cash Equivalents and Short-Term Investments

The Company manages its cash and cash equivalents and short-term investments jointly in order to internally fund operating needs. Short-term investments as of August 25, 2004, and August 27, 2003, consisted primarily of money market funds and time deposits. As of August 25, 2004, approximately \$2.2 million of the \$4.4 million of the Company's short-term investments was pledged as collateral for four separate letters of credit. There have been no draws upon these letters of credit.

**August
25, August 27,**

	<u>2004</u>	<u>2003</u>
	(In thousands)	
Cash and cash equivalents	\$1,211	\$ 871
Short-term investments	<u>4,384</u>	<u>20,498</u>
Total cash and cash equivalents and short-term investments	<u>\$5,595</u>	<u>\$21,369</u>

Table of Contents

The Company's combined cash and cash equivalents and short-term investments balance declined from \$21.4 million as of August 27, 2003, to \$5.6 million as of August 25, 2004. The decline was primarily attributed to a \$19.8 million debt paydown in fiscal 2004.

Note 3. Income Taxes

The following is a summarization of deferred income tax assets and liabilities as of the current and prior fiscal year-end:

	August 25, 2004	August 27, 2003
	(In thousands)	
Deferred long-term income tax liability	\$ (1,073)	\$ (180)
Plus: Deferred short-term income tax asset	1,073	180
	\$	\$
Net deferred income tax liability	\$	\$

The following table details the categories of income tax assets and liabilities resulting from the cumulative tax effects of temporary differences as of the end of each period presented:

	August 25, 2004	August 27, 2003
	(In thousands)	
Deferred income tax assets:		
Workers' compensation, employee injury, and general liability claims	\$ 2,552	\$ 2,429
Deferred compensation	2,302	2,283
Asset impairments and restaurant closure reserves	15,313	20,224
Net operating losses	16,032	11,086
General business credits	529	384
Subtotal	36,728	36,406
Valuation allowance	(19,269)	(17,643)
Total deferred income tax assets	17,459	18,763
Deferred income tax liabilities:		
Depreciation and amortization	15,588	15,965
Other	1,871	2,798

Total deferred income tax liabilities	<u>17,459</u>	<u>18,763</u>
Net deferred income tax liability	<u>\$</u>	<u>\$</u>

Relative only to continuing operations, the reconciliation of the expense (benefit) for income taxes to the expected income tax expense (benefit) - computed using the statutory tax rate was as follows:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
(In thousands and as a percent of pretax income)						
Income tax expense (benefit) from continuing operations at the federal rate	\$ 666	35.0%	\$(297)	(35.0)%	\$(809)	(35.0)%
Permanent and other differences	773	40.6	470	55.4	771	33.4
Change in valuation allowance	<u>(1,439)</u>	<u>(75.6)</u>	<u>(173)</u>	<u>(20.4)</u>	<u>—</u>	<u>—</u>
Income tax expense (benefit) from continuing operations	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$ (38)</u>	<u>(1.6)%</u>

Table of Contents

For the fiscal year ended August 25, 2004, including both continuing and discontinued operations, the Company generated gross taxable operating losses of approximately \$14.1 million, which will fully expire in 2024 if not utilized. The tax benefit for book purposes was netted against a valuation allowance because loss carrybacks were exhausted with the fiscal 2002 tax filing, making the realization of loss carryforwards uncertain.

For the 2003 fiscal year, including both continuing and discontinued operations, the Company generated gross taxable operating losses of approximately \$31.7 million, which will fully expire in 2023 if not utilized. Due to the Company's cumulative loss position, no federal income taxes were paid in fiscal 2004 or fiscal 2003.

The Company's federal income tax returns have been periodically reviewed by the Internal Revenue Service. The Company's 2002, 2001, and 2000 returns are currently under review. 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.

Note 4. Property and Equipment

The cost and accumulated depreciation of property and equipment at August 25, 2004, and August 27, 2003, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	August 25, 2004	August 27, 2003	Estimated Useful Lives
		(In thousands)	
Land	\$ 51,536	\$ 55,259	
Restaurant equipment and furnishings	107,481	108,183	3 to 15 years
Buildings	180,210	191,521	20 to 33 years
Leasehold and leasehold improvements	20,207	21,989	Term of leases
Office furniture and equipment	6,845	11,710	5 to 10 years
Transportation equipment	421	574	5 years
	366,700	389,236	
Less accumulated depreciation and amortization	(170,159)	(171,560)	
Property and equipment	\$ 196,541	\$ 217,676	

Note 5. Current Accrued Expenses and Other Liabilities

Current accrued expenses and other liabilities as of the current and prior fiscal year-end consisted of:

	August 25, 2004	August 27, 2003
	(In thousands)	
Salaries, compensated absences, incentives, and bonuses	\$ 5,669	\$ 5,476
Voluntary severance costs	860	
Taxes, other than income	4,074	6,951
Accrued claims and insurance	5,979	5,584
Income taxes	7,274	7,279
Rent, legal, and other	1,424	2,967
	\$25,280	\$28,257

Table of Contents

During the third quarter of fiscal 2004, Luby's announced it will consolidate all of the Company's corporate operations in one city by moving its corporate headquarters to Houston, Texas. This move will be completed by the end of the 2004 calendar year. In accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined benefit Pension Plans and for Termination Benefits, the Company recorded a liability and reported in accrued expenses and other liabilities and recognized an expense in the Company's consolidated statements of operations of \$860,000 under voluntary severance costs. The liability and related expense represent the cost to the Company for the voluntary severance agreements accepted by employees during the fourth quarter of fiscal 2004. Other related relocation costs are expected to be incurred within the next two fiscal quarters and will be recognized in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities and Expensed as Incurred.

Note 6. Debt

Previous Senior Debt

During the mid-1990's, the Company entered into a revolving line of credit with a group of four banks. The line was primarily used for financing long-term objectives, including capital acquisitions and a stock repurchase program. These large demands of cash contributed to the capacity under that credit facility being fully exhausted in fiscal 2001.

Since that time, management has financed the Company's capital acquisitions and working capital needs through careful cash management and the provision of an additional \$10 million in subordinate financing from the Company's CEO and the COO. The additional subordinate financing was funded toward the end of fiscal 2001. Although no further borrowings were allowed under the senior credit facility, the bank group subsequently authorized an extension of its maturity date through April 2003.

In fiscal 2003, well before the scheduled maturity date of the line of credit, management began working on a partial refinancing arrangement with an alternate lender. Early in the second quarter of that year, those efforts led to the Company executing a commitment letter with a third-party financial institution to refinance \$80 million of the credit facility. In response to that commitment, the bank group provided a waiver and amendment that stipulated the new \$80 million financing be completed and funded by January 31, 2003. The Company, however, chose not to finalize that financing arrangement because of changes in the proposed agreement terms that the Company believed were not in its best interest. The inability to fund the \$80 million by January 31, 2003, led to a default under the line of credit.

Even though the lack of partial refinancing caused a technical default in fiscal 2003, the Company was consistently in compliance with its financial performance covenants. Additionally, no default in interest payments due under the credit facility occurred.

Table of Contents

The Business Plan Facilitates Transition to Reduced Debt and New Financing

In addition to the Company's primary goal to successfully negotiate suitable replacement debt, management has also been concentrating on implementing its business plan. With its focus on returning the Company to profitability, this plan was approved in March of fiscal 2003 and is still in effect.

As a complement to the profit objective, the plan called for the closure of certain underperforming stores. Through fiscal 2004, 55 restaurants have been closed in accordance with the plan. In turn, in the cases where the locations were owned, the proceeds from any property sales were used to pay down the line of credit.

New Senior Debt

In the fourth quarter of fiscal 2004, the Company successfully refinanced its existing senior credit facility with two new instruments. The first is a secured, three-year line of credit for \$50 million. Of the total line, only \$36.3 million was originally drawn in connection with the refinancing. This instrument was funded by a new group of independent lenders. JPMorgan Chase Bank is the only lender from the prior bank group that is participating in the new line of credit. Similar to the prior credit facility, the new bank group that is funding this instrument is also a syndicate of four banks.

At any time throughout the term of the loan, the Company has the option to elect one of two bases of interest rates. One interest rate option is the greater of the federal funds effective rate plus 0.5% or prime increased by an applicable spread that ranges from 1.5% to 2.5%. The other interest rate option is LIBOR (London InterBank Offered Rate) increased by an applicable spread that ranges from 3.0% to 4.0%. The applicable spread under each option is dependent upon certain measures of the Company's financial performance at the time of election. Quarterly, the Company also pays a commitment fee on the unused portion of the line of credit. Again, dependent upon the Company's performance, the rate varies from 0.5% to 0.75%.

In addition to the new line of credit, the Company concurrently negotiated another secured, three-year term loan for \$27.9 million. The term loan was funded by a third-party financial institution not related to any member of the bank group that funded the new line of credit.

The interest rate under the term loan is LIBOR plus an applicable spread that ranges from its highest level of 7.5% at the loan's inception to the lowest level of 6.0%, which is effective when 75% of the loan's outstanding balance has been paid down. No periodic principal payments are required other than net proceeds from properties currently marked for sale, and any balance remaining at the loan's maturity must be paid in full.

During the fourth quarter of fiscal 2004, \$2.1 million in proceeds from property sales were used to reduce the Company's balance under its prior credit facility. To complete the refinancing, the Company used \$15.4 million of its cash and short-term investments to satisfy the remaining balance outstanding under the prior credit facility and pay refinancing costs on the new senior debt. In the fourth quarter of fiscal 2004, as a result of the refinancing, the Company's new senior debt was in good standing. Pursuant to the terms of the Subordination and Intercreditor Agreement dated June 7, 2004, if the new senior debt were to be in default at some time in the future, Chris and Harris Pappas have a contractual right (but no obligation) to purchase those loans.

Both the line of credit and the term loan allow for \$11 million in annual capital expenditures plus 50% of the unused prior-year allowance. Both agreements allow for additional spending if the Company surpasses certain financial ratios.

At August 25, 2004, the Company's outstanding senior debt balance was \$51.5 million. From its new revolving line of credit, the Company had an outstanding debt balance of \$28.0 million. This level is down \$8.3 million from its

original drawn amount of \$36.3 million, which occurred in June 2004. Of the \$8.3 million reduction, \$2.7 million was derived from a sale leaseback of one property, and \$5.6 million was from excess cash. From its term loan, the Company had an outstanding debt balance of \$23.5 million. This level is down \$4.4 million from its original note balance of \$27.9 million, which also occurred in June 2004. The reduction was primarily made with proceeds received on the sale of properties. Of the \$50

Table of Contents

million total commitment under the line of credit, \$20.8 million was available to the Company at August 25, 2004.

Additionally, as of August 25, 2004, the Company has approximately \$2.2 million available under letters of credit through a separate arrangement with another bank.

The interest rate applicable to the revolving line of credit was LIBOR plus 3.75% at August 25, 2004. The interest rate on the term loan at August 25, 2004, was LIBOR plus 7.5%. Comparatively, at the end of fiscal 2003, the credit-facility debt had an interest rate of prime plus 4.0%.

The Company's outstanding senior debt at August 27, 2003, was \$91.6 million compared to \$51.5 million at August 25, 2004. The \$40.1 million reduction was due to \$20.3 million in proceeds from property sales and \$19.8 million from excess cash reserves.

Both the new line of credit and the term loan contain financial performance covenants, provisions limiting the use of the Company's cash, and descriptions of certain events of default that could be triggered by changes in the Company's relationship with its CEO and its COO. Provisions limiting the use of the Company's cash include a maximum annual capital expenditure (as mentioned above); the exclusion of the Company to directly purchase any equity interests or any other securities of any unrelated Company (except those permitted investments); a maximum annual expenditure for both capital and operating leases; and the Company may declare and pay dividends on its common stock payable in additional shares of its common stock, but not in cash. As the focus continues toward further strengthening operational and financial performance, management believes that the two new debt instruments will provide the proper level of financing to improve its liquidity. Additionally, the Company expects to be able to maintain compliance with the specific requirements of each agreement.

As of August 25, 2004, \$195.5 million of the Company's total book value, or 83.3% of its total assets, was pledged as collateral. These pledged assets included the Company's owned real estate, improvements, equipment, and fixtures.

For information on the letter of credit issued under the line of credit for officer loans currently guaranteed by the Company for any notes still in default as of September 30, 2004, see Note 8.

Subordinated Notes

As mentioned earlier, in the fourth quarter of fiscal 2001, the Company's CEO, Christopher J. Pappas, and Harris J. Pappas, the Company's COO, formally loaned the Company a total of \$10 million in exchange for convertible subordinated notes. The notes, as formally executed, bore interest at LIBOR plus 2.0%, payable quarterly.

Between the fourth quarter of fiscal 2003 and the fourth quarter of fiscal 2004, the subordinated notes were in default because of cross-default provisions that were tied to the Company's original credit facility. The subordinated notes were amended during the fourth quarter of fiscal 2004, in conjunction with refinancing the senior debt. The Company paid the lenders all of the previously accrued interest that could not be paid while the senior debt was in default. As a result of these developments, the Company's subordinated notes are no longer in default.

The original notes were convertible into the Company's common stock at \$5.00 per share for 2.0 million shares. This arrangement created a beneficial conversion feature recorded as a discount to debt with an offset to paid-in capital. The Company has amortized the discount on the original notes through increased noncash charges to interest expense since its origination in fiscal 2001. For accounting purposes, the modification of these notes requires the original beneficial conversion feature to be extinguished and the unamortized portion of the original discount to be accelerated; the net effect of which resulted in a \$125,000 financial benefit in the fourth quarter of fiscal 2004.

Table of Contents

The interest on the modified seven-year notes is prime plus 5.0% for as long as the senior debt equals or exceeds \$60 million. When the senior debt is reduced below \$60 million, interest will be prime plus 4.0%. In either case, the rate cannot exceed 12.0% or the maximum legal rate.

As a result of the amended subordinated note agreements, at the earlier of June 7, 2005, a default under the senior debt, or a change in control as defined in the amended notes, the conversion price will lower to \$3.10 per share for 3.2 million shares. The per share market price of the Company's stock on the commitment date (as determined by the closing price on the New York Stock Exchange) was \$5.63. The difference between the market price and the lowest possible strike price of \$3.10, or \$2.53 per share, multiplied by the relative number of convertible shares equals approximately \$8.2 million, which represents the new beneficial conversion feature. Consistent with the original accounting treatment, this amount will be recorded as both a component of paid-in capital and a discount from the \$10 million in subordinated notes. The new note discount will be amortized as noncash interest expense over the term of the subordinated notes. The annual effect of this amortization will be approximately \$1.2 million.

The carrying value of the notes, net of the unamortized discount, at August 25, 2004, was approximately \$2.1 million, while at August 27, 2003, was approximately \$7.0 million.

The Company has agreed to reserve shares held in treasury for issuance to the holders of the subordinated notes upon conversion of the debt. The Company's treasury shares have also been reserved for two other purposes—the issuance of shares to Messrs. Pappas upon exercise of the options granted to them on March 9, 2001, and for shares issuable under the Company's Nonemployee Director Phantom Stock Plan. In accordance with an agreement between Messrs. Pappas and the Company dated June 7, 2004, Chris and Harris Pappas have agreed to limit their exercise of stock options to a number that will ensure the net treasury shares available are not exceeded. Pursuant to the terms of that agreement, the Company indicated that it will use reasonable efforts to list on the New York Stock Exchange additional shares which would permit full exercise of those options. Net Treasury Shares Available is defined in the debt agreements as the number of shares of common stock then held by the Company in treasury, minus the number of shares of common stock issuable or issued after the June 7, 2004, under the Nonemployee Director Phantom Stock Plan, minus the number of shares of common stock issuable or issued upon conversion of the subordinated notes, calculated assuming the lowest conversion price stated in the subordinated notes.

Schedule of Outstanding Debt

	August 25, 2004
	(In thousands)
Line of credit	\$ 28,000
Term loan	23,470
Subordinate notes	10,000
Total debt	61,470
Less discount on subordinate notes	(7,909)
Total	53,561

Table of Contents

The long-term debt repayments are due as follows:

	(In thousands)
2005	\$
2006	
2007	51,470
2008	
2009	
Thereafter	<u>10,000</u>
	<u>\$61,470</u>

Interest Expense

Total interest expense incurred for 2004, 2003, and 2002 was \$10.2 million, \$10.3 million, and \$10.3 million, respectively. Excluding the deferred interest payments and the debt discount amortization on the Company's subordinated notes described above, interest paid approximated \$7.9 million, \$8.8 million, and \$9.8 million in fiscal 2004, 2003, and 2002, respectively.

Interest expense of approximately \$2.2 million, \$2.7 million, and \$2.6 million in fiscal years 2004, 2003, and 2002, respectively, has been allocated to discontinued operations based upon the debt that is required to be repaid as a result of the disposal transactions. After the initiation of the debt refinancing in the fourth quarter of fiscal 2004, only the interest relating to the term loan is reclassified to discontinued operations. No interest was capitalized on qualifying properties in 2004, 2003, or 2002.

Note 7. Impairment of Long-Lived Assets and Store Closings /Discontinued Operations***Impairment of Long-Lived Assets and Store Closings***

In accordance with Company guidelines, management periodically reviews the financial performance of each store for indicators of impairment or indicators that closure would be appropriate. Where indicators are present, such as three full fiscal years of negative cash flows or other unfavorable market conditions, the carrying values of assets are written down to the estimated future discounted cash flows or fully written off in the case of negative cash flows anticipated in the future. Estimated future cash flows are based upon regression analyses generated from similar Company restaurants, discounted at the Company's weighted-average cost of capital.

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

Year Ended		
August	August	August
25,	27,	28,
2004	2003	2002

	(364 days)	(364 days) (In thousands)	(362 days)
Provision for asset impairments and restaurant closings	\$ 727	\$2,100	\$ 271
EPS decrease basic	\$0.03	\$ 0.09	\$ 0.01

Table of Contents

The change from fiscal 2003 to 2004 of \$1.4 million related to a decrease in impairments. Fiscal 2004 principally includes reductions in property values that resulted from changes in market conditions offset by an impairment reversal on the disposal of a property that was previously written down.

Discontinued Operations

From the inception of the current business plan in fiscal 2003 to August 25, 2004, the Company closed 55 operating stores. The operating results of these locations have been reclassified and reported as discontinued operations for all periods presented as required by Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sales and broadens the presentation of discontinued operations to include more disposal transactions. The Company adopted SFAS No. 144 in the first quarter of fiscal 2003, as required. The following are the sales and pretax losses reported for all discontinued locations:

	Year Ended		
	August 25, 2004	August 27, 2003	August 28, 2002
	(364 days)	(364 days)	(362 days)
	(In thousands)		
Sales	\$ 4,175	\$ 55,512	\$ 80,409
Pretax losses	(8,343)	(32,246)	(12,047)

During fiscal 2003, after the original designation of stores to be closed, two were removed from the list and replaced by two other locations. Specifically, one in Bossier City, Louisiana, and one in Houston, Texas, were neutrally exchanged for one location in San Antonio, Texas, and one in Lufkin, Texas. In the first quarter of fiscal 2004, a prior joint-venture seafood location was adopted into the plan. Then in the second quarter of fiscal 2004, two additional locations Garland, Texas, and New Braunfels, Texas were also adopted into the plan. In the third quarter of fiscal 2004, Nacogdoches, Texas, and Texarkana, Texas, were adopted into the plan. In the fourth quarter of fiscal 2004, the Company's location in Seguin, Texas, was closed and adopted into the plan.

Pursuant to the business plan and expectations of its bank group, the Company has continued to apply the proceeds from the sale of closed restaurants to pay down its senior debt. Of the total paid down in fiscal 2004 and 2003, \$15.3 million and \$10.6 million, respectively, resulted from sales proceeds related to business plan assets. Of the total amount noted on the balance sheet as of August 25, 2004, the Company also had 22 properties recorded at \$19.8 million in property held for sale, which related to the business plan. Management therefore estimates the total amount of proceeds to be applied to outstanding debt for the current fiscal year and future business plan disposals was the combined amount of \$35.1 million (\$15.3 million and \$19.8 million noted herein).

In accordance with EITF 87-24, Allocation of Interest to Discontinued Operations, interest on debt that is required to be repaid as a result of a disposal transaction should be allocated to discontinued operations. For fiscal 2004, 2003, and 2002, respectively, \$2.2 million, \$2.7 million, and \$2.6 million was allocated to discontinued operations. The basis of the allocation to discontinued operations was an application of the credit facility's historical effective interest rates to the portion of the estimated total debt that equals the amount related to current and future business plan disposals as explained in the previous paragraph.

Relative to the business plan, as the Company has formally settled lease terminations or has reached definitive agreements to terminate leases, the related charges have been recorded. For fiscal 2004, no lease exit costs associated with the business plan met this criteria and, consequently, were not accrued as of that date. Furthermore, the Company did not accrue future rental costs in instances where locations closed; however, management has the ability to sublease at amounts equal to or greater than the rental costs. The Company does not accrue employee settlement costs; these charges are expensed as incurred.

Table of Contents

The following summarizes discontinued operations for fiscal years 2004, 2003, and 2002:

	Year Ended		
	August 25, 2004	August 27, 2003	August 28, 2002
	(364 days)	(364 days)	(362 days)
	(In thousands)		
Impairments	\$ (6,237)	\$ (19,776)	\$
Gains	4,090	2,190	_____
Net impairments	(2,147)	(17,586)	_____
Other	(6,196)	(14,660)	(7,379)
Discontinued operations, net of taxes	(8,343)	(32,246)	(7,379)
Effect on EPS from net impairments - decrease (increase) basic	\$ (0.10)	\$ (0.78)	\$ _____
Effect on EPS from discontinued operations - decrease (increase) basic	\$ (0.37)	\$ (1.43)	\$ (0.33)

Within discontinued operations, the Company offsets gains from applicable property disposals against total impairments as noted above. The amounts in the table noted as Other actually include several items. Those items include allocated interest, lease settlements, employment termination and shut-down costs, as well as operating losses through each restaurant's closing date and carrying costs until the locations are finally disposed of.

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

Property Held for Sale

At August 25, 2004, the Company had a total of 26 properties recorded at \$24.6 million in property held for sale, including the 22 properties and \$19.8 million mentioned in the previous section of this note. Of the 26 total properties, three are related to prior disposal plans and one is the corporate office property in San Antonio, Texas. The Company is actively marketing the locations currently classified in property held for sale and will use the proceeds to pay down debt as those transactions are completed.

In the third quarter of fiscal 2004, one property in Dallas, Texas, formerly designated as a property held for sale was transferred to property held for future use as it was expected to be used in another capacity. In the fourth quarter of fiscal 2004, the property was transferred out of property held for future use back to property held for sale as the Company determined that the property would best be utilized by being sold, with the proceeds being used to pay down debt.

A rollforward of property held for sale for fiscal 2003 and 2004 is provided below:

Property Held for Sale	
Balance as of August 28, 2002	\$ 8,144
Net transfers to/from property held for sale	51,062
Disposals	(13,876)
Net impairment charges	(12,384)
	<hr/>
Balance as of August 27, 2003	32,946
Net transfers to/from property held for sale	11,366
Disposals	(13,253)
Net impairment charges	(6,465)
	<hr/>
Balance as of August 25, 2004	\$ 24,594
	<hr/>

Table of Contents***Reserve for Restaurant Closings***

At August 25, 2004, and August 27, 2003, the Company had a reserve for restaurant closings of \$500,000 and \$1.7 million, respectively. The reserve balances as of the end of both periods related to the 2001 asset disposal plan and were comprised of estimated lease settlement costs. The settlement costs were accrued in accordance with EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity, which was appropriate for disposal plans initiated before the Company's fiscal 2003 adoption of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Since the implementation of SFAS No. 146, lease settlement costs have been expensed as incurred.

Relative to the fiscal 2001 disposal plan, the following summarizes the amounts recognized as cash payments, including actual lease settlements, as well as other reductions. Other reductions include certain accrual reversals for settlements that have been more favorable than originally expected and were recorded in discontinued operations after their eventual closure.

	Reserve Balance (2001 Disposal Plan)		
	Lease Settlement Costs	Other Exit Costs	Total Reserve
	(In thousands)		
Balances at August 31, 2001	\$ 4,206	\$ 300	\$ 4,506
Additions (reductions)	(373)		(373)
Cash payments	(856)	(163)	(1,019)
	<hr/>	<hr/>	<hr/>
Balances at August 28, 2002	2,977	137	3,114
Additions (reductions)	(1,163)	(78)	(1,241)
Cash payments	(151)	(59)	(210)
	<hr/>	<hr/>	<hr/>
Balances at August 27, 2003	1,663		1,663
Additions (reductions)	(518)		(518)
Cash payments	(645)		(645)
	<hr/>	<hr/>	<hr/>
Balances at August 25, 2004	\$ 500	\$	\$ 500
	<hr/>	<hr/>	<hr/>

Note 8. Commitments and Contingencies***Officer Loans***

In fiscal 1999, the Company guaranteed loans of approximately \$1.9 million relating to purchases of Luby's

Table of Contents

stock by various officers of the Company pursuant to the terms of a shareholder-approved plan. Under the officer loan program, shares were purchased and funding was obtained by the participating officers from JPMorgan Chase Bank, one of the four members of the original bank group that participated in the Company's credit facility. Per the original terms of the guaranteed loan agreements, these instruments only required annual interest to be paid by the individual debtors, with the entire principal balances due upon their respective original maturity dates, which occurred during the period from January through March of 2004.

In fiscal 2004, principal balances in the amount of \$595,000 were paid by certain individual note holders. Accordingly, the combined principal balances of these notes were reduced from \$1.6 million to \$1.0 million from August 27, 2003, to August 25, 2004, respectively.

The purchased Company stock has been and can be used by borrowers to satisfy a portion of their loan obligation. As of August 25, 2004, based on the market price on that day, approximately \$315,000, or 30.9% of the note balances, could have been covered by stock, while approximately \$705,000, or 69.1%, would have remained outstanding.

The underlying guarantee on these loans includes a cross-default provision. The Company received notice in 2003 from JPMorgan Chase Bank that the default in the Company's credit facility led to a default in the officer loans. On July 10, 2003, JPMorgan Chase Bank notified the Company that although it reserved all rights and remedies, it did not elect to pursue those rights and remedies in order to allow further discussions among the bank group. This notice did not constitute a waiver.

As of the end of fiscal 2004, certain individual note holders have negotiated with JPMorgan Chase Bank for loan extensions that will mature during the first calendar quarter of 2005. Accordingly, approximately \$118,000 of the total loan balances are not overdue.

Since the development of the cross-default, the Company has been working constructively with JPMorgan Chase Bank to rectify the status of all officer loans. Accordingly, related to the renegotiation of its senior debt, the Company developed an interim solution. This solution is the issuance of a letter of credit entered into on June 7, 2004, for approximately \$1.2 million. That amount is intended as an estimate to cover principal and cumulative accrued interest that was due by the note holders as of September 30, 2004. After that date, if the loans are still in default, JPMorgan Chase Bank can use the letter of credit to draw on the current line of credit to pay down any portion of the unpaid officer loans, as well as the accrued interest. As of the date of this report, JPMorgan Chase Bank has not taken any action to draw upon the letter of credit.

In anticipation of the maturity of its obligation to purchase the loans, the Company worked out settlement agreements with several of the debtors pursuant to which the Company would contribute up to \$530,000 under the terms of the settlement agreement. As of August 25, 2004, the Company has recognized a liability of \$530,000 in accrued expenses and other liabilities.

Off-Balance-Sheet Arrangements

The Company has no off-balance-sheet structured financing arrangements; however, under the terms of applicable SEC rules, the Company's obligation to repurchase the officer loans could be deemed a guarantee contract, which the SEC considers an off-balance-sheet arrangement. If the Company is required to purchase the officer loans, it would have a maximum cash payout exposure of approximately \$1.2 million.

Pending Claims

The Company is presently, and from time to time, subject to pending claims and lawsuits arising in the ordinary course of business. In the opinion of management, the resolution of any pending legal proceedings will not have a material adverse effect on the Company's operations or consolidated financial position.

Surety Bonds

At August 25, 2004, surety bonds in the amount of \$6.0 million have been issued as security for the payment of insurance obligations classified as accrued expenses on the balance sheet. Effective September

Table of Contents

29, 2004, the bonds were reduced to approximately \$5 million, commensurate with a decrease in collateral requirements.

Note 9. Leases

The Company conducts part of its operations from facilities that are leased under noncancelable lease agreements. Approximately 85.7% of the leases contain renewal options ranging from five to thirty years.

Most leases include periodic escalation clauses. In accordance with those clauses, the Company records increases in rent expense as they become applicable. Accordingly, the Company does not follow the straight-line rent method as prescribed by SFAS No. 13 under generally accepted accounting principles; however, management does not believe the variation from the straight-line method is material to the Company's results of operations and financial position.

Annual future minimum lease payments under noncancelable operating leases as of August 25, 2004, are as follows:

Year Ending:	(In thousands)
August 31, 2005	\$ 4,186
August 30, 2006	3,836
August 29, 2007	3,574
August 27, 2008	3,311
August 26, 2009	2,591
Thereafter	13,440
	<hr/>
Total minimum lease payments	\$30,938
	<hr/>

Most of the leases are for periods of ten to twenty-five years and provide for contingent rentals based on sales in excess of a base amount. Total rent expense for operating leases for the last three fiscal years was as follows:

	Year Ended		
	August 25, 2004	August 27, 2003	August 28, 2002
	<hr/>		
	(In thousands)		
Minimum rentals	\$4,926	\$6,112	\$6,512
Contingent rentals	290	507	770
	<hr/>	<hr/>	<hr/>
Total rent expense (including amounts in discontinued operations)	\$5,216	\$6,619	\$7,282

	<u> </u>	<u> </u>	<u> </u>
Percent of sales	1.7%	2.1%	2.2%
	<u> </u>	<u> </u>	<u> </u>

See Note 13 for lease payments associated with related parties.

Table of Contents**Note 10. Employee Benefit Plans and Agreements*****Executive Stock Options***

In connection with their employment agreements effective March 9, 2001, the CEO and the COO were granted approximately 2.2 million stock options at a strike price of \$5.00 per share, which was below the quoted market price on the date of grant. From that date through fiscal 2004, the Company recognized a total of \$5.2 million in noncash compensation expense associated with these options. Totals of \$679,000, \$1.3 million, and \$1.3 million were recognized in fiscal 2004, 2003, and 2002, respectively.

The Company has agreed to reserve shares held in treasury for issuance upon exercise of these options. In accordance with an agreement between Messrs. Pappas and the Company dated June 7, 2004, Chris and Harris Pappas have agreed to limit their exercise of stock options to a number that will ensure the net treasury shares available are not exceeded. Pursuant to the terms of that agreement, the Company indicated that it will use reasonable efforts to list on the New York Stock Exchange additional shares which would permit full exercise of the options. (See the *Subordinated Notes* section of Management's Discussion and Analysis of Financial Condition and Results of Operations for definition of net treasury shares.)

All Stock Options

The Company has an incentive stock plan to provide for market-based incentive awards, including stock options, stock appreciation rights, and restricted stock. Under this plan, stock options may be granted at prices not less than 100% of fair market value on the date of grant. Options granted to the participants of the plan are exercisable over staggered periods and expire, depending upon the type of grant, in five to ten years. The plan provides for various vesting methods, depending upon the category of personnel.

During 1999, the Company authorized 2.0 million shares of the Company's common stock for a new plan. Under its terms, including the 1999 authorization, nonqualified stock options, incentive stock options, and other types of awards for not more than 4.9 million shares of the Company's common stock may be granted to eligible employees of the Company. As previously stated, the Company also granted 2.2 million options to the CEO and the COO in conjunction with their employment agreements. Neither individual has exercised any of those options.

The following is a summary of activity in the Company's incentive stock plan and the executive stock options for the three years ended August 25, 2004, August 27, 2003, and August 28, 2002:

	Weighted- Average Exercise Price Per Share - Options Outstanding	Options Outstanding
Balances at August 31, 2001	\$ 8.93	4,506,241
Granted	6.21	133,500
Cancelled or expired	14.10	(435,306)
Exercised	5.44	(10,100)

Balances at August 28, 2002	8.31	4,194,335
Granted	1.98	28,000
Cancelled or expired Exercised	12.49	(302,737)

Balances at August 27, 2003	7.96	3,919,598
Granted	4.47	20,000
Cancelled or expired	14.30	(399,569)
Exercised	5.44	(7,500)

Balances at August 25, 2004	\$ 7.22	3,532,529
--	----------------	------------------

Balances of Exercisable Options as of:

August 31, 2001	\$1,441,490
August 28, 2002	2,242,095
August 27, 2003	3,029,098
August 25, 2004	3,394,029

Table of Contents

Exercise prices for options outstanding as of August 25, 2004, range from \$1.98 to \$22.75 per share. The weighted-average remaining contractual life of these options is 4.8 years. Excluding 2,240,000 executive stock options with an exercise price of \$5.00 per share, the exercisable options as of August 25, 2004, have a weighted-average exercise price of \$11.69 per share.

**Options Outstanding and Exercisable by Price Range
As of August 25, 2004**

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding As of 8/25/04	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable As of 8/25/04	Weighted- Average Exercise Price
\$ 1.9800 - \$ 4.4700	46,000	8.90	\$ 3.0626	26,000	\$ 1.9800
5.0000 - 5.0000	2,240,000	6.54	5.0000	2,240,000	5.0000
5.4375 - 6.7000	365,150	2.88	5.6647	268,650	5.6555
7.8125 - 14.3750	402,345	1.45	11.5311	380,345	11.6896
14.4375 - 15.4375	434,576	0.53	15.3221	434,576	15.3221
15.9375 - 15.9375	11,127	0.58	15.9375	11,127	15.9375
17.1250 - 17.1250	18,332	1.31	17.1250	18,332	17.1250
20.2500 - 20.2500	5,000	2.39	20.2500	5,000	20.2500
21.6250 - 21.6250	5,000	1.38	21.6250	5,000	21.6250
22.7500 - 22.7500	4,999	0.39	22.7500	4,999	22.7500
\$ 1.9800 - \$22.7500	3,532,529	4.80	\$ 7.2248	3,394,029	\$ 7.2745

At August 25, 2004, and August 27, 2003, the number of incentive stock option shares available to be granted under the plans was 1,315,202 and 935,966 shares, respectively.

The weighted-average fair value of the individual options granted during 2004, 2003, and 2002 was estimated at \$2.32, \$0.94, and \$2.55, respectively, on the date of grant. The fair values were determined using a Black-Scholes option pricing model with the following assumptions:

	2004	2003	2002
	<u> </u>	<u> </u>	<u> </u>
Dividend yield	%	%	%
Volatility	.57	0.51	0.35
Risk-free interest rate	3.01%	3.02%	3.56%
Expected life	5.00	5.00	6.18

Table of Contents***Supplemental Executive Retirement Plan***

The Company has a Supplemental Executive Retirement Plan (SERP) for key executives and officers. The SERP is a target benefit plan, with the annual lifetime benefit based upon a percentage of average salary during the final five years of service at age 65, offset by several sources of income including benefits payable under deferred compensation agreements, if applicable, and Social Security. SERP benefits will be paid from the Company's assets. The net expense (benefit) incurred for this plan for the years ended August 25, 2004, August 27, 2003, and August 28, 2002, was \$(188,000), \$67,000, and \$64,000, respectively, and the unfunded accrued pension liability as of August 25, 2004, August 27, 2003, and August 28, 2002, was approximately \$488,000, \$709,000, and \$665,000, respectively.

401(k) Plan

The Company has a voluntary 401(k) employee savings plan to provide substantially all employees of the Company an opportunity to accumulate personal funds for their retirement. These contributions may be made on a pre-tax basis to the plan, and the Company matches 25% of participants' contributions of up to 4% of their salary. The net expense recognized in connection with the employer match feature of the voluntary 401(k) employee savings plan for the years ended August 25, 2004, August 27, 2003, and August 28, 2002, was \$201,000, \$252,000, and \$311,000, respectively.

Deferred Compensation Plans

During 1999, the Company established a nonqualified deferred compensation plan for highly compensated executives which was terminated in fiscal 2004. The plan allowed deferral of a portion of annual salary and up to 100% of bonuses before taxes. The Company did not match any deferral amounts and retained ownership of all assets until distributed. The liability under this deferred compensation plan at August 25, 2004, August 27, 2003, and August 28, 2002, was approximately \$0, \$57,000, and \$54,000, respectively. The funds from the terminated plan were distributed in fiscal 2004.

The Company continued to make payments to former employees or their beneficiaries under a previous plan that provides retirement, death, and disability benefits for certain highly compensated executives. All benefits under this plan were fully accrued prior to fiscal year 2000, and future benefits payable amount to approximately \$521,000 as of August 25, 2004.

Profit Sharing Plan

In fiscal 2004, the Company terminated its profit sharing and retirement plan (the Plan) and is in the process of making distributions to all Plan participants. The Plan covered substantially all employees who had attained the age of 21 years and had completed one year of continuous service. It was administered by a corporate trustee, was a qualified plan under Section 401(a) of the Internal Revenue Code, and provided for the payment of the employee's vested portion of the Plan upon retirement, termination, disability, or death. The Plan had been funded by contributions of a portion of the net earnings of the Company and was amended effective August 31, 2001, to make all contributions discretionary. No annual contributions to the Plan were made in fiscal 2004, 2003, or 2002.

Note 11. Derivative Financial Instruments

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and its amendments, Statement Nos. 137 and 138, on September 1, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Pursuant to this Standard, the Company designated its Interest Rate Protection Agreements (Swaps) as cash flow hedge instruments. Swaps were used to manage exposure to interest rate movement by effectively changing the variable rate to a fixed

rate. The critical terms of the Swaps and the interest-bearing debt associated with the Swaps were the same; therefore, the Company concluded that there was no ineffectiveness in the hedge relationship. Due to declining interest rates and in anticipation of additional

Table of Contents

future unfavorable interest rate changes, the Company terminated the Swaps on July 2, 2001, for a cash payment of \$1.3 million, including accrued interest of \$163,000. Changes in fair value of the Swaps were recognized in other comprehensive income (loss), net of tax effects, until the hedged items were recognized in earnings.

In accordance with SFAS No. 133, the loss of \$1.1 million was recognized as interest expense over the original term of the Swaps (through June 30, 2002). At August 28, 2002, there was no balance in accumulated other comprehensive loss.

Note 12. Comprehensive Income (Loss)

As noted above, due to the decline in interest rates and in anticipation of additional unfavorable interest rate changes, the Company terminated the Swaps on July 2, 2001. The loss associated with the termination was recognized as interest expense over the original term of the Swaps, through June 30, 2002. At August 28, 2002, there was no balance in accumulated other comprehensive loss. The Company did not acquire any additional swaps in fiscal 2003 or 2004.

The Company's comprehensive (loss) was comprised of net (loss) and adjustments to derivative financial instruments. The components of the comprehensive (loss) were as follows:

	<u>August 25, 2004</u>	<u>August 27, 2003</u>	<u>August 28, 2002</u>
		(In thousands)	
Net (loss)	\$(6,439)	\$(33,094)	\$(9,653)
Other comprehensive (loss), net of taxes:			
Reclassification adjustment for loss recognized on termination of interest rate swaps, net of taxes of \$318	_____	_____	592
Comprehensive income (loss)	\$(6,439)	\$(33,094)	\$(9,061)

Note 13. Related Parties***Affiliate Services***

The CEO and COO of the Company, Christopher J. Pappas and Harris J. Pappas, respectively, own two restaurant entities that may provide services to Luby's, Inc. as detailed in the Affiliate Services Agreement and the Master Sales Agreement. Under the terms of the Affiliate Services Agreement, the Pappas entities may provide accounting, architectural, and general business services. The total costs under the Affiliate Services Agreement in fiscal 2004 were \$1,000. No costs were incurred relative to the Affiliate Services Agreement in fiscal 2003. Costs incurred in fiscal 2002 were \$8,000.

Under the terms of the Master Sales Agreement, the Pappas entities may provide specialized (customized) equipment fabrication and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. The total costs under the Master Sales Agreement of custom-fabricated and refurbished equipment in fiscal 2004, 2003, and 2002 were approximately \$113,000, \$174,000, and \$506,000, respectively.

Operating Leases

In a separate contract from the Affiliate Services Agreement and the Master Sales Agreement, the Company entered into a three-year lease which commenced on June 1, 2001, and expired on May 31, 2004. This lease is currently on a month-to-month basis. The leased property, referred to as the Houston Service Center, is used to accommodate the Company's own in-house repair and fabrication center. The amount paid by the

Table of Contents

Company pursuant to the terms of this lease was approximately \$82,000, \$79,000, \$78,000 in fiscal 2004, 2003, and 2002, respectively.

From an unrelated third party, the Company previously leased a location used to house increased equipment inventories due to store closures under the business plan. The Company considered it more prudent to lease this location rather than to pursue purchasing a storage facility, as its strategy is to focus its capital expenditures on its operating restaurants. In a separate transaction, the third-party property owner sold the location to the Pappas entities during the fourth quarter of fiscal 2003, with the Pappas entities becoming the Company's landlord for that location effective August 1, 2003. The storage site complements the Houston Service Center with approximately 27,000 square feet of warehouse space at an approximate monthly rate of \$0.21 per square foot. The amount paid by the Company pursuant to the terms of this lease was approximately \$69,000 in fiscal 2004.

In another separate contract, pursuant to the terms of a ground lease dated March 25, 1994, the Company paid rent to PHCG Investments for a Luby's restaurant the Company operated in Dallas, Texas, until that location was closed early in the third quarter of fiscal 2003. Christopher J. Pappas and Harris J. Pappas are general partners of PHCG Investments. Preceding the store's closure, the Company entered into a lease termination agreement with a third party unaffiliated with the Pappas entities. That agreement severed the Company's interest in the PHCG property in exchange for a payment of cash to the Company. The Company also obtained the right to remove fixtures and equipment from the premises, and it was released from any future obligations under the lease agreement. The closing of the transaction was completed during the third quarter of fiscal 2003, resulting in a gain of \$735,000, and the gross proceeds were used to pay down debt. The amount paid by the Company pursuant to the terms of this lease before its termination was approximately \$42,000 and \$85,000 in fiscal 2003 and 2002, respectively. No costs were incurred under this lease in fiscal 2004.

Late in the third quarter of fiscal 2004, Chris and Harris Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas own a 50% limited partnership and a 50% general partnership interest. One of the Company's restaurants has rented approximately 7% of the space in that center since July of 1969. No changes were made to the Company's lease terms as a result of the transfer of ownership of the center to the new partnership. The amount paid by the Company pursuant to the terms of this lease since the inclusion of Chris and Harris Pappas as limited and general partners was \$56,000 in fiscal 2004. Management is under instruction that no amendments can be made to this lease without the approval of the Finance and Audit Committee.

Affiliated rents paid for the Houston Service Center, the separate storage facility, the Dallas property, and the Houston property leases combined represented 4.8%, 2.8%, and 3.3% of total rents for continuing operations for fiscal 2004, 2003, and 2002, respectively.

Subordinated Notes

Refer to Note 6 for information on the subordinated notes.

Board of Directors

Pursuant to the terms of a separate Purchase Agreement dated March 9, 2001, entered into by and among the Company, Christopher J. Pappas and Harris J. Pappas, the Company agreed to submit three persons designated by Christopher J. Pappas and Harris J. Pappas as nominees for election at the 2002 Annual Meeting of Shareholders. Messrs. Pappas designated themselves and Frank Markantonis as their nominees for directors, all of whom were subsequently elected. Christopher J. Pappas and Harris J. Pappas are brothers. As disclosed in the proxy statement for the February 26, 2004, annual meeting of shareholders, Frank Markantonis is an attorney whose principal client is Pappas Restaurants, Inc., an entity owned by Harris J. Pappas and Christopher J. Pappas.

Under the terms of the amended Purchase Agreement dated June 7, 2004, the right to nominate directors for election was modified to provide that Messrs. Pappas may continue to nominate persons for election to the board which, if such nominees are elected, would result in Messrs. Pappas having nominated three of the

Table of Contents

then-serving directors of the Company. Messrs. Pappas retain their right for so long as either they both are executive officers of the Company or continue to hold the subordinated notes described previously.

Key Management Personnel

As of June 2004, new two-year employment contracts were finalized for Christopher J. Pappas and Harris J. Pappas.

Ernest Pekmezaris, Chief Financial Officer of the Company, is also the Treasurer of Pappas Restaurants, Inc. Compensation for the services provided by Mr. Pekmezaris to Pappas Restaurants, Inc. is paid entirely by that entity.

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

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

Note 14. Common Stock

In 1991, the Board of Directors adopted a Shareholder Rights Plan and declared a dividend of one common stock purchase right for each outstanding share of common stock. The rights are not initially exercisable. The Company amended the Shareholder Rights Plan effective February 27, 2004, to extend the expiration date to April 16, 2007. The rights may become exercisable under circumstances described in the plan if any person or group becomes the beneficial owner of 15% or more of the common stock or announces a tender or exchange offer, the completion of which would result in the ownership by a person or group of 15% or more of the common stock (either, an Acquiring Person). Once the rights become exercisable, each right will be exercisable to purchase, for \$27.50 (the Purchase Price), one-half of one share of common stock, par value \$.32 per share, of the Company. If any person becomes an Acquiring Person, each right will entitle the holder, other than the Acquiring Person, to acquire for the Purchase Price a number of shares of the Company's common stock having a market value of four times the Purchase Price.

In connection with the employment of Christopher J. Pappas, the Company's President and Chief Executive Officer, and Harris J. Pappas, the Company's Chief Operating Officer, the Shareholder Rights Plan was amended to exempt from the operation of the plan Messrs. Pappas' ownership of the Company's common stock, which was acquired prior to March 8, 2001 (and certain additional shares permitted to be acquired) and certain shares of common stock which may be acquired in connection with options issued on the date of their employment and the convertible notes subsequently purchased from the Company.

In the past, the Board of Directors periodically authorized the purchase, in the open market, of shares of the Company's outstanding common stock. The most recent authorization was a purchase of 850,300 shares of the Company's common stock at a cost of \$12,919,000 in 1999, which are being held as treasury stock. There have been no treasury shares purchased since 1999.

The Company has approximately 3.5 million shares of common stock reserved for issuance upon the exercise of outstanding stock options and 3.2 million shares for issuance upon the conversion of subordinated notes.

Table of Contents**Note 15. Per Share Information**

A reconciliation of the numerators and denominators of basic earnings per share and earnings per share assuming dilution is shown in the table below:

	Year Ended		
	August 25, 2004	August 27, 2003	August 28, 2002
	(In thousands)		
Numerator:			
Income (loss) from continuing operations	\$ 1,904	\$ (848)	\$ (2,274)
	_____	_____	_____
Net Income (loss)	\$ (6,439)	\$ (33,094)	\$ (9,653)
	_____	_____	_____
Denominator:			
Denominator for basic earnings per share weighted-average shares	22,470	22,451	22,428
Effect of potentially dilutive securities: Employee and nonemployee stock options	149	_____	_____
	_____	_____	_____
Denominator for earnings per share - assuming dilution adjusted weighted-average shares	22,619	22,451	22,428
	_____	_____	_____
Income (loss) from continuing operations:			
Basic	\$ 0.08	\$ (0.04)	\$ (0.10)
Assuming dilution	\$ 0.08	\$ (0.04)	\$ (0.10)
	_____	_____	_____
Net income (loss) per share:			
Basic	\$ (0.29)	\$ (1.47)	\$ (0.43)
Assuming dilution ^(a)	\$ (0.29)	\$ (1.47)	\$ (0.43)
	_____	_____	_____

(a) Since the subordinated notes are antidilutive, they have been excluded from the calculation of dilutive shares.

(b) Potentially dilutive shares in fiscal 2003 and 2002 amounted to 1,058 and 178,248 shares, respectively. However, due to loss positions, there was no dilutive effect in those years.

Table of Contents**Note 16. Quarterly Financial Information (Unaudited)**

The sales and gross profit components of the Company's quarterly financial statements have been affected by reclassifications to discontinued operations in accordance with the disposal of operating units under the Company's business plan. Even so, the Company's net income (loss) per share for each quarter is consistent with previous quarterly filings. The following is a summary of quarterly unaudited financial information for 2004 and 2003, including those reclassifications:

	Quarter Ended			
	August 25, 2004	May 5, 2004	February 11, 2004	November 19, 2003
	(112 days)	(84 days)	(84 days)	(84 days)
	(In thousands except per share data)			
Sales	\$96,019	\$74,124	\$70,549	\$68,125
Gross profit	43,022	34,659	31,863	30,643
Income (loss) from continuing operations	3,315	2,514	(1,897)	(2,028)
Discontinued operations	(627)	(2,133)	(3,145)	(2,438)
Net income (loss)	2,688	381	(5,042)	(4,466)
Net income (loss) per share: Basic and assuming dilution	0.12	0.02	(0.22)	(0.20)

	Quarter Ended			
	August 27, 2003	May 7, 2003	February 12, 2003	November 20, 2002
	(112 days)	(84 days)	(84 days)	(84 days)
	(In thousands except per share data)			
Sales	\$92,517	\$70,871	\$70,352	\$70,219
Gross profit	42,081	31,614	30,520	29,678
Income (loss) from continuing operations	1,499	(2,080)	(587)	320
Discontinued operations	(3,096)	(22,910)	(2,818)	(3,422)
Net income (loss)	(1,597)	(24,990)	(3,405)	(3,102)
Net income (loss) per share: Basic and assuming dilution	(0.07)	(1.11)	(0.15)	(0.14)

Amounts indicated may not foot due to quarterly rounding.

Each of the quarters ended August 25, 2004, and August 27, 2003, consist of four four-week periods. All other quarters presented represent three four-week periods. Results for the quarter ended August 25, 2004, include an accrual for the increase in estimated workers' compensation costs (\$1.0 million) and nonrecurring expenses related to voluntary severance costs (\$860,000).

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

December 27, 2004

Date

By: /s/ Christopher J. Pappas

Christopher J. Pappas
President and Chief Executive Officer

LUBY S, INC.

(Registrant)

December 27, 2004

Date

By: /s/ Ernest Pekmezaris

Ernest Pekmezaris
Senior Vice President and Chief Financial
Officer

LUBY S, INC.

(Registrant)