

LUBYS INC  
Form 10-K  
November 16, 2018

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

FORM 10-K  
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended August 29, 2018  
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

(State or other jurisdiction of incorporation or organization)

74-1335253

(IRS Employer Identification Number)

13111 Northwest Freeway, Suite 600

Houston, Texas 77040

(Address of principal executive offices, including zip code)

(713) 329-6800

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on which registered
---------------------	-------------------------------------------

Common Stock (\$0.32 par value per share)	New York Stock Exchange
-------------------------------------------	-------------------------

Common Stock Purchase Rights	New York Stock Exchange
------------------------------	-------------------------

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes  No

Indicate by check mark 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.

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. (Check one):

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

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

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

The aggregate market value of the shares of common stock of the registrant held by nonaffiliates of the registrant as of March 15, 2017, was approximately \$53,432,298 (based upon the assumption that directors and executive officers are the only affiliates).

As of November 7, 2018, there were 29,550,002 shares of the registrant's common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into the designated parts of this Form 10-K:  
Definitive Proxy Statement relating to 2019 annual meeting of shareholders (in Part III)

Luby's, Inc.  
 Form 10-K  
 Year ended August 29, 2018  
 Table of Contents

	Page
<u>Part I</u>	
<u>Item 1 Business</u>	<u>5</u>
<u>Item 1A Risk Factors</u>	<u>10</u>
<u>Item 1B Unresolved Staff Comments</u>	<u>16</u>
<u>Item 2 Properties</u>	<u>16</u>
<u>Item 3 Legal Proceedings</u>	<u>17</u>
<u>Item 4 Mine Safety Disclosure</u>	<u>17</u>
<u>Part II</u>	
<u>Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>18</u>
<u>Item 6 Selected Financial Data</u>	<u>21</u>
<u>Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item 7A Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
<u>Item 8 Financial Statements and Supplementary Data</u>	<u>50</u>
<u>Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>92</u>
<u>Item 9A Controls and Procedures</u>	<u>92</u>
<u>Item 9B Other Information</u>	<u>92</u>
<u>Part III</u>	
<u>Item 10 Directors, Executive Officers and Corporate Governance</u>	<u>93</u>
<u>Item 11 Executive Compensation</u>	<u>93</u>
<u>Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>93</u>
<u>Item 13 Certain Relationships and Related Transactions, and Director Independence</u>	<u>93</u>

<u>Item 14 Principal Accountant Fees and Services</u>	<u>93</u>
<u>Part IV</u>	
<u>Item 15 Exhibits, Financial Statement Schedules</u>	<u>94</u>
<u>Signatures</u>	<u>98</u>

#### Additional Information

We file reports with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. 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 [www.lubysinc.com](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 the 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.

#### Compliance with New York Stock Exchange Requirements

We submitted to the New York Stock Exchange (“NYSE”) the CEO certification required by Section 303A.12(a) of the NYSE’s Listed Company Manual with respect to our fiscal year ended August 30, 2017. We expect to submit the CEO certification with respect to our fiscal year ended August 29, 2018 to the NYSE within 30 days after our annual meeting of shareholders. We are filing as an exhibit to this Form 10-K the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002.

## FORWARD-LOOKING STATEMENTS

This Annual Report on (this "Form 10-K") contains statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements contained in this Form 10-K, 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, including expected reductions in capital expenditures;
- future debt, including liquidity and the sources and availability of funds related to debt;
- plans for our new prototype restaurants;
- plans for expansion of our business;
- scheduled openings of new units;
- closing existing units;
- effectiveness of management's disposal plans;
- 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 2016 Credit Agreement.

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 on certain assumptions and analyses made by management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although management believes that our assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of our control. The following factors, as well as the factors set forth in Item 1A of this Form 10-K and any other cautionary language in this Form 10-K, 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 customers 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 healthcare 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;
- 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-K, 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-K could have material adverse effect on our business, results of operations, cash flows, and financial condition.

PART I

Item 1. Business

Overview

Luby’s, Inc. 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® and Luby’s Culinary Contract Services. We also operate another brand named Cheeseburger in Paradise.

In this Form 10-K, unless otherwise specified, “Luby’s,” “we,” “our,” “us” and “Company” refer to Luby’s, Inc., Luby's Fuddruckers Restaurants, LLC, a Texas Limited Liability Company ("LFR") and the consolidated subsidiaries of Luby’s, Inc. References to “Luby’s Cafeteria” refer specifically to the Luby’s Cafeteria brand restaurant.

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 annual report on Form 10-K or incorporated into any of our other filings with the SEC.

As of November 7, 2018, we operated 142 restaurants located throughout the United States, as set forth in the table below. These establishments are located in close proximity to retail centers, business developments and residential areas. Of the 142 restaurants, 77 are located on property that we own and 65 are located on property that we lease. Six locations consist of a side-by-side Luby’s Cafeteria and Fuddruckers restaurant, to which we refer herein as a “Combo location”.

	Total
Texas:	
Houston Metro	47
San Antonio Metro	16
Rio Grande Valley	12
Dallas/Fort Worth Metro	12
Austin	9
Other Texas Markets	16
California	10
Arizona	4
Illinois	3
Georgia	3
Mississippi	2
Other States	8
Total	142

As of November 7, 2018, we operated 30 locations through our Culinary Contract Services (“CCS”).

	Total
Texas:	
Houston Metro	22
San Antonio Metro	2

Rio Grande Valley	3
Dallas/Fort Worth Metro	2
Greensboro, NC	1
Total	30

5

---

Edgar Filing: LUBYS INC - Form 10-K

As of November 7, 2018, we had 41 franchisees operating 104 Fuddruckers restaurants in locations as set forth in the table below. Our largest six franchisees own five to 12 restaurants each. Fourteen franchise owners each own two to four restaurants. The twenty-one remaining franchise owners each own one restaurant.

	Fuddruckers Franchises
Texas:	
Dallas/Fort Worth Metro	8
Other Texas Markets	10
California	7
Connecticut	1
Delaware	1
Florida	10
Georgia	3
Iowa	1
Louisiana	3
Maryland	1
Massachusetts	4
Michigan	4
Missouri	3
Montana	4
Nebraska	1
Nevada	3
New Jersey	2
New Mexico	4
North Carolina	1
North Dakota	1
Oklahoma	1
Oregon	1
Pennsylvania	5
South Carolina	8
South Dakota	1
Tennessee	2
Virginia	3
International:	
Canada	2
Colombia	2
Mexico	3
Panama	3
Puerto Rico	1
Total	104

In November 1997, a prior owner of the Fuddruckers - World's Greatest Hamburger® 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 November 7, 2018, this licensee operates 33 restaurants that are licensed to use the Fuddruckers proprietary marks in Saudi Arabia, Egypt, United Arab Emirates, Qatar, Jordan, Bahrain, and Kuwait. The Company does not receive revenue or royalties from these restaurants.

For additional information regarding our restaurant locations, please read “Properties” in Item 2 of Part I of this report.

Luby's, Inc. (formerly, Luby's Cafeterias, Inc.) was founded in 1947 in San Antonio, Texas. The Company was originally incorporated in Texas in 1959, with nine cafeterias in various locations, under the name Cafeterias, Inc. It became a publicly held corporation in 1973, and became listed on the NYSE in 1982.

Luby's, Inc. was reincorporated in Delaware on December 31, 1991 and 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 subsidiaries. On July 9, 2010, Luby's Restaurants Limited Partnership was converted into LFR. All restaurant operations are conducted by LFR.

On July 26, 2010, we, through our subsidiary, LFR, completed the acquisition of substantially all of the assets of Fuddruckers, Inc., Magic Brands, LLC and certain of their affiliates (collectively, "Fuddruckers") for approximately \$63.1 million in cash. LFR also assumed certain of Fuddruckers' obligations, real estate leases and contracts. Upon the completion of the acquisition, LFR became the owner and operator of 56 Fuddruckers locations and three Koo Koo Roo Chicken Bistro locations with franchisees operating an additional 130 Fuddruckers locations.

On December 6, 2012, we completed the acquisition of all of the Membership Units of Paradise Restaurant Group, LLC and certain of their affiliates, collectively known as Cheeseburger in Paradise, for approximately \$10.3 million in cash plus customary working capital adjustments. We assumed certain of Cheeseburger in Paradise obligations, real estate leases and contracts and became the owners of 23 full service Cheeseburger in Paradise restaurants located in 14 states.

On August 27, 2014, the Company completed an internal restructuring of certain affiliates of the Luby's Cafeteria business, whereby these companies were merged with and into LFR, as the successor. The principal purpose of these events was to simplify the Luby's corporate structure. Following these events, the Company's restaurant operations continue to be conducted by LFR and Paradise Cheeseburger, LLC. Our operating restaurant locations remain unchanged by these events.

#### Luby's Cafeteria Operations

At Luby's Cafeterias, our mission is to serve our guests convenient, great tasting meals in a friendly environment that makes everyone feel welcome and at home. We do things The Luby's Way, which means we cook in small batches from scratch using real food, real ingredients prepared fresh daily, and our employees and our company get involved and support the fabric of our local communities. We buy local produce as much as possible. We promise to breathe life into the experience of dining out and make every meal meaningful. We were founded in San Antonio, Texas in 1947.

Our cafeteria food delivery model allows customers to select freshly-prepared items from our serving line including entrées, vegetables, salads, desserts, breads and beverages before transporting their selected items on serving trays to a table or booth of their choice in the dining area. Each restaurant offers 15 to 22 entrées, 12 to 14 vegetable dishes, 8 to 10 salads, and 10 to 12 varieties of desserts daily.

Luby's Cafeteria's product offerings are home-style made-from-scratch favorites priced to appeal to a broad range of customers, including those customers that focus on fast wholesome choices, quality, variety, and affordability. We have had particular success among families with children, shoppers, travelers, seniors, and business people looking for a quick, freshly prepared meal at a fair price. All of our restaurants sell food-to-go orders which comprise approximately 13% of our Luby's Cafeteria restaurant sales.

Menus are reviewed periodically and new offerings and seasonal food preferences are regularly incorporated. Each restaurant is operated as a separate unit under the control of a general manager who has responsibility for day-to-day

operations, including food production and personnel employment and supervision. Restaurants generally have a staff led by a general manager, an associate manager and assistant managers. We grant authority to our restaurant managers to direct the daily operations of their stores and, in turn, we compensate them on the basis of their performance. Each general manager is supervised by an area leader. Each area leader is responsible for approximately 7 to 10 units, depending on the area supervised.

In fiscal 2018, we closed four Luby's Cafeterias. The number of Luby's Cafeterias was 84 at fiscal year-end 2018.

7

---

## Fuddruckers

At Fuddruckers, our mission is to serve the World's Greatest Hamburgers® using only 100% fresh, never frozen, all American premium beef, buns baked daily in our kitchens, and the freshest, highest quality ingredients on our "you top it" produce bar. With a focus on excellent food, attentive guest service and an inviting atmosphere, we are committed to making every guest happy, one burger at a time! Fuddruckers restaurants feature casual, welcoming dining areas where Americana-themed décor is featured. Fuddruckers was founded in San Antonio, Texas in 1980.

While Fuddruckers' signature burgers and fries account for the majority of its restaurant sales, its menu also includes exotic burgers, such as buffalo and elk, chicken breast sandwiches, hot dogs, a variety of salads, chicken tenders, hand breaded onion rings, soft drinks, handmade milkshakes, and bakery items. A variety of over 100 carbonated soft drinks including our own unique Sweet Cherry Cream Soda, which is exclusively offered at Fuddruckers restaurants, along with other varieties such as Powerade®, and flavored waters are offered through Coke Freestyle® self-service dispensers. Additionally, beer and wine are served and, generally, account for less than 2% of restaurant sales. Food-to-go sales comprise approximately 8% of Fuddruckers restaurant sales.

Restaurants generally have one general manager with two or three assistant managers and a number of full-time and part-time associates working in overlapping shifts. Since Fuddruckers generally utilizes a self-service concept, similar to fast casual, it typically does not employ waiters or waitresses. Fuddruckers restaurant operations are currently divided into a total of ten geographic areas, each supervised by an area leader. On average, each area leader supervises five to nine restaurants.

In fiscal 2018, we closed 11 Company-owned Fuddruckers restaurants. The number of Fuddruckers restaurants was 60 at fiscal year-end 2018.

## Cheeseburger in Paradise

Cheeseburger in Paradise is known for its inviting beach-party atmosphere, its big, juicy burgers, salads, coastal fare, and other tasty and unique items. Cheeseburger in Paradise is a full-service island-themed restaurant and bar developed in collaboration with legendary entertainer Jimmy Buffet based on one of his most popular songs. The restaurants also feature a unique tropical-themed island bar with many televisions and tasty "boat drinks." As of our fiscal year-end 2018, we operated two of the original Cheeseburger in Paradise locations.

## Culinary Contract Services

Our CCS segment consists of a business line servicing long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, retail grocery stores, behavioral hospitals, sports stadiums, senior living facilities, government, and business and industry clients. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service, and retail dining. Our mission is to re-define the contract food industry by providing tasty and healthy menus with customized solutions for healthcare, senior living, business and industry and higher education facilities. We seek to provide the quality of a restaurant dining experience in an institutional setting. At fiscal year-end 2018, we had contracts with 11 long-term acute care hospitals, seven acute care hospitals, three business and industry clients, three sport stadiums, one governmental facility, one medical office building, one senior living facility, and one freestanding coffee venue located inside an office building. We have the unique ability to deliver quality services that include facility design and procurement as well as nutrition and branded food services to our clients.

## Franchising

Fuddruckers offers franchises in markets where it deems expansion to be advantageous to the development of the Fuddruckers concept and system of restaurants. A standard franchise agreement generally has an initial 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. Luby's management will continue developing its relationships with our franchisees over the coming years and beyond.

Franchisees bear all direct costs involved in the development, construction and operation of their restaurants. In exchange for a franchise fee, we provide 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. We require the successful completion of our training program by a minimum of three managers for each franchised restaurant. In addition, franchised restaurants are evaluated regularly for compliance with franchise agreements, including standards and specifications through the use of periodic, unannounced on-site inspections, and standards evaluation reports.

The number of franchised restaurants was 105 at fiscal year-end 2018 and 113 at fiscal year-end 2017.

For additional information regarding our business segments, please read Notes 1 and 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

### Strategic Focus

Our strategic focus is to generate consistent and sustainable same-store sales growth and improved store level profit. We want our company's performance to make it a leader wherever it operates and in its sector of our industry. We strive to provide attractive returns on shareholder capital. From an operating standpoint, we support this strategic focus through the following:

1. Consistently successful execution: Every day, with every guest, at every restaurant we operate.
2. Growing our human capital: Our team members are the most critical factor in ensuring our Company's success. Our relentless focus as a company must be inspiring and developing our team members to delight our guests.

Raising awareness of our brand: Our restaurants provide guests in our local communities with memories of family, friends, childhood, a great date, a memorable birthday, or a significant accomplishment. The most reliable ways to grow and sustain our business is to perpetuate word of mouth and remain involved in the community. We must

3. share our story with our guests in our restaurants. This allows new guests to learn our brand story and also reaffirms it with legacy and loyal guests. Loyal guests spread and preach the word about our brand. Our most loyal guests typically agree to be in our E-club so we can communicate with them and reward them.

4. Improving restaurant appearances: We recognize the importance of remodeling our legacy restaurants to remain relevant and appealing to keep loyal guests coming back and draw in new guests.

Effective cost management: We evaluate each area of our business to assess that we are spending and investing at appropriate levels. This includes restaurant operating costs and corporate overhead costs. Within our restaurants, we seek opportunities with our food and supplies purchasing, menu offerings, labor productivity, and contracts with

5. restaurant service providers to maintain an appropriate restaurant level cost structure. Within our corporate overhead, we seek opportunities to leverage technology and efficient work processes to maintain a stream-lined corporate overhead.

We remain focused on the key drivers of our businesses to achieve operational excellence of our brands and to efficiently manage costs to grow profitability and enhance shareholder value.

### Intellectual Property

Luby's, Inc. owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information, including the Luby's and Fuddruckers logos, trade names and trademarks, which are of material importance to our business. Depending on the jurisdiction, trademarks, and service marks generally are valid as long as they are used and/or registered. Patents, copyrights, and licenses are of

varying durations. The success of our business depends on the continued ability to use existing trademarks, service marks, and other components of our brands in order to increase brand awareness and further develop branded products. We take prudent actions to protect our intellectual property.

#### Employees

As of November 7, 2018, we had an active workforce of 6,589 employees consisting of restaurant management employees, non-management restaurant employees, CCS management employees, CCS non-management employees, and office and facility service employees. Employee relations are considered to be good. We have never had a strike or work stoppage, and we are not subject to collective bargaining agreements.

## Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. Investors should consider carefully the risks and uncertainties described below, and all other information included in this Form 10-K, before deciding whether to invest in our common stock. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business, financial condition or results of operations. The occurrence of any of the following risks could harm our business, financial condition, and results of operations. The trading price of our common stock could decline due to any of these risks and uncertainties, and investors may lose part or all of their investment.

Our operating losses and working capital and liquidity deficiency raise substantial doubt about our ability to continue as a going concern.

The Company sustained a net loss of approximately \$33.6 million in fiscal 2018. Cash flow from operations has declined to a use of cash of approximately \$8.5 million in fiscal 2018. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations and its ability to obtain alternative financing to refund and repay the current debt owed under its Credit Agreement. The above conditions raise substantial doubt about the Company's ability to continue as a going concern.

Our ability to service our debt obligations is primarily dependent upon our future financial performance.

As of August 29, 2018, we had shareholders' equity of approximately \$113 million compared to approximately:

\$39.5 million of short-term debt comprised of \$19.5 million Term Loan and \$20.0 million Revolver;  
\$53.0 million of minimum operating and capital lease commitments; and  
\$1.3 million of standby letters of credit.

Our ability to meet our debt service obligations depends on our ability to generate positive cash flows from operations and proceeds from assets held for sale.

If we are unable to service our debt obligations, we may have to:

- delay spending on maintenance projects and other capital projects, including new restaurant development;
- sell assets;
- restructure or refinance our debt; or
- sell equity securities.

Our debt, and the covenants contained in the instruments governing our debt, could:

- result in a reduction of our credit rating, which would make it more difficult for us to obtain additional financing on acceptable terms;
- require us to dedicate a substantial portion of our cash flows from operating activities to the repayment of our debt and the interest associated with our debt;
- limit our operating flexibility due to financial and other restrictive covenants, including restrictions on capital investments, debt levels, incurring additional debt and creating liens on our properties;
- place us at a competitive disadvantage compared with our competitors that have relatively less debt;
- expose us to interest rate risk because certain of our borrowings are at variable rates of interest; and
- make us more vulnerable to downturns in our business.

If we are unable to service our debt obligations, we may not be able to sell equity securities, sell additional assets, or restructure or refinance our debt. Our ability to generate sufficient cash flow from operating activities to pay the principal of and interest on our indebtedness is subject to market conditions and other factors which are beyond our control.

Non-performance under the debt covenants in our revolving credit facility could adversely affect our ability to respond to changes in our business.

As of June 6, 2018, the Company was not in compliance with certain of its Credit Agreement financial covenants. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations and obtain alternative financing to refinance or otherwise repay our current Credit Agreement. While the

Company has obtained a Waiver of the default from the lenders under the Credit Agreement until December 31, 2018, announced a limited asset sales plan intended to help reduce the Company's outstanding debt and engaged a third-party financial adviser to assist with refinancing such outstanding debt, there is no guarantee that we will be able to comply with the terms of the Waiver or with the financial covenants under the Credit Agreement once the Waiver expires. Our failure to comply with the financial covenants under the Credit Agreement once the Waiver has expired or to receive a new waiver from the lenders under the Credit Agreement could result in an event of default, which would have a material adverse effect on our financial condition and could cause us to seek bankruptcy protection, be unable to pay our debts when they become due or otherwise become insolvent because, among other things, our lenders: may declare any outstanding principal and the interest accrued thereon under the Credit Agreement to be due and payable, and we may not have sufficient cash to repay that indebtedness; may foreclose against the assets securing our borrowings; and will be under no obligation to extend further credit to us. For a more detailed discussion of our credit agreement please review the footnotes to our financial statements located in Part II, Item 8 of this Form 10-K. The impact of inflation may adversely affect our results of operations.

The impact of inflation on food, labor and other aspects of our business can adversely affect our results of operations. Commodity inflation in food, beverages, and utilities can also impact our financial performance. Although we attempt to offset the effects of inflation through periodic menu price increases, cost controls, and incremental improvement in operating margins, we may not be able to completely eliminate such effects, which could adversely affect our results of operations.

We face the risk of adverse publicity and litigation, which could have a material adverse effect on our business and financial performance.

We may from, time to time, be the subject of complaints or litigation from customers alleging illness, injury or other food quality, health or operational concerns. Unfavorable publicity relating to one or more of our restaurants or to the restaurant industry in general may taint public perception of the Luby's Cafeteria and Fuddrucker's brands. Multi-unit restaurant businesses can be adversely affected by publicity resulting from poor food quality, illness, or other health concerns or operating issues stemming from one or a limited number of restaurants. Publicity resulting from these allegations may materially adversely affect our business and financial performance, regardless of whether the allegations are valid or whether we are liable. In addition, we are subject to employee claims alleging injuries, wage and hour violations, discrimination, harassment or wrongful termination. In recent years, a number of restaurant companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace, employment, and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Regardless of whether any claims against us are valid or whether we are ultimately determined to be liable, claims may be expensive to defend, and may divert time and money away from our operations and hurt our financial performance. A judgment significantly in excess of our insurance coverage, if any, for any claims could materially adversely affect our financial condition or results of operations.

We are subject to risks related to the provision of employee healthcare benefits, worker's compensation and employee injury claims.

Effective January 1, 2018, we maintain a self-insured health benefit plan which provides medical and prescription drug benefits to certain of our employees electing coverage under the plan. Our exposure is limited by individual and aggregate stop-loss limits. We record expenses under the plan based on estimates of the costs of expected claims, administrative costs and stop-loss insurance premiums. Self-insurance costs are accrued based upon the aggregate of the expected liability for reported claims and the estimated liability for claims incurred but not reported, based on information on historical claims experience provided by our third party insurance advisors, adjusted as necessary based upon management's reasoned judgment. Actual employee medical claims expense may differ from estimated loss provisions based on historical experience. In the event our cost estimates differ from actual costs, we could incur

additional unplanned costs, which could adversely impact our financial condition.

Workers' compensation coverage is provided through "self-insurance" by LFR. We record expenses under the plan based on estimates of the costs of expected claims, administrative costs, stop-loss insurance premiums, and expected trends. These estimates are then adjusted each year to reflect actual costs incurred. Actual costs under these plans are subject to variability that is dependent upon demographics and the actual costs of claims made. In the event our cost estimates differ from actual costs, we could incur additional unplanned costs, which could adversely impact our financial condition.

In March 2010, comprehensive healthcare reform legislation under the Patient Protection and Affordable Care Act (the "Affordable Care Act") and Healthcare Education and Affordability Reconciliation Act was passed and signed into law. Among other things, the healthcare reform legislation includes mandated coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new and significant taxes on health insurers and healthcare benefits. Although requirements were phased in over a period of time, the most impactful provisions began in the third quarter of fiscal 2015.

Due to the breadth and complexity of the healthcare reform legislation, the lack of implementing regulations in some cases, and interpretive guidance, and the phased-in nature of the implementation, it is difficult to predict the overall impact of the healthcare reform legislation on our business and the businesses of our franchisees over the coming years. Possible adverse effects of the healthcare reform legislation include reduced revenues, increased costs and exposure to expanded liability and requirements for us to revise the ways in which we conduct business or risk of loss of business. It is also possible that healthcare plans offered by other companies with which we compete for employees will make us less attractive to our current or potential employees. And in any event, implementing the requirements of the Affordable Care Act has imposed some additional administrative costs on us, and those costs may increase over time. In addition, our results of operations, financial position and cash flows could be materially adversely affected. Our franchisees face the potential of similar adverse effects, and many of them are small business owners who may have significant difficulty absorbing the increased costs.

We face intense competition, and if we are unable to compete effectively or if customer preferences change, our business, financial condition and results of operations may be adversely affected.

The restaurant industry is intensely competitive and is affected by changes in customer tastes and dietary habits and by national, regional and local economic conditions and demographic trends. New menu items, concepts, and trends are constantly emerging. Our Luby's Cafeteria brand offer a large variety of entrées, side dishes and desserts and our continued success depends, in part, on the popularity of our cuisine and cafeteria-style dining. A change away from this cuisine or dining style could have a material adverse effect on our results of operations. Our Fuddruckers brand offers grilled-to-order burgers that feature always fresh and never frozen, 100% premium-cut beef with no fillers or additives and sesame-topped buns baked from scratch on-site throughout the day. While burgers are the signature, the engaging menu offers variety for many tastes with an array of sandwiches, and salads. Changing customer preferences, tastes and dietary habits can adversely affect our business and financial performance. We compete on quality, variety, value, service, concept, price, and location with well-established national and regional chains, as well as with locally owned and operated restaurants. We face significant competition from family-style restaurants, fast-casual restaurants, and buffets as well as fast food restaurants. In addition, we also face growing competition as a result of the trend toward convergence in grocery, delicatessen, and restaurant services, particularly in the supermarket industry, which offers "convenient meals" in the form of improved entrées and side dishes from the delicatessen section. Many of our competitors have significantly greater financial resources than we do. We also compete with other restaurants and retail establishments for restaurant sites and personnel. We anticipate that intense competition will continue. If we are unable to compete effectively, our business, financial condition, and results of operations may be adversely affected.

Our growth plan may not be successful.

Depending on future economic conditions, we may not be able to open new restaurants in current or future fiscal years. Our ability to open and profitably operate new restaurants is subject to various risks such as the identification and availability of suitable and economically viable locations, the negotiation of acceptable terms for the purchase or lease of new locations, the need to obtain all required governmental permits (including zoning approvals) on a timely basis, the need to comply with other regulatory requirements, the availability of necessary contractors and subcontractors, the availability of construction materials and labor, the ability to meet construction schedules and

budgets, the ability to manage union activities such as picketing or hand billing which could delay construction, increases in labor and building materials costs, the availability of financing at acceptable rates and terms, changes in weather or other acts of God that could result in construction delays and adversely affect the results of one or more restaurants for an indeterminate amount of time, our ability to hire and train qualified management personnel and general economic and business conditions. At each potential location, we compete with other restaurants and retail businesses for desirable development sites, construction contractors, management personnel, hourly employees and other resources.

If we are unable to successfully manage these risks, we could face increased costs and lower than anticipated revenues and earnings in future periods. We may be evaluating acquisitions or engaging in acquisition negotiations at any given time. We cannot be sure that we will be able to continue to identify acquisition candidates on commercially reasonable terms or at all. If we make additional acquisitions, we also cannot be sure that any benefits anticipated from the acquisition will actually be realized. Likewise, we cannot be sure that we will be able to obtain necessary financing for acquisitions. Such financing could be restricted by the terms of our debt agreements or it could be more expensive than our current debt. The amount of such debt financing for acquisitions could be significant and the terms of such debt instruments could be more restrictive than our current covenants. In addition, a prolonged economic downturn would adversely affect our ability to open new stores or upgrade existing units and we may not be able to maintain the existing number of restaurants in future fiscal years. We may not be able to renew existing leases and various other risks could cause a decline in the number of restaurants in future fiscal years, which could adversely affect our results of operations.

Regional events can adversely affect our financial performance.

Many of our restaurants and franchises are located in Texas, California and in the northern United States. Our results of operations may be adversely affected by economic conditions in Texas, California or the northern United States or the occurrence of an event of terrorism or natural disaster in any of the communities in which we operate. Also, given our geographic concentration, negative publicity relating to our restaurants could have a pronounced adverse effect on our overall revenues. Although we generally maintain property and casualty insurance to protect against property damage caused by casualties and natural disasters, inclement weather, flooding, hurricanes, and other acts of God, these events can adversely impact our sales by discouraging potential customers from going out to eat or by rendering a restaurant or CCS location inoperable for a significant amount of time.

An increase in the minimum wage and regulatory mandates could adversely affect our financial performance.

From time to time, the U.S. Congress and state legislatures have increased and will consider increases in the minimum wage. The restaurant industry is intensely competitive, and if the minimum wage is increased, we may not be able to transfer all of the resulting increases in operating costs to our customers in the form of price increases. In addition, because our business is labor intensive, shortages in the labor pool or other inflationary pressure could increase labor costs that could adversely affect our results of operations.

We may be required to recognize additional impairment charges.

We assess our long-lived assets in accordance with generally accepted accounting principles in the United States (“GAAP”) and determine when they are impaired. Based on market conditions and operating results, we may be required to record additional impairment charges, which would reduce expected earnings for the periods in which they are recorded.

We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential customer and employee information.

We accept electronic payment cards for payment in our restaurants. During fiscal 2018, approximately 73% of our restaurant sales were attributable to credit and debit card transactions, and credit and debit card usage could continue to increase. A number of retailers have experienced actual or potential security breaches in which credit and debit card information may have been stolen, including a number of highly publicized incidents with well-known retailers in recent years. In addition, we have previously been the victim of a cyber attack by hackers who deployed a version of the SamSam ransomware that encrypted electronic files, locking us out of many of our point-of-sale and other systems. These hackers requested a “ransom” payment in exchange for restoring access to these encrypted files. Such

attacks, while they did not provide the hackers with access to confidential customer and employee information, did adversely affect our profits due to our temporary inability to operate our restaurants and increased costs associated further protecting and restoring our computer systems. While we have taken preventative measures, no assurances can be provided that we will not be the subject of cyber attacks again in the future.

We may in the future become subject to additional claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

We also are required to collect and maintain personal information about our employees, and we collect information about customers as part of some of our marketing programs as well. The collection and use of such information is regulated at the federal and state levels, and the regulatory environment related to information security and privacy is increasingly demanding. At the same time, we are relying increasingly on cloud computing and other technologies that result in third parties holding significant amounts of customer or employee information on our behalf. If the security and information systems of ours or of outsourced third party providers we use to store or process such information are compromised or if we, or such third parties, otherwise fail to comply with these laws and regulations, we could face litigation and the imposition of penalties that could adversely affect our financial performance. Our reputation as a brand or as an employer could also be adversely affected from these types of security breaches or regulatory violations, which could impair our sales or ability to attract and keep qualified employees.

Labor shortages or increases in labor costs could adversely affect our business and results of operations and the pace of new restaurant openings.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including regional managers, restaurant general managers and chefs, in a manner consistent with our standards and expectations. Qualified individuals that we need to fill these positions are in short supply and competition for these employees is intense. If we are unable to recruit and retain sufficient qualified individuals, our operations and reputation could be adversely affected. Additionally, competition for qualified employees could require us to pay higher wages, which could result in higher labor costs. Any increase in labor costs could adversely affect our results of operations.

If we are unable to anticipate and react to changes in food, utility and other costs, our results of operations could be materially adversely affected.

Many of the food and beverage products we purchase are affected by commodity pricing, and as such, are subject to price volatility caused by production problems, shortages, weather or other factors outside of our control. Our profitability depends, in part, on our successfully anticipating and reacting to changes in the prices of commodities. Therefore, we enter into purchase commitments with suppliers when we believe that it is advantageous for us to do so. If commodity prices were to increase, we may be forced to absorb the additional costs rather than transfer these increases to our customers in the form of menu price increases. Our success also depends, in part, on our ability to absorb increases in utility costs. Our operating results are affected by fluctuations in the price of utilities. Our inability to anticipate and respond effectively to an adverse change in any of these factors could have a material adverse effect on our results of operations.

Our business is subject to extensive federal, state and local laws and regulations.

The restaurant industry is subject to extensive federal, state and local laws and regulations. We are also subject to licensing and regulation by state and local authorities relating to health, healthcare, employee medical plans, sanitation, safety and fire standards, building codes and liquor licenses, federal and state laws governing our relationships with employees (including the Fair Labor Standards Act and applicable minimum wage requirements, overtime, unemployment tax rates, family leave, tip credits, working conditions, safety standards, healthcare and citizenship requirements), federal and state laws which prohibit discrimination, potential healthcare benefits legislative mandates, and other laws regulating the design and operation of facilities, such as the Americans With Disabilities Act of 1990.

As a publicly traded corporation, we are subject to various rules and regulations as mandated by the SEC and the NYSE. Failure to timely comply with these rules and regulations could result in penalties and negative publicity.

We are subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws contain provisions that supersede the terms of franchise agreements, including provisions concerning the termination or non-renewal of a franchise. Some state franchise laws require that certain materials be registered before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could adversely affect us and the franchisees.

Termination of franchise agreements may disrupt restaurant performance.

Our franchise agreements are subject to termination by us in the event of default by the franchisee after applicable cure periods. Upon the expiration of the initial term of a franchise agreement, the franchisee generally has an option to renew the franchise agreement for an additional term. There is no assurance that franchisees will meet the criteria for renewal or will desire or be able to renew their franchise agreements. If not renewed, a franchise agreement, and payments required there under, will terminate. We may be unable to find a new franchisee to replace a non-renewing franchisee. Furthermore, while we will be entitled to terminate franchise agreements following a default that is not cured within the applicable grace period, if any, the disruption to the performance of the restaurants could adversely affect our business and revenues.

Franchisees may breach the terms of their franchise agreements in a manner that adversely affects the reputation of our brands.

Franchisees are required to conform to specified product quality standards and other requirements pursuant to their franchise agreements in order to protect our brands and to optimize restaurant performance. However, franchisees may receive through the supply chain or produce sub-standard food or beverage products, which may adversely impact the reputation of our brands. Franchisees may also breach the standards set forth in their respective franchise agreements. Any negative actions could have a corresponding material adverse effect on our business and revenues.

Our planned CCS expansion may not be successful.

Successful expansion of our CCS operations depends on our ability to obtain new clients as well as retain and renew our existing client contracts. Our ability to do so generally depends on a variety of factors, including the quality, price and responsiveness of our services, as well as our ability to market these services effectively and differentiate ourselves from our competitors. We may not be able to renew existing client contracts at the same or higher rates or our current clients may turn to competitors, cease operations, or elect to self-operate or terminate contracts with us. The failure to renew a significant number of our existing contracts could have a material adverse effect on our business and results of operations.

Failure to collect account receivables could adversely affect our results of operations.

A portion of our accounts receivable is concentrated in our CCS operations among several customers. In addition, our franchises generate significant accounts receivables. Failure to collect from several of these accounts receivable could adversely affect our results of operations.

If we lose the services of any of our key management personnel, our business could suffer.

The success of our business is highly dependent upon our key management personnel, particularly Christopher J. Pappas, our President and Chief Executive Officer, and Benjamin T. Coutee, our Chief Operating Officer. The loss of the services of any key management personnel could have a material adverse effect upon our business.

Our business is subject to seasonal fluctuations, and, as a result, our results of operations for any given quarter may not be indicative of the results that may be achieved for the full fiscal year.

Our business is subject to seasonal fluctuations. Historically, our highest earnings have occurred in the third quarter of the fiscal year, as our revenues in most of our restaurants have typically been higher during the third quarter of the fiscal year. Similarly, our results of operations for any single quarter will not necessarily be indicative of the results

that may be achieved for a full fiscal year.

Economic factors affecting financial institutions could affect our access to capital.

We refinanced our 2013 Credit Facility on November 8, 2016 to a new senior secured credit agreement. The 2016 Credit Agreement, as amended, matures May 1, 2019. We may not be able to amend or renew the new facility with terms and conditions favorable to our operating needs.

15

---

We may not be able to adequately protect our intellectual property, which could harm the value of our brands and adversely affect our business.

Our ability to successfully implement our business plan depends in part on our ability to further build brand recognition using our trademarks, service marks, trade dress and other proprietary intellectual property, including our name and logos, and the unique ambience of our restaurants. If our efforts to protect our intellectual property are inadequate, or if any third party misappropriates or infringes on our intellectual property, either in print or on the internet, the value of our brands may be harmed, which could have a material adverse effect on our business and might prevent our brands from achieving or maintaining market acceptance. We may also encounter claims from prior users of similar intellectual property in areas where we operate or intend to conduct operations. This could harm our image, brand or competitive position and cause us to incur significant penalties and costs.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

As of November 7, 2018, we operated 142 restaurants at 136 property locations. Six of the operating locations are Combo locations and are considered two restaurants. Luby's Cafeterias have seating capacity for 250 to 300 customers at each location while Fuddruckers locations generally seat 125 to 200 customers and Cheeseburger in Paradise locations generally seat 180 to 220.

We own the underlying land and buildings on which 59 of our Luby's Cafeteria and 18 of our Fuddruckers restaurants are located. Two of these restaurant properties contain excess building space or an extra building on the property which have 7 tenants unaffiliated with Luby's, Inc.

In addition to the owned locations, 23 Luby's Cafeteria restaurants, 41 Fuddruckers restaurants, and 1 Cheeseburger in Paradise restaurants are held under 64 leases. One of the 64 leases includes two restaurants at one Combo location: one Luby's Cafeteria and one Fuddruckers restaurant. The majority of the leases are fixed-dollar rentals, which require us to pay additional amounts related to property taxes, hazard insurance, and maintenance of common areas. Of the 64 restaurant leases, the current terms of thirteen expire in less than one year, 35 expire between one and five years, and 16 expire thereafter. Additionally, 47 leases can be extended beyond their current terms at our option.

As of November 7, 2018, we had four owned non-operating properties with a carrying value of approximately \$3.9 million and 11 operating properties with a carrying value of approximately \$15.6 million related to continuing operations recorded in property held for sale. In addition, we had one owned property with a carrying value of approximately \$1.8 million included in assets related to discontinued operations.

We currently have one owned other-use property which is used as a central bakery supporting our operating restaurants.

We also have four leased locations that have three third party tenants and three Fuddruckers franchisees.

Our corporate office lease of approximately 26,000 square feet of office space runs through December 2021.

We also lease approximately 60,000 square feet of warehouse space for in-house repair, fabrication and storage in Houston, Texas. In addition, we lease approximately 630 square feet of office space in Farmers Branch, Texas and an executive suite in North Andover, MA where we have additional legal personnel.

We maintain general liability insurance and property damage insurance on all properties in amounts which management believes provide adequate coverage.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Prices

Our common stock is traded on the NYSE under the symbol "LUB." The following table sets forth, for the last two fiscal years, the high and low sales prices on the NYSE as reported in the consolidated transaction reporting system.

Fiscal Quarter Ended	High	Low
December 21, 2016	4.50	4.03
March 15, 2017	4.33	3.30
June 7, 2017	3.41	2.46
August 30, 2017	3.12	2.63
December 20, 2017	2.87	2.36
March 14, 2018	3.20	2.60
June 6, 2018	3.06	2.35
August 29, 2018	2.89	2.00

As of November 7, 2018, there were 1,975 holders of record of our common stock. On November 7, 2018, the closing price of our common stock on the NYSE was \$1.41.

## Equity Compensation Plans

Securities authorized under our equity compensation plans as of August 29, 2018, were as follows:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation plans previously approved by security holders	1,066,103	\$ 4.53	1,612,652
Equity compensation plans not previously approved by security holders <sup>(1)</sup>	17,801	0	0
Total	1,083,904	\$ 4.47	1,612,652

(1) Represents the Luby's, Inc. Nonemployee Director Phantom Stock Plan.

See Note 16, "Share-Based Compensation," to our Consolidated Financial Statements included in Item 8 of Part II of this report.

The following graph compares the cumulative total stockholder return on our common stock for the five fiscal years ended August 29, 2018, with the cumulative total return on the S&P SmallCap 600 Index and an industry peer group index. The peer group index consists of Bob Evans Farms, Inc., CBRL Group, Inc., Darden Restaurants, Inc., Denny's Corporation, Diversified Restaurant Holdings, Inc., and Red Robin Gourmet Burgers. These companies are multi-unit family and casual dining restaurant operators in the mid-price range.

The cumulative total shareholder return computations set forth in the performance graph assume an investment of \$100 on August 29, 2013, and the reinvestment of all dividends. The returns of each company in the peer group index have been weighed according to that company's stock market capitalization.

	2013	2014	2015	2016	2017	2018
Luby's, Inc.	100.00	74.76	64.28	62.07	36.41	28.14
S&P 500 Index—Total Return	100.00	124.89	123.66	141.50	163.53	197.61
S&P 500 Restaurant Index	100.00	109.12	127.67	141.05	169.16	181.31
Peer Group Index Only	100.00	102.87	148.01	149.08	192.47	245.57
Peer Group Index + Luby's, Inc.	100.00	102.39	146.51	147.52	189.49	241.33

## Item 6. Selected Financial Data

## FIVE-YEAR SUMMARY OF OPERATIONS

	Fiscal Year Ended					
	August 29, 2018 (364 days)	August 30, 2017 (364 days)	August 31, 2016 (371 days)	August 26, 2015 (364 days)	August 27, 2014 (364 days)	
(In thousands, except per share data)						
<b>Sales</b>						
Restaurant sales	\$332,518	\$350,818	\$378,111	\$370,192	\$369,808	
Culinary contract services	25,782	17,943	16,695	16,401	18,555	
Franchise revenue	6,365	6,723	7,250	6,961	7,027	
Vending revenue	531	547	583	531	532	
Total sales	365,196	376,031	402,639	394,085	395,922	
Provision for asset impairments and restaurant closings	8,917	10,567	1,442	636	2,717	
Loss from continuing operations	(32,954 )	(22,796 )	(10,256 )	(1,616 )	(2,011 )	
Loss from discontinued operations	(614 )	(466 )	(90 )	(458 )	(1,436 )	
Net Loss	\$(33,568 )	\$(23,262 )	\$(10,346 )	\$(2,074 )	\$(3,447 )	
Loss per share from continuing operations:						
Basic	\$(1.10 )	\$(0.77 )	\$(0.35 )	\$(0.05 )	\$(0.06 )	
Assuming dilution	\$(1.10 )	\$(0.77 )	\$(0.35 )	\$(0.05 )	\$(0.06 )	
Loss per share from discontinued operation:						
Basic	\$(0.02 )	\$(0.02 )	\$(0.00 )	\$(0.02 )	\$(0.06 )	
Assuming dilution	\$(0.02 )	\$(0.02 )	\$(0.00 )	\$(0.02 )	\$(0.06 )	
Loss per share:						
Basic	\$(1.12 )	\$(0.79 )	\$(0.35 )	\$(0.07 )	\$(0.12 )	
Assuming dilution	\$(1.12 )	\$(0.79 )	\$(0.35 )	\$(0.07 )	\$(0.12 )	
Weighted-average shares outstanding:						
Basic	29,901	29,476	29,226	28,974	28,812	
Assuming dilution	29,901	29,476	29,226	28,974	28,812	
Total assets	\$199,989	\$226,457	\$252,225	\$264,258	\$275,435	
Total debt	\$39,506	\$30,985	\$37,000	\$37,500	\$42,000	
Number of restaurants at fiscal year end	146	167	175	177	174	
Number of franchised restaurants at fiscal year end	105	113	113	106	110	
Number of Culinary Contract Services contracts at fiscal year end	28	25	24	23	25	
<b>Costs and Expenses</b>						
(As a percentage of restaurant sales)						
Cost of food	28.3	% 28.1	% 28.3	% 28.9	% 28.9	%
Payroll and related costs	37.4	% 35.9	% 35.2	% 34.5	% 34.3	%
Other operating expenses	18.7	% 17.7	% 16.1	% 17.1	% 16.8	%
Occupancy costs	6.1	% 6.2	% 5.9	% 5.7	% 6.0	%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and footnotes for the fiscal years ended August 29, 2018 ("fiscal 2018"), August 30, 2017, ("fiscal 2017"), and August 31, 2016 ("fiscal 2016") included in Part II, Item 8 of this Form 10-K.

The table on the following page 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 Operations. Percentages may not add due to rounding.

Edgar Filing: LUBYS INC - Form 10-K

	Fiscal Year Ended			
	August 29, 2018 (52 weeks)	August 30, 2017 (52 weeks)	August 31, 2016 (53 weeks)	
Restaurant sales	91.1	% 93.3	% 93.9	%
Culinary contract services	7.1	% 4.8	% 4.1	%
Franchise revenue	1.7	% 1.8	% 1.8	%
Vending revenue	0.1	% 0.1	% 0.1	%
<b>TOTAL SALES</b>	<b>100.0</b>	<b>% 100.0</b>	<b>% 100.0</b>	<b>%</b>
<b>STORE COSTS AND EXPENSES:</b>				
(As a percentage of restaurant sales)				
Cost of food	28.3	% 28.1	% 28.3	%
Payroll and related costs	37.4	% 35.9	% 35.2	%
Other operating expenses	18.7	% 17.7	% 16.1	%
Occupancy costs	6.1	% 6.2	% 5.9	%
Vending revenue	(0.2)	)% (0.2)	)% (0.2)	)%
Store level profit	9.5	% 12.2	% 14.7	%
<b>COMPANY COSTS AND EXPENSES (as a percentage of total sales)</b>				
Opening costs	0.2	% 0.1	% 0.2	%
Depreciation and amortization	4.8	% 5.4	% 5.4	%
Selling, general and administrative expenses	10.6	% 10.1	% 10.5	%
Provision for asset impairments and restaurant closings	2.7	% 3.0	% 0.4	%
Net Gain on disposition of property and equipment	(1.6)	)% (0.5)	)% (0.2)	)%
<b>Culinary Contract Services Costs (as a percentage of Culinary contract services sales)</b>				
Cost of culinary contract services	93.7	% 87.9	% 89.6	%
Culinary income	6.3	% 12.1	% 10.4	%
<b>Franchise Operations Costs (as a percentage of Franchise revenue)</b>				
Cost of franchise operations	24.0	% 25.8	% 25.9	%
Franchise income	76.0	% 74.2	% 74.1	%
(As a percentage of total sales)				
<b>LOSS FROM OPERATIONS</b>	<b>(6.1)</b>	<b>)% (4.6)</b>	<b>)% (0.8)</b>	<b>)%</b>
Interest income	0.0	% 0.0	% 0.0	%
Interest expense	(0.9)	)% (0.6)	)% (0.6)	)%
Other income (expense), net	0.1	% (0.1)	)% 0.0	%
Loss before income taxes and discontinued operations	(6.9)	)% (5.3)	)% (1.4)	)%
Provision for income taxes	2.1	% 0.6	% 1.2	%
Loss from continuing operations	(9.0)	)% (5.9)	)% (2.6)	)%
Loss from discontinued operations, net of income taxes	(0.2)	)% (0.1)	)% 0.0	%

NET LOSS

(9.2 )% (6.0 )% (2.6 )%

23

---

Although store level profit, defined as restaurant sales plus vending revenue 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:

	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(52 weeks)	(52 weeks)	(53 weeks)
	(In thousands)		
Store level profit	\$31,648	\$42,943	\$55,419
Plus:			
Sales from culinary contract services	25,782	17,943	16,695
Sales from franchise operations	6,365	6,723	7,250
Less:			
Opening costs	554	492	787
Cost of culinary contract services	24,161	15,774	14,955
Cost of franchise operations	1,528	1,733	1,877
Depreciation and amortization	17,453	20,438	21,889
Selling, general and administrative expenses <sup>(1)</sup>	38,725	37,878	42,422
Provision for asset impairments and restaurant closings	8,917	10,567	1,442
Net Gain on disposition of property and equipment	(5,357 )	(1,804 )	(684 )
Interest income	(12 )	(8 )	(4 )
Interest expense	3,348	2,443	2,247
Other income (expense), net	(298 )	454	(186 )
Provision for income taxes	7,730	2,438	4,875
Loss from continuing operations	\$(32,954)	\$(22,796)	\$(10,256)

(1) Marketing and advertising expense included in Selling, general and administrative expenses was \$3.5 million, \$5.1 million, and \$5.6 million in fiscal 2018, 2017, and 2016, respectively.

The following table shows our restaurant unit count as of August 29, 2018 and August 30, 2017.

#### Restaurant Counts:

	Fiscal 2018 Year Begin	Fiscal 2018 Openings	Fiscal 2018 Closings	Fiscal 2018 Year End
Luby's Cafeteria <sup>(1)</sup>	88	—	(4 )	84
Fuddrucker's Restaurants <sup>(1)</sup>	71	—	(11 )	60
Cheeseburger in Paradise	8	—	(6 )	2
Total	167	—	(21 )	146

<sup>(1)</sup> Includes 6 restaurants that are part of Combo locations



## Overview

### Description of the business

We generate revenues primarily by providing quality food to customers at our 84 Luby's branded restaurants located mostly in Texas, 60 Fuddruckers restaurants located throughout the United States, 2 Cheeseburger in Paradise restaurants located in New Jersey and Nebraska, and 105 Fuddruckers franchises located primarily in the United States. In addition to our restaurant business model, we also provide culinary contract services for organizations that offer on-site food service, such as healthcare facilities, colleges and universities, sports stadiums, businesses and institutions, as well as sales through retail grocery outlets.

### Business Strategy

In fiscal 2018, we continued our focus on enhancing the guest experience at each of our restaurant brands, executing our growth plan for our Culinary Contract Services segment, and supporting our Fuddruckers franchise network for future growth. In the latter part of the fiscal year, in light of continued sales weakness at our Fuddruckers brand and further profitability declines at each restaurant brand, it became necessary to address short-term liquidity. Management's short-term action plan included accelerating the closure of underperforming restaurant locations, selling owned property at certain locations, and taking other steps in order to re-finance our debt load and provide financial liquidity. All steps taken in accordance with the short-term action plan are with the aim of re-establishing a solid foundation with a portfolio of restaurants and business segments that can successfully restore future profitability.

At our Company-owned restaurants, we focused on menu innovation and variety across the weeks and the seasons. We furthered our efforts in attracting and retaining the most talented individuals to serve and engage with our guests in both restaurant management roles and front-line hourly restaurant team member roles. We have an experienced culinary team that vigorously pursues culinary innovation enhancements. Our marketing initiatives centered around developing a more personal and direct connection with our guests, deploying technology where it makes most sense. Over the last year, we have transitioned much of our advertising and messaging away from traditional medium such as television advertising toward digital media as we transition to the next phase of our loyalty and recognition programs. We continue to make these investments as part of our long-term strategy to increase our brand awareness and motivate new and more frequent guest visits. As we continued to evaluate our portfolio of restaurant locations, we closed 21 restaurants so that resources could be focused on the locations that exhibit the most promise for enhanced profitability. Over the long term, our strategy is to continue to refine our restaurant prototype design and build new restaurants in markets where we believe we can achieve superior restaurant cash flows.

In fiscal 2018, our Fuddruckers franchise business segment continued supporting our loyal franchisees and we continued to pursue opportunities to re-franchise company-owned Fuddruckers locations as part of our strategy to grow franchise revenues. Our Culinary Contract Services segment continues its focus on expanding the number of locations that we serve and developing business partnerships for the long-term, while servicing our existing agreements with our customized and high-level of client service. We are working to ensure that we have the right corporate headcount and overhead to support each of our business segments while balancing our corporate overhead costs: on this front, we made significant strides in reducing overhead costs, including reduced headcount, corporate travel expense, and associated other overhead costs.

## Financial and Operation Highlights for Fiscal 2018

### Financial Performance

Total company sales decreased approximately \$10.8 million, or 2.9%, in fiscal 2018 compared to fiscal 2017, consisting primarily of an approximate \$18.3 million decrease in restaurant sales, an approximate \$7.8 million increase in Culinary contract services sales, an approximate \$0.4 million decrease in franchise revenue, and a less than \$0.1 million decrease in vending revenue. The decrease in restaurant sales included an approximate \$4.0 million decrease in sales at stand-alone Luby's Cafeterias, an approximate \$10.5 million decrease in sales at stand-alone Fuddruckers restaurants, an approximate \$0.4 million decrease at sales from our Combo locations, and an approximate \$3.4 million decrease in sales from Cheeseburger in Paradise restaurants.

Total segment profit decreased approximately \$12.0 million to approximately \$38.1 million in fiscal 2018 compared to approximately \$50.1 million in fiscal 2017. The approximate \$12.0 million decrease in total segment profit resulted from a decrease of approximately \$11.3 million in Company-owned restaurant segment profit, an approximate \$0.2 million decrease in franchise segment profit and an approximate \$0.5 million decrease in Culinary contract services segment profit. The approximate \$11.3 million decrease in Company-owned restaurant segment profit resulted from restaurant sales and vending income decreasing approximately \$18.3 million with the cost of food, payroll and related costs, other operating expenses, and occupancy costs decreasing approximately \$7.0 million.

Loss before income taxes and discontinued operations included non-cash charges for asset impairments and restaurant closings of approximately \$8.9 million and approximately \$10.6 million in fiscal 2018 and fiscal 2017, respectively. Net loss included non-tax charges for deferred tax asset valuation allowance increases of approximately \$8.4 million and \$9.5 million in fiscal 2018 and fiscal 2017, respectively.

The loss from continuing operations was approximately \$33.0 million in fiscal 2018 compared to a loss of approximately \$22.8 million in fiscal 2017.

### Operational Endeavors and Milestones

Core restaurant brands. In fiscal 2018, we continued to promote our "made-from-scratch" cooking with many locally-sourced "from the farm" ingredients at our Luby's Cafeterias with our "The Luby's Way" slogan. "The Luby's Way" signifies that we are dedicated to serving our guests only the best hand-crafted recipes, prepared fresh each day in our kitchens. We support local farmers and use only the freshest produce and highest quality ingredients. We have introduced new seasonal menu offerings throughout the year that showcase our 70-year history of "made-from-scratch" cooking expertise. Our guests were presented with new offerings at each section of the cafeteria line: fresh colorful vegetable presentations, expanded and refreshed cold sides, and new recipes and presentations for carved turkey, roast beef, salmon, and chicken. We introduce and rotate new menu offerings throughout the year to remain relevant to both our existing customer base and attract new customers. From a marketing and promotion standpoint, we initiated steps to gain an even better understanding of our guests and laid the groundwork for leveraging technology to improve and personalize the guest experience. We will be using these insights to refine our brand positioning strategies going forward. Our decline in Company-owned restaurant segment profitability primarily occurred during the second and third quarters, due to changes in product offerings and discounts, increased investment in our labor, and operating expenses. We moved away from certain discounting and promotional offers we had been using in the past. While transitioning to this approach of less discounting, it had the intended effect of increasing our average spend per guest. The offsetting decreases in guest traffic resulted in a net decrease in same-store sales.

At Fuddruckers, we continue to evolve the World's Greatest Hamburgers®, with new specialty burger combinations and toppings. In fiscal 2018, we continued to focus on speed of service and the ordering experience. We also began testing a simplified menu at Company-owned locations designed to enhance quality and execution for our guests. We furthered our use of technology to reach our guests utilizing new digital media campaigns and targeted advertising to guests' mobile devices. We continued to measure guest satisfaction through surveys and other guest interactions that helped us identify areas of excellence and areas for improvement. We are confident the focus on great food and enhanced service will in the long run lead to increased guest frequency and loyalty.

Franchise Network. As of August 29, 2018, we supported a franchise network of 105 Fuddruckers franchise locations with an additional 44 locations under development agreements. For fiscal 2018, our franchisees opened four new Fuddruckers restaurants. Three of the opened locations were in the United States (Florida and Pennsylvania) and one in Mexico. For fiscal 2018, there were 12 Fuddruckers franchise locations that closed as franchise-operated restaurants. Our franchise network generated approximately \$6.4 million in revenue in fiscal 2018.

- Culinary Contract Services. Our Culinary Contract Services segment generated approximately \$25.8 million in revenue during fiscal 2018 compared to approximately \$17.9 million in revenue during fiscal 2017. The approximate \$7.8 million increase in revenue was primarily due to a net increase in the number of locations in operation and higher sales volume locations replacing lower sales volume locations. We view this area as a long-term growth business that generally requires less capital investment and produces favorable percentage returns on invested capital.

Cheeseburger in Paradise. Despite previous efforts to revitalize the Cheeseburger in Paradise brand and improve financial results, we determined that the best course of action was to cease operations at most of our Cheeseburger in Paradise restaurants. As part of our all overall plan to close under-performing restaurants that do not meet our profitability targets on a sustained basis, we elected to reduce Cheeseburger in Paradise to two locations at our fiscal year-end 2018. Subsequent to the end of fiscal year 2018, we elected to close one of those Cheeseburger in Paradise locations. As of November 7, 2018, we operate one Cheeseburger in Paradise location.

Capital Spending. Purchases of property and equipment were approximately \$13.2 million in fiscal 2018, up from approximately \$12.5 million in fiscal 2017. These capital investments were funded through a combination of cash from operations, sale of property, and utilization of our revolving credit facility. Capital investments in fiscal 2018 included (1) approximately \$1.1 million on information technology infrastructure maintenance and upgrade projects; (2) approximately \$2.1 million on the rebuilding and refurbishing and updating of restaurants, mostly related to restorations after hurricane and flood damage incurred in August 2017; and (3) approximately \$10.0 million for recurring capital expenditures. Our debt balance at the end of fiscal 2018 was approximately \$39.5 million. We remain committed to maintaining the attractiveness of all of our restaurant locations where we anticipate operating over the long term. In fiscal 2019, we anticipate making capital investments of up to \$8.0 million for recurring maintenance of all of our restaurant properties and for point of sale hardware associated with our technology infrastructure.

Our long-term plan continues to focus on expanding each of our core brands, including the Fuddruckers franchise network, as well as growing our culinary contract service business. We are also committed to reducing our debt balances and making capital investments with suitable return characteristics. We plan to use cash generated from operations, combined with our borrowing capacity, when necessary, in order to seize these capital investment opportunities. As we improve and elevate our operating standards, we believe that we are well-positioned to enhance shareholder value over the long term.

#### 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. 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 is such a year that contained 53 weeks, accounting for 371 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 2016, the first quarter consisted of four four-week periods, while the last three quarters normally consist of three four-week periods. However, fiscal 2016 is a fiscal year consisting of 53 weeks, accounting for 371 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 store is included in this group of restaurants after it has been open for six complete consecutive quarters. Stores that close on a permanent basis (or on a temporary basis for remodeling) are removed from the group in the fiscal quarter when operations cease at the restaurant, but remain in the same-store group for previously reported fiscal quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies. Same-store sales at our restaurant units decreased 0.5% for fiscal 2018, decreased 3.4% for fiscal 2017, and increased 0.7% for fiscal 2016.

The following table shows the same-store sales change for comparative historical quarters:

Increase (Decrease)	Fiscal 2018				Fiscal 2017				Fiscal 2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Same-store sales	1.2%	(0.9)%	(3.7)%	0.8%	(5.2)%	(2.7)%	(3.8)%	(2.3)%	(0.5)%	(0.6)%	2.2%	1.4%

## RESULTS OF OPERATIONS

Fiscal 2018 (52 weeks) compared to Fiscal 2017 (52 weeks) and Fiscal 2016 (53 weeks)

### Sales

(\$000s)	Fiscal	Fiscal	Fiscal 2018 vs		Fiscal	Fiscal 2017 vs	
	Year	Year	Fiscal 2018 vs	Year	Fiscal 2017 vs	Fiscal 2016	Fiscal 2016
	2018	2017	Fiscal 2017	2016	Fiscal 2016	Fiscal 2016	Fiscal 2016
	Ended	Ended		Ended			
	August	August	Higher/(Lower)	August	Higher/(Lower)		
	29, 2018	30, 2017	(52 vs 52	31, 2016	(52 vs 53		
	(52	(52	weeks)	(53	weeks)		
	weeks)	weeks)	weeks)	weeks)	weeks)		
Restaurant sales	\$332,518	\$350,818	(5.2 )%	\$378,111	(7.2 )%		
Culinary contract services	25,782	17,943	43.7 %	16,695	7.5 %		
Franchise revenue	6,365	6,723	(5.3 )%	7,250	(7.3 )%		
Vending revenue	531	547	(2.9 )%	583	(6.2 )%		
TOTAL SALES	\$365,196	\$376,031	(2.9 )%	\$402,639	(6.6 )%		

Total company sales decreased approximately \$10.8 million, or 2.9%, in fiscal 2018 compared to fiscal 2017, consisting primarily of an approximate \$18.3 million decrease in restaurant sales, an approximate \$7.8 million increase in Culinary contract services sales, an approximate \$0.4 million decrease in franchise revenue, and less than a \$0.1 million decrease in vending revenue.

Total company sales decreased approximately \$26.6 million, or 6.6%, in fiscal 2017 compared to fiscal 2016, consisting primarily of an approximate \$27.3 million decrease in restaurant sales, an approximate \$0.5 million decrease in franchise revenue, an approximate \$1.2 million increase in Culinary contract service sales, and a less than \$0.1 million decrease in vending revenue. Fiscal 2016 contained one additional week of operations during which approximately \$6.7 million in restaurant sales were generated and approximately \$7.1 million in total sales were generated.

The Company operates with three reportable operating segments: Company-owned Restaurants, Franchise Operations, and Culinary Contract Services.

### Company-Owned Restaurants

#### Restaurant Sales

Restaurant Brand	Fiscal	Fiscal	Fiscal 2018 vs		Fiscal	Fiscal 2017 vs	
	Year	Year	Fiscal 2018 vs	Year	Fiscal 2017 vs	Fiscal 2016	Fiscal 2016
	2018	2017	Fiscal 2017	2016	Fiscal 2016	Fiscal 2016	Fiscal 2016
	Ended	Ended		Ended			
			Higher/(Lower)		Higher/(Lower)		

Edgar Filing: LUBYS INC - Form 10-K

	August 29, 2018 (52 weeks)	August 30, 2017 (52 weeks)	(52 vs 52 weeks)		August 31, 2016 (53 weeks)	(52 vs 53 weeks)	
Luby's Cafeterias	\$210,972	\$214,976	(1.9	)%	\$229,880	(6.5	)%
Fuddruckers Restaurants	87,618	98,115	(10.7	)%	106,456	(7.8	)%
Combo locations	20,886	21,304	(2.0	)%	23,107	(7.8	)%
Cheeseburger in Paradise	13,042	16,423	(20.6	)%	18,668	(12.0	)%
Restaurant Sales	\$332,518	\$350,818	(5.2	)%	\$378,111	(7.2	)%

Total restaurant sales decreased approximately \$18.3 million in fiscal 2018 compared to fiscal 2017. The decrease in restaurant sales included an approximate \$4.0 million decrease in sales at stand-alone Luby's Cafeterias, an approximate \$10.5 million decrease in sales at stand-alone Fuddruckers restaurants, an approximate \$0.4 million decrease in sales from Combo locations, and an approximate \$3.4 million decrease at sales from our Cheeseburger in Paradise restaurants.

The approximate \$4.0 million decrease in sales at stand-alone Luby's reflects the reduction of eight operating restaurants, partially offset by a 1.5% increase in same-store stand-alone Luby's Cafeteria sales. The 1.5% increase in same-store sales includes a 7.8% increase in average spend per guest partially offset by a 5.8% decrease in guest traffic.

The approximate \$10.5 million decrease in sales at stand-alone Fuddruckers restaurants reflects a net reduction of 15 operating restaurants and a 3.6% decrease in same-store stand-alone Fuddruckers sales. The 3.6% decrease in same-store sales includes a 8.2% decrease in guest traffic partially offset by a 5.0% increase in average spend per guest.

The approximate \$0.4 million decrease in sales from Combo locations reflects a 2.0% decrease in sales at the six locations in operation throughout fiscal 2018 and fiscal 2017.

- The approximate \$3.4 million decrease in sales from our Cheeseburger in Paradise reflects a 11.0% decrease in same-store sales (seven locations in the first three fiscal quarters of fiscal 2018 and two stores in the fourth quarter of fiscal 2018). The closure of six stores reduced sales by approximately \$2.1 million whereby five of the six closures took place near the end of fiscal 2018.

Total restaurant sales decreased approximately \$27.3 million in fiscal 2017 compared to fiscal 2016. The decrease in restaurant sales included an approximate \$14.9 million decrease in sales at stand-alone Luby's Cafeterias, an approximate \$8.4 million decrease in sales at stand-alone Fuddruckers restaurants, an approximate \$1.8 million decrease in sales from Combo locations, and an approximate \$2.2 million decrease at sales from our Cheeseburger in Paradise restaurants. The approximate \$27.3 million decrease in total restaurant sales reflects comparison to fiscal 2016 which included one additional week of operations. Fiscal 2017 was comprised of a typical 52 weeks compared to fiscal 2016 which was comprised of 53 weeks. The additional week of operations in fiscal 2016 generated approximately \$6.7 million in restaurant sales.

The approximate \$14.9 million decrease in sales at stand-alone Luby's Cafeterias reflects that fiscal 2016 included one additional week of operations which generated approximately \$4.1 million in sales in fiscal 2016, a 3.3% decrease in same-store stand-alone Luby's Cafeteria sales, and a reduction of six operating restaurants. The 3.3% decrease in same-store sales includes a 5.6% decrease in guest traffic partially offset by a 2.3% increase in average spend per guest.

The approximate \$8.4 million decrease in sales at stand-alone Fuddruckers restaurants includes approximately \$1.9 million in sales generated in the additional week in fiscal 2016, a 1.8% decrease in same-store stand-alone Fuddruckers sales, and a net reduction of six operating restaurants. The 1.8% decrease in same-store sales includes a 4.6% decrease in guest traffic partially offset by a 2.8% increase in average spend per guest.

The approximate \$1.8 million decrease in sales from Combo locations includes approximately \$0.4 million in sales generated in the additional week in fiscal 2016 and a 5.3% decrease in sales at the six locations in operation throughout fiscal 2016 and fiscal 2017.

-

The approximate \$2.2 million decrease in sales from our Cheeseburger in Paradise restaurants includes approximately \$0.3 million in sales generated in the additional week in fiscal 2016 and a 10.5% decrease in sales at the eight locations in operation throughout fiscal 2016 and fiscal 2017.

## Cost of Food

	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal Year 2017 Ended August 30, 2017 (52 weeks)	Fiscal 2018 vs Fiscal 2017 Higher/(Lower) weeks	Fiscal Year 2016 Ended August 31, 2016 (53 weeks)	Fiscal 2017 vs Fiscal 2016 Higher/(Lower) weeks
(\$000s)					
Cost of food	\$94,238	\$98,714	(4.5)%	\$106,980	(7.7)%
As a percentage of restaurant sales	28.3%	28.1%	0.2%	28.3%	(0.2)%

Cost of food, which is comprised of the cost associated with the sale of food and beverage products that are consumed while dining in our restaurants, as take-out, and as catering. Cost of food decreased approximately \$4.5 million, or 4.5%, in fiscal 2018 compared to fiscal 2017. Cost of food is variable and generally fluctuates with sales volume. As a percentage of restaurant sales, food costs increased 0.2% to 28.3% in fiscal 2018 compared to 28.1% in fiscal 2017. The Cost of food as percentage of sales was impacted by several offsetting factors: (1) higher food commodity costs driven in large part by higher freight charges and (2) changes in product offerings (for a portion of the fiscal year) with generally higher food ingredient costs, partially offset by (3) higher menu pricing.

Cost of food decreased approximately \$8.3 million, or 7.7%, in fiscal 2017 compared to fiscal 2016. Cost of food is variable and generally fluctuates with sales volume. As a percentage of restaurant sales, food costs decreased 0.2% to 28.1% in fiscal 2017 compared to 28.3% in fiscal 2016. The Cost of food as percentage of sales decreased with lower average food commodity costs, higher realized average menu prices, and continued careful food cost controls. At our Luby's Cafeterias we experienced an approximate 1% decrease in the cost of our basket of food commodity purchases, occurring as a result of decreases in the cost in our primary commodities of beef and poultry as well as in our other commodities of eggs and oils and shortenings partially offset by increases in the cost of seafood, dairy and butter, and fresh produce. At our Fuddruckers, the cost of our basket of food commodity purchases was stable, with modest increases in the cost of beef, cheese and dairy, and produce offset by decreases in the cost of poultry, pork, and dough used in the production of buns.

## Payroll and Related Costs

	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal Year 2017 Ended August 30, 2017 (52 weeks)	Fiscal 2018 vs Fiscal 2017 Higher/(Lower) weeks	Fiscal Year 2016 Ended August 31, 2016 (53 weeks)	Fiscal 2017 vs Fiscal 2016 Higher/(Lower) weeks
(\$000s)					
Payroll and related costs	\$124,478	\$125,997	(1.2)%	\$132,960	(5.2)%
As a percentage of restaurant sales	37.4%	35.9%	1.5%	35.2%	0.7%

Payroll and related costs includes restaurant-level hourly wages, including overtime pay, and pay while training, as well as management salaries and incentive payments. Payroll and related costs also include the payroll taxes, workers' compensation expense, group health insurance costs, and 401(k) matching expense for all restaurant-level hourly and management employees. Payroll and related costs decreased approximately \$1.5 million, or 1.2%, in fiscal 2018 compared to fiscal 2017 due in part to (1) operating 29 fewer restaurants (net reduction of eight restaurants in fiscal 2017 and reduction of 21 restaurants in fiscal 2018); partially offset by (2) an approximate \$1.0 million increase in workers' compensation expense; and (3) higher average wage rates reflective of market pressures. Payroll and related

costs as a percentage of restaurant sales increased 1.5% due to (1) the fixed cost component of labor costs with lower same-store sales levels; (2) higher average hourly wage rates reflective of market pressures; and (3) an approximate \$1.0 million increase in workers' compensation expense.

Payroll and related costs decreased approximately \$7.0 million, or 5.2%, in fiscal 2017 compared to fiscal 2016 due in part to (1) operating ten fewer restaurants; (2) an additional week of operations in fiscal 2016; (3) an approximate \$0.7 million decrease in workers' compensation expense; partially offset by (4) higher average wage rates. Payroll and related costs as a percentage of restaurant sales increased 0.7% due to (1) the fixed cost component of labor costs (mainly management labor) with lower same-store sales levels; (2) higher average hourly wage rates reflective of market pressures; (3) higher average restaurant management compensation; partially offset by (4) lower workers' compensation insurance expense.

#### Other Operating Expenses

(\$000s)	Fiscal	Fiscal	Fiscal 2018 vs		Fiscal	Fiscal 2017 vs	
	Year 2018	Year 2017	Fiscal 2017		Year 2016	Fiscal 2016	
	Ended	Ended	Higher/(Lower)		Ended	Higher/(Lower)	
	August	August	Higher/(Lower)		August	Higher/(Lower)	
	29, 2018	30, 2017	Higher/(Lower)		31, 2016	Higher/(Lower)	
	(52	(52	(52 vs 52		(53	(52 vs 53	
	weeks)	weeks)	weeks)		weeks)	weeks)	
Other operating expenses	\$62,286	\$61,924	0.6	%	\$60,961	1.6	%
As a percentage of restaurant sales	18.7	% 17.7	% 1.0	%	16.1	% 1.6	%

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, and services. Other operating expenses increased approximately \$0.4 million, or 0.6%, in fiscal 2018 compared to fiscal 2017. As a percentage of restaurant sales, Other operating expenses increased 1.0% to 18.7% in fiscal 2018 compared to 17.7% in fiscal 2017. The 1.0% increase in Other operating expenses as a percentage of restaurant sales was due to (1) a 0.5% increase in restaurant supplies related to efforts within fiscal 2018 to refresh, restock, and upgrade kitchen and dining room supplies in order to enhance the guest experience as well as increased food-to-go packaging costs with the growth in food-to-go sales through third party delivery services; (2) a 0.3% increase in repairs and maintenance expense; (3) a 0.2% increase in utilities expense on higher electricity utility rates; and (4) 0.2% increase in other expenses primarily related to post-hurricane Harvey related costs as well as increased reserves for doubtful accounts.

Other operating expenses increased approximately \$1.0 million, or 1.6%, in fiscal 2017 compared to fiscal 2016. As a percentage of restaurant sales, Other operating expenses increased 1.6% to 17.7% in fiscal 2017 compared to 16.1% in fiscal 2016. The 1.6% increase in Other operating expenses as a percentage of restaurant sales was due to (1) a 0.6% increase in restaurant services including higher computer network connectivity, point of sale software, food-to-go delivery charges to third parties, increased store security costs, and higher fees associated with armored car services; (2) a 0.6% increase in repairs and maintenance costs; (3) a 0.3% increase in utilities costs due to higher average utility rates; and (4) a 0.1% increase in restaurant supplies expense with typical inflationary cost increases on lower same-store sales volumes.

#### Occupancy Costs

(\$000s)	Fiscal	Fiscal	Fiscal 2018 vs		Fiscal	Fiscal 2017 vs	
	Year 2018	Year 2017	Fiscal 2017		Year 2016	Fiscal 2016	
	Ended	Ended	Higher/(Lower)		Ended	Higher/(Lower)	
	August	August	Higher/(Lower)		August	Higher/(Lower)	
	29, 2018	30, 2017	Higher/(Lower)		31, 2016	Higher/(Lower)	

Edgar Filing: LUBYS INC - Form 10-K

	(52 weeks)	(52 weeks)	(52 vs 52 weeks)	(53 weeks)	(52 vs 53 weeks)
Occupancy costs	\$20,399	\$21,787	(6.4 )%	\$22,374	(2.6 )%
As a percentage of restaurant sales	6.1 %	6.2 %	(0.1 )%	5.9 %	0.3 %

Occupancy costs include property lease expense, property taxes, and common area maintenance charges, property insurance, and permits and licenses. Occupancy costs decreased \$1.4 million in fiscal 2018 compared to fiscal 2017 due to primarily operating 29 fewer restaurants (net reduction of eight restaurants in fiscal 2017 and reduction of 21 restaurants in fiscal 2018). Of the net reduction of 29 restaurants, 19 were properties that we leased.

Occupancy costs decreased \$0.6 million in fiscal 2017 compared to fiscal 2016 due to primarily operating seven fewer leased restaurant locations (one of which is now sub-leased to a Fuddruckers franchise operator) and one additional week of operations in fiscal 2016. The occupancy costs of closed locations previously operated as Cheeseburger in Paradise, but selected for conversion to Fuddruckers restaurants in fiscal 2017 or beyond were classified as pre-opening cost and reflected in our Opening costs expense line.

#### Franchise Operations Segment Profit

(\$000s)	Fiscal	Fiscal	Fiscal 2018 vs		Fiscal	Fiscal 2017 vs	
	Year	Year	Fiscal 2018 vs	Fiscal 2017	Year	Fiscal 2017 vs	Fiscal 2016
	Ended	Ended	Higher/(Lower)		Ended	Higher/(Lower)	
	August	August			August		
	29, 2018	30, 2017			31, 2016		
	(52	(52	(52 vs 52		(53	(52 vs 53	
	weeks)	weeks)	weeks)		weeks)	weeks)	
Franchise revenue	\$6,365	\$6,723	(5.3	)%	\$7,250	(7.3	)%
Cost of franchise operations	1,528	1,733	(11.8	)%	1,877	(7.7	)%
Franchise profit	\$4,837	\$4,990	(3.1	)%	\$5,373	(7.1	)%
Franchise profit as percent of Franchise revenue	76.0	% 74.2	% 1.8	%	74.1	% 0.1	%

We 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) franchise royalties and (2) franchise and area development agreement fees. Franchise revenue decreased approximately \$0.4 million, or 5.3%, in fiscal 2018 compared to fiscal 2017 which included an approximate \$0.2 million decrease in franchise royalties and an approximate \$0.2 million decrease in franchise fees. The approximate \$0.2 million decrease in franchise royalties was due primarily to a net decrease of eight franchise locations in operation and a 1.4% decrease in domestic franchise same-store sales. The approximate \$0.2 million decrease in franchise fees was due to fewer openings and lower fees earned associated with franchisees not fully achieving timetables for store openings under development agreements. Cost of franchise operations decreased approximately \$0.2 million, or 11.8%, in fiscal 2018 compared to fiscal 2017, primarily as a result of decreased overhead cost to support franchise operations and the opening of fewer franchise locations. Franchisees opened four locations in fiscal 2018 (two in Florida, one in Pennsylvania, and one in Mexico). Franchise profit, defined as Franchise revenue less Cost of franchise operations, decreased approximately \$0.2 million in fiscal 2018 compared to fiscal 2017. During fiscal 2018, we opened the four franchise locations enumerated above and there were 12 franchise units that closed on a permanent basis. We ended fiscal 2018 with 105 Fuddruckers franchise restaurants.

Franchise revenue decreased approximately \$0.5 million in fiscal 2017 compared to fiscal 2016 which included an approximate \$0.6 million decrease in franchise royalties, partially offset by an approximate \$0.1 million increase in franchise fees. Cost of franchise operations decreased approximately \$0.1 million, or 7.7%, in fiscal 2017 compared to fiscal 2016, primarily as a result of decreased overhead cost to support franchise operations and the opening of fewer franchise locations. Franchisees opened four international locations (one in Panama; one in Colombia; one in the Dominican Republic; and one in Canada) in fiscal 2017. Franchise profit, defined as Franchise revenue less Cost of franchise operations, decreased approximately \$0.4 million in fiscal 2017 compared to fiscal 2016. During fiscal 2017, we opened the eight franchise locations enumerated above and there were also eight franchise units that closed on a permanent basis. We ended fiscal 2017 with 113 Fuddruckers franchise restaurants.

### Culinary Contract Services Segment Profit

Culinary Contract Services is a business line servicing healthcare, corporate dining clients, government buildings, sports stadiums, and sales through retail grocery outlets. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service and retail dining. Retail grocery outlet sales are through H-E-B stores, a Texas-born retailer, where we sell family-sized versions of Luby's Famous Macaroni & Cheese (two varieties) and Luby's famous Fried Fish in the freezer section.

This Culinary Contract Services business segment varied between 22 and 28 client locations in fiscal 2018 and between 23 and 25 client locations in fiscal 2017. In fiscal 2018 and fiscal 2017, we continued concentrating 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.

(\$000s)	Fiscal	Fiscal	Fiscal 2018		Fiscal	Fiscal 2017	
	Year 2018	Year 2017	vs Fiscal		Year 2016	vs Fiscal	
	Ended	Ended	2017		Ended	2016	
	August	August	Higher/(Lower)		August	Higher/(Lower)	
	29, 2018	30, 2017			31, 2016		
	(52	(52	(52 vs 52		(53	(52 vs 53	
	weeks)	weeks)	weeks)		weeks)	weeks)	
Culinary contract services	\$25,782	\$17,943	43.7	%	\$16,695	7.5	%
Cost of culinary contract services	24,161	15,774	53.2	%	14,955	5.5	%
Culinary contract profit	\$1,621	\$2,169	(25.3	)%	\$1,740	24.7	%
Culinary contract profit as percent of Culinary contract services sales	6.3	% 12.1	% (5.8	)%	10.4	% 1.7	%

Culinary contract services revenue increased \$7.8 million, or 43.7%, in fiscal 2018 compared to fiscal 2017. The \$7.8 million increase in revenue was primarily due to (1) 15 new locations opening since the beginning of fiscal 2017 contributing a total of \$10.4 million in increased sales; and (2) an increase of \$0.5 million at locations that were in operation throughout fiscal 2017 and fiscal 2018; partially offset by (3) the closure of nine locations which reduced sales by \$3.1 million. Cost of culinary contract services includes the food, payroll and related costs, other direct operating expenses associated with generating culinary contract sales, and the direct overhead costs (primarily salary and related costs) associated with the management of this business segment. Cost of culinary contract services increased approximately \$8.4 million, or 53.2%, in fiscal 2018 compared to fiscal 2017 due primarily to a net increase in culinary contract sales volume and an increase in corporate overhead supporting the Culinary Contract Services business segment. Profit in our Culinary Contract Services business segment (defined as Culinary contract services revenue less Cost of culinary contract services) decreased in dollar terms by approximately \$0.5 million and decreased as a percent of Culinary contract services revenue to 6.3% in fiscal 2018 from 12.1% in fiscal 2017.

Culinary contract services revenue increased \$1.2 million, or 7.5%, in fiscal 2017 compared to fiscal 2016. The \$1.2 million increase in revenue was primarily due to (1) twelve new locations opening since the beginning of fiscal 2016 contributing a total of \$6.2 million in sales; partially offset by (2) the closure of nine locations which reduced sales by \$4.6 million; and (3) a reduction of \$0.4 million in sales from locations that were in operation throughout fiscal 2016 and fiscal 2017. Cost of culinary contract services includes the food, payroll and related costs, other direct operating expenses associated with generating culinary contract sales, and the direct overhead costs (primarily salary and related costs) associated with the management of this business segment. Cost of culinary contract services increased approximately \$0.8 million, or 5.5%, in fiscal 2017 compared to fiscal 2016 due primarily to a net increase in culinary contract sales volume, partially offset by an additional week of operations in fiscal 2016. Profit in our Culinary Contract Services business segment (defined as Culinary contract services revenue less Cost of culinary contract services) increased in dollar terms by approximately \$0.4 million and increased as a percent of Culinary contract services revenue to 12.1% in fiscal 2017 from 10.4% in fiscal 2016.

#### Opening Costs

Opening costs includes labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were approximately \$0.6 million in fiscal 2018 compared to approximately \$0.5

million in fiscal 2017 and approximately \$0.8 million in fiscal 2016.

Opening costs of \$0.6 million in fiscal 2018 included the re-opening costs associated with one Fuddruckers location that was damaged during Hurricane Harvey and subsequently restored and re-opened for business in fiscal 2018 as well as the carrying costs for one location where we previously operated a Cheeseburger in Paradise restaurant and one location that we lease for a potential future Fuddruckers opening.

Opening costs of \$0.5 million in fiscal 2017 included the costs of opening one Fuddruckers location and the carrying costs (mainly rent, property taxes, and utilities) for two locations that were selected for possible conversion from Cheeseburger in Paradise restaurants to Fuddruckers restaurants.

Opening costs of \$0.8 million in fiscal 2016 included the costs of opening three Fuddruckers locations and the carrying costs (mainly rent, property taxes, and utilities) for two locations that were selected for possible conversion from Cheeseburger in Paradise restaurants to Fuddruckers restaurants.

#### Depreciation and Amortization

	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal Year 2017 Ended August 30, 2017 (52 weeks)	Fiscal 2018 vs Fiscal 2017 Higher/(Lower) weeks)	Fiscal Year 2016 Ended August 31, 2016 (53 weeks)	Fiscal 2017 vs Fiscal 2016 Higher/(Lower) weeks)
(\$000s)					
Depreciation and amortization	\$17,453	\$20,438	(14.6 )%	\$21,889	(6.6 )%
As a percentage of total sales	4.8 %	5.4 %	(0.6 )%	5.4 %	0.0 %

Depreciation and amortization expense decreased \$3.0 million in fiscal 2018 compared to fiscal 2017 due primarily to certain assets reaching the end of their depreciable lives and the removal of certain assets upon sale.

Depreciation and amortization expense decreased \$1.5 million in fiscal 2017 compared to fiscal 2016 due primarily to certain existing assets reaching the end of their depreciable lives.

#### Selling, General and Administrative Expenses

	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal Year 2017 Ended August 30, 2017 (52 weeks)	Fiscal 2018 vs Fiscal 2017 Higher/(Lower) weeks)	Fiscal Year 2016 Ended August 31, 2016 (53 weeks)	Fiscal 2017 vs Fiscal 2016 Higher/(Lower) weeks)
(\$000s)					
General and administrative expenses	\$35,201	\$32,746	7.5 %	\$36,808	(11.0 )%
Marketing and advertising expenses	3,524	5,132	(31.3 )%	5,614	(8.6 )%
Selling, general and administrative expenses	\$38,725	\$37,878	2.2 %	\$42,422	(10.7 )%
As percent of total sales	10.6 %	10.1 %	0.5 %	10.5 %	(0.4 )%

Selling, general and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders and regional directors, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. Selling, general and administrative expenses increased by approximately \$0.8 million, or 2.2%, in fiscal 2018 compared to fiscal 2017. The approximate \$0.8 million increase in Selling, general and administrative expenses include (1) an approximate \$1.9 million increase in outside professional service fees which includes increased information technology consulting to supplement our in-house information technology staff and increased spending for marketing consulting, and outside legal fees; (2) an approximate \$0.8 million increase in salaries and benefits expense mostly related to one-time employee separation costs as we reduced our restaurant count and

corporate overhead staffing levels; partially offset by (3) an approximate \$1.6 million reduction in marketing and advertising expenses due to re-directing marketing investment away from more costly broad channels, such as television advertising, toward more focused and economical channels for our brands, such as digital media; and (4) an approximate \$0.3 million reduction in corporate travel expense, corporate occupancy costs, bank charges, and other various corporate overhead costs. As a percentage of total sales, Selling, general and administrative expenses increased to 10.6% in fiscal 2018 compared to 10.1% in fiscal 2017 primarily due to net increases in the expenses enumerated above.

Selling, general and administrative expenses decreased by approximately \$4.5 million, or 10.7%, in fiscal 2017 compared to fiscal 2016. Decreases in Selling, general and administrative expenses include (1) an approximate \$3.5 million decrease in salaries, benefits, and other compensation expenses due to reduced headcount, significantly reduced bonus and incentive expense (including an adjustment to the estimated fair value of performance awards under an incentive compensation plan), and to a lesser extent, one less operating week in fiscal 2017 compared to fiscal 2016; (2) an approximate \$0.7 million decrease in corporate employee travel costs; and (3) an approximate \$0.5 million reduction in marketing and advertising costs, partially offset by (4) an approximate \$0.1 million increase in corporate supplies expense and other overhead expenses, net of a reduction in outside professional service fees. As a percentage of total sales, Selling, general and administrative expenses decreased to 10.1% in fiscal 2017 compared to 10.5% in fiscal 2016 primarily due to net decreases in the expenses enumerated above.

#### Provision for Asset Impairments and Restaurant Closings

The provision for asset impairment and restaurant closings of approximately \$8.9 million in fiscal 2018 is primarily related to assets impaired at 21 property locations, goodwill at three property locations, ten properties held for sale written down to their fair value, and a reserve for 15 restaurant closings of approximately \$1.3 million.

The asset impairment of approximately \$10.6 million in fiscal 2017 is primarily related to assets impaired at 17 property locations, goodwill at six property locations, five properties held for sale written down to their fair value, and a reserve for 10 restaurant closings of approximately \$0.5 million.

The asset impairment of approximately \$1.4 million in fiscal 2016 reflects (1) a \$1.2 million impairment for one owned Fuddruckers location and three leased Fuddruckers locations; (2) a \$0.2 million charge for restaurant closings related to three Fuddruckers locations and one Luby's Cafeteria location; and (3) a \$38 thousand impairment of Goodwill. The \$0.2 million charge for restaurant closings includes the total amount of rent and other direct costs for the remaining period of time the properties will be unoccupied plus the value of the amount by which the rent we pay to the landlord exceeds any rent paid to us by a tenant under a sublease over the remaining period of the lease terms.

#### Net Gain on Disposition of Property and Equipment

The approximate \$5.4 million net gain on disposition of property and equipment in fiscal 2018 is primarily related to the gain on the sale of 10 properties of approximately \$4.9 million and approximately \$1.3 million of insurance proceeds received for property and equipment damaged by Hurricane Harvey, partially offset by lease termination costs at eight restaurant location closures and routine asset retirements.

The disposition of property and equipment in fiscal 2017 resulted in a net gain of approximately \$1.8 million, which included (1) the gain on the sale of three properties where we operated a cafeteria up until the time of the sale offset by (2) normal asset retirement activity at operating locations and costs associated with disposal of assets at one leased property we operated up until the time of lease termination.

The disposition of property and equipment in fiscal 2016 resulted in a net gain of approximately \$0.7 million, which included (1) the gain on the sale of one property where we operated a cafeteria up until the time of the sale offset by (2) normal asset retirement activity.

#### Interest Income

Interest income was \$12 thousand in fiscal 2018 compared to \$8 thousand in fiscal 2017, and compared to \$4 thousand in fiscal 2016.

Interest Expense

Interest expense in fiscal 2018 increased approximately \$0.9 million compared to fiscal 2017 on higher average debt balances and higher average interest rates inherent in our amended credit agreement and acceleration of deferred financing fees related to shortening the maturity in our amended credit agreement in the quarter ended June 6, 2018 exceeding the acceleration of deferred financing fees related to the extinguishment of debt in the quarter ended March 15, 2017. Interest expense in fiscal 2017 increased approximately \$0.2 million compared to fiscal 2016 on marginally higher average debt balances and higher average interest rates.

### Other Income (Expense), Net

Other income (expense), 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; oil and gas royalty income; and dining card sales discounts.

Other income (expense), net, was income of approximately \$0.3 million in fiscal 2018 compared to expense of approximately \$0.5 million in fiscal 2017 and income of approximately \$0.2 million in fiscal 2016. Other income (expense), net, increased approximately \$0.8 million in fiscal 2018 compared to fiscal 2017 primarily related to (1) an increase in the fair value of our interest rate swap; and (2) higher net rental income; partially offset by (3) greater gift card related expense and comparison to a fiscal 2017 reduction in our gift card liability. Other income (expense), net, decreased approximately \$0.6 million in fiscal 2017 compared to fiscal 2016 primarily related to (1) recording a net reduction in the fair value of our interest rate swap agreement; (2) lower rental net income; and (3) a decrease in sales tax discounts as we did not participate in state tax prepayment programs to the full extent in fiscal 2017.

### Taxes

The income tax provision related to continuing operations for fiscal 2018 was approximately \$7.7 million compared to an income tax provision of approximately \$2.4 million for fiscal 2017 and an income tax provision of approximately \$4.9 million for fiscal 2016. The income tax provision in fiscal 2018, reflects the impact of U.S. tax reform that is commonly referred to as Tax Cuts and Jobs Act (the "Tax Act"), of \$3.2 million in deferred income taxes, and additional \$4.1 million of deferred income tax provision including a valuation allowance increase and \$0.4 million of current state income taxes. The income tax provision in fiscal 2017 reflects recording a deferred tax asset valuation allowance of \$9.5 million partially offset by recording a tax benefit related to the pre-tax loss for the year adjusted for state income taxes and general business tax credits. The income tax provision in fiscal 2016 reflects recording a deferred tax asset valuation allowance of \$6.9 million partially offset by recording a tax benefit related to the pre-tax loss for the year adjusted for state income taxes, and general business and foreign tax credits.

The effective tax rate ("ETR") from continuing operations was a negative 30.6%, a negative 12.0%, and a negative 90.4% for fiscal 2018, 2017, and 2016, respectively. The Tax Act lowered the federal statutory tax rate from 35% to 21% effective January 1, 2018. In accordance with the application of IRC Section 15, the Company's federal statutory tax rate for fiscal 2018 was 25%, representing a blended tax rate for the current fiscal year. The ETR for the year ended August 29, 2018 differs from the blended federal statutory rate of 25%, due to the change in valuation allowance, the impact upon enactment of the Tax Act, the federal job credits, state income taxes, and other discrete items. The ETR for the year ended August 30, 2017 and the year ended August 31, 2016 differs from the federal statutory rate of 34% due to the change in valuation allowance, federal jobs credits, state income taxes and other discrete items.

### Discontinued Operations

(\$000s)	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
Discontinued operating losses	\$(21 )	\$(28 )	\$(161 )
Impairments	(59 )	—	—

Edgar Filing: LUBYS INC - Form 10-K

Gains	—	—	25
Pretax loss	\$(80 )	\$(28 )	\$(136 )
Income tax benefit (expense) from discontinued operations	(534 )	(438 )	46
Loss from discontinued operations, net of income taxes	\$(614)	\$(466 )	\$(90 )

36

---

The loss from discontinued operations, net of income taxes was approximately \$0.6 million in fiscal 2018 compared to a loss of approximately \$0.5 million in fiscal 2017 and a loss of approximately \$0.1 million in fiscal 2016. The loss of approximately \$0.6 million in fiscal 2018 included (1) less than \$0.1 million in “carrying costs” (typically rent, property taxes, utilities, and maintenance) associated with assets that were related to discontinued operations; (2) less than \$0.1 million impairment charges for certain assets related to discontinued operations; and (3) an approximate \$0.5 million income tax provision related to increasing the deferred tax asset valuation allowance associated with discontinued operations. The loss of \$0.5 million in fiscal 2017 included (1) less than \$0.1 million in “carrying costs” associated with assets that were related to discontinued operations and (2) an approximate \$0.4 million income tax provision related to increasing the deferred tax asset valuation allowance associated with discontinued operations. The loss of approximately \$0.1 million in fiscal 2016 included (1) approximately \$0.2 million in carrying costs associated with assets that were related to discontinued operations; partially offset by (2) a less than \$0.1 million gain on sale of assets that were related to discontinued operations; and (3) a less than \$0.1 million income tax benefit related to discontinued operations.

## 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.

Cash and cash equivalents increased approximately \$2.6 million as of the end of fiscal 2018 compared to the end of fiscal 2017. Cash provided by investing activities of approximately \$3.0 million and cash provided by financing activities of approximately \$8.1 million was offset by cash used in operating activities of approximately \$8.5 million.

Cash used in operating activities of approximately \$8.5 million in fiscal 2018 was a decrease of approximately \$18.1 million from a source of cash of approximately \$9.6 million in fiscal 2017. Net cash provided by investing activities, in fiscal 2018, was approximately \$3.0 million representing an approximate \$6.2 million increase from net cash used in investing activities of approximately \$3.2 million in fiscal 2017. Cash flows from financing activities was a source of cash, in fiscal 2018, of approximately \$8.1 million and an increase of approximately \$14.7 million from the use of cash of approximately \$6.6 million in fiscal 2017. Our total outstanding debt increased to approximately \$39.5 million at the end of fiscal 2018 from approximately \$31.0 million at the end of fiscal 2017 primarily due to the use of cash and decline in cash provided by operating activities before changes in operating assets and liabilities of approximately \$12.3 million partially offset by proceeds from property sales. We plan to continue the level of capital expenditures necessary to keep our restaurants attractive and operating efficiently.

Cash and cash equivalents decreased approximately \$0.2 million as of the end of fiscal 2017 compared to the end of fiscal 2016. Cash provided by operating activities of approximately \$9.6 million was offset by cash used in investing activities of approximately \$3.2 million and cash used in financing activities of approximately \$6.6 million.

Cash flow from operations was unfavorably impacted by decreased restaurant sales and increased other operating expenses in fiscal 2017 compared to fiscal 2016 but favorably impacted by decreased cost of food, payroll and related costs, and occupancy costs. We decreased our net borrowings from our 2016 Credit facility in fiscal 2017 compared to fiscal 2016 primarily due to decreases in our capital expenditures and proceeds on the sale of properties.

Our cash requirements for fiscal 2018 consisted principally of:

- capital expenditures for recurring maintenance of our restaurant property and equipment, restaurant renovations and upgrades, new construction, and information technology;

payments to reduce our debt; and  
working capital primarily for our Company-owned restaurants and obligations under our CCS agreements.

Based upon our level of past and projected capital requirements, we expect that proceeds from the sale of assets and cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditures and working capital requirements during the next twelve months.

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

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

	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(52 weeks)	(52 weeks)	(53 weeks)
	(In thousands)		
Total cash provided by (used in):			
Operating activities	\$(8,453)	\$9,640	\$13,859
Investing activities	3,014	(3,216)	(13,442)
Financing activities	8,065	(6,667)	(579)
Increase (Decrease) in cash and cash equivalents	\$2,626	\$(243)	\$(162)

**Operating Activities.** Cash flow from operating activities decreased from a source of cash of approximately \$9.6 million in fiscal 2017 to a use of cash of approximately \$8.5 million in fiscal 2018. The \$18.1 million decrease in operating cash flow was primarily due to an approximate \$12.3 million decrease in cash provided by operations before changes in operating assets and liabilities and an approximate \$5.8 million increase in cash used in changes in operating assets and liabilities.

The \$12.3 million decrease in cash provided by operating activities before changes in operating assets and liabilities was primarily due to uses of cash from an approximate \$12.0 million decrease total in total segment level profit, an approximate \$0.9 million increase in interest expense, an approximate \$0.2 million increase in discounts on the sale of gift cards, and an approximate \$0.2 million decrease in sales tax discounts as a result of discontinuing the prepayment of certain sales taxes partially offset by a source of cash of an approximate \$1.0 million increase in the fair value of our interest rate swap.

The \$5.8 million increase in cash used in changes in operating assets and liabilities was primarily due to an approximate \$7.7 million decrease in the change of accounts payable, accrued expenses and other liabilities, partially offset by an approximate \$1.3 million decrease in the change of trade accounts receivable and other receivables, an approximate \$0.3 million decrease in the change of food and supply inventories, and an approximate \$0.3 million decrease in the change of prepaid expenses and other assets, in fiscal 2018 compared to fiscal 2017.

Cash flow from operating activities decreased from approximately \$13.8 million in fiscal 2016 to approximately \$9.6 million in fiscal 2017. The \$4.2 million decrease in cash provided by operating activities was primarily due to an approximate \$8.3 million decrease in cash provided by operations before changes in operating assets and liabilities offset by an approximate \$4.1 million decrease in cash used in changes in operating assets and liabilities.

**Investing Activities.** We generally reinvest available cash flows from operations to develop new restaurants, maintain and enhance existing restaurants, and to support CCS. Our capital expenditure program includes, among other things, investments in new restaurants, restaurant remodeling, and information technology enhancements. Company-owned restaurant capital expenditures included purchases of new equipment, restaurant renovations and upgrades and new restaurant construction.

Cash provided by investing activities was approximately \$3.0 million in fiscal 2018, an increase of approximately \$6.2 million compared to cash used in investing activities of approximately \$3.2 million in fiscal 2017, primarily due to the proceeds from disposal of assets and property held for sale and proceeds from property and equipment insurance claims. We invested approximately \$13.2 million in the purchase of property and equipment in fiscal 2018, an

increase of \$0.7 million from our investment of approximately \$12.5 million in fiscal 2017. Proceeds from disposal of assets and property held for sale was approximately \$14.2 million in fiscal 2018, an increase of \$4.9 million from proceeds of approximately \$9.3 million in fiscal 2017. Proceeds on property and equipment insurance claims of approximately \$2.1 million was a source of cash in fiscal 2018. The purchases of property and equipment of approximately \$13.2 million in fiscal 2018 included approximately \$11.1 million in capital expenditures related to Company-owned restaurants, approximately \$1.9 million in corporate related capital expenditures, and approximately \$0.2 million in Culinary Contract Services. The purchases of property and equipment of approximately \$12.5 million in fiscal 2017 included \$11.4 million in capital expenditures related to Company-owned restaurants and \$1.1 million in corporate related capital expenditures.

Cash used in investing activities was approximately \$3.2 million in fiscal 2017 compared to cash used in investing activities of approximately \$13.4 million in fiscal 2016. In fiscal 2017, proceeds from disposal of assets and property held for sale was approximately \$9.3 million. In fiscal 2017, purchases of property and equipment was approximately \$12.5 million, including \$11.4 million in capital expenditures related to Company-owned restaurants and approximately \$1.1 million in corporate related capital expenditures.

Financing Activities. Cash provided by financing activities was approximately \$8.1 million in fiscal 2018, an increase of \$14.7 million from cash used in financing activities of approximately \$6.6 million in fiscal 2017. Cash flows from financing activities was primarily the result of borrowings and repayments related to the 2016 Credit facility, as amended; our Revolver and our Term Loan. During fiscal 2018, cash provided by Revolver borrowings was approximately \$15.6 million, our Term Loan repayments was approximately \$7.0 million, cash used for debt issuance costs was approximately \$0.4 million, and cash used for equity shares withheld to cover taxes was approximately \$0.1 million.

In fiscal 2017, we decreased debt from \$37.0 million at the end of fiscal 2016 to \$31.0 million at the end of fiscal 2017. In fiscal 2017, we paid approximately \$652 thousand in debt issuance costs.

#### STATUS OF LONG-TERM INVESTMENTS AND LIQUIDITY

At August 29, 2018, 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 uncollectability, as appropriate. Credit terms of accounts receivable associated with our CCS business vary from 30 to 45 days based on contract terms.

#### WORKING CAPITAL

At fiscal year-end 2018, current assets increased approximately \$2.8 million including an increase of approximately \$2.6 million in cash. Trade accounts and other receivables increased approximately \$1.7 million while insurance receivables, food and supply inventory, and prepaid expenses decreased approximately \$0.9 million, \$0.4 million and \$0.2 million, respectively. The \$1.7 million increase in trade accounts and other receivables was primarily due to increases in receivables related to our culinary contract services. The \$0.9 million decrease in insurance receivables related to insurance proceeds received on two properties damaged by flooding during Hurricane Harvey. The \$0.4 million decrease in food and supply inventory was primarily due to lower spending for restaurant supplies and food supplies on lower sales volumes and the \$0.2 million decrease in prepaid expenses was primarily due to reduction in prepayments of expenses.

At fiscal year-end 2018, current liabilities increased approximately \$37.2 million due primarily to an approximate \$39.3 million increase in Credit facility debt and an approximate \$3.3 million increase in accrued expenses and other liabilities partially offset by an approximate \$5.4 million decrease in accounts payable. The increase of approximately \$39.3 million in Credit facility debt was due to the reclassification of Credit facility debt from long-term to short-term due to the maturity of the loans on May 1, 2019 and the approximate \$3.3 million increase in accrued expenses and other liabilities is primarily a result of lease termination costs reserves of approximately \$1.5 million, self-insured medical claims reserves of approximately \$0.9 million, accrued salaries and incentives of approximately \$0.7 million, accrued professional fees of approximately \$0.4 million, insurance claims of approximately \$0.4 million, accrued interest expense of approximately \$0.3 million, worker's compensation claims reserves of approximately \$0.2 million, and accrued travel costs of approximately \$0.1 million, partially offset by decreases in deferred income taxes of

approximately \$0.4 million, accrued property taxes of approximately \$0.2 million, accrued legal and professional fees of approximately \$0.1 million, and unredeemed gift cards of approximately \$0.1 million, The \$5.4 million decrease in accounts payable was due to an approximate \$1.9 million decrease in checks in transit, an approximate \$3.2 million decrease in trade payables, and an approximate \$0.3 million decrease in accrued purchases.

## 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 fiscal 2018 were approximately \$13.2 million consisting of (1) approximately \$1.1 million in information technology infrastructure maintenance and upgrade projects; (2) approximately \$2.1 million in the rebuilding and refurbishing and updating of restaurants, mostly related to restorations after hurricane and flood damage incurred in August 2017; and (3) approximately \$10.0 million in recurring capital expenditures. In fiscal 2019, we expect to invest up to \$8.0 million for recurring maintenance for our restaurant properties and information technology investments. We expect to be able to fund all capital expenditures in fiscal 2019 using cash flows from operations, proceeds from the sale of assets, and our available credit.

## DEBT

### Senior Secured Credit Agreement

On November 8, 2016, we entered into a \$65.0 million Senior Secured Credit Facility with Wells Fargo Bank, National Association, as Administrative Agent and Cadence Bank, NA and Texas Capital Bank, NA, as lenders ("2016 Credit Agreement"). The 2016 Credit Agreement, prior to amendments discussed below, is comprised of a \$30.0 million 5-year Revolver (the "Revolver") and a \$35.0 million 5-year Term Loan (the "Term Loan"). The maturity date of the 2016 Credit Agreement is November 8, 2021. For this section of the form 10-K, capitalized terms that are used but not otherwise defined shall have the meanings given to such terms in the 2016 Credit Agreement.

The Term Loan and/or Revolver commitments may be increased by up to an additional \$10 million in the aggregate. The 2016 Credit Agreement also provides for the issuance of letters of credit in an aggregate amount equal to the lesser of \$5.0 million and the Revolving Credit Commitment, which was \$30 million as of November 8, 2016. The 2016 Credit Agreement is guaranteed by all of our present subsidiaries and will be guaranteed by our future subsidiaries.

At any time throughout the term of the 2016 Credit Agreement, we have the option to elect one of two bases of interest rates. One interest rate option is the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) 30-day LIBOR plus 1%, plus, in each case, the Applicable Margin, which ranges from 1.50% to 2.50% per annum. The other interest rate option is LIBOR plus the Applicable Margin, which ranges from 2.50% to 3.50% per annum. The Applicable Margin under each option is dependent upon our Consolidated Total Lease Adjusted Leverage Ratio ("CTLAL") at the most recent quarterly determination date.

The Term Loan amortizes 7.0% per year (35.0% in 5 years) which includes the quarterly payment of principal. As of August 30, 2017, the Company has prepaid its required principal payments through the second calendar quarter of 2019. On December 14, 2016, we entered into an interest rate swap with a notional amount of \$17.5 million, representing 50% of the initial outstanding Term Loan.

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 0.35% per annum depending on the CTLAL at the most recent quarterly determination date.

The proceeds of the 2016 Credit Agreement are available for us to (i) pay in full all indebtedness outstanding under the 2013 Credit Agreement as of November 8, 2016, (ii) pay fees, commissions, and expenses in connection with our repayment of the 2013 Credit Agreement, initial extensions of credit under the 2016 Credit Agreement, and (iii) for working capital and general corporate purposes of the Company.

The 2016 Credit Agreement, as amended, contains the following covenants among others:

- CTLAL of not more than (i) 5.00 to 1.00, at the end of each fiscal quarter, through and including the third fiscal quarter of the Borrower's fiscal 2018, and (ii) 4.75 to 1.00 thereafter,
- Consolidated Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, at the end of each fiscal quarter,
- Limit on Growth Capital Expenditures so long as the CTLAL is at least 0.25X less than the then-applicable permitted maximum CTLAL,

- restrictions on mergers, acquisitions, consolidations, and asset sales,
- restrictions on the payment of dividends, redemption of stock, and other distributions,
- restrictions on incurring indebtedness, including certain guarantees, and capital lease obligations,
- 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 2016 Credit Agreement is secured by substantially all of the personal property, including without limitation the equity interest in each of our subsidiaries. The 2016 Credit Agreement also includes customary events of default. If a default occurs and is continuing, the lenders' commitments under the 2016 Credit Agreement may be immediately terminated and/or we may be required to repay all amounts outstanding under the 2016 Credit Agreement.

#### Second Amendment to 2016 Credit Agreement

On April 20, 2018, the Company entered into the Second Amendment to the 2016 Credit Agreement, effective as of March 14, 2018. The amendment accelerates the maturity date of the Credit Agreement to May 1, 2019, approximately 9 months after the balance sheet date, August 29, 2018. The amendment included the following changes:

Aggregate commitments under the senior secured revolving credit facility ("Revolver") were reduced from \$30.0 million to \$27.0 million beginning August 29, 2018.

Changed the maturity date of the Revolver and Term Loan to May 1, 2019.

Reduced the letter of credit sub-limit from \$5.0 million to \$2.0 million.

Interest rate on LIBOR Rate Loans (LIBOR + Applicable Margin) changed to the following:

LIBOR + 4.50% April 20, 2018 - June 30, 2018

LIBOR + 4.75% July 1, 2018 - September 30, 2018

LIBOR + 5.00% October 1, 2018 - December 31, 2018

LIBOR + 5.25% January 1, 2019 - March 31, 2019

LIBOR + 5.50% April 1, 2019 - Maturity Date

Interest rate margin on Base Rate Loans changed to the following:

100 basis points less than the Applicable Margin for LIBOR Rate Loans

Maximum Consolidated Total Lease-Adjusted Leverage Ratio ("CTLAL") is changed to 6.50 to 1.00 at March 14, 2018; 6.75 to 1.00 at June 6, 2018 and August 29, 2018; and 6.50 to 1.00 at each measurement period in fiscal 2019.

Minimum Consolidated EBITDA covenant required at \$7.0 million (thirteen consecutive accounting periods) tested monthly, prior to the second fiscal quarter fiscal 2019 and \$7.5 million for each fiscal quarter thereafter (consisting of thirteen consecutive accounting periods).

Minimum liquidity covenant requiring for at least \$2.0 million in liquidity at all times.

Maximum annual maintenance capital expenditures not to exceed \$9.6 million for the fiscal year ending August 29, 2018 and \$8.5 million in fiscal 2019.

Within 30 days of the date of amendment, a senior security interest in and lien on any of the Company's real estate properties identified by the Administrative Agent and loan to value ratio of 0.50 to 1.00 on collateral real estate.

Excess liquidity provision requiring any consolidated cash balances of the Borrower and its Subsidiaries in excess of \$1.0 million, as reported in the 13-week cash flow reports, used to repay Revolving Credit Loans.

Management has identified approximately 14 owned properties inclusive of assets currently classified as Assets related to discontinued operations and Property held for sale on the Company's Balance Sheet, as of June 6, 2018, as part of a limited asset disposal plan to accelerate repayment of its outstanding term loans. The Board approved the limited asset sales plan on April 18, 2018. The Company estimates that such additional limited asset sales plan will be implemented over the course of the next 18 months. These asset disposal plans, in conjunction with other operational changes, are designed to lower the outstanding debt and to improve the Company's financial condition as the Company pursues a new credit facility.

As of March 14, 2018, the Company would not have been in compliance with the Company's Lease Adjusted Leverage Ratio and Fixed Charge Coverage Ratio covenants of the Credit Agreement prior to the Second Amendment thereto, which became effective on March 14, 2018. At any determination date, if the results of the Company's covenants exceed the maximums or minimums permitted under its 2016 Credit Agreement, the Company would be considered in default under the terms of the agreement which could cause a substantial financial burden by requiring the Company to repay the debt earlier than otherwise anticipated. Due to negative results in the first three quarters of fiscal 2018, continued under performance in the current fiscal year could cause the Company's financial ratios to exceed the permitted limits under the terms of the Credit Agreement.

### Third Amendment to 2016 Credit Agreement

On August 24, 2018, the Company entered into the Third Amendment to Credit Agreement (the “Third Amendment”) amending the Credit Agreement dated as of November 8, 2016, as amended by the Second Amendment to Credit Agreement dated as of April 20, 2018 (together, with the Third Amendment, the “Credit Agreement”), by and among the Company, the other credit parties party thereto, the lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent for the lenders (the “Administrative Agent”).

The Third Amendment amended the interest rate on LIBOR rate loans (LIBOR + applicable margin) to (i) LIBOR + 6.50% from the effective date of the Third Amendment through the date the term loan has been paid in full in cash and (ii) LIBOR + 5.50% from the date following the date the term loan has been paid in full in cash and thereafter. The interest rate on base rate loans is 100 basis points less than the applicable margin for LIBOR rate loans.

Pursuant to the Third Amendment, the lenders agreed to waive the existing events of default as of the effective date of the Third Amendment resulting from any breach of certain financial covenants or the limitation on maintenance capital expenditures, in each case that may have occurred during the period from and including May 9, 2018 until the effective date of the Third Amendment, and any related events of default. Additionally, the lenders agreed to waive the requirements that the Company comply with certain financial covenants until December 31, 2018.

The Third Amendment requires the Company to make mandatory principal prepayments upon certain asset dispositions as follows: (i) 50% of the first \$12.0 million of net cash proceeds from asset dispositions received by the Company; (ii) 75% of the next \$8.0 million of net cash proceeds from asset dispositions received by the Company; and (iii) 100% of all net cash proceeds in excess of the first \$20.0 million of net cash proceeds from asset dispositions received by the Company, in each case from and after the effective date of the Third Amendment.

Additionally, the Company agreed to grant liens on additional properties of the Company to secure borrowings under the Credit Agreement.

At August 29, 2018, the Company had approximately \$8.5 million available to borrow under the Revolver in the 2016 Credit Agreement.

As of August 29, 2018, under the 2016 Credit Agreement, we had \$39.5 million in total outstanding loans and approximately \$1.3 million committed under letters of credit, which is used as security for the payment of insurance obligations, and approximately \$0.2 million in other indebtedness.

### 2013 Credit Facility

We were party to a revolving credit agreement with Wells Fargo Bank, National Association, as Administrative Agent, and ZB, N.A. dba Amegy Bank (formerly Amegy Bank, N.A.), as Syndication Agent (the “2013 Credit Facility”). The 2013 Credit Facility matured and was refunded on November 8, 2016, through the entering of the 2016 Credit Agreement, and there were no amounts outstanding under the 2013 Credit Facility at August 30, 2017.

## COMMITMENTS AND CONTINGENCIES

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements except for operating leases for our corporate office, facility service warehouse and certain restaurant properties.

### Claims

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

## Construction Activity

From time to time, we enter into non-cancelable contracts for the construction of our new restaurants and restaurant remodels. This construction activity exposes us to the risks inherent in this industry 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.

## Contractual Obligations

At August 29, 2018, we had contractual obligations and other commercial commitments as described below:

Contractual Obligations	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(In thousands)				
Revolver	\$20,000	\$20,000	\$—	\$—	\$—
Term Loan	19,506	19,506	—	—	—
Capital lease and other obligations <sup>(1)</sup>	201	64	132	5	—
Operating lease obligations <sup>(2)</sup>	52,815	10,790	15,464	9,921	16,640
Uncertain tax positions liability <sup>(3)</sup>	25	25	—	—	—
Total	\$92,547	\$50,385	\$15,596	\$9,926	\$16,640

Other Commercial Commitments	Amount of Commitment by Expiration Period				
	Total	Fiscal 2019	Fiscal 2020-2021	Fiscal 2021-2022	Thereafter
	(In thousands)				
Letters of credit	\$1,287	\$1,287	\$—	\$—	—

(1) Capital lease obligations contain leases relating to notes on automobile purchases.

(2) Operating lease obligations contain rent escalations and renewal options ranging from one to twenty-five years.

(3) The timing and amounts of future cash payments related to these liabilities are uncertain.

In addition to the commitments described above, we enter into a number of cancelable and noncancelable commitments during each fiscal year. Typically, these commitments expire within one year and are generally focused on food inventory. We do not maintain any long-term or exclusive commitments or arrangements to purchase products from any single supplier. Substantially all of our product purchase commitments are cancelable up to 30 days prior to the vendor's scheduled shipment date.

Long-term liabilities reflected in our consolidated financial statements as of August 29, 2018 included amounts accrued for benefit payments under our supplemental executive retirement plan of \$39 thousand, accrued non-cash compensation of approximately \$21 thousand, accrued insurance reserves of approximately \$1.0 million, and deferred rent liabilities of approximately \$2.1 million.

We are also contractually obligated to our Chief Executive Officer pursuant to an employment agreement. See "Affiliations and Related Parties" below for further information.



## AFFILIATIONS AND RELATED PARTIES

### Affiliate Services

Our Chief Executive Officer, Christopher J. Pappas, and one of our directors and our former Chief Operating Officer, Harris J. Pappas, own two restaurant entities (the “Pappas entities”) that may from time to time provide services to Luby’s, Inc. and its subsidiaries, as detailed in the Amended and Restated Master Sales Agreement dated November 8, 2013 among us and the Pappas entities (the “Master Sales Agreement”).

Under the terms of the Amended and Restated Master Sales Agreement, the Pappas entities continue to provide specialized (customized) equipment fabrication, primarily for new construction, 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 2018, 2017, and 2016 were approximately \$31 thousand, \$4 thousand, and \$2 thousand, respectively. The Company also incurred \$2 thousand of other operating expenses in fiscal 2018 from the Pappas entities. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Company’s Board of Directors.

### 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 partner interest and a 50% general partner 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 property. 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. The new lease also gave 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 paid rent of \$22.00 per square foot plus maintenance, taxes, and insurance for the remaining primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The Company made payments of approximately \$460 thousand, \$419 thousand, and \$417 thousand, in fiscal 2018, 2017, and 2016, respectively. The new lease agreement was approved by the Finance and Audit Committee of our Board of Directors.

In the third quarter of fiscal 2014, on March 12, 2014, the Company executed a new lease agreement for one of the Company’s Houston Fuddrucker’s locations with Pappas Restaurants, Inc. 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 paid \$28.06 per square foot plus maintenance, taxes, and insurance from March 12, 2014 until May 31, 2020. Thereafter, the new ground lease agreement provides for increases in rent at set intervals. The Company made payments of \$168 thousand, \$162 thousand, and \$160 thousand, in fiscal 2018, 2017, and 2016, respectively.

Affiliated rents paid for these Houston property leases represented 3.1%, 2.7%, and 2.6% of the total rents for continuing operations in fiscal 2018, 2017, and 2016, respectively.

The following table compares current and prior two fiscal years charges incurred under the Amended and Restated Master Sales Agreement, affiliated property leases, and other related party agreements to our total capital expenditures, as well as relative Selling, general and administrative expenses, and other operating expenses included in continuing operations:

	Fiscal Year Ended		
	August 29, 2018 (364 days)	August 30, 2017 (364 days)	August 31, 2016 (371 days)
	(In thousands, except percentages)		
<b>AFFILIATED COSTS INCURRED:</b>			
Selling, general and administrative expenses—professional and other costs	\$—	\$1	\$1
Capital expenditures—custom-fabricated and refurbished equipment	31	4	2
Other operating expenses, occupancy costs and opening costs, including property leases	628	581	577
Total	\$659	\$586	\$580
<b>RELATIVE TOTAL COMPANY COSTS:</b>			
Selling, general and administrative expenses	\$38,725	\$37,878	\$42,422
Capital expenditures	13,247	12,502	18,253
Other operating expenses, occupancy costs and opening costs	83,239	84,203	84,122
Total	\$135,211	\$134,583	\$144,797
<b>AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS</b>	0.49	% 0.44	% 0.40
		%	%

The Company entered into a new employment agreement with Christopher Pappas on January 24, 2014. The employment agreement was amended on August 2, 2017, to extend the termination date thereof to August 29, 2018. The employment agreement was restated on December 11, 2017 to extend the termination date thereof to August 28, 2019. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc. The Employment Agreement was unanimously approved by the Executive Compensation Committee (the “Committee”) of the Board as well as by the full Board. Effective August 1, 2018, the Company and Christopher J. Pappas agreed to reduce his fixed annual base salary to one dollar.

Peter Tropoli, a director of the Company served as the Company's Chief Operating Officer until October 22, 2018. On October 22, 2018, he was appointed as General Counsel and Secretary, which was a role he formerly served. He continues to serve as a director of the Company. He is an attorney and stepson of Frank Markantonis, who is a director of the Company.

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1, “Nature of Operations and Significant Accounting Policies,” to our Consolidated Financial Statements included in Item 8 of Part II of this report. The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. 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. Management believes the following are critical accounting policies due to the significant, subjective and complex judgments and estimates used when preparing our consolidated financial statements. Management regularly reviews these assumptions and estimates with the Finance and Audit Committee of our Board of Directors.

### Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management’s best estimate of current and future taxes to be paid. We are subject to income taxes in the United States and a limited number of foreign jurisdictions, involving franchised locations in South America, Mexico, Dominican Republic, Canada, Poland and Italy. Significant judgments and estimates are required in the determination of the consolidated income tax expense. On December 22, 2017, President Donald J. Trump signed into law U.S. tax reform legislation that is commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The enactment date occurred during the second quarter of fiscal 2018 and the impact on our income tax accounts of the Tax Act are accounted for in the period of enactment, in accordance with ASC 740. The Tax Act makes broad and complex changes to the U.S. tax code and most notably to the Company, the Tax Act lowered the federal statutory tax rate from 35% to 21% effective January 1, 2018. In accordance with the application of IRC Section 15, the Company's federal statutory tax rate for fiscal 2018 was 25 percent, representing a blended tax rate for the current fiscal year based on the number of days in the fiscal year before and after the effective date. For subsequent years, the Company's federal statutory tax rate is anticipated to be 21%. The Company was also required to remeasure its deferred tax assets and liabilities using the new federal statutory tax rate in the second quarter of fiscal year 2018, upon enactment of the Tax Act. At that time, the Company's net deferred tax asset balance was \$7.8 million, and the Tax Act reduction in the federal statutory tax rate resulted in a one-time non-cash reduction to the Company's net deferred tax balance of approximately \$3.2 million with a corresponding income tax provision increase in the second quarter of fiscal 2018. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future, as well as from tax Net Operating Losses (“NOL”) and tax credit carryovers. We establish a valuation allowance when we no longer consider it more likely than not that a deferred tax asset will be realized. In evaluating our ability to recover our deferred tax assets, we consider available positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies and existing business conditions, including amendment to our credit agreement(s) to avoid default and results of recent operations.

We evaluated new negative evidence during the third quarter of fiscal 2018, in connection with our response to a default in certain of the Company’s Credit Agreement financial covenants, a condition that raised substantial doubt as to the Company continuing as a going concern for a reasonable period of time. This circumstance and its added negative evidence, supported management’s conclusion that a full valuation allowance on the Company’s net deferred tax assets in the amount of \$25.3 million was necessary during the third quarter of fiscal 2018. Management's conclusion for a full valuation allowance reduces fully the Company’s net deferred tax balances, net of deferred tax liabilities, through and including the fiscal year ended August 29, 2018.

The composition of the Company’s deferred tax assets, excluding the offsetting impact of the valuation allowance, includes income tax NOL’s and tax credits of approximately \$16.5 million, approximately \$4.4 million relating to income tax NOL’s and \$12.1 million relating to tax credit carryover, which expire in varying amounts between fiscal 2022 through 2038. At this time, the management is uncertain as to the realization of these deferred tax assets, which is otherwise dependent on numerous factors, including our ability to generate sufficient taxable income prospectively,

and if necessary gain on sale of owned property locations, prior to expiration of the tax NOL's and tax credit carryovers.

Management makes judgments regarding the interpretation of tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. We operate within multiple taxing jurisdictions and are subject to examination in these tax jurisdictions, as well as by the Internal Revenue Service ("IRS"). In management's opinion, adequate provisions for income taxes have been made for all open income tax periods. The potential outcomes of examinations are regularly assessed in determining the adequacy of the provision for income taxes and income tax liabilities. Management believes that adequate provisions have been made for reasonable and foreseeable outcomes related to uncertain tax matters.

### Impairment of Long-Lived Assets

We periodically evaluate 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. We analyze historical cash flows of operating locations and compare results of poorer performing locations to more profitable locations. We also analyze lease terms, condition of the assets and related need for capital expenditures or repairs, construction activity in the surrounding area as well as the economic and market conditions in the surrounding area.

For assets held for use, we estimate 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 our location's assets, we record an impairment based on an estimate of discounted cash flows. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. Assumptions and estimates used include operating results, changes in working capital, discount rate, growth rate, anticipated net proceeds from disposition of the property and if applicable, lease terms. The span of time for which future cash flows are estimated is often lengthy, increasing the sensitivity to assumptions made. The time span is longer and could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. We consider the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows. We operated 142 restaurants as of November 7, 2018 and periodically experience unanticipated changes in our assumptions and estimates. Those changes could have a significant impact on discounted cash flow models with a corresponding significant impact on the measurement of an impairment. Gains are not recognized until the assets are disposed.

We evaluate the useful lives of our other intangible assets, primarily the Fuddruckers trademarks and franchise agreements to determine if they are definite or indefinite-lived. Reaching a determination of useful life requires significant judgments and assumptions regarding the future effects of obsolescence, contract term, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

We periodically evaluate our intangible assets, primarily the Fuddruckers trademarks and franchise agreements, to determine if events or changes in circumstances such as economic or market conditions indicate that the carrying amount of the assets may not be recoverable. We analyze historical cash flows of operating locations to determine trends that would indicate a need for impairment. We also analyze royalties and collectability from our franchisees to determine if there are trends that would indicate a need for impairment.

### Property Held for Sale

We periodically review long-lived assets against our plans to retain or ultimately dispose of properties. If we decide to dispose of a property, it will be moved to property held for sale and actively marketed. Property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. We analyze market conditions each reporting period and record 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 ours. Gains are not recognized until the properties are sold.

### Insurance and Claims

We self-insure a significant portion of risks and associated liabilities under our employee injury, workers' compensation and general liability programs. We maintain insurance coverage with third party carriers to limit our per-occurrence claim exposure. We have recorded accrued liabilities for self-insurance based upon analysis of historical data and actuarial estimates, and we review these amounts on a quarterly basis to ensure that the liability is appropriate.

The significant assumptions made by the actuary to estimate self-insurance reserves, including incurred but not reported claims, are as follows: (1) historical patterns of loss development will continue in the future as they have in the past (Loss Development Method), (2) historical trend patterns and loss cost levels will continue in the future as they have in the past (Bornhuetter-Ferguson Method), and (3) historical claim counts and exposures are used to calculate historical frequency rates and average claim costs are analyzed to get a projected severity (Frequency and Severity Method). The results of these methods are blended by the actuary to provide the reserves estimates.

Actual workers' compensation, employee injury and general liability claims expense may differ from estimated loss provisions. The ultimate level of claims under the in-house safety program are not known, and declines in incidence of claims as well as claims costs experiences or reductions in reserve requirements under the program may not continue in future periods.

Prior to January 1, 2018, employee health insurance coverage was offered through fully-insured contracts with insurance carriers and the liability for covered health claims was borne by the insurance carriers per the terms of each policy contract. Effective January 1, 2018, we maintain a self-insured health benefit plan which provides medical and prescription drug benefits to certain of our employees electing coverage under the plan. Our exposure is limited by individual and aggregate stop loss limits per 3<sup>rd</sup> party insurance carriers. Our self-insurance expense is accrued based upon the aggregate of the expected liability for reported claims and the estimated liability for claims incurred but not reported, based on historical claims experience provided by our 3<sup>rd</sup> party insurance advisors, adjusted as necessary based upon management's reasoned judgment. Actual employee medical claims expense may differ from estimated loss provisions based on historical experience. The liabilities for these claims are included as a component of Accrued expenses and other liabilities on our consolidated balance sheets.

#### SHARE-BASED COMPENSATION

Share-based compensation is recognized as compensation expense in the income statement utilizing the fair value on the date of the grant. The fair value of performance share based award liabilities are estimated based on a Monte Carlo simulation model. The fair value of restricted stock units is valued at the closing market price of our common stock at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions for volatility, forfeitures, expected option life, risk free interest rate, and dividend yield are used in the model.

#### NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 to the accompanying Consolidated Financial Statements for a discussion of recent accounting guidance adopted and not yet adopted. The adopted accounting guidance discussed in Note 1 did not have a significant impact on our consolidated financial position or results of operations. The Company either expects that the accounting guidance not yet adopted will not have a significant impact on the Company's consolidated financial position or results of operations or is currently evaluating the impact of adopting the accounting guidance.

#### 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk due to changes in interest rates affecting our variable-rate debt, Term Loan and borrowings under our 2016 Revolver. As of fiscal year-end 2018, the total amount of debt subject to interest rate fluctuations outstanding under our Revolver and Term Loan was approximately \$22.0 million. Assuming an average debt balance with interest rate exposure of approximately \$22.0 million, a 100 basis point increase in prevailing interest rates would increase our annual interest expense by approximately \$0.2 million. The interest rate on our remaining \$17.5 million in outstanding debt is fixed plus an applicable margin based on our CTLAL at each determination date, beginning December 14, 2016, under the terms of our interest rate swap agreement. Under the terms of our 2016 Credit Agreement, we are required to manage interest rate risk, utilizing interest rate swaps, on at least 50% of our 2016 Credit Agreement variable rate debt ("Term Loan"). Prior to November 8, 2016, we did not utilize any interest rate swaps to manage interest rate risk on our variable rate 2013 Credit Facility 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. Approximately 0.10%, 0.12%, and 0.14% of our total revenues in fiscal 2018, 2017, and 2016, respectively, were derived from sales to customers and royalties from franchisees outside the contiguous United States. All of this business is conducted in the local currency of the country 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 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Luby's, Inc.

We have audited the accompanying consolidated balance sheets of Luby's, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of August 29, 2018 and August 30, 2017, the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended August 29, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of August 29, 2018 and August 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended August 29, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of August 29, 2018, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated November 16, 2018 expressed an unqualified opinion.

Going concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company sustained a net loss of approximately \$33.6 million and net cash used in operating activities of approximately \$8.5 million. The Company's term and revolving debt of approximately \$39.5 million is due May 1, 2019. The Company was in default of certain debt covenants of its term and revolving credit agreements maturing on May 1, 2019. On August 24, 2018, the lenders agreed to waive the existing events of default resulting from any breach of certain financial covenants or the limitation on maintenance capital expenditures, in each case that may have occurred during the period from and including May 9, 2018 until August 24, 2018, and any related events of default. Additionally, the lenders agreed to waive the requirements that the Company comply with certain financial covenants until December 31, 2018, at which time the Company will be in default without an additional waiver or alternative financing. These conditions, along with other matters as set forth in Note 2 raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

Houston, Texas  
November 16, 2018

50

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Luby's, Inc.

We have audited the internal control over financial reporting of Luby's, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of August 29, 2018, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 29, 2018, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended August 29, 2018, and our report dated November 16, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Houston, Texas  
November 16, 2018



Luby's, Inc.  
Consolidated Balance Sheets

	August 29, 2018	August 30, 2017
	(In thousands, except share data)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$3,722	\$ 1,096
Trade accounts and other receivables, net	8,787	8,011
Food and supply inventories	4,022	4,453
Prepaid expenses	3,219	3,431
Total current assets	19,750	16,991
Property held for sale	19,469	3,372
Assets related to discontinued operations	1,813	2,755
Property and equipment, net	138,287	172,814
Intangible assets, net	18,179	19,640
Goodwill	555	1,068
Deferred income taxes	—	7,254
Other assets	1,936	2,563
Total assets	\$ 199,989	\$ 226,457
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 10,457	\$ 15,937
Liabilities related to discontinued operations	14	367
Current portion of credit facility debt	39,338	—
Accrued expenses and other liabilities	31,755	28,076
Total current liabilities	81,564	44,380
Credit facility debt, less current portion	—	30,698
Liabilities related to discontinued operations	16	16
Other liabilities	5,781	7,311
Total liabilities	87,361	82,405
Commitments and Contingencies		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.32 par value; 100,000,000 shares authorized; Shares issued were 30,003,642 and 29,624,083, respectively; Shares outstanding were 29,503,642 and 29,124,083, respectively	9,602	9,480
Paid-in capital	33,872	31,850
Retained earnings	73,929	107,497
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders' equity	112,628	144,052
Total liabilities and shareholders' equity	\$ 199,989	\$ 226,457

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

Luby's, Inc.  
Consolidated Statements of Operations

	Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands, except per share data)		
<b>SALES:</b>			
Restaurant sales	\$332,518	\$350,818	\$378,111
Culinary contract services	25,782	17,943	16,695
Franchise revenue	6,365	6,723	7,250
Vending revenue	531	547	583
<b>TOTAL SALES</b>	<b>365,196</b>	<b>376,031</b>	<b>402,639</b>
<b>COSTS AND EXPENSES:</b>			
Cost of food	94,238	98,714	106,980
Payroll and related costs	124,478	125,997	132,960
Other operating expenses	62,286	61,924	60,961
Occupancy costs	20,399	21,787	22,374
Opening costs	554	492	787
Cost of culinary contract services	24,161	15,774	14,955
Cost of franchise operations	1,528	1,733	1,877
Depreciation and amortization	17,453	20,438	21,889
Selling, general and administrative expenses	38,725	37,878	42,422
Provision for asset impairments and restaurant closings	8,917	10,567	1,442
Net Gain on disposition of property and equipment	(5,357 )	(1,804 )	(684 )
Total costs and expenses	387,382	393,500	405,963
<b>LOSS FROM OPERATIONS</b>	<b>(22,186 )</b>	<b>(17,469 )</b>	<b>(3,324 )</b>
Interest income	12	8	4
Interest expense	(3,348 )	(2,443 )	(2,247 )
Other income (expense), net	298	(454 )	186
Loss before income taxes and discontinued operations	(25,224 )	(20,358 )	(5,381 )
Provision for income taxes	7,730	2,438	4,875
Loss from continuing operations	(32,954 )	(22,796 )	(10,256 )
Loss from discontinued operations, net of income taxes	(614 )	(466 )	(90 )
<b>NET LOSS</b>	<b>\$(33,568 )</b>	<b>\$(23,262 )</b>	<b>\$(10,346 )</b>
Loss per share from continuing operations:			
Basic	\$(1.10 )	\$(0.77 )	\$(0.35 )
Assuming dilution	\$(1.10 )	\$(0.77 )	\$(0.35 )
Loss per share from discontinued operations:			
Basic	\$(0.02 )	\$(0.02 )	\$(0.00 )
Assuming dilution	\$(0.02 )	\$(0.02 )	\$(0.00 )
Net loss per share:			
Basic	\$(1.12 )	\$(0.79 )	\$(0.35 )
Assuming dilution	\$(1.12 )	\$(0.79 )	\$(0.35 )
Weighted-average shares outstanding:			
Basic	29,901	29,476	29,226
Assuming dilution	29,901	29,476	29,226

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

53

---

Luby's, Inc.  
 Consolidated Statements of Shareholders' Equity  
 (In thousands)

	Common Stock Issued		Treasury		Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balance at August 26, 2015	29,135	\$ 9,323	(500)	\$(4,775)	\$29,006	\$ 141,105	\$ 174,659
Net loss for the year	—	—	—	—	—	(10,346 )	(10,346 )
Common stock issued under nonemployee director benefit plans	60	19	—	—	(19 )	—	—
Common stock issued under employee benefit plans	177	57	—	—	25	—	82
Increase in excess tax benefits from share-based compensation	—	—	—	—	(119 )	—	(119 )
Share-based compensation expense	68	22	—	—	1,455	—	1,477
Balance at August 31, 2016	29,440	\$ 9,421	(500)	\$(4,775)	\$30,348	\$ 130,759	\$ 165,753
Net loss for the year	—	—	—	—	—	(23,262 )	(23,262 )
Common stock issued under nonemployee director benefit plans	83	26	—	—	(26 )	—	—
Common stock issued under employee benefit plans	7	2	—	—	(2 )	—	—
Share-based compensation expense	94	31	—	—	1,530	—	1,561
Balance at August 30, 2017	29,624	\$ 9,480	(500)	\$(4,775)	\$31,850	\$ 107,497	\$ 144,052
Net loss for the year	—	—	—	—	—	(33,568 )	(33,568 )
Common stock issued under nonemployee director benefit plans	87	28	—	—	(28 )	—	—
Common stock issued under employee benefit plans	183	59	—	—	(59 )	—	—
Share-based compensation expense	109	35	—	—	2,109	—	2,144
Balance at August 29, 2018	30,003	\$ 9,602	(500)	\$(4,775)	\$33,872	\$ 73,929	\$ 112,628

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

Luby's, Inc.  
Consolidated Statements of Cash Flows

	Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(33,568)	\$(23,262)	\$(10,346)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:			
Provision for asset impairments and net loss (gain) on property dispositions	3,619	8,762	734
Depreciation and amortization	17,453	20,438	21,906
Amortization of debt issuance cost	534	348	313
Share-based compensation expense	2,144	1,561	1,477
Excess tax deficit from share-based compensation	—	—	119
Deferred tax provision	8,192	2,792	4,707
Cash provided (used) in operating activities before changes in operating assets and liabilities	(1,626 )	10,639	18,910
Changes in operating assets and liabilities:			
Increase in trade accounts and other receivables	(775 )	(2,092 )	(744 )
Decrease (increase) in food and supply inventories	432	143	(616 )
Decrease in prepaid expenses and other assets	808	504	215
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(7,292 )	446	(3,906 )
Net cash provided (used) in operating activities	(8,453 )	9,640	13,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from disposal of assets and property held for sale	14,191	9,286	4,794
Insurance proceeds	2,070	—	—
Repayment of note receivable	—	—	17
Purchases of property and equipment	(13,247 )	(12,502 )	(18,253 )
Net cash provided (used) in investing activities	3,014	(3,216 )	(13,442 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Revolver borrowings	147,600	107,800	106,000
Revolver repayments	(132,000)	(140,400)	(106,500)
Debt issuance costs	(386 )	(652 )	(42 )
Proceeds on term loan	—	35,000	—
Term loan repayments	(7,079 )	(8,415 )	—
Excess tax deficit from share-based compensation	—	—	(119 )
Tax paid on equity withheld	(70 )	—	—
Proceeds received on the exercise of employee stock options	—	—	82
Net cash provided (used) in financing activities	8,065	(6,667 )	(579 )
Net increase (decrease) in cash and cash equivalents	2,626	(243 )	(162 )
Cash and cash equivalents at beginning of period	1,096	1,339	1,501
Cash and cash equivalents at end of period	\$3,722	\$1,096	\$1,339
Cash paid for:			
Income taxes	\$426	\$411	\$357
Interest	2,499	1,787	1,873

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



Luby's, Inc.  
Notes to Consolidated Financial Statements  
Fiscal Years 2018, 2017, and 2016

Note 1. Nature of Operations and Significant Accounting Policies

Nature of Operations

Luby's, Inc. is based in Houston, Texas. As of August 29, 2018, the Company owned and operated 146 restaurants, with 114 in Texas and the remainder in other states. In addition, the Company received royalties from 105 franchises as of August 29, 2018 located primarily throughout the United States. The Company's owned and franchised restaurant locations are convenient to shopping and business developments, as well as, to residential areas. Accordingly, the restaurants appeal to a variety of customers at breakfast, lunch, and dinner. Culinary Contract Services consists of contract arrangements to manage food services for clients operating in primarily four lines of business: healthcare; senior living; business; and venues.

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 consisting of two wholly owned, indirect corporate subsidiaries of the Company. On July 9, 2010, Luby's Restaurants Limited Partnership was converted into Luby's Fuddrucker's Restaurants, LLC, a Texas limited liability company ("LFR"). Unless the context indicates otherwise, the word "Company" as used herein includes Luby's, Inc., LFR, and the consolidated subsidiaries of Luby's, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reportable Segments

Each restaurant is an operating segment because operating results and cash flow can be determined for each restaurant which is regularly reviewed by the chief operating decision maker. The Company has three reportable segments: Company-owned restaurants, franchise operations, and Culinary Contract Services ("CCS"). Company-owned restaurants 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, and the nature of the regulatory environment are alike.

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. The Company's bank account balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 at each institution. However, balances in money market fund accounts are not insured. Amounts in transit 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.

Trade Accounts and Other Receivables, net

Receivables consist principally of amounts due from franchises, culinary contract service clients, catering customers and restaurant food sales to corporations. Receivables are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts

receivable. The Company determines the allowance based on historical loss experience for CCS clients, catering customers and restaurant sales to corporations and, for CCS receivables and franchise royalty and marketing and advertising receivables, the Company also considers the franchisees' and CCS clients' unsecured default status. The Company periodically reviews its allowance for doubtful accounts. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

#### Inventories

Food and supply inventories are stated at the lower of cost (first-in, first-out) or net realizable value.

### 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 and actively marketed. Property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. Depreciation on assets moved to property held for sale is discontinued and gains are not recognized until the properties are sold.

### 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 cash flow results and other market conditions as indicators of impairment.

### Debt Issuance Costs

Debt issuance costs include costs incurred in connection with the arrangement of long-term financing agreements. The debt issuance costs associated with the Term Loan are presented on the Balance Sheet as a direct deduction from long-term debt. The debt issue costs associated with the Revolver are presented on the Balance Sheet as an asset. These costs are amortized using the effective interest method over the respective term of the debt to which they specifically relate.

### Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts and other receivables, accounts payable and accrued expenses approximates fair value based on the short-term nature of these accounts. The carrying value of credit facility debt also approximates fair value based on its recent renewal.

### Self-Insurance Accrued Expenses

The Company self-insures a significant portion of expected losses under its workers' compensation, employee 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 settlement practices.

Effective January 1, 2018, we maintain a self-insured health benefit plan which provides medical and prescription drug benefits to certain of our employees electing coverage under the plan. Our exposure is limited by individual and aggregate stop loss limits per 3rd party insurance carriers. We record expenses under the plan based on estimates of the costs of expected claims, administrative costs and stop-loss insurance premiums. Our self-insurance expense is accrued based upon the aggregate of the expected liability for reported claims and the estimated liability for claims incurred but not reported, based on historical claims experience provided by our 3rd party insurance advisors, adjusted as necessary based upon management's reasoned judgment. Actual employee medical claims expense may differ from estimated loss provisions based on historical experience.

### Revenue Recognition

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

Revenue from culinary contract services is recognized when services are provided and reimbursable costs are incurred within contractual terms.

Revenue from franchise royalties is recognized each fiscal period based on contractual royalty rates applied to the franchise's restaurant sales each fiscal period. Royalties are accrued as earned and are calculated each period based on the franchisee's reported sales. Area development fees and franchise fees are recognized as revenue when the Company has performed all material obligations and initial services. Area development fees are recognized proportionately with the opening of each new restaurant, which generally occurs upon the opening of the new restaurant. Until earned, these fees are accounted for as an accrued liability.

#### Cost of CCS

The cost of CCS includes all food, payroll and related expenses, other operating expenses, and selling, general and administrative expenses related to culinary contract service sales. All depreciation and amortization, property disposal, and asset impairment expenses associated with CCS are reported within those respective lines as applicable.

#### Cost of Franchise Operations

The cost of franchise operations includes all food, payroll and related expenses, other operating expenses, and selling, general and administrative expenses related to franchise operations sales. All depreciation and amortization, property disposal, and asset impairment expenses associated with franchise operations are reported within those respective lines as applicable.

#### Marketing and Advertising Expenses

Marketing and advertising costs are expensed as incurred. Total advertising expense included in other operating expenses and selling, general and administrative expense was \$4.1 million, \$5.7 million, and \$6.3 million in fiscal 2018, 2017, and 2016, respectively. We record advertising attributable to local store marketing and local community involvement efforts in other operating expenses; we record advertising attributable to our brand identity, our promotional offers, and our other marketing messages intended to drive guest awareness of our brands, in selling, general, and administrative expenses. We believe this separation of our marketing and advertising costs assists with measurement of the profitability of individual restaurant locations by associating only the local store marketing efforts with the operations of each restaurant.

Marketing and advertising expense included in other operating expenses attributable to local store marketing was \$0.6 million, \$0.6 million, and \$0.7 million in fiscal 2018, 2017, and 2016, respectively.

Marketing and advertising expense included in selling, general and administrative expense was \$3.5 million, \$5.1 million, and \$5.6 million in fiscal 2018, 2017, and 2016, respectively.

#### Depreciation and Amortization

Property and equipment are recorded at cost. The Company depreciates the cost of equipment over its estimated useful life using the straight-line method. Leasehold improvements are amortized over the lesser of their estimated useful lives or the related lease terms. Depreciation of buildings is provided on a straight-line basis over the estimated useful lives.

#### Opening Costs

Opening costs are expenditures related to the opening of new restaurants through its opening periods, other than those for capital assets. Such costs are charged to expense when incurred.

#### Operating Leases

The Company leases restaurant and administrative facilities and administrative equipment under operating leases. Building lease agreements generally include rent holidays, rent escalation clauses and contingent rent provisions for a percentage of sales in excess of specified levels. Contingent rental expenses are recognized prior to the achievement of a specified target, provided that the achievement of the target is considered probable. Most of the Company's lease

agreements include renewal periods at the Company's option. The Company recognizes rent holiday periods and scheduled rent increases on a straight-line basis over the lease term beginning with the date the Company takes possession of the leased space.

#### Income Taxes

The estimated future income tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carrybacks and carryforwards are recorded. 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. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not a portion or all of the deferred tax asset will not be recognized. During fiscal 2018, management concluded to increase their valuation allowance to reduce fully the Company's net deferred tax asset balances, net of deferred tax liabilities, including through the fiscal year ended August 29, 2018.

Management makes judgments regarding the interpretation of tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions as well as by the Internal Revenue Service (“IRS”). In management’s opinion, adequate provisions for income taxes have been made for all open tax years. The potential outcomes of examinations are regularly assessed in determining the adequacy of the provision for income taxes and income tax liabilities. Management believes that adequate provisions have been made for reasonably possible outcomes related to uncertain tax matters.

#### Sales Taxes

The Company presents sales taxes on a net basis (excluded from revenue).

#### Discontinued Operations

Management evaluates unit closures for presentation in discontinued operations following guidance from ASC 205-20-55. To qualify for presentation as a discontinued operation, management determines if the closure or exit of a business location or activity meets the following conditions: (1) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (2) there will not be any significant continuing involvement in the operations of the component after the disposal transaction. To evaluate whether these conditions are met, management considers whether the cash flows lost will not be recovered and generated by the ongoing entity, the level of guest traffic and sales transfer, the significance of the number of locations closed and expectancy of cash flow replacement by sales from new and existing locations, as well as the level of continuing involvement in the disposed operation. Operating and non-operating results of these locations are then classified and reported as discontinued operations of all periods presented. As of fiscal 2016, management evaluates unit closures for presentation in discontinued operations following guidance from ASU 2014-08. Beginning in fiscal 2016, in accordance with ASU No. 2014-08, the Company will only report the disposal of a component or a group of components of the Company in discontinued operations if the disposal of the components or group of components represents a strategic shift that has or will have a major effect on the Company’s operations and financial results. Adoption of this standard did not have a material impact on our consolidated financial statements.

#### Share-Based Compensation

Share-based compensation expense is estimated for equity awards at fair value at the grant date. The Company determines fair value of restricted stock awards based on the average of the high and low price of its common stock on the date awarded by the Board of Directors. The Company determines the fair value of stock option awards using a Black-Scholes option pricing model. The Black-Scholes option pricing model requires various judgmental assumptions including the expected dividend yield, stock price volatility, and the expected life of the award. If any of the assumptions used in the model change significantly, share-based compensation expense may differ materially in the future, from that recorded in the current period. The fair value of performance share based award liabilities are estimated based on a Monte Carlo simulation model. For further discussion, see Note 16, “Share-Based Compensation,” below.

#### Earnings Per Share

Basic income per share is computed by dividing net income by the weighted-average number of shares outstanding, including restricted stock units, during each period presented. 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.

#### 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 2016 was such a year. Each of the first three quarters of each fiscal year, prior to fiscal 2016, consisted of three four-week periods, while the fourth quarter normally consists of four four-week periods.

Beginning in fiscal 2016, we changed our fiscal quarter ending dates with the first fiscal quarter end was extended by one accounting period and the fiscal fourth quarter was 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 was such a year where the fourth quarter included 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.

#### Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

#### Correction of Immaterial Errors in Previously Issued Financial Statements

In the third quarter of fiscal 2018, management identified an accounting error in Trade accounts and other receivables, net that overstated Culinary Contract Services (CCS) segment revenues by approximately \$1.0 million, in the aggregate, through the second fiscal quarter of 2018. Of the \$1.0 million aggregate error, \$0.1 million related to fiscal 2017 and \$0.9 million related to the first and second quarters of fiscal 2018.

The error resulted from a duplication in the general ledger of certain sales with our CCS segment. While this error was not material to any previously issued annual or quarterly interim consolidated financial statements, management concluded that correcting the cumulative error and related tax effects would be material to the Company's consolidated financial statements for the fiscal quarter ended June 6, 2018.

Accordingly, the Company revised its consolidated financial statements for the quarters ended December 20, 2017 and March 14, 2018, to correct these errors. The prior period error corrections did not change the cash flows provided by or used in operating, investing, or financing activities previously reported.

#### Recently Adopted Accounting Pronouncements

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 Company adopted ASU 2014-15 in the quarter ended December 20, 2017. The provisions of ASU 2014-15 present that the Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations and obtain alternative financing to refund and repay the current debt owed under its Credit Agreement. Current conditions raise substantial doubt about the Company's ability to continue as a going concern. See Note 2. Management's Assessment of Going Concern for further discussion on the impact to the Company.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330). This update requires inventory within the scope of the standard to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted ASU 2015-11 in the quarter

ended December 20, 2017. The provisions of ASU 2015-11 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. The Company adopted ASU 2015-17 in the quarter ended December 20, 2017. The provisions of ASU 2015-17 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

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. The Company adopted ASU 2016-09 in the quarter ended December 20, 2017. The provisions of ASU 2016-09 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

New Accounting Pronouncements - "to be Adopted"

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a single, comprehensive 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.

During 2015, 2016, and 2017, the FASB issued various amendments which provide additional clarification and implementation guidance on ASU 2014-09 (collectively, with ASU 2014-09, "ASC 606"). Specifically, these amendments clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, clarify how an entity should identify performance obligations and licensing implementation guidance, as well as account for shipping and handling fees and freight service, assess collectability, present sales tax, treat non-cash consideration, and account for completed and modified contracts at the time of transition. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition.

The effective date and transition requirements for ASC 606 is for fiscal years, and for interim periods within those years, beginning after December 15, 2017. The guidance allows for either a full retrospective or modified retrospective transition method. We will adopt this guidance effective with the first quarter of fiscal year 2019, which is the first fiscal quarter of the annual reporting period beginning after December 15, 2017. We will apply the modified retrospective transition method, which involves recording a cumulative adjustment for the impact of transitioning to the new guidance on the transition date and disclosing in the year of adoption the amount by which each financial statement line item was affected by applying ASC 606 and an explanation of significant changes. We will use the practical expedient to apply ASC 606 only to contracts not completed by the beginning of fiscal year 2019 (the date of the initial application of ASC 606 and amendments).

We do not expect the adoption of ASC 606 to have an impact on its recognition of revenues from Company owned stores (except for recognition of breakage on gift card sales discussed below), revenues from our culinary contract services, vending revenue or ongoing franchise royalty fees, which are based on a percentage of franchise sales. We expect the adoption of ASC 606 will require us to recognize initial and renewal franchise and development fees on a straight-line basis over the term of the franchise agreement, which is usually 20 years. Historically, we have recognized revenue from initial franchise and development fees upon the opening of a franchised restaurant when we have completed all our material obligations and initial services. We do not expect this change to have a material impact on our franchise revenues. The cumulative effect adjustment to be recorded to retained earnings upon adoption is expected to consist of an increase in current accrued expenses and other liabilities of approximately \$0.6 million associated with the fees received through the end of fiscal year 2018 that would have been deferred and recognized over the term of each respective franchise agreement if the new guidance had been applied in the past. This liability will be recognized as revenue in future periods over the remaining term of the respective franchise agreements. ASC 606 will also change our reporting of marketing and advertising fund ("MAF") contributions from franchisees and the related marketing and advertising expenditures. Under the current guidance, we do not reflect MAF contributions from franchisees and MAF expenditures in our statements of operations. Although the gross amounts of our revenues and expenses will be impacted by the recognition of franchisee MAF fund contributions and related expenditures of MAF funds we manage, increases to gross revenues and expenses will not result in a material net impact to our

statement of operations.

Additionally, ASC 606 requires gift card breakage to be recognized as revenue in proportion to the pattern of gift card redemptions exercised by our customers. Currently, we record breakage income within other (expense) income (and not within revenue) when it is deemed remote that the unused gift card balance will be redeemed. We do not expect this change to have a material impact on our Company owned store revenues. The cumulative effect adjustment to be recorded to retained earnings upon adoption is expected to consist of a reduction to current accrued expenses and other liabilities within a range of approximately \$2.0 million to \$3.1 million associated with the adjustment to unearned gift card revenue if the new guidance had been applied in the past.

We are further evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). In January and July 2018, The FASB issued ASC 2018-01, 2018-10 and 2018-11, which were targeted improvements to ASU 2016-02 (collectively, with ASC 2016-02, “ASC 842”) and provided entities with an additional (and optional) transition method to adopt the new leases standard. ASC 842 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, and requires a modified retrospective transition approach with application in all comparative periods presented (the “comparative method”), or alternatively, as of the effective date as the date of initial application without restating comparative period financial statements (the “effective date method”). The new guidance also provides several practical expedients and policies that companies may elect under either transition method. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on our consolidated balance sheet. The Company is continuing its assessment of the impact of adoption, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures and has not yet determined the method of adoption.

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

#### Subsequent Events

Events subsequent to the Company’s fiscal year ended August 29, 2018 through the date of issuance of the financial statements are evaluated to determine if the nature and significance of the events warrant inclusion in the Company’s consolidated financial statements.

Note 2. Management's Assessment of Going Concern

The Company sustained a net loss of approximately \$33.6 million and cash flow from operations was a use of cash of approximately \$8.5 million in fiscal 2018. The working capital deficit is magnified by the reclassification of the Company's approximate \$39.5 million debt under its Credit Agreement (as defined below) from long-term to short-term due to the debt's May 1, 2019 maturity date. Pursuant to the Third Amendment, the lenders agreed to waive the existing events of default as of the effective date of the Third Amendment resulting from any breach of certain financial covenants or the limitation on maintenance capital expenditures, in each case that may have occurred during the period from and including May 9, 2018 until the effective date of the Third Amendment, and any related events of default. Additionally, the lenders agreed to waive the requirements that the Company comply with certain financial covenants until December 31, 2018, at which time the Company will be in default without an additional waiver or alternative financing.

The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations and its ability to obtain alternative financing to refund and repay the current debt owed under its Credit Agreement. The above conditions raise substantial doubt about the Company's ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern; however, the above condition raises substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Management has assessed the Company's ability to continue as a going concern as of the balance sheet date, and for at least one year beyond the financial statement issuance date. The assessment of a company's ability to meet its obligations is inherently judgmental. Without additional funding and the sale of assets, the Company may not have sufficient available cash to meet its obligations coming due in the ordinary course of business within one year of the financial statement issuance date. Although the Company has historically been able to successfully secure funding and execute alternative cash management plans to meet its obligations as they become due, there are no assurances that the Company will complete its refinancing. The following conditions were considered in management's evaluation of going concern:

The Company announced on September 14, 2018 that it expects proceeds from the asset sales program initiated in April 2018 and expanded in July 2018 to be between \$25.0 million and \$45.0 million. The sales of eight owned properties were completed as of August 29, 2018 with proceeds received totaling \$11.6 million. As noted below, these proceeds were and proceeds from future sales will be used to make prepayments on the Company's outstanding term loan and revolver under the 2016 Credit Agreement.

On August 24, 2018, the Company entered into the Third Amendment of the 2016 Credit Agreement with the lenders and other counterparties, as further discussed in Note 12. Debt. Pursuant to this Third Amendment:

the lenders agreed to waive the existing conditions of default through the date of the Third Amendment, the lenders agreed to waive the requirement to comply with certain financial covenants until December 31, 2018, the Company is required to make partial mandatory prepayments from the proceeds of certain asset dispositions from and after the effective date of the Third Amendment, and

The Company has engaged a third-party financial advisor to assist management in pursuing financing transactions per conditions set forth in the debt waiver.

Note 3. Hurricane Harvey

Hurricane Harvey struck the Texas Gulf Coast on August 26, 2017. It meandered along the upper Texas coast for several days bringing unprecedented rain fall resulting in torrential flooding throughout the Greater Houston area. Over 55 Luby's and Fuddrucker's locations in the Texas Gulf Coast region were temporarily closed over varying lengths of time due to the storm. Restaurant sales were negatively impacted by approximately 200 operating days in

the aggregate. Two Fuddruckers locations, in the Houston region, were closed on a more than temporary basis, due to extensive flooding which required reconstruction and renovation. The Company estimates that it incurred over approximately \$2.0 million in lost sales from the store closures in fiscal 2017. The Company estimates that Loss before income taxes and discontinued operations was negatively impacted by approximately \$1.5 million in fiscal 2017 due to the reduced sales and increased costs incurred as a result of the hurricane. In fiscal 2018, the Company additionally incurred an approximate \$0.7 million in direct costs for repairs and other costs related to the hurricane. As of August 29, 2018, the Company has recovered approximately \$2.1 million in insurance proceeds, which includes 1) approximately \$0.5 million, in business interruption recovery that was recognized to Other operating expenses, 2) approximately \$0.3 million that was recognized as a reduction to Other operating expenses as reimbursement of certain direct

expenses incurred due to the storm and 3) approximately \$1.3 million that was recognized, less the net book value of property and equipment, as Net gain on disposition of property and equipment.

#### Note 4. Reportable Segments

The Company has three reportable segments: Company-owned restaurants, franchise operations and Culinary Contract Services.

##### Company-owned restaurants

Company-owned restaurants consists of several brands which are aggregated into one reportable segment because of the nature of the products and services, the production processes, the customers, the methods used to distribute the products and services, the nature of the regulatory environment, and store level profit margin are similar. The chief operating decision maker analyzes Company-owned restaurant store level profit which is defined as restaurant sales and vending revenue, less cost of food, payroll and related costs, other operating expenses, and occupancy costs. The primary brands are Luby's Cafeteria, Fuddruckers - World's Greatest Hamburgers®, and Cheeseburger in Paradise. 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 at the end of fiscal 2018, 2017, and 2016 were 146, 167, and 175, respectively.

##### Culinary Contract Services

CCS, branded as Luby's Culinary Contract Services, consists of a business line servicing healthcare, sport stadiums, corporate dining clients, and sales through retail grocery stores. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service, and retail dining. CCS had contracts with long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, retail grocery stores, behavioral hospitals, a senior living facility, sports stadiums, government, 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 includes all food, payroll and related costs, other operating expenses, and other direct general and administrative expenses related to CCS sales. The total number of CCS contracts at the end of fiscal 2018, 2017, and 2016 were 28, 25, and 24, respectively.

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

##### Franchise Operations

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

Franchisees bear all direct costs involved in the development, construction, and operation of their restaurants. In exchange for a franchise fee, the Company provides 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 standards evaluation reports.

The number of franchised restaurants at the end of fiscal 2018, 2017, and 2016 were 105, 113, and 113, respectively.

Segment Table

The table on the following page shows financial information as required by ASC 280 for segment reporting. ASC 280 requires depreciation and amortization be disclosed for each reportable segment, even if not used by the chief operating decision maker. The table also lists total assets for each reportable segment. Corporate assets include cash and cash equivalents, tax refunds receivable, property and equipment, assets related to discontinued operations, property held for sale, deferred tax assets, and prepaid expenses.

65

---

Edgar Filing: LUBYS INC - Form 10-K

	Fiscal Year Ended		
	August	August	August
	29, 2018	30, 2017	31, 2016
	(In thousands)		
Sales:			
Company-owned restaurants <sup>(1)</sup>	\$333,049	\$351,365	\$378,694
Culinary contract services	25,782	17,943	16,695
Franchise operations	6,365	6,723	7,250
Total	\$365,196	\$376,031	\$402,639
Segment level profit:			
Company-owned restaurants	\$31,648	\$42,943	\$55,419
Culinary contract services	1,621	2,169	1,740
Franchise operations	4,837	4,990	5,373
Total	\$38,106	\$50,102	\$62,532
Depreciation and amortization:			
Company-owned restaurants	\$14,741	\$16,948	\$18,181
Culinary contract services	71	64	103
Franchise operations	769	770	784
Corporate	1,872	2,656	2,821
Total	\$17,453	\$20,438	\$21,889
Total assets:			
Company-owned restaurants <sup>(2)</sup>	\$151,511	\$189,990	\$211,182
Culinary contract services	4,569	3,342	3,390
Franchise operations <sup>(3)</sup>	10,982	11,325	12,266
Corporate	32,927	21,800	25,387
Total	\$199,989	\$226,457	\$252,225
Capital expenditures:			
Company-owned restaurants	\$11,109	\$11,374	\$17,258
Culinary contract services	235	3	28
Corporate	1,903	1,125	967
Total	\$13,247	\$12,502	\$18,253
Loss before income taxes and discontinued operations:			
Segment level profit	\$38,106	\$50,102	\$62,532
Opening costs	(554)	(492)	(787)
Depreciation and amortization	(17,453)	(20,438)	(21,889)
Selling, general and administrative expenses	(38,725)	(37,878)	(42,422)
Provision for asset impairments and restaurant closings	(8,917)	(10,567)	(1,442)
Net gain on disposition of property and equipment	5,357	1,804	684
Interest income	12	8	4
Interest expense	(3,348)	(2,443)	(2,247)
Other income (expense), net	298	(454)	186
Total	\$(25,224)	\$(20,358)	\$(5,381)

(1) Includes vending revenue of \$531 thousand, \$547 thousand, and \$583 thousand for the years ended August 29, 2018, August 30, 2017, and August 31, 2016, respectively.

(2) Company-owned restaurants segment includes \$8.4 million of Fuddruckers trade name, Cheeseburger in Paradise liquor licenses, and Jimmy Buffett intangibles.

(3) Franchise operations segment includes approximately \$9.9 million in royalty intangibles.



Note 5. Derivative Financial Instruments

The Company enters into derivative instruments, from time to time, to manage its exposure to changes in interest rates on a percentage of its long-term variable rate debt. On December 14, 2016, the Company entered into an interest rate swap, pay fixed - receive floating, with a constant notional amount of \$17.5 million. The fixed rate we pay is 1.965% and the variable rate we receive is one-month LIBOR. The term of the interest rate swap is 5 years. The Company does not apply hedge accounting treatment to this derivative; therefore, changes in fair value of the instrument are recognized in Other income (expense), net. The changes in the interest rate swap fair value resulted in income of approximately \$701 thousand and an expense of approximately \$266 thousand in fiscal 2018 and 2017, respectively.

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

Note 6. Fair Value Measurement

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

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

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

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

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

Recurring fair value measurements related to assets are presented below:

Fiscal Year Ended August 29, 2018	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Method
Recurring Fair Value - Assets	(In thousands)			

Continuing Operations:

Derivative - Interest Rate Swap<sup>(1)</sup> \$ 435    \$ - \$ 435    \$                    —Discounted Cash Flow

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

Recurring fair value measurements related to liabilities are presented below:

Fiscal Year Ended August 29, 2018	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Method
-----------------------------------	--------------------------------------------------	--------------------------------------------------	----------------------------------------------	------------------

Recurring Fair Value - Liabilities

(In thousands)

Continuing Operations:

TSR Performance Based Incentive Plan <sup>(1)</sup>	\$ 21	\$ —	\$ 21	\$ —	—Monte Carlo Approach
-----------------------------------------------------	-------	------	-------	------	-----------------------

(1) The fair value of the Company's 2017 Performance Based Incentive Plan liabilities was approximately \$21 thousand. See Note 16 to the Company's consolidated financial statements in Part II, Item 8 in this Form 10-K for further discussion of Performance Based Incentive Plan.

Fiscal Year Ended August 30, 2017	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Method
-----------------------------------	--------------------------------------------------	--------------------------------------------------	----------------------------------------------	------------------

Recurring Fair Value - Liabilities

(In thousands)

Continuing Operations:

TSR Performance Based Incentive Plan <sup>(1)</sup>	\$ 831	\$ —	\$ 831	\$ —	—Monte Carlo Approach
-----------------------------------------------------	--------	------	--------	------	-----------------------

Derivative - Interest Rate Swap <sup>(2)</sup>	\$ 266	\$ —	\$ 266	\$ —	—Discounted Cash Flow
------------------------------------------------	--------	------	--------	------	-----------------------

(1) The fair value of the Company's 2015, 2016 and 2017 Performance Based Incentive Plan liabilities were approximately \$496 thousand \$265 thousand, and \$70 thousand, respectively. See Note 16 to the Company's consolidated financial statements in Part II, Item 8 in this Form 10-K for further discussion of Performance Based Incentive Plan.

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

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

Nonrecurring Fair Value Measurements	Fiscal Year Ended August 29, 2018	Fair Value Measurement Using			Total Impairments <sup>(4)</sup>
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Continuing Operations:					
Property and equipment related to Company-owned restaurants <sup>(1)</sup>	\$ 1,519	\$—	—\$ 1,519	\$ (4,052)	)
Goodwill <sup>(2)</sup>	—	—	—	(513)	)
Property held for sale <sup>(3)</sup>	5,132	—	5,132	(3,062)	)
Total Nonrecurring Fair Value Measurements	\$ 6,651	\$—	—\$ 6,651	\$ (7,627)	)

(1) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of approximately \$5.6 million were written down to their fair value of approximately \$1.5 million, resulting in an impairment charge of approximately \$4.1 million.

(2) In accordance with Subtopic 350-20, goodwill with a carrying amount of approximately \$513 thousand was written down to its implied fair value of zero, resulting in an impairment charge of approximately \$513 thousand. See Note 9 and Note 13 to the Company's consolidated financial statements in this Form 10-K for further discussion of goodwill.

(3) In accordance with Subtopic 360-10, long-lived assets held for sale with carrying values of approximately \$12.9 million were written down to their fair value, less costs to sell, of approximately \$5.1 million, resulting in an impairment charge of approximately \$3.1 million. Proceeds on the sale of six properties previously recorded in Property held for sale amounted to approximately \$4.7 million.

(4) Total impairments are included in Provision for asset impairments and restaurant closings in the Company's Consolidated Statement of Operations for the fiscal year ended 2018.

Nonrecurring Fair Value Measurements	Fiscal Year Ended August 30, 2017	Fair Value Measurement Using			Total Impairments <sup>(4)</sup>
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	

## Continuing Operations:

Property and equipment related to Company-owned restaurants <sup>(1)</sup>	\$5,519	\$—	—\$ 5,519	\$ (8,571	)
Goodwill <sup>(2)</sup>	—	—	—	(537	)
Property held for sale <sup>(3)</sup>	3,372	—	3,372	(977	)
Total Nonrecurring Fair Value Measurements	\$8,891	\$—	—\$ 8,891	\$ (10,085	)

(1) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of approximately \$14.1 million were written down to their fair value of approximately \$5.5 million, resulting in an impairment charge of approximately \$8.6 million.

(2) In accordance with Subtopic 350-20, goodwill with a carrying amount of approximately \$537 thousand was written down to its implied fair value of zero, resulting in an impairment charge of approximately \$537 thousand. See Note 9 and Note 13 to the Company's consolidated financial statements in this Form 10-K for further discussion of goodwill.

(3) In accordance with Subtopic 360-10, long-lived assets held for sale with carrying values of approximately \$5.5 million were written down to their fair value, less cost to sell, of approximately \$3.4 million, resulting in an impairment charge of approximately \$1.0 million. Proceeds on the sale of one property previously recorded in Property held for sale amounted to approximately \$1.2 million.

(4) Total impairments are included in Provision for asset impairments and restaurant closings in the Company's Consolidated Statement of Operations for the fiscal year ended 2018.

## Note 7. Trade Receivables and Other

Trade and other receivables, net, consist of the following:

	August 29, 2018	August 30, 2017
	(In thousands)	
Trade and other receivables	\$6,697	\$ 5,966
Franchise royalties and marketing and advertising receivables	764	687
Unbilled revenue	1,557	1,633
Allowance for doubtful accounts	(231 )	(275 )
Total Trade accounts and other receivables, net	\$8,787	\$ 8,011

CCS receivable balance at August 29, 2018 was \$6.7 million, primarily the result of 12 contracts with balances of approximately \$0.1 million to approximately \$3.6 million per contract entity. These 12 collectively represented approximately 67% of the Company's total accounts receivables. Contract payment terms for its CCS customers' receivables are due within 30 to 45 days. Unbilled revenue, was approximately \$1.6 million at August 29, 2018 and approximately \$1.6 million at August 30, 2017. CCS contracts are billed on a calendar month end basis and represent the total balance of Unbilled revenue.

The Company recorded receivables related to Fuddrucker's franchise operations royalty and marketing and advertising payments from the franchisees, as required by their franchise agreements. Franchise royalty and marketing and advertising fund receivables balance at August 29, 2018 was approximately \$0.8 million. At August 29, 2018, the Company had 105 operating franchise restaurants with no concentration of accounts receivable.

The change in allowances for doubtful accounts for each of the years in the three-year periods ended as of the dates below is as follows:

	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands)		
Beginning balance	\$275	\$ 81	\$ 555
Provisions (reversal) for doubtful accounts	464	200	(18 )
Write-offs <sup>(1)(2)</sup>	(508 )	(6 )	(456 )
Ending balance	\$231	\$ 275	\$ 81

(1) The approximate \$0.5 million Balance Sheet write-off in fiscal 2018 primarily resulted from uncollectable receivables at seven Culinary Contract Services accounts reserved in fiscal years 2015 through and including 2018.

(2) The approximate \$0.5 million Balance Sheet write-off in fiscal 2016 resulted from uncollectable receivables at three Culinary Contract Services accounts reserved for in fiscal 2011, 2012, and 2013.

## Note 8. Income Taxes

The following table details the categories of total income tax assets and liabilities for both continuing and discontinued operations resulting from the cumulative tax effects of temporary differences:

	August 29,	August 30,
	2018	2017
	(In thousands)	
Deferred income tax assets:		
Workers' compensation, employee injury, and general liability claims	\$507	\$ 486
Deferred compensation	280	437
Net operating losses	4,401	2,140
General business and foreign tax credits	12,105	11,599
Depreciation, amortization and impairments	6,796	7,515
Straight-line rent, dining cards, accruals, and other	2,917	4,392
Subtotal	27,006	26,569
Valuation allowance	(25,873)	(16,871)
Total deferred income tax assets	1,133	9,698
Deferred income tax liabilities:		
Property taxes and other	1,133	1,916
Total deferred income tax liabilities	1,133	1,916
Net deferred income tax asset	\$—	\$ 7,782

On December 22, 2017, President Donald J. Trump signed into law U.S. tax reform legislation that is commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The enactment date occurred during the second quarter of fiscal 2018 and the impact on our income tax accounts of the Tax Act are accounted for in the period of enactment, in accordance with ASC 740. The Tax Act makes broad and complex changes to the U.S. tax code and most notably to the Company, the Tax Act lowered the federal statutory tax rate from 35% to 21% effective January 1, 2018. In accordance with the application of IRC Section 15, the Company's federal statutory tax rate for fiscal 2018 was 25%, representing a blended tax rate for the current fiscal year based on the number of days in the fiscal year before and after the effective date. For subsequent years, the Company's federal statutory tax rate is anticipated to be 21%. The Company was also required to remeasure its deferred tax assets and liabilities using the new federal statutory tax rate in the second quarter of fiscal 2018, upon enactment of the Tax Act. At that time, the Company's deferred tax balance was \$7.8 million, and the Tax Act reduction in the federal statutory tax rate resulted in a one-time non-cash reduction to the Company's net deferred tax balance of approximately \$3.2 million with a corresponding increase to the provision for income taxes in the second quarter of fiscal 2018.

The effects of the Tax Act on the Company's income tax accounts were reflected in the fiscal 2018 financial statements as determined or as reasonably estimated provisional amounts based on available information, subject to interpretation in accordance with the SEC's Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 provides guidance on accounting for the effects of the Tax Act where such determinations are incomplete; however, the Company was able to determine a provisional estimate of the effects of the Tax Act on its income tax accounts. The Company currently considers the deferred tax assets not to be realizable and maintains a full valuation allowance against the Company's net deferred tax asset balance at August 29, 2018. The most significant deferred tax asset prior to valuation allowance is the Company's general business tax credits carryovers to future years of approximately \$11.6 million. This item may be carried forward up to twenty years for possible utilization in the future. The carryover of general business tax credits, beginning in fiscal 2002, will begin to expire at the end of fiscal 2022 through 2038, if not utilized by then.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future, as well as from tax net operating losses and tax credit carryovers. We establish a valuation allowance when we no longer consider it more likely than not that a deferred tax asset will be realized. In evaluating our ability to recover our deferred tax assets, we consider available positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies and existing business conditions, including amendment to our credit agreement(s) to avoid default and results of recent operations.

We evaluated new negative evidence during the third quarter of fiscal 2018, in connection with our response to a default in certain of the Company's Credit Agreement financial covenants, a condition that raised substantial doubt as to the Company continuing as a going concern for a reasonable period of time. This circumstance and its added negative evidence, supported management's conclusion that a full valuation allowance on the Company's net deferred tax assets in the amount of \$25.3 million was necessary during the third quarter of fiscal 2018. Management's conclusion for a full valuation allowance reduces fully the Company's net deferred tax balances, net of deferred tax liabilities, through and including the fiscal year ended August 29, 2018.

An analysis of the provision for income taxes for continuing operations is as follows:

	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands)		
Current federal and state income tax expense	\$405	\$ 329	\$ 128
Current foreign income tax expense	71	84	82
Deferred income tax expense	7,254	2,025	4,665
Provision for income taxes	\$7,730	\$ 2,438	\$ 4,875

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

	Fiscal Year Ended					
	August 29, 2018		August 30, 2017		August 31, 2016	
	Amount	%	Amount	%	Amount	%
	(In thousands and as a percent of pretax loss from continuing operations)					
Income tax benefit from continuing operations at the federal rate	\$ (6,405)	25.4 %	\$ (6,922)	34.0 %	\$ (1,830)	34.0 %
Permanent and other differences:						
Federal jobs tax credits (wage deductions)	129	(0.5 )	200	(1.0 )	226	(4.2 )
Stock options and restricted stock	67	(0.3 )	129	(0.6 )	165	(3.1 )
Other permanent differences	41	(0.2 )	62	(0.3 )	74	(1.4 )
State income tax, net of federal benefit	145	(0.6 )	(45 )	0.2	94	(1.7 )
General Business Tax Credits	(506 )	2.0	(589 )	2.9	(665 )	12.4
Impact of U.S. Tax Reform	3,167	(12.6)	—	—	—	—
Other	487	(1.8 )	84	(0.4 )	(94 )	1.7
Change in valuation allowance	10,605	(42.0)	9,519	(46.8)	6,905	(128.3)
Provision for income taxes from continuing operations	\$7,730	(30.6)%	\$2,438	(12.0)%	\$4,875	(90.6 )%

For the fiscal year ended August 29, 2018, including both continuing and discontinued operations, the Company is estimated to report a federal taxable loss of approximately \$14.2 million.

For the fiscal year ended August 30, 2017, including both continuing and discontinued operations, the Company generated federal taxable loss of approximately \$3.0 million.

For the fiscal year ended August 31, 2016, including both continuing and discontinued operations, the Company generated federal taxable income of approximately \$3.1 million.

Our income tax filings are periodically examined by various federal and state jurisdictions. The State of Louisiana is currently examining tax returns for fiscal 2014 and 2015.

There were no payments of federal income taxes in fiscal 2016, 2017 or 2018. The Company has income tax filing requirements in over 30 states. State income tax payments were approximately \$0.4 million, \$0.4 million, and \$0.4 million in fiscal 2018, 2017, and 2016, respectively.

The following table is a reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of fiscal 2016, 2017 and 2018 (in thousands):

Balance as of August 26, 2015	\$63
Decrease based on prior year tax positions	(18 )
Interest Expense	—
Balance as of August 31, 2016	\$45
Decrease based on prior year tax positions	(20 )
Interest Expense	—
Balance as of August 30, 2017	\$25
Decrease based on prior year tax positions	—
Interest Expense	—
Balance as of August 29, 2018	\$25

The unrecognized tax benefits would favorably affect the Company's effective tax rate in future periods if they are recognized. There is no interest associated with unrecognized benefits as of August 29, 2018. The Company has included interest or penalties related to income tax matters as part of income tax expense.

It is reasonably possible that the amount of unrecognized tax benefits with respect to our uncertain tax positions could significantly increase or decrease within 12 months. However, based on the current status of examinations, it is not possible to estimate the future impact, if any, to recorded uncertain tax positions as of August 29, 2018.

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 9. Property and Equipment, Intangible Assets and Goodwill

The cost, net of impairment, and accumulated depreciation of property and equipment at August 29, 2018 and August 30, 2017, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	August 29, 2018	August 30, 2017	Estimated Useful Lives (years)
	(In thousands)		
Land	\$46,817	\$60,414	—
Restaurant equipment and furnishings	69,678	73,411	3 to 15
Buildings	131,557	153,041	20 to 33
Leasehold and leasehold improvements	27,172	26,953	Lesser of lease term or estimated useful life
Office furniture and equipment	3,596	3,684	3 to 10
Construction in progress	—	35	—
	278,820	317,538	
Less accumulated depreciation and amortization	(140,533 )	(144,724 )	

Edgar Filing: LUBYS INC - Form 10-K

Property and equipment, net	\$138,287	\$172,814		
Intangible assets, net	\$18,179	\$19,640	15 to	21
Goodwill	\$555	\$1,068		

73

---

Depreciation expense for the fiscal years 2018, 2017, and 2016 was \$16.1 million, \$19.0 million, and \$20.5 million, respectively.

Intangible assets, net, consist primarily 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, July 2010, 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 2012.

The aggregate amortization expense related to intangible assets subject to amortization for fiscal 2018, 2017, and 2016 was approximately \$1.4 million, \$1.4 million, and \$1.4 million, respectively. The aggregate amortization expense related to intangible assets subject to amortization is expected to be approximately \$1.4 million in each of the next five successive years.

The following table presents intangible assets as of August 29, 2018 and August 30, 2017:

	August 29, 2018 (In thousands)			August 30, 2017 (In thousands)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets Subject to Amortization:						
Fuddruckers trade name and franchise agreements	\$29,486	\$ (11,350 )	\$ 18,136	\$29,486	\$ (9,943 )	\$ 19,543
Cheeseburger in Paradise trade name and license agreements	\$421	\$ (378 )	\$ 43	\$421	\$ (324 )	\$ 97
Intangible assets, net	\$29,907	\$ (11,728 )	\$ 18,179	\$29,907	\$ (10,267 )	\$ 19,640

Goodwill, net of accumulated impairments of approximately \$1.6 million and \$1.1 million in fiscal 2018 and 2017, respectively, was approximately \$0.6 million as of August 29, 2018 and \$1.1 million as of August 30, 2017 and relates to our Company-owned restaurants reportable segment. Goodwill has been allocated to and impairment is assessed at the reporting unit level, which is the individual restaurants within our Fuddruckers and Cheeseburger in Paradise brands that were acquired in fiscal 2010 and fiscal 2013, respectively. The net Goodwill balance at the end of fiscal 2018 is comprised of amounts assigned to the one Cheeseburger in Paradise restaurant that is still operated by us, two Cheeseburger in Paradise restaurants that were converted to Fuddruckers restaurants, and the goodwill from the Fuddruckers acquisition in 2010. The Company performs a goodwill impairment test annually as of the end of the second quarter of each year and more frequently when negative conditions or a triggering event arise. Management prepares valuations for each of its restaurants using a discounted cash flow analysis (Level 3 inputs) to determine the fair value of each reporting unit for comparison with the reporting unit's carrying value in determining if there has been an impairment of goodwill at the reporting unit level.

The Company recorded goodwill impairment charges of approximately \$513 thousand, \$537 thousand, and \$38 thousand in fiscal 2018, 2017, and 2016, respectively.

Note 10. Current Accrued Expenses and Other Liabilities

The following table sets forth current accrued expenses and other liabilities as of August 29, 2018 and August 30, 2017:

74

---

Edgar Filing: LUBYS INC - Form 10-K

	August 29, 2018	August 30, 2017
	(In thousands)	
Salaries, compensated absences, incentives, and bonuses <sup>(1)</sup>	\$6,073	\$ 5,339
Operating expenses	1,068	1,041
Unredeemed gift cards	7,213	7,298
Taxes, other than income	9,247	9,423
Accrued claims and insurance	2,958	1,505
Income taxes, legal and other <sup>(2)</sup>	5,196	3,470
Total	\$31,755	\$ 28,076

(1) Salaries, compensated absences, incentives, and bonuses include the award value of the 2015 Performance Based Incentive Plan liability in the amount of \$496 thousand at August 30, 2017.

(2) Income taxes, legal and other includes accrued lease termination costs. See Note 13 to our consolidated financial statements in Part II, Item 8 in this Form 10-K for further discussion of lease termination costs.

Note 11. Other Long-Term Liabilities

The following table sets forth other long-term liabilities as of August 29, 2018 and August 30, 2017:

	August 29, 2018	August 30, 2017
	(In thousands)	
Workers' compensation and general liability insurance reserve	\$1,002	\$ 923
Capital leases	137	109
Deferred rent and unfavorable leases	4,380	5,297
Deferred compensation <sup>(1)</sup>	106	426
Fair value derivative - Interest Rate Swap	—	266
Other	156	290
Total	\$5,781	\$ 7,311

(1) Deferred compensation includes 2017 Performance Based Incentive Plan liabilities in the amount of approximately \$21 thousand at August 29, 2018 and 2016 and 2017 Performance Based Incentive Plan liabilities in the amount of approximately \$266 thousand and approximately \$70 thousand, respectively, at August 30, 2017.

Note 12. Debt

The following table summarizes credit facility debt, less current portion at August 29, 2018 and August 30, 2017.

	August 29, 2018	August 30, 2017
	(In thousands)	
Long-Term Debt		
2016 Credit Agreement - Revolver	20,000	0
2016 Credit Agreement - Term Loan	19,506	585
Total credit facility debt	39,506	585
Less unamortized debt issue costs	(168,287)	)
Total credit facility debt, less unamortized debt issuance costs	39,338	698
Current portion of credit facility debt	39,338	
Total Credit facility debt, less current portion	\$—	\$ 30,698



### Senior Secured Credit Agreement

On November 8, 2016, the Company entered into a \$65.0 million Senior Secured Credit Facility with Wells Fargo Bank, National Association, as Administrative Agent and Cadence Bank, NA and Texas Capital Bank, NA, as lenders ("2016 Credit Agreement"). The 2016 Credit Agreement, prior to the amendments discussed below, is comprised of a \$30.0 million 5-year Revolver (the "Revolver") and a \$35.0 million 5-year Term Loan (the "Term Loan"). The maturity date of the 2016 Credit Agreement is November 8, 2021. For this section of the form 10-K, capitalized terms that are used but not otherwise defined shall have the meanings give to such terms in the 2016 Credit Agreement.

The Term Loan and/or Revolver commitments may be increased by up to an additional \$10.0 million in the aggregate. The 2016 Credit Agreement also provides for the issuance of letters of credit in an aggregate amount equal to the lesser of \$5.0 million and the Revolving Credit Commitment, which was \$30.0 million as of November 8, 2016. The 2016 Credit Agreement is guaranteed by all of the Company's present subsidiaries and will be guaranteed by the Company's future subsidiaries.

At any time throughout the term of the 2016 Credit Agreement, the Company has the option to elect one of two bases of interest rates. One interest rate option is the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) 30-day LIBOR plus 1.00%, plus, in each case, the Applicable Margin, which ranges from 1.50% to 2.50% per annum. The other interest rate option is LIBOR plus the Applicable Margin, which ranges from 2.50% to 3.50% per annum. The Applicable margin under each option is dependent upon the Company's Consolidated Total Lease Adjusted Leverage Ratio ("CTLAL") at the most recent quarterly determination date.

The Term Loan amortizes 7.00% per year (35% in 5 years) which includes the quarterly payment of principal. On December 14, 2016, The Company entered into an interest rate swap with a notional amount of \$17.5 million, representing 50% of the initial outstanding Term Loan.

The Company is 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 0.35% per annum depending on the CTLAL at the most recent quarterly determination date.

The proceeds of the 2016 Credit Agreement are available for the Company to (i) pay in full all indebtedness outstanding under the 2013 Credit Agreement as of November 8, 2016, (ii) pay fees, commissions, and expenses in connection with the Company's repayment of the 2013 Credit Agreement, initial extensions of credit under the 2016 Credit Agreement, and (iii) for working capital and general corporate purposes of the Company.

The 2016 Credit Agreement, as amended, contains the following covenants among others:

• CTLAL of not more than (i) 5.00 to 1.00 at all times through and including the third fiscal quarter of the Borrower's fiscal 2018, and (ii) 4.75 to 1.00 at all times thereafter,

• Consolidated Fixed Charge Coverage Ratio of not less than 1.25 to 1.00, at the end of each fiscal quarter,

• Limit on Growth Capital Expenditures so long as the CTLAL is at least 0.25x less than the then-applicable permitted maximum CTLAL,

• restrictions on mergers, acquisitions, consolidations and asset sales,

• restrictions on the payment of dividends, redemption of stock and other distributions,

• restrictions on incurring indebtedness, including certain guarantees and capital lease obligations,

• 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 2016 Credit Agreement is secured by substantially all of the Company's personal property, including without limitation the equity interest in each subsidiary of the Company. The 2016 Credit Agreement also includes customary events of default. If a default occurs and is continuing, the lenders' commitments under the 2016 Credit Agreement may be immediately terminated and/or the Company may be required to repay all amounts outstanding under the 2016

Credit Agreement.

76

---

#### Second Amendment to 2016 Credit Agreement

On April 20, 2018, the Company entered into the Second Amendment to the 2016 Credit Agreement, effective as of March 14, 2018 (as amended, the "Credit Agreement"). The amendment accelerates the maturity date of the Credit Agreement to May 1, 2019, approximately 9 months after the balance sheet date, August 29, 2018. The amendment included the following changes:

Aggregate commitments under the senior secured revolving credit facility ("Revolver") were reduced from \$30.0 million to \$27.0 million beginning August 29, 2018.

Changed the maturity date of the Revolver and Term Loan to May 1, 2019.

Reduced the letter of credit sub-limit from \$5.0 million to \$2.0 million.

Interest rate on LIBOR Rate Loans (LIBOR + Applicable Margin) changed to the following:

LIBOR + 4.50% April 20, 2018 - June 30, 2018

LIBOR + 4.75% July 1, 2018 - September 30, 2018

LIBOR + 5.00% October 1, 2018 - December 31, 2018

LIBOR + 5.25% January 1, 2019 - March 31, 2019

LIBOR + 5.50% April 1, 2019 - Maturity Date

Interest rate margin on Base Rate Loans changed to the following:

100 basis points less than the Applicable Margin for LIBOR Rate Loans

Maximum Consolidated Total Lease-Adjusted Leverage Ratio ("CTLAL") is changed to 6.50 to 1.00 at March 14, 2018; 6.75 to 1.00 at June 6, 2018 and August 29, 2018; and 6.50 to 1.00 at each measurement period in fiscal 2019.

Minimum Consolidated EBITDA covenant required at \$7.0 million (thirteen consecutive accounting periods) tested monthly, prior to the second fiscal quarter fiscal 2019 and \$7.5 million for each fiscal quarter thereafter (consisting of thirteen consecutive accounting periods).

Minimum liquidity covenant requiring for at least \$2.0 million in liquidity at all times.

Maximum annual maintenance capital expenditures not to exceed \$9.6 million for the fiscal year ending August 29, 2018 and \$8.5 million in fiscal 2019.

Within 30 days of the date of amendment, a senior security interest in and lien on any of the Company's real estate properties identified by the Administrative Agent and loan to value ratio of 0.50 to 1.00 on collateral real estate.

Excess liquidity provision requiring any consolidated cash balances of the Borrower and its Subsidiaries in excess of \$1.0 million, as reported in the 13-week cash flow reports, used to repay Revolving Credit Loans.

Management has identified approximately 14 owned properties inclusive of assets currently classified as Assets related to discontinued operations and Property held for sale on the Company's Balance Sheet, as of June 6, 2018, as part of a limited asset disposal plan to accelerate repayment of its outstanding term loans. The Board approved the limited asset sales plan on April 18, 2018. The Company estimates that such additional limited asset sales plan will be implemented over the course of the next 18 months. These asset disposal plans, in conjunction with other operational changes, are designed to lower the outstanding debt and to improve the Company's financial condition as the Company pursues a new credit facility.

As of March 14, 2018, the Company would not have been in compliance with the Company's Lease Adjusted Leverage Ratio and Fixed Charge Coverage Ratio covenants of the Credit Agreement prior to the Second Amendment thereto, which became effective on March 14, 2018. At any determination date, if the results of the Company's covenants exceed the maximums or minimums permitted under its 2016 Credit Agreement, the Company would be considered in default under the terms of the agreement which could cause a substantial financial burden by requiring the Company to repay the debt earlier than otherwise anticipated. Due to negative results in the first three quarters of fiscal 2018, continued under performance in the current fiscal year could cause the Company's financial ratios to exceed the permitted limits under the terms of the Credit Agreement.

#### Third Amendment to 2016 Credit Agreement

On August 24, 2018, the Company entered into the Third Amendment to Credit Agreement (the "Third Amendment") amending the Credit Agreement dated as of November 8, 2016, as amended by the Second Amendment to Credit

Agreement dated as of April 20, 2018 (together, with the Third Amendment, the “Credit Agreement”), by and among the Company, the other credit parties party thereto, the lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent for the lenders (the “Administrative Agent”).

The Third Amendment amended the interest rate on LIBOR rate loans (LIBOR + applicable margin) to (i) LIBOR + 6.50% from the effective date of the Third Amendment through the date the term loan has been paid in full in cash and (ii) LIBOR + 5.50% from the date following the date the term loan has been paid in full in cash and thereafter. The interest rate on base rate loans is 100 basis points less than the applicable margin for LIBOR rate loans.

Pursuant to the Third Amendment, the lenders agreed to waive the existing events of default as of the effective date of the Third Amendment resulting from any breach of certain financial covenants or the limitation on maintenance capital expenditures, in each case that may have occurred during the period from and including May 9, 2018 until the effective date of the Third Amendment, and any related events of default. Additionally, the lenders agreed to waive the requirements that the Company comply with certain financial covenants until December 31, 2018, at which time the Company will be in default without an additional waiver or alternative financing.

The Third Amendment requires the Company to make mandatory principal prepayments upon certain asset dispositions as follows: (i) 50% of the first \$12.0 million of net cash proceeds from asset dispositions received by the Company; (ii) 75% of the next \$8.0 million of net cash proceeds from asset dispositions received by the Company; and (iii) 100% of all net cash proceeds in excess of the first \$20.0 million of net cash proceeds from asset dispositions received by the Company, in each case from and after the effective date of the Third Amendment.

Additionally, the Company agreed to grant liens on additional properties of the Company to secure borrowings under the Credit Agreement.

At August 29, 2018, the Company had approximately \$8.5 million available to borrow under the Revolver in the 2016 Credit Agreement.

As of August 29, 2018, under the 2016 Credit Agreement, the Company had \$39.5 million in total outstanding loans and approximately \$1.3 million committed under letters of credit, which is used as security for the payment of insurance obligations, and approximately \$0.2 million in other indebtedness.

2013 Credit Agreement

We were party to a revolving credit agreement with Wells Fargo Bank, National Association, as Administrative Agent, and ZB, N.A. dba Amegy Bank (formerly Amegy Bank, N.A.), as Syndication Agent (the "2013 Credit Facility"). The 2013 Credit Facility matured and was refunded on November 8, 2016, through the entering of the 2016 Credit Agreement, and there were no amounts outstanding under the 2013 Credit Facility at August 30, 2017.

#### Interest Expense

Total interest expense incurred for fiscal 2018, 2017, and 2016 was approximately \$3.3 million, \$2.4 million, and \$2.2 million, respectively. Interest paid was approximately \$2.5 million, \$1.8 million, and \$1.9 million in fiscal 2018, 2017, and 2016, respectively. No interest expense was allocated to discontinued operations in fiscal 2018, 2017, or 2016. No interest was capitalized on properties in fiscal 2018, 2017, or 2016.

#### Note 13. Impairment of Long-Lived Assets, Store Closings, 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 is longer and could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. The Company considers the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows.

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

	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands, except per share data)		
Provision for asset impairments and restaurant closings	\$8,917	\$10,567	\$1,442
Net gain on disposition of property and equipment	(5,357 )	(1,804 )	(684 )
Total	\$3,560	\$8,763	\$758
Effect on EPS:			
Basic	\$(0.12 )	\$(0.29 )	\$(0.03 )
Assuming dilution	\$(0.12 )	\$(0.29 )	\$(0.03 )

The approximate \$8.9 million impairment charge in fiscal 2018 is primarily related to assets impaired at 21 property locations, goodwill at three property locations, ten properties held for sale written down to their fair value, and a reserve for 15 restaurant closings of approximately \$1.3 million.

The approximate \$5.4 million net gain on disposition of property and equipment in fiscal 2018 is primarily related to the gain on the sale of ten properties of approximately \$4.9 million, and approximately \$1.3 million of insurance proceeds received for property and equipment damaged by Hurricane Harvey, partially offset by asset retirements at eight restaurant location closures.

The approximate \$10.6 million impairment charge in fiscal 2017 is primarily related to assets impaired at 17 property locations, goodwill at six property location, five properties held for sale written down to their fair value, and a reserve for ten restaurant closings of approximately \$482 thousand.

The approximate \$1.8 million net gain on disposition of property and equipment in fiscal 2017 is primarily related to the gain on the sale of six properties of approximately \$2.4 million partially offset by routine asset retirements.

The approximate \$1.4 million impairment charge in fiscal 2016 is primarily related to four property locations, goodwill at one property location, and a reserve for four restaurant closings of approximately \$202 thousand.

The approximate \$0.7 million net gain on disposition of property and equipment in fiscal 2016 is primarily related to the gain on the sale of two properties of approximately \$1.0 million partially offset by routine asset retirements.

#### 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 five or more units to be closed or converted to Fuddrucker's restaurants. As of August 29, 2018, no locations remain classified as discontinued operations in this plan.

As a result of the first quarter fiscal 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 August 29, 2018, one location remains held for sale.

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

79

---

Edgar Filing: LUBYS INC - Form 10-K

	August 29, 2018	August 30, 2017
	(In thousands)	
Property and equipment	\$1,813	\$ 1,872
Deferred tax assets	—	883
Assets related to discontinued operations—non-current	\$1,813	\$ 2,755
Deferred income taxes	\$—	\$ 354
Accrued expenses and other liabilities	14	13
Liabilities related to discontinued operations—current	\$ 14	\$ 367
Other liabilities	\$ 16	\$ 16
Liabilities related to discontinued operations—non-current	\$ 16	\$ 16

As of August 29, 2018, under both closure plans, the Company had one property classified as discontinued operations. The asset carrying value of the owned property was approximately \$1.8 million and is included in assets related to discontinued operations. The Company is actively marketing this property for sale and has one property with a ground lease previously impaired to zero.

The following table sets forth the sales and pretax losses reported for all discontinued locations:

	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands, except locations)		
Sales	\$—	\$ —	\$ —
Pretax loss	\$(80 )	\$( 28 )	\$( 136 )
Income tax benefit on discontinued operations	\$(534)	\$( 438 )	\$ 46
Loss on discontinued operations	\$(614)	\$( 466 )	\$( 90 )
Discontinued locations closed during the period	0	0	0

The following table summarizes discontinued operations for fiscal 2018, 2017, and 2016:

	Fiscal Year Ended		
	August 29, 2018	August 30, 2017	August 31, 2016
	(In thousands, except per share data)		
Discontinued operating losses	\$(21 )	\$( 28 )	\$( 161 )
Impairments	(59 )	—	—
Gains	—	—	25
Net loss	\$(80 )	\$( 28 )	\$( 136 )
Income tax benefit (expense) from discontinued operations	(534 )	(438 )	46
Loss from discontinued operations, net of income taxes	\$(614 )	\$( 466 )	\$( 90 )
Effect on EPS from discontinued operations—decrease—basic	\$(0.02)	\$( 0.02 )	\$( 0.00 )

Within discontinued operations, the Company offsets gains from applicable property disposals against total impairments. The amounts in the table described as “Other” include 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.

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 to two years. Within

80

---

discontinued operations, the Company also recorded the related fiscal year-to-date net operating results, employee terminations and basic 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 reclassified to property held for sale and actively marketed. 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. The Company actively markets all locations classified as property held for sale.

At August 29, 2018, the Company had 15 owned properties recorded at approximately \$19.5 million in property held for sale. The pretax profit (loss) for the disposal group of locations operating in fiscal 2018, 2017, and 2016 was approximately \$(1.2) million, \$1.3 million, and \$2.2 million, respectively.

At August 30, 2017, the Company had four owned properties recorded at approximately \$3.4 million in property held for sale.

The Company's results of continuing operations will be affected to the extent proceeds from sales exceed or are less than net book value.

A roll forward of property held for sale for fiscal 2018, 2017, and 2016 is provided below (in thousands):

Balance as of August 26, 2015	\$4,536
Disposals	(1,488 )
Net transfers to property held for sale	2,937
Adjustment to fair value	\$(463 )
Balance as of August 31, 2016	\$5,522
Disposals	(1,173 )
Net transfers to property held for sale	0