CONSOLIDATED TOMOKA LAND CO
Form 10-K
March 12, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

¨ 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 001-11350

CONSOLIDATED-TOMOKA LAND CO.

(Exact name of registrant as specified in its charter)

Florida	**59-0483700**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1530 Cornerstone Boulevard,	
Suite 100	
Daytona Beach, Florida	**32117**
(Address of principal executive offices)	**(Zip Code)**

Registrant s Telephone Number, including area code

(386) 274-2202

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	Name of each exchange on which registered
COMMON STOCK, $1 PAR VALUE	**NYSE Alternext US**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 if the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act. YES ¨ NO x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (S229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Smaller reporting company ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if smaller reporting company)

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

The aggregate market value of the shares of common stock held by non-affiliates of the registrant at June 30, 2008, was approximately $237,138,907.

The number of shares of the registrant s Common Stock outstanding on March 10, 2009 was 5,723,268.

Portions of the Registrant s Proxy Statement for the 2009 Annual Meeting of Shareholders, which will be filed with the Security and Exchange Commission within 120 days after the end of the registrant s fiscal year ended December 31, 2008, are incorporated by reference in Part III of this report.

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Safe Harbor

Certain statements contained in this Form 10-K (other than statements of historical fact) are forward-looking statements. The words believe, estimate, expect, intend, anticipate, will, could, may, should, plan, potential, predict, forecast, foresee, project, an variations thereof identify certain of such forward-looking statements, which speak only as of the dates on which they were made. Forward-looking statements are made based upon management s expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management s expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company wishes to caution readers that the assumptions, which form the basis for forward-looking statements with respect to or that may impact earnings for the year ended December 31, 2009, and thereafter, include many factors that are beyond the Company s ability to control or estimate precisely. These risks and uncertainties include the risk factors set forth in Item 1A below.

While the Company periodically reassesses material trends and uncertainties affecting its results of operations and financial condition, the Company does not intend to review or revise any particular forward-looking statement referenced herein in light of future events.

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PART I

ITEM 1. BUSINESS

Consolidated-Tomoka Land Co. (which is referred to the Company, we, our, or us) is primarily engaged in real estate, income properties, and golf operations (collectively, The Real Estate Business) through its wholly-owned subsidiaries, Indigo Group Inc., Indigo Development Inc., Indigo International Inc., Indigo Group Ltd., Indigo Commercial Realty Inc., W. Hay Inc., W. Hay LLC, and Palms Del Mar Inc. In January, 2009 Indigo Development Inc. and Indigo International Inc. were converted to limited liabilities companies and are now named Indigo Development LLC and Indigo International LLC, respectively. Real estate operations include land sales and development, agricultural operations, and leasing properties for oil and mineral exploration. Income properties primarily consist of owning properties leased on a triple-net and double-net basis. Golf operations consist of the operation of two golf courses, a clubhouse facility, and food and beverage activities. These operations are predominantly located in Volusia County, Florida, with various income properties located in Florida, Georgia, and North Carolina.

The following is information regarding the Company s business segments. The General, Corporate, and Other category includes general and administrative expenses, income earned on investment securities, and other miscellaneous income and expense items.

	2008	2007	2006
		(IN THOUSANDS)	
Revenues of each segment are as follows:			
Real Estate	$ 4,565	$ 25,948	$ 28,942
Income Properties	9,236	8,725	8,184
Golf	4,672	5,160	5,210
General, Corporate, and Other	2,082	3,243	1,253
	$ 20,555	$ 43,076	$ 43,589
Operating income (loss) before income tax for each segment is as follows:			
Real Estate	$ 2,972	$ 19,013	$ 21,811
Income Properties	7,337	6,956	6,723
Golf	(1,843)	(1,749)	(1,478)
General, Corporate, and Other	(730)	(2,927)	(5,566)
	$ 7,736	$ 21,293	$ 21,490
Identifiable assets of each segment are as follows:			
Real Estate	$ 36,917	$ 33,026	$ 23,088
Income Properties	117,198	105,121	106,955
Golf	7,876	8,334	8,651
General, Corporate, and Other	11,155	25,352	15,080
	$ 173,146	$ 171,833	$ 153,774

Identifiable assets by segment are those assets that are used in each segment. General corporate assets and those used in the Company s other operations consist primarily of cash, investment securities, notes receivable, and property, plant, and equipment.

BUSINESS PLAN

In 1999, we adopted a business plan that we believed could increase shareholder value year-after-year and also produce stable earnings during depressed real estate markets. We committed to minimizing corporate debt and overhead. The real estate market has always been cyclical. In down markets, significant debt can severely

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ITEM 1. BUSINESS (Continued)

weaken a real estate company by forcing it to sell off valuable assets at a discount. Although our revenues and profits have grown significantly, we have only 15 full-time corporate employees less than we had in 2000.

Except for our agricultural operations, we subcontract all other work depending on work load. To cover operating expenses and produce stable income during challenging economic conditions, we accumulated a debt-free $120 million portfolio of net-lease properties. These strategic initiatives have allowed us to continue to sell at the highest prices per square-foot in our market. We have a policy of not discounting prices to make a sale even during challenging times. We can afford to hold our lands until the market improves. In short, we believe that our business plan allows us to increase shareholder value in both good and bad times.

Our business plan accelerates the conversion of our agricultural lands located in Daytona Beach into a geographically diverse portfolio of low-risk income properties utilizing income tax deferral under Section 1031 of the Internal Revenue Code. Our long-held lands are carried on our books at a very low tax basis, and as a result, qualifying land sales generate very large taxable gains. The 1031 exchange process allows us to postpone, hopefully indefinitely, the related income taxes and reinvest 100% of the gross sale proceeds of qualifying sales. To equal the equivalent after-tax returns from the 1031 process, alternative investments would need to yield a safe return about 40% greater. Our 1031 investment strategy offers a number of options that can further increase shareholder value. For example, because our portfolio is comprised of net-lease credit-tenants, we have the option of borrowing against a property on a non-recourse basis and reinvesting the borrowed funds into any number of alternate investments, including self-development, without triggering the repayment of the deferred taxes. We expect that leveraging our portfolio in future years will allow us to further increase our return on investment and shareholder value. We test alternative strategies under our business plan, which are reviewed annually by the Board of Directors. This analysis consistently indicates that our 1031 tax strategy yields the highest potential shareholder value year after year.

Real estate sales and development are a highly localized activity. Our success is based on execution of our business plan by a small, but talented, team of employees with the local knowledge and contacts to market our products and obtain the necessary entitlements. Our strategy, coupled with our long-term vision, are the steps in building shareholder value. While we often refer to selling land, in reality, we are exchanging our low income-producing asset our agricultural land into a new higher-value geographically dispersed assets that produces predictable income. Coupled with our self-development of certain select income product types, we are growing our assets, cash flow, profits, and shareholder value.

In 2007 and 2008, we expanded into self-development of select office and flex office/warehouse properties. During 2007, we analyzed our Daytona Beach land holdings to determine which core properties we wished to retain for the long term. These identified sites all have the potential to develop over time into high-value net-lease income properties that we believe would meet our adopted criteria to hold for the long term in our portfolio. We anticipate that these select properties will be comprised of build to suit, self-developed or land leases.

REAL ESTATE OPERATIONS

COMMERCIAL DEVELOPMENT. In 1993, the Company received Development of Regional Impact (DRI) approval on a 4,500-acre tract of land located both east and west of Interstate 95 in Daytona Beach, Florida. The tract of land includes approximately 3,000 acres west of Interstate 95 in a mixed-used development known as LPGA International. The LPGA International development includes the headquarters of the Ladies Professional Golf Association, along with two championship golf courses, clubhouse facilities, and residential communities. In addition to these uses, the DRI also provides for resort facilities, and other commercial uses. All of the remaining property within the LPGA International development was sold to MSKP Volusia Partners LLC,

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ITEM 1. BUSINESS (Continued)

a Morgan Stanley-Kitson Partnership (MSKP) in 2007. As part of that sales transaction we took back a mortgage note in the amount of $2,158,317. MSKP is delinquent on a payment on the note, which was due in December 2008.

MSKP assumed responsibilities as master developer of the project in 2004. The property is expected to be developed into several distinct communities with lots to be sold to major builders.

The Company continues to own approximately 720 acres of land within the DRI, primarily located east of Interstate 95. At the end of 2002, the Company closed the sale of the first corporate headquarters site at the Company s new Cornerstone Office Park located within the 250-acre Gateway Business Center at the southeast quadrant of the Interstate 95 interchange at LPGA Boulevard. Development of the office park was substantially completed in 2003, with the opening in January 2004 of the first office building owned and constructed by a third party. The Company s corporate office is located in this building. A second site was sold within the development during 2005, with a companion 47,000 square-foot office building owned and constructed by a third party, which opened in early 2006.

Development of a 12-acre, 4-lot commercial complex located at the north east corner of LPGA and Williamson Boulevards commenced in 2007. Site work, building plans, and permitting have been completed. This parcel will include a 23,000 square-foot Class A office building currently under development by the Company. A lease has been signed with a credit-rated tenant for a significant portion of the building space, with a second lease in negotiation. The building, which commenced construction in July 2008, will be ready for occupancy in the third quarter of 2009.

Development of the Gateway Commerce Park, a 250-acre industrial, warehouse, and distribution park located south of Gateway Business Center on the east side of Interstate 95 in Daytona Beach, commenced in 2004 with the first phase substantially completed prior to year-end 2004. The first sale within the development closed in February 2004, with construction of a 60,000 square-foot manufacturing and distribution facility by a third party completed in late 2004. Through December 2008, seven sales totaling approximately 70 acres have closed within the Gateway Commerce Park with buildings approximating 316,000 square feet constructed and an additional 32,000 square feet completed in early 2009. The constructed buildings include a two building 31,000 square-foot flex office space complex which was self-developed by the Company to be held in its portfolio of income properties. Total buildout, including expansions of existing buildings, on the sold and developed parcels will approximate 650,000 square feet.

Indigo Commercial Realty Inc., a commercial real estate brokerage company formed in 1981, is the Company s agent in the management of developed and undeveloped acreage. Approximately 24 acres of fully developed sites located in the Daytona Beach area and owned by Indigo Group Inc. were available for sale at December 31, 2008. All development and improvements have been completed at these sites.

RESIDENTIAL. During 2005, Indigo Group Ltd. sold its remaining residential lot inventory in Tomoka Heights, a 180-acre development adjacent to Lake Henry in Highlands County, Florida. The remaining residential lots in Riverwood Plantation, a 180-acre community in Port Orange, Florida, were sold during 2004.

AGRICULTURAL OPERATIONS. The Company s agricultural lands encompass approximately 10,700 acres on the west side of Daytona Beach, Florida. Management believes the geographic location of this tract is excellent. In addition to access by major highways (Interstate 95, State Road 40, and International Speedway Boulevard), the internal road system for forestry and other agricultural purposes is good. In the summer of 1998, wildfires ravaged central Florida, destroying approximately 8,500 acres of the Company s timber land. This event and the sale of an approximate 11,000-acre parcel to St. Johns River Water Management District in 1997

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ITEM 1. BUSINESS (Continued)

have reduced the Company s potential for future income from sales of forest products. Expenses associated with forestry operations consist primarily of real estate taxes, with additional expenses including the costs of installing and maintaining roads and drainage systems, reforestation, and wildfire suppression.

After the wildfires experienced in 1998, the Company began replanting approximately 1,000 acres annually in timber. It is anticipated that the newly planted timber will reach maturity in 14 to 20 years. Based on current growth projections, a significant portion of the replanted lands east of Interstate 95 and along LPGA Boulevard and certain lands west of Interstate 95 appear to be in the path of the area s growth, which could result in some portions of the property being sold prior to the maturity of the timber crop. This situation prompted the Company to develop a business plan in the early 2000 s for conversion of unplanted and immature timber lands into other agricultural uses that would produce saleable crops on a shorter maturity schedule. The timber replanting program was discontinued in 2004.

In late 2004, the Company formed a wholly owned subsidiary, W. Hay LLC, to manage the conversion of these timber lands into hay production. Annually, management assesses which areas should be converted from timber into hay operations. These decisions are based on the current economics of both the timber and hay businesses, and the then-current evaluation of the estimated maturity date of planted timber parcels. As mature timber is harvested, the decision to replant or convert is evaluated on the same criteria. It is currently anticipated that over time a significant portion of the Company s lands will be converted into hay production.

During 2005, the Company hired staff to manage and operate equipment for the ongoing hay operations. Approximately 80 acres of land were planted during 2005, with the first harvest in the first quarter of 2006. During 2006 and 2007, the Company continued to expand its hay operations with the addition of new employees and equipment. At the end of 2008, approximately 1,000 acres were planted with an additional 1,000 acres in various stages of clearing and planting. Harvesting activities were limited both in 2008 and 2007 due to a significant shortage of rainfall in those years.

SUBSURFACE INTERESTS. The Company owns full or fractional subsurface oil, gas, and mineral interests in approximately 516,000 surface acres of land owned by others in various parts of Florida, equivalent to approximately 283,000 acres in terms of full interest. The Company leases its interests to mineral exploration firms when such firms deem exploration to be financially feasible.

Leases on 800 acres have reached maturity, but in accordance with their terms, are held by the leasing oil companies without annual rental payments because these acres contain oil wells from which the Company receives royalties.

The Company s current policy is to not release any ownership rights with respect to its reserved mineral rights. The Company will release surface entry rights or other rights upon request of a surface owner who requires such a release for a negotiated release price based on a percentage of the surface value. In connection with any release, the Company charges a minimum administrative fee.

At December 31, 2008, there were two producing oil wells on the Company s interests. Volume in 2008 was 74,876 barrels and volume in 2007 was 103,899 barrels from two producing wells. Production in barrels for prior recent years was: 2006 105,553, 2005 95,062, 2004 109,114, and 2003 100,098.

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ITEM 1. BUSINESS (Continued)

INCOME PROPERTIES

The Company s business strategy involves becoming a company, over time, with a more predictable earnings pattern from geographically dispersed real estate holdings. To this end, the Company has acquired twenty-six income properties since 2000. Following is a summary of these properties:

LOCATION	TENANT	AREA (SQUARE FEET)	YEAR PURCHASED
Tallahassee, Florida	CVS	10,880	2000
Daytona Beach, Florida	Barnes & Noble	28,000	2001
Lakeland, Florida	Barnes & Noble	18,150	2001
Sanford, Florida	CVS	11,900	2001
Palm Bay, Florida	Walgreens	13,905	2001
Clermont, Florida	CVS	13,824	2002
Melbourne, Florida	CVS	10,908	2003
Sebring, Florida	CVS	12,174	2003
Kissimmee, Florida	Walgreens	13,905	2003
Orlando, Florida	Walgreens	15,120	2003
Sanford, Florida	CVS	13,813	2003
Apopka, Florida	Walgreens	14,560	2004
Clermont, Florida	Walgreens	13,650	2004
Sebastian, Florida	CVS	13,813	2004
Alpharetta, Georgia	Walgreens	15,120	2004
Powder Springs, Georgia	Walgreens	15,120	2004
Lexington, North Carolina	Lowe s	114,734	2005
Alpharetta, Georgia	RBC Centura Bank	4,128	2005
Asheville, North Carolina	Northern Tool & Equipment	25,454	2005
Altamonte Springs, Florida	RBC Centura Bank	4,135	2005
Vero Beach, Florida	CVS	13,813	2005
Orlando, Florida	RBC Centura Bank	4,128	2005
Clermont, Florida	CVS	13,813	2005
McDonough, Georgia	Dick s Sporting Goods	45,000	2006
McDonough, Georgia	Best Buy	30,000	2006
Charlotte, North Carolina	Harris Teeter Supermarket	45,000	2008
26 Properties		535,047	

With the exception of the Dick s Sporting Goods and Best Buy properties acquired in 2006, all properties are leased on a long-term, double or triple-net lease basis.

During the third quarter of 2004, CVS Corp. (CVS) completed the acquisition of a portion of the Eckerd pharmacy chain, including all of the Florida stores. As part of the integration of the Eckerd chain into its system, some of the acquired stores were closed.

Four stores owned by the Company were closed by CVS. The tenant is obligated on the leases and continues to make lease payments. Two of the four closed stores have been subleased.

As mentioned previously the Company intends to self-develop certain select income properties to hold in our income property portfolio. To date, these self-developed properties consist of the 23,000 square-foot Class A office building located at the corner of LPGA and Williamson Boulevards (currently under construction), and

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ITEM 1. BUSINESS (Continued)

the two building 31,000 square-foot flex office space complex located in Gateway Commerce Park. Leasing efforts are in progress on both complexes with a lease approximating 8,000 square feet with Merrill Lynch in place in the Class A office building.

Other rental property is limited to ground leases for billboards, a communication tower site, and hunting leases covering 6,500 acres. A 12-acre auto dealership site, formerly under lease, was sold in 2006 at a profit approximating $437,000 before income taxes.

GOLF OPERATIONS

On September 1, 1997, responsibility for the operations of the LPGA International golf courses was transferred from the City of Daytona Beach to a wholly-owned subsidiary of the Company. The agreement with the City of Daytona Beach provided for a second golf course and a clubhouse to be constructed by the Company in return for a long-term lease from the City on both golf courses.

The second golf course was constructed by the Company and opened for play in October 1998. The first phase of the clubhouse, which consisted primarily of the cart barn, was completed in 1999. Construction of the final phase of the clubhouse, consisting of a 17,000 square-foot facility including a pro shop, locker rooms, formal dining and banquet rooms, and a swimming pool, was completed in December 2000 and opened for business in January 2001.

EMPLOYEES

The Company has twenty-five full time employees, ten of which work for W. Hay, LLC, and considers its employee relations to be satisfactory.

AVAILABLE INFORMATION

The Company s website is www.ctlc.com. The Company makes available on this website, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after the Company electronically files or furnishes such materials to the SEC. The Company will also provide paper copies of these filings free of charge upon a specific request in writing for such filing to the Company s Corporate Secretary, P.O. Box 10809, Daytona Beach, Florida 32120-0809. All reports the Company files with or furnishes to the SEC also are available free of charge via the SEC s electronic data gathering and retrieval (EDGAR) system available through the SEC s website at *http://www.sec.gov.* The public may read and copy any materials filed by us with the SEC at the SEC s Public Reference Room, 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.

ITEM 1A. RISK FACTORS

The real estate business is subject to a number of significant risks. The risks described below may not be the only risks which potentially could impact our business. These additional risks include those which are unknown at this time or that are currently considered immaterial. If any of the circumstances described below actually occur to a significant degree, our business, financial condition, and/or results of operations could suffer, and the trading price of our common stock could decline.

FUTURE CHANGES IN THE REAL ESTATE MARKET COULD AFFECT THE VALUE OF OUR PROPERTIES AND BUSINESS

We have extensive real estate holdings in the City of Daytona Beach in Volusia County, Florida. The economic growth of Daytona Beach, Florida, where the majority of our land is located, is an important factor in

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ITEM 1A. RISK FACTORS (Continued)

creating demand for our products and services. The creation of new jobs is an important factor in economic growth of the region. The value of the real property and the revenue from related sale and/or development activities may be adversely affected by a number of factors, including:

- national, regional, and local economic climate;
- local real estate market conditions (such as an oversupply of land or a reduction in demand for real estate in an area);
- competition from other available property;
- availability of roads and utilities;
- unexpected construction costs or delays;
- government regulations and changes in real estate, zoning, land use, environmental or tax laws;
- interest rate levels and the availability of financing; and
- potential liabilities under environmental and other laws.

A PROLONGED RECESSION IN THE NATIONAL ECONOMY, OR A FURTHER DOWNTURN IN NATIONAL OR REGIONAL ECONOMIC CONDITIONS, ESPECIALLY IN FLORIDA, COULD CONTINUE TO ADVERSELY IMPACT OUR BUSINESS

The collapse of the housing market, together with the crisis in the credit markets, have resulted in a recession in the national economy with rising unemployment, shrinking gross domestic product and drastically reduced consumer spending. At such times, potential customers often defer or avoid real estate purchases due to the substantial costs involved.

Our business is especially sensitive to economic conditions in Florida, where our real estate (other than certain income properties) and self-developed properties are located. Florida is currently experiencing recessionary conditions. There is no consensus as to when the recession will end, and Florida, as one of the hardest hit states, could take longer to recover than the rest of the nation. A prolonged recession could have a material adverse effect on our business, results of operations and financial condition.

OUR FUTURE SUCCESS WILL DEPEND UPON OUR ABILITY TO SUCCESSFULLY EXECUTE ACQUISITION OR DEVELOPMENT STRATEGIES

There is no assurance that we will be able to continue to implement our strategy of investing in income properties successfully. Additionally, there is no assurance that the income property portfolio will expand at all, or if it will expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. As we expect to invest in markets other than the ones in which currently owned properties are located, we will be subject to risks associated with investment in new markets that may be relatively unfamiliar to us.

Development activities are subject to the risks normally associated with these activities. These risks include those relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks from factors beyond our control, such as weather, labor conditions, or material shortages), and the ability to obtain both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken or provide a tenant the opportunity to terminate a lease. Any of these situations may delay or eliminate proceeds or cash flows expected from these projects, which could have an adverse affect on our financial condition and results of operations.

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ITEM 1A. RISK FACTORS (Continued)

OUR OPERATIONS COULD BE NEGATIVELY IMPACTED BY THE LOSS OF KEY MANAGEMENT PERSONNEL

Our future success depends, to a significant degree, on the efforts of each member of senior management. Replacement of any member of senior management could adversely affect our operations and our ability to execute business strategies. We do not have key man life insurance policies on members of senior management.

CHANGES IN LOCAL, REGIONAL, AND NATIONAL ECONOMIC CONDITIONS COULD ADVERSELY AFFECT OUR BUSINESS

The real estate development industry is cyclical in nature and is particularly vulnerable to shifts in local, regional, and national economic conditions outside of our control, such as:

- short and long-term interest rates;
- housing demand;
- population growth;
- employment levels and job growth;
- property taxes; and
- property and casualty insurance.

The real estate business is subject to a number of economic factors including the impact of rising and falling interest rates, which can affect the ability of purchasers to obtain financing, and population growth, which impacts supply and demand for new homes, as well as goods and services; and hence, land to meet those needs.

In addition, weather conditions and natural disasters such as hurricanes, tornadoes, floods, droughts, fires, and other environmental conditions can adversely affect our business.

THE REAL ESTATE BUSINESS IS SUBJECT TO ENVIRONMENTAL AND LAND USE REGULATIONS

We are subject to a wide variety of federal, state, and local laws and regulations relating to land use and development and to environmental compliance and permitting obligations, including those related to the use, storage, discharge, emission, and disposal of hazardous materials. Any failure to comply with these laws could result in capital or operating expenditures or the imposition of severe penalties or restrictions on operations that could adversely effect present and future operations.

Municipalities may restrict or place moratoriums on the availability of utilities, such as water and sewer taps. Additionally, development moratoriums may be imposed due to traffic over capacity on roads. In some areas, municipalities may enact growth control initiatives, which will restrict the number of building permits available in a given year. If municipalities in which we own land and operate take actions like these, it could have an adverse effect by causing delays, increasing costs, or limiting the ability to operate in those municipalities.

WE SELL PROPERTY IN A HIGHLY COMPETITIVE MARKET, WHICH COULD HURT FUTURE BUSINESS

Our competitors are primarily other landowners in the Volusia County area. These competitive conditions can make it difficult to sell land at desirable prices and can adversely affect operations, financial condition, or results of operations.

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ITEM 1A. RISK FACTORS (Continued)

OUR QUARTERLY RESULTS ARE SUBJECT TO VARIABILITY

We derive a substantial portion of our income from land sales. The timing of commercial land sales activity is not predictable and is generally subject to the purchaser s ability to obtain approvals from the city, county and regulatory agencies for their intended use of the land on a timely basis. As these approvals are subject to third party responses, it is not uncommon for delays to occur, which affect the timing of sales closings. These timing issues have caused, and may continue to cause, our operating results to vary significantly from quarter to quarter and year to year.

LOSS OF REVENUES FROM MAJOR TENANTS WOULD REDUCE CASH FLOW

Our two largest income property tenants CVS and Walgreens accounted for in excess of 10% of consolidated revenues individually and in the aggregate approximately 23% of consolidated revenues for the year ended December 31, 2008. The default, financial distress, or bankruptcy of one or both of these tenants could cause substantial vacancies. Vacancies reduce revenues until the affected properties can be re-leased and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, we may not be able to re-lease a vacant property at a comparable lease rate or without incurring additional expenditures in connection with such re-leasing.

THERE ARE A NUMBER OF RISKS INHERENT IN OWNING INCOME PROPERTIES

Factors beyond our control can affect the performance and value of the income properties portfolio. Changes in national, regional, and local economic and market conditions may affect the performance of the income properties and their value. Local real estate market conditions may include excess supply and intense competition for tenants, including competition based on:

- rental rates;
- attractiveness and location of the property; and
- quality of maintenance, insurance, and management services.

In addition, other factors may adversely affect the performance and value of the income properties, including changes in laws and governmental regulations, changes in interest rates, and the availability of financing.

In addition, because real estate investments are relatively illiquid, the ability to adjust the portfolio of income properties promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including debt service (if any), real estate taxes, and operating and maintenance costs.

As of December 31, 2008, the Company owned two vacant, unleased self-developed income properties, which total approximately 31,000 square feet. The Company is actively marketing these properties for lease but may not be able to lease these properties on favorable terms or at all. In addition, the lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with the Company could have a material adverse effect on the liquidity and results of operations of the Company if the Company is unable to re-lease the income properties at comparable rental rates and in a timely manner.

FUTURE GROWTH AND REAL ESTATE DEVELOPMENT REQUIRES ADDITIONAL CAPITAL THE AVAILABILITY OF WHICH IS NOT ASSURED

We expect to continue making investments in real estate development. Based on the status of several specific real estate projects, we will continue to invest significant amounts in real estate over the next several years. We could finance future expenditures from any of the following sources:

cash flow from operations;

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ITEM 1A. RISK FACTORS (Continued)

- bank borrowings;
- non-recourse, sale leaseback, or other financing;
- public offerings of debt or equity;
- private placement of debt or equity; or
- some combination of the above.

Financing for future expenditures may not be available on favorable terms or at all.

COMPETITION AND MARKET CONDITIONS RELATING TO GOLF OPERATIONS COULD ADVERSELY AFFECT OPERATING RESULTS

Golf operations face competition from similar nearby golf operations. Any new competitive golf operations that are developed close to our existing golf operations also may adversely impact results of operations. Golf operations are also subject to adverse market conditions such as population trends and changing demographics, any of which could adversely affect results of operations. In addition, the golf operations may suffer if the economy weakens, if the popularity of golf decreases, or if unusual weather conditions or other factors cause a reduction in rounds played. Our golf operations are seasonal, primarily due to the impact of the winter tourist season and summer Florida heat and rain.

OUR COMMON STOCK IS THINLY TRADED, AND THEREFORE, THE STOCK PRICE MAY FLUCTUATE MORE THAN THE STOCK MARKET AS A WHOLE

As a result of the thin trading market for our stock, its market price may fluctuate significantly more than the stock market as a whole or the stock prices of similar companies. Without a larger float, common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our common stock may be more volatile. Among other things, trading of a relatively small volume of common stock may have a greater impact on the trading price than would be the case if public float were larger.

OUR LARGEST SHAREHOLDER S INTERESTS MAY CONFLICT WITH THE INTERESTS OF OTHER INVESTORS, THE BOARD OF DIRECTORS AND MANAGEMENT

Our largest shareholder, Wintergreen Advisers, LLC, which owns more than 25% of our outstanding shares, has expressed support for pursuing business strategies which conflict with our current business plan. In addition, this shareholder has expressed disagreement with certain corporate governance policies which affect operation of the Board of Directors. Should these suggested changes occur the effects on our profitability and operations are unknown.

WE ARE CURRENTLY INVOLVED IN LITIGATION THAT COULD BE COSTLY AND DIVERT MANAGEMENT S ATTENTION FROM OPERATING OUR BUSINESS.

We are currently involved in litigation with our largest shareholder, Wintergreen Advisers, LLC, relating to the inspection of certain corporate records. We are vigorously defending this action. We cannot, however, determine with certainty the outcome or resoLIGN: center; LINE-HEIGHT: 1.25; MARGIN: 0pt">**Luby's, Inc.**

Consolidated Statements of Operations (unaudited)

(In thousands except per share data)

	Quarter Ended		Three Quarters Ended	
	May 8, 2013 *(12 weeks)*	**May 9, 2012** *(12 weeks)*	**May 8, 2013** *(36 weeks)*	**May 9, 2012** *(36 weeks)*
SALES:				
Restaurant sales	$91,593	$77,943	$247,714	$224,535
Culinary contract services	4,099	4,336	11,607	13,069
Franchise revenue	1,639	1,702	4,701	4,838
Vending revenue	143	148	384	426
TOTAL SALES	97,474	84,129	264,406	242,868
COSTS AND EXPENSES:				
Cost of food	26,227	21,379	70,833	62,642
Payroll and related costs	30,281	25,708	84,627	76,195
Other operating expenses	21,567	17,412	59,002	51,073
Opening costs	39	33	506	110
Cost of culinary contract services	3,573	3,979	10,382	12,222
Depreciation and amortization	4,207	4,304	12,637	12,515
General and administrative expenses	7,236	7,195	22,227	20,742
Provision for asset impairments, net	113	—	203	175
Net loss (gain) on disposition of property and equipment	142	124	(1,421)	205
Total costs and expenses	93,385	80,134	258,996	235,879
INCOME FROM OPERATIONS	4,089	3,995	5,410	6,989
Interest income	2	3	6	6
Interest expense	(228)	(201)	(618)	(694)
Other income, net	261	238	711	590
Income before income taxes and discontinued operations	4,124	4,035	5,509	6,891
Provision for income taxes	1,513	1,535	2,078	2,464
Income from continuing operations	2,611	2,500	3,431	4,427
Loss from discontinued operations, net of income taxes	(118)	(77)	(605)	(713)
NET INCOME	$2,493	$2,423	$2,826	$3,714
Income per share from continuing operations:				
Basic	$0.09	$0.09	$0.12	$0.16
Assuming dilution	0.09	0.09	0.12	0.16
Loss per share from discontinued operations:				
Basic	$—	$—	$(0.02)	$(0.03)
Assuming dilution	—	—	(0.02)	(0.03)
Net income per share:				
Basic	$0.09	$0.09	$0.10	$0.13
Assuming dilution	0.09	0.09	0.10	0.13
Weighted average shares outstanding:				
Basic	28,698	28,377	28,566	28,344
Assuming dilution	28,952	28,445	28,786	28,396

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

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Luby’s, Inc.

Consolidated Statement of Shareholders’ Equity (unaudited)

(In thousands)

	Common Stock						Total
	Issued		Treasury		Paid-In	Retained	Shareholders’
	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
BALANCE AT AUGUST 29, 2012	28,677	$ 9,176	(500)	$ (4,775)	$ 24,532	$ 143,726	$ 172,659
Net income		—	—	—	—	2,826	2,826
Share-based compensation expense	24	8	—	—	689	—	697
Tax benefit from stock options	—	—	—	—	37	—	37
Common stock issued under employee benefit plans	45	14	—	—	207	—	221
Common stock issued under nonemployee benefit plans	14	5	—	—	23	—	28
BALANCE AT MAY 8, 2013	28,761	$ 9,203	(500)	$ (4,775)	$ 25,488	$ 146,552	$ 176,468

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

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Luby's, Inc.

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Three Quarters Ended May 8, 2013 *(36 weeks)*	**May 9, 2012 *(36 weeks)***
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,826	$3,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for asset impairments, net of (gains)/losses on property sales	(686)	907
Depreciation and amortization	12,675	12,570
Amortization of debt issuance cost	78	77
Non-cash compensation expense	249	185
Share-based compensation expense	697	424
Tax increase on stock options	37	—
Deferred tax expense	1,056	1,604
Cash provided by operating activities before changes in operating assets and liabilities	16,932	19,481
Changes in operating assets and liabilities, net of business acquisition:		
Decrease in trade accounts and other receivables, net	820	1,081
Increase in food and supply inventories	(786)	(856)
Decrease in prepaid expenses and other assets	740	49
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(991)	959
Net cash provided by operating activities	16,715	20,714
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of assets and property held for sale	4,232	2,586
Purchases of property and equipment	(17,071)	(16,056)
Acquisition of Cheeseburger in Paradise, net of cash acquired	(10,257)	—
Decrease (increase) in note receivable	30	(187)
Net cash used in investing activities	(23,066)	(13,657)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Credit facility borrowings	44,600	31,400
Credit facility repayments	(38,100)	(38,400)
Proceed from exercise of stock options	249	—
Debt issuance costs	—	(1)
Net cash provided by (used in) financing activities	6,749	(7,001)
Net increase in cash and cash equivalents	398	56
Cash and cash equivalents at beginning of period	1,223	1,252
Cash and cash equivalents at end of period	$1,621	$1,308
Cash paid for:		
Income taxes	$—	$—

Interest	513	600

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

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Luby’s, Inc.

Notes to Consolidated Financial Statements (unaudited)

May 8, 2013

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 three quarters ended May 8, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending August28, 2013.

The consolidated balance sheet dated August 29, 2012, included in this Form 10-Q, has been derived from the audited consolidated financial statements at 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 29, 2012.

The results of operations, assets and liabilities for all units included in the cash flow improvement and capital redeployment plan discussed in Note 8 have been reclassified to discontinued operations in the statements of operations and balance sheets for all periods presented.

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. Each of the first three quarters of each fiscal year consists of three four-week periods, while the fourth quarter normally consists of four four-week periods. Fiscal years 2012 and 2013 contain 52 weeks. Comparability between quarters may be affected by the varying lengths of the quarters, as well as the seasonality associated with the restaurant business. Seasonality factors affecting a quarter include timing of holidays, weather and school years. Interim results may not be indicative of full year results.

Note 3. Acquisition

The Company through its newly created subsidiary, Paradise Cheeseburgers, LLC, purchased 100% of the membership units of Paradise Restaurant Group, LLC and affiliated companies which operate Cheeseburger in Paradise brand restaurants (collectively, "Cheeseburger in Paradise") on December 6, 2012 for $10.2 million in cash. The Company assumed $2.2 million of Cheeseburger in Paradise obligations, real estate leases and contracts. The Company funded the purchase with existing cash reserves and borrowings from its credit facility.

The Company believes the acquisition of Cheeseburger in Paradise will produce significant benefits. The acquisition is expected to increase the Company's market presence and opportunities for growth in sales, earnings and shareholder returns. The acquisition provides a complementary growth vehicle in the casual segment of the restaurant industry. The Company believes these factors support the amount of goodwill recorded as a result of the purchase price paid for the Cheeseburger in Paradise intangible and tangible assets, net of liabilities assumed.

The Company has accounted for the acquisition of Cheeseburger in Paradise using the acquisition method and accordingly the results of operations related to this acquisition have been included in the consolidated results of the Company since the acquisition date. The Company incurred $0.4 million in acquisition costs which were expensed as incurred and classified as general and administrative expenses on the consolidated statements of operations.

The allocation of the purchase price for the acquisition requires extensive use of accounting estimates and judgments to allocate the purchase price to tangible and intangible assets acquired and liabilities assumed based on respective fair values. The purchase price for the Company's acquisition of Cheeseburger in Paradise and the assumption of liabilities is based on estimates of fair values at the acquisition date. The Company's fair value estimates for the purchase price allocation may change during the allowable period, which is up to one year from the acquisition date to provide sufficient time to devlop fair value estimates. The fair values that take longer to estimate and are more likely to change include property and equipment, intangible assets and leases.

Such valuations require significant estimates and assumptions. The Company believes the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions.

The following table summarizes the estimated fair values of net assets acquired and liabilities assumed, in thousands:

Cash and cash equivalents	$58
Accounts receivable	93
Inventories	561
Other current assets	376
Property and equipment	6,374
Liquor licenses and permits	188
Favorable leases	2,646
License agreement and trade name	254
Goodwill	1,875
Accrued liabilities	(2,168)
Net acquisition cost	$10,257

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 Buffet and affiliated entities. In return, the Company will pay a royalty fee of 2.5% of gross sales less discounts at acquired Cheeseburger in Paradise locations to an entity owned or controlled by Jimmy Buffet. 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.

The Company will amortize the fair value allocated to the license agreement and trade name over an expected accounting life of 15 years based on the expected use of its assets and the restaurant environment in which it is being used. The Company recorded approximately $4 thousand of amortization expense for the quarter ended May 8, 2013, which is classified as depreciation and amortization expense in the accompanying consolidated statement of operations. Because the value of these assets will be amortized using the straight-line method over 15 years, the annual amortization will be $17 thousand in future years.

A portion of the acquired lease portfolio contained favorable leases. Acquired lease terms were compared to current market lease terms to determine if the acquired leases were below or above the current rates tenants would pay for similar leases. The favorable lease assets totaled $2.6 million and are recorded in other assets. There were determined to be no unfavorable leases. The favorable leases are amortized to rent expense on a straight line basis over the lives of the related leases. The Company recorded $33 thousand of amortization expense for the quarter ended May 8, 2013, which is classified as additional rent expense in the accompanying consolidated statement of operations.

Annual depreciation expense of the $6.4 million property and equipment will be $0.5 million.

The Company also recorded an intangible asset for goodwill in the amount of $1.9 million. Goodwill is considered to have an indefinite useful life and is not amortized but is tested for impairment at least annually. The total amount of goodwill is expected to be deductible for income tax purposes.

The following unaudited pro forma information assumes the Cheeseburger in Paradise acquisition occurred as of the beginning of the fiscal year ended August29, 2012. The unaudited pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations of the Company or of the results that would have actually been attained had the acquisition taken place at the beginning of the fiscal year ended August 29, 2012.

	Three Quarters Ended	
	May 8, 2013	**May 9, 2012**
	(Unaudited)	***(Unaudited)***
	(In thousands, except per share data)	
Pro forma total sales	$276,017	$ 276,959
Pro forma income from continuing operations	3,009	4,246
Pro forma net income	2,403	3,533
Pro forma income from continuing operations per share		
Basic	0.11	0.15
Diluted	0.11	0.15
Pro forma net income per share		
Basic	0.08	0.12
Diluted	0.08	0.12

Included in the Consolidated Statement of Operations for the three quarters ended May 8, 2013 were actual restaurant sales for Cheeseburger in Paradise of $19.2 million and loss from operations for Cheeseburger in Paradise of $0.7 million. Excluding first year integration costs of $0.4 million, the loss from operations related to Cheeseburger in Paradise included in the Consolidated Statement of Operations for the three quarters ended May 8, 2013 was $0.3 million.

Note 4.Reportable Segments

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

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 and other operating expenses. The primary brands are Luby’s Cafeteria, Fuddruckers and Cheeseburger in Paradise, with a couple of non-core restaurant locations under other brand names (i.e., Koo Koo Roo Chicken Bistro and 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 182 at May 8, 2013 and 154 at August 29, 2012.

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 had contracts with long-term acute care hospitals, acute care medical centers, ambulatory surgical centers, behavioral hospitals, business and industry clients, and higher education institutions. 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 culinary contract services on the Consolidated Statements of Operations includes all food, payroll and related costs and other operating expenses related to CCS sales.

The total number of CCS contracts was 19 at May 8, 2013 and 18 at August 29, 2012.

Franchising

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 117 at May 8, 2013 and 125 at August 29, 2012.

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

	Quarter Ended		**Three Quarters Ended**	
	May 8, 2013 ***(12 weeks)***	**May 9, 2012** ***(12 weeks)***	**May 8, 2013** ***(36 weeks)***	**May 9, 2012** ***(36 weeks)***
Sales:				
Company-owned restaurants	$91,736	$78,091	$248,098	$224,961
Culinary contract services	4,099	4,336	11,607	13,069
Franchising	1,639	1,702	4,701	4,838
Total	$97,474	$84,129	$264,406	$242,868
Segment level profit:				
Company-owned restaurants	$13,661	$13,592	$33,636	$35,051
Culinary contract services	526	357	1,225	847
Franchising	1,639	1,702	4,701	4,838
Total	$15,826	$15,651	$39,562	$40,736
Depreciation and amortization:				
Company-owned restaurants	$3,752	$3,882	$11,280	$11,211
Culinary contract services	102	106	316	327
Franchising	177	177	531	531
Corporate	176	139	510	446
Total	$4,207	$4,304	$12,637	$12,515
Capital expenditures:				
Company-owned restaurants	$5,505	$6,443	$16,727	$15,574
Culinary contract services	2	128	42	204
Franchising	—	—	—	—
Corporate	129	239	302	278
Total	$5,636	$6,810	$17,071	$16,056
Income before income taxes and discontinued operations:				
Segment level profit	$15,826	$15,651	$39,562	$40,736
Opening costs	(39)	(33)	(506)	(110)
Depreciation and amortization	(4,207)	(4,304)	(12,637)	(12,515)
General and administrative expenses	(7,236)	(7,195)	(22,227)	(20,742)
Provision for asset impairments, net	(113)	—	(203)	(175)
Net gain (loss) on disposition of property and equipment	(142)	(124)	1,421	(205)
Interest income	2	3	6	6
Interest expense	(228)	(201)	(618)	(694)
Other income, net	261	238	711	590
Total	$4,124	$4,035	$5,509	$6,891

	May 8, 2013	**August 29, 2012**
Total assets:		
Company-owned restaurants	$197,457	$182,287
Culinary contract services	3,489	3,774
Franchising	14,377	15,352
Corporate	26,952	29,604
Total	$242,275	$231,017

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Note 5. Fair Value Measurements

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 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:

		Fair Value Measurement Using			
	Three Quarters Ended May 8, 2013	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Impairments

		(Level 1) (In thousands)			
Continuing Operations					
Property and equipment related to company-owned restaurant assets	$ 65	$ —	$ —	$ 65	$ (203)
Discontinued Operations					
Property and equipment related to corporate assets	$ 2,689	$ —	$ —	$ 2,689	$ (533)

	Three Quarters Ended May 9, 2012	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
		(In thousands)			
Continuing Operations					
Property and equipment related to Culinary Contract Services	$ 57	$ —	$ —	$ 57	$ (175)
Discontinued Operations					
Property and equipment related to corporate assets	$ 1,875	$ —	$ —	$ 1,875	$ (510)

Note 6. Income Taxes

No cash payments of estimated federal income taxes were made during the quarter ended May 8, 2013.

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.

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 7. Property and Equipment, Intangible Assets and Goodwill

The cost, net of impairment, and accumulated depreciation of property and equipment at May 8, 2013 and August 29, 2012, together with the related estimated useful lives used in computing depreciation and amortization, were as follows:

	May 8, 2013	**August 29, 2012**	**Estimated Useful Lives (years)**
	(In thousands)		
Land	$54,490	$55,917	—
Land held for future use	5,608	3,242	
Restaurant equipment and furnishings	115,998	109,039	1 to 15
Buildings	170,780	167,346	20 to 33
Leasehold and leasehold improvements	39,412	32,913	Lesser of lease term or estimated useful life
Office furniture and equipment	7,398	7,030	3 to 10

Construction in progress	2,555	3,890	—
	396,241	379,377	
Less accumulated depreciation and amortization	(214,184)	(205,744)	
Property and equipment, net	$182,057	$173,633	
Intangible assets, net	$25,962	$26,679	15 to 21
Goodwill	$2,069	$195	—

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. The Company recorded $3.9 million of accumulated amortization as of May 8, 2013 and $2.9 million of accumulated amortization as of August 29, 2012.

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 sale of beverages with alcohol. These assets have an expected accounting life of 15 years from the date of acquisition December 6, 2012. The Company recorded accumulated amortization of $11 thousand as of May 8, 2013.

The Company recorded an intangible asset for goodwill in the amount of $0.2 million related to the acquisition of substantially all of the assets of Fuddruckers. The Company also recorded an intangible asset for goodwill in the amount of $1.9 million related to the acquisition of the membership units of Paradise Restaurant Group, LLC. Goodwill is considered to have an indefinite useful life and is not amortized. Goodwill was $2.1 million as of May 8, 2013 and $0.2 million as of August 29, 2012 and relates to our Company-owned restaurants reportable segment.

Note 8. 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:

	Three Quarters ended	
	May 8, 2013 *(36 weeks)*	**May 9, 2012** *(36 weeks)*
	(In thousands, except per share data)	
Provision for asset impairments	$203	$175
Net (gain) loss on disposition of property and equipment	(1,421)	205
	$(1,218)	$380
Effect on EPS:		

Basic	$0.04	$(0.01)
Assuming dilution	$0.04	$(0.01)

The impairment charge for the three quarters ended May 8, 2013 is related to an operating Fuddruckers restaurant at a leased location and an operating Koo Koo Roo restaurant at a leased location.

The impairment charge for the three quarters ended May 9, 2012 is related to a culinary contract services location.

The net gain for the three quarters ended May 8, 2013 includes the gain on disposal of assets at a Koo Koo Roo leased location and proceeds from the eminent domain disposition of part of a parking lot at a Luby's location net of asset retirements.

Discontinued Operations

As a result of the first quarter fiscal year 2010 adoption of the Company's Cash Flow Improvement and Capital Redeployment Plan ("the Plan"), the Company reclassified 23 operating stores and one previously closed location to discontinued operations. The results of operations, assets and liabilities for all units included in the Plan have been reclassified to discontinued operations in the statement of operations and balance sheets for all periods presented.

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

	May 8, 2013	August 29, 2012
	(in thousands)	
Prepaid expenses	$36	$42
Assets related to discontinued operations—current	$36	$42
Property and equipment	$5,081	$4,836
Other assets	4	8
Assets related to discontinued operations—non-current	$5,085	$4,844
Deferred income taxes	$297	$297
Accrued expenses and other liabilities	128	145
Liabilities related to discontinued operations—current	$425	$442
Other liabilities	$69	$134
Deferred income taxes	218	999
Liabilities related to discontinued operations—non-current	$287	$1,133

As of August 29, 2012, the Company had seven restaurant properties classified as discontinued operations assets. The carrying value of the five owned properties was $4.8 million. The carrying values of two ground leases were previously impaired to zero. As of May 8, 2013, the Company had seven restaurant properties classified as discontinued operations assets. The carrying value of the five owned properties was $5.1 million. The carrying values of two ground leases were previously impaired to zero.

One restaurant property was reclassified as a discontinued operations asset in the second quarter of fiscal year 2013 and one property was sold at no gain or loss in the third quarter of fiscal year 2013.

The Company is actively marketing all of these properties for lease or sale and 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 income (loss) reported for discontinued operations:

	Three Quarters ended	
	May 8,	May 9,

	2013 *(36 weeks)*	2012 *(36 weeks)*
	(In thousands, except discontinued locations)	
Sales	$—	$—
Pretax income (loss)	(959)	(1,127)
Income tax benefit (expense) on discontinued operations	354	414
Income (loss) on discontinued operations	(605)	(713)
Discontinued locations closed during the period	—	—

The following table summarizes discontinued operations for the three quarters of fiscal years 2013 and 2012:

	Three Quarters ended May 8, 2013 *(36 weeks)*	May 9, 2012 *(36 weeks)*
	(In thousands, except per share data)	
Impairments	$(533)	$(510)
Gains (losses)	—	(17)
Net gains (losses)	$(533)	(527)
Other	(72)	(186)
Discontinued operations	$(605)	$(713)
Effect on EPS from discontinued operations—basic	$(0.02)	$(0.03)

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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 of.

The impairment charges included above relate to properties closed and designated for immediate disposal. The assets of these individual operating units have been written down to their net realizable values. In turn, the related properties have either been sold or are being actively marketed for sale. All dispositions are expected to be completed within one 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 May 8, 2013 and August 29, 2012, the Company had one owned property recorded at approximately $0.6 million in property held for sale. The Company is actively marketing the location currently classified as property held for sale.

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

Note 9. 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 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. The Company had no non-cancelable contracts as of May 8, 2013.

Note 10. 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 16, 2011 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. The total costs under the Amended and Restated Master Sales Agreement of custom-fabricated and refurbished equipment in the three quarters ended May 8, 2013 and May 9, 2012 were zero and $87,000, 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 year 2004, Messrs. Pappas became partners in a limited partnership which purchased a retail strip center in Houston, Texas. Messrs. Pappas collectively own a 50% limited 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 and occupied space in that center since July 1969.

On November 22, 2006, the Company executed a new lease agreement in connection with the replacement and relocation of the existing restaurant with a new prototype restaurant in the retail strip center described above. The new restaurant opened in July 2008 and the new lease agreement provides for a primary term of approximately twelve years with two subsequent five-year options. The new lease also gives the landlord an option to buy out the agreement on or after the calendar year 2015 by paying the unamortized cost of the Company's improvements. The Company is currently obligated to pay rent of $20.00 per square foot ($22.00 per square foot beginning January 2014) plus maintenance, taxes, and insurance during the primary term of the lease. Thereafter, the lease provides for increases in rent at set intervals. The new lease agreement was approved by the Finance and Audit Committee and full Board of Directors. The Company made payments of $250,000 and $220,000 in the three quarters ended May 8, 2013 and May 9, 2012, respectively.

On November14, 2012, the Company executed an additional lease agreement in connection with a proposed future restaurant concept in the retail strip center described above. This lease agreement provides for a primary term of approximately eight years with no renewal options. The Company is currently obligated to pay rent of $35.00 per square foot plus maintenance, taxes, and insurance during the primary term of the lease. Thereafter, the lease provides for an increase in rent at a set interval. This lease agreement was approved by the Finance and Audit Committee of the Board of Directors. The Company made payments of $22,000 in the three quarters ended May 8, 2013. Affiliated rents paid for this restaurant property lease represented 2.2% and 3.0% of total rents for continuing operations for the three quarters ended May 8, 2013 and May 9, 2012, respectively.

	Three Quarters Ended	
	May 8, 2013 *(36 weeks)*	**May 9, 2012** *(36 weeks)*
	(In thousands, except percentages)	
AFFILIATED COSTS INCURRED:		
General and administrative expenses – professional and other costs	$38	$38
Capital expenditures – custom-fabricated and refurbished equipment and furnishings	—	87
Other operating expenses and opening costs, including property leases	327	220

Total	$365	$345
RELATIVE TOTAL COMPANY COSTS:		
General and administrative expenses	$22,227	$20,742
Capital expenditures	17,071	16,056
Other operating expenses and opening costs	59,508	51,183
Total	$98,806	$87,981
AFFILIATED COSTS INCURRED AS A PERCENTAGE OF RELATIVE TOTAL COMPANY COSTS	0.37 %	0.39 %

Board of Directors

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

Christopher J. Pappas is a member of the Advisory Board of Amegy Bank, National Association, which is a lender and syndication agent under the Company’s 2009 Revolving Credit Facility.

Key Management Personnel

On August 28, 2012, the Company entered into a seventh amendment to the Employment Agreement dated November 9, 2005 and as amended on October 29, 2007, November 19, 2008, November 19, 2009, April 15, 2010, September 2, 2010 and April 20, 2011 between the Company and Christopher J. Pappas to extend the termination date thereof to December 31, 2013. Mr. Pappas continues to devote his primary time and business efforts to the Company while maintaining his role at Pappas Restaurants, Inc.

On January 25, 2013, the Board of Directors of the Company approved the renewal of a consultant agreement with Ernest Pekmezaris, the Company's former Chief Financial Officer. Under the agreement, Mr.Pekmezaris will continue to furnish to the Company advisory and consulting services related to finance and accounting matters and other related consulting services. The agreement expires on July 31, 2013. Mr. Pekmezaris is also the Treasurer of Pappas Restaurants, Inc. Compensation for the services provided by Mr.Pekmezaris to Pappas Restaurants, Inc. is paid entirely by that entity.

Peter Tropoli, 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 11. Share-Based Compensation

We have two active share based stock plans, the Employee Stock Plan and 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, 0.6 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. Approximately 0.6 million shares remain available for future issuance as of May 8, 2013. Compensation cost for share-based payment arrangements under the Nonemployee Director Stock Plan, recognized in general and administrative expenses for the three quarters ended May 8, 2013 and May 9, 2012 were approximately $0.1 million and $0.2 million, respectively.

Of the 2.6 million shares approved for issuance under the Employee Stock Plan, 4.6 million options and restricted stock units were granted, and 2.9 million options and restricted stock units were cancelled or expired and added back into the plan. Approximately 0.9 million shares remain available for future issuance as of May 8, 2013. Compensation cost for share-based payment arrangements under the Employee Stock Plan, recognized in general and administrative expenses for the three quarters ended May 8, 2013 and May 9, 2012 were approximately $0.4 million.

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 three quarters ended May 8, 2013. However, options to purchase 24,000 shares at option prices from $4.47 to $6.45 per share remain outstanding as of May 8, 2013.

Options granted under the Employee Stock Plan generally vest 25% on the anniversary date of each grant and expire six years from the date of the grant. However, options granted to executive officers under the Employee Stock Plan vest 50% on the first anniversary date of the grant date, 25% on the second anniversary of the grant date and the remaining 25% vest on the third anniversary of the grant date and expire ten years from the grant date. All options granted in fiscal year 2013 were granted under the Employee Stock Plan. Options to purchase 893,602 shares at option prices of $3.44 to $11.10 per share remain outstanding as of May 8, 2013.

A summary of the Company’s stock option activity for the quarter ended May 8, 2013 is presented in the following table:

	Shares Under Fixed Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term *(Years)*	Aggregate Intrinsic Value *(In thousands)*
Outstanding at August 29, 2012	1,175,224	$ 6.31	3.8	$ 1,456
Granted	109,335	5.95	—	—
Exercised	(59,139)	4.22	—	—
Forfeited/Expired	(307,818)	—	—	—
Outstanding at May 8, 2013	917,602	$ 5.20	4.9	$ 2,201
Exercisable at May 8, 2013	637,230	$ 5.30	4.3	$ 1,540

The intrinsic value for stock options is defined as the difference between the current market value, or closing price on May 8, 2013, 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 three quarters ended May 8, 2013 is presented in the following table:

	Restricted Stock Units	Weighted Average Fair Value *(Per share)*	Weighted-Average Remaining Contractual Term *(In years)*
Unvested at August 29, 2012	163,946	$ 4.83	1.8

Granted	274,290	6.17	—
Vested	(14,000)	3.46	—
Unvested at May 8, 2013	424,236	$ 5.74	2.4

At May 8, 2013, there was approximately $1.7 million of total unrecognized compensation cost related to unvested restricted stock units that is expected to be recognized over a weighted-average period of 2.4 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. Directors may opt to receive 20% more shares of restricted stock awards by accepting more than the minimum required stock instead of cash. 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.

Note 12. 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 three quarters ended May 8, 2013 include approximately 67,000 shares with exercise prices exceeding market prices and approximately 25,000 shares whose inclusion would also be antidilutive.

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

	Quarter Ended		Three Quarters Ended	
	May 8, 2013 *(12 weeks)*	**May 9, 2012** *(12 weeks)*	**May 8, 2013** *(36 weeks)*	**May 9, 2012** *(36 weeks)*
	(In thousands except per share data)			
Numerator:				
Income from continuing operations	$2,611	$2,500	$3,431	$4,427
Loss from discontinued operations	(118)	(77)	(605)	(713)
Net income	$2,493	$2,423	$2,826	$3,714
Denominator:				
Denominator for basic earnings per share – weighted-average shares	28,698	28,377	28,566	28,344
Effect of potentially dilutive securities:				
Employee and non-employee stock options	254	68	220	52
Denominator for earnings per share assuming dilution	28,952	28,445	28,786	28,396
Income per share from continuing operations:				
Basic	$0.09	$0.09	$0.12	$0.16
Assuming dilution	$0.09	$0.09	$0.12	$0.16
Loss per share from discontinued operations:				
Basic	$—	$—	$(0.02)	$(0.03)
Assuming dilution	$—	$—	$(0.02)	$(0.03)
Net income per share:				
Basic	$0.09	$0.09	$0.10	$0.13
Assuming dilution	$0.09	$0.09	$0.10	$0.13

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and footnotes for the period ended May 8, 2013 included in Item1 of Part I of this Quarterly Report on Form 10-Q, and the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended August 29, 2012.

The following presents an analysis of the results and financial condition of our continuing operations. Except where indicated otherwise, the results of discontinued operations are excluded from this discussion.

Overview

Luby's, Inc. is a multi-branded company operating in the restaurant industry and the contract food services industry. Our primary brands include Luby's Cafeteria, Fuddruckers, Cheeseburger in Paradise and Luby's Culinary Contract Services. Also included in our brands are Luby's, Etc. and Koo Koo Roo Chicken Bistro ("Koo Koo Roo"). We purchased substantially all of the assets of Fuddruckers, Inc., Magic Brands, LLC and certain of their affiliates (collectively known as, "Fuddruckers") in July 2010. We purchased all of the Membership Units of Paradise Restaurant Group, LLC and certain of their affiliates (collectively known as, "Cheeseburger in Paradise") effective December 5, 2012.

As of May 8, 2013, we owned and operated 182 restaurants, of which 93 are traditional cafeterias, 63 are gourmet hamburger restaurants, 23 are casual dining restaurants and bar, two are upscale fast serve chicken restaurants, and one primarily serves seafood. These establishments are located in close proximity to retail centers, business developments and residential areas mostly throughout the United States.

Also as of May 8, 2013, we operated 19 Culinary Contract Service facilities. These facilities service healthcare, higher education and corporate dining clients in Texas and Louisiana. 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, business and industry clients and higher education institutions.

Also as of May 8, 2013, we are a franchisor for a network of 117 franchised Fuddruckers restaurants. The owners of these franchise units pay royalty revenue to us as a franchisor.

Accounting Periods

Our fiscal year ends on the last Wednesday in August. As such, each fiscal year normally consists of 13 four-week periods, or accounting periods, accounting for 364 days in the aggregate. Each of the first three quarters of each fiscal year consists of three four-week periods, while the fourth quarter normally consists of four four-week periods. Comparability between quarters may be affected by varying lengths of the quarters, as well as the seasonality associated with the restaurant business.

Same-Store Sales

The restaurant business is highly competitive with respect to food quality, concept, location, price, and service, all of which may have an effect on same-store sales. Our same-store sales calculation measures the relative performance of a certain group of restaurants. To qualify for inclusion in this group, a store must have been in operation for 18 consecutive accounting periods. Our Fuddruckers units were included in this measurement beginning with the third fiscal quarter ended May 9, 2012. Stores that close on a permanent basis are removed from the group in the fiscal quarter when operations cease at the restaurant, but remain in the same-store group for previously reported fiscal quarters. Although management believes this approach leads to more effective year-over-year comparisons, neither the time frame nor the exact practice may be similar to those used by other restaurant companies.

RESULTS OF OPERATIONS

For the Third Quarter and Year-to-Date Fiscal Year 2013 versus the Third Quarter and Year-to-Date Fiscal Year 2012

Sales

Total sales increased approximately $13.3 million, or 15.9%, in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012, consisting primarily of a $13.7 million increase in restaurant sales, offset by a $0.2 million decrease in Culinary Contract Sales and a $0.1 million decrease in franchise revenue. The other component of total sales is vending revenue.

Total sales increased approximately $21.5 million, or 8.9%, in the three quarters ended May 8, 2013 compared to the three quarters ended May 9, 2012, consisting primarily of a $23.2 million increase in restaurant sales, offset by a $1.5 million decrease in Culinary Contract Sales and a $0.1 million decrease in franchise revenue. The other component of total sales is vending revenue.

The company operates with three reportable operating segments: Company-owned restaurants, franchise operations, and Culinary Contract Services.

Company-Owned Restaurants

Restaurant Sales

Restaurant sales increased $13.7 million in the quarter ended May 8, 2013, compared to the quarter ended May 9, 2012. The increase in restaurant sales included an $11.4 million increase due to the acquisition of 23 Cheeseburger in Paradise-branded stores, a $1.4 million increase in sales from Fuddruckers and Koo Koo Roo-branded restaurants and a $0.8 million increase in sales at Luby's Cafeteria-branded restaurants. In addition, nine new stores added over the last 18 accounting periods and thus not yet in our same store groupings, added another $3.1 million. Three units that have closed since last year deducted $0.8 million from restaurant sales and the modest decline in same store sales deducted another $0.1 million. On a same–store basis, restaurant sales decreased 0.1%. At our Luby's Cafeteria restaurants, declines in guest traffic of 1.1% were partially offset by increases in the per person average spend. At our Fuddruckers restaurants, increases in the per person average spend were offset by decline in guest traffic of 2.1%. The increase in per person average spend was a result of altering the mix of menu items offered and selected by our customers and by motivating the purchase of additional items on the customer ticket.

Restaurant sales increased $23.2 million in the three quarters ended May 8, 2013, compared to the three quarters ended May 9, 2012. The increase in restaurant sales included a $19.2 million increase due to the acquisition of 23 Cheeseburger in Paradise-branded stores, $1.2 million increase in sales at Luby's Cafeteria-branded restaurants and a $2.8 million increase in sales from Fuddruckers and Koo Koo Roo-branded restaurants. On a same-store basis, restaurant sales decreased 0.2%. The decrease in same-store sales was due primarily by declines in guest traffic partially offset by increases in the per person average spend. The increase in per person average spend was a result of altering the mix of menu items offered and selected by our customers and by motivating the purchase of additional items on the customer ticket.

Cost of Food

Food costs increased approximately $4.8 million, or 22.7%, in the quarter ended May 8, 2013, compared to the quarter ended May 9, 2012 due primarily to the addition of 23 Cheeseburger in Paradise-branded stores. Food commodity prices for our basket of food commodity purchases were higher by approximately 6% for our Luby's Cafeteria-branded restaurants offset by a decrease in food commodity prices for our basket of food commodity purchases at our Fuddruckers-branded restaurants of approximately 1%. The higher food commodity costs at the Luby's cafeteria-branded restaurants were impacted by increases ranging from 6% to 9% in seafood, cheese, eggs, and fresh produce. Poultry commodity costs increased over 10%. As a percentage of restaurant sales, food cost increased 1.2 % to 28.6% in the quarter ended May 8, 2013, compared to the quarter ended May 9, 2012. Removing the impact of Cheeseburger in Paradise, food costs as a percent of sales were 28.2% for the quarter ended May 8, 2013.

Food costs increased approximately $8.2 million, or 13.1%, in the three quarters ended May 8, 2013, compared to the three quarters ended May 9, 2012, due primarily to the addition of 23 Cheeseburger in Paradise-branded stores.For the three quarters ended May 8, 2013, food commodity prices for our basket of food commodity purchases were higher due to a 3% increase for our Luby's Cafeteria-branded restaurants partially offset by a 1% decrease for our Fuddruckers-branded restaurants. As a percentage of restaurant sales, food cost increased, 0.7% to 28.6% in the three quarters ended May 8, 2013. Removing the impact of Cheeseburger in Paradise, food costs as a percentage of sales were 28.4% in the three quarters ended May 8, 2013.

Payroll and Related Costs

Payroll and related costs increased approximately $4.6 million in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012. Hourly labor costs increased $3.3 million primarily due to the addition of new restaurants including 23 Cheeseburger in Paradise-branded stores, 8 Fuddruckers restaurants, and one Luby's Cafeteria. Restaurant management labor costs increased $1.2 million in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012, primarily due to the addition of new restaurants including 23 Cheeseburger in Paradise-branded stores, 8 Fuddruckers restaurants, and one Luby's Cafeteria. As a percentage of restaurant sales, payroll and related costs increased, 0.1%, to 33.1% in the quarter ended May 8, 2013, compared to 33.0% in the quarter ended May 9, 2012, primarily due to the acquisition of Cheeseburger in Paradise-branded stores and the typically higher initial labor costs associated with new restaurant openings offset by improvements in labor costs at existing restaurants. Excluding Cheeseburger in Paradise, payroll and related costs were 32.6% in the quarter ended May 8, 2013.

Payroll and related costs increased approximately $8.4 million in the three quarters ended May 8, 2013, compared to the three quarters ended May 9, 2012. Hourly labor costs increased $6.3 million primarily due to the addition of new restaurants including 23 Cheeseburger in Paradise-branded stores, 8 Fuddruckers restaurants, and one cafeteria. Restaurant management labor costs increased $2.2 million in the three quarters ended May 8, 2013 compared to the three quarters ended May 9, 2012, primarily due to the addition of new restaurants including 23 Cheeseburger in Paradise-branded stores, 8 Fuddruckers restaurants, and one cafeteria. As a percentage of restaurant sales, payroll and related costs increased, 0.3%, to 34.2% in the three quarters ended May 8, 2013, compared to 33.9% in the three quarters ended May 9, 2012, primarily due to the acquisition of Cheeseburger in Paradise-branded stores and the typically higher initial labor costs associated with new restaurant openings offset by improvements in labor costs at existing restaurants. Excluding the impact of Cheeseburger in Paradise, payroll and related costs were 33.9% in the three quarters ended May 8, 2013 and in the three quarters ended May 9, 2012

Other Operating Expenses

Other operating expenses primarily include restaurant-related expenses for utilities, repairs and maintenance, advertising, insurance, services, supplies and occupancy costs. Other operating expenses increased by approximately $4.2 million, or 23.9%, in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012, primarily due to a $3.4 million increase from the addition of 23 Cheeseburger in Paradise-branded stores. Other operating expenses at our Luby’s Cafeteria and Fuddruckers brand restaurants increased $0.8 million due to (1) an approximate $0.2 million increase in utilities; (2) an approximate $0.3 million increase in restaurant supply and services expense; (3) a $0.2 million increase in repairs and maintenance, including the impact of repair costs to restore one Fuddruckers unit that suffered a casualty loss in the quarter; (4) a $0.3 million increase in marketing and advertising due to increased billboard advertising, direct mail programs, and enhance point-of-purchase advertising; offset by (5) a $0.2 million reduction in insurance and occupancy costs, benefitting in part from a decrease in our estimated general liability cost. Utilities and restaurant supplies and services increased in part due to the addition of eight Fuddruckers and one cafeteria that opened over the prior one year ended May 8, 2013. As a percentage of restaurant sales, other operating expenses increased 1.2%, to 23.5%, in the quarter ended May 8, 2013 compared to 22.3% in the quarter ended May 9, 2012, due to (1) the cost increases, partially offset by the costs decreases, enumerated above; and (2) the typically higher initial operating costs associated with new restaurant openings. Excluding the impact of Cheeseburger in Paradise, other operating expenses costs as a percentage of sales were 22.6%, in the quarter ended May 8, 2013.

Other operating expenses increased by approximately $7.9 million, or 15.5%, in the three quarters ended May 8, 2013 compared to the three quarters ended May 9, 2012, primarily due to a $5.8 million increase from the addition of 23 Cheeseburger in Paradise-branded stores. Other operating expenses at our Luby’s Cafeteria and Fuddruckers branded restaurants increased $2.1 million including; (1) an approximate $0.6 million increase in utilities; (2) an approximate $0.7 million increase in restaurant services, including higher credit card interchange fees, higher beverage dispensing costs, and higher software licensing costs (3) an approximate $0.4 million increase in restaurant supplies; (4) an approximate $0.6 million increase in marketing expenses; partially offset by (5) an approximate $0.2 million reduction in repairs and maintenance expenses. As a percentage of restaurant sales, other operating expenses increased 1.1%, to 23.8%, in the three quarters ended May 8, 2013 compared to 22.7% in the three quarter ended May 9, 2012, due to (1) the cost increases, partially offset by the reduction in repairs and maintenance expense listed above; and (2) the typically higher initial operating costs associated with new restaurant openings. Excluding the impact of Cheeseburger in Paradise, other operating expenses costs as a percentage of sales were 23.3% in the quarter ended May 8, 2013

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. Franchise revenue includes (1) royalties paid to us as the franchisor for the Fuddruckers brand; (2) franchise fees paid to us when franchise units are opened for business or transferred to new owners. Franchise revenue decreased $63 thousand in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012. The $63 thousand decrease in franchise revenue includes a $13 thousand decrease in franchise royalties and a $50 thousand decrease in non-royalty related fee income.

Franchise revenue decreased $136 thousand for the three quarters ended May 8, 2013 compared to the three quarters ended May 9, 2012. The $136 thousand decrease in franchise revenue includes a $11 thousand decrease in franchise royalties and a $125 thousand decrease in non-royalty related fee income. At the quarter ended May 9, 2012, there were 124 Fuddruckers franchise units in the system. Over the prior one year period ended May 8, 2013, our franchisees have opened 2 units and there were seven franchise units that closed on a permanent basis and two units that transferred to us as the franchisor to operate as company-operated units. As such, at the quarter ended May 8, 2013, there were 117 Fuddruckers franchise units in the system.

Culinary Contract Services

Culinary Contract Services is 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. This business line operated 19 client locations at the quarter ended May 8, 2013 and 18 at the quarter ended May 9, 2012. In fiscal year 2012, we refined our operating model by concentrating on clients able to enter into agreements where all operating costs are reimbursed to us and we generally charge a fixed fee. These agreements typically present lower financial risk to the company.

Culinary Contract Services Revenue

Culinary Contract Services revenue decreased $0.2 million, or 5.5% in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012. The decrease in revenue was primarily due to ceasing operations at one high volume location and a change in the mix of locations where we operate.

Culinary Contract Services revenue decreased $1.5 million, or 11.2% in the three quarters ended May 8, 2013 compared to the three quarters ended May 9, 2012.The decrease in revenue was primarily due to operations ceasing at one high volume location and a change in the mix of locations where we operate.

Cost of Culinary Contract Services

Cost of Culinary Contract Services includes the food, payroll and related costs, and other direct operating expenses associated with generating culinary contract sales. Cost of Culinary Contract Services decreased approximately $0.4 million, or 10.2%, in the quarter ended May 8, 2013 compared to the quarter ended May 9, 2012, due to a decrease in culinary contract sales volume and a shift toward a greater portion of contracts where we operate for a generally fixed fee. We expanded our profit margin in this business segment to 12.8% of culinary contract services revenue in the quarter ended May 8, 2013 from 8.2% on the quarter ended May 9, 2012.

Cost of Culinary Contract Services decreased approximately $1.8 million, or 15.1%, in the three quarters ended May 8, 2013 compared to the three quarters ended May 9, 2012, due to a commensurate decrease in culinary contract sales volume and a shift toward a greater portion of contracts where we operate for a generally fixed fee. We expanded our profit margin in this business segment to 10.6% of culinary contract services revenue in the three quarters ended May 8, 2013 from 6.5% on the three quarters ended May 9, 2012. Profit margin in our culinary contract services business expanded in dollar terms and as a percent of culinary contract sales as we have executed on our refined operating model of concentrating on clients able to enter into agreements where all operating costs are reimbursed to us and we generally charge a fixed fee.

Company-wide Expenses

Opening Costs

Opening costs include labor, supplies, occupancy, and other costs necessary to support the restaurant through its opening period. Opening costs were approximately $39 thousand in the quarter ended May 8, 2013 compared to approximately $33 thousand in the quarter ended May 9, 2012. The quarter ended May 8, 2013 and the quarter ended May 9, 2012 included carrying costs of locations to be developed for future restaurant openings. The opening cost in the quarter ended May 8, 2013 also included the residual opening costs for one restaurant opened prior to the quarter ended May 8, 2013.

Opening costs were approximately $0.5 million in the three quarters ended May 8, 2013, compared to approximately $0.1 million in the three quarters ended May 9, 2012.The three quarters ended May 8, 2013 and the three quarters ended May 9, 2012, included carrying costs of locations to be developed for future restaurant openings. The three quarters ended May 8, 2013, also included the labor, supplies, and other costs necessary to support the opening of one Luby's Cafeteria and five Fuddruckers restaurants. Three of these restaurants were previously operated by franchise owners.

Depreciation and Amortization

Depreciation and amortization expense decreased by approximately $0.1 million, or 2.2%, in the quarter ended May 8, 2013, compared to the quarter ended May 9, 2012, due to certain assets reaching the end of their depreciable lives, offset by the addition of depreciation related to Cheeseburger in Paradise assets, and new capital expenditures for new construction and remodel activity.

Depreciation and amortization expense increased by approximately $0.1 million, or 1.0% in the three quarters ended May 8, 2013, compared to the three quarters ended May 9, 2012, due to the addition of depreciation related to Cheeseburger in Paradise assets and new capital expenditures for new construction and remodel activity offset by certain assets reaching the end of their depreciable lives.

General and Administrative Expenses

General and administrative expenses include corporate salaries and benefits-related costs, including restaurant area leaders, share-based compensation, professional fees, travel and recruiting expenses and other office expenses. General and administrative expenses were $7.2 million in the quarter ended May 8, 2013 and in the quarter ended May 9, 2012. Lower salary, benefits, and incentive expenses were offset by incremental salary and benefits expense related to the operation of Cheeseburger in Paradise. As a percentage of total revenue, general and administrative expenses decreased to 7.4% in the quarter ended May 8, 2013, compared to 8.6% in the quarter ended May 9, 2012.

General and administrative expenses increased by approximately $1.5 million, or 7.2%, in the three quarters ended May 8, 2013, compared to the three quarters ended May 9, 2012. The increase was primarily due to (1) integration costs of $0.4 million related to the acquisition of Cheeseburger in Paradise; (2) an increase of $0.4 million in professional fees, corporate travel expense, and supplies, (3) a $0.4 million increase in salary benefits and incentives expenses, and (4) a non-recurring receipt of $0.3 million settlement in our favor from a class action suit related to credit card interchange fees that was recorded in the quarter ended November 23, 2011. As a percentage of total revenue, general and administrative expenses decreased to 8.4% in the three quarters ended May 8, 2013, compared to 8.5% in the three quarters ended May 9, 2012.

Provision for asset impairments, net

The asset impairment of $113 thousand in the quarter ended May 8, 2013, is related to one operating Fuddruckers restaurant at a leased location.

The asset impairment of $203 thousand in the three quarters ended May 8, 2013, is related to one operating Fuddruckers restaurant at a leased location and an operating Koo Koo Roo restaurant at a leased location.

An impairment charge of $175 thousand for the three quarters ended May 9, 2012, was related to one Culinary Contract Services location.

Net Loss (Gain) on Disposition of Property and Equipment

The loss or gain on disposition of property and equipment was a loss of approximately $0.1 million in the quarter ended May 8, 2013, and related to the retirement of assets at one location that reached the end of its lease and the normal asset retirement activity in our restaurant units. The loss or gain on disposition of property and equipment was a loss of approximately $0.1 million in the quarter ended May 9, 2012, and related to the retirement of assets at one location that reached the end of its lease and the normal asset retirement activity in our restaurant units

The net gain on dispositions of property and equipment for the three quarters ended May 8, 2013 of approximately $1.4 million related primarily to proceeds from the eminent domain disposition part of a parking lot at a Luby's Cafeteria location and the gain on disposal at a Koo Koo Roo leased location, offset by normal asset retirement activity.The loss of approximately $0.2 million in the three quarters ended May 8, 2013 related primarily to normal asset retirement activity.

Interest Income

Interest income was $2 thousand in the quarter ended May 8, 2013, compared to $3 thousand in the quarter ended May 9, 2012.

Interest income was $6 thousand in the three quarters ended May 8, 2013 and $6 thousand in the three quarters ended May 9, 2012.

Interest Expense

Interest expense in the quarter ended May 8, 2013 was $0.2 million in the quarter and $0.2 million in the quarter ended May 9, 2012 due to similar debt balances and interest rates.

Interest expense in the three quarters ended May 8, 2013 decreased approximately $0.1 million compared to the three quarters ended May 9, 2012, due to lower average debt balances.

Other Income, Net

Other income, net consisted primarily of the following components: net rental property income and expenses relating to property for which we are the landlord; prepaid sales tax discounts earned through our participation in state tax prepayment programs; and oil and gas royalty income. Other income, net in the quarter ended May 8, 2013 decreased approximately $22 thousand compared to the quarter ended May 9, 2012 related to lower net rental property income.

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Other income, net in the three quarters ended May 8, 2013 increased approximately $121 thousand compared to the quarter ended May 9, 2012. The increase was primarily due to higher net rental income on properties that we lease to third parties.

Taxes

For the quarter ended May 8, 2013, the income taxes related to continuing operations resulted in a tax provision of $1.5 million compared to a tax provision of $1.5 million for the quarter ended May 9, 2012.

For the three quarters ended May 8, 2013, the income taxes related to continuing operations resulted in a tax provision of $2.1 million compared to a tax provision of $2.5 million for the three quarters ended May 9, 2012.

Discontinued Operations

The loss from discontinued operations was $0.1 million in the quarter ended May 8, 2013 compared to a loss of $0.1 million in the quarter ended May 9, 2012.The loss from discontinued operations of $0.1 million in the quarter ended May 8, 2013 included $0.2 million in carrying costs associated with assets related to discontinued operations offset by an income tax benefit of $0.1 million. The loss of $0.1 million from discontinued operations in the quarter ended May 9, 2012 included $0.2 million in carrying costs associated with assets related to discontinued operations offset by an income tax benefit of $0.1 million.

The loss from discontinued operations was $0.6 million in the three quarters ended May 8, 2013 compared to a loss of $0.7 million in the three quarters ended May 9, 2012. The loss of $0.6 million for the three quarters ended May 8, 2013 included (1) $0.4 million loss in carrying costs associated with assets that are classified as discontinued operations assets; (2) a $0.5 million impairment charge for assets that are classified as discontinued operations assets; (3) offset by $0.3 million income tax benefit. The loss of $0.7 million in the three quarters ended May 9, 2012 included (1) $0.6 million in carrying costs associated with assets that are classified as discontinued operations assets; (2) a $0.5 million impairment charge for assets that are classified as discontinued operations assets; (3) a net loss of $0.5 million on disposition of assets that we classified as discontinues assets; and (4) $0.9 million income tax benefit related to discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

General. Our primary sources of short-term and long-term liquidity are cash flows from operations and our revolving credit facility. During the three quarters ended May 8, 2013, cash provided by operating activities was $16.7 million and by financing activities was $6.7 million offset by cash used in investing activities of $23.1 million. Cash and cash equivalents increased $0.4 million in the first three quarters of fiscal year 2013 compared to $0.1 increase in the first three quarters of fiscal year 2012. We plan to continue the level of capital and repair and maintenance expenditures necessary to keep our restaurants attractive and operating efficiently.

Our cash requirements consist principally of:

- payments to purchase Cheeseburger in Paradise;
- capital expenditures for construction, restaurant renovations, purchase of property for development of our restaurant brands and for use as rental property and upgrades and information technology; and
- working capital primarily for our Company-owned restaurants and CCS agreements.

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

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

	Three Quarters ended	
	May 8,	**May 9,**
	2013 *(36 weeks)*	**2012** *(36 weeks)*
	(In thousands)	
Total cash provided by (used in):		
Operating activities	$16,715	$20,714
Investing activities	(23,066)	(13,657)
Financing activities	6,749	(7,001)
Net increase in cash and cash equivalents	$398	$56

Operating Activities. Cash flow from operating activities was $16.7 million in the first three quarters of fiscal year 2013, a $4.0 million decrease from the first three quarters of fiscal year 2012. The $4.0 million decrease in cash is due to a $2.6 million decrease in cash from operations before changes in operating assets and liabilities plus a $1.4 million decrease in cash generated by changes in operating assets and liabilities for the three quarters ended May 8, 2013 and May 9, 2012.

Cash generated by operating activities before changes in operating assets and liabilities was $16.9 million in the first three quarters of fiscal year 2013, a $2.6 million decrease compared to the first three quarters of fiscal year 2012. The $2.6 million decrease in cash provided by operating activities before changes in operating assets and liabilities was due to less cash generated by segment level profit of $1.4 million for company-owned restaurants and $0.1 million for franchising and $0.4 million increase in cash used for opening costs and $1.1 million increase in cash used in general and administrative activities for legal and professional, payroll and related costs and director fees offset by a $0.4 million increase in cash provided by culinary contract services.

Changes in operating assets and liabilities was a $0.2 million use of cash in the first three quarters of fiscal year 2013 and a $1.2 million source of cash in the first three quarters of fiscal year 2012. The $1.4 million decrease in the source of cash was due to differences in the change in asset and liability balances during the three quarters ended May 8, 2013 and May 9, 2012. Increases in current asset accounts are a source of cash while decreases in current asset accounts are a use of cash. During the three quarters ended May 8, 2013, the change in trade accounts and other receivables was a $0.8 million source of cash which was $0.3 million less than the three quarters ended May 9, 2012. The change in inventory during the three quarters ended May 8, 2013 was a $0.8 million use of cash which was a $0.1 million decrease from the three quarters ended May 9, 2012. The change in prepaid expenses and other assets was a $0.7 million source of cash during the three quarters ended May 8, 2013, which was $0.7 million more than the three quarters ended May 9, 2012.

Increase in current liability accounts are a source of cash, while decreases in current liability accounts are a use of cash. During the three quarters ended May 8, 2013, changes in the balances of accounts payable, accrued expenses and other liabilities was a $1.0 million use of cash, compared to a source of cash of $1.0 million during the three quarters ended May 9, 2012.

Investing Activities. We generally reinvest available cash flows from operations to develop new restaurants, enhance existing restaurants and to support culinary contract services. Cash used by investing activities was $23.1 million in the three quarters ended May 8, 2013 and $13.7 million in the three quarters ended May 9, 2012. Capital expenditures were $17.1 million in the three quarters ended May 8, 2013, a $1.0 million increase compared to the three quarters ended May 9, 2012. Proceeds from the disposal of assets was $4.2 million in the first three quarters of fiscal year 2013 and $2.6 million in the first three quarters of fiscal year 2012. Cash used for acquisitions was $10.3 million in the three quarters ended May 8, 2013 and zero in the three quarters ended May 9, 2012.

Financing Activities. Cash provided by financing activities was $6.7 million in the three quarters ended May 8, 2013 compared to a $7.0 million use of cash during the three quarters ended May 9, 2012. Cash flows from financing activities is primarily the result of borrows and repayments related to the credit facility. During the three quarters ended May 8, 2013, borrowings exceeded repayments by $6.5 million and proceeds from stock options exercised were $0.2 million. During the three quarters ended May 9, 2012, repayments of the credit facility exceeded borrowings by $7.0 million.

Status of Long-Term Investments and Liquidity

At May 8, 2013, 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 uncollectable accounts, as appropriate. Credit terms of accounts receivable associated with our CCS business vary from 30 to 45 days based on contract terms.

Working Capital

Current assets increased $0.9 million in the first three quarters of fiscal year 2013 compared to a decrease of $0.4 million in the first three quarters of fiscal year 2012. In the first three quarters of fiscal year 2013, cash increased $0.4 million and food and supply inventory increased $1.3 million; partially offset by decreases in trade accounts and other receivables of $0.7 million and prepaid expenses of $0.1 million. In the first three quarters of fiscal year 2012, food inventories increased $0.9 million while prepaid expenses decreased $0.2 million and trade accounts and other receivable decreased $1.1 million.

Current liabilities increased $1.9 million in the first three quarters of fiscal year 2013 compared to no decrease in the first three quarters of fiscal year 2012. In the first three quarters of fiscal year 2013, accounts payables increased $1.6 million and accrued expenses and other liabilities increased $0.3 million. In the first three quarters of fiscal year 2012 accounts payables increased $0.2 million and accrued expenses and other liabilities decreased $0.1 million.

Capital Expenditures

Capital expenditures consist of purchases of real estate for future restaurant sites, culinary contract services investments, new unit construction, purchases of new and replacement restaurant furniture and equipment, and ongoing remodeling programs. Capital expenditures for the first three quarters of fiscal year 2013 were approximately $17.1 million and related to recurring maintenance of our existing units, improvement of our culinary contract services business and the development of future restaurant sites. We expect to be able to fund all capital expenditures in fiscal year 2013 using proceeds from the sale of assets, cash flows from operations and our available credit. We expect to spend approximately $25.0 million to $30.0 million on capital expenditures in fiscal year 2013.

DEBT

Revolving Credit Facility

In November 2009, we entered into a revolving credit facility with Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The following description summarizes the material terms of the revolving credit facility, as subsequently amended as of January 31, 2010, July 26, 2010, September 30, 2010, October 31, 2010, August 25, 2011, October 20, 2011 and February 14, 2013 (the revolving credit facility, together with all amendments thereto, is referred to as the "2009 Credit Facility"). The 2009 Credit Facility is governed by the Credit Agreement dated as of November 9, 2009 (as amended to date, the "Credit Agreement") among us, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as Administrative Agent, and Amegy Bank, National Association, as Syndication Agent. The maturity date of the 2009 Credit Facility is September 1, 2014. We expect to enter into an extension of the 2009 Credit Agreement prior to the end of our fiscal year which will extend its maturity among other items.

The aggregate amount of the lenders' commitments under the 2009 Credit Facility was $50.0 million as of May 8, 2013. The 2009 Credit Facility also provides for the issuance of letters of credit in a maximum aggregate amount of $15.0 million outstanding at any one time. At May 8, 2013, $29.5 million was available under the 2009 Credit Facility.

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

At any time throughout the term of the 2009 Credit Facility, we have the option to elect one of two bases of interest rates. One interest rate option is the greater of (a) the Federal Funds Effective Rate plus 0.50%, or (b) prime, plus, in either case, an applicable spread that ranges from 1.00% to 2.00% per annum. The other interest rate option is the London InterBank Offered Rate plus a spread that ranges from 2.75% to 3.75% per annum. The applicable spread under each option is dependent upon the ratio of our debt to EBITDA at the most recent determination date. We are obligated to pay to the Administrative Agent for the account of each lender a quarterly commitment fee based on the average daily unused amount of the commitment of such lender, ranging from 0.30% to 0.40%per annum depending on our Total Leverage Ratio (as defined in the Credit Agreement) at the most recent determination date.

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

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

The 2009 Credit Facility is secured by a perfected first priority lien on certain of our real property and all of the material personal property owned by us or any of our subsidiaries, other than certain excluded assets (as defined in the Credit Agreement). At May 8, 2013, the carrying value of the collateral securing the 2009 Credit Facility was $86.7 million.

The Credit Agreement contains the following covenants, among others:

- maintenance of a ratio of (a)EBITDA for the four fiscal quarters ending on the last day of any fiscal quarter to (b)the sum of (x)interest expense (as defined in the Credit Agreement) for such four fiscal-quarter-period plus (y)the outstanding principal balance of the loans as of the last day of such fiscal quarter divided by seven (the “Debt Service Coverage Ratio), of not less than (1) 2.00 to 1.00, beginning with the end of the fourth quarter of fiscal 2011 and ending with the first quarter of fiscal 2012, (2) 2.25 to 1.00 beginning with the end of the second quarter of fiscal 2012 and ending with the first quarter of fiscal 2013, and (3)2.50 to 1.00 beginning with the end of second quarter of fiscal 2013 and thereafter,
- maintenance of minimum Tangible Net Worth (as defined in the Credit Amendment) of not less than (1) $126.7 million as of the last day of the third fiscal quarter of fiscal 2011 and (2) increasing incrementally thereafter, as of the last day of each subsequent fiscal quarter, by an amount equal to 60% of our consolidated net income (if positive) for the fiscal quarter ending on such date,
- maintenance of minimum net profit of $1.00 (1) for at least one of the first three fiscal quarters of our 2012 fiscal year, (2) for at least one of any two consecutive fiscal quarters beginning with the fourth fiscal quarter of our 2012 fiscal year, and (3) for any period of four consecutive fiscal quarters beginning with the four consecutive fiscal quarters ending with the fourth quarter of our 2011 fiscal year,
- restrictions on incurring indebtedness, including certain guarantees and capital lease obligations,
- restrictions on incurring liens on certain of our property and the property of our subsidiaries,
- restrictions on transactions with affiliates and materially changing our business,
- restrictions on making certain investments, loans, advances and guarantees,
- restrictions on selling assets outside the ordinary course of business,

- prohibitions on entering into sale and leaseback transactions,
- limiting Capital Expenditures (as defined in the Credit Agreement) to $15.0 million for the fiscal year ended August 31, 2011, to $34.9 million for the fiscal year ended August 29, 2012, and for any subsequent fiscal year, the lesser of (a) $38.0 million or (b) the sum of (x) an amount equal to 130% of EBITDA for the immediately preceding fiscal year plus (y) any unused availability for capital expenditures from the immediately preceding fiscal year, and
- restrictions on certain acquisitions of all or a substantial portion of the assets, property and/or equity interests of any person.

We were in compliance with the covenants contained in the Credit Agreement as of May 8, 2013.

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

As of May 8, 2013, we had $19.5 million in outstanding loans and $1.0 million committed under letters of credit, which were issued as security for the payment of insurance obligations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Consolidated Financial Statements included in Item1 of Part 1 of this report were prepared in conformity with U.S. generally accepted accounting principles. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. 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. Management believes the following are critical accounting policies used in the preparation of these financial statements.

Income Taxes

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

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

Management evaluates both positive and negative evidence, including its forecasts of our future taxable income adjusted by varying probability factors, in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will be realized. Based on its analysis, management concluded that a valuation allowance was not necessary.

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 audit in these jurisdictions as well as by the Internal Revenue Service. 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 reasonable and foreseeable outcomes related to uncertain tax matters. The Company is currently being audited by the State of Texas for franchise taxes and the State of Louisiana for income taxes and franchise taxes for report years 2008 through 2011 based on accounting years 2007 through 2010. There are no other audits or reviews at this time.

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 182 restaurants as of May 8, 2013 and periodically experience unanticipated changes in our assumptions and estimates. Those changes could have a significant impact on discounted cash flow models with a corresponding significant impact on the measurement of an impairment.

We believe we have two locations, with an aggregate net carrying value of assets held for use of $0.3 million, with respect to which it is possible that an impairment charge could be taken over the next 12 months.

We also evaluate the useful lives of our intangible assets, primarily the Fuddruckers trade name and franchise agreements and Cheeseburger in Paradise trade name and license agreement, 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.

Property Held for Sale

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

Insurance and Claims

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

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

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

Share-Based Compensation

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

NEW ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued ASU No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment.” This pronouncement was issued to simplify how entities test for impairment of indefinite-lived intangible assets. Under this pronouncement, an entity has the option first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. In conclusion of this assessment, if an entity finds that it is not more likely that not than an indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, is an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with ASC Topic 350, “Intangibles – Goodwill and Other.” This pronouncement is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The adoption of this pronouncement is not expected to have a material impact on the Company’s consolidated financial statements.

INFLATION

It is generally our policy is 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.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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-Q, 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, and expected repayment of debt, as well as our ability to refinance the existing credit facility or enter into a new credit facility on a timely basis,
- expected sources of funds for working capital requirements,
- plans for our new prototype restaurants,
- plans for expansion of our business,
- scheduled openings of new units,
- closing existing units,
- effectiveness of management’s Cash Flow Improvement and Capital Redeployment Plan,
- future sales of assets and the gains or losses that may be recognized as a result of any such sales, and
- continued compliance with the terms of our 2009 Credit Facility (as amended).

In some cases, investors can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “outlook,” “may” “should,” “will,” and “would” or similar words. Forward-looking statements on certain assumptions and analyses made by management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although management believes that our assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of our control. The following factors, as well as the factors set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 29, 2012 and any other cautionary language in this Form 10-Q, provide examples of risks, uncertainties, and events that may cause our financial and operational results to differ materially from the expectations described in our forward-looking statements:

- general business and economic conditions,

- the impact of competition,
- our operating initiatives, changes in promotional, couponing and advertising strategies and the success of management’s business plans,
- fluctuations in the costs of commodities, including beef, poultry, seafood, dairy, cheese, oils and produce,
- ability to raise menu prices and customer acceptance of changes in menu items,
- increases in utility costs, including the costs of natural gas and other energy supplies,
- changes in the availability and cost of labor, including the ability to attract qualified managers and team members,
- the seasonality of the business,
- collectability of accounts receivable,
- changes in governmental regulations, including changes in minimum wages and health care benefit regulation,
- 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 ability to effectively integrate and improve the profitability of the acquired 23 Cheeseburger in Paradise restaurants,
- the effectiveness of our credit card controls and 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-Q, 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-Q could have material adverse effect on our business, results of operations, cash flows and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates affecting our variable-rate debt. As of May 8, 2013, the total amount of debt subject to interest rate fluctuations outstanding under our 2009 Credit Facility was $19.5 million. Assuming an average debt balance of $19.5 million, a 1.0% increase in prevailing interest rates would increase our annual interest expense by $0.2 million.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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 May 8, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of May 8, 2013, 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 recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended May 8, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II—OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to our legal proceedings as disclosed in “Legal Proceedings” in Item 3 of Part I of our Annual Report on Form 10-K for the fiscal year ended August 29, 2012.

Item 1A. Risk Factors

There have been no material changes during the quarter ended May 8, 2013 to the Risk Factors discussed in Item1A of Part I of our Annual Report on Form 10-K for the fiscal year ended August 29, 2012 and in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarterly period ended February 13, 2013.

Item 6. Exhibits

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 and Accounting 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 and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

SIGNATURES

Pursuant to the requirements 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.

LUBY'S, INC.

(Registrant)

Date: June 17, 2013	By: /s/ Christopher J. Pappas Christopher J. Pappas President and Chief Executive Officer (Principal Executive Officer)
Date: June 17, 2013	By: /s/ K. Scott Gray K. Scott Gray Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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