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Luby's Defeats Proxy Fight By Web-Connected Group

By Aaron Elstein
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SAN ANTONIO, Texas -- A California attorney who used the Internet to mount a proxy fight against Luby's Inc. failed Friday to put his alternative slate of directors on the cafeteria chain's board.

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Mr. Greenberg's group got farther than most dissatisfied shareholders by managing to file documents with the Securities and Exchange Commission to gain support for his nominees. And hundreds of his supporters packed a San Antonio hotel room for the contentious and boisterous annual meeting.

"The board obviously hasn't done a good job, and anyone who is presenting alternatives, I would give a listen to," said Aubrey Smith of Austin. He said he voted his 30,000 shares in favor of Mr. Greenberg's slate.

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While Luby's current board has come in for some sharp criticism, that the Greenberg-led uprising was defeated isn't surprising. Few proxy contests succeed, and Mr. Greenberg's dissident group collectively owned less than 0.3% of the company's stock.

Moreover, the group apparently was unable to win the support of institutional investors, whose votes usually are vital to win proxy contests.

Institutional Shareholder Services, a Rockville, Md., firm that recommends how investors vote in proxy contests, didn't support Mr. Greenberg's slate, citing its lack of a stake in the company.

Mr. Greenberg's grassroots fight all began on a Yahoo! message board, where he started posting messages last summer criticizing Luby's management. "I put out a message saying, 'Enough of this complaining, I'm going to try for the board. Is anyone with me?' "

Two people responded to Mr. Greenberg's request for action. They were Thomas C. Palmer, a Tyler, Texas, investment manager, and Elisse Jones Freeman, a daughter of a company founder.

From there, Mr. Greenberg proceeded through official SEC channels to mount a campaign to put himself, Mr. Palmer and Ms. Jones Freeman on the board.

But successful battles for corporate control usually are led by investment pros with large ownership stakes, according to corporate governance experts. ...

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While proxy contests can cost upwards of \$200,00 because of all the legal costs, postage, and other expenses, Mr. Greenberg says his effort cost just \$15,000, in large part because he himself drafted the required legal documents. Mr. Greenberg is a part-time arbitrator for the National Association of Securities Dealers.

Mr. Greenberg and his wife, Paulette, sought to further defray costs by holding "stuffing parties" at their home, where friends helped them fill envelopes with ballots and materials seeking investors to support.

Originally, the group envisioned nominating five people to Luby's 12-member board and sought financial backing from L.L. Dave Davis, a rancher from Pipe Creek, Texas. But Mr. Davis, owner of 100,000 shares who says he is "furious" with Luby's management, withdrew his support just before the group filed its definitive solicitation materials with the SEC.

"I knew the group didn't have a chance," Mr. Davis says.

Still, Mr. Davis didn't waste the opportunity vastly to grab a microphone, during the meeting's final moments, and start berating the board for their lack of an ownership stake in Luby's. The board collectively owns 6.2% of the company's stock. But suddenly as Mr. Davis spoke, Mr. Daviss, the chairman, ordered his microphone turned off, saying, "This meeting is over."

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Luby's appears to have taken Mr. Greenberg's campaign seriously, sending several letters urging investors to vote for the company's nominees to the board. "Your vote in very important!" the company said in a Jan. 4 letter to shareholders. "Three insurgents are trying to place themselves on your Board."

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Indeed, Mr. Greenberg says that despite the disappointment of his defeat, their effort was worthwhile: "I'm pleased that we were able to bring forward some of the problems that have faced Luby's for years in a public setting."