HOUSE OF PLENTY

The Rise, Fall, and Revival of Luby's Cafeterias

CAROL DAWSON AND CAROL JOHNSTON

But superseding the news of these changes was the groundswell of a major stockholders' revolt.

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It began in September 2000, the same month that saw Parker's resignation and the announcement of the fifteen store closures. Getting rid of Parker wasn't enough. The stockholders were angry. In fact, they were furious. They felt misled, they felt that Barry Parker had taken the company in which they had invested their money down a long, dark corridor of ruinous decisions, and the board of directors had aided and abetted him. They were disgusted with the board for behaving with such obtuse blindness by upholding Parker's rehiring. And they wanted to do something about it.

The stockholders' protests had been gaining strength and thrust throughout Barry Parker's tenure. A return to the old tried-and-true practices was necessary, they argued, to restore Luby's equilibrium and increase its sales. The company needed to move away from outsourcing its food production and start making everything from scratch on site again. It needed, even more, to give more flexibility back to the managers, and reward them accordingly. The relations between managers and corporate officers was, by this time, frayed almost beyond repair.

Most of all, Luby's needed to get rid of Parker. And yet the board of directors had had the imprudent effrontery to renew his contract, even in the face of his terrible record.

But the abrupt removal of Parker after the restaurant consultants' report came in, and the restoration of some managerial autonomy, did little to assuage the shareholders' ire. By early October a surprising number of them had leaped to the barricades, for one reason only: the Internet. Through a Yahoo! message board, they had communicated and assembled greater numbers of agreement for some time before Parker's ouster. Now, for the first time in U.S. history, the solicitation of support for a proxy shareholders' fight was getting focused in Internet chat rooms, and a battle that historically had cost shareholders of other companies millions of dollars to mount was this time to be achieved for only $15,000. Their goal was to replace four board members whose terms were expiring, plus a fifth who was expected to resign, with their own representatives, during the next annual stockholders' meeting on January 12, 2001. One of the nominees was Elisse Jones Freeman—the daughter of Henry Jones, the cofounder/pioneer famous for his strict operations, observations, and tactics. Having grown up in Luby's alongside Carol Johnston, and in childhood helped with the early kitchen chores (cutting Jell-O, rolling silverware, and so on), she was a lifelong expert in what it took to run an effective cafeteria.

Three of the other dissident nominees were a former Luby's manager, a Tyler, Texas, investment manager, and a California lawyer and arbitrator for the National Association of Securities Dealers. In their opinion, the new leader Luby's needed to replace Parker was someone who had come up through the ranks.

So, with mutiny declared, the group calling itself the Committee of Concerned Luby's Shareholders filed a document with the Securities and Exchange Commission. In it, they told the SEC that "Luby's needs new blood at the most senior level. Shareholders need their own 'watchdogs' to mind the store and to make sure that their concerns are heard."

The proxy fighters began to gain national attention and interest, especially after they continued to file more SEC documents—a total of ten since mid-October. By January the group had pared its number of nominees down to three. Their fierce determination to gain a voice in the fate of the company promised an ugly battle.

When the day dawned for the meeting, more than five hundred stockholders streamed into the meeting room at the Omni Hotel in San Antonio. Soon the room grew so packed after every seat was filled that participants stood four deep against the walls and spilled out into the hallway, crowding at the doors and straining to hear the speakers. The stockholders' angry feelings burned higher when they discovered that the board had hired armed security guards to help keep order among the massed congregation. Luby's, with its tragic history of death by a madman's firearms, was the last place one would expect to find such preventative measures taken. The tacit insinuation the guards' guns represented—that the dissident shareholders were possibly out of control, bloodthirsty rebels harboring violent tendencies—seemed a shocking and despicable insult. After all, there was not only a widespread cross-section of the general public with a legitimate stake in the company sitting in the room; there were also disaffected family members, descendants of pioneers, and a few of the original pioneers themselves. And none of them felt happy. The board had gone too far.

They had gone too far in all directions, it seemed. For stockholder Helen Lee, the widow of founding Luby's executive John Lee, was one of the incensed attendees of the meeting. Unlike many of the other shareholders with only nominal amounts of stock, Helen Lee owned 200,000 shares, and felt furious at the way the board had handled the company's recent problems.

"I'd smack them in the mouth if I could," she said. "My husband always said you have to give people quality food at a reasonable price. Then you'll have a full cafeteria at all times." This simple formula was the very thing, of course, that Parker had most effectively razed.

But in the end that day, explosive tempers and denunciations notwithstanding, the proxy fighters lost their bids for the board seats, and their war. The board was reinstated by a vote of more than two to one, with about 75 percent of shareholders voting. Though the dissident group lost its fight, it did receive an outpouring of moral support. When Chairman David Daviss cut some speakers off before they could finish making their point, the people in the room booed. Likewise, they applauded critical questions. And when Daviss explained to the crowd that the company had scheduled a limited time for the meeting, and had already gone over, investor L. L. Davis retorted that executives were obligated to hear shareholders out. "You're the hired help, frankly," Davis added to the board chairman.

The outcome might have discouraged some participants, but others left the Omni bloodied yet unbowed, vowing a relentless continuation of their tactics. "If you think this year's meeting was contested, next year's meeting will be contested even more," warned Guy Adams, one of the chief insurgents, who ran a Los Angeles\-based financial firm. "The clock has started, and people are going to have to see some visible results."

"The most important thing they need to do is get an outstanding CEO," commented Tom Palmer, the dissident investment consultant from Tyler who had helped lead the revolt and who had campaigned for one of the board seats. And Les Greenberg, the California lawyer who had also lost his bid for a seat, hinted that the group was not going to go away. The mere \$15,000 that they had just spent to launch and carry on their proxy fight had required more than \$200,000 spent by Luby's to counteract. "So it's easy for us to come back," he said. "We'll just add one phrase: 'We told you so.'"

However, a far more unexpected intervention than a future stockholders' coup was now lurking in the wings, waiting to slip into the Luby's Building. It would prove as effective a deus ex machina as any divine intercession in a Greek play. In fact, you might say it was nothing less than a superb and surprising piece of honest-to-goodness theater.

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HOUSE OF PLENTY

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