LUBYS INC
Form 10-Q
April 18, 2016

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

FORM 10-Q

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

For the quarterly period ended March 9, 2016
or

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

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

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

Delaware (State or other jurisdiction of incorporation or organization)	74-1335253 (IRS Employer Identification No.)
13111 Northwest Freeway, Suite 600 Houston, Texas (Address of principal executive offices)	77040 (Zip Code)

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

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

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

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

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

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

As of April 13, 2016 there were 28,920,690 shares of the registrant's common stock outstanding.

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Form 10-Q
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Additional Information

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

Part I—FINANCIAL INFORMATION

Item1. Financial Statements

Luby's, Inc.
Consolidated Balance Sheets
(In thousands, except share data)

	March 9, 2016 (Unaudited)	August 26, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,439	$1,501
Trade accounts and other receivables, net	5,389	5,175
Food and supply inventories	4,784	4,483
Prepaid expenses	2,914	3,402
Assets related to discontinued operations	1	10
Deferred income taxes	577	577
Total current assets	15,104	15,148
Property held for sale	3,054	4,536
Assets related to discontinued operations	3,666	3,671
Property and equipment, net	198,697	200,202
Intangible assets, net	21,728	22,570
Goodwill	1,605	1,643
Deferred income taxes	14,163	12,917
Other assets	3,511	3,571
Total assets	$261,528	$264,258
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$19,089	$20,173
Liabilities related to discontinued operations	407	408
Accrued expenses and other liabilities	24,398	23,967
Total current liabilities	43,894	44,548
Credit facility debt	37,000	37,500
Liabilities related to discontinued operations	17	182
Other liabilities	7,490	7,369
Total liabilities	88,401	89,599
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Common stock, $0.32 par value; 100,000,000 shares authorized; shares issued were 29,401,370 and 29,134,603, respectively; shares outstanding were 28,901,370 and 28,634,603, respectively	9,408	9,323
Paid-in capital	29,799	29,006
Retained earnings	138,695	141,105
Less cost of treasury stock, 500,000 shares	(4,775)	(4,775)
Total shareholders' equity	173,127	174,659
Total liabilities and shareholders' equity	$261,528	$264,258

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

Luby's, Inc.
Consolidated Statements of Operations (unaudited)
(In thousands, except per share data)

	Quarter Ended		Two Quarters Ended	
	March 9, 2016 (12 weeks)	February 11, 2015 (12 weeks)	March 9, 2016 (28 weeks)	February 11, 2015 (24 weeks)
SALES:				
Restaurant sales	$86,314	$85,486	$199,861	$166,043
Culinary contract services	3,918	3,771	8,833	8,369
Franchise revenue	1,700	1,605	3,825	3,186
Vending revenue	137	120	295	244
TOTAL SALES	92,069	90,982	212,814	177,842
COSTS AND EXPENSES:				
Cost of food	24,600	25,468	57,034	48,951
Payroll and related costs	29,834	29,519	69,258	58,205
Other operating expenses	13,736	14,194	32,157	28,413
Occupancy costs	5,535	5,030	12,177	9,972
Opening costs	174	670	571	1,595
Cost of culinary contract services	3,520	3,478	7,942	7,577
Cost of franchise operations	428	354	1,039	738
Depreciation and amortization	5,220	4,781	12,235	9,849
Selling, general and administrative expenses	9,843	9,381	23,086	18,532
Provision for asset impairments	37	218	37	218
Net gain on disposition of property and equipment	(556)	(1,377)	(835)	(1,087)
Total costs and expenses	92,371	91,716	214,701	182,963
LOSS FROM OPERATIONS	(302)	(734)	(1,887)	(5,121)
Interest income	1	1	2	2
Interest expense	(495)	(569)	(1,191)	(1,025)
Other income (expense), net	29	78	(90)	258
Loss before income taxes and discontinued operations	(767)	(1,224)	(3,166)	(5,886)
Provision (benefit) for income taxes	(185)	61	(845)	(1,721)
Loss from continuing operations	(582)	(1,285)	(2,321)	(4,165)
Loss from discontinued operations, net of income taxes	(17)	(74)	(89)	(213)
NET LOSS	$(599)	$(1,359)	$(2,410)	$(4,378)
Loss per share from continuing operations:				
Basic	$(0.02)	$(0.04)	$(0.08)	$(0.14)
Assuming dilution	$(0.02)	$(0.04)	$(0.08)	$(0.14)
Loss per share from discontinued operations:				
Basic	$(0.00)	$(0.01)	$(0.00)	$(0.01)
Assuming dilution	$(0.00)	$(0.01)	$(0.00)	$(0.01)
Net loss per share:				
Basic	$(0.02)	$(0.05)	$(0.08)	$(0.15)
Assuming dilution	$(0.02)	$(0.05)	$(0.08)	$(0.15)
Weighted average shares outstanding:				
Basic	29,247	28,921	29,182	28,906

Assuming dilution	29,247	28,921	29,182	28,906

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

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

	Common Stock Issued Shares	Amount	Treasury Shares	Amount	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balance at August 26, 2015	29,135	$9,323	(500)	$(4,775)	$29,006	$141,105	$174,659
Net loss	—	—	—	—	—	(2,410)	(2,410)
Share-based compensation expense	30	10	—	—	793	—	803
Common stock issued under employee benefit plans	176	56	—	—	19	—	75
Common stock issued under nonemployee benefit plans	60	19	—	—	(19)	—	—
Balance at March 9, 2016	29,401	$9,408	(500)	$(4,775)	$29,799	$138,695	$173,127

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

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

	Two Quarters Ended	
	March 9, 2016 (28 weeks)	February 11, 2015 (24 weeks)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,410)	$(4,378)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for asset impairments, net of gains on disposition of property and equipment	(798)	(869)
Depreciation and amortization	12,250	9,860
Amortization of debt issuance cost	202	76
Share-based compensation expense	803	587
Deferred tax benefit	(1,247)	(2,128)
Cash provided by operating activities before changes in operating assets and liabilities	8,800	3,148
Changes in operating assets and liabilities:		
Increase in trade accounts and other receivables	(214)	(1,205)
Decrease (Increase) in food and supply inventories	(805)	405
Decrease (Increase) in prepaid expenses and other assets	381	(221)
Decrease in accounts payable, accrued expenses and other liabilities	(971)	(7,801)
Net cash provided by (used in) operating activities	7,191	(5,674)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of assets and property held for sale	4,167	3,060
Decrease in notes receivable	17	—
Purchases of property and equipment	(10,970)	(10,988)
Net cash used in investing activities	(6,786)	(7,928)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Credit facility borrowings	50,700	58,800
Credit facility repayments	(51,200)	(46,300)
Debt issuance costs	(42)	(68)
Proceeds received on the exercise of employee stock options	75	3
Net cash provided by (used in) financing activities	(467)	12,435
Net decrease in cash and cash equivalents	(62)	(1,167)
Cash and cash equivalents at beginning of period	1,501	2,788
Cash and cash equivalents at end of period	$1,439	$1,621
Cash paid for:		
Income taxes	$—	$—
Interest	951	969

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

Luby’s, Inc.
Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Luby’s, Inc. (the “Company” or “Luby’s”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements that are prepared for the Company’s Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarter ended March 9, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2016.

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

Note 2. Accounting Periods

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

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

Note 3. Reportable Segments

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

Company-owned restaurants

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

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

The total number of Company-owned restaurants was 178 at March 9, 2016 and 177 at August 26, 2015.

Culinary Contract Services

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

The total number of CCS contracts was 28 at March 9, 2016 and 23 at August 26, 2015.

Franchise Operations

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

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

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

The number of franchised restaurants was 110 at March 9, 2016 and 106 at August 26, 2015.

Licensee

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

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

	Quarter Ended		Two Quarters Ended	
	March 9, 2016 (12 weeks)	February 11, 2015 (12 weeks)	March 9, 2016 (28 weeks)	February 11, 2015 (24 weeks)
	(In thousands)			
Sales:				
Company-owned restaurants [1]	$86,451	$85,606	$200,156	$166,287
Culinary contract services	3,918	3,771	8,833	8,369
Franchise operations	1,700	1,605	3,825	3,186
Total	$92,069	$90,982	$212,814	$177,842
Segment level profit:				
Company-owned restaurants	$12,746	$11,395	$29,530	$20,746
Culinary contract services	398	293	891	792
Franchise operations	1,272	1,251	2,786	2,448
Total	$14,416	$12,939	$33,207	$23,986
Depreciation and amortization:				
Company-owned restaurants	$4,318	$4,108	$10,128	$8,491
Culinary contract services	27	29	64	98
Franchise operations	192	177	448	354
Corporate	683	467	1,595	906
Total	$5,220	$4,781	$12,235	$9,849
Capital expenditures:				
Company-owned restaurants	$5,128	$7,394	$10,622	$10,974
Culinary contract services	—	—	—	—
Franchise operations	—	—	—	—
Corporate	113	5	348	14
Total	$5,241	$7,399	$10,970	$10,988
Loss before income taxes and discontinued operations:				
Segment level profit	$14,416	$12,939	$33,207	$23,986
Opening costs	(174)	(670)	(571)	(1,595)
Depreciation and amortization	(5,220)	(4,781)	(12,235)	(9,849)
Selling, general and administrative expenses	(9,843)	(9,381)	(23,086)	(18,532)
Provision for asset impairments	(37)	(218)	(37)	(218)
Net gain on disposition of property and equipment	556	1,377	835	1,087
Interest income	1	1	2	2
Interest expense	(495)	(569)	(1,191)	(1,025)
Other income (expense), net	29	78	(90)	258
Loss before income taxes and discontinued operations	$(767)	$(1,224)	$(3,166)	$(5,886)

	March 9, 2016	August 26, 2015
Total assets:		
Company-owned restaurants[2]	$216,131	$218,492
Culinary contract services	3,604	1,644
Franchise operations[3]	12,558	13,034
Corporate	29,235	31,088
Total	$261,528	$264,258

(1) Includes vending revenue of $137 and $120 thousand for the quarters ended March 9, 2016 and February 11, 2015, respectively and $295 and $244 thousand for the two quarters ended March 9, 2016 and February 11, 2015, respectively.

(2) Company-owned restaurants segment includes $10.2 million of Fuddruckers trade name, Cheeseburger in Paradise liquor licenses, and Jimmy Buffett intangibles.

(3) Franchise operations segment includes approximately $11.9 million in royalty intangibles.

Note 4. Fair Value Measurements

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

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

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

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

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

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

	Two Quarters Ended March 9, 2016	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
Nonrecurring Fair Value Measurements		(In thousands)			
Continuing Operations					
Property and equipment related to company-owned restaurants	$—	$—	$—	$—	$—
Goodwill [1]	1,605	—	—	1,605	$(38)
Total Nonrecurring Fair Value Measurements	$1,605	$—	$—	$1,605	$(38)
Discontinued Operations					
Property and equipment related to company-owned restaurants	$—	$—	$—	$—	$—

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

	Two Quarters Ended February 11, 2015	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
Nonrecurring Fair Value Measurements		(In thousands)			
Continuing Operations					
Property and equipment related to company-owned restaurants [1]	$1,323	$—	$—	$1,323	$(180)
Goodwill [2]	1,643	—	—	$1,643	(38)
Total Nonrecurring Fair Value Measurements	$2,966	$—	$—	$2,966	$(218)
Discontinued Operations					
Property and equipment related to company-owned restaurants	$—	$—	$—	$—	$—

(1) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of $1.5 million were written down to their fair value of $1.3 million, resulting in an impairment charge of $0.2 million, which was included in earnings for the period.
(2) In accordance with Subtopic 360-20, goodwill with a carrying amount of $1.7 million was written down to its implied fair value of $1.6 million, resulting in an impairment charge of $38 thousand.

Note 5. Income Taxes

No cash payments of estimated federal income taxes were made during the two quarters ended March 9, 2016.

Deferred tax assets and liabilities are recorded based on differences between the financial reporting basis and the tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized to the extent future taxable income is expected to be sufficient to utilize those assets prior to their expiration.

The effective tax rate from continuing operations for the quarter of 24%, differs from the federal statutory income tax rate of 34% due to federal jobs credits, state income taxes and other discrete items.

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

Note 6. Property and Equipment, Intangible Assets and Goodwill

The costs, net of impairment, and accumulated depreciation of property and equipment at March 9, 2016 and August 26, 2015, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	March 9, 2016	August 26, 2015	Estimated Useful Lives (years)		
	(In thousands)				
Land	$62,498	$63,298		—	
Restaurant equipment and furnishings	90,794	85,679	3	to	15
Buildings	163,085	159,391	20	to	33
Leasehold and leasehold improvements	29,806	29,229	Lesser of lease term or estimated useful life		
Office furniture and equipment	3,742	3,559	3	to	10
Construction in progress	147	810		—	
	350,072	341,966			
Less accumulated depreciation and amortization	(151,375)	(141,764)			
Property and equipment, net	$198,697	$200,202			
Intangible assets, net	$21,728	$22,570	15	to	21
Goodwill	$1,605	$1,643		—	

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

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

The aggregate amortization expense related to intangible assets subject to amortization was $0.8 million for the two quarters ended March 9, 2016 and $0.7 million for the two quarters ended February 11, 2015. The aggregate amortization expense related to intangible assets subject to amortization is expected to be $1.4 million in each of the next five successive years.

The following table presents intangible assets as of March 9, 2016 and August 26, 2015:

	March 9, 2016 (In thousands)			August 26, 2015 (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	$29,607	$(7,983)	$21,624	$29,607	$(7,166)	$22,441
Cheeseburger in Paradise trade name and license agreements	$421	$(317)	$104	$421	$(292)	$129
Intangible assets, net	$30,028	$(8,300)	$21,728	$30,028	$(7,458)	$22,570

The Company recorded, in fiscal 2010, an intangible asset for goodwill in the amount of approximately $0.2 million related to the acquisition of substantially all of the assets of Fuddruckers. The Company also recorded, in fiscal 2013, an intangible asset for goodwill in the amount of approximately $2.0 million related to the acquisition of Cheeseburger in Paradise. Goodwill is considered to have an indefinite useful life and is not amortized. Management performs its formal annual assessment as of the second quarter each fiscal year. The individual restaurant level is the level at which goodwill is assessed for impairment under ASC 350. In accordance with our understanding of ASC 350, we have allocated the goodwill value to each reporting unit in proportion to each location's fair value at the date of acquisition. The result of these second quarter fiscal 2016 assessments was impairment of goodwill of $38 thousand. Goodwill impairments in fiscal years 2015 and 2014 were $38 thousand and $0.5 million, respectively. The Company will formally perform additional assessments on an interim basis if an event occurs or circumstances exist that indicate that it is more likely than not that a goodwill impairment exists. As of March 9, 2016, of the 23 locations that were acquired, eight locations remain operating as Cheeseburger in Paradise restaurants, seven locations were closed and converted to Fuddruckers restaurants, two locations where the option to extend the lease was not exercised, two locations subleased to franchisees and four closed and held for future use.

Goodwill, net of accumulated impairments of approximately $0.6 million, was approximately $1.6 million as of March 9, 2016 and as of August 26, 2015, and relates to our Company-owned restaurants reportable segments.

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

Impairment of Long-Lived Assets and Store Closings

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

For assets held for use, the Company estimates future cash flows using assumptions based on possible outcomes of the areas analyzed. If the undiscounted future cash flows are less than the carrying value of the location's assets, the

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

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

	Two Quarters Ended	
	March 9, 2016 (28 weeks)	February 11, 2015 (24 weeks)
	(In thousands, except per share data)	
Provision for asset impairments	$37	$218
Net gain on disposition of property and equipment	(835)	(1,087)
	$(798)	$(869)
Effect on EPS:		
Basic	$0.03	$0.03
Assuming dilution	$0.03	$0.03

The $37 thousand impairment charge for the two quarters ended March 9, 2016 is primarily related to goodwill at one underperforming converted Cheeseburger in Paradise leasehold location.

The $0.2 million impairment charge for the two quarters ended February 11, 2015 is related to assets at three Fuddruckers locations and included $38 thousand in goodwill related to one underperforming converted Cheeseburger in Paradise leasehold location.

The $0.8 million net gain for the two quarters ended March 9, 2016 is related to the sale of property and equipment.

The $1.1 million net gain for the two quarters ended February 11, 2015 is related to the sale of property and equipment.

Discontinued Operations

On March 21, 2014, the Board of Directors of the Company approved a plan focused on improving cash flow from the acquired Cheeseburger in Paradise leasehold locations. This underperforming Cheeseburger in Paradise leasehold disposal plan called for certain Cheeseburger in Paradise restaurants closure or conversion to Fuddruckers restaurants. As of March 9, 2016, one location was reclassified to continuing operations and was reopened as a Fuddruckers restaurant. Three locations remain closed for disposal and classified as discontinued operations as of March 9, 2016.

As a result of the first quarter fiscal year 2010 adoption of the Company’s Cash Flow Improvement and Capital Redeployment Plan, the Company reclassified 24 Luby’s Cafeterias to discontinued operations. As of March 9, 2016, one location remains held for sale.

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

	March 9, 2016	August 26, 2015
	(In thousands)	
Prepaid expenses	1	10
Assets related to discontinued operations—current	$1	$10
Property and equipment	1,868	1,872
Other assets	1,798	1,799
Assets related to discontinued operations—non-current	$3,666	$3,671
Deferred income taxes	$343	$343
Accrued expenses and other liabilities	64	65
Liabilities related to discontinued operations—current	$407	$408
Other liabilities	$17	$182
Liabilities related to discontinued operations—non-current	$17	$182

As of March 9, 2016, under both closure plans, the Company had four properties classified as discontinued operations assets and the asset carrying value of the owned properties was $1.9 million and is included in assets related to discontinued operations. The asset carrying values of the ground leases were previously impaired to zero.

The Company is actively marketing all but one of these properties for sale. This property has been sublet to an existing franchisee. The Company's results of discontinued operations will be affected by the disposal of properties related to discontinued operations to the extent proceeds from the sales exceed or are less than net book value.

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

	Two Quarters Ended			
	March 9, 2016 (28 weeks)		February 11, 2015 (24 weeks)	
	(In thousands, except discontinued locations)			
Sales	$—		$—	
Pretax loss	(147	)	(408	)
Income tax benefit from discontinued operations	58		195	
Loss from discontinued operations, net of income taxes	$(89	)	$(213	)
Discontinued locations closed during the period	—		—	

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

	Two Quarters Ended			
	March 9, 2016 (28 weeks)		February 11, 2015 (24 weeks)	
	(In thousands, except per share data)			
Discontinued operating loss	$(147	)	$(408	)
Impairments	—		—	
Net gains (losses)	—		—	
Pretax loss	$(147	)	$(408	)
Income tax benefit from discontinued operations	58		195	

Loss from discontinued operations, net of income taxes	$(89)	$(213)
Effect on EPS from discontinued operations—basic	$(0.00)	$(0.01)

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

Property Held for Sale

The Company periodically reviews long-lived assets against its plans to retain or ultimately dispose of properties. If the Company decides to dispose of a property, it will be moved to property held for sale 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.

At March 9, 2016, the Company had three owned properties recorded at approximately $3.1 million in property held for sale.

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

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

Note 8. Commitments and Contingencies

Off-Balance Sheet Arrangements

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

Pending Claims

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

Construction Activity

From time to time, the Company enters into non-cancelable contracts for the construction of its new restaurants. This construction activity exposes the Company to the risks inherent in new construction, including but not limited to rising material prices, labor shortages, delays in getting required permits and inspections, adverse weather conditions, and

injuries sustained by workers and contract termination expenses. The Company had one non-cancelable contract as of March 9, 2016.

Note 9. Related Parties

Affiliate Services

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

Under the terms of the Amended and Restated Master Sales Agreement, the Pappas entities may provide specialized (customized) equipment fabrication and basic equipment maintenance, including stainless steel stoves, shelving, rolling carts, and chef tables. There were no costs incurred under the Amended and Restated Master Sales Agreement of custom-fabricated and refurbished equipment in the two quarters ended March 9, 2016 and February 11, 2015. Services provided under this agreement are subject to review and approval by the Finance and Audit Committee of the Board of Directors of the Company (the "Board").

Operating Leases

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

On November 22, 2006, the Company executed a new lease agreement with respect to this shopping center. Effective upon the Company's relocation and occupancy into the new space in July 2008, the new lease agreement provides for a primary term of approximately 12 years with two subsequent five-year options and gives the landlord an option to buy out the tenant on or after the calendar year 2015 by paying the then unamortized cost of improvements to the tenant. The Company is currently obligated to pay rent of $22.00 per square foot plus maintenance, taxes, and insurance during the remaining primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The Company made payments of $207,000 and $170,000 in the two quarters ended March 9, 2016 and February 11, 2015, respectively. The new lease agreement was approved by the Finance and Audit Committee.

In the third quarter of fiscal year 2014, on March 12, 2014, the Company executed a new lease agreement in which one of the Company's Houston Fuddruckers locations was purchased from a prior landlord by Pappas Restaurants, Inc., a 100% undivided interest. No changes were made to our lease terms as a result of the transfer of ownership. The lease provides for a primary term of approximately six years with two subsequent five-year options. Pursuant to the new ground lease agreement, the Company is currently obligated to pay $27.56 per square foot plus maintenance, taxes, and insurance from March 12, 2014 until November 30, 2016. Thereafter, the new ground lease agreement provides for increases in rent at set intervals. The Company made payments of $80,000 and $67,000 in the two quarters ended March 9, 2016 and February 11, 2015, respectively

	Two Quarters Ended	
	March 9, 2016 (28 weeks)	February 11, 2015 (24 weeks)
	(In thousands, except percentages)	
AFFILIATED COSTS INCURRED:		
General and administrative expenses—professional and other costs	$—	$—
Capital expenditures	—	—
Other operating expenses, occupancy costs and opening costs, including property leases	287	237
Total	$287	$237
RELATIVE TOTAL COMPANY COSTS:		
Selling, general and administrative expenses	$23,086	$18,532
Capital expenditures	10,970	10,988
Other operating expenses, occupancy costs and opening costs	44,905	39,980
Total	$78,961	$69,500
	0.36 %	0.34 %

AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE
TOTAL COMPANY COSTS

Board of Directors

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

Key Management Personnel

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

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

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

Note 10. Share-Based Compensation

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

Of the 1.1 million shares approved for issuance under the Nonemployee Director Stock Plan, 0.9 million options, restricted stock units and restricted stock awards were granted, and 0.1 million options were cancelled or expired and added back into the plan, since the plan's inception. Approximately 0.3 million shares remain available for future issuance as of March 9, 2016. Compensation cost for share-based payment arrangements under the Nonemployee Director Stock Plan, recognized in selling, general and administrative expenses for the two quarters ended March 9, 2016 and February 11, 2015 were approximately $357,000 and $312,000, respectively.

Of the 4.1 million shares approved for issuance under the Employee Stock Plan, 5.7 million options and restricted stock units were granted, and 3.4 million options and restricted stock units were cancelled or expired and added back into the plan, since the plan's inception. Approximately 1.8 million shares remain available for future issuance as of March 9, 2016. Compensation cost for share-based payment arrangements under the Employee Stock Plan, recognized in selling, general and administrative expenses for the two quarters ended March 9, 2016 and February 11, 2015 were approximately $653,000 and $302,000, respectively. Included in the quarter ended December 16, 2015, share based compensation cost is approximately $252,000, which represents accelerated share-based compensation expense as a result of the cancellation of 312,663 stock options.

In 2015, the Company approved a Total Shareholder Return, (TSR), Performance Based Incentive Plan which provides for a right to receive an unspecified number of shares of common stock under the Employee Stock Plan based on the total shareholder return ranking compared to a selection of peer companies over a three-year cycle. The award value varies from 0% to 200% of a base amount, as a result of the Company's TSR performance in comparison to its peers over the measurement period. The number of shares at the end of the three-year period will be determined as the award value divided by the closing stock price on the last day of each fiscal year accordingly. Since the plan provides for an undeterminable number of shares, the plan is accounted for as a liability based plan. As of March 9, 2016, the estimated fair value of the performance shares liability at the end of fiscal 2017 and fiscal 2018, was $0.5 million for both years. The estimated liability has been determined based on a Monte Carlo simulation model. Based on this estimate, management accrues expense ratably over the three-year service periods. A valuation estimate of the future liability associated with each fiscal year's performance award plan will be performed periodically with adjustments made to the outstanding liability at each reporting period, as appropriate. As of March 9, 2016, the Company has recorded $159,000 in non-cash compensation expense in selling, general and administrative expenses

related to its TSR Performance Based Incentive Plans.

Stock Options

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

Option awards under the Nonemployee Director Stock Plan generally vest 100% on the first anniversary of the grant date and expire ten years from the grant date. No options were granted under the Nonemployee Director Stock Plan in the two quarters ended March 9, 2016. No options to purchase shares remain outstanding under this plan as of March 9, 2016.

Options granted under the Employee Stock Plan generally vest 50% on the first anniversary date of the grant date, 25% on the second anniversary of the grant date and 25% on the third anniversary of the grant date, with all options expiring ten years from the grant date. All options granted in the two quarters ended March 9, 2016 were granted under the Employee Stock Plan. Options to purchase 1,210,089 shares at option prices of $3.44 to $11.10 per share remain outstanding as of March 9, 2016.

A summary of the Company's stock option activity for the two quarters ended March 9, 2016 is presented in the following table:

	Shares Under Fixed Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
		(Per share)	(In years)	(In thousands)
Outstanding at August 26, 2015	1,288,099	$4.76	6.5	$460
Granted	279,944	4.89	—	—
Exercised	(19,750)	3.44	—	—
Cancelled	(312,663)	4.98	—	—
Forfeited/Expired	(25,541)	4.34	—	—
Outstanding at March 9, 2016	1,210,089	$4.76	7.1	$557
Exercisable at March 9, 2016	662,598	$4.76	5.4	$401

The intrinsic value for stock options is defined as the difference between the current market value, or closing price on March 9, 2016, and the grant price on the measurement dates in the table above.

Restricted Stock Units

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

A summary of the Company's restricted stock unit activity during the two quarters ended March 9, 2016 is presented in the following table:

	Restricted Stock Units	Weighted Average Fair Value	Weighted-Average Remaining Contractual

		(Per share)	Term (In years)
Unvested at August 26, 2015	409,417	$5.98	1.6
Granted	172,212	4.87	—
Vested	(257,482)	6.19	—
Forfeited	(4,202)	5.95	—
Unvested at March 9, 2016	319,945	$5.22	2.3

At March 9, 2016, there was approximately $1.1 million of total unrecognized compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 2.3 years.

Restricted Stock Awards

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

Note 11. Earnings Per Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and unvested restricted stock for the reporting period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted net income per share, the basic weighted average number of shares is increased by the dilutive effect of stock options determined using the treasury stock method. Stock options excluded from the computation of net income per share for the two quarters ended March 9, 2016 include approximately 233,000 shares with exercise prices exceeding market prices and approximately 105,000 shares whose inclusion would also be anti-dilutive.

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

	Quarter Ended		Two Quarters Ended	
	March 9, 2016 (12 weeks)	February 11, 2015 (12 weeks)	March 9, 2016 (28 weeks)	February 11, 2015 (24 weeks)
	(In thousands, expect per share data)			
Numerator:				
Loss from continuing operations	$(582)	$(1,285)	$(2,321)	$(4,165)
Loss from discontinued operations, net of income taxes	(17)	(74)	(89)	(213)
NET LOSS	$(599)	$(1,359)	$(2,410)	$(4,378)
Denominator:				
Denominator for basic earnings per share—weighted-average shares	29,247	28,921	29,182	28,906
Effect of potentially dilutive securities:				
Employee and non-employee stock options	—	—	—	—
Denominator for earnings per share assuming dilution	29,247			