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Pappas votes help Luby's survive second revolt by shareholders

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The Lu Ann Platter lives on.

Casual-dining icon Luby's Inc. this week survived a proxy assault from dissident shareholders who sought to oust four board members and make sweeping changes.

But it's not the first time Luby's has spent thousands of dollars to try to fend off a shareholder revolt.

In mid-2000, the Committee of Concerned Luby's Shareholders, an upstart group created on a Yahoo! Finance message board, began a grassroots cyberspace campaign to put pressure on then-CEO Barry Parker, who joined Luby's after running a clothing retailer that went into bankruptcy.

The committee then sought to nominate five independent directors and brought several other proposals to a vote at a raucous annual meeting in January 2001 in San Antonio -- Luby's headquarters location at the time -- packed with hundreds of angry, vocal shareholders.

By contrast, this week's meeting was relatively routine. Based on preliminary voting results, Luby's nominees Dr. Judith Craven, Arthur Emerson, Frank Markantonis and Gasper Mir, the board chairman, were re-elected at the Jan. 15 meeting.

Ramius Capital Group LLC, a New York hedge fund that controls about 7 percent of Luby's shares along with several affiliates, had nominated four other directors, arguing they would offer a more independent voice than the Luby's nominees.

Jeffrey Smith, a Ramius partner who attended the meeting, says that excluding the 24 percent of votes controlled by Luby's top executives, Chris and Harris Pappas, it appears that most of the voting shares backed the Ramius slate of nominees.

"We hope and expect that the board will enter 2008 with a reinvigorated sense of independence and oversight," Smith says. "It's clearly needed at Luby's."

Still, the vote appeared to be a mere formality. At the back of the room, about an hour before the results were announced, Luby's employees were already editing the wording on a press release declaring the directors' re-election.

The only unexpected turn was at the meeting's conclusion, when a pair of shareholders scolded management for letting food quality and restaurant cleanliness deteriorate.

Meanwhile, after years of trying, shareholder Harold Mathis was able to convince management to include a vote at the 2009 annual meeting to declassify the board, meaning that directors would no longer serve staggered terms.

Chris Pappas, Luby's president and CEO, and his brother, Harris, the company's chief operating officer, who together parachuted into the company in 2001 and succeeded in slashing rising debt by closing 50 restaurants and chopping operating expenses, say their plan to open four or five new locations during fiscal 2008 will put the company on a long-awaited path to growth.

Luby's estimates that, when the tab is added up, the company will have spent as much as $750,000 in the proxy battle waged over the past three months. Although he acknowledges the financial burden on shareholders, Chris Pappas says it was a necessary cost of doing business.

Les Greenberg, who spearheaded the shareholder revolt against Luby's in 2000, says that, although they lost the vote at the time, the committee's campaign of "cyberspace ridicule" delivered an important message to corporate America.

Former CEO Parker resigned in September that year amid a blur of negative blogging, although company officials at the time downplayed any link to the dissident shareholders' campaign. That paved the way for the eventual arrival of the Pappas brothers, who injected $10 million of their own money into the struggling company.

Greenberg believes current management also is not following its fiduciary duty, by overlapping business dealings between Luby's and their privately held Pappas Restaurants Inc. empire.

"Any way you look at it, it's improper," Greenberg says.

Tom Palmer, a current shareholder who was part of Greenberg's committee, agrees that Luby's could benefit from some truly independent board advice. Palmer voted for the entire Ramius slate of directors.

"(The Pappas brothers) know the business inside and out," says Palmer, president of Tyler-based Live Oak Management Inc. "All we hope is that they find a way to have that success filter all the way down to shareholders."

gbarr@bizjournals.com, 713-395-9628