LUBYS INC
Form 10-K
November 14, 2011

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 31, 2011

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

For the Transition Period From to

Commission file number 001-08308

Luby s, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**74-1335253**
(State or other jurisdiction of incorporation or organization)	***(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

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 x

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 x

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 x 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. x

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 x
Non-accelerated filer ¨	Smaller reporting company ¨

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

The aggregate market value of the shares of common stock of the registrant held by nonaffiliates of the registrant as of February 8, 2011, was approximately $104,997,000 (based upon the assumption that directors and executive officers are the only affiliates).

As of November 9, 2011, there were 28,165,005 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 2012 annual meeting of shareholders (in Part III)

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Luby s, Inc.

Form 10-K

Year ended August 31, 2011

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Additional Information

We file reports with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet site at *http://www.sec.gov* that contains the reports, proxy and information statements, and other information that we file electronically. Our website address is *www.lubys.com*. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website 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 25, 2010. We expect to submit the CEO certification with respect to our fiscal year ended August 31, 2011 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.

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FORWARD-LOOKING STATEMENTS

This Annual Report on 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 Cash Flow Improvement and Capital Redeployment Plan;
- 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 2009 Credit Facility.

In some cases, investors can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend outlook, may should, will, and would or similar words. Forward-looking statements are based on certain assumptions and analyses made by management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although management believes that 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 health care benefit regulation;

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- 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 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. (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, then changed its name in 1981 to Luby s Cafeterias, Inc. and joined the New York Stock Exchange 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 corporate subsidiaries. On July 9, 2010, Luby s Restaurants Limited Partnership was converted into Luby s Fuddruckers Restaurants, LLC, a Texas limited liability company (LFR). All restaurant operations are conducted by LFR. In this report, unless otherwise specified, Luby s, we, our, us and our company r
Luby s, Inc., LFR and the consolidated subsidiaries of Luby s, Inc.

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 of 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 3 Koo Koo Roo Chicken Bistro (Koo Koo Roo) locations with franchisees currently operating an additional 130 locations.

Luby s, Inc. is a multi-branded company operating in the restaurant industry and the contract food services industry. Our primary brands include Luby s Cafeteria, Luby s Culinary Contract Services, and Fuddruckers. Also included in our brands are Luby s, Etc. and Koo Koo Roo Chicken Bistro.

As of November 9, 2011, we operated 155 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 155 restaurants, 81 are located on property that we own and 74 are on leased premises.

	Total
Texas:	
Houston Metro	46
Dallas/Fort Worth Metro	13
San Antonio Metro	19
Rio Grande Valley	11
Austin	10
Other Texas Markets	15
Arizona	5
California	12
Georgia	3
Illinois	5
Maryland	3
Virginia	3
Other States	10
Total	155

As of November 9, 2011, we operated culinary contract services at 21 locations; 15 in the Houston, Texas area, 3 in Louisiana, 2 in Denton, Texas and 1 in Austin, Texas. Luby s Culinary Services provides food service management to healthcare, educational and corporate dining facilities.

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As of November 9, 2011, we had 60 franchisees operating 121 Fuddruckers restaurants, of which 116 are located in 30 states, 1 in Canada and 4 in Puerto Rico.

	Fuddruckers Franchises
Texas:	
Houston Metro	1
Dallas/Fort Worth Metro	9
Other Texas Markets	18
California	9
Florida	5
Georgia	3
Idaho	2
Louisiana	3
Maryland	2
Massachusetts	5
Michigan	6
Missouri	3
Montana	6
Nebraska	1
Nevada	3
New Jersey	5
New Mexico	3
North Carolina	2
Oregon	2
Pennsylvania	5
South Carolina	8
South Dakota	2
Tennessee	3
Virginia	3
Wisconsin	2
Other States	5
Canada	1
Puerto Rico	4
Total	121

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

We are headquartered in Houston, Texas, our largest restaurant market. 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.lubys.com.

Luby s Cafeteria

Operations

Luby s Cafeteria provides its customers with made-from-scratch quality food, value pricing, service and hospitality. Our cafeteria-style restaurants feature a unique concept format in today s family and casual dining segment of restaurant companies. The cafeteria food delivery system allows customers to select freshly prepared items from the 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 20 entrées, 12 to 14 vegetable dishes, 8 to 10 salads, and 10 to 12 varieties of desserts daily. Food is prepared in small quantities throughout serving hours, and frequent quality checks are conducted.

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Luby s Cafeteria s product offerings are home-style classic 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. Our restaurants are generally open for lunch and dinner seven days a week and all of our restaurants sell food-to-go orders, which accounted for 14.1% of restaurant sales in fiscal year 2011.

Food is prepared fresh daily at our restaurants. 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. Our philosophy is to grant authority to restaurant managers to direct the daily operations of their stores and, in turn, to compensate them on the basis of their performance. We believe this strategy is a significant factor contributing to the profitability of our restaurants.

Each general manager is supervised by an area leader. Each area leader is responsible for approximately 7 to 10 units, depending on location.

Quality control teams also help maintain uniform standards of food preparation, safety and sanitation. The teams visit each restaurant as necessary and work with the staff to confirm adherence to our recipes, train personnel in new techniques, and implement systems and procedures used universally throughout our company.

During fiscal year 2011, we spent approximately 0.6% of restaurant sales on marketing with particular emphasis on local restaurant promotions and outdoor billboards. We operate from a centralized purchasing arrangement to obtain the economic benefit of bulk purchasing and lower prices for most of our menu offerings. The arrangement involves a competitively selected prime vendor for each of our three major purchasing regions.

The number of Luby s Cafeterias was 96 in fiscal years 2010 and 2011.

New Luby s Prototype Restaurant

In August 2007, we introduced our new restaurant prototype design, with the opening of our first new store in over seven years, located in Cypress, Texas, a suburb north of Houston. This new prototype capitalizes on our core fundamentals of serving great food made-from-scratch and a convenient delivery system. In fiscal year 2008, we opened three new units employing this prototype design. Although we opened no new prototype units in fiscal years 2009, 2010 and 2011, we anticipate using and further modifying this prototype design as we execute our strategy to build new restaurants in markets where we believe we can achieve superior restaurant cash flows. One location was relocated into a new restaurant building directly across from its current location as a result of the landlord s renovation plans.

Fuddruckers

Fuddruckers was founded upon the idea that guests deserve and crave a better burger experience. Fatigued by fast food quality, guests gravitated to Fuddruckers better burger concept.

To prove its commitment to serving not just better burgers, but the World s Greatest Hamburgers, Fuddruckers designed an open kitchen where guests could see burgers freshly prepared from scratch all day. Central to the brand was the notion that nobody builds a better burger than you so Fuddruckers pioneered the Build Your Own burger concept.

Fuddruckers serves fresh, 100% All-American premium-cut ready for oven beef. Vegetarian-fed through a combination of open grass grazing and grain, Fuddruckers beef is bred for taste on ranches only in the U.S.A. No fillers or artificial ingredients are ever added to Fuddruckers beef and only the freshest cuts of beef with optimal marbling make the cut at Fuddruckers. Fuddruckers scratch-baked buns are made fresh all day in each restaurant s bakery.

Guests take it from there at Fuddruckers Build Your Own market fresh produce bar where they pile it high with their choice of fresh veggies and signature Fuddruckers condiments.

While Fuddruckers signature burger accounts for approximately 47.0% of Fuddruckers restaurant sales, its menu also includes all-natural, free-range Fudds Exotics burgers, such as buffalo, fresh rib eye steak sandwiches, various grilled and breaded chicken breast sandwiches, hot dogs, a variety of tossed and specially prepared salads and soups, fish sandwiches, wedge-cut French fries, onion rings, soft drinks, handmade milkshakes, and bakery items. Beer and wine are served and, generally, account for less than 2% of restaurant sales.

Fuddruckers restaurants continue to feature casual, welcoming dining areas where Americana themed décor hang upon the walls.

Fuddruckers emphasizes simplicity in its operations. Restaurants generally have a total staff of one general manager, two or three assistant managers and 25 to 45 other associates, including full-time and part-time associates working in overlapping shifts. Since Fuddruckers generally utilizes a self-service concept, similar to quick casual, it typically does not employ waiters or waitresses.

Fuddruckers restaurant operations are currently divided into two regions, each supervised by an Area Vice President. The two regions are divided into a total of eight areas, each supervised by an Area Leader. On average, each Area Leader supervises seven restaurants.

We opened one Fuddruckers unit and acquired one unit from a franchisee, resulting in a fiscal 2011 year end count of 58 Fuddruckers restaurants and 3 Koo Koo Roo restaurants.

Franchising

Fuddruckers offers franchises in markets where it deems expansion to be advantageous to the development of the Fuddruckers concept and system of restaurants. The franchise agreements, after considering renewal periods, have an estimated term of 21 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. As the new franchisor of Fuddruckers, Luby s management will be 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 its training program by a minimum of three managers for each franchised restaurant. In addition, franchised restaurants are evaluated regularly by us 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 reduced from 130 at fiscal year end 2010 to 122 at fiscal year end 2011.

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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 and we take steps to protect our intellectual property.

Culinary Contract Services

Our culinary contract services operation (CCS), branded as Luby s Culinary Services, consists of a business line servicing healthcare, higher education and corporate dining clients. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service and retail dining. As of November 9, 2011, we had contracts with 5 long-term acute care hospitals, 5 acute care medical centers, 2 ambulatory surgical centers, 2 behavioral hospitals, 4 business and industry clients, and 3 higher education institutions. 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. We anticipate allocating capital expenditures as needed to further develop our CCS business in fiscal year 2012.

Employees

As of November 9, 2011, we had a workforce of 7,348 employees consisting of restaurant management employees, non-management restaurants 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 Annual Report on Form 10-K, before deciding whether to purchase 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.

General economic factors may adversely affect our results of operations.

The protracted economic slowdown experienced in the United States beginning in fiscal year 2008 has continued through fiscal year 2011. Disposable consumer income and consumer confidence continues to be adversely affected. As a result of the deteriorating business and economic conditions affecting our customers, we have experienced reduced customer traffic and have lowered our menu prices, which has lowered our profit margins and adversely affected our results of operations. A further slowdown in the economy or other economic conditions affecting disposable consumer income, such as unemployment levels, inflation, fuel and other energy costs, and interest rates, may adversely affect our business by reducing overall consumer spending or by causing customers to shift their spending to our competitors, which could result in a further reduction in customer traffic and lowered menu prices leading to a further reduction in revenues and a reduction in our margins. Due to economic conditions, in October 2009 we adopted a Cash Flow Improvement and Capital Redeployment Plan which included closing 24 under performing stores in the first quarter of fiscal year 2010. Continued difficulties in the U.S. economy could require us to close additional restaurants in the future.

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The impact of inflation on food, labor and other aspects of our business also can negatively 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 do so, which could negatively affect our results of operations.

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

As of August 31, 2011, we had shareholders equity of approximately $165.0 million compared to approximately:

- $21.5 million of long-term debt;
- $70.2 million of minimum operating lease commitments; and
- $1.2 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 for assets held for sale.

We realized positive cash flows from operating activities of $4.8 million in fiscal year 2009, $9.3 million in fiscal year 2010 and $16.5 million in fiscal year 2011. We may in the future incur negative cash flows. Our future cash flows from operating activities will be influenced by general economic conditions and by financial, business and other factors affecting our operations, many of which are beyond our control, and some of which are specified below. 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 equity securities;
- sell assets; or
- restructure or refinance our debt.

Our debt, and the covenants contained in the instruments governing our debt, could have important consequences to you. For example, it 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 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.

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We face the risk of adverse publicity and litigation, the cost of 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 Fuddruckers 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 health care benefits.

We use a combination of insurance and self-insurance for workers compensation coverage and health care plans. We record expenses under those plans based on estimates of the costs of expected claims, administrative costs, stop-loss insurance premiums and expected health care 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 participant enrollment, demographics, and the actual costs of claims made. In the event our cost estimates differ from actual costs, we could incur additional unplanned health care costs, which could adversely impact our financial condition.

In March 2010, comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and Health Care Education and Affordability Reconciliation Act was passed and signed into law. Among other things, the health care reform legislation includes guaranteed 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 health care benefits. Provisions of the health care reform legislation become effective at various dates over the next several years. The Department of Health and Human Services, the National Association of Insurance Commissioners, the Department of Labor and the Treasury Department have yet to issue necessary enabling regulations and guidance with respect to the health care reform legislation.

Due to the breadth and complexity of the health care reform legislation, the lack of implementing regulations and interpretive guidance, and the phased-in nature of the implementation, it is difficult to predict the overall impact of the health care reform legislation on our business and the businesses of our franchisees over the coming years. Possible adverse effects of the health care reform legislation include reduced revenues, increased costs, exposure to expanded liability and requirements for us to revise the ways in which we conduct business or risk of loss of business. 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.

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We face intense competition, and if we are unable to compete effectively or if customer preferences change, our business and financial performance will 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 and Fuddruckers brands 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. Changing customer preferences, tastes and dietary habits can adversely impact 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, deli, and restaurant services, particularly in the supermarket industry, which offers convenient meals in the form of improved entrées and side dishes from the deli 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 would be materially 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 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 and thus substantially reduce the results of operations.

Our Cash Flow Improvement and Capital Redeployment Plan may not be successful.

Pursuant to our Cash Flow Improvement and Capital Redeployment Plan adopted in October 2009, we closed underperforming units in the first quarter of fiscal year 2010. We have 10 company-owned properties and 4 ground leased properties remaining to be sold or settled. Our ability to dispose of these properties is subject to

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various risks, including depressed market values, availability of credit to potential buyers and a lack of qualified buyers. Accordingly, the proceeds we ultimately realize from the dispositions may be less than expected, or may take longer to realize. In addition, the terms of these transactions may be on terms that are unfavorable to us. If we are unable to sell our properties at our carrying value, we will incur additional losses. Moreover, if proceeds ultimately received from the sales are less than expected, our ability to redeploy capital to continue upgrades to our core base of restaurants, to pay down debt incurred as part of the purchase of Fuddruckers and to expand our culinary contract services business may be impaired. Additional locations may be added to the plan depending on future cash flow performance.

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

As of August 31, 2011, we had outstanding long-term debt of $21.5 million. In August 2011, we amended our revolving credit facility to, among other things, expand the facility size to $50.0 million and to add certain financial covenants. Our debt covenants require certain minimum levels of financial performance as well as certain financial ratios. Our failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in the acceleration of our loans outstanding and affect our ability to refinance by the termination date of September 1, 2014.

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 culinary contract services 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 as and when recognized by generally accepted accounting principles in the United States 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 not be able to realize our deferred tax assets.

Our ability to realize our deferred tax assets is dependent on our ability to generate taxable income in the future. If we are unable to generate enough taxable income in the future, we may incur additions to the valuation allowance which would reduce expected earnings for the periods in which they are recorded.

Franchises may breach the terms of their franchise agreements in a manner that adversely affects 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 brand 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.

Labor shortages or increases in labor costs could adversely affect our business and results of operations.

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. If our labor costs increase, our results of operations will be negatively affected.

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 significant adverse effect on our results of operations.

Our business is affected by local, state and federal 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, health care, 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 Securities and Exchange Commission and the New York Stock Exchange. 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.

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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 thereunder, will terminate. We may be unable to find a new franchisee to replace such lost revenues. 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 materially and adversely affect our business.

The misuse of the Fuddruckers trademark by current or former franchisees or others may cause reputational damage which could adversely affect our business.

Franchisee noncompliance with the terms and conditions of the governing franchise agreement may reduce the overall goodwill associated with the Fuddruckers brand. Any negative actions could have a corresponding material adverse effect on our business and revenues.

Our planned culinary contract services expansion may not be successful.

Successful expansion of our culinary contract services 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, elect to self-operate or terminate contracts with us. The failure to renew a significant number of our existing contracts would have a material adverse effect on our business and results of operations.

If we do not collect our accounts receivable, our financial results could be adversely affected.

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

The syndicate of banks may not have the ability to provide us with capital under our existing Revolving Credit Facility. Our existing Revolving Credit Facility expires in September 2014 and we may not be able to amend or renew the facility with terms and conditions consistent with the existing facility.

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Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of November 9, 2011, Luby s Cafeterias had 95 operating locations with seating capacity for 250 to 300 customers at each location. We own the underlying land and buildings in which 67 of our Luby s restaurants are located. Five of these restaurant properties contain excess building space, of which four properties are leased to tenants unaffiliated with Luby s, Inc.

In addition to the owned locations, 28 Luby s Cafeteria restaurants are held under leases, including 8 in regional shopping malls. The majority of the leases are fixed-dollar rentals. The majority of the leases require additional amounts paid related to property taxes, hazard insurance and maintenance of common areas. Of the 28 restaurant leases, the current terms of 8 expire between 2011 and 2014, and 20 thereafter. Of the 28 restaurant leases, 24 can be extended beyond their current terms at our option.

As of November 9, 2011, we operated 57 Fuddruckers locations and 3 Koo Koo Roo locations. Each Fuddruckers restaurant generally has seating capacity for 125 to 200 customers while each Koo Koo Roo has seating capacity for 90 to 125 customers. We own the underlying land and buildings in which 14 of our Fuddruckers restaurants are located. The 3 Koo Koo Roo locations are located on leased property.

In addition to the 14 owned Fuddruckers locations, 43 restaurants are held under leases. The majority of the leases are fixed-dollar rentals. The majority of the leases require additional amounts paid related to property taxes, hazard insurance and maintenance of common areas. Of the 43 restaurant leases, the current terms of 18 expire between 2011 and 2014, and 25 thereafter. Of the 43 restaurant leases, 27 can be extended beyond their current terms at our option.

As of November 9, 2011, we had 2 owned Luby s Cafeteria properties with a carrying value of approximately $1.0 million in properties held for sale. In addition, 10 owned Luby s Cafeteria properties with a carrying value of $11.0 million, 2 ground leases and 2 unimproved ground leases with a carrying value of zero are discontinued operations properties which are also for sale or lease.

We currently have four owned other use properties; one is used as a Bake Shop that supports the baked products for operating Luby s Cafeteria. Three locations are currently leased to third party tenants utilizing the entire building.

We also own two unimproved land locations that are held for future use.

We lease approximately 31,000 square feet of corporate office space, which extends through 2016. The space is located on the Northwest Freeway in Houston, Texas in close proximity to many of our Houston restaurant locations.

We lease approximately 60,000 square feet of warehouse space for in-house repair, fabrication and storage in Houston, Texas. In addition, we lease approximately 3,200 square feet of warehouse and office space in Arlington, Texas.

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

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Item 3. ***Legal Proceedings***

Certain current and former hourly restaurant employees filed a lawsuit against us in the U.S. District Court for the Southern District of Texas alleging violations of the Fair Labor Standards Act with respect to the inclusion of certain employees in a tip pool. The lawsuit sought back wages, penalties and attorney s fees and was conditionally certified as a collective action in October 2008. On October 22, 2010, we agreed to a court settlement amount of $1.6 million, recognized in general and administrative expenses in the fourth quarter fiscal year 2010. We made related payments of $1.4 million as of August 31, 2011, as required by the settlement. Per the settlement, all claims had to be filed by August 31, 2011. Therefore, the settlement is complete and we recognized a $0.2 million reduction in general and administrative expenses in the fourth quarter of fiscal year 2011.

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.

Item 4. **(*Removed and Reserved)***

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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 New York Stock Exchange under the symbol LUB. The following table sets forth, for the last two fiscal years, the high and low sales prices on the New York Stock Exchange as reported in the consolidated transaction reporting system.

Fiscal Quarter Ended	*High*	*Low*
November 18, 2009	4.88	3.42
February 10, 2010	3.82	3.25
May 5, 2010	4.28	3.35
August 25, 2010	5.38	3.67
November 17, 2010	5.59	4.66
February 9, 2011	6.97	5.39
May 4, 2011	6.06	4.43
August 31, 2011	6.19	4.31

As of November 9, 2011, there were 2,526 holders of record of our common stock. No cash dividends have been paid on our common stock since fiscal year 2000, and we currently have no intention to pay a cash dividend on our common stock. On November 9, 2011, the closing price of our common stock on the New York Stock Exchange was $4.26.

Equity Compensation Plans

Securities authorized under our equity compensation plans as of August 31, 2011, 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	807,656	$ 9.16	839,716
Equity compensation plans not previously approved by security holders [(1)]	29,627	6.74	
Total	837,283	$ 9.07	839,716

(1) Represents the Luby s, Inc. Non-employee Director Phantom Stock Plan.
See Note 15, 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 31, 2011, 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., Frisch Restaurant Group, O Charley s, Red Robin Gourmet Burgers and Ruby Tuesday Inc. These companies are multi-unit family and casual dining restaurant operators in the mid-price range.

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The cumulative total shareholder return computations set forth in the performance graph assume an investment of $100 on September 1, 2005, 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.

	2006	2007	2008	2009	2010	2011
Luby s, Inc.	100.00	120.52	78.03	47.85	53.90	50.05
S&P 500 Index Total Return	100.00	115.13	102.32	80.72	84.68	100.35
S&P 500 Restaurant Index	100.00	123.38	133.86	132.06	172.31	231.82
Old Peer Group Index Only	100.00	100.70	64.36	68.55	79.05	86.49
Old Peer Group Index + Lubys Inc.	100.00	101.72	65.07	66.98	77.16	83.84
New Peer Group Index Only	100.00	99.43	64.29	65.01	73.63	84.52
New Peer Group Index + Luby s Inc.	100.00	100.38	64.91	63.89	72.34	82.39

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Item 6. ***Selected Financial Data***

Five-Year Summary of Operations

	August 31, 2011 *(371 days)*	**August 25, 2010** *(364 days)*	**Fiscal Year Ended August 26, 2009** *(364 days)*	**August 27, 2008** *(364 days)*	**August 29, 2007** *(364 days)*
			(In thousands except per share data)		
Sales					
Restaurant sales	$ 325,383	$ 230,342	$ 245,799	$ 270,477	$ 276,069
Culinary contract services	15,619	13,728	12,970	8,205	2,065
Franchise revenue	7,092	645			
Vending revenue	654	44			
Total sales	348,748	244,759	258,769	278,682	278,134
Income (loss) from continuing operations	2,583	(612)	(14,062)	3,335	10,086
Income (loss) from discontinued operations [(a)]	382	(2,281)	(12,356)	(1,071)	777
Net income (loss)	$ 2,965	$ (2,893)	$ (26,418)	$ 2,265	$ 10,863
Income (loss) per share from continuing operations:					
Basic	$ 0.09	$ (0.02)	$ (0.50)	$ 0.12	$ 0.39
Assuming dilution	$ 0.09	$ (0.02)	$ (0.50)	$ 0.12	$ 0.37
Income (loss) per share from discontinued operation:					
Basic	$ 0.01	$ (0.08)	$ (0.44)	$ (0.04)	$ 0.03
Assuming dilution	$ 0.01	$ (0.08)	$ (0.44)	$ (0.04)	$ 0.03
Net income (loss) per share					
Basic	$ 0.10	$ (0.10)	$ (0.94)	$ 0.08	$ 0.41
Assuming dilution	$ 0.10	$ (0.10)	$ (0.94)	$ 0.08	$ 0.40
Weighted-average shares outstanding					
Basic	28,237	28,129	28,084	27,908	26,188
Assuming dilution	28,297	28,129	28,084	28,085	27,170
Total assets	$ 228,020	$ 242,342	$ 199,406	$ 226,568	$ 219,686
Total debt	$ 21,500	$ 41,500	$	$	$
Number of restaurants at fiscal year end	156	154	119	123	128
Number of franchised restaurants at fiscal year end	122	130			
Number of Culinary Contract Services contracts at fiscal year end	22	18	15	11	8
Costs and Expenses					
(As a percentage of restaurant sales)					
Cost of food	28.9%	27.6%	27.6%	27.7%	26.8%
Payroll and related costs	34.8%	36.0%	36.3%	34.3%	33.5%
Other operating expenses	23.7%	22.2%	23.0%	23.1%	21.4%

[(a)] Our business plan approved in fiscal year 2010 called for the closure of more than 20 locations. In accordance with this plan, the entire fiscal activity of the applicable stores closed after the inception of the plan has been reclassified to discontinued operations. For comparison purposes, prior fiscal year s results related to these same locations have also been reclassified to discontinued operations. Stores we close and classify as discontinued operations are significant in the number of stores closed. We believe the majority of cash flows lost will not be recovered and generated by the ongoing entity. The stores to be closed are included in a closure plan approved by our board of directors. We believe the majority of sales lost by closing a significant number of stores within a short period of time will not be recovered. In addition, there will not be any ongoing involvement or significant cash flows from the closed stores. Stores we close, but do not classify as discontinued operations, follow the implementation guidance in ASC 205-20-55 because cash flows are expected to be generated by the ongoing entity. There is some migration of customer traffic to existing or new locations, and ultimately the majority of sales lost by closing these stores is expected to be eventually replaced by sales from new and existing locations.

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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 31, 2011 (fiscal year 2011), August 25, 2010 (fiscal year 2010), and August 26, 2009 (fiscal year 2009) included in Item 8 of this report.

Overview

In fiscal year 2011, we generated revenues primarily by providing quality food to customers at our 96 Luby s Cafeteria branded restaurants located throughout Texas and three other states and 58 Fuddruckers restaurants, 3 Koo Koo Roo restaurants and 122 Fuddruckers franchises located throughout the U.S. On July 26, 2010, we became a multi-brand restaurant company with a national footprint through the acquisition of substantially all of the assets of Fuddruckers. The Fuddruckers acquisition added 59 Company-operated restaurants and a franchise network of 130 franchisee operated units. This acquisition further expanded our family-friendly, value-oriented portfolio of restaurants located in close proximity to retail centers, business developments and residential areas. In addition to our restaurant business model, we also provide culinary contract services for organizations that offer on-site food service, such as health care facilities, colleges and universities, as well as businesses and institutions.

In fiscal years 2011 and 2010, we continued to operate and compete, like many restaurant companies, in a slowly improving, albeit challenging economic, environment with customers seeking the most value for their dollar when they choose to dine away from home. Much of our focus during fiscal year 2011 centered around two goals: (1) to quickly integrate Fuddruckers restaurants into our organization and improve selected Fuddruckers facilities and processes in order to establish a base from which we can build and thus maximize the return on this investment. This included joint efforts with the business owners of the units in the franchise network. We also developed a new prototype for the Fuddruckers brand, built a Fuddruckers Express in one of our cafeteria units, tested the first-ever Fuddruckers drive-through at one unit, as well as tested various menu item upgrades, new menu options, new menu boards and installed exterior marquees to catch the attention of our customers and (2) to continue our at both of our restaurant brands to attract customers into our restaurants by redoubling our local store marketing initiatives and local community involvement. At our Cafeteria units, we continued developing store-specific menu offerings and limited time offers such as steak and shrimp on Friday and Saturday nights at select units, $2.00 and $3.00 entrée portions of our customer favorites (Luby s fried fish and chicken fried steak) at lunch, and all-you-can-eat lunch or dinner buffets in certain locations. We also rolled out our all-you-can-eat breakfast buffets at a majority of our cafeteria locations, which significantly contributed to our year-over-year growth in customer count at our Luby s Cafeteria units.

With the pressure of higher food commodity prices and impact on profit margins, we made modest price increases at both of our restaurant brands in the middle of fiscal year 2011 while continuing to offer excellent value to our guests. At the cafeteria units, some of these price increases reflected scaling back on some limited time offers at certain points during the year and certain daytimes during the week. The net result was an increase in same store sales of 2.5% at our cafeteria units. The sales increase at the cafeterias represented growth in customer count offset by a net decrease in average customer spend (modest price increases made mid-year only partially recovered price reductions made in the prior year). At our Fuddruckers restaurants, the sales growth represented growth in both customer counts and to a lesser extent an increase in average customer spend. Our goal in fiscal year 2012 will be to continue to balance the trade-off between customer growth and average customer spend. We will continue to seek to increase customer frequency by marketing quality offerings and building long term brand loyalty.

Capital spending increased to $11.0 million in fiscal year 2011 from the suppressed levels of fiscal year 2010. We continue to maintain the attractiveness of our Luby s Cafeteria units and the Fuddruckers units that we acquired in July 2010, having made various upgrades to these locations in the past fiscal year. In fiscal 2012, we

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anticipate increasing our capital spending to between $15 million and $20 million, primarily for the remodeling of existing units and the construction of new restaurant units.

In this challenging economic environment, our strong balance sheet has allowed us to capitalize on the opportunity to increase the size of our revolving credit facility and acquire substantially all of the assets of Fuddruckers in July 2010. Since the acquisition, we have sold eight properties that were closed during or before our Cash Flow Improvement and Capital Redeployment Plan announced in October 2009. As a result, we have been able to use the proceeds from these property sales and cash generated from operations to aggressively pay down our debt balance to $21.5 million by the end of fiscal year 2011, representing over a 50% reduction in our outstanding debt balance.

Fiscal 2011 Review

Same-store restaurant sales at our Luby s Cafeteria units increased 2.5% for fiscal year 2011 compared to fiscal year 2010. Same-store sales increased in the first three quarters in the fiscal year and turned slightly negative in the fourth quarter, compared to a relatively strong fourth quarter 2010 when we significantly increased our use of limited time offers to generate customer traffic and sales. Our increase in sales in fiscal year 2011 was generated by customer traffic growth, in large part due to our weekend breakfast offering, but at a lower overall ticket average. Fiscal year 2011 represents our first full year of same-store sales growth since fiscal year 2006.

Net income from continuing operations improved from a loss of $0.6 million, or $0.02 per share, on $244.8 million in total sales in fiscal year 2010 to a profit from continuing operations of $2.6 million, or $0.09 per share, on $348.7 million in total sales in fiscal year 2011.

Fiscal year 2011 net income improved by $5.9 million year-over-year. This profitability improvement was the result of the inclusion of a full year of results from Fuddruckers and growing sales in each of our brands, combined with careful cost management and operational focus. The following provides a brief summary of selected expenses:

Food costs, as a percentage of restaurant sales increased to 28.9% in fiscal year 2011 from 27.6% in fiscal year 2010. The increase in food costs as a percentage of sales was driven primarily by higher food commodity costs, an increased impact from beef commodities due to the inclusion of the Fuddruckers units, and our ability to only partially pass along these higher food costs in the form of menu price increases.

Payroll and related costs as a percentage of sales declined primarily due to the inclusion of the Fuddruckers units, which generally operated at a lower labor costs due to the lower complexity of operations when compared to our cafeteria units. As a percentage of restaurant sales, payroll and related costs improved 120 basis points in fiscal year 2011 compared to fiscal year 2010

As a percentage of restaurant sales, other operating expenses increased 150 basis points. The higher operating expenses as percentage of sales reflect the higher aggregate occupancy costs of the Fuddruckers restaurants due to the greater mix of leased properties over owned properties. As the Fuddruckers units were incorporated into our operations, we also incurred higher repairs and maintenance costs to improve the appearance and operations of selected restaurants.

Depreciation expense increased $2.0 million and reflects primarily the addition of Fuddruckers assets, partially offset by lower depreciation of our cafeteria assets.

General and administrative expenses increased by $4.0 million reflecting primarily incremental corporate staffing and related expenses to support the addition of the company-operated Fuddruckers units as well as the network of franchise restaurants. Fiscal year 2011 also included approximately $1.5 million in professional fees and integration expenses related to the acquisition of substantially all of the assets of Fuddruckers.

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Income taxes reflected a valuation allowance decrease of $0.5 million in fiscal year 2011 income from continuing operations of approximately $0.02 per share.

Our culinary contract services (CCS) business continued to grow through the net addition of four new locations. We view this area as a growth business that generally requires less capital investment and more favorable percentage returns on invested capital. Our culinary contract services business generated $15.6 million in sales during fiscal year 2011 compared to $13.7 million in sales during fiscal year 2010.

In fiscal year 2011, we spent $11.0 million on capital expenditures, which primarily represented maintaining the attractiveness and efficiency of our restaurant units. During fiscal year 2011, we added leasehold improvements at a new Fuddruckers location in downtown Houston and at a relocated Luby s restaurant in west Houston. We also acquired the assets at one former franchise location, including a building on a ground lease and the related furniture, fixtures and equipment.

Our long-term plan continues to focus on expanding both of our brands, including the Fuddruckers franchise network, as well as growing our CCS business. We are also committed to reducing debt through sales of properties where we have closed restaurants as well as using cash flow from operations. We believe our operational execution has improved through our commitment to higher operating standards, and 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 2011 was such a year. Each of the first three quarters of each fiscal year consists of three four-week periods, while the fourth quarter normally consists of four four-week periods. However, the fourth quarter of fiscal year 2011, as a result of the additional week, consisted of three four week periods and one five-week period, accounting for 17 weeks, or 119 days, in the aggregate. Fiscal years 2010 and 2009 both contained 52 weeks. 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. To qualify for inclusion in this group, a store must have been in operation for 18 consecutive accounting periods. Stores that close on a permanent basis are removed from the group in the fiscal quarter when operations cease at the restaurant, but remain in the same-store group for previously reported fiscal quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies. Same-store sales at our cafeteria units increased 2.5% for fiscal year 2011, decreased 7.4% for fiscal year 2010 and decreased 6.6% for fiscal year 2009.

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

	Fiscal Year 2011				Fiscal Year 2010				Fiscal Year 2009			
Increase (Decrease)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Same-store sales	(0.6)%	3.5%	2.7%	5.5%	(0.5)%	(4.8)%	(12.5)%	(13.3)%	(11.8)%	(6.5)%	(1.3)%	(4.7)%

Minimum Wage Increase Impact

The third of three federal minimum wage increases took effect on July 23, 2009. We experienced a compression due to these minimum wage increases, meaning that wages earned by employees within a certain range of the new minimum wage were adjusted over time as the new minimum wage increases were phased in through calendar year 2009.

Discontinued Operations

Our Cash Flow Improvement and Capital Redeployment Plan called for the closure of more than 20 underperforming units. In accordance with the plan, the entire fiscal activity of the applicable stores closed after the inception of the plan has been classified as discontinued operations. Results related to these same locations have also been classified as discontinued operations for all periods presented.

Impact of Hurricane Ike

Hurricane Ike struck southeast Texas in September 2008 causing massive power outages and inflicting wide-spread damage in the greater Houston area. Over 40 Luby s locations in the Houston area were closed over varying lengths of time due to the storm. Restaurant sales were negatively impacted by approximately 273 days in the aggregate when some of our locations were unable to open due to storm damage or loss of power. We incurred approximately $1.5 million in lost sales from these store closures. We incurred storm related direct costs of $1.5 million for damages, auxiliary power, food loss and other miscellaneous costs. We received insurance proceeds of approximately $0.6 million related to hurricane property damage claims which were recognized in income in fiscal year ended August 25, 2010.

RESULTS OF OPERATIONS

Fiscal Year 2011 (53 weeks) compared to Fiscal Year 2010 (52 weeks)

Sales

Fuddruckers operating results for prior fiscal year 2010 include only the 31 days from the acquisition date of substantially all of the assets of Fuddruckers through the end of fiscal year 2010. Total company sales increased approximately $104.0 million, or 42.5%, in fiscal year 2011 compared to fiscal year 2010, consisting of a $95.0 million increase in restaurant sales, a $6.4 million increase in Fuddruckers franchise revenues, a $1.9 million increase in CCS sales, and a $0.6 million increase in vending revenue from our Company-operated Fuddruckers units. The $95.0 million increase in restaurant sales included a $9.4 million increase in sales at Luby s Cafeteria-branded restaurants and $85.6 million increase in sales from Fuddruckers-branded restaurants. Part of this increase was also due to the inclusion of one more week in fiscal year 2011 compared to fiscal year 2010. The extra week accounted for approximately $4.3 million in sales at our cafeteria units and $1.9 million in sales at our company-operated Fuddruckers units.

On a same store-store basis, restaurant sales at the Luby s Cafeteria restaurants increased 2.5%. The improved same store sales is primarily due to improving economic conditions and our focus on local restaurant marketing efforts and limited time offers used to generate customer traffic as well as the contribution from offering breakfast on the weekends in the majority of our cafeteria restaurants in fiscal year 2011.

The prior year results of restaurants closed as part of our Cash Flow Improvement and Capital Redeployment Plan (the Plan) have been reclassified to discontinued operations.

Cost of Food

Food costs increased approximately $30.7 million, or 48.3%, in fiscal year 2011 compared to fiscal year 2010 primarily due to the inclusion in our operations of the Fuddruckers units acquired in July 2010 and the inclusion of one additional week in fiscal year 2011. The additional week accounted for approximately

$1.8 million in food costs. As a percentage of restaurant sales, food costs increased 1.3%, to 28.9%, in fiscal year 2011 compared to 27.6% in fiscal year 2010. The increase was due primarily to (1) higher food commodity costs in most categories; (2) adding the all-you-can-eat breakfast offer on the weekends in the majority of our Luby s Cafeteria units; and (3) offering select menu items at a lower price on a limited time basis during certain periods of the year in order to generate incremental customer traffic.

Payroll and Related Costs

Payroll and related costs increased approximately $30.3 million, or 36.5% in fiscal year 2011 compared to fiscal year 2010 due primarily to the inclusion in our operations of the Fuddruckers units acquired in July 2010 and the inclusion of one additional week in fiscal year 2011. The additional week accounted for approximately $2.2 million in payroll and related costs. As a percentage of restaurant sales, these costs decreased 1.2%, to 34.8%, in fiscal year 2011 compared to 36.0% in fiscal year 2010. The decrease in these costs as a percentage of sales is due to inclusion of lower restaurant labor costs associated with the acquired Fuddruckers units partially offset by additional hourly labor to accommodate the increased customer traffic at our Luby s Cafeteria units driven by longer operating hours at the majority of units that now serve breakfast on the weekends, as well as increased customer traffic from limited time offers.

Other Operating Expenses

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services and occupancy costs. Other operating expenses increased approximately $25.7 million, or 50.2%, in fiscal year 2011 compared to fiscal year 2010. The increase in these costs is primarily due to the inclusion in our operations of the Fuddruckers units acquired in July 2010 and the inclusion of one additional week in fiscal year 2011 offset by lower marketing and advertising costs to support both of our restaurant brands. The additional week accounted for approximately $1.5 million in other operating expenses. As a percentage of restaurant sales, other operating expenses increased 1.5%, to 23.7%, in fiscal year 2011 compared to 22.2% in fiscal year 2010. This increase in other operating expenses as a percentage of restaurant sales was due to (1) the increase in the mix of leased units with the acquisition of the Fuddruckers units, (2) higher repairs, maintenance, and supplies costs at Fuddruckers units, partially offset by (3) lower marketing and advertising expenses, and (4) lower utility expenses.

Opening Costs

Opening costs include labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were approximately $0.3 million in fiscal year 2011 compared to approximately $0.2 million in fiscal year 2010. Opening costs in fiscal year 2011 included the costs associated with opening one Luby s Cafeteria unit, three Fuddruckers units, one Fuddruckers Express, the carrying costs for one property slated for future development, and the support costs associated with franchisees opening one unit. Opening costs in fiscal year 2010 also included an impairment charge of less than $0.1 million for assets that will not be fully incorporated in the final design of a unit.

Cost of Culinary Contract Services

Cost of culinary contract services includes the food, payroll and related, and other direct operating expenses associated with generating culinary contract sales. Our CCS business line operated between 18 and 22 facilities during fiscal year 2011 compared to operating between 15 and 18 facilities during fiscal year 2010. Cost of culinary contract services increased approximately $2.1 million, or 16.5%, in fiscal year 2011 compared to fiscal year 2010 due to increases in bad debt expense and wages resulting from an increase in the numbers of contracts.

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Depreciation and Amortization

Depreciation and amortization expense increased by approximately $2.0 million, or 13.1%, in fiscal year 2011 compared to fiscal year 2010 due to the acquisition of substantially all of the assets of Fuddruckers in July 2010, partially offset by a net decrease in depreciation as certain assets reached the end of their depreciable lives.

General and Administrative Expenses

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. General and administrative expenses increased by approximately $4.0 million, or 15.8%, in fiscal year 2011 compared to fiscal year 2010. The increase was due to (1) an increase of $3.1 million in salaries and benefits expense in fiscal year 2011with the addition of corporate staff related to the Fuddruckers-branded restaurants acquired in July 2010; (2) an increase of approximately $1.2 million in travel and supplies, largely related to supporting the Fuddruckers-branded restaurants, which have a larger geographic footprint; and (3) an increase of $0.5 million in insurance and other corporate-related expenses; partially offset by (4) a decrease of approximately $0.8 million in professional fees and corporate services. As a percentage of total sales, general and administrative expenses decreased to 8.5% in fiscal year 2011 compared to 10.4% in fiscal year 2010 primarily due to our ability to use much of our existing corporate overhead to support the additional Fuddruckers restaurants acquired in July 2010.

Provision for asset impairments, net

The provision for asset impairments, net decreased $0.2 million in fiscal year 2011 compared to fiscal year 2010. The impairment charges in fiscal year 2011 relate to one closed restaurant property that was sold during the fiscal year and one closed restaurant property at the end of the fiscal year that was under contract to be sold. The impairment charges in fiscal year 2010 relate to one closed restaurant property that was held for sale sold at the end of the fiscal year. In each case, the actual or estimated net sales proceeds were less than the net carrying value of the assets.

Net Loss (Gain) on Disposition of Property and Equipment

The disposition of property and equipment in fiscal year 2011 resulted in a net gain of approximately $1.4 million, which included a gain of the sales of restaurant properties in excess of net book value, partially offset by asset retirement activity in our restaurant units. The disposition of property and equipment in fiscal year 2010 resulted in a net gain of approximately $0.9 million, which included a gain on the sale of an easement right and the sale of one restaurant property in excess of net book value, partially offset by asset retirement activity in our restaurant units.

Interest Income

Interest income decreased approximately $35 thousand primarily due to maintaining lower cash and cash equivalent balances.

Interest Expense

Interest expense in fiscal year 2011 increased approximately $1.8 million compared to fiscal year 2010, due to (1) the higher outstanding debt balances resulting from borrowings related to the acquisition of substantially all of the assets of Fuddruckers in July 2010 and (2) the higher amortization of deferred financing costs recognized as a result of the amendment of our revolving credit facility in August 2011.

Gain on sales and redemptions (impairments in fair value) of investments

The net gain on sales and redemptions of investments of $1.6 million in fiscal year 2010 represents (1) the reversal of previous impaired investments in auction rate securities that were subsequently redeemed at par value in the fourth quarter of fiscal year 2010, offset by (2) the portion of the impairment previously assigned to these investments in fiscal year 2010.

Other Income, Net

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; and oil and gas royalty income.

Other income, net, increased by approximately $0.4 million in fiscal year 2011 compared to fiscal year 2010. The increase was primarily due to (1) net rental income on properties that we lease to third parties; (2) oil and gas royalty income; and (3) higher prepaid sales tax discounts earned on a higher sales volume with the inclusion of sales from Fuddruckers restaurants.

Taxes

The income tax expense related to continuing operations for fiscal year 2011 was $0.5 million compared to a tax benefit for income taxes of $3.1 million for fiscal year 2010. The expense for income taxes in fiscal year 2011 reflects the tax effect of the pre-tax income for the year adjusted for state income taxes, general business credits and a reduction in a tax valuation allowance. The income tax benefit in fiscal year 2010 reflects the tax effect of pre-tax loss for the year adjusted for state income taxes, general business credits and a reduction in a tax valuation allowance.

The partial reversals of the valuation allowance amounts in fiscal years 2010 and 2011 were based upon continued improvement in current and projected operational performance, our ability to utilize net operating loss (NOL) amounts through carryforward and carryback, as well as recent sustained losses from continuing operations. This positive and negative evidence was weighed, and in each year an increasing portion of our deferred tax assets were determined to be realizable, on a more likely than not basis, with a valuation allowance provided for these amounts.

Discontinued Operations

The net loss or income from discontinued operations was a $0.4 million gain in fiscal year 2011 compared to a net loss of $2.3 million in fiscal year 2010. The net income of $0.4 million in fiscal year 2011 included (1) $2.6 million in gains on sales of assets related to discontinued assets partially offset by (2) $1.4 million in carrying costs associated with assets that were related to discontinued operations; (3) impairment charges of $0.6 million for certain assets related to discontinued operations; and (4) a $0.2 million income tax provision related to discontinued operations. The net loss of $2.3 million in fiscal year 2010 included (1) $4.7 million in carrying costs associated with assets that were related to discontinued operations and (2) impairment charges of $0.4 million for certain assets related to discontinued operations; offset by (3) $1.6 million in gains on sales of assets related to discontinued assets and (4) a $1.2 million income tax benefit related to discontinued operations.

Fiscal Year 2010 (52 weeks) compared to Fiscal Year 2009 (52 weeks)

Sales

Total sales decreased approximately $14.0 million, or 5.4%, in fiscal year 2010 compared to fiscal year 2009, consisting of a $15.5 million decrease in restaurant sales, a $0.8 million increase in culinary contract services revenue and the addition of $0.6 million in franchise revenue in fiscal year 2010. The $15.5 million decline in restaurant sales included a $23.1 million reduction in sales from cafeteria units offset by the addition of

$7.6 million in sales from the Fuddruckers and Koo Koo Roo restaurants acquired in July of 2010. The $23.1 million reduction in sales from cafeteria units included a $6.5 million reduction in sales related to closed operations and a $0.4 million reduction in sales from stores opened less than 18 accounting periods.

On a same-store basis, sales decreased approximately $17.8 million, or 7.4%, due primarily to lower average spending per guest as a result of the availability of lower menu prices, limited time offers, reduced kids meals prices, and the re-introduction of breakfast in addition to lower guest traffic on a full year basis.

Cost of Food

Food costs decreased approximately $4.4 million, or 6.5%, in fiscal year 2010 compared to fiscal year 2009 primarily due to the lower sales volume. As a percentage of restaurant sales, food costs were unchanged at 27.6% in fiscal year 2010 and fiscal year 2009. The stable food cost as a percentage of sales was primarily the result of our operational improvements in food production, lower commodity prices in much of the fiscal year, and enhanced menu management, offset by lower menu prices and limited time offers in fiscal year 2010.

Payroll and Related Costs

Payroll and related costs decreased approximately $6.5 million, or 7.2%, in fiscal year 2010 compared to fiscal year 2009. This decrease was primarily the result of realizing increased efficiencies in crew scheduling, lower crew overtime hours, refining the mix of restaurant management and hourly crew required at each unit, a reduction in the number of stores in operation that were closed, and lower management costs, partially offset by higher average wages paid to our crew employees. As a percentage of restaurant sales, the margin improved 0.3%, from 36.3% in fiscal year 2009 to 36.0% in fiscal year 2010, due to the increased labor efficiencies realized from crew scheduling and reduction in overtime.

Other Operating Expenses

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services and occupancy costs. Other operating expenses decreased by approximately $5.2 million, or 9.3%, for fiscal year 2010, compared to fiscal year 2009. As a percentage of restaurant sales, the margin improved 0.8%, from 23.0% in fiscal year 2009 to 22.2% in fiscal year 2010. Other operating expenses decreased primarily due to (1) an approximate $2.1 million reduction in utilities expense, (2) an approximate $1.1 million decline in our marketing and advertising expense and (3) a $1.1 million decline in store supplies and (4) a $0.7 decline in insurance, restaurant services, and other expenses combined. Fiscal year 2009 included approximately $0.9 million in expenses related to Hurricane Ike. These cost declines were partially offset by an approximate $0.7 million increase in occupancy costs expense related primarily to the assumption of restaurant leases associated with the acquisition of substantially all of the assets of Fuddruckers.

Depreciation and Amortization

Depreciation and amortization expense decreased by approximately $0.8 million, or 5.0%, in fiscal year 2010 compared to fiscal year 2009 due to a lower depreciable cafeteria asset base reflecting reduced capital spending and certain assets reaching the end of their depreciable lives, offset by one accounting period of depreciation of newly acquired assets related to Fuddruckers.

General and Administrative Expenses

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. General and administrative expenses increased by approximately $0.8 million, or 3.2%, in fiscal year 2010 compared to fiscal year 2009. The increase was mainly due to (1) an addition of approximately $1.2 million in professional fees and integration expenses related to the acquisition of substantially all of the assets of

Fuddruckers and (2) $3.0 million in legal fees and an accrual of an amount sufficient to cover a legal settlement agreement pending court approval as of fiscal year end 2010. These costs were partially offset by (1) a reduction of approximately $1.6 million in corporate salaries and benefits as a result of reductions in corporate support headcount, (2) a net reduction of approximately $0.3 million in office supplies, travel, and other miscellaneous corporate overhead expenses, (3) a reduction of approximately $0.2 million in recruiting expenses, and (4) a reduction of approximately $0.4 million in share-based compensation expenses. As a percentage of total sales, general and administrative expenses increased to 10.4% in fiscal year 2010, compared to 9.6% in fiscal year 2009, primarily due to the items noted above offset by the reductions in corporate salary and benefit expense and reduction in share based compensation expense.

Provision for asset impairments, net

The provision for asset impairments, net decreased by approximately $6.5 million in fiscal year 2010 compared to fiscal year 2009 primarily due to asset impairment and lease settlement costs recognized in fiscal year 2009 that did not recur in fiscal year 2010. The impairments in fiscal year 2009 include charges related to restaurants we identified as potential locations to be closed but continued operating with the intention of improving cashflows.

Net Gain on Disposition of Property and Equipment

The net gain on disposition of property and equipment was unchanged at $0.9 million in fiscal year 2010 and fiscal year 2009. The net gain in fiscal year 2010 included a gain on the sale of an easement right and the sale of one unit in excess of its carrying value, offset by asset retirement activity. The net gain in fiscal 2009 included the gain on the sales of one closed restaurant property and insurance proceeds of approximately $0.6 million related to property damage associated with Hurricane Ike, offset by asset retirement activity in our restaurant units.

Interest Income

Interest income decreased approximately $0.2 million due to lower interest rates and cash investment balances.

Interest Expense

Interest expense increased $0.3 million in fiscal year 2010 from fiscal year 2009 due to the reduction in unamortized debt expense recognized as a result of the amendment of our revolving credit facility in July 2010.

Gain on sales and redemptions (impairments in fair value) of investments

The net gain on sales and redemptions of investments of $1.6 million in fiscal year 2010 represents (1) the reversal of previous impaired investments in auction rate securities that were subsequently redeemed at par value in the fourth quarter of fiscal year 2010, offset by (2) the portion of the impairment previously assigned to these investments in fiscal year 2010. The impairment in fair value of investments was $1.0 million in fiscal year 2009 due to the illiquidity of the auction rate securities markets.

Other Income, Net

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; and prepaid sales tax discounts earned through our participation in state tax prepayment programs.

Other income, net, decreased by approximately $0.2 million in fiscal year 2010 compared to fiscal year 2009, due primarily to a decrease in rental income, net of rental expenses and a decrease in prepaid state sales tax discounts resulting from lower sales in fiscal year 2010.

Taxes

The income tax benefit related to continuing operations for fiscal year 2010 was $3.1 million compared to a provision for income taxes of $0.5 million in fiscal year 2009. The benefit for income taxes in fiscal year 2010 reflects the tax effect of the pre-tax loss for the year adjusted for state income taxes, general business credits and a reduction in a tax valuation allowance. The income tax provision in fiscal year 2009 reflects the tax effect of pre-tax loss for the year adjusted for state income taxes, general business credits and an increased valuation allowance which reduced the current recognition of the tax benefit for the year.

A valuation allowance was recorded in fiscal year 2009 based on the weight of positive and negative evidence that indicated deferred tax assets would not be fully realized. The partial reduction of the valuation allowance in fiscal year 2010 was based upon improvement in current and projected operational performance, our ability to utilize NOL amounts through carryforward and carryback, as well as recent sustained losses from continuing operations. This positive and negative evidence was weighed, and a portion of the Company s deferred tax assets were determined to be realizable, on a more likely than not basis, with a valuation allowance provided for these amounts.

Discontinued Operations

The net loss from discontinued operations decreased approximately $10.1 million in fiscal year 2010 compared to fiscal year 2009. The loss from discontinued operations in fiscal year 2010 and fiscal year 2009 reflected (1) the activity of restaurant units that were closed as part of the Cash Flow Improvement and Capital Redeployment Plan and not subsequently redeployed into other income generating uses; (2) the impairment of assets associated with properties that were closed as part of the Cash Flow Improvement and Capital Redeployment Plan; (3) the gain on sale of units above their carrying value and (4) the tax benefit on losses from 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 were primarily affected by the acquisition of substantially all of the assets of Fuddruckers and the related financing during the fourth quarter of fiscal year ended August 25, 2010 and the related borrowing under our credit facility and the macroeconomic conditions that affected our fiscal year 2010 cash flow from operations. Although current macroeconomic conditions continue to affect our cash flows from operations, fiscal year 2011 cash flow from operations were favorably impacted by the acquired Fuddruckers assets as well as increased revenue and related cash flow from Luby s Cafeterias units. Proceeds from disposal of assets and property held for sale and our capital expenditures were significantly higher in fiscal year 2011 than fiscal year 2010, and we plan to continue the level of capital expenditures necessary to keep our restaurants attractive and operating efficiently.

Our cash requirements consisted principally of:

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

The acquisition of substantially all of the assets of Fuddruckers in fiscal year 2010 required us to amend and utilize our revolving credit facility. Cash from operations and proceeds from the sale of assets allowed for debt repayments. Under the current terms of our revolving credit facility, as amended through August 25, 2011, capital expenditures and the amount of borrowings are limited based on our EBITDA, as defined in the credit agreement, as amended, governing the revolving credit facility. 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 for culinary contract services and franchises. We also continually invest in our business through the addition of new units and refurbishment of existing units, which are reflected as long-term assets.

Cash and cash equivalents decreased $1.3 million from $2.3 million at the beginning of the fiscal year. This decrease is due to cash used in financing activities of $20.5 million, offset by cash provided by operating activities of $16.5 million and cash provided by investing activities of $3.0 million.

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

		Year Ended	
	August 31, 2011	**August 25, 2010**	**August 26, 2009**
		(In thousands)	
Total cash provided by (used in):			
Operating activities	$ 16,453	$ 9,297	$ 4,760
Investing activities	3,034	(48,712)	(8,416)
Financing activities	(20,535)	40,833	(28)
Increase (decrease) in cash and cash equivalents	$ (1,048)	$ 1,418	$ (3,684)

Operating Activities. Cash flow from operating activities increased from $9.3 million in fiscal year 2010 to $16.5 million in fiscal year 2011. The $7.2 million increase in net cash provided by operating activities was due to a $13.5 million increase in cash provided by operating activities before changes in operating assets and liabilities, offset by a $6.3 million change in operating assets and liabilities. The $13.5 million increase in cash provided by operating activities before changes in operating assets and liabilities was primarily due to a full year of Fuddruckers activity in fiscal year 2011. Franchise revenue increased $6.4 million and vending revenue increased $0.6 million in fiscal years 2011 compared to fiscal year 2010. Restaurant sales less cost of food, payroll and other related expenses and other operating expenses increased $8.4 million from fiscal year 2010 to fiscal year 2011, offset by increased general and administrative expenses related to salaries and wages of $3.1 million and travel of $0.9 million and interest of $1.8 million on debt associated with the acquisition of substantially all of the assets of Fuddruckers. The $6.3 million net decrease in cash provided by changes in operating assets and liabilities is the result of differences in the net changes in asset and liability balances from fiscal years 2011, 2010 and 2009. The fiscal year 2011 $2.2 million increase in trade accounts and other receivables was primarily due to a $0.9 million receivables related to our CCS brand. The fiscal year 2011 $1.1 million increase in inventory was primarily due to a $0.9 million increase in inventory associated with equipment. The fiscal year 2011 increase in prepaid expenses and other assets of $0.9 million was primarily due to a $0.8 million increase in prepaid rent. The fiscal year 2011 $1.2 million increase in accounts payable, accrued expenses and other assets was primarily due to a $2.2 million increase in accruals related to taxes other than income taxes and a $1.7 million increase in accounts payable, offset by a $1.5 million decrease in accruals related to salaries and compensation and a $2.1 million decrease in accrued legal and professional fees.

Investing Activities. We generally reinvest available cash flows from operations to develop new restaurants, enhance existing restaurants and to support culinary contract services. Cash provided by investing activities was $3.0 million in fiscal year 2011 compared to cash used in investing activities of $48.7 million in fiscal year 2010. In fiscal year 2010, we acquired substantially all of the assets of Fuddruckers for $63.1 million, while in fiscal year 2011 we acquired one franchised location for $0.6 million. Proceeds from property sales were $9.4 million in fiscal year 2010 and $14.7 million in fiscal year 2011. We redeemed auction rate securities of $8.5 million in fiscal year 2010 and did not have a similar redemption in fiscal year 2011. We increased our purchases of equipment and new restaurant construction from $3.6 million in fiscal year 2010 to $11.0 million in fiscal year 2011. Our capital expenditure program includes, among other things, investments in new restaurant and culinary contract service locations, restaurant remodeling, and information technology enhancements.

Financing Activities. Cash provided by financing activities was $40.8 million in fiscal year 2010, primarily due to an increase in debt as a result of the acquisition of substantially all the assets of Fuddruckers. Cash used in financing activities during fiscal year 2011 was $20.5 million, primarily due to reducing the debt from $41.5 million at August 25, 2010 to $21.5 million at August 31, 2011.

Status of Long-Term Investments and Liquidity

At August 31, 2011, we did not hold any long-term investments. The securities we previously held were long-term municipal bonds with underlying maturities in years 2019 through 2042. These bonds historically had short-term features intended for the investor s liquidity. Prior to the collapse of the auction rate securities market in February 2008, these bonds were purchased or sold through a Dutch-auction process in short-term intervals of 7, 28 or 35 days, whereby the interest rate on the security was reset.

In October 2008, the Company sought relief from the illiquid investments and by filing for arbitration against its broker with Financial Industry Regulatory Authority (FINRA) Dispute Resolution, Inc. and submitting a statement of claim for the par value of the auction rate securities. The arbitration hearing took place in April 2010, and a final award was announced on May 21, 2010 in our favor whereby the broker was ordered to purchase the auction rate securities at par value. In June 2010, we received $7.1 million from the sale of the securities to the broker at par including interest. As a result of the sale of these securities, we recognized a $1.6 million net gain in fiscal year 2010 and an other than temporary impairment loss of $1.0 million in fiscal year 2009. For additional information, see Note 4, Investments, to our Consolidated Financial Statements included in Item 8 of Part II of this report.

Given our current cash position, expected proceeds from the sale of assets, expected future cash flow from operations and our available borrowing capacity under our revolving credit facility, we believe sufficient liquidity exists for management to achieve its operating goals for the next twelve months.

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 culinary contract services business vary from 30 to 45 days based on contract terms.

Working Capital

Current assets increased $5.6 million due to increases in trade accounts and other accounts receivable of $2.2 million, food and supply inventories of $1.1 million, prepaid expenses of $0.9 million, and deferred income taxes of $2.4 million offset by a decrease in cash equivalents of $1.0 million. The $2.2 million change in trade accounts and other receivables was due to the increase in CCS contracts for fiscal year 2010 to fiscal year 2011. The $1.1 million increase in food and supply inventories was primarily due to a $0.9 million increase in facility service restaurant supplies inventory. The $0.9 million increase in prepaid expenses was primarily due to $0.8 million in prepaid rent. The $2.4 million increase in deferred tax assets is due to our expected ability to realize our deferred tax assets in fiscal year 2012.

Current liabilities increased $1.0 million due to a $1.7 million increase in accounts payable offset by decreases in liabilities related to discontinued operations of $0.3 million and accrued expenses and other liabilities of $0.5 million. The $1.7 million increase in accounts payable was primarily due to the extra week in fiscal year 2011. The decrease of $0.8 million in discontinued operations and accrued expenses and other liabilities is a result of decreases in accruals related to salaries and incentives of $1.5 million, insurance and claims of $0.3 million, legal and professional fees of $2.3 million offset by increases of $2.0 million for taxes other than income taxes and $1.3 million for marketing.

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 year 2010 were approximately $11.0 million and related to recurring maintenance of our existing units, to improvement of our culinary contract services business and the development of future restaurant sites. We expect to be able to fund all capital expenditures in fiscal year 2012 using proceeds from the sale of assets, cash flows from operations and our available credit. We expect to spend approximately $15.0 million to $20.0 million on capital expenditures in fiscal year 2012.

DEBT

Revolving Credit Facility

In November 2009, we entered into a revolving credit facility with Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The following description summarizes the material terms of the revolving credit facility, as subsequently amended as of January 31, 2010, July 26, 2010, September 30, 2010, October 31, 2010 and August 25, 2011 (the revolving credit facility, together with all amendments thereto, is referred to as the 2009 Credit Facility). The 2009 Credit Facility is governed by the Credit Agreement dated as of November 9, 2009 (as amended to date, the Credit Agreement) among us, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The maturity date of the 2009 Credit Facility is September 1, 2014.

The aggregate amount of the lenders commitments under the 2009 Credit Facility was $50.0 million as of August 31, 2011. The 2009 Credit Facility also provides for the issuance of letters of credit in a maximum aggregate amount of $15.0 million outstanding at any one time. At August 31, 2011, $27.3 million was available under the 2009 Credit Facility.

The 2009 Credit Facility is guaranteed by all of our present or future subsidiaries. In addition, in connection with the expansion of the 2009 Credit Facility that accompanied our acquisition of substantially all of the assets of Fuddruckers in July 2010, Christopher J. Pappas, our President and Chief Executive Officer, and Harris J. Pappas, a member of our Board of Directors, guaranteed the payment of up to $13.0 million of our indebtedness under the 2009 Credit Facility. The maximum amount of this guaranty was reduced to $9.5 million on February 28, 2011, further reduced to $6.0 million on May 31, 2011 and finally reduced to zero as of August 25, 2011.

At any time throughout the term of the 2009 Credit Facility, we have the option to elect one of two bases of interest rates. One interest rate option is the greater of (a) the Federal Funds Effective Rate plus 0.50%, or (b) prime, plus, in either case, an applicable spread that ranges from 1.00% to 2.00% per annum. The other interest rate option is the London InterBank Offered Rate plus a spread that ranges from 2.75% to 3.75% per annum. The applicable spread under each option is dependent upon the ratio of our debt to EBITDA at the most recent determination date.

We are obligated to pay to the Administrative Agent for the account of each lender a quarterly commitment fee based on the average daily unused amount of the commitment of such lender, ranging from 0.30% to 0.45% per annum depending on the Total Leverage Ratio at the most recent determination date.

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The proceeds of the 2009 Credit Facility are available for our general corporate purposes and general working capital purposes.

Borrowings under the 2009 Credit Facility are subject to mandatory repayment with the proceeds of sales of certain of our real property, subject to certain exceptions.

The 2009 Credit Facility is secured by a perfected first priority lien on certain of our real property and all of the material personal property owned by us or any of our subsidiaries, other than certain excluded assets (as defined in the Credit Agreement). At August 31, 2011, the carrying value of the collateral securing the 2009 Credit Facility was $90.0 million.

The Credit Agreement contains the following covenants among others:

- the maintenance of EBTIDA of not less than (1) $4,500,000 for the fiscal quarter ended August 25, 2010, (2) $2,500,000 for the fiscal quarter ended November 17, 2010, (3) $3,500,000 for the fiscal quarter ended February 9, 2011, (4) $7,000,000 for the fiscal quarter ended May 4, 2011 and (5) $6,500,000 for the fiscal quarter ended August 31, 2011,

- maintenance of a ratio of (a) EBITDA for the four fiscal quarters ending on the last day of any fiscal quarter to (b) the sum of (x) interest expense (as defined in the Credit Agreement) for such four fiscal-quarter-period plus (y) the outstanding principal balance of the loans as of the last day of such fiscal quarter divided by seven (the Debt Service Coverage Ratio), of not less than (1) 2.00 to 1.00, beginning with the end of the fourth quarter of fiscal 2011 and ending with the first quarter of fiscal 2012, (2) 2.25 to 1.00 beginning with the end of the second quarter of fiscal 2012 and ending with the first quarter of fiscal 2013, and (3) 2.50 to 1.00 beginning with the end of second quarter of fiscal 2013 and thereafter,

- maintenance of minimum Tangible Net Worth (as defined in the Credit Amendment) at all times of not less than (1) $126.7 million as of the last day of the third fiscal quarter of fiscal 2011 and (2) increasing incrementally thereafter, as of the last day of each subsequent fiscal quarter, by an amount equal to 60% of our consolidated net income (if positive) for the fiscal quarter ending on such date,

- maintenance of minimum net profit of $1.00 (1) for at least one of the first three fiscal quarters of our 2012 fiscal year, (2) for at least one of any two consecutive fiscal quarters beginning with the fourth fiscal quarter of our 2012 fiscal year, and (3) for any period of four consecutive fiscal quarters beginning with the four consecutive fiscal years ending with the fourth quarter of our 2011 fiscal year,

- 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,

limiting Capital Expenditures (as defined in the Credit Agreement) to $10.0 million for the fiscal year ended August 25, 2010, to $15.0 million for the fiscal year ended August 31, 2011, and for any subsequent fiscal year, to the sum of (1) the lesser of (a) $38.0 million or (b) an amount equal to 130% of EBITDA for the immediately preceding fiscal year plus (2) any unused availability for capital expenditures from the immediately preceding fiscal year.

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

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We were in compliance with the covenants contained in the Credit Agreement as of August 31, 2011. To comply with our quarterly minimum EBITDA covenant for the fiscal quarter ended November 17, 2010, however, we requested and received approval from the lenders to add to EBITDA non-recurring expenses, as defined, related to our acquisition of substantially all of the assets of Fuddruckers. The definition of EBITDA in the Credit Agreement permits us to make adjustments to EBITDA for certain non-recurring expenses, as defined, or income items, among others, subject to the approval of the Administrative Agent. If we had not received approval to adjust our EBITDA, we would not have been in compliance with the minimum EBITDA covenant as of the end of the first quarter of fiscal 2011. Although we expected to meet the requirements of the minimum EBITDA covenant in the future, noncompliance could have had a material adverse affect on our financial condition and would have represented an event of default under the Credit Agreement.

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

As of August 31, 2011, we had $21.5 million in outstanding loans and $1.2 million committed under letters of credit, which were issued as security for the payment of insurance obligations.

First Amendment to 2007 Revolving Credit Facility

On March 18, 2009, we amended the 2007 Revolving Credit Facility as follows:

Reduced the aggregate amount of the lenders commitments from $50.0 million to $30.0 million. The amounts available under the 2007 Revolving Credit Facility, as amended by Amendment No. 1 thereto (the Amended Facility), may still be increased by up to $70.0 million, subject to certain terms and conditions, for a maximum total facility size of $100 million.

Modified the restriction on capital expenditures in fiscal years 2009 through June 30, 2012. In the original 2007 Revolving Credit Facility, capital expenditures were limited to the extent of our annual four-quarter rolling EBITDA plus 75% of the unused availability for capital expenditures from the immediately preceding fiscal year. We revised the level of spending allowed for capital expenditures by creating a floor of $20.0 million. The amount of agreed capital expenditures will be the greater of (1) $20.0 million in each fiscal year, or (2) the amount of 100% of the preceding fiscal year s EBITDA; plus, in either case, all of the unused availability for capital expenditures from the immediately preceding fiscal year.

Modified the interest rate margins to a range of 1.75% to 2.50% per annum. The applicable spread under each option continues to be dependent upon the ratio of our debt to EBITDA at the most recent determination date.

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

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

Modified certain financial covenants: including (1) the Interest Coverage Ratio from not less than 2.50 to not less than 2.00 and (2) the debt-to-EBITDA ratio from not greater than 3.00 to not greater than 2.75. The Amended Facility also amends the Interest Coverage Ratio calculation to now include one-fifth of the principal balance of the loans in the denominator.

The Amended Facility contains customary covenants and restrictions on our ability to engage in certain activities, asset sales, letters of credit, and acquisitions, and contains customary events of default.

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

2007 Revolving Credit Facility

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

At any time throughout the term of the facility, we had the option to elect one of two bases of interest rates. One interest rate option was the greater of (a) the Federal Funds Effective Rate plus 0.50%, or (b) prime, plus, in either case, an applicable spread that ranges from zero to 0.50% per annum. The other interest rate option was the London Interbank Offered Rate plus a spread that ranges from 0.75% to 2.00% per annum. The applicable spread under each option was dependent upon the ratio of our debt to EBITDA at the most recent determination date.

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

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

Certain current and former hourly restaurant employees filed a lawsuit against us in the U.S. District Court for the Southern District of Texas alleging violations of the Fair Labor Standards Act with respect to the inclusion of certain employees in a tip pool. The lawsuit sought back wages, penalties and attorney s fees and was conditionally certified as a collective action in October 2008. On October 22, 2010, we agreed to a court settlement amount of $1.6 million, recognized in general and administrative expenses in the fourth quarter fiscal year 2010. We made related payments of $1.4 million as of August 31, 2011, as required by the settlement. Per the settlement, all claims had to be filed by August 31, 2011. Therefore, the settlement is complete and we recognized a $0.2 million reduction in general and administrative expenses in the fourth quarter of fiscal year 2011.

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.

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Construction Activity

From time to time, we enter into non-cancelable contracts for the construction of our new restaurants. This construction activity exposes us to the risks inherent in new construction including but not limited to rising material prices, labor shortages, delays in getting required permits and inspections, adverse weather conditions, and injuries sustained by workers.

Contractual Obligations

At August 31, 2011, we had contractual obligations and other commercial commitments as described below:

		Payments due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
			(In thousands)		
Long-term debt	$ 21,587	$	$	$ 21,587	$
Operating lease obligations [(a)]	70,193	11,195	21,388	16,000	21,610
Uncertain tax positions liability [(b)]	83				
Total	$ 91,863	$ 11,195	$ 21,388	$ 37,587	$ 21,610

		Amount of Commitment by Expiration Period			
Other Commercial Commitments	**Total**	**Fiscal Year 2011**	**Fiscal Years 2012-2013**	**Fiscal Years 2014-2015**	**Thereafter**
			(In thousands)		
Letters of credit	$ 1,157	$ 1,157	$	$	$

(a) Operating lease obligations contain rent escalations and renewal options ranging from one to thirty years.

(b) The $83,000 of unrecognized tax benefits have been recorded as liabilities. 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 31, 2011 included amounts accrued for benefit payments under our supplemental executive retirement plan of $0.2 million, accrued insurance reserves of $0.9 million and deferred rent liabilities of $2.7 million.

We are also contractually obligated to our Chief Executive Officer pursuant to 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 provide services to Luby s, Inc. and its subsidiaries, as detailed in the Master Sales Agreement dated December 9, 2005 among us and the Pappas entities.

Under the terms of the 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

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custom-fabricated and refurbished equipment were $27,000, $33,000 and $367,000 in fiscal years 2011, 2010 and 2009, respectively. The decrease in fiscal year 2011 was primarily due to fewer restaurant openings in fiscal year 2011 than fiscal year 2010. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of our Board of Directors.

Operating Leases

In the third quarter of fiscal year 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited partner interest and a 50% general partner interest in the limited partnership. A third party company manages the center. One of our restaurants has rented approximately 7% of the space in that center since 1969. No changes were made to our lease terms as a result of the transfer of ownership of the center to the new partnership. We made payments of approximately $326,000, $316,000 and $339,000 during fiscal years 2011, 2010 and 2009, respectively, pursuant to the terms of the lease agreement, which currently includes an annual base rate of $14.64 per square foot per year plus maintenance taxes and insurance.

On November 22, 2006, we executed a new lease agreement with respect to this property. Effective upon our relocation and occupancy into the new space in July 2008, the new lease agreement provides for a primary term of approximately 12 years with two subsequent five-year options and gives the landlord an option to buy out the tenant on or after the calendar year 2015 by paying the then unamortized cost of improvements to the tenant. We are currently obligated to pay rent of $20.00 per square foot ($22.00 per square foot beginning January 2014) plus maintenance, taxes, and insurance during the primary term of the lease. Thereafter, the lease provides for reasonable increases in rent at set intervals. The new lease agreement was approved by the Finance and Audit Committee of our Board of Directors.

Affiliated rents paid for the Houston property lease represented 2.6%, 5.5%, and 6.2% of total rents for continuing operations in fiscal years 2011, 2010 and 2009, respectively.

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

		Year Ended	
	August 31, 2011 *(371 days)*	**August 25, 2010** *(364 days)*	**August 26, 2009** *(364 days)*
		(In thousands)	
AFFILIATED COSTS INCURRED:			
General and administrative expenses professional and other costs	$ 54	$ 58	$ 128
Capital expenditures custom-fabricated and refurbished equipment	27	33	367
Other operating expenses and opening costs, including property leases	329	329	356
Total	$ 410	$ 420	$ 851
RELATIVE TOTAL COMPANY COSTS:			
General and administrative expenses	$ 29,530	$ 25,503	$ 24,724
Capital expenditures	11,038	3,580	12,348
Other operating expenses and opening costs	77,302	51,488	56,701
Total	$ 117,870	$ 80,571	$ 93,773
AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS	0.35%	0.52%	0.91%

In November 2005, Christopher entered into a new employment agreement that were subsequently amended in April 2011 to extend the termination date thereof to August 2012. Mr. Pappas continues to devote his primary time and business efforts to Luby s, Inc. while maintaining his role at Pappas Restaurants, Inc.

On July 26, 2010, Christopher and Harris J. Pappas entered into a guaranty agreement with the Company s lenders in conjunction with the expansion of the Company s revolving credit facility under the terms of the Second Amendment to the Credit Agreement. With the execution of the Fifth Amendment to the Credit Agreement on August 25, 2011, the Pappas guaranty agreement was terminated.

On February 1, 2010, the Board of Directors of the Company approved the renewal of a consultant agreement with Ernest Pekmezaris, the Company s former Chief Financial Officer. Under the agreement, Mr. Pekmezaris will continue to furnish to the Company advisory and consulting services related to finance and accounting matters and other related consulting services. The agreement expiring on January 31, 2011 was renewed for twelve months at a lower monthly rate. Mr. Pekmezaris is also the Treasurer of Pappas Restaurants, Inc. Compensation for the services provided by Mr. Pekmezaris to Pappas Restaurants, Inc. is paid entirely by that entity.

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

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

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 U.S. generally accepted accounting principles. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. 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

The estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit 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. We periodically review the recoverability of tax assets recorded on the balance sheet and provide valuation allowances as management deems necessary.

If the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a net deferred tax asset, management will evaluate the probability of our ability to realize the future benefits of such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that all or some portion of the deferred tax asset will not be realized. The realization of such net deferred tax will generally depend on whether we will have sufficient taxable income of an appropriate character within the carryforward period permitted by the tax law.

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At the end of fiscal year 2009, the Company had total deferred tax assets of approximately $11.8 million. However, based on management s analysis of whether it was more likely than not that the deferred tax assets would be realized, management concluded that a valuation allowance of approximately $5.1 million was necessary at the end of fiscal year 2009. The decision was based on the large loss sustained from continuing operations for the year, the closure of many underperforming restaurants, and the tax net operating loss reported on the Company s current year and prior year federal income tax returns. Even though Management had implemented a plan to improve cash flow and redeploy capital, the circumstances did not provide evidence that it was more likely than not that all of the deferred tax assets would be realized. Therefore, a valuation allowance was established to partially offset the Company s federal net operating loss (NOL) carryovers to future years and the Company s carryover of federal general business tax credits.

At the end of the following fiscal year 2010, total deferred tax assets were approximately $14.5 million. Management reviewed the positive and negative evidence to determine whether these deferred tax assets would be realized. The negative evidence was that again the Company experienced a loss from continuing operations and would report a net operating loss for federal income taxes. On the positive side, however, the loss for the year was significantly less than in the prior year and expectations were that the improvements would continue. Also, the Company acquired substantially all the assets of Fuddruckers at the end of fiscal year 2010 with expectations of additional operational income in the future. Management incorporated these factors into projections of future taxable income but could not determine that it was more likely than not that all of the deferred tax assets would be realized over the projection period. A valuation allowance was still necessary but not in the same amount as the previous year. Management concluded that a valuation allowance of approximately $3.1 million at August 25, 2010 was necessary. The valuation allowance partially offset our NOL carryovers to future years and our carryover of federal general business tax credits and other credits. The reduction of the valuation allowance from August 26, 2009 was reported as part of the tax benefit included in Income/(loss) from continuing operations for fiscal year 2010.

At the end of fiscal year 2011, total deferred tax assets were approximately $13.5 million. Management reviewed the positive and negative evidence to determine whether these deferred tax assets would be realized. On the negative side, the Company will report another net operating loss on the federal income tax return. The positive evidence was that the Company earned income from continuing operations for the year. This has been a significant improvement over the last two years and indicates the Company s cash flow and capital redeployment plan may be working. Even though there were losses in the two prior years, Management is more confident that the integration of Fuddruckers and improvements in other operations will provide future revenue to allow the utilization of the deferred tax assets. Management incorporated these factors into projections of future taxable income but could not determine that it was more likely than not that all of the deferred tax assets would be realized over the projection period. A valuation allowance was still necessary but not in the same amount as the previous year. Management concluded that a valuation allowance of approximately $2.6 million at August 31, 2011 was necessary. The valuation allowance partially offsets our carryover of federal general business tax credits. The reduction of the valuation allowance from August 25, 2010 is reported as part of the tax expense included in Income/(loss) from continuing operations for fiscal year 2011.

Two of the most significant items included in deferred tax assets are NOL carryovers and general business tax credits. Both of these items may be carried over up to twenty years in the future for possible utilization in the future. NOL amounts carryover beginning in fiscal year 2008 and will begin to expire at the end of fiscal year 2028 through fiscal year 2031, if not utilized by then. The carryover of general business tax credits and other credits were also impacted by amended federal returns, and subsequent to these filings, general business tax credit amounts carryover beginning in fiscal year 2002 and will begin to expire at the end of fiscal year 2022 through 2031, if not utilized by then.

The valuation allowance amounts as of fiscal year 2009 and 2010 partially offset our NOL carryovers to future years and our carryover of general business tax credits. The valuation allowance as of fiscal year 2011 partially offset only our carryover of general business tax credits since a valuation allowance on our NOL carryovers is no longer necessary, as these assets are more likely than not to be fully realized. Considering continuing operational performance and forecasted taxable income projections, management anticipates the NOL carryovers as of the fiscal year ended August 31, 2011 to be realized within five years subsequent. The partial reversals of the valuation allowance amounts in fiscal years 2010 and 2011, were based upon continued improvement in current and projected operational performance, ability to utilize NOL amounts through carryforward and carryback, as well as recent sustained losses from continuing operations. This positive and negative evidence was weighed, and in each year an increasing portion of our deferred tax assets were determined to be realizable, on a more likely than not basis, with a valuation allowance provided for these amounts. The reductions of the valuation allowance in fiscal years 2010 and 2011 are reported as part of the income tax expense (or benefit) included in Income (loss) from continuing operations for the year.

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 155 restaurants as of November 9, 2011 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. We believe we have one location with an aggregate net carrying value of assets in use of $1.1 million where it is reasonably possible for an impairment charge to be taken over the next 12 months. 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.

Investments

Investments included available-for-sale securities, classified as long-term and reported at fair value. Securities available-for-sale consist of auction rate securities. Declines in fair value of available-for-sale securities were analyzed to determine if the decline was temporary or other-than-temporary. Temporary unrealized gains and losses on available-for-sale securities were excluded from earnings and reported in shareholders equity. Other-than-temporary declines reduce earnings. Increases in other-than-temporary declines in fair value realized until the securities were sold.

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

Share-Based Compensation

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 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, expected option life, risk free interest rate and dividend yield are used in the model.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurements (Topic 820) which amends the fair value measurement and disclosure requirements. The amendment is effective during interim and annual reporting periods beginning after December 15, 2011. We are currently evaluating the impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) which requires companies to present total comprehensive income and its components and the components of net income in either a single continuous statement of comprehensive income or in two consecutive statements reporting net income and comprehensive income. This requirement eliminates the option to present components of comprehensive income as part of the statement of changes in shareholders equity. This guidance affects only the presentation of comprehensive income and does not change the components of comprehensive income. This guidance is effective for fiscal years beginning after December 15, 2011 on a retrospective basis. We do not expect that the adoption of this accounting guidance in the first quarter of fiscal year 2012 will have a significant impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of supplemental pro forma information for business combinations. The guidance is effective for fiscal years beginning after December 15, 2010. We do not expect the guidance to have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, Intangibles Goodwill and Other (Topic 350): When to perform step two of the goodwill impairment test for reporting units with zero or negative carrying amounts. The guidance is effective for fiscal years beginning after December 15, 2010. We do not expect the guidance to have a material impact on our consolidated financial statements.

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 market risk from changes in interest rates affecting our variable-rate debt. As of August 31, 2011, the total amount of debt subject to interest rate fluctuations outstanding under our Amended New Credit Facility was $21.5 million. Assuming an average debt balance of $21.5 million, a 1.0% increase in prevailing interest rates would increase our annual interest expense by $0.2 million.

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

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

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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 its subsidiaries as of August 31, 2011 and August 25, 2010, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended August 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Luby s, Inc. and its subsidiaries as of August 31, 2011 and August 25, 2010, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2011 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), Luby s, Inc. and its subsidiaries internal control over financial reporting as of August 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO*)* and our report dated November 14, 2011 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas

November 14, 2011

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Report of Independent Registered Public Accounting Firm on

Internal Control over Financial Reporting

Board of Directors and Shareholders

Luby s, Inc.

We have audited Luby s, Inc. (a Delaware corporation) and its subsidiaries internal control over financial reporting as of August 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Luby s, Inc. and its subsidiaries 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 appearing under Item 9A. Our responsibility is to express an opinion on Luby s, Inc. and its subsidiaries internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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.

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.

In our opinion, Luby s, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of August 31, 2011, based on criteria established in *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), the consolidated balance sheets of Luby s, Inc. and its subsidiaries as of August 31, 2011 and August 25, 2010, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years ended August 31, 2011 and our report dated November 14, 2011 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas

November 14, 2011

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Luby s, Inc.

Consolidated Balance Sheets

	August 31, 2011	August 25, 2010
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,252	$ 2,300
Trade accounts and other receivables, net	4,429	2,213
Food and supply inventories	4,191	3,097
Prepaid expenses	1,960	1,070
Assets related to discontinued operations	67	49
Deferred income taxes	2,865	431
Total current assets	14,764	9,160
Property held for sale	1,046	1,828
Assets related to discontinued operations	7,837	18,418
Property and equipment, net	166,963	172,040
Intangible assets, net	28,098	29,292
Goodwill	195	195
Deferred incomes taxes	7,680	9,672
Other assets	1,437	1,737
Total assets	$ 228,020	$ 242,342
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 14,226	$ 12,514
Liabilities related to discontinued operations	609	884
Accrued expenses and other liabilities	18,587	19,047
Total current liabilities	33,422	32,445
Credit facility debt	21,500	41,500
Liabilities related to discontinued operations	1,220	953
Other liabilities	6,841	6,083
Total liabilities	62,983	80,981
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
Common stock, $0.32 par value; 100,000,000 shares authorized; Shares issued were 28,651,277 and 28,564,024, respectively; Shares outstanding were 28,151,277 and 28,064,024, respectively	9,168	9,140
Paid-in capital	23,772	23,089
Retained earnings	136,872	133,907
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders equity	165,037	161,361
Total liabilities and shareholders equity	$ 228,020	$ 242,342

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

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Luby s, Inc.

Consolidated Statements of Operations

	Year Ended		
	August 31, 2011	August 25, 2010	August 26, 2009
	(In thousands except per share data)		
SALES:			
Restaurant sales	$ 325,383	$ 230,342	$ 245,799
Culinary contract services	15,619	13,728	12,970
Franchise revenue	7,092	645	
Vending revenue	654	44	
TOTAL SALES	348,748	244,759	258,769
COSTS AND EXPENSES:			
Cost of food	94,166	63,477	67,922
Payroll and related costs	113,083	82,824	89,283
Other operating expenses	76,956	51,245	56,483
Opening costs	346	243	218
Cost of culinary contract services	14,516	12,464	11,747
Depreciation and amortization	17,204	15,217	16,021
General and administrative expenses	29,530	25,503	24,724
Provision for asset impairments, net	84	282	6,740
Net gain on disposition of property and equipment	(1,427)	(924)	(916)