Good Food from Good People

LUBY'S, INC. ANNUAL REPORT

2019

BOARD OF DIRECTORS

Gerald Bodzy (1+, 2+, 3, 4)
Chairman of the Board, Luby's, Inc.
President and Owner
Showcase Custom Vinyl Windows and Doors

Gasper Mir, III (1, 2, 4)
Former Principal, MFR Group, Inc.
Retired Certified Public Accountant

Christopher J. Pappas
President and Chief Executive Officer
Luby's, Inc.

John Morlock (2, 3+)

Randolph Read (1, 2+, 4)
President and Chief Executive Officer
Nevada Strategic Credit Investments, LLC

Jill Griffin (1, 3)
Principal,
Griffin Group

Frank Markantonis (1, 2, 4)
Attorney
Law Offices of Frank Markantonis

Joe C. McKinney (1, 2, 3, 4+)
Vice Chairman,
Broadway National Bank

Twila Day (2, 3, 4)
Chief Information Officer
Huntsman Corporation

(1) Nominating & Corporate Governance Committee
(2) Special Committee
(3) Compensation Committee
(4) Finance & Audit Committee

+ Indicates Chair

Current Board as of December 27, 2019

EXECUTIVE OFFICERS

Gerald Bodzy
Chairman of the Board*

Christopher J. Pappas
President and Chief Executive Officer+*

Benjamin Todd Coutee
Chief Operating Officer*

K. Scott Gray
Senior Vice President, Chief Financial Officer,
Treasurer and Controller*

OFFICERS

Trent Taylor
Vice President, Luby's Operations

Shan Peters
Vice President, Fuddruckers Operations

Michael Racusin
Associate General Council and Corporate Secretary*

Philip Rider
Vice President, Accounting and SEC Reporting

Paulette Gerukos
Vice President, Human Resources

Steve Goodweather
Vice President,
Financial Planning and Analysis and Investor Relations

Bill Gordon
Vice President, Real Estate

David Greenberg
Vice President, Brand and Marketing Strategy

Derrick Ross
Vice President, Risk Management

John Holzem
Vice President, Information Technology

* Officers of Luby's, Inc.

Officers as of August 30, 2019

To Our Shareholders,

Fiscal 2019 proved to be a challenging year for our brands and the company. We are clearly not pleased with continuing losses and their impact on our shareholders. The business landscape for the restaurant industry is experiencing rapid change and we are taking steps to effectively compete. Disruptive factors such as home delivery channels, on-line ordering, grocery store meal-replacement options, along with an environment of low unemployment are challenging all restaurant operators to accept and adopt the new fulfillment options. Throughout the fiscal year, we evaluated every aspect of our company: store operations, corporate overhead, the real estate portfolio, and our funding needs, along with ways to streamline operations throughout the organization to be more efficient. We are focused on increasing sales and guest traffic and improving our business model at the restaurant and corporate office level, including reducing corporate overhead significantly to fit the current size of our business.

Our namesake Luby's Cafeteria and our Fuddruckers "World's Greatest Hamburgers" have a long history with loyal guests that seek us out in the marketplace. These are iconic American brands that have served guests fresh, wholesome and delicious offerings for decades. So, while we enjoy terrific market recognition and guest affinity for our brands, we realize we need to accomplish more to restore profitability. We have installed fresh leadership with a new Chief Operating Officer, Marketing Vice President, and Information Technology Vice President, as well as many highly capable field management individuals that are executing the changes necessary to change the performance of our brands. The turn-around of the business in the highly competitive marketplace requires a multi-pronged approach. To grow guest traffic, we must meet and exceed our guest expectations for service as well as food quality and menu relevance. As guest preferences evolve, we are changing to meet these preferences, including enhanced options for dining away from the stores and through our use of technology.

Recapping fiscal 2019 results, we grew adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) from zero in fiscal 2018 to $3.7 million in fiscal 2019 – this is before other charges reflecting restructuring and other one-time costs. We nevertheless reported a loss from continuing operations of $15.2 million in fiscal 2019, compared to a loss of $33.0 million in the prior year. Fiscal 2019 same-store sales declined 4.2%; however, guest traffic trends demonstrated improvement throughout the year. Early in fiscal 2020, that positive trend persists as guest traffic continues to improve.

In Culinary Contract Services, we are very pleased with the continued growth momentum in this business where revenue increased $6.1 million, or 23.7% in fiscal 2019 compared to fiscal 2018 and has doubled over the past four years. We continue to see additional opportunities for growth in this business segment.

While working to grow guest traffic, we are also focused on lowering expenses as we better align our overhead with the reduced level of stores in operation. Over the last two fiscal years, we closed 38 underperforming restaurants: 9 Luby's Cafeterias, 22 Fuddruckers, and 7 Cheeseburger in Paradise restaurants. This reduced operational footprint allows us to concentrate all efforts and capital on the better performing remaining locations. In fiscal 2019, corporate overhead costs decreased approximately 12%. In addition, we have several levers we plan to pull in 2020 to reduce costs further.

Additionally, in early fiscal 2019, we entered into a new 5-year credit agreement, giving us additional time to return to profitability.

To enhance short-term financial flexibility while working to improve our financial performance, we also

sold several restaurant properties generating $41 million over the last 18 months. The company continues to own 74 real estate properties, a very significant asset which we intend to manage for the long-term benefit of our shareholders.

Turning now to the capital investment side, our expenditures in fiscal 2019 were less than $4.0 million, a significant decrease from over $13.0 million in fiscal 2018. We continue to conserve capital, while investing at a level to maintain our restaurants' overall function and guest appeal.

At the board level, we replaced three retiring directors during fiscal 2019 with three new independent directors, adding significant public board and restaurant industry experience to our board. In addition, Gerald Bodzy assumed the role of Independent Chairman in August 2019. In September 2019, the company's Board of Directors formed a new Board special committee, comprised of independent directors, with the purpose of establishing a strategic review process to identify, examine and consider a range of strategic alternatives that are available to the company with the objective of maximizing shareholder value.

Within our operations, we evaluated guest preferences and technological trends, as our team has been focused on off-premise dining as the emerging factor in guest traffic and sales growth. Understanding that we must also provide the opportunity to meet guests where they are, online ordering, third-party delivery, and curbside delivery have all become a bigger part of our strategy and a driver of sales growth. Convenience, especially at the dinner meal, has become an important component in executing this plan. We are testing product, packaging, and pricing that will maintain the integrity of our product and support our endeavors to compete in this segment.

From a marketing perspective, we ramped up our advertising efforts in the digital space. The responses confirm the value we offer and the familiarity that our guests cherish. We know that loyal guests have an emotional connection to our brands which we are re-enforcing through digital channels on social media, websites such as Yelp, and in-application banner ads and much more.

Within our Luby's Cafeteria business, we continue to provide guests with convenient, great tasting, home style meals at an excellent value in a comfortable environment. We continue to see positive results as we maintain a consistent pricing structure that allows the value-minded guest an opportunity to dine with us multiple times per week. As we continue to grow traffic, our marketing efforts focus on existing frequent guests who are loyal to the brand. Our Cafeterias are a Texas born brand, and we are speaking to that proud heritage in a way that resonates to this key demographic throughout our Texas markets.

Fuddruckers remains a strong brand that is widely known and well-regarded. While our same-store sales fell short of expectations in 2019, we believe we are on the right path to improve those results in 2020 in a very competitive restaurant category segment. A primary focus at Fuddruckers, similar to the value orientation in our cafeteria restaurants, is promoting our $7.00, $8.00 and $9.00 burger combo options, along with higher-priced specialty chef-inspired premium offerings such as our Angus truffle-infused burger and our amazing Nashville hot chicken sandwich. We strive to distinguish ourselves in the crowded and hypercompetitive burger segment with offerings that are imaginative and crave-able and with differentiation using our you top it your way fresh produce bar and free melted cheese. No one else does it that way.

The Luby's Culinary Contract Services business, our contract foodservice brand, continues to be a terrific area of growth for our company. As an amenity to the health care, senior living communities, and corporate dining facilities, as well as stadium venues, we custom tailor solutions that meet the unique requirements and preferences of each valued client. This not only appeals to our clients, but also provides us with a competitive brand advantage in this business segment. In addition, within our Culinary Services business segment,

our retail packaged goods continue to be a focus as our culinary team is testing new items to sell through our valued Texas partner, H-E-B supermarkets. Our existing offerings include Luby's famous mac and cheese, our traditional square fried fish, and chicken tetrazzini and broccoli rice casserole, all of which have been very strong performers. This line of business is an excellent area of opportunity for us to extend brand and food offerings beyond the restaurant locations.

As part of our efforts to align corporate overhead with the size of our current business we are transitioning portions of accounting, payroll, operational reporting and other back-office functions to a leading multi-unit restaurant outsourcing firm. We hope to complete the transition in the first calendar quarter of 2020 on some of these changes, and we hope to realize additional cost savings from this transition over time.

We see that both of our core brands are recently trending in the right direction. We are working diligently to increase same-store sales and guest traffic, and to improve operating leverage from a stream-lined cost structure. These efforts are all aimed at increasing cash flow and restoring profitability. While this is obviously a process, we have confidence in our restaurant teams, field support teams, and leadership team, as they strive for progress on our turnaround plans. For over 70 years, one of our core values has been "Good Food from Good People" – a message that continues to ring true. Luby's best brand assets to turn around the company are the 6,000 employees that serve our guests every day, one meal at a time. I applaud their hard work in showcasing our brands' value. The Board of Directors, management and employee teams are all aligned with the initiatives and singular mission of improving Luby's financial health and growing shareholder value.

CHRISTOPHER J. PAPPAS
President and Chief Executive Officer, Luby's, Inc.

HEADQUARTERS

Luby's, Inc.
13111 Northwest Freeway
Suite 600
Houston, TX 77040
713.329.6800
lubysinc.com

NOTICE OF ANNUAL MEETING

The 2020 annual meeting of shareholders will be held Wednesday, February 5, 2020, at 10:00 a.m. local time, at the Luby's Corporate Office Building, 13111 Northwest Freeway, Suite 300, Houston, TX 77040.

REGISTER AND STOCK TRANSFER AGENT

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800.937.5449
www.amstock.com

INDEPENDENT AUDITOR

Grant Thorton LLP
333 Clay Street
2700 Three Allen Center
Houston, TX 77002

ANNUAL REPORT

The 2019 Luby's, Inc. Annual Report on Form 10-K is available online at lubysinc.com or additional copies may be obtained by contacting Investor Relations at 713.329.6808, to receive a hard copy report.

NYSE STOCK SYMBOL

LUB

COMPANY INFORMATION

Luby's, Inc. is a multi-branded food service company operating in the retail restaurant and contract service settings. Our primary brands include Luby's Cafeteria, Fuddruckers and Luby's Culinary Contract Services.

As of November 15, 2019 we operated 120 company-owned restaurants located throughout the United States. These establishments are located in close proximity to retail centers, business developments and residential areas. Of the 120 restaurants, 78 are Luby's Cafeterias, 41 are Fuddruckers Restaurants and 1 is a Cheeseburger in Paradise full service restaurant and bar. We also had 98 franchised Fuddruckers restaurants, of which 90 are located in 25 states, 3 in Panama, 2 in each Canada and Mexico and 1 in Puerto Rico. We operate culinary contract services at 32 locations. Of the 32 locations, 30 are in Texas: 22 are in Houston, 3 are in the Rio Grande Valley, 2 are in Dallas, 2 are in San Antonio and 1 is in Northwest Texas. The remaining culinary contract service locations are in Greensboro, NC and Kansas. Luby's Culinary Contract Services provides food service management to healthcare, corporate dining, and sports stadiums at their facilities as well as sells packaged food items at retail grocery stores.

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

FORM 10-K

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

For the Fiscal Year Ended August 28, 2019

☐ **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:

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

Title of each class	Trading Symbol(s)	Name of each exchange at which registered
Common Stock ($0.32 par value per share)	LUB	New York Stock Exchange
Common Stock Purchase Rights	N/A	New York Stock Exchange

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

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

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

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

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

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

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

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

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

The aggregate market value of the shares of common stock of the registrant held by non-affiliates of the registrant as of March 13, 2019, was approximately $32,205,000 (based upon the assumption that directors and executive officers are the only affiliates).

As of November 15, 2019, there were 30,041,422 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 2020 annual meeting of shareholders (in Part III)

Luby's, Inc.
Form 10-K
Year ended August 28, 2019
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Additional Information

We file reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. The SEC maintains an Internet site at *http://www.sec.gov* that contains the reports, proxy and information statements, and other information that we file electronically. Our website address is *www.lubysinc.com*. 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 29, 2018. We expect to submit the CEO certification with respect to our fiscal year ended August 28, 2019 to the NYSE within 30 days after our annual meeting of shareholders. We are filing as an exhibit to this Form 10-K the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002.

FORWARD-LOOKING STATEMENTS

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

- future operating results;
- future capital expenditures, and expected sources of funds for capital expenditures;
- future debt, including liquidity and the sources and availability of funds related to debt, the expected repayment of debt and the expected sources of funds for working capital requirements;
- plans for expansion of our business;
- closing existing units;
- effectiveness of management's disposal plans;
- future sales of assets and the gains or losses that may be recognized as a result of any such sales; and
- continued compliance with the terms of our 2018 Credit Agreement.

In some cases, investors can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "outlook," "may" "should," "will," and "would" or similar words. Forward-looking statements 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:

- our ability to pursue strategic alternatives;
- general business and economic conditions;
- the impact of competition;
- decisions made in the allocation of capital resources;
- our operating initiatives, changes in promotional, couponing and advertising strategies, and the success of management's business plans;
- fluctuations in the costs of commodities, including beef, poultry, seafood, dairy, cheese, oils and produce;
- ability to raise menu prices and customers acceptance of changes in menu items;
- increases in utility costs, including the costs of natural gas and other energy supplies;
- changes in the availability and cost of labor, including the ability to attract qualified managers and team members;
- the seasonality of the business;
- collectability of accounts receivable;
- changes in governmental regulations, including changes in minimum wages and healthcare benefit regulation;
- the effects of inflation and changes in our customers' disposable income, spending trends and habits;
- the ability to realize property values;
- the availability and cost of credit;
- the effectiveness of our credit card controls and Payment Card Industry ("PCI") compliance;
- weather conditions in the regions in which our restaurants operate;
- costs relating to legal proceedings;
- impact of adoption of new accounting standards;
- effects of actual or threatened future terrorist attacks in the United States;
- unfavorable publicity relating to operations, including publicity concerning food quality, illness or other health concerns or labor relations; and
- the continued service of key management personnel.

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

PART I

Item 1. Business

Overview

Luby’s, Inc. is a multi-branded company operating in the restaurant industry and in the contract food services industry. Our core brands include Luby’s Cafeteria, Fuddruckers - World’s Greatest Hamburgers® and Luby’s Culinary Contract Services. We also operate another restaurant brand named Cheeseburger in Paradise.

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

Prior to the fourth quarter of fiscal 2019 our internal organization and reporting structure supported three reportable segments; Company-owned restaurants, Fuddruckers franchise operations and Culinary contract services. The Company-owned restaurants consisted of the three brands discussed above, which were aggregated into one reportable segment. In the fourth quarter of fiscal 2019 we re-evaluated our reportable segments and disaggregated the Company-owned restaurants into three reportable segments based on brand name. As such, as of the fourth quarter 2019, our five reportable segments are Luby’s cafeteria restaurants, Fuddruckers restaurants, Cheeseburger in Paradise restaurants, Fuddruckers franchise operations and Culinary contract services. Management believes this change better reflects the priorities and decision-making analysis around the allocation of our resources and better aligns to the economic characteristics within similar restaurant brands. We began reporting on the new structure in the fourth quarter of fiscal 2019 as reflected in this Annual Report on Form 10-K. The segment data for the comparable periods presented has been recast to conform to the current period presentation. Recasting this historical information did not have an impact on the consolidated financial performance of Luby’s Inc. for any of the periods presented.

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

As of November 15, 2019, we operated 120 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 120 restaurants, 71 are located on property that we own and 49 are located on property that we lease. Five of our owned locations and one of our leased locations consist of a side-by-side Luby’s Cafeteria and Fuddruckers restaurant, to which we refer herein as a “Combo location.” The Combo location properties are included in both the Luby's Cafeterias count and the Fuddruckers Restaurants count.

	Luby's Cafeterias		Fuddruckers Restaurants		Other	
	Owned	Leased	Owned	Leased	Leased	Total
Texas:						
Houston Metro	16	12	8	9	—	45
San Antonio Metro	9	1	—	—	—	10
Rio Grande Valley	8	4	—	—	—	12
Dallas/Fort Worth Metro	10	2	1	—	—	13
Austin	4	—	1	—	—	5
Other Texas Markets	9	2	—	2	—	13
California	—	—	—	6	—	6
Arizona	—	—	—	4	—	4
Illinois	—	—	3	—	—	3
Mississippi	1	—	1	—	—	2
Other States	—	—	—	6	1	7
Total	57	21	14	27	1	120

As of November 15, 2019, we operated 32 locations through our Culinary Contract Services (“CCS”).

	Total
Texas:	
Houston Metro	22
San Antonio Metro	2
Rio Grande Valley	3
Dallas/Fort Worth Metro	2
Northwest Texas	1
Kansas	1
Greensboro, NC	1
Total	32

As of November 15, 2019, we had 38 franchisees operating 98 Fuddruckers restaurants in locations as set forth in the table below. Our largest six franchisees own 5 to 12 restaurants each. Twelve franchise owners each own two to four restaurants. The 20 remaining franchise owners each own one restaurant.

	Fuddruckers Franchises
Texas:	
Houston Metro	7
Dallas/Fort Worth Metro	7
Other Texas Markets	10
California	5
Connecticut	1
Florida	8
Georgia	3
Louisiana	3
Maryland	1
Massachusetts	4
Michigan	3
Missouri	2
Mississippi	1
Montana	2
Nebraska	1
Nevada	3
New Jersey	2
New Mexico	4
North Carolina	1
North Dakota	1
Oklahoma	1
Oregon	1
Pennsylvania	5
South Carolina	8
South Dakota	1
Tennessee	2
Virginia	3
International:	
Canada	2
Mexico	2
Panama	3
Puerto Rico	1
Total	98

In November 1997, a prior owner of the Fuddruckers - World's Greatest Hamburgers® brand granted to a licensee the exclusive right to use the Fuddruckers proprietary marks, trade dress, and system to develop Fuddruckers restaurants in a territory consisting of certain countries in Africa, the Middle East, and parts of Asia. As of November 15, 2019, this licensee operates 35 restaurants that are licensed to use the Fuddruckers proprietary marks in Saudi Arabia, Egypt, United Arab Emirates, Qatar, Jordan, Bahrain, and Kuwait. The Company does not receive revenue or royalties from these restaurants.

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

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

corporation in 1973, and became listed on the NYSE in 1982. The Company's operations continue to be conducted by its wholly-owned subsidiary, LFR.

Board Special Committee

In September 2019, the Company's Board of Directors formed a new Board Special Committee comprised of independent directors with the purpose of establishing a strategic review process to identify, examine, and consider a range of strategic alternatives available to the Company with the objective of maximizing shareholder value. The Board Special Committee consists of the following members: Gerald Bodzy, Twila Day, Joe McKinney, Gasper Mir, John Morlock, and Randolph Read. The Board Special Committee is co-chaired by Messrs. Bodzy and Read.

Brookwood and Associates, previously engaged by the Company, is advising the Board Special Committee as a financial advisor to assist in certain aspects of the strategic alternatives review process. The Special Committee has retained Gibson, Dunn & Crutcher LLP to advise on various legal matters.

The Board of Directors has not made a decision to enter into any transaction at this time, and there are no assurances that the consideration of strategic alternatives will result in any transaction. The Company does not intend to comment on or disclose developments regarding the process unless it deems further disclosure appropriate or required. Please see "Risk factors" in Item 1A.

Operational Focus

Our operational focus is to generate consistent and sustainable same-store sales growth and improved store level profit. From an operating standpoint, we support this strategic focus through the following:

1. Striving for consistently successful execution: Every day, with every guest, at every restaurant we operate.

2. Developing our human capital: Our team members are the most critical factor in ensuring our Company’s success. Our relentless focus as a company must be inspiring and developing our team members to delight our guests.

3. Raising awareness of our brand: Our restaurants provide guests in our local communities with memories of family, friends, childhood, a great date, a memorable birthday, or a significant accomplishment. The most reliable ways to grow and sustain our business is to perpetuate word of mouth and remain involved in the community. We must share our story with our guests in our restaurants. This allows new guests to learn our brand story and also reaffirms it with legacy and loyal guests. Loyal guests spread the word about our brand. Our most loyal guests typically agree to be in our E-club so we can communicate with them and reward them. Digital media marketing and advertising has become an integral component of our guest outreach efforts.

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

5. Cost management: We evaluate each area of our business to assess that we are spending and investing at appropriate levels. This includes restaurant operating costs and corporate overhead costs. Within our restaurants, we seek opportunities with our food and supplies purchasing, menu offerings, labor productivity, and contracts with restaurant service providers to maintain an appropriate restaurant level cost structure. Within our corporate overhead, we continue to seek opportunities to stream-line corporate overhead, evaluate outsourcing certain corporate functions, and optimize staffing levels.

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

Luby’s Cafeteria Operations

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

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

Luby's Cafeteria's product offerings are home-style made-from-scratch favorites priced to appeal to a broad range of customers, including those customers that focus on fast wholesome choices, quality, variety, and affordability. We have had particular success among families with children, shoppers, travelers, seniors, and business people looking for a quick, freshly prepared meal at a fair price. All of our restaurants sell food-to-go orders and third party delivery orders which comprised approximately 17% of our Luby's Cafeteria restaurant sales in fiscal 2019.

Menus are reviewed periodically and new offerings and seasonal food preferences are regularly incorporated. Each restaurant is operated as a separate unit under the control of a general manager who has responsibility for day-to-day operations, including food production and personnel employment and supervision. Restaurants generally have a staff led by a general manager, an associate manager and assistant managers. We grant authority to our restaurant managers to direct the daily operations of their stores and, in turn, we compensate them on the basis of their performance. Each general manager is supervised by an area leader. Each area leader is responsible for approximately 7 to 11 restaurants, depending on the area supervised.

In fiscal 2019, we closed five Luby's Cafeterias. The number of Luby's Cafeterias was 79 at fiscal year-end 2019.

Fuddruckers Restaurants

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

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

Restaurants generally have one general manager with two or three assistant managers and a number of full-time and part-time associates working in overlapping shifts. Since Fuddruckers generally utilizes a self-service concept, similar to fast casual, it typically does not employ waiters or waitresses. Fuddruckers restaurant operations are currently divided into a total of four geographic areas, each supervised by an area leader. Each area leader is responsible for approximately 6 to 15 restaurants, depending on the area supervised.

In fiscal 2019, we closed 11 Company-owned Fuddruckers restaurants and transitioned 5 Company-owned Fuddruckers restaurants to a franchisee. The number of Fuddruckers restaurants was 44 at fiscal year-end 2019.

Fuddruckers Franchising

Fuddruckers offers franchises in markets where it deems expansion to be advantageous to the development of the Fuddruckers concept and system of restaurants. A standard franchise agreement generally has an initial term of 20 years. Franchise agreements typically grant franchisees an exclusive territorial license to operate a single restaurant within a specified area, usually a four-mile radius surrounding the franchised restaurant. Luby's management will continue developing its relationships with our franchisees over the coming years and beyond.

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

All franchisees are required to operate their restaurants in accordance with Fuddruckers standards and specifications, including controls over menu items, food quality and preparation. We require the successful completion of our training program by a minimum

of three managers for each franchised restaurant. In addition, franchised restaurants are evaluated regularly for compliance with franchise agreements, including standards and specifications through the use of periodic, unannounced on-site inspections, and standards evaluation reports.

The number of franchised restaurants was 102 at fiscal year-end 2019.

Culinary Contract Services

Our CCS segment consists of a business line servicing long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, retail grocery stores, behavioral hospitals, sports stadiums, senior living facilities, government, and business and industry clients, primarily in Texas. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service, and retail dining. Our mission is to re-define the contract food industry by providing tasty and healthy menus with customized solutions for healthcare, senior living, business and industry and higher education facilities. We seek to provide the quality of a restaurant dining experience in an institutional setting. At fiscal year-end 2019, we had contracts with 12 long-term acute care hospitals, 7 acute care hospitals, three business and industry clients, three sport stadiums, one governmental facility, one medical office building, two senior living facilities, one behavioral facility and one freestanding coffee venue located inside an office building. We have the unique ability to deliver quality services that include facility design and procurement as well as nutrition and branded food services to our clients.

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

Intellectual Property

Luby’s, Inc. owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information, including the Luby’s and Fuddruckers logos, trade names and trademarks, which are of material importance to our business. Depending on the jurisdiction, trademarks, and service marks generally are valid as long as they are used and/or registered. Patents, copyrights, and licenses are of varying durations. The success of our business depends on the continued ability to use existing trademarks, service marks, and other components of our brands in order to increase brand awareness and further develop branded products. We take prudent actions to protect our intellectual property.

Employees

As of November 15, 2019, we had an active workforce of 6,133 employees consisting of restaurant management employees, non-management restaurant employees, CCS management employees, CCS non-management employees, and office and facility service employees. Employee relations are considered to be good. We have never had a strike or work stoppage, and we are not subject to collective bargaining agreements.

Item 1A. Risk Factors

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

We are exploring various strategic alternatives to enhance shareholder value, but this strategic review process may not result in the achievement of the desired goal of enhancing shareholder value.

In September 2019, we announced that our Board formed a new Special Committee with the purpose of establishing a strategic review process to identify, examine and consider a range of strategic alternatives available to the Company with the objective of maximizing shareholder value. The process of exploring strategic alternatives may be time consuming and disruptive to our business operations and may impair our ability to retain and motivate key personnel. We may incur substantial expenses associated with identifying, evaluating and preparing for any such strategic alternatives. Any potential transaction would be dependent upon a number of factors that may be beyond our control, including, among other factors, market conditions, industry trends, regulatory limitations and the interest of third parties in us and our assets. There can be no assurance that the exploration of strategic alternatives will result in any specific action or transaction. Further, any such strategic alternative may not ultimately lead to increased shareholder value.

General economic and business conditions as well as those specific to the restaurant industry may adversely affect our business, financial condition and results of operations.

Our business results depend on a number of industry-specific and general economic factors, many of which are beyond our control. These factors include consumer income, interest rates, inflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, and other matters that influence consumer confidence and spending. The restaurant industry is affected by changes in national, regional and local economic conditions, seasonal fluctuation of sales volumes, and consumer spending patterns. Discretionary consumer spending, which is critical to our success, is influenced by general economic conditions and the availability of discretionary income. A deterioration in the global or local economy or other economic conditions affecting disposable consumer income, such as unemployment levels, reduced home values, investment losses, inflation, business conditions, fuel and other energy costs, consumer debt levels, lack of available credit, consumer confidence, interest rates, tax rates and changes in tax laws, may reduce consumer confidence and affected consumers' ability or desire to spend disposable income. This may adversely affect our business by reducing overall consumer spending or by causing customers to reduce the frequency with which they dine out or to shift their spending to our competitors, any of which could result in lower revenues, increased costs, reduced traffic, or limits on pricing, any of which could have a material adverse effect on our financial condition and results of operations.

Regional events can adversely affect our financial performance.

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

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

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

Failure of our efforts designed to effect a turn-around of the business could adversely affect our business, financial condition and results of operations.

We have directed, and expect to continue to direct our efforts toward effecting a turn-around of the business with the aim of re-establishing a solid foundation from which profitability can be restored. This includes an asset sales program, menu innovation, efforts to attract and retain the most talented employees, culinary innovation enhancements, marketing initiatives, and the initiative to re-franchise company-owned Fuddruckers locations. Some or all of our efforts and initiatives are inherently risky and uncertain in their application to our business in general, even when tested successfully on a more limited scale. Failure to achieve successful implementation of any or all of our efforts could adversely affect our business, financial condition, and results of operations.

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

As of August 28, 2019, we had shareholders' equity of $101 million compared to:

- $48.7 million of long-term debt comprised of a $43.4 million Term Loan and a $5.3 million Revolver;
- $40.2 million of minimum operating and capital lease commitments; and

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

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

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

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

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

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

The impact of inflation may adversely affect our results of operations.

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

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

We may from, time to time, be the subject of complaints or litigation from customers alleging illness, injury or other food quality, health or operational concerns. Unfavorable publicity relating to one or more of our restaurants or to the restaurant industry in general may taint public perception of the Luby's Cafeteria and 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 healthcare benefits, worker's compensation and employee injury claims.

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

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

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

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

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

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

We may be required to recognize additional impairment charges.

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

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

We accept electronic payment cards for payment in our restaurants. During fiscal 2019, approximately 75% of our restaurant sales were attributable to credit and debit card transactions, and credit and debit card usage could continue to increase. A number of retailers have experienced actual or potential security breaches in which credit and debit card information may have been stolen, including a number of highly publicized incidents with well-known retailers in recent years. In addition, we have previously been the victim of a cyber attack by hackers who deployed a version of the SamSam ransomware that encrypted electronic files, locking us out of many of our point-of-sale and other systems. These hackers requested a "ransom" payment in exchange for restoring

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

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

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

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

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. Our financial condition and and announcement of our process of exploring strategic alternatives may result in difficulties in retaining and attracting qualified employees. Any increase in labor costs could adversely affect our results of operations.

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

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

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

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

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

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

Termination of franchise agreements may disrupt restaurant performance.

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

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

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

Our strategic initiative to transition the majority of our company-owned Fuddruckers restaurants to franchise operators may not be fully realizable.

Our success with this initiative requires entering into agreements with new or existing franchise owners on terms that are economically acceptable to us while presenting an attractive investment opportunity for those franchise owners. Our company-owned Fuddruckers locations are geographically dispersed with some markets containing only one or two locations. We may not be able to identify franchise owners willing and able to operate at these locations due to competitors operating in those markets that are more established or have greater penetration or brand presence.

Expansion of our CCS operations may not be successful.

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

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

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

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

The success of our business is highly dependent upon our key management personnel, particularly Christopher J. Pappas, our President and Chief Executive Officer, and Benjamin T. Coutee, our Chief Operating Officer. The loss of the services of any key management personnel could have a material adverse effect upon our business. The process of exploring strategic alternatives may impair our ability to retain and motivate key management personnel.

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.

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

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

The price of our common stock may experience volatility.

The market price of our common stock can be volatile as we undertake the strategic review process, which may continue or become more severe if and when a transaction or business arrangement is announced or we announce that we are no longer exploring strategic alternatives.

Appraisals of our properties are estimates of value and may not necessarily correspond to realizable value.

The appraisal methodologies used to appraise our properties involve subjective judgments. As a result, appraisals of our properties are only estimates of current market value as of the date of the appraisal. Ultimate realization of the value of a property depends to a great extent on economic and other conditions beyond our control and the control of the independent valuation firm and other parties involved in the valuation of our properties. Further, these valuations may not necessarily represent the price at which a property would sell, because market prices of properties can only be determined by negotiation between a willing buyer and seller.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of November 15, 2019, we operated 120 restaurants at 114 property locations. Six of the operating locations are Combo locations and are considered two restaurants. Luby’s Cafeterias have seating capacity for 250 to 300 customers at each location while Fuddruckers locations generally seat 125 to 200 customers.

We own the underlying land and buildings on which 57 of our Luby’s Cafeteria and 14 of our Fuddruckers restaurants are located. Two of these restaurant properties contain excess building space or an extra building on the property which have 7 tenants unaffiliated with Luby’s, Inc. We also have one owned other-use property which is used as a central bakery supporting our operating restaurants.

The following table summarizes our owned properties as of November 15, 2019:

	Number of Properties	Appraised Value *
		(in millions)
Operating Restaurants:		
Luby's cafeterias	52	$ 153.7
Fuddruckers restaurants	9	18.4
Combos	5	21.9
Total Operating Properties	**66**	**$ 194.0**
Leased to Fuddruckers franchisees	3	6.1
Non-operating held for sale	4	10.3
Bake Shop	1	1.1
Total	**74**	**$ 211.5**

* Prior to and in conjunction with entering into the 2018 Credit Agreement in December 2018, we obtained third party appraisals from a nationally recognized real estate appraisal firm on all property used as collateral.

Included in the non-operating held for sale properties is one property classified as assets related to discontinued operations on our consolidated balance sheet at August 28, 2019 with a carrying value of $1.8 million and three properties classified as property held for sale on our consolidated balance sheets at August 28, 2019 with a carrying value of $2.8 million. Included in Luby's cafeterias and Fuddruckers restaurants operating restaurants are five and three properties, respectively, that are classified as property held for sale on our consolidated balance sheet at August 28, 2019 with carrying values of $6.3 million and $4.2 million, respectively. Also, the three properties leased to Fuddruckers franchisees are classified as property held for sale on our consolidated balance sheet at August 28, 2019 with a carrying value of $3.2 million.

In addition to the owned locations, 21 Luby's Cafeteria restaurants, 27 Fuddruckers restaurants, and 1 Cheeseburger in Paradise restaurants are held under 48 leases. One of the 48 leases includes two restaurants at one leased location: one Luby's Cafeteria and one Fuddruckers restaurant. The majority of the leases are fixed-dollar rentals, which require us to pay additional amounts related to property taxes, hazard insurance, and maintenance of common areas. Of the 48 restaurant leases, the current terms of ten expire in less than one year, 22 expire between one and five years, and 16 expire thereafter. Additionally, 41 leases can be extended beyond their current terms at our option.

At November 15, 2019, we have leases on 10 restaurant properties where we have ceased operations. Although the Company remains obligated under the terms of the leases for the rent and other costs that may be associated with the leases, the Company has ceased operations and has no foreseeable plans to occupy the spaces as a company restaurant in the future.

We also have six leased locations that have two third party tenant and four Fuddruckers franchisees.

Our corporate office lease of approximately 26,000 square feet of office space runs through June 2022.

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Stock Prices

Our common stock is traded on the NYSE under the symbol “LUB.” As of November 15, 2019, there were 1,953 holders of record of our common stock.

Equity Compensation Plans

Securities authorized under our equity compensation plans as of August 28, 2019, were as follows:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation plans previously approved by security holders	1,387,412	$ 4.06	1,753,457
Equity compensation plans not previously approved by security holders [(1)]	17,801	—	—
Total	1,405,213	$ 4.00	1,753,457

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

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

Stock Performance Graph

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 6. Selected Financial Data

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

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 28, 2019 (“fiscal 2019”) and August 29, 2018, (“fiscal 2018”) included in Part II, Item 8 of this Form 10-K.

The table on the following page sets forth selected operating data as a percentage of total revenues (unless otherwise noted) for the periods indicated. All information is derived from the accompanying Consolidated Statements of Operations. Percentages may not add due to rounding.

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(52 weeks)	*(52 weeks)*
Restaurant sales	88.0 %	91.1 %
Culinary contract services	9.9 %	7.1 %
Franchise revenue	2.1 %	1.7 %
Vending revenue	0.1 %	0.1 %
TOTAL SALES	100.0 %	100.0 %
STORE COSTS AND EXPENSES:		
(As a percentage of restaurant sales)		
Cost of food	27.9 %	28.3 %
Payroll and related costs	38.1 %	37.4 %
Other operating expenses	17.9 %	18.7 %
Occupancy costs	6.4 %	6.1 %
Vending revenue	(0.1)%	(0.2)%
Store level profit	9.8 %	9.5 %
COMPANY COSTS AND EXPENSES *(as a percentage of total sales)*		
Opening costs	0.0 %	0.2 %
Depreciation and amortization	4.3 %	4.8 %
Selling, general and administrative expenses	10.6 %	10.6 %
Other charges	1.3 %	— %
Provision for asset impairments and restaurant closings	1.7 %	2.7 %
Net gain on disposition of property and equipment	(4.0)%	(1.6)%
Culinary Contract Services Costs *(as a percentage of Culinary contract services sales)*		
Cost of culinary contract services	89.5 %	93.7 %
Culinary income	10.5 %	6.3 %
Franchise Operations Costs *(as a percentage of Franchise revenue)*		
Cost of franchise operations	24.4 %	24.0 %
Franchise income	75.6 %	76.0 %
(As a percentage of total sales)		
LOSS FROM OPERATIONS	(2.8)%	(6.1)%
Interest income	0.0 %	0.0 %
Interest expense	(1.8)%	(0.9)%
Other income, net	0.1 %	0.1 %
Loss before income taxes and discontinued operations	(4.6)%	(6.9)%
Provision for income taxes	0.1 %	2.1 %
Loss from continuing operations	(4.7)%	(9.0)%
Loss from discontinued operations, net of income taxes	(0.0)%	(0.2)%
NET LOSS	(4.7)%	(9.2)%

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

	Fiscal Year Ended	
	August 28, 2019	**August 29, 2018**
	(52 weeks)	*(52 weeks)*
	(In thousands)	
Store level profit	$ 27,885	$ 31,648
Plus:		
Sales from culinary contract services	31,888	25,782
Sales from franchise operations	6,690	6,365
Less:		
Opening costs	56	554
Cost of culinary contract services	28,554	24,161
Cost of franchise operations	1,633	1,528
Depreciation and amortization	13,998	17,453
Selling, general and administrative expenses[1]	34,179	38,725
Other charges	4,270	—
Provision for asset impairments and restaurant closings	5,603	8,917
Net gain on disposition of property and equipment	(12,832)	(5,357)
Interest income	(30)	(12)
Interest expense	5,977	3,348
Other income, net	(195)	(298)
Provision for income taxes	469	7,730
Loss from continuing operations	$ (15,219)	$ (32,954)

(1) Marketing and advertising expense included in Selling, general and administrative expenses was $3.9 million in fiscal 2019 and $3.5 million in fiscal 2018.

The following table shows our restaurant unit count as of August 28, 2019 and August 29, 2018.

Restaurant Counts:

	Fiscal 2019 Year Begin	Fiscal 2019 Openings	Fiscal 2019 Closings	Fiscal 2019 Transfers to Franchisee	**Fiscal 2019 Year End**
Luby's Cafeterias[1]	**84**	—	(5)		**79**
Fuddruckers Restaurants[1]	**60**	—	(11)	(5)	**44**
Cheeseburger in Paradise	**2**	—	(1)		**1**
Total	**146**	**—**	**(17)**	**(5)**	**124**

[1] Includes 6 restaurants that are part of Combo locations

Overview

Description of the business

The Company operates with five reportable operating segments: Luby's Cafeterias, Fuddruckers Restaurants, Cheeseburger in Paradise, Fuddruckers Franchise Operations, and Culinary Contract Services. We generate revenues primarily by providing quality food to customers at our 79 Luby's branded restaurants located mostly in Texas, 44 Fuddruckers restaurants located throughout the United States, 1 Cheeseburger in Paradise restaurant located in New Jersey, and 102 Fuddruckers franchises located primarily in the United States. Included in the Luby's Cafeterias segment are six locations where we operate both a Luby's Cafeteria and a Fuddruckers restaurant. In addition to our restaurant business model, we also provide culinary contract services for organizations that offer on-site food service, such as healthcare facilities, colleges and universities, sports stadiums, businesses and institutions, as well as sales through retail grocery outlets.

Prior to the fourth quarter of fiscal 2019 our internal organization and reporting structure supported three reportable segments; Company-owned restaurants, Fuddruckers franchise operations and Culinary Contract Services. The Company-owned restaurants consisted of several brands which were aggregated into one reportable segment. The primary brands are Luby's Cafeteria, Fuddruckers - World's Greatest Hamburgers®, and Cheeseburger in Paradise. In the fourth quarter of fiscal 2019 we re-evaluated our reportable segments and disaggregated the Company-owned restaurants into three reportable segments based on brand name. As such, as of the fourth quarter 2019, our five reportable segments are Luby's restaurants, Fuddruckers restaurants, Cheeseburger in Paradise restaurants, Fuddruckers franchise operations and Culinary Contract Services. Management believes this change better reflects the priorities and decision-making analysis around the allocation of our resources and better aligns to the economic characteristics within similar restaurant brands. We began reporting on the new structure in the fourth quarter of fiscal 2019 as reflected in this Annual Report on Form 10-K. The segment data for the comparable periods presented has been recast to conform to the current period presentation. Recasting this historical information did not have an impact on the consolidated financial performance of Luby's Inc. for any of the periods presented.

Business Strategy

In fiscal 2019, our full efforts were directed toward effecting a turn-around of the business with the aim of re-establishing a solid foundation from which profitability can be restored. This required a close re-evaluation of each of our business segments and restaurant brands with consideration of the value of our underlying real estate portfolio. As part of this process, we announced an asset sales program of up to $45 million. At the end of the first quarter of fiscal 2019, we also re-financed our debt and entered into a five-year credit agreement with a subsidiary of MSD Capital, MSD PCOF Partners IV, LLC ("MSD") as our new lender. This new financing arrangement along with the proceeds from the sale of certain owned property locations is intended to provide the necessary liquidity as we work through our turn-around plan.

Within our operations, we continued our focus on enhancing the guest experience at each of our restaurant brands, executing our growth plan for our Culinary Contract Services segment, and supporting our Fuddruckers franchise network for future growth. At our Company-owned restaurants, we focused on menu innovation and variety across the weeks and the seasons. We furthered our efforts in attracting and retaining the most talented individuals to serve and engage with our guests in both restaurant management roles and front-line hourly restaurant team member roles. We have an experienced culinary team that vigorously pursues culinary innovation enhancements. Our marketing initiatives centered around developing a more personal and direct connection with our guests, deploying technology where it makes most sense. By the end of fiscal 2019, we had transitioned much of our advertising and messaging toward digital media as we advance to the next phase of our loyalty and recognition programs. We continue to take these steps as part of our long-term strategy to increase our brand awareness and motivate increased guest visits, with a particular focus on our existing customer base that already knows us. As we continued to evaluate our portfolio of restaurant locations, we closed 17 restaurants so that resources could be focused on the locations that exhibit the most promise for enhanced profitability. We also transitioned 5 Fuddruckers restaurants in fiscal 2019 and an additional two at the beginning of fiscal year 2020 to a franchisee.

In fiscal 2019, our Fuddruckers franchise business segment continued supporting our loyal franchisees and we continued to pursue opportunities to re-franchise company-owned Fuddruckers locations as part of our strategy to grow franchise revenues. Our Culinary Contract Services segment continues its focus on expanding the number of locations that we serve and developing business partnerships for the long-term, while servicing our existing agreements with our customized and high-level of client service. We have streamlined our corporate overhead cost, including reduced headcount, corporate travel expense, and associated other overhead costs. In addition, at the beginning of fiscal 2020, we began organizational and planning efforts with an on-shore outsourcing firm. We anticipate completing the transition of our accounting, accounts payable, and certain other payroll and back-office functions to this outsourcing firm during the second fiscal quarter of 2020. We expect to realize additional cost savings and enhanced

capabilities with this transition. Concurrent with this effort, we continue to evaluate opportunities to further align and reduce our corporate overhead costs that support our business operations.

Board Special Committee

In September 2019, the Company's Board of Directors formed a new Board Special Committee comprised of independent directors with the purpose of establishing a strategic review process to identify, examine, and consider a range of strategic alternatives available to the Company with the objective of maximizing shareholder value. The Board Special Committee consists of the following members: Gerald Bodzy, Twila Day, Joe McKinney, Gasper Mir, John Morlock, and Randolph Read. The Board Special Committee is co-chaired by Messrs. Bodzy and Read.

Brookwood and Associates, previously engaged by the Company, is advising the Board Special Committee as a financial advisor to assist in certain aspects of the strategic alternatives review process. The Special Committee has retained Gibson, Dunn & Crutcher LLP to advise on various legal matters.

The Board of Directors has not made a decision to enter into any transaction at this time, and there are no assurances that the consideration of strategic alternatives will result in any transaction. The Company does not intend to comment on or disclose developments regarding the process unless it deems further disclosure appropriate or required. Please see "Risk factors" in Item 1A.

Financial and Operation Highlights for Fiscal 2019

Financial Results

- Total company sales decreased approximately $41.7 million, or 11.4%, in fiscal 2019 compared to fiscal 2018, consisting primarily of an approximate $48.0 million decrease in restaurant sales, an approximate $6.1 million increase in Culinary contract services sales, an approximate $0.3 million increase in franchise revenue, and an approximate $0.1 million decrease in vending revenue. The decrease in restaurant sales included an approximate $15.8 million decrease in sales at stand-alone Luby's Cafeterias, an approximate $20.3 million decrease in sales at stand-alone Fuddruckers restaurants, an approximate $1.4 million decrease in sales at our Combo locations, and an approximate $9.9 million decrease in sales at Cheeseburger in Paradise restaurants.

- Total segment profit decreased approximately $1.8 million to approximately $36.3 million in fiscal 2019 compared to approximately $38.1 million in fiscal 2018. The approximate $1.8 million decrease in total segment profit resulted from a decrease of approximately $3.8 million in Company-owned restaurant segment profit, an approximate $0.2 million increase in franchise segment profit and an approximate $1.7 million increase in Culinary contract services segment profit. The approximate $3.8 million decrease in Company-owned restaurant segment profit resulted from restaurant sales and vending income decreasing approximately $48.2 million with the cost of food, payroll and related costs, other operating expenses, and occupancy costs decreasing approximately $44.4 million.

- Net loss was approximately $15.2 million in fiscal 2019 compared to a loss of approximately $33.6 million in fiscal 2018. Net loss included non-cash charges for asset impairments and restaurant closings of approximately $5.6 million and approximately $8.9 million in fiscal 2019 and fiscal 2018, respectively. Net loss included gains on the disposal of asset of approximately $12.8 million in fiscal 2019 and $5.4 million in fiscal 2018, respectively. Net loss included other charges of approximately $4.3 million in fiscal 2019. Net loss for fiscal 2018 included non-tax charges of approximately $8.4 million for valuation allowance on deferred tax assets

Operational Endeavors and Milestones

- ***Luby's cafeteria segment.*** In fiscal 2019, we continued to promote our "made–from–scratch" cooking with many locally-sourced “from the farm” ingredients at our Luby’s Cafeterias with our “Tastes Like Texas, Feels Like Home” slogan. “Tastes Like Texas, Feels Like Home” signifies that we are dedicated to serving our guests only the best hand-crafted recipes, prepared fresh each day in our kitchens true to our heritage as a well-regarded and loved Texas tradition. We support local farmers and use only fresh produce and highest quality ingredients. We rotate seasonal menu offerings throughout the year that showcase our 70-year history of "made-from-scratch" cooking expertise. Each section of the cafeteria line is presented to entice our guests to keep coming back for their favorites: fresh colorful hot vegetable presentations, extensive and creative cold side offerings and salads, varied recipes and presentations for beef, turkey, chicken, fish, stir-fry, enchiladas, and other delectable entrées. In addition, by the third quarter of fiscal 2019, we had re-introduced breakfast on the weekend at 33 locations, further expanding our offering. From a marketing perspective, we enhanced our online presence and much of our advertising is now in a digital format which we find to be a cost-effective way of reaching our guests and reminding them of who we are and what we offer. In the process, we are gaining more insights about our loyal guests and we are closely listening to our guests' input. At the same time, we are leveraging our Texas roots and heritage -- a message that resonates with our many guests that have known us over the decades. Additionally, we are addressing the conveniences expected by today's busy lifestyles through our partnership with third-party delivery platforms as well as the expected launch in early fiscal 2020 of the new Luby's app for mobile devices.

  Fuddrucker restaurants segment. At Fuddruckers, we continue to evolve the World’s Greatest Hamburgers®, with new specialty burger combinations and toppings. In fiscal 2019, we continued to focus on speed of service and the ordering experience. We furthered our use of technology to reach our guests utilizing new digital media campaigns and targeted advertising to guests' mobile devices. We continued to measure guest satisfaction through surveys and other guest interactions that helped us identify areas of excellence and areas for improvement. We are confident the focus on great food and enhanced service will in the long run lead to increased guest frequency and loyalty.

  At both of our core brands, we returned to everyday value pricing in efforts to grow guest visits over time. We see this as a rational approach and one that our guests expect and appreciate. By the third quarter of fiscal 2019, we removed substantially all discounts as we focused on delivering this everyday value to our guests with consistent pricing. We also offer select premium items at higher price points at both of our core brands for the guest that is seeking that experience. As anticipated, our overall average spend per guest declined as we moved to this lower pricing structure. However, we credit this approach with the improving guest traffic trends we experienced as we moved through fiscal 2019.

Key to our operational strategy at both of our core brands in fiscal 2019 was aligning the people within our organization into the right roles and providing team members with coaching to aid them in being successful. This alignment was aimed at encouraging everyone within our organization to further commit to a service mindset so that our guests have a welcoming and comfortable experience when visiting any of our restaurants. This initiative, combined with our everyday value pricing, is delivering tangible benefits in terms of guest frequency and overall guest visits.

- ***Fuddruckers franchise network.*** Key to our strategy is to become a more franchise-centric brand as we transition company-owned Fuddruckers to new and existing franchise-owned business owners in our franchise network. Five locations in the San Antonio, TX metro area transferred in fiscal 2019 and two locations near Austin, TX transferred in early fiscal 2020 to a new franchise business owner as part of this effort. We continue to pursue opportunities to transition company-owned Fuddruckers for each of our existing markets and stores outside of our core Houston, TX market. As of August 28, 2019, we supported a franchise network of 102 Fuddruckers franchise locations. In addition to five locations that transferred from company-operated stores to franchise-owned stores, three other franchise locations opened in fiscal 2019 (one in the country of Panama, one in Georgia, and one in Mississippi). 11 locations closed in fiscal 2019 (three international locations, and eight in the United States). Our franchise network generated approximately $6.7 million in revenue in fiscal 2019.

- ***Culinary Contract Services.*** Our Culinary Contract Services segment generated approximately $31.9 million in revenue during fiscal 2019 compared to approximately $25.8 million in revenue during fiscal 2018. The approximate $6.1 million increase in revenue was primarily due to a net increase in the number of locations in operation and higher sales volume locations replacing lower sales volume locations. We view this area as a long-term growth business that generally requires less capital investment and produces favorable returns on invested capital.

- ***Cheeseburger in Paradise segment.*** Despite previous efforts to revitalize the Cheeseburger in Paradise brand and improve financial results, we have ceased operations at all but one location.

- ***Capital Spending.*** Purchases of property and equipment were approximately $4.0 million in fiscal 2019, down from approximately $13.2 million in fiscal 2018. Capital investments was constrained to a level necessary to maintain our base of continually operated restaurants and the information technology infrastructure needed to support these restaurants. No remodel projects were undertaken in fiscal 2019. We remain committed to maintaining the attractiveness of all of our restaurant locations where we anticipate operating over the long term. In fiscal 2020, we anticipate making capital investments of up to $4.0 million for recurring maintenance of our restaurant buildings and equipment, and technology infrastructure.

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. Our first quarter consists of four four-week periods, while our last three quarters normally consist of three four-week periods. Comparability between quarters may be affected by the varying lengths of the quarters, as well as the seasonality associated with the restaurant business.

Same-Store Sales

The restaurant business is highly competitive with respect to food quality, concept, location, price, and service, all of which may have an effect on same-store sales. Our same-store sales calculation measures the relative performance of a certain group of restaurants. A store is included in this group of restaurants after it has been open for six complete consecutive quarters. Stores that close on a permanent basis (or on a temporary basis for remodeling) are removed from the group in the fiscal quarter when operations cease at the restaurant, but remain in the same-store group for previously reported fiscal quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies. Same-store sales at our restaurant units decreased 4.2% for fiscal 2019 and decreased 0.5% for fiscal 2018.

The following table shows the year-over-year same-store sales change for comparative historical quarters for the restaurant segments:

	Fiscal 2019				Fiscal 2018			
Increase (Decrease)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Luby's Cafeterias	(3.2)%	(3.1)%	(2.2)%	(3.0)%	3.9 %	2.4 %	(1.8)%	1.5 %
Combo Locations	(2.5)%	(4.8)%	(7.1)%	(11.1)%	(1.5)%	(3.3)%	(5.4)%	1.3 %
Luby's cafeteria segment	(3.2)%	(3.3)%	(2.6)%	(3.7)%	3.3 %	1.9 %	(2.1)%	1.5 %
Fuddruckers restaurants segment	(5.5)%	(6.1)%	(5.3)%	(11.2)%	(3.9)%	(5.8)%	(6.4)%	0.6 %
Cheeseburger in Paradise Segment	(3.6)%	(4.4)%	(3.1)%	(0.6)%	(4.4)%	(11.7)%	(13.9)%	(10.5)%
Same-store sales	**(3.7)%**	**(4.0)%**	**(3.3)%**	**(5.5)%**	**1.2 %**	**(0.9)%**	**(3.7)%**	**0.8 %**

At the end of fiscal 2019, there were 73 Luby’s Cafeterias, 6 Combo locations, 38 Fuddruckers Restaurants, and 1 Cheeseburger in Paradise locations that met the definition of same-stores.

RESULTS OF OPERATIONS

Fiscal 2019 (52 weeks) compared to Fiscal 2018 (52 weeks)

Sales

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)
Restaurant sales	$ 284,513	$ 332,518	(14.4)%
Culinary contract services	31,888	25,782	23.7 %
Franchise revenue	6,690	6,365	5.1 %
Vending revenue	379	531	(28.6)%
TOTAL SALES	$ 323,470	$ 365,196	(11.4)%

Total company sales decreased approximately $41.7 million, or 11.4%, in fiscal 2019 compared to fiscal 2018, consisting primarily of an approximate $48.0 million decrease in restaurant sales and an approximate $0.2 million decrease in vending revenue, partially offset by an approximate $6.1 million increase in Culinary contract services sales, an approximate $0.3 million increase in Franchise revenue.

The Company operates with five reportable operating segments: Luby's Cafeterias, Fuddruckers Restaurants, Cheeseburger in Paradise, Fuddruckers Franchise Operations, and Culinary Contract Services.

Company-Owned Restaurants

Restaurant Sales

Restaurant Brands	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)
Luby's cafeterias	$ 195,151	$ 210,972	(7.5)%
Combo locations	19,459	20,886	(6.8)%
Luby's cafeteria segment	$ 214,610	$ 231,858	(7.4)%
Fuddruckers restaurants segment	67,331	87,618	(23.2)%
Cheeseburger in Paradise segment	$ 3,108	$ 13,042	(76.2)%
Total Restaurant Sales	$ 284,513	$ 332,518	(14.4)%

Total restaurant sales decreased approximately $48.0 million in fiscal 2019 compared to fiscal 2018. The decrease in restaurant sales included an approximate $15.8 million decrease in sales at stand-alone Luby's Cafeterias, an approximate $20.3 million decrease in sales at stand-alone Fuddruckers restaurants, an approximate $1.4 million decrease in sales from Combo locations, and an approximate $9.9 million decrease at sales from our Cheeseburger in Paradise restaurants.

- The approximate $15.8 million decrease in sales at stand-alone Luby's reflects the reduction of nine operating restaurants, and a 2.9% decrease in same-store stand-alone Luby's Cafeteria sales. The 2.9% decrease in same-store sales includes a 4.9% decrease in guest traffic, partially offset by a 2.1% increase in average spend per guest.

- The approximate $20.3 million decrease in sales at stand-alone Fuddruckers restaurants reflects the reduction of 27 operating restaurants and a 7.5% decrease in same-store stand-alone Fuddruckers sales. The 7.5% decrease in same-store sales includes a 10.7% decrease in guest traffic partially offset by a 3.6% increase in average spend per guest.

- The approximate $1.4 million decrease in sales from Combo locations reflects a 6.8% decrease in sales at the six locations in operation throughout fiscal 2019 and fiscal 2018.

- The approximate $9.9 million decrease in sales from our Cheeseburger in Paradise reflects the reduction of seven operating restaurants and a 2.9% decrease at the one remaining Cheeseburger in Paradise location.

Cost of Food

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)		Fiscal Year 2018 Ended August 29, 2018 (52 weeks)		Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)	
Cost of food:						
Luby's cafeteria segment	$	60,801	$	65,956	$	(5,155)
Fuddruckers restaurants segment		17,712		23,956		(6,244)
Cheeseburger in Paradise segment		966		4,326		(3,360)
Total Restaurants	$	79,479	$	94,238	$	(14,759)
As a percentage of restaurant sales						
Luby's cafeteria segment		28.4%		28.4%		0.0 %
Fuddruckers restaurants segment		26.3%		27.3%		(1.0)%
Cheeseburger in Paradise segment		31.1%		33.2%		(2.1)%
Total Restaurants		27.9%		28.3%		(0.4)%

Cost of food, which is comprised of the cost associated with the sale of food and beverage products that are consumed while dining in our restaurants, as take-out, and as catering. Cost of food decreased approximately $14.8 million, or 15.7%, in fiscal 2019 compared to fiscal 2018. Cost of food is variable and generally fluctuates with sales and guest traffic volume. As a percentage of restaurant sales, food costs decreased 0.4% to 27.9% in fiscal 2019 compared to 28.3% in fiscal 2018. The Cost of food as percentage of sales was impacted by higher average pricing in the first half of the fiscal year, menu rationalization leading to a favorable change in the mix of menu items purchased by guests, and continued careful cost management, partially offset by higher prices for certain food commodities.

The cost of food as a percentage of restaurant sales in the Luby's cafeteria segment was level at 28.4% in fiscal 2019 compared to fiscal 2018 due in large part to higher average menu pricing in the first half of fiscal 2019 offset by higher prices for certain food commodities. The cost of food as a percentage of restaurant sales for the Fuddruckers restaurants segment decreased 1.0% in fiscal 2019 compared to fiscal 2018 due to higher average menu pricing and a favorable change in the mix of menu items purchased by guests, partially offset by higher input prices of beef and other food commodities. The cost of food as a percentage of restaurant sales for the Cheeseburger in Paradise segment decreased 2.1% in fiscal 2019 compared to fiscal 2018 due primarily to reducing operations to a single location with better food cost economics.

Payroll and Related Costs

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)
Payroll and related Costs:			
Luby's cafeteria segment	$ 81,342	$ 86,264	$ (4,922)
Fuddruckers restaurants segment	25,938	32,585	(6,647)
Cheeseburger in Paradise segment	1,229	5,629	(4,400)
Total Restaurants	$ 108,509	$ 124,478	$ (15,969)
As a percentage of restaurant sales			
Luby's cafeteria segment	38.0%	37.2%	0.8 %
Fuddruckers restaurants segment	38.5%	37.2%	1.3 %
Cheeseburger in Paradise segment	39.5%	43.2%	(3.6)%
Total Restaurants	38.1%	37.4%	0.7 %

Payroll and related costs includes restaurant-level hourly wages, including overtime pay, and pay while training, as well as management salaries and incentive payments. Payroll and related costs also include the payroll taxes, workers' compensation expense, group health insurance costs, and 401(k) matching expense for all restaurant-level hourly and management employees. Payroll and related costs decreased approximately $16.0 million, or 12.8%, in fiscal 2019 compared to fiscal 2018 due in part to (1) operating 43 fewer restaurants (closure of 21 restaurants in fiscal 2018 closure of of 17 restaurants in fiscal 2019, and transfer of five Fuddruckers restaurants to a franchisee in fiscal 2019); for stores that continue to operate, payroll and related expense increased less than $0.1 million. The modest increase in payroll and related expenses for stores that continue to operate reflected (1) an increase in average salaries among our restaurant management teams and increased wage rates among our hourly team members; and (2) higher health insurance expense; partially offset by (3) a reduction in scheduled hours as a result of a decline in guest traffic. As a percentage of restaurant sales, payroll and related costs increased 0.7% to 38.1% in fiscal 2019 compared to 37.4% in fiscal 2018, due primarily to (1) the fixed cost component of labor costs (mainly management labor) with lower same-store sales levels and (2) higher health insurance expense.

Payroll and related costs a percentage of restaurant sales in the Luby's cafeteria segment increased 0.8% to 38.0% in fiscal 2019 compared to fiscal 2018 due to (1) increased wage rates among our hourly team members; (2) the fixed component of management labor costs with lower same-store sales levels; (3) increased usage of hourly overtime hours; and (4) higher health insurance expense; partially offset by (5) reduction in scheduled hours as a result of a decline in guest traffic. Payroll and related costs a percentage of restaurant sales in the Fuddruckers restaurants segment increased 1.3% to 38.5% in fiscal 2019 compared to fiscal 2018 due to (1) an increase in staffing and average salary cost for restaurant-level management; (2) higher health insurance expenses; and (3) an increase in average wage rates amount our hourly team members; partially offset by (4) a reduction in scheduled hours as a result of a decline in guest traffic. Payroll and related costs a percentage of restaurant sales in the Cheeseburger in Paradise segment decreased 3.6% to 39.5% in fiscal 2019 compared to fiscal 2018 due primarily to reducing operations to a single location with better labor cost economics and higher average sales volumes.

Other Operating Expenses

($000s)	Fiscal Year 2019 Ended	Fiscal Year 2018 Ended	Fiscal 2019 vs Fiscal 2018
	August 28, 2019	August 29, 2018	Higher/(Lower)
	(52 weeks)	(52 weeks)	(52 vs 52 weeks)
Other operating expenses:			
Luby's cafeteria segment	$ 37,192	$ 41,653	$ (4,461)
Fuddruckers restaurants segment	12,829	17,305	(4,476)
Cheeseburger in Paradise segment	865	3,328	(2,463)
Total Restaurants	$ 50,886	$ 62,286	$ (11,400)
As a percentage of restaurant sales			
Luby's cafeteria segment	17.4%	18.0%	(0.6)%
Fuddruckers restaurants segment	19.1%	19.8%	(0.7)%
Cheeseburger in Paradise segment	27.8%	25.5%	2.3 %
Total Restaurants	17.9%	18.7%	(0.8)%

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, and services. Other operating expenses decreased approximately $11.4 million, or 18.3%, in fiscal 2019 compared to fiscal 2018. Of the approximate $11.4 million million decrease in total other operating expenses, approximately $8.9 million is attributed to store closures and approximately $2.5 million is attributed to stores that continue to operate. The $2.5 million reduction in other operating expenses at stores that continue to operate is attributable to (1) an approximate $1.7 million reduction in restaurant supplies expense; (2) an approximate $0.7 million reduction in repairs and maintenance expense; and (3) an approximate $0.4 million reduction in other expenses, including the benefit from the absence of approximately $0.2 million in post-hurricane related repair and other expenses incurred in fiscal 2018; partially offset by (4) an approximate $0.3 million increase in uninsured losses, net of insurance recoveries. As a percentage of restaurant sales, Other operating expenses decreased 0.8% to 17.9% in fiscal 2019 compared to 18.7% in fiscal 2018. The 0.8% decrease in Other operating expenses as a percentage of restaurant sales was due to the net expense items enumerated above and the beneficial impact of store closures where operating expenses were generally higher as percentage of sales than stores that continue to operate.

Other operating expense a percentage of restaurant sales in the Luby's cafeteria segment decreased 0.6% to 17.4% in fiscal 2019 compared to fiscal 2018 due to (1) an approximate $0.7 million insurance recovery recorded in fiscal 2019; (2) a reduction in restaurant supplies expense; (3) the absence of approximately $0.2 million in post-hurricane related repair and other expenses incurred in fiscal 2018; partially offset by (4) increased cost for certain services provided to the cafeteria restaurants, including an increase in delivery fees related to increased usage of third-party delivery platforms. Other operating expense a percentage of restaurant sales in the Fuddruckers restaurants segment decreased 0.7% to 19.1% in fiscal 2019 compared to fiscal 2018 due to (1) the absence of approximately $0.3 million in post-hurricane related repair and other expenses incurred in fiscal 2018; (2) a reduction in restaurant supplies expense; and (3) the beneficial impact of store closures where operating expenses were generally higher as percentage of sales than stores that continue to operate; partially offset by (4) comparison to fiscal 2018 when an approximate $0.7 million insurance recovery was recorded. Other operating expense a percentage of restaurant sales in the Cheeseburger in Paradise segment increased 2.3% to 27.8% in fiscal 2019 compared to fiscal 2018 due to primarily to wind-down operational costs in fiscal 2019 for locations that closed at the end of fiscal 2018, including utilities expense and certain restaurant service costs.

Occupancy Costs

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)		Fiscal Year 2018 Ended August 29, 2018 (52 weeks)		Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)	
Occupancy costs:						
Luby's cafeteria segment	$	9,315	$	8,935	$	380
Fuddruckers restaurants segment		8,529		10,420		(1,891)
Cheeseburger in Paradise segment		289		1,044		(755)
Total Restaurants	$	18,133	$	20,399	$	(2,266)
As a percentage of restaurant sales						
Luby's cafeteria segment		4.4%		3.9%		0.5%
Fuddruckers restaurants segment		12.7%		11.9%		0.8%
Cheeseburger in Paradise segment		9.3%		8.0%		1.3%
Total Restaurants		6.4%		6.1%		0.3%

Occupancy costs include property lease expense, property taxes, and common area maintenance charges, property insurance, and permits and licenses. Occupancy costs decreased $2.3 million in fiscal 2019 compared to fiscal 2018. The decrease was primarily due to a decrease in rent and property taxes associated with operating 43 fewer restaurants in fiscal 2019 compared to fiscal 2018 (closure of 21 restaurants in fiscal 2018 closure of of 17 restaurants in fiscal 2019, and transfer of five Fuddruckers restaurants to a franchisee), partially offset by the additional lease expense at three properties that were sold and leased back. As a percentage of restaurant sales, occupancy costs increased 0.3%, to 6.4%, in fiscal 2019 compared to 6.1% in fiscal 2018 primarily as a result of the change in the mix of the portfolio of owned versus leased stores after the closure of 43 locations and sale of certain owned property locations as well as adjustments to property tax estimates. A significantly higher percentage of our Fuddruckers restaurants are leased properties as compared to our Luby's cafeterias. As a result, our Fuddruckers restaurant segment's occupancy costs as a percentage of sales is higher than our Luby's cafeterias.

Fuddruckers Franchise Segment Profit

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)		Fiscal Year 2018 Ended August 29, 2018 (52 weeks)		Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)
Franchise revenue	$	6,690	$	6,365	5.1 %
Cost of franchise operations		1,633		1,528	6.9 %
Franchise operations segment profit	$	5,057	$	4,837	4.5 %
Franchise profit as percent of Franchise revenue		75.6%		76.0%	(0.4)%

We offer franchises for the Fuddruckers brand. Franchises are sold in markets where expansion is deemed advantageous to the development of the Fuddruckers concept and system of restaurants. Franchise revenue includes (1) royalties paid to us as the franchisor for the Fuddruckers brand; (2) funds paid to us as the franchisor for pooled advertising expenditures; and (3) franchise fees paid to us when franchise units are opened for business or transferred to new owners and when franchise agreements are renewed or certain milestones in franchise agreements are reached. Cost of franchise operations includes the direct costs associated with supporting franchisees with opening new Fuddruckers franchised restaurants and the corporate overhead expenses associated with generating franchise revenue. These corporate expenses primarily include the salaries and benefits, travel and related expenses, and other expenses for employees whose primary job function involves supporting our franchise owners and the development of new franchise locations

Beginning with the first quarter fiscal 2019, as a result of our adoption of the new revenue accounting standards more fully described in Note 1 to our consolidated financial statements:

- We recognize as revenue the amounts due to us from franchisees for pooled advertising expenditures.
- We recognize initial and renewal franchise fees evenly over the term of franchise area development agreements and we recognize revenue when a franchise agreement is terminated early.
- Additionally, we record an expense and liability in an amount equal to the unspent funds paid to us from franchisees for pooled advertising expenditures that will be incurred in a future period.

Franchise revenue increased approximately $0.3 million, or 5.1%, in fiscal 2019 compared to fiscal 2018. The $0.3 million increase in franchise revenue reflects (1) an approximate $0.3 million increase in franchise fees earned; and (2) recognition of approximately $0.4 million of revenue related to funds owed to us as the franchisor for pooled advertising expenditures; partially offset by (3) an approximate $0.4 million decline in franchise royalties on fewer franchise locations in operation in fiscal 2019.

Cost of franchise operations increased approximately $0.1 million, or 6.9%, in fiscal 2019 compared to fiscal 2018. The increase was due primarily to (1) recording an expense in fiscal 2019 related to pooled advertising expenditures, partially offset by lower salary and benefits expense as well as lower travel expense required to support the franchise system.

Franchise operations segment profit, defined as Franchise revenue less Cost of franchise operations, increased approximately $0.2 million in in fiscal 2019 compared to fiscal 2018, due primarily to the $0.3 million increase in franchise revenue partially offset by the $0.1 million increase in franchise costs, both discussed above.

During fiscal 2019, three new Fuddruckers franchise locations opened, 11 locations closed, and five locations in the San Antonio, Texas area transferred from company operated locations to franchise operated locations. We ended fiscal 2019 with 102 Fuddruckers franchise restaurants.

Culinary Contract Services Segment Profit

Culinary Contract Services is a business line servicing healthcare, sport stadiums, corporate dining clients, and sales through retail grocery stores. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service, and retail dining. Culinary Contract Services has contracts with long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, behavioral hospitals, sports stadiums, and business and industry clients. Culinary Contract Services has the unique ability to deliver quality services that include facility design and procurement as well as nutrition and branded food services to our clients. We operated 31 Culinary Contract Services locations at the end of fiscal 2019 and 28 at the end of fiscal 2018. We focus on clients who are able to enter into agreements in which all operating costs are reimbursed to us and we generally charge a fixed fee as opposed to agreements where we retain all revenues and operating costs and we are exposed to the variability of the operating results of the location. The fixed fee agreements typically present lower financial risk to the company.

($000s)	**Fiscal Year 2019 Ended** August 28, 2019 (52 weeks)	**Fiscal Year 2018 Ended** August 29, 2018 (52 weeks)	**Fiscal 2019 vs Fiscal 2018** Higher/(Lower) (52 vs 52 weeks)
Culinary contract services	$ 31,888	$ 25,782	23.7%
Cost of culinary contract services	28,554	24,161	18.2%
CCS segment profit	$ 3,334	$ 1,621	105.7%
Culinary contract profit as percent of Culinary contract services sales	10.5%	6.3%	4.2%

Culinary contract services revenue increased $6.1 million, or 23.7%, in fiscal 2019 compared to fiscal 2018. The $6.1 million increase in revenue was primarily due to (1) an increase in sales of approximately $4.5 million from newer accounts that were not in operation for the entirety of fiscal 2019 and fiscal 2018; (2) approximately $0.6 million from a location that was transferred from our restaurant business segment to our culinary contract services business segment; and (3) approximately $1.1 million increase in sales from locations continually operated over the prior full year; partially offset by loss of sales of approximately $0.1 million for locations that ceased operations.

Cost of culinary contract services includes the food, payroll and related costs, other direct operating expenses, and corporate overhead expenses associated with generating Culinary contract services sales. Cost of culinary contract services increased

approximately $4.4 million, or 18.2%, in fiscal 2019 compared to fiscal 2018 due primarily to a net increase in culinary contract sales volume, partially offset by reductions of corporate overhead expenses required to support this business segment. CCS segment profit (defined as Culinary contract cervices revenue less Cost of culinary contract services) increased in dollar terms by approximately $1.7 million and increased as a percent of Culinary contract services revenue to 10.5% in fiscal 2019 from 6.3% in fiscal 2018, due primarily to the change in the mix of culinary contract service agreements with clients.

Opening Costs

Opening costs includes labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were less than $0.1 million in fiscal 2019 compared to approximately $0.6 million in fiscal 2018. Opening costs of $0.6 million in fiscal 2018 included the re-opening costs associated with one Fuddruckers location that was damaged during Hurricane Harvey and subsequently restored and re-opened for business just prior to the quarter ended June 6, 2018 as well as the carrying costs for one location where we previously operated a Cheeseburger in Paradise restaurant and one location that we lease where we previously intended to open a Fuddruckers restaurant.

Depreciation and Amortization

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)
Depreciation and amortization	$ 13,998	$ 17,453	(19.8)%
As a percentage of total sales	4.3%	4.8%	(0.5)%

Depreciation and amortization expense decreased $3.5 million in fiscal 2019 compared to fiscal 2018 due primarily to certain assets reaching the end of their depreciable lives and the removal of certain assets upon sale. As a percentage of total revenue, depreciation and amortization expense decreased to 4.3% in fiscal 2019, compared to 4.8% in fiscal 2018.

Selling, General and Administrative Expenses

($000s)	Fiscal Year 2019 Ended August 28, 2019 (52 weeks)	Fiscal Year 2018 Ended August 29, 2018 (52 weeks)	Fiscal 2019 vs Fiscal 2018 Higher/(Lower) (52 vs 52 weeks)
General and administrative expenses	$ 30,257	$ 35,201	(14.0)%
Marketing and advertising expenses	3,922	3,524	11.3 %
Selling, general and administrative expenses	$ 34,179	$ 38,725	(11.7)%
As percent of total sales	10.6%	10.6%	0.0 %

Selling, general and administrative expenses include marketing and advertising expenses, corporate salaries and benefits-related costs, including restaurant area leaders and regional directors, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. Selling, general and administrative expenses decreased by approximately $4.5 million, or 11.7%, in fiscal 2019 compared to fiscal 2018. The approximate $4.5 million decrease in Selling, general and administrative expenses include (1) an approximate $4.6 million decrease in salaries, benefits, and other compensation expenses; (2) an approximate $0.5 million reduction in corporate travel expense; (3) an approximate $0.4 million decrease related to lower general liability insurance expense; partially offset by (4) an approximate $0.4 million increase in marketing and advertising expense; (5) an approximate $0.5 million increase in outside professional services and telecommunications network costs; and (6) an approximate net $0.1 million increase in other corporate overhead costs. As a percentage of total sales, Selling, general and administrative expenses were 10.6% in fiscal 2019 and in fiscal 2018.

Other Charges

Other charges includes those expenses that we consider related to our restructuring efforts are not part of our recurring operations. We have identified these expenses amounting to approximately $4.3 million in fiscal 2019 and recorded in Other charges. These expenses were included in our Selling, general, and administrative cost expense line in previously reported quarters of fiscal 2019.

	Fiscal Year 2019 Ended
($000s)	August 28, 2019
	(52 weeks)
Proxy communication related	$ 1,740
Employee severances	1,325
Restructuring related	1,205
Total Other Charges	**$ 4,270**

In the first half of fiscal 2019, a shareholder of the company proposed alternative nominees to the Board of Directors and other possible changes to the corporate strategy resulting in a contested proxy at the company's annual meeting. We incurred approximately $1.7 million in proxy communication expense which was primarily for outside professional services and related costs in order to communicate with shareholders about management's strategy and the experience of the Company's members on the Board of Directors.

In fiscal 2019, we separated with a number of employees as part of our efforts to streamline our corporate overhead costs and to support a reduced number of restaurants in operation. Employees who were separated from the company were paid severance based on the number of years of service and earnings with the organization, resulting in an approximate $1.3 million charge.

Also, in fiscal 2019, we engaged a professional consulting firm to evaluate initiatives to right-size corporate overhead costs and revenue enhancing measures. In addition, we engaged other outside consultants to evaluate various other components of our strategy. We also incurred cost of other outside professionals as we began efforts to transition portions of our accounting, payroll, operational reporting, and other back-office functions to a leading multi-unit restaurant outsourcing firm.We anticipate completing the transition in the first calendar quarter of 2020 and expect to realize additional cost savings and enhanced capabilities from this transition. Lastly, we incurred expenses related to certain information technology systems that will be replaced by the capabilities of the outsourcing firm. We incurred an expense of $1.2 million for these restructuring efforts.

Other charges, as defined above, were not significant in fiscal 2018.

Provision for Asset Impairments and Restaurant Closings

The provision for asset impairment and restaurant closings of approximately $5.6 million in fiscal 2019 is primarily related to assets at nine property locations held for use, seven properties held for sale, one international joint venture investment, and spare inventory of restaurant equipment and parts at our maintenance facility, each written down to their estimated fair value. The provision for asset impairment and restaurant closings of approximately $8.9 million in fiscal 2018 is primarily related to assets impaired at 21 property locations, goodwill at three property locations, ten properties held for sale written down to their fair value, and a reserve for 15 restaurant closings of approximately $1.3 million.

Net Gain on Disposition of Property and Equipment

The approximate $12.8 million net gain on disposition of property and equipment in fiscal 2019 primarily reflects (1) the sale and leaseback of two property locations where we operate a total of three restaurants, including a portion related to amortization of deferred gains; (2) sale of one undeveloped property that was previously held for sale; (3) partially offset by net lease termination costs at other locations as well as routine asset retirement activity.

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

Interest Income

Interest income was $30 thousand in fiscal 2019 compared to $12 thousand in fiscal 2018 due to higher net cash balances, including required restricted cash balances.

Interest Expense

Interest expense was approximately $6.0 million in fiscal 2019 compared to $3.3 million in fiscal 2018. The increase in interest expense reflects higher average debt balances, higher interest rates in the credit agreement entered into on December 13, 2018, and higher amortization expense related to pre-paid interest and fees association with the credit agreement into on December 13, 2018, as well as acceleration of the expensing of deferred financing fees associated with our previous debt agreement. Interest paid in cash was $4.5 million in fiscal 2019 and $2.5 million in fiscal 2018.

Other Income (Expense), Net

Other income, net, consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; oil and gas royalty income; and changes in the fair value of our interest rate swap agreement prior to its termination in December 2018.

Other income was approximately $0.2 million in fiscal 2019 compared to approximately $0.3 million in fiscal 2018. The approximate $0.2 million of income in fiscal 2019 is primarily net rental income, partially offset by sales tax discount expense and a reduction in the fair value of our interest rate swap in the first quarter. The approximate $0.3 million of income in fiscal 2018 primarily reflects net rental income and an increase in the fair value of our interest rate swap, partially offset by gift card expenses (specifically the expense of discounting gift card sales).

Taxes

The income tax provision related to continuing operations for fiscal 2019 was approximately $0.5 million compared to an income tax provision of approximately $7.7 million for fiscal 2018. The income tax provision in fiscal 2019 reflects $0.4 million of current state income tax and $0.1 million of international withholding taxes. The income tax provision in fiscal 2018 reflects the impact of the U.S. tax reform, that is commonly referred to as Tax Cuts and Jobs Act (the "Tax Act"), of $3.2 million in deferred income taxes, an additional $4.1 million of deferred income tax provision, including an incremental valuation allowance, and $0.4 million of current state income taxes.

The effective tax rate ("ETR) for continuing operations was a negative 3.2% for fiscal 2019 and a negative 30.6% for fiscal 2018. The ETR for fiscal 2019 differs from the federal statutory rate of 21% due to the change in the valuation allowance, the federal jobs credits, state income taxes, and other discrete items. The Tax Act lowered the federal statutory tax rate from 35% to 21% effective January 1, 2018. In accordance with the application of Internal Revenue Code, Section 15, the Company's federal statutory tax rate for fiscal 2018 was 25%, representing a blended tax rate for the fiscal year. The ETR for fiscal 2018 differs from the blended federal statutory rate due to the change in the valuation allowance, the federal jobs credits, state income taxes and other discrete items.

Discontinued Operations

	Fiscal Year Ended	
($000s)	**August 28, 2019**	**August 29, 2018**
	(52 weeks)	(52 weeks)
Discontinued operating losses	$ (7)	$ (21)
Impairments	—	(59)
Gains	—	—
Pretax loss	$ (7)	$ (80)
Income tax benefit (expense) from discontinued operations	—	(534)
Loss from discontinued operations, net of income taxes	$ (7)	$ (614)

The loss from discontinued operations, net of income taxes was $7 thousand in fiscal 2019 compared to a loss of approximately $0.6 million in fiscal 2018. The loss of $7 thousand in fiscal 2019 primarily reflected net occupancy cost associated with assets that were related to discontinued operations. The loss of $0.6 million in fiscal 2018 included (1) less than $0.1 million in "carrying costs" (typically rent, property taxes, utilities, and maintenance) associated with assets that were related to discontinued operations; (2) less than $0.1 million impairment charges for certain assets related to discontinued operations; and (3) an approximate $0.5 million income tax provision related to increasing the deferred tax asset valuation allowance associated with discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

In fiscal 2019 and 2018 our primary sources of short-term and long-term liquidity were proceeds from asset sales and our 2018 and 2016 Credit Facilities (as defined below). Cash and cash equivalents and restricted cash increased approximately $9.0 million from $3.7 million at the end of fiscal 2018 to $12.8 million at the end of fiscal 2019. We expect to continue to invest our available liquidity to reduce our debt, maintain our existing restaurants and infrastructure and provide working capital requirements as necessary. We plan to continue a level of capital and repair and maintenance expenditures to keep our restaurants attractive and operating efficiently. Based upon our level of past and projected capital requirements, we expect that proceeds from the sale of assets, funding available under our 2018 Credit Facility and cash flows from operations, will be sufficient to meet our capital expenditures and working capital requirements during the next twelve months.

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

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

	Fiscal Year Ended	
	August 28, 2019 (52 weeks)	August 29, 2018 (52 weeks)
	(In thousands)	
Total cash provided by (used in):		
Operating activities	$ (13,130)	$ (8,453)
Investing activities	17,849	3,014
Financing activities	4,315	8,065
Increase (Decrease) in cash and cash equivalents	$ 9,034	$ 2,626

Operating Activities. Cash flow from operating activities decreased from a use of cash of $8.5 million in fiscal 2018 to a use of cash of $13.1 million in fiscal 2019. The $4.7 million decrease in operating cash flow was primarily due to a $4.4 million decrease in cash used in operations before changes in operating assets and liabilities and a $0.3 million increase in cash used in changes in operating assets and liabilities.

The $4.4 million decrease in cash used in operating activities before changes in operating assets and liabilities was primarily due to uses of cash from a $1.8 million decrease total in total segment level profit and a $2.6 million increase in interest expense.

The $0.3 million increase in cash used in changes in operating assets and liabilities was primarily due to a $2.0 million higher decrease in accounts payable, accrued expenses and other liabilities, partially offset by a $0.7 million decrease in the change in trade accounts receivable and other receivables, a $0.2 million decrease in the change of food and supply inventories, and a $0.8 million decrease in the change of prepaid expenses and other assets, in fiscal 2019 compared to fiscal 2018.

Investing Activities. Cash provided by investing activities was $17.8 million in fiscal 2019, an increase of $14.8 million compared to cash used in investing activities of $3.0 million in fiscal 2018, primarily due to the proceeds from disposal of assets and property held for sale and proceeds from property and equipment insurance claims. We used cash to invest $4.0 million in the purchase of property and equipment in fiscal 2019, a decrease of $9.3 million from our investment of $13.2 million in fiscal 2018. Proceeds from disposal of assets and property held for sale was $21.8 million in fiscal 2019, an increase of $7.6 million from proceeds of $14.2 million in fiscal 2018. Proceeds on property and equipment insurance claims of $2.1 million was a source of cash in fiscal

2018. The purchases of property and equipment of $4.0 million in fiscal 2019 included $3.7 million for our Company-owned restaurants and $0.3 million in corporate related capital expenditures,. The purchases of property and equipment of $13.2 million in fiscal 2018 included $11.1 million for our Company-owned restaurants, $1.9 million in corporate related capital expenditures and $0.2 million for our CCS business segment.

Financing Activities. Cash provided by financing activities was $4.3 million in fiscal 2019, a decrease of $3.8 million from cash provided by financing activities of $8.1 million in fiscal 2018. Cash flows from financing activities was primarily the result of our 2016 Credit facility, as amended through December 13, 2018 and our 2018 Credit Facility thereafter. During fiscal 2019, net cash provided by our 2018 term loan was $58.4 million and by Revolver borrowings was $42.3 million. Cash used for Revolver repayments was $57.0 million, for repayments of our 2016 term loan was $36.1 million and for debt issuance costs was $3.3 million.

Net cash provided by financing activities of fiscal 2018 of $8.1 million consisted of net borrowings from our Revolver of $15.6 million, partially offset by payments on our 2015 term loan of $7.1 million and debt issuance costs paid of $0.4 million.

STATUS OF LONG-TERM INVESTMENTS AND LIQUIDITY

At August 28, 2019, we did not hold any long-term investments.

STATUS OF TRADE ACCOUNTS AND OTHER RECEIVABLES, NET

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

WORKING CAPITAL

At fiscal year-end 2019, current assets increased $7.6 million including an decrease of $0.1 million in cash and an increase in restricted cash of $9.1 million. Trade accounts and other receivables increased $0.1 million while food and supply inventory and prepaid expenses decreased $0.6 million and $0.9 million, respectively. The $0.6 million decrease in food and supply inventory was primarily due to lower spending for restaurant supplies and food supplies on lower sales volumes and the $0.9 million decrease in prepaid expenses was primarily due to reduction in prepayments of expenses.

At fiscal year-end 2019, current liabilities decreased $48.6 million due primarily to a $39.3 million decrease in Credit facility debt, a $7.3 million decrease in accrued expenses and other liabilities and a $2.0 million decrease in accounts payable. The decrease of $39.3 million in Credit facility debt due to the retirement of the 2016 Credit Facility debt with the proceeds from the long-term 2018 Credit Facility. The $7.3 million decrease in accrued expenses and other liabilities is primarily a result of lower payroll related liabilities of $1.8 million, lower insurance claim and premium liabilities of $1.2 million, lower lease termination costs reserves of $0.6 million, and lower unredeemed gift and dining card liability of $3.4 million, partially offset by higher accrued interest payable of $0.3 million. The lower unredeemed gift and dining card liability includes $3.1 million related to the cumulative effect of adopting the new revenue recognition accounting standard as more fully described at Note 1 to the consolidated financial statements included in Item 8. of this Form 10-K. The $2.0 million decrease in accounts payable was due to a $1.6 million decrease in checks in transit, a $0.8 million decrease in trade payables, and a $0.4 million increase in accrued purchases.

CAPITAL EXPENDITURES

Capital expenditures generally 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 2019 were approximately $4.0 million primarily related to recurring maintenance of our restaurant properties and information technology infrastructure. In fiscal 2020, we expect to invest up to $4.0 million for recurring maintenance for our restaurant properties and information technology investments. We expect to be able to fund all planned capital expenditures in fiscal 2020 using cash flows from operations, proceeds from the sale of assets, and our available credit.

DEBT

2018 Credit Agreement

On December 13, 2018, the Company entered into a credit agreement (as amended by the First Amendment (as defined below), the "2018 Credit Agreement") among the Company, the lenders from time to time party thereto, and MSD as Administrative Agent, pursuant to which the lenders party thereto agreed to make loans to the Company from time to time up to an aggregate principal amount of $80 million consisting of a $10 million revolving credit facility (the "2018 Revolver"), a $10 million delayed draw term loan ("2018 Delayed Draw Term Loan"), and a $60 million term loan (the "2018 Term Loan", and together with the 2018 Revolver and the 2018 Delayed Draw Term Loan, the "2018 Credit Facility"). The 2018 Credit Facility terminates on, and all amounts owing thereunder must be repaid on, December 13, 2023.

On July 31, 2019, the Company entered into the First Amendment to the 2018 Credit Agreement (the "First Amendment") to extend the 2018 Delayed Draw Term Loan expiration date for up to one year to the earlier to occur of (a) the date on which the commitments under the 2018 Delayed Draw Term Loan have been terminated or reduced to zero in accordance with the terms of the 2018 Credit Agreement and (b) September 13, 2020.

Borrowings under the 2018 Revolver, 2018 Delayed Draw Term Loan, and 2018 Term Loan will bear interest at the London InterBank Offered Rate ("LIBOR") plus 7.75% per annum. Interest is payable quarterly and accrues daily. Under the terms of the 2018 Credit Agreement, the maximum amount of interest payable, based on the aggregate principal amount of $80 million and interest rates in effect at December 13, 2018, in the next 12 months was required to be pre-funded at the closing date of the 2018 Credit Agreement. The pre-funded amount at August 28, 2019 of approximately $6.4 million is recorded in restricted cash and cash equivalents on our consolidated balance sheet and is not available for other purposes. The interest rate for the 2018 Term Loan and the 2018 Revolver was approximately 10.1% as of November 15, 2019.

The 2018 Credit Facility is subject to the following minimum amortization payments: 1st anniversary: $10 million; 2nd anniversary: $10 million; 3rd anniversary: $15 million; and 4th anniversary: $15 million.

The Company also pays a quarterly commitment fee based on the unused portion of the 2018 Revolver and the 2018 Delayed Draw Term Loan at 0.5% per annum. Voluntary prepayments, refinancing and asset dispositions constituting a sale of all or substantially all assets, under the 2018 Delayed Draw Term Loan and the 2018 Term Loan are subject to a make whole premium during years one and two equal to the present value of all interest otherwise owed on the prepaid amount from the date of the pre-payment through the end of year two, a 2.0% fee during year three, and a 1.0% fee during year four. Finally, the Company paid to the lenders a one-time fee of $1.6 million in connection with the closing of the 2018 Credit Facility.

Indebtedness under the 2018 Credit Facility is secured by a security interest in, among other things, all of the Company's present and future personal property (other than certain excluded assets) and all Mortgaged Property (as defined in the 2018 Credit Agreement) of the Company and its subsidiaries.

The 2018 Credit Facility contains customary covenants and restrictions on the Company's ability to engage in certain activities, including financial performance covenants, asset sales and acquisitions, and contains customary events of default. Specifically, among other things, the Company is required to maintain minimum Liquidity (as defined in the 2018 Credit Agreement) of $3.0 million as of the last day of each fiscal quarter and a minimum Asset Coverage Ratio (as defined in the 2018 Credit Agreement) of 2.50 to 1.00.

In conjunction with entering into the 2018 Credit Agreement in December 2018, we obtained third party appraisals on all property used as collateral to maintain the debt covenant requirement of a minimum of 2.50 to 1.00 asset coverage ratio . The asset coverage ratio is defined as the aggregate value of all mortgaged property divided by the outstanding principle amount of term loans plus the average aggregate outstanding principle amount of revolving credit loans during the last full month prior to such date of determination. At August 28, 2019, our asset coverage ratio was 4.23 to 1.00.

All amounts owing by the Company under the 2018 Credit Facility are guaranteed by the subsidiaries of the Company.

As of August 28, 2019, we had no amounts due within the next 12 months under the 2018 Credit Facility due to principal repayments in excess of the required minimum. As of August 28, 2019 we had approximately $1.3 million committed under letters of credit, which is used as security for the payment of insurance obligations and are fully cash collateralized, and approximately $0.1 million in other indebtedness.

At August 28, 2019, the Company had $4.7 million available to borrow under the 2018 Revolver and $10.0 million available to borrow under the 2018 Delayed Draw Term Loan.

As of November 26, 2019, the Company was in compliance with all covenants under the terms of the 2018 Credit Agreement.

2016 Credit Agreement (paid in full and terminated in December 2018)

On November 8, 2016, the Company entered into a $65.0 million Senior Secured Credit Facility with Wells Fargo Bank, National Association, as Administrative Agent and Cadence Bank, NA and Texas Capital Bank, NA, as lenders (“2016 Credit Agreement”). The 2016 Credit Agreement, prior to the amendments discussed below, was comprised of a $30.0 million 5-year Revolver (the “Revolver”) and a $35.0 million 5-year Term Loan (the “Term Loan”), and it also included sub-facilities for swingline loans and letters of credits. The original maturity date of the 2016 Credit Agreement was November 8, 2021.

Borrowings under the Revolver and Term Loan bore interest at (1) a base rate equal to the greater of (a) the federal funds effective rate plus one-half of 1% (the “Base Rate”), (b) prime and (c) LIBOR for an interest period of 1 month, plus, in any case, an applicable spread that ranges from 1.50% to 2.50% per annum the (“Applicable Margin”), or (2) the LIBOR, as adjusted for any Eurodollar reserve requirements, plus an applicable spread that ranges from 2.50% to 3.50% per annum. Borrowings under the swingline loan bore interest at the Base Rate plus the Applicable Margin. The applicable spread under each option was dependent upon certain measures of the Company’s financial performance at the time of election. Interest was payable quarterly, or in more frequent intervals if LIBOR applies.

The Company was 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, ranged from 0.30% to 0.35% per annum depending upon the Company's financial performance.

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

The 2016 Credit Agreement, as amended, contained the customary covenants and was secured by an all asset lien on all of the Company's real property and also included customary events of default. On December 13, 2018, the 2016 Credit Agreement was terminated with all outstanding amounts paid in full.

COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

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

Claims

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

Construction Activity

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

Contractual Obligations

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the contractual obligations table.

AFFILIATIONS AND RELATED PARTIES

Affiliate Services

The Company's Chief Executive Officer, Christopher J. Pappas, and Harris J. Pappas, a former Director of the Company, own restaurant entities (the "Pappas entities") that may, from time to time, provide services to the Company and its subsidiaries, as detailed in the Amended and Restated Master Sales Agreement dated August 2, 2017 among the Company and the Pappas entities. Collectively, Messrs. Pappas and the Pappas entities own greater than 5% of the Company's common stock.

Under the terms of the Amended and Restated Master Sales Agreement, the Pappas entities continue to provide specialized (customized) equipment fabrication, primarily for new construction, and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. The total costs under the Master Sales Agreement of custom-fabricated and refurbished equipment in fiscal 2019 and 2018 were approximately $19 thousand and $31 thousand, respectively. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Company's Board of Directors.

Operating Leases

In the third quarter of fiscal 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited partner interest and a 50% general partner interest in the limited partnership. A third party company manages the center. One of the Company's restaurants has rented approximately 7% of the space in that center since July 1969. No changes were made to the Company's lease terms as a result of the transfer of ownership of the center to the new partnership.

On November 22, 2006, the Company executed a new lease agreement with respect to this property. Effective upon the Company's relocation and occupancy into the new space in July 2008, the new lease agreement provides for a primary term of approximately 12 years with two subsequent five-year options. The new lease also gave the landlord an option to buy out the tenant on or after the calendar year 2015 by paying the then unamortized cost of improvements to the tenant. The Company is paying rent of $22.00 per square foot plus maintenance, taxes, and insurance for the remaining primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The new lease agreement was approved by the Finance and Audit Committee of our Board of Directors in 2006.

In the third quarter of fiscal 2014, on March 12, 2014, the Company executed a new lease agreement for one of the Company's Houston Fuddruckers locations with Pappas Restaurants, Inc. The lease provides for a primary term of approximately six years with two subsequent five-year options. Pursuant to the new ground lease agreement, the Company is paying $28.53 per square foot plus maintenance, taxes, and insurance from March 12, 2014 until May 31, 2020. Thereafter, the new ground lease agreement provides for increases in rent at set intervals.

Affiliated rents paid for the Houston property lease represented 2.9% and 3.1% of total rents for continuing operations for fiscal 2019 and 2018, respectively. Rent payments under the two lease agreements described above were $593 thousand and $628 thousand in fiscal 2019 and 2018, respectively.

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

	Fiscal Year Ended	
	August 28, 2019	**August 29, 2018**
	(364 days)	***(364 days)***
	(In thousands, except percentages)	
AFFILIATED COSTS INCURRED:		
Selling, general and administrative expenses—professional and other costs	$ —	$ —
Capital expenditures—custom-fabricated and refurbished equipment	19	31
Other operating expenses, occupancy costs and opening costs, including property leases	593	628
Total	$ 612	$ 659
RELATIVE TOTAL COMPANY COSTS:		
Selling, general and administrative expenses	$ 34,179	$ 38,725
Capital expenditures	3,987	13,247
Other operating expenses, occupancy costs and opening costs	69,075	83,239
Total	$ 107,241	$ 135,211
AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS	0.57%	0.49%

The Company entered into a new employment agreement with Christopher Pappas on December 11, 2017. Under the employment agreement, the initial term of Mr. Pappas' employment ended on August 28, 2019 and automatically renews for additional one year periods, unless terminated in accordance with its terms. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc. The Employment Agreement was unanimously approved by the Executive Compensation Committee (the “Committee”) of the Board as well as by the full Board. Effective August 1, 2018, the Company and Christopher J. Pappas agreed to reduce his fixed annual base salary to one dollar.

Peter Tropoli, a former director and officer of the Company, is an attorney and stepson of Frank Markantonis, who is a director of the Company. Mr. Tropoli resigned from the Company and is no longer our General Counsel and Corporate Secretary.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1, "Nature of Operations and Significant Accounting Policies," to our Consolidated Financial Statements included in Item 8 of Part II of this report. The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. Management believes the following are critical accounting policies due to the significant, subjective and complex judgments and estimates used when preparing our consolidated financial statements. Management regularly reviews these assumptions and estimates with the Finance and Audit Committee of our Board of Directors.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best estimate of current and future taxes to be paid. We are subject to income taxes in the United States and a limited number of foreign jurisdictions, involving franchised locations in Panama, Mexico, and Canada. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

On December 22, 2017, U.S. tax reform legislation that is commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The enactment date occurred during the second quarter of fiscal 2018 and the impact on our income tax accounts of the Tax Act were accounted for in the period of enactment, in accordance with ASC 740. The Tax Act makes broad and complex changes to the U.S. tax code and most notably to the Company, the Tax Act lowered the federal statutory tax rate from 35% to 21% effective January 1, 2018. The Company's federal statutory tax rate for fiscal 2019 was 21%.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future, as well as from tax Net Operating Losses ("NOL") and tax credit carryovers. We establish a valuation allowance when we no longer consider it more likely than not that a deferred tax asset will be realized. In evaluating our ability to recover our deferred tax assets, we consider available positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies and existing business conditions, including the results of recent operations. In the third quarter of fiscal 2018, management concluded that a full valuation allowance on the Company's net deferred tax assets was necessary. As of August 28, 2019, the Company considers the deferred tax assets not to be realizable and maintains a full valuation allowance against the Company's net deferred tax asset balance.

The composition of the Company's deferred tax assets, excluding the offsetting impact of the valuation allowance, includes income tax NOL's and tax credits of approximately $18.1 million, approximately $5.5 million relating to income tax NOL's and $12.5 million relating to tax credit carryover, which expire in varying amounts between fiscal 2022 through 2039, except for the portion of the tax NOL's that have an indefinite carryforward period. At this time, the management is uncertain as to the realization of these deferred tax assets, which is otherwise dependent on numerous factors, including our ability to generate sufficient taxable income prospectively and, if necessary, gains on sale of owned property locations, prior to expiration of the tax NOL's and tax credit carryovers.

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

Impairment of Long-Lived Assets

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

For assets held for use, we estimate future cash flows using assumptions based on possible outcomes of the areas analyzed. If the undiscounted future cash flows are less than the carrying value of our location's assets, we record an impairment based on an estimate of discounted cash flows. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. Assumptions and estimates used include operating results, changes in working capital, discount rate, growth rate, anticipated net proceeds from disposition of the property and if applicable, lease terms.

The span of time for which future cash flows are estimated is often lengthy, increasing the sensitivity to assumptions made. The time span is longer and could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. We consider the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows. We operated 120 restaurants as of November 15, 2019 and periodically experience unanticipated changes in our assumptions and estimates. Those changes could have a significant impact on discounted cash flow models with a corresponding significant impact on the measurement of an impairment. Gains are not recognized until the assets are disposed.

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

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

Property Held for Sale

We periodically review long-lived assets against our plans to retain or ultimately dispose of properties. If we decide to dispose of a property, it will be moved to property held for sale and actively marketed. Property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. We analyze market conditions each reporting period and record additional impairments due to declines in market values of like assets. The fair value of the property is determined by observable inputs such as appraisals and prices of comparable properties in active markets for assets like ours. Gains are not recognized until the properties are sold.

Insurance and Claims

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

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

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

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

SHARE-BASED COMPENSATION

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

NEW ACCOUNTING PRONOUNCEMENTS

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

INFLATION

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Luby's, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Luby's, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of August 28, 2019 and August 29, 2018, the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended August 28, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of August 28, 2019 and August 29, 2018, and the results of its operations and its cash flows for each of the two years in the period ended August 28, 2019, in conformity with accounting principles generally accepted in the United States of America.

Adoption of new accounting standard

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition on August 30, 2018 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. The Company adopted the new revenue standard using the modified retrospective method.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2007.

Houston, Texas
November 26, 2019

Luby's, Inc.
Consolidated Balance Sheets

	August 28, 2019	August 29, 2018
	(In thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,640	$ 3,722
Restricted cash and cash equivalents	9,116	—
Trade accounts and other receivables, net	8,852	8,787
Food and supply inventories	3,432	4,022
Prepaid expenses	2,355	3,219
Total current assets	27,395	19,750
Property held for sale	16,488	19,469
Assets related to discontinued operations	1,813	1,813
Property and equipment, net	121,743	138,287
Intangible assets, net	16,781	18,179
Goodwill	514	555
Other assets	1,266	1,936
Total assets	$ 186,000	$ 199,989
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 8,465	$ 10,457
Liabilities related to discontinued operations	14	14
Current portion of credit facility debt	—	39,338
Accrued expenses and other liabilities	24,475	31,755
Total current liabilities	32,954	81,564
Credit facility debt, less current portion	45,439	—
Liabilities related to discontinued operations	—	16
Other liabilities	6,577	5,781
Total liabilities	84,970	87,361
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Common stock, $0.32 par value; 100,000,000 shares authorized; Shares issued were 30,478,972 and 30,003,642 at August 28, 2019 and August 29, 2018, respectively; Shares outstanding were 29,978,972 and 29,503,642 at August 28, 2019 and August 29, 2018, respectively	9,753	9,602
Paid-in capital	34,870	33,872
Retained earnings	61,182	73,929
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders' equity	101,030	112,628
Total liabilities and shareholders' equity	$ 186,000	$ 199,989

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

Luby's, Inc.
Consolidated Statements of Operations

	Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands, except per share data)	
SALES:		
Restaurant sales	$ 284,513	$ 332,518
Culinary contract services	31,888	25,782
Franchise revenue	6,690	6,365
Vending revenue	379	531
TOTAL SALES	323,470	365,196
COSTS AND EXPENSES:		
Cost of food	79,479	94,238
Payroll and related costs	108,509	124,478
Other operating expenses	50,886	62,286
Occupancy costs	18,133	20,399
Opening costs	56	554
Cost of culinary contract services	28,554	24,161
Cost of franchise operations	1,633	1,528
Depreciation and amortization	13,998	17,453
Selling, general and administrative expenses	34,179	38,725
Other charges	4,270	—
Provision for asset impairments and restaurant closings	5,603	8,917
Net gain on disposition of property and equipment	(12,832)	(5,357)
Total costs and expenses	332,468	387,382
LOSS FROM OPERATIONS	(8,998)	(22,186)
Interest income	30	12
Interest expense	(5,977)	(3,348)
Other income, net	195	298
Loss before income taxes and discontinued operations	(14,750)	(25,224)
Provision for income taxes	469	7,730
Loss from continuing operations	(15,219)	(32,954)
Loss from discontinued operations, net of income taxes	(7)	(614)
NET LOSS	$ (15,226)	$ (33,568)
Loss per share from continuing operations:		
Basic	$ (0.51)	$ (1.10)
Assuming dilution	$ (0.51)	$ (1.10)
Loss per share from discontinued operations:		
Basic	$ 0.00	$ (0.02)
Assuming dilution	$ 0.00	$ (0.02)
Net loss per share:		
Basic	$ (0.51)	$ (1.12)
Assuming dilution	$ (0.51)	$ (1.12)
Weighted-average shares outstanding:		
Basic	29,786	29,901
Assuming dilution	29,786	29,901

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

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

	Common Stock						
	Issued		Treasury				
	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balance at August 30, 2017	29,624	$ 9,480	(500)	$ (4,775)	$31,850	$ 107,497	$ 144,052
Net loss for the year	—	—	—	—	—	(33,568)	(33,568)
Common stock issued under nonemployee director benefit plans	87	28	—	—	(28)	—	—
Common stock issued under employee benefit plans	183	59	—	—	(59)	—	—
Share-based compensation expense	109	35	—	—	2,109	—	2,144
Balance at August 29, 2018	30,003	$ 9,602	(500)	$ (4,775)	$33,872	$ 73,929	$ 112,628
Net loss for the year	—	—	—	—	—	(15,226)	(15,226)
Cumulative effect of accounting changes from the adoption of ASC Topic 606	—	—	—	—	—	2,479	2,479
Common stock issued under nonemployee director benefit plans	53	17	—	—	(17)	—	—
Common stock issued under employee benefit plans	93	30	—	—	(30)	—	—
Share-based compensation expense	329	104	—	—	1,045	—	1,149
Balance at August 28, 2019	30,478	$ 9,753	(500)	$ (4,775)	$34,870	$ 61,182	$ 101,030

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

Luby's, Inc.
Consolidated Statements of Cash Flows

	Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (15,226)	$ (33,568)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for asset impairments and net loss (gain) on property dispositions	(7,229)	3,619
Depreciation and amortization	13,998	17,453
Amortization of debt issuance cost	1,317	534
Share-based compensation expense	1,140	2,144
Deferred tax provision	—	8,192
Cash used in operating activities before changes in operating assets and liabilities	(6,000)	(1,626)
Changes in operating assets and liabilities:		
Increase in trade accounts and other receivables	(65)	(775)
Decrease in food and supply inventories	590	432
Decrease in prepaid expenses and other assets	1,657	808
Decrease in accounts payable, accrued expenses and other liabilities	(9,312)	(7,292)
Net cash used in operating activities	(13,130)	(8,453)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of assets and property held for sale	21,836	14,191
Insurance proceeds	—	2,070
Purchases of property and equipment	(3,987)	(13,247)
Net cash provided by investing activities	17,849	3,014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Revolver borrowings	42,300	147,600
Revolver repayments	(57,000)	(132,000)
Debt issuance costs	(3,266)	(386)
Proceeds on term loan	58,400	—
Term loan repayments	(36,107)	(7,079)
Tax paid on equity withheld	(12)	(70)
Net cash provided by financing activities	4,315	8,065
Net increase in cash and cash equivalents and restricted cash	9,034	2,626
Cash and cash equivalents and restricted cash at beginning of period	3,722	1,096
Cash and cash equivalents and restricted cash at end of period	$ 12,756	$ 3,722
Cash paid for:		
Income taxes	$ 470	$ 426
Interest	$ 4,452	$ 2,499

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

Luby's, Inc.
Notes to Consolidated Financial Statements
Fiscal Years 2019 and 2018

Note 1. Nature of Operations and Significant Accounting Policies

Nature of Operations

Luby's, Inc. is based in Houston, Texas. As of August 28, 2019, the Company owned and operated 124 restaurants, with 101 in Texas and the remainder in other states. In addition, the Company received royalties from 102 Fuddruckers franchises as of August 28, 2019 located primarily throughout the United States. The Company's owned and franchised restaurant locations are convenient to shopping and business developments, as well as, to residential areas. Accordingly, the restaurants appeal to a variety of customers at breakfast, lunch, and dinner. Culinary Contract Services consists of contract arrangements to manage food services for clients operating in primarily four lines of business: healthcare; senior living; business; and venues.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Luby's, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. We have assessed our ability to continue as a going concern as of the balance sheet date and for at least one year beyond the issuance date of the consolidated financial statements. Based on an evaluation of both quantitative and qualitative information, including available liquidity under our 2018 Credit Facility, related to known conditions and events in the aggregate, it is probable that we will be able to meet our obligations as they become due within one year after the date the consolidated financial statements are issued.

Accounting Periods

The Company's fiscal year ends on the last Wednesday in August. Accordingly, each fiscal year normally consists of 13 four-week periods, or accounting periods, accounting for 364 days in the aggregate. However, every fifth or sixth year, we have a fiscal year that consists of 53 weeks, accounting for 371 days in the aggregate. The first fiscal quarter consists of four four-week periods, or 16 weeks, and the remaining three quarters typically include three four-week periods, or 12 weeks, in length. The fourth fiscal quarter includes 13 weeks in certain fiscal years to adjust for our standard 52 week, or 364 day, fiscal year compared to the 365 day calendar year.

Reportable Segments

Each restaurant is an operating segment because operating results and cash flow can be determined for each restaurant. We aggregate our operating segments into reportable segments by restaurant brand due to the nature of the products and services, the production processes, the customers, the methods used to distribute the products and services, similarity of store level profit margins and the nature of the regulatory environment are alike. The Company has five reportable segments: Luby's cafeterias, Fuddruckers restaurants, Cheeseburger in Paradise restaurant, Fuddruckers franchise operations, and Culinary Contract Services ("CCS").

Prior to the fourth quarter of fiscal 2019 our internal organization and reporting structure supported three reportable segments; Company-owned restaurants, Franchise operations and Culinary Contract Services. The Company-owned restaurants consists of the three brands discussed above, which were aggregated into one reportable segment. In the fourth quarter of fiscal 2019 we re-evaluated and disaggregated the Company-owned restaurants into three reportable segments based on brand name. As such, as of the fourth quarter 2019, our five reportable segments are Luby's cafeterias, Fuddruckers restaurants, Cheeseburger in Paradise restaurants, Fuddruckers franchise operations and Culinary Contract Services. Management believes this change better reflects the priorities and decision-making analysis around the allocation of our resources and better aligns to the economic characteristics within similar restaurant brands. We began reporting on the new structure in the fourth quarter of fiscal 2019 as reflected in this Annual Report on Form 10-K. The segment data for the comparable periods presented has been recast to conform to the current period presentation. Recasting this historical information did not have an impact on the consolidated financial performance of Luby's Inc. for any of the periods presented.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash and cash equivalents and restricted cash and cash equivalents include highly liquid investments such as money market funds that have a maturity of three months or less. The Company's bank account balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 at each institution. However, balances in money market fund accounts are not insured. Amounts in transit from credit card companies are also considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction.

Trade Accounts and Other Receivables, net

Receivables consist principally of amounts due from franchises, culinary contract service clients, catering customers and restaurant food sales to corporations. Receivables are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical loss experience for CCS clients, catering customers and restaurant sales to corporations and, for CCS receivables and franchise royalty and marketing and advertising receivables, the Company also considers the franchisees' and CCS clients' unsecured default status. The Company periodically reviews its allowance for doubtful accounts. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

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

Property Held for Sale

The Company periodically reviews long-lived assets against its plans to retain or ultimately dispose of properties. If the Company decides to dispose of a property, it will be moved to property held for sale and actively marketed. Property held for sale is recorded at amounts not in excess of what management currently expects to receive upon sale, less costs of disposal. Depreciation on assets moved to property held for sale is discontinued and gains are not recognized until the properties are sold.

Impairment of Long-Lived Assets

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

Debt Issuance Costs

Debt issuance costs include costs incurred in connection with the arrangement of long-term financing agreements. The debt issuance costs associated with our term loans are presented on the our consolidated balance sheet as a direct deduction from long-term debt. The debt issue costs associated with the our revolving credit facility are included in other assets on our consolidated balance sheet. These costs are amortized using the effective interest method over the respective term of the debt to which they specifically relate.

Fair Value of Financial Instruments

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

Self-Insurance Accrued Expenses

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

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

Revenue Recognition

See Note 3. Revenue Recognition.

Cost of CCS

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

Cost of Franchise Operations

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

Marketing and Advertising Expenses

Marketing and advertising costs are expensed as incurred. Total advertising expense included in other operating expenses and selling, general and administrative expense was $4.0 million and $4.1 million in fiscal 2019 and 2018, respectively. We record advertising attributable to local store marketing and local community involvement efforts in other operating expenses; we record advertising attributable to our brand identity, our promotional offers, and our other marketing messages intended to drive guest awareness of our brands, in selling, general, and administrative expenses. We believe this separation of our marketing and advertising costs assists with measurement of the profitability of individual restaurant locations by associating only the local store marketing efforts with the operations of each restaurant.

Marketing and advertising expense included in other operating expenses attributable to local store marketing was $0.1 million and $0.6 million in fiscal 2019 and 2018, respectively.

Marketing and advertising expense included in selling, general and administrative expense was $3.9 million and $3.5 million in fiscal 2019 and 2018, respectively.

Depreciation and Amortization

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

Opening Costs

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

Other Charges

Other charges includes those expenses that we consider related to our restructuring efforts or not part of our recurring operations.

In the first half of fiscal 2019, a shareholder of the company proposed alternative nominees to the Board of Directors and other possible changes to the corporate strategy resulting in a contested proxy at the Company's 2019 annual meeting. We incurred $1.7 million in proxy communication expense which was primarily for outside professional services and related costs in order to communicate with shareholders about management's strategy and the experience of the Company's members on the Board of Directors.

Also, in fiscal 2019, we engaged a professional consulting firm to evaluate initiatives to right-size corporate overhead costs and revenue enhancing measures. In addition, we engaged other outside consultants to evaluate various other components of our strategy. We also incurred cost of other outside professionals as we began efforts to transition portions of our accounting, payroll, operational reporting, and other back-office functions to a leading multi-unit restaurant outsourcing firm. We anticipate completing the transition in the first calendar quarter of 2020 and expect to realize additional cost savings and enhanced capabilities from this transition. Lastly, we incurred expenses related to certain information technology systems that will be replaced by the capabilities of the outsourcing firm. We incurred an expense of $1.3 million for these restructuring efforts.

In fiscal 2019, we separated with a number of employees as part of our efforts to streamline our corporate overhead costs and to support a reduced number of restaurants in operation. Employees who were separated from the company were paid severance based on the number of years of service and earnings with the organization, resulting in a $1.2 million charge.

Other charges, as defined above, were not significant in fiscal 2018.

Operating Leases

The Company leases restaurant and administrative facilities, vehicles and administrative equipment under operating leases. Building lease agreements generally include rent holidays, rent escalation clauses and contingent rent provisions for a percentage of sales in excess of specified levels. Contingent rental expenses are recognized prior to the achievement of a specified target, provided that the achievement of the target is considered probable. Most of the Company’s lease agreements include renewal periods at the Company’s option. The Company recognizes rent holiday periods and scheduled rent increases on a straight-line basis over the lease term beginning with the date the Company takes possession of the leased space.

Income Taxes

The estimated future income tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carrybacks and carryforwards are recorded. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not a portion or all of the deferred tax asset will not be recognized. During fiscal 2018, management concluded to increase their valuation allowance to reduce fully the Company’s net deferred tax asset balances, net of deferred tax liabilities, including through the fiscal year ended August 28, 2019.

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

Discontinued Operations

We will report the disposal of a component or a group of components of the Company in discontinued operations if the disposal of the components or group of components represents a strategic shift that has or will have a major effect on the Company’s operations and financial results. Adoption of this standard did not have a material impact on our consolidated financial statements.

Share-Based Compensation

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

Earnings Per Share

Basic income per share is computed by dividing net income by the weighted-average number of shares outstanding, including restricted stock units, during each period presented. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options, determined using the treasury stock method.

Use of Estimates

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

Recently Adopted Accounting Pronouncements

We transitioned to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606") from ASC Topic 605, Revenue Recognition and ASC Topic 953-605, Franchisors - Revenue Recognition (together, the "Previous Standards") on August 30, 2018. Our transition to ASC 606 represents a change in accounting principle. ASC 606 eliminates industry-specific guidance and provides a single model for recognizing revenue from contracts with customers. The core principle of ASC 606 is that a reporting entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the reporting entity expects to be entitled for the exchange of those goods or services.

We adopted ASC 606 using the modified retrospective method applied to contracts that were not completed at August 29, 2018. Due to the short term nature of a significant portion of our contracts with customers, we have elected to apply the practical expedients under ASC 606 to: (1) not adjust the consideration for the effects of a significant financing component, (2) recognize incremental costs of obtaining a contract as expense when incurred and (3) not disclose the value of our unsatisfied performance obligations for contracts with an original expected duration of one year or less.

The adoption of ASC 606 did not have an impact on the recognition of revenues from our primary source of revenue from our Company owned restaurants (except for recognition of breakage and discounts on gift cards, as discussed below), revenues from our culinary contract services, vending revenue or ongoing franchise royalty fees, which are based on a percentage of franchisee sales. The adoption did impact the recognition of initial franchise fees and area development fees and gift card breakage.

The adoption of ASC 606 requires us to recognize initial and renewal franchise and development fees on a straight-line basis over the term of the franchise agreement, which is usually 20 years. Historically, we have recognized revenue from initial franchise and development fees upon the opening of a franchised restaurant when we have completed all our material obligations and initial services.

Additionally, ASC 606 requires gift card breakage to be recognized as revenue in proportion to the pattern of gift card redemptions exercised by our customers. Historically, we recorded breakage income within other (expense) income (and not within revenue) when it was deemed remote that the unused gift card balance will be redeemed.

Upon adoption of ASC 606 we changed our reporting of marketing and advertising fund ("MAF") contributions from franchisees and the related marketing and advertising expenditures. Under the Previous Standards, we did not reflect MAF contributions from franchisees and MAF expenditures in our statements of operations. Although the gross amounts of our revenues and expenses are impacted by the recognition of franchisee MAF fund contributions and related expenditures of MAF funds we manage, increases to gross revenues and expenses did not result in a material net impact to our statement of operations.

Our consolidated financial statements reflect the application of ASC 606 beginning in fiscal year 2019, while our consolidated financial statements for prior periods were prepared under the guidance of the Previous Standards. The $2.5 million cumulative effect of our adoption of ASC 606 is reflected as an increase to our August 30, 2018 shareholders' equity with a corresponding decrease to accrued expenses and other liabilities and was comprised of (1) a reduction to accrued expense and other liabilities of $3.1 million to adjust the unused gift card liability balance as if the gift card breakage guidance had been applied prior to August 30, 2018 and (2) an increase to accrued expense and other liabilities of $0.6 million to adjust the unearned franchise fees for the fees received through the end of fiscal year 2018 that would have been deferred and recognized over the term of the franchise agreement if the new guidance had been applied prior to August 30, 2018.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. This update provides clarification regarding how certain cash receipts and disbursements are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. We adopted ASU 2016-15 on August 30, 2018 using the retrospective method of adoption. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. This update addresses the diversity in practice on how to classify and present changes in restricted cash or restricted cash equivalents in the statement of cash flows. The update requires that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents in addition to changes in cash and cash equivalents. Entities are also required to disclose information about the nature of the restrictions and amounts described as restricted cash and restricted cash equivalents. Also, when cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line on the balance sheet, an entity must reconcile these amounts to the total shown on the statement of cash flows. We adopted ASU 2016-18 effective August 30, 2018 using the retrospective method of adoption. Our adoption of ASU 2016-18 represents a change in accounting principle. Our adoption had no effect on our consolidated statement of cash flows for the fiscal year ended August, 29, 2018. See Note 2 for the reconciliation and disclosures regarding the restrictions required by this update. The adoption of this standard did not have a material impact on our consolidated financial statements.

New Accounting Pronouncements - "to be Adopted"

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Subsequently, the FASB issued ASU 2018-01, 2018-10, 2018-11, 2018-20 and 2019-01, which were targeted improvements to ASU 2016-02 (collectively, with ASU 2016-02, "ASC 842") and provided entities with an additional (and optional) transition method to adopt the new lease standard. ASC 842 requires a lessee to recognize a liability to make lease payments and a corresponding right-of-use asset on the balance sheet, as well as provide additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. ASC 842 is effective for annual and interim periods beginning after December 15, 2018. ASC 842 may be adopted using the modified retrospective method, which requires application to all comparative periods presented (the "comparative method") or alternatively, as of the effective date of initial application without restating comparative period financial statements (the "effective date method"). We will adopt ASC 842 in the first quarter of fiscal year 2020 using the effective date method. The ASC 842 also provides several practical expedients and policies that companies may elect under either transition method.

We are implementing a new lease tracking and accounting system in connection with the adoption of ASC 842. Based on a preliminary assessment, we expect that most of our operating lease commitments will be subject to the new standard and we will record operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on our consolidated balance sheet. We do not expect the adoption of ASC 42 to have a significant impact on our consolidated statements of operations or our consolidated statements of cash flows.We expect to elect the package of practical expedients which will allow us not to reassess previous accounting conclusions regarding lease identification and classification for existing or expired leases as of the date of adoption. We also expect to elect the short-term lease recognition exemption, which provides the option to not recognize right-of-use assets and related liabilities for leases with terms of 12 months or less.

Upon adoption, our lease liability will generally be based on the present value of the operating lease payments and the related right-of-use asset will generally be based on the lease liability, adjusted for amounts reclassified from other lease-related assets and liabilities, in accordance with the new guidance, and impairment of certain right-of-use assets recognized as a charge to retained earnings. We expect to recognize operating lease liabilities of approximately $32.0 million and corresponding right-of-use assets of approximately $27.0 million.

In addition, we expect to record an initial adjustment to retained earnings to derecognize the deferred gain from the sale / leaseback transactions using the cumulative effect transition method, and we will no longer recognize the amortization of this gain to net gain on disposition of properties in our consolidated statements of operations starting in fiscal 2020. For any future sale / leaseback transactions, the gain (adjusted for any off-market items) will be recognized immediately in most cases. As of August 28, 2019, we had $2.0 million of deferred gain on sale / leaseback transactions recorded in other long-term liabilities in our consolidated balance sheet.

The amounts of right-of-use-assets, lease liabilities and cumulative effect adjustment to retained earnings we ultimately recognized may differ from these estimates as we finalize the calculations upon adoption.

Subsequent Events

Events subsequent to the Company's fiscal year ended August 28, 2019 through the date of issuance of the financial statements are evaluated to determine if the nature and significance of the events warrant inclusion in the Company's consolidated financial statements.

Note 2. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within our consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	August 28, 2019		August 29, 2018	
	(in thousands)			
Cash and cash equivalents	$	3,640	$	3,722
Restricted cash and cash equivalents		9,116		—
Total cash and cash equivalents shown in the statement of cash flows	$	12,756	$	3,722

Amounts included in restricted cash represent amounts required to be set aside for (1) maximum amount of interest payable in the next 12 months under the 2018 Credit Agreement (see Note 12. Debt), (2) collateral for letters of credit issued for potential insurance obligations, which letters of credit expire in less than 12 months and (3) pre-funding of the credit limit under our corporate purchasing card program.

Note 3. Revenue Recognition

Restaurant Sales

Restaurant sales consist of sales of food and beverage products to restaurant guests at our Luby's Cafeteria, Fuddruckers and Cheeseburger in Paradise restaurants. Revenue from restaurant sales is recognized at the point of sale and is presented net of discounts, coupons, employee meals and complimentary meals. Sales taxes that we collect and remit to the appropriate taxing authority related to these sales are excluded from revenue.

We sell gift cards to our customers in our venues and through certain third-party distributors. These gift cards do not expire and do not incur a service fee on unused balances. Sales of gift cards to our restaurant customers are initially recorded as a contract liability, included in accrued expenses and other liabilities, at their expected redemption value. When gift cards are redeemed, we recognize revenue and reduce the contract liability. Discounts on gift cards sold by third parties are recorded as a reduction to accrued expenses and other liabilities and are recognized, as a reduction to revenue, over a period that approximates redemption patterns. The portion of gift cards sold to customers that are never redeemed is commonly referred to as gift card breakage. Under ASC 606 we recognize gift card breakage revenue in proportion to the pattern of gift card redemptions exercised by our customers, using an estimated breakage rate based on our historical experience. Under the Previous Standards, we recognized gift card breakage income within other (expense) income (and not within revenue) when it was deemed remote that the unused gift card balance would be redeemed.

Culinary contract services revenue

Our Culinary Contract Services segment provides food, beverage and catering services to our clients at their locations. Depending on the type of client and service, we are either paid directly by our client and/or directly by the customer to whom we have been provided access by our client.

We typically use one of the following types of client contracts:

Fee-Based Contracts. Revenue from fee-based contracts is based on our costs incurred and invoiced to the client along with the agreed management fee, which may be calculated as a fixed dollar amount or a percentage of sales or other variable measure. Some fee-based contracts entitle us to receive incentive fees based upon our performance under the contract, as measured by factors such as sales, operating costs and client satisfaction surveys. This potential incentive revenue is allocated entirely to the management services performance obligation. We recognize revenue from our management fee and payroll cost reimbursement over time as the services are performed. We recognize revenue from our food and 3rd party purchases reimbursement at the point in time when the vendor delivers the goods or performs the services.

Profit and Loss Contracts. Revenue from profit and loss contracts consist primarily of sales made to consumers, typically with little or no subsidy charged to clients. Revenue is recognized at the point of sale to the consumer. Sales taxes that we collect and remit to the appropriate taxing authority related to these sales are excluded from revenue.

As part of client contracts, we sometimes make payments to clients, such as concession rentals, vending commissions and profit share. These payments are accounted for as operating costs when incurred.

Revenue from the sale of frozen foods includes royalty fees based on a percentage of frozen food sales and is recognized at the point in time when product is delivered by our contracted manufacturers to the retail outlet.

Franchise revenues

Franchise revenues consist primarily of royalties, marketing and advertising fund ("MAF") contributions, initial and renewal franchise fees, and upfront fees from area development agreements related to our Fuddruckers restaurant brand. Our performance obligations under franchise agreements consist of: (1) a franchise license, including a license to use our brand and MAF management, (2) pre-opening services, such as training and inspections and (3) ongoing services, such as development of training materials and menu items as well as restaurant monitoring and inspections. These performance obligations are highly interrelated, so we do not consider them to be individually distinct. We account for them under ASC 606 as a single performance obligation, which is satisfied over time by providing a right to use our intellectual property over the term of each franchise agreement.

Royalties, including franchisee MAF contributions, are calculated as a percentage of franchise restaurant sales. MAF contributions paid by franchisees are used for the creation and development of brand advertising, marketing and public relations, merchandising research and related programs, activities and materials. The initial franchisee fee is payable upon execution of the franchise agreement and the renewal fee is due and payable at the expiration of the initial term of the franchise agreement. Our franchise agreement royalties, including advertising fund contributions, represent sales-based royalties that are related entirely to our performance obligation under the franchise agreement and are recognized as franchise sales occur.

Initial and renewal franchise fees and area development fees are recognized as revenue over the term of the respective agreement unless the franchise agreement is terminated early, in which case the remaining initial or renewal franchise fee is fully recognized in the period of termination. Area development fees are not distinct from franchise fees, so upfront fees paid by franchisees for exclusive development rights are deferred and apportioned to each franchise restaurant opened by the franchisee. The pro rata amount apportioned to each restaurant is accounted for as an initial franchise fee.

Under the Previous Standards, initial franchise fees and area development fees were recognized as revenue when the related restaurant commenced operations and we completed all material pre-opening services and conditions. Renewal franchise fees were recognized as revenue upon execution of a new franchise agreement. MAF contributions from franchisees and the related MAF expenditures were accounted for on a net basis in our consolidated balance sheets.

Revenue from vending machine sales is recorded at the point in time when the sale occurs.

Contract Liabilities

Contract liabilities consist of (1) deferred revenue resulting from initial and renewal franchise fees and upfront area development fees paid by franchisees, which are generally recognized on a straight-line basis over the term of the underlying agreement, (2) liability for unused gift cards and (3) unamortized discount on gift cards sold to 3rd party retailers. These contract liabilities are included in accrued expenses and other liabilities in our consolidated balance sheets. The following table reflects the change in contract liabilities between the date of adoption (August 30, 2018) and August 28, 2019:

	Gift Cards, net of discounts	Franchise Fees
	(In thousands)	
Balance at August 30, 2018	$ 2,707	$ 1,891
Revenue recognized that was included in the contract liability balance at the beginning of the year	(1,308)	(564)
Increase (decrease), net of amounts recognized as revenue during the period	1,481	(40)
Balance at August 28, 2019	$ 2,880	$ 1,287

The following table illustrates the estimated revenues expected to be recognized in the future related to our deferred franchise fees that are unsatisfied (or partially unsatisfied) as of August 28, 2019 (in thousands):

	Franchise Fees	
	(In thousands)	
Fiscal 2020	$	37
Fiscal 2021		37
Fiscal 2022		37
Fiscal 2023		37
Fiscal 2024		37
Thereafter		347
Total operating franchise restaurants	$	495
Franchise restaurants not yet opened(1)		755
Total	$	1,250

(1) Amortization of the deferred franchise fees will begin when the restaurant commences operations and revenue will be recognized straight-line over the franchise term (which is typically 20 years). If the franchise agreement is terminated, the deferred franchise fee will be recognized in full in the period of termination.

Disaggregation of Total Revenues

For the fiscal year ended August 28, 2019, total sales of $323.5 million was comprised of revenue from performance obligations satisfied over time of $23.0 million and revenue from performance obligations satisfied at a point in time of $300.5 million. See Note 4. Reportable Segments for disaggregation of revenue by reportable segment.

With the exception of the cumulative effect adjustment described in Note 1, the adoption of ASC 606 did not have a material effect on our consolidated financial statements for the fiscal year ended August 28, 2019.

Note 4. Reportable Segments

As more fully discussed at Note 1. Nature of Operations and Significant Accounting Policies, in the fourth quarter of fiscal 2019, the Company has reevaluated its reportable segments and has disaggregated its Company-owned restaurants into three reportable segments; Luby's cafeterias, Fuddruckers restaurants and Cheeseburger in Paradise restaurants. We began reporting on the new structure in the fourth quarter of fiscal 2019. The segment data for the comparable periods presented has been recast to conform to the current period presentation. We have five reportable segments: Luby's cafeterias, Fuddruckers restaurants, Cheeseburger in Paradise restaurants, Fuddruckers franchise operations, and Culinary contract services.

Company-owned restaurants

Company-owned restaurants consists of Luby's Cafeterias, Fuddruckers and Cheeseburger in Paradise reportable segments. We consider each restaurant to be an operating segment because operating results and cash flow can be determined for each restaurant. We aggregate our operating segments into reportable segments by restaurant brand because the nature of the products and services, the production processes, the customers, the methods used to distribute the products and services, long-term store level profit margins, and the nature of the regulatory environment are similar. The chief operating decision maker analyzes store level profit which is defined as restaurant sales and vending revenue, less cost of food, payroll and related costs, other operating expenses and occupancy costs. All Company-owned Luby's Cafeterias, Fuddruckers and Cheeseburger in Paradise restaurants are casual dining restaurants.

The Luby's segment includes the results of our company-owned Luby's Cafeterias restaurants. The total number of Luby's restaurants at the end of fiscal 2019 and 2018 were 79 and 84, respectively.

The Fuddruckers segment includes the results of our company-owned Fuddruckers restaurants. The total number of Fuddruckers restaurants at the end of fiscal 2019 and 2018 were 44 and 60, respectively.

The Cheeseburger and Paradise segment includes the results of our Cheeseburger in Paradise restaurants. The total number of Cheeseburger in Paradise restaurants at the end of fiscal 2019 and 2018 were one and two, respectively.

Culinary Contract Services

CCS, branded as Luby's Culinary Services, consists of a business line servicing healthcare, sport stadiums, corporate dining clients, and sales through retail grocery stores. The healthcare accounts are full service and typically include in-room delivery, catering, vending, coffee service, and retail dining. CCS had contracts with long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, retail grocery stores, behavioral hospitals, a senior living facility, sports stadiums, government, and business and industry clients. CCS has the unique ability to deliver quality services that include facility design and procurement as well as nutrition and branded food services to our clients. The cost of culinary contract services on our consolidated statements of operations includes all food, payroll and related costs, other operating expenses, and other direct general and administrative expenses related to CCS sales. The total number of CCS contracts at the end of fiscal 2019 and 2018 were 31 and 28, respectively.

CCS began selling Luby's Famous Fried Fish, Macaroni & Cheese and Chicken Tetrazzini in February 2017, December 2016, and May, 2019, respectively, in the freezer section of H-E-B stores, a Texas-born retailer. H-E-B stores now stock the family-sized versions of Luby's Classic Macaroni and Cheese , Chicken Tetrazzini, and Luby's Fried Fish. HEB also stocks single serve versions of these three items as well as Jalapeno Macaroni and Cheese.

Fuddruckers Franchise Operations

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

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. The Company requires the successful completion of its training program by a minimum of three managers for each franchised restaurant. In addition, franchised restaurants are evaluated regularly by the Company for compliance with franchise agreements, including standards and specifications through the use of periodic, unannounced, on-site inspections and standards evaluation reports.

The number of franchised restaurants at the end of fiscal 2019 and 2018 were 102 and 105, respectively.

Segment Table

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

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands)	
Sales:		
Luby's cafeterias	$ 214,074	$ 231,859
Fuddruckers restaurants[1]	67,710	88,139
Cheeseburger in Paradise restaurants	3,108	13,051
Culinary contract services	31,888	25,782
Fuddruckers franchise operations	6,690	6,365
Total	$ 323,470	$ 365,196
Segment level profit:		
Luby's cafeterias	$ 25,423	$ 29,050
Fuddruckers restaurants	2,702	3,873
Cheeseburger in Paradise restaurants	(240)	(1,275)
Culinary contract services	3,334	1,621
Fuddruckers franchise operations	5,057	4,837
Total	$ 36,276	$ 38,106
Depreciation and amortization:		
Luby's cafeterias	$ 8,886	$ 10,455
Fuddruckers restaurants	2,844	3,900
Cheeseburger in Paradise restaurants	117	386
Culinary contract services	82	71
Fuddruckers franchise operations	767	769
Corporate	1,302	1,872
Total	$ 13,998	$ 17,453
Total assets:		
Luby's cafeterias	$ 107,287	$ 113,259
Fuddruckers restaurants [2]	25,725	36,345
Cheeseburger in Paradise restaurants [3]	829	1,907
Culinary contract services	6,703	4,569
Fuddrucker franchise operations [4]	10,034	10,982
Corporate	35,422	32,927
Total	$ 186,000	$ 199,989

(1) Includes vending revenue of $379 thousand and $531 thousand for the years ended August 28, 2019 and August 29, 2018, respectively.
(2) Includes Fuddruckers trade name intangible of $7.5 million and $8.3 million at August 28, 2019 and August 29, 2018, respectively.
(3) Includes Cheeseburger in Paradise liquor licenses, and Jimmy Buffett intangibles of $46 thousand and $131 thousand at August 28, 2019 and August 29, 2018, respectively.
(4) Fuddruckers franchise operations segment includes royalty intangibles of $9.2 million and $9.9 million at August 28, 2019 and August 29, 2018, respectively.

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands)	
Capital expenditures:		
Luby's cafeterias	$ 3,195	$ 7,474
Fuddruckers restaurants	513	3,258
Cheeseburger in Paradise restaurants	16	377
Culinary contract services	—	235
Corporate	263	1,903
Total	$ 3,987	$ 13,247

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands)	
Loss before income taxes and discontinued operations:		
Segment level profit	$ 36,276	$ 38,106
Opening costs	(56)	(554)
Depreciation and amortization	(13,998)	(17,453)
Selling, general and administrative expenses	(34,179)	(38,725)
Other charges	(4,270)	—
Provision for asset impairments and restaurant closings	(5,603)	(8,917)
Net gain on disposition of property and equipment	12,832	5,357
Interest income	30	12
Interest expense	(5,977)	(3,348)
Other income, net	195	298
Total	$ (14,750)	$ (25,224)

Note 5. Derivative Financial Instruments

The Company enters into derivative instruments, from time to time, to manage its exposure to changes in interest rates on a percentage of its long-term variable rate debt. On December 14, 2016, the Company entered into an interest rate swap, pay fixed-receive floating, with a constant notional amount of $17.5 million. The fixed rate we paid was 1.965% and the variable rate we receive is one-month LIBOR. The term of the interest rate swap was 5 years. The Company did not apply hedge accounting treatment to this derivative; therefore, changes in fair value of the instrument were recognized in other income (expense), net in our consolidated statements of operations. The changes in the interest rate swap fair value resulted in expense of $0.1 million and income of $0.7 million in fiscal 2019 and 2018, respectively. The Company terminated its interest rate swap in the quarter ended December 19, 2018 and received $0.3 million million in cash proceeds

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

Note 6. Fair Value Measurement

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

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

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

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

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

Recurring fair value measurements related to assets are presented below:

Recurring Fair Value - Assets	Fiscal Year Ended August 29, 2018	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Method
	(In thousands)				
Continuing Operations:					
Derivative - Interest Rate Swap[1]	$ 435	$ —	$ 435	$ —	Discounted Cash Flow

[1] The fair value of the interest rate swap is recorded in other assets on our consolidated balance sheet.

We terminated the interest rate swap in the first quarter of fiscal 2019 and received proceeds of $0.3 million.

Recurring fair value measurements related to liabilities are presented below:

Recurring Fair Value - Liabilities	Fiscal Year Ended August 29, 2018	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Method
	(In thousands)				
Continuing Operations:					
TSR Performance Based Incentive Plan[1]	$ 21	$ —	$ 21	$ —	Monte Carlo Approach

[1] The fair value of the Company's 2017 Performance Based Incentive Plan liabilities was $21 thousand. See Note 16 to the our consolidated financial statements in this Form 10-K for further discussion of Performance Based Incentive Plan.

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

Nonrecurring Fair Value Measurements	Fiscal Year Ended August 28, 2019	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Impairments [4]
	(In thousands)				
Continuing Operations:					
Property and equipment related to Company-owned restaurants[1]	$ 1,220	$ —	$ —	$ 1,220	$ (5,627)
Goodwill[2]	514	—	—	$ 514	$ (41)
Property held for sale[3]	8,030	—	—	8,030	(124)
Total Nonrecurring Fair Value Measurements	$ 9,764	$ —	$ —	$ 9,764	$ (5,792)

(1) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of $7.2 million were written down to their fair value of $1.2 million, resulting in an impairment charge of $5.6 million.
(2) In accordance with Subtopic 350-20, goodwill with a carrying amount of $0.6 million was written down to its implied fair value of $0.5 million resulting in an impairment charge of $41 thousand See Note 9 and Note 13 to the our consolidated financial statements in this Form 10-K for further discussion of goodwill.
(3) In accordance with Subtopic 360-10, long-lived assets held for sale with carrying values of $8.2 million were written down to their fair value, less cost to sell, of $8.0 million, resulting in an impairment charge of $0.1 million. Proceeds on the sale of two property previously recorded in Property held for sale amounted to $19.6 million. See Note 13. Impairment of Long-Lived Assets, Discontinued Operations, Property Held for Sale and Store Closings.
(4) Total impairments are included in provision for asset impairments and restaurant closings in the our consolidated statement of operations.

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

(1) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of $5.6 million were written down to their fair value of $1.5 million, resulting in an impairment charge of $4.1 million.
(2) In accordance with Subtopic 350-20, goodwill with a carrying amount of $513 thousand was written down to its implied fair value of zero, resulting in an impairment charge of $513 thousand. See Note 9 and Note 13 to the our consolidated financial statements in this Form 10-K for further discussion of goodwill.
(3) In accordance with Subtopic 360-10, long-lived assets held for sale with carrying values of $12.9 million were written down to their fair value, less costs to sell, of $5.1 million, resulting in an impairment charge of $3.1 million. Proceeds on the sale of six properties previously recorded in Property held for sale amounted to $4.7 million.
(4) Total impairments are included in Provision for asset impairments and restaurant closings in the or consolidated statement of operations.

Note 7. Trade Receivables and Other

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

	August 28, 2019	August 29, 2018
	(In thousands)	
Trade and other receivables	$ 6,326	$ 6,697
Franchise royalties and marketing and advertising receivables	1,040	764
Unbilled revenue	1,913	1,557
Allowance for doubtful accounts	(427)	(231)
Total Trade accounts and other receivables, net	$ 8,852	$ 8,787

CCS receivable balance at August 28, 2019 was $4.7 million, primarily the result of 24 contracts with balances of $0.1 million to $1.5 million per contract entity. These 24 contracts collectively represented 49% of the Company's total accounts receivables. Contract payment terms for its CCS customers' receivables are due within 30 to 45 days. Unbilled revenue, was $1.9 million at August 28, 2019 and $1.6 million at August 29, 2018. CCS contracts are billed on a calendar month end basis and represent the total balance of unbilled revenue.

The Company recorded receivables related to Fuddruckers franchise operations royalty and marketing and advertising payments from the franchisees, as required by their franchise agreements. Franchise royalty and marketing and advertising fund receivables balance at August 28, 2019 was $1.0 million. At August 28, 2019, the Company had 102 operating franchise restaurants with no significant concentration of accounts receivable.

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

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands)	
Beginning balance	$ 231	$ 275
Provisions for doubtful accounts, net of reversals	196	464
Write-offs[1]	—	(508)
Ending balance	$ 427	$ 231

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

Note 8. Income Taxes

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

	August 28, 2019	August 29, 2018
	(In thousands)	
Deferred income tax assets:		
Workers' compensation, employee injury, and general liability claims	$ 395	$ 507
Deferred compensation	193	280
Net operating losses	5,541	4,401
General business and foreign tax credits	12,529	12,105
Depreciation, amortization and impairments	8,561	6,796
Straight-line rent, dining cards, accruals, and other	2,594	2,917
Subtotal	29,813	27,006
Valuation allowance	(28,865)	(25,873)
Total deferred income tax assets	948	1,133
Deferred income tax liabilities:		
Property taxes and other	948	1,133
Total deferred income tax liabilities	948	1,133
Net deferred income tax asset	$ —	$ —

At August 28, 2019, the Company considered the deferred tax assets not to be realizable and maintains a full valuation allowance against the Company's net deferred tax asset balance. The most significant deferred tax asset prior to valuation allowance is the Company's general business tax credits carryovers to future years of $12.5 million. This item may be carried forward up to twenty years for possible utilization in the future. The carryover of general business tax credits, beginning in fiscal 2002, will begin to expire at the end of fiscal 2022 through 2039, if not utilized by then.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future, as well as from tax net operating losses and tax credit carryovers. We establish a valuation allowance when we no longer consider it more likely than not that a deferred tax asset will be realized. In evaluating our ability to recover our deferred tax assets, we consider available positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies and existing business conditions, including amendment to our credit agreement(s) to avoid default and results of recent operations. In the third quarter of fiscal 2018, management concluded that a full valuation allowance on the Company's net deferred tax assets was necessary. As of August 28, 2019, the Company continues to maintain a full valuation allowance against the net deferred tax asset balance.

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

	August 28, 2019	August 29, 2018
	(In thousands)	
Current federal and state income tax expense	$ 418	$ 405
Current foreign income tax expense	51	71
Deferred income tax expense	—	7,254
Provision for income taxes	$ 469	$ 7,730

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

	Fiscal Year Ended					
	August 28, 2019			August 29, 2018		
		Amount	%		Amount	%
	(In thousands and as a percent of pretax loss from continuing operations)					
Income tax benefit from continuing operations at the federal rate	$	(3,098)	21.0 %	$	(6,405)	25.4 %
Permanent and other differences:						
Federal jobs tax credits (wage deductions)		89	(0.6)		129	(0.5)
Stock options and restricted stock		19	(0.1)		67	(0.3)
Other permanent differences		31	(0.2)		41	(0.2)
State income tax, net of federal benefit		273	(1.9)		145	(0.6)
General Business Tax Credits		(422)	2.9		(506)	2.0
Impact of U.S. Tax Reform		—	—		3,167	(12.6)
Other		117	(0.8)		487	(1.8)
Change in valuation allowance		3,460	(23.5)		10,605	(42.0)
Provision for income taxes from continuing operations	$	469	(3.2)%	$	7,730	(30.6)%

For the fiscal year ended August 28, 2019, including both continuing and discontinued operations, the Company is estimated to report a federal taxable loss of $5.1 million. For the fiscal year ended August 29, 2018, including both continuing and discontinued operations, the Company generated federal taxable loss of $14.2 million.

Our income tax filings are periodically examined by various federal and state jurisdictions. There are no open examinations by federal and state income tax jurisdiction. The Company's U.S. federal income tax return remains open to examination for fiscal 2016 through fiscal 2018.

There were no payments of federal income taxes in fiscal 2019 or fiscal 2018. The Company has income tax filing requirements in over 30 states. State income tax payments were $0.5 million and $0.4 million in fiscal 2019 and 2018, respectively.

The following table is a reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of fiscal 2018 and 2019 (in thousands):

Balance as of August 30, 2017	$	25
Decrease based on prior year tax positions		—
Interest Expense		—
Balance as of August 29, 2018	$	25
Decrease based on prior year tax positions		—
Interest Expense		—
Balance as of August 28, 2019	$	25

The unrecognized tax benefits would favorably affect the Company's effective tax rate in future periods if they are recognized. There is no interest associated with unrecognized benefits as of August 28, 2019. The Company has included interest or penalties related to income tax matters as part of income tax expense.

It is reasonably possible that the amount of unrecognized tax benefits with respect to our uncertain tax positions could significantly increase or decrease within 12 months. However, based on the current status of examinations, it is not possible to estimate the future impact, if any, to recorded uncertain tax positions as of August 28, 2019.

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

Note 9. Property and Equipment, Intangible Assets and Goodwill

The cost, net of impairment, and accumulated depreciation of property and equipment at August 28, 2019 and August 29, 2018, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	August 28, 2019	August 29, 2018	Estimated Useful Lives (years)		
	(In thousands)				
Land	$ 45,845	$ 46,817		—	
Restaurant equipment and furnishings	67,015	69,678	3	to	15
Buildings	126,957	131,557	20	to	33
Leasehold and leasehold improvements	22,098	27,172		Lesser of lease term or estimated useful life	
Office furniture and equipment	3,364	3,596	3	to	10
	265,279	278,820			
Less accumulated depreciation and amortization	(143,536)	(140,533)			
Property and equipment, net	$ 121,743	$ 138,287			
Intangible assets, net	$ 16,781	$ 18,179	15	to	21
Goodwill	$ 514	$ 555			

Depreciation expense for the fiscal years 2019 and 2018, was $12.6 million and $16.1 million, respectively.

Intangible assets, net, consist primarily of the Fuddruckers trade name and franchise agreements and will be amortized. The Company believes the Fuddruckers brand name has an expected accounting life of 21 years from the date of acquisition based on the expected use of its assets and the restaurant environment in which it is being used. The trade name represents a respected brand with customer loyalty and the Company intends to cultivate and protect the use of the trade name. The franchise agreements, after considering renewal periods, have an estimated accounting life of 21 years from the date of acquisition, July 2010, and will be amortized over this period of time.

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

The aggregate amortization expense related to intangible assets subject to amortization for fiscal 2019 and 2018 was $1.4 million and $1.4 million, respectively. The aggregate amortization expense related to intangible assets subject to amortization is expected to be $1.4 million in each of the next five successive years.

The following table presents intangible assets as of August 28, 2019 and August 29, 2018:

	August 28, 2019 (In thousands)			August 29, 2018 (In thousands)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets Subject to Amortization:						
Fuddruckers trade name and franchise agreements	$ 29,486	$ (12,752)	$ 16,734	$ 29,701	$ (11,653)	$ 18,048
Cheeseburger in Paradise trade name and license agreements	$ 146	$ (99)	$ 47	$ 206	$ (75)	$ 131
Intangible assets, net	$ 29,632	$ (12,851)	$ 16,781	$ 29,907	$ (11,728)	$ 18,179

Goodwill, net of accumulated impairments of $0.5 million and $1.6 million in fiscal 2019 and 2018, respectively, was $0.5 million as of August 28, 2019 and $0.6 million as of August 29, 2018. Goodwill has been allocated to and impairment is assessed at the reporting unit level, which is the individual restaurants within our Fuddruckers and Cheeseburger in Paradise restaurant segments that were acquired in fiscal 2010 and fiscal 2013, respectively. The net Goodwill balance at the end of fiscal 2019 is comprised of amounts assigned to the one Cheeseburger in Paradise restaurant that is still operated by us, two Cheeseburger in Paradise restaurants that were converted to Fuddruckers restaurants, and the goodwill from the Fuddruckers acquisition in 2010. The Company performs a goodwill impairment test annually as of the end of the second quarter of each year and more frequently when negative conditions or a triggering event arise. Management prepares valuations for each of its restaurants using a discounted cash flow analysis (Level 3 inputs) to determine the fair value of each reporting unit for comparison with the reporting unit's carrying value in determining if there has been an impairment of goodwill at the reporting unit level.

The Company recorded goodwill impairment charges of $41 thousand and $513 thousand in fiscal 2019 and 2018, respectively.

Note 10. Current Accrued Expenses and Other Liabilities

The following table sets forth current accrued expenses and other liabilities as of August 28, 2019 and August 29, 2018:

	August 28, 2019	August 29, 2018
	(In thousands)	
Salaries, compensated absences, incentives, and bonuses	$ 4,318	$ 6,073
Operating expenses	925	1,068
Unredeemed gift and dining cards	3,862	7,213
Taxes, other than income	9,056	9,247
Accrued claims and insurance	1,796	2,958
Income taxes, legal and other[(1)]	4,518	5,195
Total	$ 24,475	$ 31,754

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

Note 11. Other Long-Term Liabilities

The following table sets forth other long-term liabilities as of August 28, 2019 and August 29, 2018:

	August 28, 2019	August 29, 2018
	(In thousands)	
Workers' compensation and general liability insurance reserve	$ 736	$ 1,002
Capital leases	73	137
Deferred rent and unfavorable leases	3,710	4,380
Deferred compensation	80	106
Deferred gain on sale / leaseback transactions	1,969	—
Other	9	156
Total	$ 6,577	$ 5,781

Note 12. Debt

The following table summarizes credit facility debt, less current portion at August 28, 2019 and August 29, 2018:

	August 28, 2019	August 29, 2018
	(In thousands)	
Long-Term Debt		
2016 Credit Agreement - Term Loan	—	$ 19,506
2016 Credit Agreement - Revolver	—	20,000
2018 Credit Agreement - Revolver	5,300	—
2018 Credit Agreement - Term Loan	43,399	—
Total credit facility debt	48,699	39,506
Less:		
Unamortized debt issue costs	(1,887)	(168)
Unamortized debt discount	(1,373)	—
Total credit facility debt, less unamortized discount and issuance costs	45,439	39,338
Current portion of credit facility debt	—	39,338
Total Credit facility debt, less current portion	$ 45,439	$ —

2018 Credit Agreement

On December 13, 2018, the Company entered into a credit agreement (as amended by the First Amendment (as defined below), the "2018 Credit Agreement") among the Company, the lenders from time to time party thereto, and a subsidiary of MSD Capital, MSD PCOF Partners VI, LLC ("MSD"), as Administrative Agent, pursuant to which the lenders party thereto agreed to make loans to the Company from time to time up to an aggregate principal amount of $80 million consisting of a $10 million revolving credit facility (the "2018 Revolver"), a $10 million delayed draw term loan ("2018 Delayed Draw Term Loan"), and a $60 million term loan (the "2018 Term Loan", and together with the 2018 Revolver and the 2018 Delayed Draw Term Loan, the "2018 Credit Facility"). The 2018 Credit Facility terminates on, and all amounts owing thereunder must be repaid on, December 13, 2023.

On July 31, 2019, the Company entered into the First Amendment to the 2018 Credit Agreement (the "First Amendment") to extend the 2018 Delayed Draw Term Loan expiration date for up to one year to the earlier to occur of (a) the date on which the commitments under the 2018 Delayed Draw Term Loan have been terminated or reduced to zero in accordance with the terms of the 2018 Credit Agreement and (b) September 13, 2020.

Borrowings under the 2018 Revolver, 2018 Delayed Draw Term Loan, and 2018 Term Loan will bear interest at the three-month LIBOR plus 7.75% per annum. Interest is payable quarterly and accrues daily. Under the terms of the 2018 Credit Agreement, the maximum amount of interest payable, based on the aggregate principal amount of $80 million and interest rates in effect at December 13, 2018, in the next 12 months was required to be pre-funded at the closing date of the 2018 Credit Agreement. The pre-funded amount at August 28, 2019 of $6.4 million is recorded in restricted cash and cash equivalents on our consolidated balance sheet and is not available for other purposes. LIBOR is set to terminate in December 2021. We expect that to agree to a replacement rate with MSD prior to the LIBOR termination.

The 2018 Credit Facility is subject to the following minimum amortization payments: 1st anniversary: $10 million; 2nd anniversary: $10 million; 3rd anniversary: $15 million; and 4th anniversary: $15 million.

The Company also pays a quarterly commitment fee based on the unused portion of the 2018 Revolver and the 2018 Delayed Draw Term Loan at 0.5% per annum. Voluntary prepayments, refinancing and asset dispositions constituting a sale of all or substantially all assets, under the 2018 Delayed Draw Term Loan and the 2018 Term Loan are subject to a make whole premium during years one and two equal to the present value of all interest otherwise owed from the date of the pre-payment through the end of year two, a 2.0% fee during year three, and a 1.0% fee during year four. Finally, the Company paid to the lenders a one-time fee of $1.6 million in connection with the closing of the 2018 Credit Facility.

Indebtedness under the 2018 Credit Facility is secured by a security interest in, among other things, all of the Company's present and future personal property (other than certain excluded assets) and all Mortgaged Property (as defined in the 2018 Credit Agreement) of the Company and its subsidiaries. All amounts owing by the Company under the 2018 Credit Facility are guaranteed by the subsidiaries of the Company.

The 2018 Credit Facility contains customary covenants and restrictions on the Company's ability to engage in certain activities, including financial performance covenants, asset sales and acquisitions, and contains customary events of default. Specifically, among other things, the Company is required to maintain minimum Liquidity (as defined in the 2018 Credit Agreement) of $3.0 million as of the last day of each fiscal quarter and a minimum Asset Coverage Ratio (as defined in the 2018 Credit Agreement) of 2.50 to 1.00. As of August 28, 2019, the Company was in full compliance with all covenants with respect to the 2018 Credit Facility.

As of August 28, 2019, we had no amounts due within the next 12 months under the 2018 Credit Facility due to principal repayments in excess of the required minimum. As of August 28, 2019 we had $1.3 million committed under letters of credit, which is used as security for the payment of insurance obligations and are fully cash collateralized, and $0.1 million in other indebtedness. At August 28, 2019, the Company had $4.7 million available to borrow under the 2018 Revolver and $10.0 million available to borrow under the 2018 Delayed Draw Term Loan.

As of November 26, 2019, the Company was in compliance with all covenants under the terms of the 2018 Credit Agreement.

2016 Credit Agreement (paid in full and terminated in December 2018)

On November 8, 2016, the Company entered into a $65.0 million Senior Secured Credit Facility with Wells Fargo Bank, National Association, as Administrative Agent and Cadence Bank, NA and Texas Capital Bank, NA, as lenders ("2016 Credit Agreement"). The 2016 Credit Agreement, prior to the amendments discussed below, was comprised of a $30.0 million 5 year Revolver (the "Revolver") and a $35.0 million 5 year Term Loan (the "Term Loan"), and it also included sub-facilities for swingline loans and letters of credits. The original maturity date of the 2016 Credit Agreement was November 8, 2021.

Borrowings under the Revolver and Term Loan bore interest at (1) a base rate equal to the greater of (a) the federal funds effective rate plus one-half of 1% (the "Base Rate"), (b) prime and (c) LIBOR for an interest period of 1 month, plus, in any case, an applicable spread that ranges from 1.50% to 2.50% per annum the ("Applicable Margin"), or (2) the LIBOR, as adjusted for any Eurodollar reserve requirements, plus an applicable spread that ranges from 2.50% to 3.50% per annum. Borrowings under the swingline loan bore interest at the Base Rate plus the Applicable Margin. The applicable spread under each option was dependent upon certain measures of the Company's financial performance at the time of election. Interest was payable quarterly, or in more frequent intervals if LIBOR applies.

The Company was 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, ranged from 0.30% to 0.35% per annum depending upon the Company's financial performance.

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

The 2016 Credit Agreement, as amended, contained the customary covenants and was secured by an all asset lien on all of the Company's real property and also included customary events of default. On December 13, 2018, the 2016 Credit Agreement was terminated with all outstanding amounts paid in full.

Interest Expense

Total interest expense incurred for fiscal 2019 and 2018 was $6.0 million and $3.3 million, respectively. No interest expense was allocated to discontinued operations in fiscal 2019 or 2018. No interest was capitalized on properties in fiscal 2019 or 2018.

Note 13. Impairment of Long-Lived Assets, Store Closings, Discontinued Operations and Property Held for Sale

Impairment of Long-Lived Assets and Store Closings

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

For assets held for use, the Company estimates future cash flows using assumptions based on possible outcomes of the areas analyzed. If the undiscounted future cash flows are less than the carrying value of the location's assets, the Company records an impairment loss based on an estimate of discounted cash flows. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. Assumptions and estimates used include operating results, changes in working capital, discount rate, growth rate, anticipated net proceeds from disposition of the property and if applicable, lease terms. The span of time for which future cash flows are estimated is often lengthy, increasing the sensitivity to assumptions made. The time span is longer and could be 20 to 25 years for newer properties, but only 5 to 10 years for older properties. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. The Company considers the likelihood of possible outcomes in determining the best estimate of future cash flows. The measurement for such an impairment loss is then based on the fair value of the asset as determined by discounted cash flows.

The Company recognized the following impairment charges and gains on asset disposals to income from operations:

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands, except per share data)	
Provision for asset impairments and restaurant closings	$ 5,603	$ 8,917
Net gain on disposition of property and equipment	(12,832)	(5,357)
Total	$ (7,229)	$ 3,560
Effect on EPS:		
Basic	$ 0.24	$ (0.12)
Assuming dilution	$ 0.24	$ (0.12)

The approximate $5.6 million impairment charge in fiscal 2019 is primarily related to assets impaired at nine property locations, goodwill at one property locations, seven properties held for sale written down to their fair value, certain surplus equipment written down to fair value, and an impairment to a joint venture investment, partially offset by a net decrease in the reserve for restaurant closings of $0.2 million.

The $12.8 million net gain on disposition of property and equipment in fiscal 2019 is primarily related to the $13.2 million gain on the sale of two properties discussed below, partially offset by asset retirements at three locations.

During fiscal 2019, the Company sold and leased back two properties. The net sales price was $19.6 million. The properties sold had been included in the previously announced asset sales program. The sales included lease back periods of 36 and 60 months and average annual lease payments of $450 thousand and $295 thousand respectively. The Company recorded a total net gain on the two sales of $15.3 million of which $12.9 million was recognized at the time of the sale and the remainder will be recognized over the respective lease back periods. The deferred gain on the sale of the two properties is included in other liabilities on our consolidated balance sheet at August 28, 2019. Net proceeds from the sales were used in accordance with the 2018 Credit Agreement, to reduce the balance on its outstanding 2018 Term Loan (as defined above) and for general business purposes.

The $8.9 million impairment charge in fiscal 2018 is primarily related to assets impaired at twenty-one property locations, goodwill at three property location, ten properties held for sale written down to their fair value, and a reserve for fifteen restaurant closings of $1.3 million.

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

Discontinued Operations

As a result of the first quarter fiscal 2010 adoption of the Company's Cash Flow Improvement and Capital Redeployment Plan, the Company reclassified 24 Luby's Cafeterias to discontinued operations. As of August 28, 2019, one location remains held for sale.

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

	August 28, 2019	August 29, 2018
	(In thousands)	
Property and equipment	$ 1,813	$ 1,813
Deferred tax assets	—	—
Assets related to discontinued operations—non-current	$ 1,813	$ 1,813
Deferred income taxes	$ —	$ —
Accrued expenses and other liabilities	14	14
Liabilities related to discontinued operations—current	$ 14	$ 14
Other liabilities	$ —	$ 16
Liabilities related to discontinued operations—non-current	$ —	$ 16

As of August 28, 2019, under both closure plans, the Company had one property classified as discontinued operations. The asset carrying value of the owned property was $1.8 million and is included in assets related to discontinued operations. The Company is actively marketing this property for sale.

The following table sets forth the sales and pretax losses reported for all discontinued locations in fiscal 2019 and fiscal 2018:

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands, except locations)	
Sales	$ —	$ —
Pretax loss	$ (7)	$ (80)
Income tax benefit on discontinued operations	$ —	$ (534)
Loss on discontinued operations	$ (7)	$ (614)
Discontinued locations closed during the period	—	—

The following table summarizes discontinued operations for fiscal 2019 and 2018:

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands, except per share data)	
Discontinued operating losses	$ (7)	$ (21)
Impairments	—	(59)
Gains	—	—
Net loss	$ (7)	$ (80)
Income tax benefit (expense) from discontinued operations	—	(534)
Loss from discontinued operations, net of income taxes	$ (7)	$ (614)
Effect on EPS from discontinued operations—decrease—basic	$ 0.00	$ (0.02)

Within discontinued operations, the Company offsets gains from applicable property disposals against total impairments. The amounts in the table described as "Other" include employment termination and shut-down costs, as well as operating losses through each restaurant's closing date and carrying costs until the locations are finally disposed.

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

Property Held for Sale

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

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

At August 28, 2019, the Company had 14 owned properties recorded at $16.5 million in property held for sale.

At August 29, 2018, the Company had 15 owned properties recorded at $19.5 million in property held for sale.

The pretax profit (loss) for the 14 held for sale locations was $0.3 million and $(1.0) million in fiscal 2019 and 2018, respectively.

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

A roll forward of property held for sale for fiscal 2019, and 2018 is provided below *(in thousands)*:

Balance as of August 30, 2017	$	3,372
Disposals		(7,916)
Net transfers to property held for sale		27,075
Adjustment to fair value		(3,062)
Balance as of August 29, 2018	$	19,469
Disposals		(6,036)
Net transfers to property held for sale		3,055
Adjustment to fair value		—
Balance as of August 28, 2019	$	16,488

Abandoned Leased Facilities - Reserve for Store Closing

As of August 28, 2019, the Company classified eleven leased locations in Arizona, Florida, Illinois, Maryland, Texas, and Virginia as abandoned. Although the Company remains obligated under the terms of the leases for the rent and other costs that may be associated with the leases, the Company has ceased operations and has no foreseeable plans to occupy the spaces as a company restaurant in the future. Therefore, the Company recorded a liability and a corresponding charge to earnings, in provision for asset impairments and restaurant closings, equal to the estimated total amount of rent and other direct costs for the remaining period of time the properties will be unoccupied plus the present value, calculated using a credit-adjusted risk free rate, of the estimated amount by which the rent paid by the Company to the landlord exceeds any rent paid to the Company by a tenant under a sublease over the remaining period of the lease terms. The liability is adjusted for changes in estimates and when a final settlement is reached with and paid to the lessor. For fiscal years 2019 and 2018 net charges (credits) to provision for assets impairments and store closings related to the abandoned lease facilities were $(0.2) million and $1.3 million, respectively. The accrued lease termination liability was $1.4 million and $2.0 million as of August 28, 2019 and August 29, 2018, respectively.

Note 14. Commitments and Contingencies

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, except for operating leases for the Company’s corporate office, facility service warehouse, and certain restaurant properties.

Claims

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

Construction Activity

From time to time, the Company enters into non-cancelable contracts for the construction of its new restaurants or restaurant remodels. This construction activity exposes the Company to the risks inherent in this industry including but not limited to rising material prices, labor shortages, delays in getting required permits and inspections, adverse weather conditions, and injuries sustained by workers. The Company had no non-cancelable construction contracts as of August 28, 2019.

Cheeseburger in Paradise, Royalty Commitment

The license agreement and trade name relates to a perpetual license to use intangible assets including trademarks, service marks and publicity rights related to Cheeseburger in Paradise owned by Jimmy Buffett and affiliated entities. In return, the Company will pay a royalty fee of 2.5% of gross sales, less discounts, at the Company's operating Cheeseburger in Paradise locations to an entity owned or controlled by Jimmy Buffett. The trade name represents a respected brand with positive customer loyalty, and the Company intends to cultivate and protect the use of the trade name.

Note 15. Operating Leases

The Company conducts part of its operations from facilities that are leased under non-cancelable lease agreements. Lease agreements generally contain a primary term of five to 30 years with options to renew or extend the lease from one to 25 years. As of August 28, 2019, the Company has lease agreements for 71 properties which include the Company’s corporate office, facility service warehouse, two remote office spaces, and restaurant properties. The leasing terms of the 71 properties consist of 18 properties expiring in less than one year, 33 properties expiring between one and five years and the remaining 20 properties having current terms that are greater than five years. Of the 71 leased properties, 46 properties have options remaining to renew or extend the lease.

A majority of the leases include periodic escalation clauses. Accordingly, the Company follows the straight-line rent method of recognizing lease rental expense.

As of August 28, 2019, the Company has entered into noncancelable operating lease agreements for certain office equipment with terms ranging from 36 to 60 months.

Annual future minimum lease payments under noncancelable operating leases with terms in excess of one year as of August 28, 2019 are as follows:

Fiscal Year Ending:		(In thousands)
August 26, 2020	$	8,841
August 25, 2021		7,155
August 31, 2022		5,643
August 30, 2023		4,410
August 28, 2024		3,768
Thereafter		10,312
Total minimum lease payments	$	40,129

Most of the leases are for periods of five to 30 years and some leases provide for contingent rentals based on sales in excess of a base amount. As of August 28, 2019, aggregate future minimum rentals to be received under noncancelable subleases is $1.9 million.

Total rent expense for operating leases for fiscal 2019 and 2018 was as follows:

	Year Ended			
	August 28, 2019		August 29, 2018	
	(In thousands, except percentages)			
Minimum rent-facilities	$	9,218	$	10,584
Contingent rentals		75		77
Minimum rent-equipment		761		801
Total rent expense (including amounts in discontinued operations)	$	10,054	$	11,462

The future minimum lease payment table and the total rent expense table above include amounts related to two leases with related parties, which are further described at Note 17. Related Parties.

Note 16. Share-Based Compensation

We have two active share-based stock plans, the Luby's Incentive Stock Plan, as amended and restated effective December 5, 2015 (the "Employee Stock Plan") and the Nonemployee Director Stock Plan. Both plans authorize the granting of stock options, restricted stock, and other types of awards consistent with the purpose of the plans.

Of the aggregate 2.1 million shares approved for issuance under the Nonemployee Director Stock Plan, (which amount includes shares authorized under the original plan and shares authorized pursuant to the amended and restated plan effective as of February 9, 2018), 1.6 million options, restricted stock units and restricted stock awards were granted, 0.1 million options expired or were canceled and added back into the plan, since the plans inception. Approximately 0.6 million shares remain available for future issuance as of August 28, 2019. Compensation cost for share-based payment arrangements under the Nonemployee Director Stock Plan, recognized in selling, general and administrative expenses for fiscal 2019 and 2018 was $0.6 million and $0.5 million, respectively.

Of the 4.1 million shares approved for issuance under the Employee Stock Plan (which amount includes shares authorized under the original plan and shares authorized pursuant to the amended and restated plan effective as of December 5, 2015), 7.3 million options and restricted stock units were granted, 4.3 million options and restricted stock units were canceled or expired and added back into the plan, since the plans inception in 2005. Approximately 1.1 million shares remain available for future issuance as of August 28, 2019. Compensation cost for share-based payment arrangements under the Employee Stock Plan, recognized in selling, general and administrative expenses for fiscal 2019 and 2018 was $0.3 million and $0.9 million, respectively.

Stock Options

Stock options granted under either the Employee Stock Plan or the Nonemployee Director Stock Plan have exercise prices equal to the market price of the Company's common stock at the date of the grant. The market price under the Employee Stock Plan is the closing price at the date of the grant. The market price under the Nonemployee Director Plan is the average of the high and the low price on the date of the grant.

Option awards under the Nonemployee Director Stock Plan generally vest 100% on the first anniversary of the grant date and expire ten years from the grant date. No options were granted under the Nonemployee Director Stock Plan in fiscal 2019 or 2018, No options to purchase shares remain outstanding under this plan, as of August 28, 2019.

Options granted under the Employee Stock Plan generally vest 50% on the first anniversary of grant date, 25% on the second anniversary of the grant date and 25% on the third anniversary of the grant date, with all options expiring ten years from the grant date. All options granted in fiscal 2018, and 2017 were granted under the Employee Stock Plan. No options were granted in fiscal 2019. Options to purchase 1,387,412 shares at options prices from $2.82 to $5.95 per share remain outstanding as of August 28, 2019.

The Company has segregated option awards into two homogeneous groups for the purpose of determining fair values for its options because of differences in option terms and historical exercise patterns among the plans. Valuation assumptions are determined separately for the two groups which represent, respectively, the Employee Stock Plan and the Nonemployee Director Stock Option Plan. The assumptions are as follows:

- The Company estimated volatility using its historical share price performance over the expected life of the option. Management believes the historical estimated volatility is materially indicative of expectations about expected future volatility.
- The Company uses an estimate of expected lives for options granted during the period based on historical data.
- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.
- The expected dividend yield is based on the Company's current dividend yield and the best estimate of projected dividend yield for future periods within the expected life of the option.

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model which determine inputs as shown in the following table for options granted under the Employee Stock Plan:

	Fiscal Year Ended	
	August 28, 2019	**August 29, 2018**
	(In thousands, except percentages)	
Dividend yield	N/A	0%
Volatility	N/A	34.80%
Risk-free interest rate	N/A	2.19%
Expected life (in years)	N/A	5.87

A summary of the Company's stock option activity for fiscal 2019 and 2018 is presented in the following table:

	Shares Under Fixed Options	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
			(Years)	***(In thousands)***
Outstanding at August 30, 2017	1,345,916	$ 4.76	6.6	$ 178
Granted	449,410	2.82	—	—
Cancelled	—	0.00	—	—
Forfeited	(97,111)	4.80	—	—
Expired	(44,801)	7.89	—	—
Outstanding at August 29, 2018	1,653,414	$ 4.10	6.4	$ —
Granted	—	0.00	—	—
Forfeited	(178,700)	3.68	—	—
Expired	(87,302)	5.54	—	—
Outstanding at August 28, 2019	1,387,412	$ 4.06	5.7	$ —
Exercisable at August 28, 2019	1,217,957	$ 4.19	5.4	$ —

The intrinsic value for stock options is defined as the difference between the market value at August 28, 2019 and the grant price.

At August 28, 2019, there was $0.1 million of total unrecognized compensation cost related to unvested options that are expected to be recognized over a weighted-average period of 1.1 years.

The weighted-average grant-date fair value of options granted during fiscal 2018 at $1.05 per share. No options were granted in fiscal 2019. During fiscal 2018 and 2019, no options were exercised.

Restricted Stock Units

Grants of restricted stock units consist of the Company's common stock and generally vest after three years. All restricted stock units are cliff-vested. Restricted stock units are valued at market price of the Company's common stock at the date of grant. The market price under the Employee Stock Plan is the closing price at the date of the grant. The market price under the Nonemployee Director Plan is the average of the high and the low price on the date of the grant.

A summary of the Company's restricted stock unit activity during fiscal years 2018 and 2019 and is presented in the following table:

	Restricted Stock Units	Weighted Average Fair Value	Weighted-Average Remaining Contractual Term
		(Per share)	*(In years)*
Unvested at August 30, 2017	404,364	$ 5.23	1.9
Granted	244,748	2.83	—
Vested	(99,495)	4.42	—
Forfeited	(32,326)	3.87	—
Unvested at August 29, 2018	517,291	$ 3.79	1.8
Granted	4,410	1.15	—
Vested	(153,757)	4.66	—
Forfeited	(93,935)	3.41	—
Unvested at August 28, 2019	274,009	$ 3.39	1.2

At August 28, 2019, there was $0.2 million of total unrecognized compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 1.2 years.

Performance Based Incentive Plan

For fiscal years 2015 - 2018, the Company approved a Total Shareholder Return ("TSR") Performance Based Incentive Plan ("Plan"). Each Plan's award value varies from 0% to 200% of a base amount, as a result of the Company's TSR performance in comparison to its peers over the respective measurement period. Each Plan's vesting period is three years.

The Plans for fiscal years 2015 - 2017 provided for a right to receive an unspecified number of shares of common stock under the Employee Stock Plan based on the total shareholder return ranking compared to a selection of peer companies over the three-year vesting period, for each plan year. The number of shares at the end of the three-year period is determined as the award value divided by the closing stock price on the last day of each fiscal year, accordingly. Each three-year measurement period is designated a plan year name based on year one of the measurement period. Since the plans provide for an undeterminable number of awards, the plans are accounted for as liability based plans. The liability valuation estimate for each plan year has been determined based on a Monte Carlo simulation model. Based on this estimate, management accrues expense ratably over the three-year service periods. A valuation estimate of the future liability associated with each fiscal year's performance award plan is performed periodically with adjustments made to the outstanding liability at each reporting period to properly state the outstanding liability for all plan years in the aggregate as of the respective balance sheet date.

The 2015 TSR Performance Based Incentive Plan vested for each active participant on August 30, 2017 and a total of 187,883 shares were awarded under the Plan at 50% of the original target. The fair value of the 2015 plan's liability in the amount of $496 thousand was converted to equity and the number of shares awarded for the 2015 TSR Performance Based Incentive Plan was based on the Company's stock price at closing on the last day of fiscal 2017.

The fair value of the 2016 TSR Performance Based Incentive Plan was zero at the end of the three-year measurement period and at August 29, 2018 no shares vested due to the relative ranking of the Company's stock performance.

The fair value of the 2017 TSR Performance Based Incentive Plan was zero at the end of the three-year measurement period and at August 28, 2019 no shares vested due to the relative ranking of the Company's stock performance.

The 2018 TSR Performance Based Incentive Plan provides for a specified number of shares of common stock under the Employee Stock Plan based on the total shareholder return ranking compared to a selection of peer companies over a three-year cycle. The Fair Value of the 2018 Plan has been determined based on a Monte Carlo simulation model for the three-year period. The target number of shares for distribution at 100% of the plan is 373,294. The 2018 TSR Performance Based Incentive Plan is accounted for as an equity award since the Plan provides for a specified number of shares. The expense for this Plan year is amortized over the three-year period based on 100% target award.

Non-cash compensation expense related to the Company's TSR Performance Based Incentive Plans in fiscal 2019 and 2018 was a credit to expense of $0.3 million, and $15 thousand, respectively, and is recorded in selling, general and administrative expenses on our consolidated statement of operations.
A summary of the Company's restricted stock Performance Based Incentive Plan activity during fiscal 2019 is presented in the following table:

		Units	Weighted Average Fair Value
			(Per share)
Unvested at August 30, 2017		—	—
Granted		561,177	3.33
Vested		(187,883)	2.64
Forfeited		—	—
Unvested at August 29, 2018		373,294	3.68
Granted		—	—
Vested		—	—
Forfeited		(106,851)	3.68
Unvested at August 28, 2019	$	266,443	3.68

At August 28, 2019, there was $0.4 million of total unrecognized compensation cost related to 2018 TSR Performance Based Incentive Plan that is expected to be recognized over a weighted-average period of 1.0 year.

Restricted Stock Awards

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

Supplemental Executive Retirement Plan

The Company has an unfunded Supplemental Executive Retirement Plan ("SERP"). In 2005, the Board of Directors voted to amend the SERP and suspend the further accrual of benefits and participation. The net benefit recognized for the SERP for the years ended August 28, 2019 and August 29, 2018 was zero, and the unfunded accrued liability included in "Other Liabilities" on the Company's consolidated Balance Sheets as of August 28, 2019 and August 29, 2018 was $32 thousand and $39 thousand, respectively.

Nonemployee Director Phantom Stock Plan

The Company has a Nonemployee Director Phantom Stock Plan ("Phantom Stock Plan"). Authorized shares (shares) under the Phantom Stock Plan were fully depleted in early fiscal 2003; since that time, no deferrals, incentives or dividends have been credited to phantom stock accounts. As participants cease to be directors, their phantom shares are converted into an equal number of shares of common stock and issued from the Company's treasury stock. As of August 28, 2019, 17,801 phantom shares remained outstanding and unconverted under the Phantom Stock Plan.

401(k) Plan

The Company has a voluntary 401(k) employee savings plan to provide substantially all employees of the Company an opportunity to accumulate personal funds for their retirement. The Company matches 25% of participants' contributions made to the plan up to 6% of their salary. The net expense recognized in connection with the employer match feature of the voluntary 401(k) employee savings plan for the fiscal years ended August 28, 2019 and August 29, 2018 was $279 thousand and $243 thousand, respectively.

Note 17. Related Parties

Affiliate Services

The Company's Chief Executive Officer, Christopher J. Pappas, and Harris J. Pappas, a former Director of the Company, own two restaurant entities (the "Pappas entities") that may, from time to time, provide services to the Company and its subsidiaries, as detailed in the Amended and Restated Master Sales Agreement dated August 2, 2017 among the Company and the Pappas entities. Collectively, Messrs. Pappas and the Pappas entities own greater than 5% of the Company's common stock.

Under the terms of the Amended and Restated Master Sales Agreement, the Pappas entities may provide specialized (customized) equipment fabrication and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. The Company incurred $19 thousand and $31 thousand under the Amended and Restated Master Sales Agreement for custom-fabricated and refurbished equipment in fiscal 2019 and 2018, respectively and incurred $2 thousand in other operating costs in fiscal 2018. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Company's Board of Directors.

Operating Leases

In the third quarter of fiscal 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited partnership interest and a 50% general partnership interest in the limited partnership. A third party company manages the center. One of the Company's restaurants has rented 7% of the space in that center since July 1969. No changes were made to the Company's lease terms as a result of the transfer of ownership of the center to the new partnership.

On November 22, 2006, the Company executed a new lease agreement with respect to this shopping center. Effective upon the Company's relocation and occupancy into the new space in July 2008, the new lease agreement provides for a primary term of 12 years with two subsequent five-year options and gives the landlord an option to buy out the tenant on or after the calendar year 2015 by paying the then unamortized cost of improvements to the tenant. The Company pays rent of $22.00 per square foot plus maintenance, taxes, and insurance during the remaining primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The new lease agreement was approved by the Finance and Audit Committee in 2006.

In the third quarter of fiscal 2014, on March 12, 2014, the Company executed a new lease agreement for one of the Company's Houston Fuddruckers locations with Pappas Restaurants, Inc. The lease provides for a primary term of six years with two subsequent five-year options. Pursuant to the new ground lease agreement, the Company pays rent of $28.53 per square foot plus maintenance, taxes, and insurance from March 12, 2014 until May 31, 2020. Thereafter, the new ground lease agreement provides for increases in rent at set intervals.

Affiliated rents paid for the Houston property leases represented 2.9% and 3.1% of total rents for continuing operations for fiscal 2019 and 2018, respectively. Rent payments under the two lease agreements described above were $593 thousand and $628 thousand in fiscal 2019 and 2018, respectively.

Board of Directors

Christopher Pappas and Frank Markantonis, an attorney whose former principal client is Pappas Restaurants, Inc., are current members of our Board of Directors.

Key Management Personnel

The Company entered into a new employment agreement with Christopher Pappas on December 11, 2017. Under the employment agreement, the initial term of Mr. Pappas' employment ended on August 28, 2019 and automatically renews for additional one year periods, unless terminated in accordance with its terms. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc. The Employment Agreement was unanimously approved by the Executive Compensation Committee (the "Committee") of the Board as well as by the full Board. Effective August 1, 2018, the Company and Christopher J. Pappas agreed to reduce his fixed annual base salary to one dollar.

Peter Tropoli, a former director and officer of the Company, is an attorney and stepson of Frank Markantonis, who is a director of the Company. Mr. Tropoli resigned from the Company and is no longer our General Counsel and Corporate Secretary.

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

Note 18. Common Stock

At August 28, 2019, the Company had 500,000 shares of common stock reserved for issuance upon the exercise of outstanding stock options.

Treasury Shares

In February 2008, the Company acquired 500,000 treasury shares for $4.8 million.

Note 19. Earnings Per Share

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

	Fiscal Year Ended	
	August 28, 2019	August 29, 2018
	(In thousands, except per share data)	
Numerator:		
Loss from continuing operations	$ (15,219)	$ (32,954)
Net Loss	$ (15,226)	$ (33,568)
Denominator:		
Denominator for basic earnings per share—weighted-average shares	29,786	29,901
Effect of potentially dilutive securities:		
Employee and non-employee stock options	—	—
Denominator for earnings per share assuming dilution	29,786	29,901
Loss from continuing operations:		
Basic	$ (0.51)	$ (1.10)
Assuming dilution [(a)]	$ (0.51)	$ (1.10)
Net loss per share:		
Basic	$ (0.51)	$ (1.12)
Assuming dilution [(a)]	$ (0.51)	$ (1.12)

(a) Potentially dilutive shares, not included in the computation of net income per share because to do so would have been anti-dilutive, totaled 63,000 shares in fiscal 2019 and *no shares in fiscal 2018. Additionally, stock options with exercise prices exceeding market close prices that were excluded from the computation of net income per share amounted to 1,387,000 shares in fiscal 2019 and 1,653,000 shares in fiscal 2018.*

Note 20. Shareholder Rights Plan

On February 15, 2018, the Board of Directors adopted a rights plan with a 10% triggering threshold and declared a dividend distribution of one right initially representing the right to purchase one half of a share of Luby's common stock, upon specified terms and conditions. The rights plan was effective immediately.

The Board adopted the rights plan in view of the concentrated ownership of Luby's common stock as a means to ensure that all of Luby's stockholders are treated equally. The rights plan is designed to limit the ability of any person or group to gain control of Luby's without paying all of Luby's stockholders a premium for that control. The rights plan was not adopted in response to any specific takeover bid or other plan or proposal to acquire control of Luby's.

If a person or group acquires 10% or more of the outstanding shares of Luby's common stock (including in the form of synthetic ownership through derivative positions), each right will entitle its holder (other than such person or members of such group) to purchase, for $12.00, a number of shares of Luby's common stock having a then-current market value of twice such price. The rights plan exempts any person or group owning 10% or more (35.5% or more in the case of Harris J. Pappas, Christopher J. Pappas and their respective affiliates and associates) of Luby's common stock immediately prior to the adoption of the rights plan. However, the rights will be exercisable if any such person or group acquires any additional shares of Luby's common stock (including through derivative positions) other than as a result of equity grants made by Luby's to its directors, officers or employees in their capacities as such.

Prior to the acquisition by a person or group of beneficial ownership of 10% or more of the outstanding shares of Luby's common stock, the rights are redeemable for 1 cent per right at the option of Luby's Board of Directors.

The dividend distribution was made on February 28, 2018 to stockholders of record on that date. Unless and until a triggering event occurs and the rights become exercisable, the rights will trade with shares of Luby's common stock.

Luby's financial condition, operations, and earnings per share was not affected by the adoption of the rights plan.

On February 11, 2019, the Board of Directors approved the first amendment to the shareholder rights plan extending the term of the plan to February 15, 2020.

Note 21. Quarterly Financial Information

The following tables summarize quarterly unaudited financial information for fiscal 2019 and 2018.

	Quarter Ended			
	August 28, 2019	June 6, 2019	March 14, 2019	December 20, 2018
	(84 days)	*(84 days)*	*(84 days)*	*(112 days)*
	(In thousands, except per share data)			
Restaurant sales	$ 62,434	$ 65,611	$ 65,370	$ 91,098
Franchise revenue	1,563	1,482	1,421	2,224
Culinary contract services	7,278	7,571	7,543	9,496
Vending revenue	88	102	90	99
Total sales	$ 71,363	$ 74,766	$ 74,424	$ 102,917
Loss from continuing operations	(9,081)	(5,295)	6,640	(7,483)
Loss from discontinued operations	12	(6)	(8)	(5)
Net loss	$ (9,069)	$ (5,301)	$ 6,632	$ (7,488)
Net loss per share:				
Basic	$ (0.30)	$ (0.18)	$ 0.22	$ (0.25)
Assuming dilution	$ (0.30)	$ (0.18)	$ 0.22	$ (0.25)
Costs and Expenses (*as a percentage of restaurant sales*)				
Cost of food	28.5%	28.2%	27.8%	27.5%
Payroll and related costs	38.8%	38.1%	37.8%	37.9%
Other operating expenses	18.4%	17.5%	17.5%	18.1%
Occupancy costs	6.5%	6.1%	6.4%	6.4%

	Quarter Ended			
	August 29, 2018	June 6, 2018	March 14, 2018	December 20, 2017
	(91 days)	*(84 days)*	*(84 days)*	*(112 days)*
	(In thousands, except per share data)			
Restaurant sales	$ 75,782	$ 77,803	$ 74,351	$ 104,582
Franchise revenue	1,633	1,444	1,401	1,887
Culinary contract services	6,369	6,639	5,889	6,885
Vending revenue	119	118	151	143
Total sales	$ 83,903	$ 86,004	81,792	$ 113,497
Loss from continuing operations	(1,858)	(14,133)	(11,461)	(5,502)
Loss from discontinued operations	(6)	(463)	(110)	(35)
Net loss	$ (1,864)	$ (14,596)	$ (11,571)	$ (5,537)
Net loss per share:				
Basic	$ (0.06)	$ (0.48)	$ (0.39)	$ (0.19)
Assuming dilution	$ (0.06)	$ (0.48)	$ (0.39)	$ (0.19)
Costs and Expenses (*as a percentage of restaurant sales*)				
Cost of food	27.8%	28.6%	28.5%	28.5%
Payroll and related costs	37.5%	37.8%	38.3%	36.5%
Other operating expenses	17.7%	19.3%	19.3%	18.6%
Occupancy costs	6.4%	5.9%	6.3%	6.0%

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have had no disagreements with our accountants on any accounting or financial disclosures.

Item 9A. Controls and Procedures

Evaluation of Disclosure Control and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of August 28, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of August 28, 2019, our disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework-2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, we concluded that our internal control over financial reporting was effective as of August 28, 2019.

Changes in Internal Control over Financial Reporting

Except as noted above, there were no changes in our internal control over financial reporting during the quarter ended August 28, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

There is incorporated in this Item 10 by reference that portion of our definitive proxy statement for the 2020 annual meeting of shareholders appearing therein under the captions "Election of Directors," "Corporate Governance," "Section 16(a) Beneficial Ownership Reporting Compliance," "Executive Officers," and "Certain Relationships and Related Transactions."

We have in place a Policy Guide on Standards of Conduct and Ethics applicable to all employees, as well as the Board of Directors, and Supplemental Standards of Conduct and Ethics for the Chief Executive Officer, Chief Financial Officer, Vice President of Accounting, and all senior financial officers. This Policy Guide and the Supplemental Standards were filed as exhibits to the Annual Report on Form 10-K for the fiscal year ended August 26, 2003 and can be found on our website at www.lubys.com. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendments to or waivers from the code of ethics or supplementary code of ethics by posting such information on our website at www.lubys.com.

Item 11. Executive Compensation

There is incorporated in this Item 11 by reference that portion of our definitive proxy statement for the 2020 annual meeting of shareholders appearing therein under the captions "Compensation Discussion and Analysis—Executive Compensation," "—Executive Compensation Committee Report," "—Compensation Tables and Information," "—Director Compensation," and "Corporate Governance—Executive Compensation Committee—Compensation Committee Interlocks."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

There is incorporated in this Item 12 by reference that portion of our definitive proxy statement for the 2020 annual meeting of shareholders appearing therein under the captions "Ownership of Equity Securities in the Company" and "Principal Shareholders."

Item 13. Certain Relationships and Related Transactions, and Director Independence

There is incorporated in this Item 13 by reference that portion of our definitive proxy statement for the 2020 annual meeting of shareholders appearing therein under the captions, "Corporate Governance Guidelines—Director Independence" and "Certain Relationships and Related Transactions."

Item 14. Principal Accountant Fees and Services

There is incorporated in this Item 14 by reference that portion of our definitive proxy statement for the 2020 annual meeting of shareholders appearing therein under the caption "Fees Paid To The Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. ***Financial Statements***

The following financial statements are filed as part of this Report:

Consolidated balance sheets at August 28, 2019 and August 29, 2018.

Consolidated statements of operations for each of the two years in the period ended August 28, 2019.

Consolidated statements of shareholders' equity for each of the two years in the period ended August 28, 2019.

Consolidated statements of cash flows for each of the two years in the period ended August 28, 2019.

Notes to consolidated financial statements

Report of Independent Registered Public Accounting Firm Grant Thornton LLP

2. ***Financial Statement Schedules***

All schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements and notes thereto.

3. ***Exhibits***

The following exhibits are filed as a part of this Report:

3(a)	Amended and Restated Certificate of Incorporation of Luby's, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 11, 2009, filed on March 20, 2009 (File No. 001-08308)).
3(b)	Bylaws of Luby's, Inc., as amended through July 9, 2008 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 14, 2008 (File No. 001-08308)).
3(c)	Amendment to Bylaws of Luby's, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 22, 2015 (File No. 001-08308)).
3(d)	Amendment No. 2 to Bylaws of Luby's Inc., effective as of August 31, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 31, 2018 (File No. 001-08308)).
3(e)	Amendment No. 3 to Bylaws of Luby's Inc., effective as of July 30, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 1, 2019 (File No. 001-08308)).

4	Rights Agreement, dated as of February 15, 2018, by and between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (which includes the Form of Rights Certificate as Exhibit A thereto) (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A, filed on February 16, 2018 (File No. 001-08308)).
4(a)	First Amendment to Rights Agreement, dated as of February 11, 2019, by and between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on February 12, 2019 (File No. 001-08308)).
4(b)	Description of registered securities.
10(a)	Second Amended and Restated Nonemployee Director Stock Plan of Luby's, Inc. adopted January 25, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 13, 2013, filed March 25, 2013 (File No. 001-08308)).*
10(b)	Registration Rights Agreement dated March 9, 2001, by and among Luby's, Inc., Christopher J. Pappas, and Harris J. Pappas (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed March 15, 2001 (File No. 001-08308)).
10(c)	Luby's, Inc. Amended and Restated Nonemployee Director Phantom Stock Plan effective September 28, 2001 (incorporated by reference to Exhibit 10(dd) to the Company's Quarterly Report on Form 10-Q for the quarter ended February 13, 2002, filed on March 29, 2002 (File No. 001-08308)).*
10(d)	Form of Indemnification Agreement entered into between Luby's, Inc. and each member of its Board of Directors initially dated July 23, 2002 (incorporated by reference to Exhibit 10(gg) to the Company's Annual Report on Form 10-K for the fiscal year ended August 28, 2002, filed on November 27, 2002 (File No. 001-08308)).*
10(e)	Amended and Restated Master Sales Agreement effective November 16, 2011, by and among Luby's, Inc., Pappas Restaurants, L.P., and Pappas Restaurants, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 9, 2012, filed on June 15, 2012 (File No. 001-08308)).
10(f)	Amended and Restated Master Sales Agreement effective August 2, 2017, by and among Luby's, Inc., Pappas Restaurants, L.P., and Pappas Restaurants, Inc. (incorporated by reference to Exhibit 10(j) to the Company's Annual Report on Form 10-K for the fiscal year ended August 30, 2017, filed on November 13, 2017 (File No. 001-08308)).
10(g)	Restated Employment Agreement dated December 11, 2017, between Luby's, Inc. and Christopher J. Pappas (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 12, 2017 (File No. 001-08308)).*
10(h)	Form of Restricted Stock Award Agreement pursuant to the Luby's Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 16, 2007 (File No. 001-08308)).*
10(i)	Form of Incentive Stock Option Award Agreement pursuant to the Luby's Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 16, 2007 (File No. 001-08308)).*
10(j)	Luby's Incentive Stock Plan, effective as of December 5, 2015 (incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed on December 16, 2016 (File No. 001-083038)).*
10(k)	Form of Restricted Stock Award Agreement pursuant to the Luby's Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 16, 2015 (File No. 001-08308)).*

10(l) Form of Incentive Stock Option Award Agreement pursuant to the Luby's Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 16, 2015 (File No. 001-08308)).*

10(m) Form of Incentive Stock Option Award Agreement to Luby's 2015 Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 12, 2017 (File No. 001-08308)).*

10(n) Form of Restricted Stock Unit Agreement to Luby's 2015 Incentive Stock Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 12, 2017 (File No. 001-08308)).*

10(o) Credit Agreement, dated as of December 13, 2018, among the Company, the lenders from time to time party thereto, and MSD PCOF Partners VI, LLC, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 14, 2018 (File No. 001-08308)).

10(p) First Amendment to Credit Agreement, dated as of December 13, 2018, among the Company, the lenders from time to time party thereto, and MSD PCOF Partners VI, LLC, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2019 (File No. 001-08308)).

14(a) Policy Guide on Standards of Conduct and Ethics applicable to all employees, as well as the board of directors (incorporated by reference to Exhibit 14(a) to the Company's Annual Report on Form 10-K for the fiscal year ended August 26, 2003, filed on November 25, 2003 (File No. 001-08308)).

14(b) Supplemental Standards of Conduct and Ethics for the Chief Executive Officer, Chief Financial Officer, Controller, and all senior financial officers (incorporated by reference to Exhibit 14(b) to the Company's Annual Report on Form 10-K for the fiscal year ended August 26, 2003, filed on November 25, 2003 (File No. 001-08308)).

21 Subsidiaries of the Company.

23.1 Consent of Grant Thornton LLP.

31.1 Rule 13a-14(a)/15d-14(a) certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Rule 13a-14(a)/15d-14(a) certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Section 1350 certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Section 1350 certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99(a) Corporate Governance Guidelines of Luby's, Inc., as amended October 28, 2004 (incorporated by reference to Exhibit 99(a) to the Company's Annual Report on Form 10-K for the fiscal year ended August 29, 2007, filed on November 9, 2007 (File No. 001-08308)).

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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* *Denotes management contract or compensatory plan or arrangement.*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 26, 2019	LUBY'S, INC.
Date	(Registrant)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature and Title	Date
/S/ GERALD W. BODZY Gerald W. Bodzy, Director and Chairman of the Board	November 26, 2019
/S/ CHRISTOPHER J. PAPPAS Christopher J. Pappas, Director, President and Chief Executive Officer (Principal Executive Officer)	November 26, 2019
/S/ K. SCOTT GRAY K. Scott Gray, Senior Vice President and Chief Financial Officer, and Principal Accounting Officer (Principal Financial and Accounting Officer)	November 26, 2019
/S/ TWILA DAY Twila Day, Director	November 26, 2019
/S/ JILL GRIFFIN Jill Griffin, Vice Chair and Director	November 26, 2019
/S/ FRANK MARKANTONIS Frank Markantonis, Director	November 26, 2019
/S/ JOE C. MCKINNEY Joe C. McKinney, Director	November 26, 2019
/S/ GASPER MIR, III Gasper Mir, III, Director	November 26, 2019
/S/ JOHN B. MORLOCK John B. Morlock, Director	November 26, 2019
/S/ RANDOLPH C. READ Randolph C. Read, Director	November 26, 2019

Exhibit 4.1(b)

DESCRIPTION OF COMMON STOCK

The following summary of the common stock (the "common stock"), of Luby's, Inc. (the "Company") is based on and qualified by reference to, the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and Bylaws of Luby's Inc. (the "Bylaws"). The summary is not complete and is qualified by reference to our Certificate of Incorporation and our Bylaws, which are filed as exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read our Certificate of Incorporation, our Bylaws and the applicable provisions of the Delaware General Corporation Law (the "DGCL") for additional information.

General

Our authorized capital stock consists of one hundred million (100,000,000) shares of common stock, par value of thirty-two cents ($0.32) per share. Our issued and outstanding shares of common stock are fully paid and nonassessable. There are no redemption or sinking fund provisions applicable to the shares of our common stock, and such shares are not entitled to any preemptive rights.

Listing

Our common stock is listed and principally traded on The New York Stock Exchange ("NYSE") under the symbol "LUB."

Transfer Agent

American Stock Transfer & Trust Company is the registrar and transfer agent for our common stock.

Voting Rights

The holders of common stock are entitled to one vote per share on all matters voted on by the stockholders, including the election of directors. Our stockholders do not have cumulative voting rights. Except as otherwise provided by law, our Certificate of Incorporation or our Bylaws, matters will generally be decided by a majority of the votes cast.

Board of Directors

Our Certificate of Incorporation provides that the Board of Directors shall consist of not less than nine nor more than fifteen persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors.

Our Certificate of Incorporation provides that directors are elected for one-year terms expiring at the next Annual Meeting of Stockholders and may be removed with or without cause upon the approval of at least 80% of the voting power of all of the shares of the Company.

Our Certificate of Incorporation and Bylaws provide that a vacancy on the Board of Directors resulting from death, resignation, disqualification, removal or other causes shall be filled by a majority of the directors then in office. A vacancy created by an increase in the number of authorized directors may be filled by election at an Annual or Special Meeting of Stockholders called for that purpose or by the Board of Directors for a term of office continuing only until the next election of one or more directors by the stockholders.

Dividend Rights

Holders of our common stock are entitled to receive dividends as may be declared from time to time by our Board of Directors and paid in cash, in property, or in shares of the Company.

Rights upon Liquidation

Upon any liquidation or dissolution of the Company, holders of our common stock are entitled to share pro rata in all remaining assets legally available for distribution to stockholders.

Certain Anti-Takeover Effects

Certain provisions of our Certificate of Incorporation and Bylaws may be deemed to have an anti-takeover effect.

Business Combinations. The Certificate of Incorporation provides that certain conditions must be met before the consummation of certain business combinations ("Business Combinations") by the Company or any of its subsidiaries with any stockholder who is directly or indirectly the beneficial owner of more than 10% of the voting power of the outstanding common stock or is an affiliate of the Company and at any time within the two-year period immediately prior to the date in question was directly or indirectly the beneficial owner of 10% or more of the voting power of the then outstanding common stock (an "Interested Stockholder"). The affirmative vote of the holders of at least 80% of the voting power of the then outstanding common stock entitled to vote generally in the election of directors, voting together as a single class, shall be required for Business Combinations.

A Business Combination will require only the affirmative vote as required by law or any other provision of the Certificate of Incorporation if all of the conditions specified in either of the following paragraphs (i) and (ii) below are met:

(i) The Business Combination is approved by a majority of the directors who are unaffiliated with the Interested Stockholder and was a member of the Board of Directors prior to the time that the Interested Stockholder became an Interested Stockholder.

(ii) The Business Combination complies with certain "fair price" provisions and procedures.

DGCL Section 203. As a Delaware corporation, the Company is subject to Section 203, or the business combination statute, of the General Corporation Law of the State of Delaware ("DGCL"). Under the business combination statute of the DGCL, a corporation is generally restricted from engaging in a business combination (as defined in Section 203 of the DGCL) with an interested stockholder (defined generally as a person owning 15% or more of the corporation's outstanding voting stock) for a three-year period following the time the stockholder became an interested stockholder. This restriction applies unless:

- prior to the time the stockholder became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- the interested stockholder owned at least 85% of the voting stock of the corporation upon completion of the transaction which resulted in the stockholder becoming an interested stockholder (excluding stock held by the corporation's directors who are also officers and by the corporation's employee stock plans, if any, that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or

- at or subsequent to the time the stockholder became an interested stockholder, the business combination was approved by the board of directors of the corporation and authorized by the affirmative vote, at an annual or special meeting, and not by written consent, of at least 66 2/3% of the outstanding voting shares of the corporation, excluding shares held by that interested stockholder.

The provisions of the business combination statute of the DGCL do not apply to a corporation if, subject to certain requirements specified in Section 203(b) of the DGCL, the certificate of incorporation or bylaws of the corporation contain a provision expressly electing not to be governed by the provisions of the statute or the corporation does not have voting stock listed on a national securities exchange or held of record by more than 2,000 stockholders. The Company has not adopted any provision in the Certificate of Incorporation or Bylaws electing not to be governed by the business combination statute of the DGCL. As a result, the statute is applicable to business combinations involving the Company.

Advance Notice and Proxy Access Provisions. Our Bylaws require timely advance notice for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders and specify certain requirements regarding the form and content of a stockholder's notice. The chair of the annual meeting has the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the applicable procedures and, if any proposed nomination or business is not in compliance with the applicable procedures, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted.

Rights Agreement

On February 15, 2018, the Board of Directors adopted a rights agreement, dated February 15, 2018, which was subsequently amended on February 11, 2019, (as amended, the "Rights Agreement") and declared a dividend distribution of one right (each, a "Right") for each outstanding share of common stock to stockholders of record at the close of business on February 28, 2018. The purchase price for each whole share of common stock pursuant to the exercise of a Right is initially $12.00 (equivalent to $6.00 for each half of a share of common stock), subject to adjustment. If a person or group acquires 10% or more of the outstanding shares of common stock (including in the form of synthetic ownership through derivative positions), each Right will entitle its holder (other than such person or members of such group) to purchase, for $12.00, a number of shares of common stock having

a then-current market value of twice such price. The Rights Agreement exempts any person or group owning 10% or more (35.5% or more in the case of Harris J. Pappas, Christopher J. Pappas and their respective affiliates and associates) of common stock immediately prior to the adoption of the Rights Agreement. However, the Rights will be exercisable if any such person or group acquires any additional shares of common stock (including through derivative positions) other than as a result of equity grants made by the Company to its directors, officers or employees in their capacities as such. The Rights Agreement will expire on February 15, 2020.

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

NAME	STATE OR COUNTRY OF ORGANIZATION OR INCORPORATION
Luby’s Fuddruckers Restaurants, LLC	Texas
Luby’s Bevco, Inc.	Texas
Luby’s Bev I, LLC	Texas
Luby’s Bev II, LLC	Texas
Fuddruckers of Annapolis, LLC	Maryland
Fuddruckers of Brandywine, LLC	Maryland
Paradise Cheeseburgers, LLC	Texas
Paradise Restaurant Group, LLC	Delaware
Cheeseburger of Algonquin, LLC	Illinois
Cheeseburger of California, LLC	Maryland
Cheeseburger of Downers Grove, LLC	Illinois
Cheeseburger of Evansville, LLC	Indiana
Cheeseburger of Fishers, LLC	Indiana
Cheeseburger of Fredericksburg, LLC	Virginia
Cheeseburger of Ft. Meyers, LLC	Florida
Cheeseburger of Kansas City, LLC	Kansas
Cheeseburger of Middleton, LLC	Wisconsin
Cheeseburger of Myrtle Beach, LLC	South Carolina
Cheeseburger of Newark, LLC	Delaware
Cheeseburger of Newport News, LLC	Virginia
High Tides of Omaha, LLC	Nebraska
Cheeseburger of Pasadena, LLC	Maryland
Cheeseburger of Sandestin, LLC	Florida
Cheeseburger of Secaucus, LLC	New Jersey
Cheeseburger of Southport, LLC	Indiana
Cheeseburger of Sterling Heights, LLC	Michigan
Cheeseburger of Terre Haute, LLC	Indiana
Cheeseburger of Virgina Beach, LLC	Virginia
Cheeseburger of Wallkill, LLC	New York
Cheeseburger of Woodbridge, LLC	Virginia
Cheeseburger in Paradise of St. Mary’s County, LLC	Maryland
Luby's Fuddruckers Foundation	Texas

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated November 26, 2019, with respect to the consolidated financial statements of Luby’s, Inc. included in the Annual Report on Form 10-K for the year ended August 28, 2019. We consent to the incorporation by reference of said reports in the following Registration Statements of Luby’s, Inc. on Forms S-8 (File No. 333-210790, effective April 15, 2016; File No. 333-186326 effective January 30, 2013; File No. 333-135058, effective June 16, 2006; File No. 333-81606, effective January 29, 2002; File No. 333-81608, effective January 29, 2002; File No. 333-55140, effective February 7, 2001; and File No. 333-70315, effective January 8, 1999).

/s/ GRANT THORNTON LLP

Houston, Texas
November 26, 2019

Exhibit 31.1

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher J. Pappas, certify that:

1. I have reviewed this Annual Report on Form 10-K of Luby's, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 26, 2019

By: /s/ CHRISTOPHER J. PAPPAS

Christopher J. Pappas
President and Chief Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to Luby's, Inc. and will be retained by Luby's, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, K. Scott Gray, certify that:

1. I have reviewed this Annual Report on Form 10-K of Luby's, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 26, 2019 By: /s/ K. SCOTT GRAY

K. Scott Gray

Senior Vice President and Chief Financial Officer, and Principal Accounting Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to Luby’s, Inc. and will be retained by Luby’s, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Luby's, Inc. on Form 10-K for the fiscal year ended August 28, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, Christopher J. Pappas, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 26, 2019

By: /s/ CHRISTOPHER J. PAPPAS

Christopher J. Pappas
President and Chief Executive Officer

Exhibit 32.2

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Luby's, Inc. on Form 10-K for the fiscal year ended August 28, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, K. Scott Gray, Senior Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 26, 2019

By: /s/ K. SCOTT GRAY

K. Scott Gray

Senior Vice President and Chief Financial Officer, and Principal Accounting Officer