

The following are sample posts on the LUB Yahoo! Financial Message Board dealing with issues of conflicts of interests:

12/9/01 "Would Caesar s Wife Blush?"

(The following is a purely fictional and hypothetical conversation. It is provided for educational purposes only.)

Yo, Bro. Do we need some chump change?

--- Wouldn't hurt.

I've got an idea. Do you recall that Consultant Agreement?

---Yeah!

Let's try real hard to think of what the Company needs as it already has a capable executive staff and we are already paying our auditing firm for consulting services.

(Two hours of the Bros' quality time thinking on the subject passes.)

We'll just do some "service" and sell some property to the Company.

---That'll work.

Do you recall that dusty IBM 1401 computer which we bought in 1968 and is sitting in the warehouse?

---I'm getting your drift, now, Bro.

Let's figure that it is worth about \$1 million.

---Absolutely. Every penny of it.

Let's figure that the "services" are worth \$100,000.

---Yeah!

What about doing comparison shopping, requesting competitive bids and/or making other efforts compatible with the supposed American way of doing efficient business?

---What do you think we are — a bunch of Commie Pinkos?

Listen, you just send me the bill and I will "OK" it.

— What about a potential challenge by the Internal Audit Department?

They work for us.

— What about a potential challenge by the external auditors?

Why do you think we are paying them for their non-audit services?

— What about a potential challenge by members of the BOD?

Do you really think that they have the guts to stand up to the Bros? Just let them try. We could stop the Company from doing business with their company and/or tell them that we will not sponsor them for

re-election when their respective terms of office expire. We are in the driver's seat.

— What about the Shareholders?

Who?

— Bro, weren't we smart when we filed a copy of the Agreement with the SEC?

What do you mean?

— It does not show who signed the Agreement on behalf of the Company.

That's confidential information. What the public doesn't know can't hurt them.

— Do you think that anyone will notice that we billed for services rendered before the date of the Agreement?

Nope!

— Would our parents be really proud of what we are doing?

Bro, they raised a couple of shrewd dudes!

— Right-on!

(Multiple high-fives.)

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12/16/01 "A BOD Steps into Do-Do"

The following web location contains an overview of how some members of the BOD of Enron allegedly stepped into do-do due to their many relationships with Enron. Perhaps, the members of the BODs of other companies with publicly traded shares, e.g. you-know-who, might learn from what occurred at Enron. Pigging-out at the corporate trough does have its interim rewards, but, in the end, everyone ends up a loser, except the lawyers. ...

2/1/02 "Who's Watching the Store?"

A comparison of recent years LUB SEC filings provides interesting information.

The new Audit and Finance Committee is now specifically told that it does NOT have "the duty ... to determine that the company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the external auditor. Nor is it the duty of the committee to conduct investigations, ... or to assure compliance with laws and regulations and the company's Policy Guide on Standards of Conduct." Further, BOD access to management used to be "complete," but now is "as necessary to fulfill their obligations as members of the board, and will keep the CEO, COO and the chairman informed of any contacts and concerns that may arise therefrom."

The Auditors received \$118,000 from LUB's BOD for auditing services and \$296,000 from LUB's management for consulting services for the year ended 8/31/01.

On 8/31/01, PBros entered into a retroactive Services Agreement with LUB. To make sure that LUB's interests are protected, the agreement provides that charges paid to the PBros and the period of service must be approved by the Audit and Finance Committee. The Committee is permitted to hire experts, at LUB's expense, to verify that the PBros have acted properly.

Also, it appears that the investment advisory firm, for which the Chairman of the Audit and Finance Committee is a senior officer, received, for the first time, \$74,000 from LUB for its services for the year ended 8/31/01.

Can you connect the dots?

2/12/02 "Torn Between Two LUBers"

According to LUB's recent SEC filings, since March 2001, LUB has had an earnest new Chief Financial Officer and Senior Vice President ("Ernest"). Ernest has brought a wealth of experience to the position as, since 1992, he has been employed by Pappas Restaurants, Inc. ("PBros") as their Treasurer and CFO. There is no indication in the SEC filing that Ernest does not continue to be so employed nor is there any indication of his related compensation from PBros. From March to August 31, 2001, LUB paid Ernest \$90,323 and granted some stock options. Also, per the SEC filings, he owned zero/zip/nada/zilch shares of LUB.

We are informed that the PBros signed the retroactive Affiliate Services Agreement on behalf of the PBros. However, one still wonders who signed a copy the retroactive Affiliate Services Agreement on behalf of LUB and, more importantly, why the name and position of the person was not set forth in a copy of the document available through SEC EDGAR.

Does Ernest, as CFO of PBros, in substance, send billing statements to Ernest, as CFO of LUB and then authorize payment? In substance, does Ernest bargain with Ernest as to the necessity of "services" and the costs thereof?

2/13/02 "Frankly, My Dear...."

LUB is honored to have Frank Markantonis ("Frank") as a new member of the BOD. According to recent SEC filings, he owns a whopping 100 shares of LUB, received his ticket to practice law in Texas in 1973 and has specialized in corporate and real estate matters. There is a down side. "Mr. Markantonis' principal client is Pappas Restaurants, Inc." Take a look at the Lease Agreement dated 9/28/01 (retroactive to 6/1/01) and the Affiliate Services Agreement dated 8/31/01 (retroactive to ???) between PBros and LUB. (Please recall that the copy of the Affiliate Services Agreement, which was filed with the SEC, does not indicate who signed it on behalf of LUB or the person's title.) Both agreements require copies of all notices to PBros to be sent to Frank. One can wonder whether Frank negotiated the agreements on behalf of the PBros. The most recent Proxy Statement states, "Messrs. Pappas have designated themselves and Frank Markantonis as their nominees for directors." Could that have been a reward for some productive contract negotiation work? We know how much Frank will be compensated by LUB as a Director, but we do not know how much he receives from the PBros, except the phrase "principal client" usually means if the PBros walk, Frank will be hurtin' for certain.

Frankly, my dear, Shareholders do give a damn. We are NOT interested in Directors who have applied to, attended and/or graduated from the Ken Lay School of Ethics. LUB's Corporate Governance Guidelines, state, in part, "ROLE AND RESPONSIBILITIES OF BOARD 1. Ethical Business Environment. The Board believes that the long-term success of Luby's is dependent on the maintenance of an ethical business environment

that focuses on adherence to both the letter and spirit of the law and regulations and the highest standards of corporate citizenship." So much for LUB's "long-term success"?

2/15/02 "Freudian Slippage"

Some Shareholders might recall the Affiliate Services Agreement between PBros and LUB. That is the Agreement dated 8/31/01 (and retroactive to who knows when) where the SEC-filed copy shows that PBros signed it on behalf of the PBros, but there is no indication of who signed for LUB or the title of that person. The Agreement states, in part: "Requirement of Approval By Finance and Audit Committee of the Board of Directors of the Company. All determinations on behalf of the Company ... MUST BE APPROVED by the Finance and Audit Committee of the Board of Directors of the Company (the 'Committee')." (Emphasis added.) Does that mean that if the Committee does not approve the self-dealings then LUB will be in breach of contract? Is the language a not so subtle hint that whoever signed the Agreement on behalf of LUB is issuing marching orders to the Committee?

In SEC filings, we are informed, "In the opinion of such committee, the fees paid by the Company for such services are at or below the level which the Company would pay for comparable services (if available) from a party unaffiliated with the Company." The words, "if available" are interesting. Do the words indicate that the Committee has NO knowledge as to whether comparable services are available? Do the words mean that the Committee feels that no one in the entire world other than the PBros can supply certain services, and, thus, a comparison could not be made? There was NO statement as to the alleged need for the services. There was NO statement of the basis of the opinion. Could the basis of the opinion, if any, be that the dual CFO of PBros and LUB orally so informed the Committee?

2/17/02 "Do I Trust Thee?"

The Affiliate Services Agreement states, in part, "Pappas and the Company shall, based on a detailed review, determine the actual level of Corporate Services rendered by Pappas during such fiscal quarter, and the Company shall pay Pappas the applicable adjusted fee within 15 business days of presentation of a statement therefor."

One would assume that the PBros and Luby's would send their highest ranking finance persons to negotiate during the "detailed review." Luby's would send its CFO. The PBros would send their CFO. (Please recall that Ernest is the CFO and Senior VP of Luby's and has been the PBros' CFO and Treasurer since 1992.)

The following is an hypothetical conversation which might occur at such a meeting.

"Let's look at these services supposedly rendered for Luby's. Were they necessary? How do you justify the alleged cost?"

--- "Don't you trust me?"

"I trust you as if you were me."

--- "OK, then accept the detailed review that I have presented without question."

"That'll work. Now, that everything is resolved, let's go to lunch, together."

(On the telephone.) "Reservations for lunch for ONE, please."

2/20/02 "Hard(ly) Bargaining?"

The following is a purely hypothetical conversation between a Bro and a conflicted corporate attorney.

Yo, Attorney!

--- Hi, Bro, what's happening?

You know, I'm now the head-honcho of this corporation?

— I know, Bro, I'm the attorney for the corporation. You sign my pay checks. My family and I will be eternally grateful to you for that and for my prospects of continued employment.

I am also the head-honcho of my own personal organization. I want my personal organization to sell some "services" to the corporation. I have an attorney who represents my personal organization, and, frankly, I want you and him to negotiate the terms of the written agreement between the corporation and my personal organization.

— I recall from a law school course that there might be some ethics issues. In such a situation, if I bargain real hard for the corporation, the corporation (and, thus, its Shareholders) might be real happy, but your personal organization (and, thus, you) would come up on the short end of the stick. As head-honcho for the corporation, you might retaliate by cutting my pay or discontinuing my employment. On the other hand, if I throw the negotiations, your personal organization (and, thus, you) could be handsomely benefited, but the corporation, (and, thus, its Shareholders) would be hurtin' for certain. However, if I make the right choice, will you allow me to keep my cushy job with the corporation? Do you think that you might even cause the corporation to award me a bonus? I'm sure that you'll (inaudible). My degree is from the Ken Lay School of Ethics.

Could we get the BOD to sign a paper that says that they know that you are conflicted, but it is of no concern? Is it OK if they use that official-lookin' rubber stamp? If so, should you put the paper in a real safe place just in case, later, they try to claim that they were out-of-the-410-loop?

— Wow, Bro, you are a genius. But, what about the public Shareholders of the corporation?

2/23/02 "The Times, They Are A Changin'"

#1 --- Luby's Standards of Conduct (January 2000) states, in part: "Luby's Board of Directors has adopted this Policy Guide on Standards of Conduct (Policy Guide). Among other things, this Policy Guide prohibits employees from engaging in any activity, practice or conduct which conflicts with, or appears to conflict with, the interests of Luby's ... This Policy Guide is intended to apply to all management and administrative

employees and Conflict of Interest. A conflict of interest exists when an employee's duty to give undivided commercial loyalty to Luby's can be prejudiced by actual or potential personal benefit from another source. No employee should be subject or even seem to be subject to influences, interests, or relationships that conflict with the best interests of Luby's. 2. Each employee ... is expected to avoid any significant financial interest or association that might interfere or might appear to interfere with his or her independent exercise of judgment in Luby's best interests. ... 3. Luby's management ... may not accept any employment ... with any organization that does business with ... Luby's."

Did the well conceived ideas contained in the LUB Policy Guide become just another victim relegated to the historic trash heap of financial greed?

Does anyone recall reading something about some type of special dispensation of ethics granted by a BOD in Houston?

#2 --- The "Certain Relationships and Related Transactions" sections of LUB's Proxy Statements from 1994 to 2001 makes for very interesting bedtime reading. From 1994 to 1999, LUB stated, "In the opinion of the Company, such fees are comparable to those charged by other ... firms for similar services." In 2000, LUB stated, "In the opinion of such committee, the fees paid by the Company for such services are at or below the level which the Company would pay for comparable services (if available) from a party unaffiliated with the Company." "Such committee" is the Finance and Audit Committee.

Would a skeptic ask why the weasel words, "if available" have been inserted? Would the "opinion" have any meaning if the services were felt to be so unique that no comparison could be made? Would a skeptic ask why "such committee" and not the "Company" now renders the opinion?

#3 — There's even better bedtime reading — the duties of the Audit Committee which is now the Finance and Audit Committee. For many years prior to May 2000, the Audit Committee had simply been charged with responsibility "to review the Company's policies on standards of conduct." The Charter (5/18/00) of the Audit Committee adds clarity by stating, "The following shall be the primary recurring processes and activities of the Committee in carrying out its oversight responsibilities. ... Periodically, the Committee shall review Luby's Policy Guide on Standards of Conduct and management's procedures for monitoring compliance and recommend significant changes to the Board." (Remember the Policy Guide? That's No. 1, above.) Such wording has been deleted from the recent Charter (7/21/01). The Finance and Audit Committee is specifically informed, "Nor is it the duty of the committee to conduct investigations, ... or to assure compliance with laws and regulations and the company's Policy Guide on Standards of Conduct."

What would a skeptic think about those changes?

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2/24/02 "Keeping It In The Family"

For your reading pleasure, you may wish to try: <http://www.klrn.org/SupportKLRN/corporat...> "KLRN gratefully acknowledges the support of the following corporations and individuals: ... Austin, Calvert & Flavin, L.L.P. ... Ernst and Young, L.L.P."

According to the 2001 LUB Proxy Statement: Director Winik is the President and General Manager of KLRN-TV. Director Calgaard is an Officer and Director of Austin, Calvert & Flavin and Chairman of the LUB Finance and Audit Committee.

According to the 2001 LUB Annual Report: Ernst & Young LLP are the auditors for LUB.

The BOD gave Director Calgaard a pass to serve as Chairman of the Finance and Audit Committee (which "reviews" the dealings between LUB and the PBros' organization) even though LUB (the PBros and Ernest are owners, officers, directors and/or the CFO of both LUB and the PBros' organization) is paying investment advisory fees to Austin, Calvert & Flavin.

The 2001 Proxy Statement states, "The Board of Directors of the Company has appointed the firm of Ernst & Young L.L.P. to audit the accounts of the Company for the 2002 fiscal year."

2/25/02 "The Times, They Are A Changin'"

This is a hypothetical business case history presented for educational purposes only. ...

You own a company. Someone purchases about 5% of your stock and loaned your company a truck load of money. Your company then hired him to run your company and entered into a multi-year employment contract. He's a top notch CEO. You hired him as, frankly, a top notch CEO, you are not. He also owns a business in which you have no ownership interest. He wants your company to enter into a written agreement to buy product from his business. As CEO of both your company and his business, he wants to determine how much product your company needs. He wants a waiver of liability from your company for any negligence and/or consequential damages, which his business might cause ins supplying the product. He says that he'll "value" the product "in accordance with his business' usual accounting practices." He does not mention how the price which your company will pay is related to the "value." He does not state what his "usual accounting practices" are. Further, he tells you that access to the books and records of his business is only available if your company pays an unspecified amount to observe or copy the documents. He says that he will meet with himself every few months to do a "detailed review" and then your company will pay to his business what he determines to be proper. He does not say what he means by "detailed review." He states that a supposedly independent committee at your company "must approve" his "detailed review." He tells you that, as your CEO, he has already been doing these deals with his

business (before any written agreement has been signed) for about six months and wants your company to OK these past dealings without a "detailed review."

Your choices are: (1) immediately conduct an investigation of all the transactions which occurred before his offer and, if necessary, take appropriate remedial action; (2) laugh at the suggested terms of the deal knowing that his funds and reputation are on the line and if he walks, your company can sue him for breach of the multi-year employment contract; (3) sign the agreement with a frown on your face and hold your breath; (4) sign the agreement with a smile on your face; (5) tell him, "That'll work," sign the agreement with a smile on your face and ask if he has any real property, e.g. a bridge, he wants to lease to your company; (6) other.

If you are a Shareholder of Luby's, you should review the terms of the Affiliate Services Agreement....

2/25/02 "(I Can See) Both Sides"

Anyone read the Lease Agreement dated 6/1/01 between PBros Restaurants and LUB, a three (3) year lease of "21,000 square feet of shop space and 5,664 square feet of office space located at 2429 Crockett Street" (Houston, TX)? If someone happens to do a drive-by, perhaps they can report as to LUB's apparent use of the shop space, etc. The Lease is interesting in that the then three (3) month veteran LUB senior officer who signed the lease on behalf of LUB, according to the LUB 10K, was then still a senior officer of PBros Restaurants. (He did not sign for both parties.) More dots to connect?

3/1/02 "Pick A Number"

When discussing budget estimating, it appears that what the big print giveth and the small print taketh away.

The disclosure in the Proxy Statement section entitled "Certain Relationships and Related Transactions" states: "Subsequent to August 31, 2001, and through November 14, 2001, the Company incurred costs from such entities (PBros) in the amount of \$359,000. The Company anticipates payments to such entities (PBros) during the current fiscal year will not exceed \$960,000." However, buried within an attachment to SEC filing, we find that Exhibit "B" of the Affiliate Services Agreement states, "Budget Estimate - 1st Quarter Ended November 21, 2001 ... \$218,000."

Did the actual costs exceed the estimate for payments to the PBros during the first quarter by at least 64%! If so, what have we learned about the quality of the PBros budget estimating process? Will the "anticipated payments" to the PBros of \$960,000 prove to be a low-ball estimate?

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4/27/02 "Good Enough for Mickey Mouse"

WSJ 4/29/02 "Disney Moves to Improve Governance ... Disney has issued a corporate-governance review that reflects several steps the board has taken to improve its standing. Among them: ... a severing of business relationships between Disney board members and the company. The latter means that Disney will no longer pay two board members, and their firms, for professional services: architect Robert A.M. Stern and attorney George J. Mitchell. Terminating business relationships with board members will hit the pocket books of Messrs. Stern and Mitchell. ..."

LUB 2001 Form 10K (Annual Report) (SEC filed 12/06/01) Footnote 7: "8. Related Parties A director of the Company is also a director of an investment firm that provides investment services for the Company's profit sharing and retirement trust plan (the Plan). During the year ended August 31, 2001, the Plan paid the investment firm approximately \$74,000 for its services."

Yahoo Message Board Post # 5287

(2/1/02, "Who's Watching the Store?") "Also, it appears that the investment advisory firm, for which the Chairman of the Audit and Finance Committee is a senior officer, received ... \$74,000 from LUB for its services for the year ended 8/31/01."

Yahoo Message Board Post # 5377 (2/24/01, "Keeping It In The Family") "The BOD gave Director Calgaard a pass to serve as Chairman of the Finance and Audit Committee (which 'reviews' the dealings between LUB and the PBros' organization) even though LUB (the PBros and Ernest are owners, officers, directors and/or the CFO of both LUB and the PBros' organization) is paying investment advisory fees to Austin, Calvert & Flavin."

LUB 2002 Q2 Form 10Q (SEC filed 3/29/02) "Note 7: Related Parties A director of the Company, Ronald K. Calgaard, is also a director of Austin, Calvert & Flavin, Inc., a firm that provides investment services for the Company's profit sharing and retirement trust plan (the Plan). The Plan currently uses the services of four investment advisors. During the two quarters ended February 13, 2002, the Plan paid the investment firm approximately \$30,000."

If it's good enough for Mickey Mouse's BOD, it should be good enough for LUB. But, some might say, what's an insignificant \$74,000 among friends? On the other hand, if it is an insignificant amount, no one will miss a meal if the business relationship is terminated. However, when it comes to conflicts of interest, it is something like being a little bit pregnant.

8/2/02 "Off the Bread Line, Buster!"

Since 12/15/01, this Shareholder has been questioning, on this Message Board and directly to the BOD, LUB's corporate governance practices. In substance, the BOD's response was that BOD did not give a flying fajita about this Shareholder's views. (Does

anyone recall a book by Dale Carnegie entitled, "How to Win Friends And Influence People"?)

Then came more revelations about the activities of the BODs at Enron, WorldCom and other places of corporate ill repute. It seems that the best and brightest BODs were neither the best nor the brightest. Neither were they truly "independent."

The Corporate Accountability and Listing Standards Committee of the NYSE released its recommendations for public comment in June 2002. At least one recommendation should have caught the attention of LUB's BOD — "Mandate that directors' fees represent the sole compensation that audit-committee members receive from the listed company, and"

For those of you who tuned in late, please recall that the Chairman of the Audit Committee is a Managing Director of an investment advisory firm which performs services (for compensation) for LUB's pension plan. Also, please recall that the CFO chairs and the SrVP-Administration sits on a 3-person pension plan committee of LUB which decides which investment advisory firm(s) will be employed by LUB's pension plan. The CFO is also an employee of the PBros. The SrVP is an attorney who represents the PBros and shares offices with his step father who considers the PBros as his "principal clients." The step father is a Director of LUB. (The saga gets "better" and has been chronicled in many prior posts.)

So, how does the BOD keep the corporate spigot open to the Chairman of the Audit Committee and still comply with the words of the NYSE proposed standard? LUB could use Clintonesque logic --- the advisory firm of the Chairman of the Audit Committee, not the Chairman, receives the funds from LUB and that firm pays it over to the Chairman of the Audit Committee. Bingo! Pay the man in the front row \$60,000 per year.

All of the above, IMHO.

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