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Luby's proxy fight shows readiness to act

By Gary Strauss, USA TODAY

SAN ANTONIO — If Luby's annual shareholder's meeting was an anger-barometer of shareholder angst, Corporate America may be in for a long proxy season.

Luby's, a troubled, San Antonio-based chain with 220 restaurants in 10 states, survived a contentious proxy fight Friday with the Committee of Concerned Luby's Shareholders. The dissident group, which wanted more proactive directors to engineer a quicker corporate turnaround, didn't garner enough votes for its slate of directors. Still, the board faced lots of criticism from hostile shareholders. "I'm glad this is over and we can get down to the business of running the company," said a still rattled David Daviss, Luby's chairman and acting CEO, following the rancorous, 2 1/4-hour meeting.

As this food fight demonstrates, the first proxy season of the new millennium promises to be a season of shareholder discontent. Historically, dissidents have rarely won proxy battles. But with scores of stocks down sharply in 2000, investors no longer appear willing to accept management spin control without question or rubber-stamp a company's director slate.

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Management got an earful from shareholders who took issue with directors' compensation, their small holdings of company stock, lackluster oversight and even Daviss' authority to control shareholder comments at the annual meeting.

In the end, the dissidents lost the election. But shareholders did approve their plan that all directors be elected annually rather than in staggered, multi-year terms. …

Internet empowerment

Most Internet stocks might be on life support, but the Net continues to empower shareholder dissidents and activists ….

Core members of the Committee for Concerned Luby's Shareholders, led by attorney Les Greenberg and Texas investor Thomas Palmer, got acquainted bemoaning the company on a Yahoo message board. They're believed to be the first grassroots effort to successfully use the Internet to bring a proxy fight to a vote. "Luby's board needs fresh blood and oversight," says Greenberg, who holds 5,600 shares.

Greenberg's guerilla movement also sought input into Luby's discussions with two Houston restaurateurs who recently acquired a 6% stake in the company and have yet to fully make their intentions clear.

Daviss, who took to calling the dissidents "insurgents" during the proxy fight, said their Net-propelled campaign drove customers away, distracted management and has hampered CEO recruiting efforts to replace Barry Parker, recently ousted by the board. Daviss conceded their complaints may be valid, but said that given their lack of restaurant industry experience and management expertise at publicly held companies, they weren't qualified to be directors.

If the dissidents accomplished anything, they thoroughly shook up Luby's staid corporate culture. …

The fight's legal and administrative expenses cost Luby's $250,000. Recent regulatory filings underscored the board's increasing annoyance. Daviss charged in a Securities and Exchange Commission filing that he'd been offended by some of Greenberg's online "unfounded accusations and rhetoric."

The proxy fight also put Luby's on the defensive. "Although our intentions were good, in retrospect, the hiring of (ex-CEO) Parker and the strategy put in place during his tenure did not reverse the trend of declining same-store sales. This, together with the more competitive restaurant environment, has hurt the value of the investment of our shareholders," the board said in an earlier mea culpa filed with the SEC.

Stiff competition

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Overlooking his lack of restaurant experience, the board hired Parker. He had previously headed Dallas-based apparel retailer County Seat, which filed for Chapter 11 bankruptcy following his 1996 departure.

Parker's three-year run, ending with his forced resignation in late September, was rocky at best. …

White knight?

Luby's shares, which had been trading as low as $3.50 in December, surged to $6 late last month on word that Houston-based brothers Harris and Christopher Pappas had accumulated a 6% stake to become the firm's largest individual shareholders. The Pappases have been discussing possible roles with the company since late October, according to SEC filings.

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Greenberg fears that the Pappases may try to acquire Luby's for its valuable real estate holdings at a cut-rate price. "Our concern is if the company is put up for sale, don't go with the first one that asks you to dance," he says.

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But shareholders at Luby's and other moribund companies will be keeping the pressure on. "If there aren't results, next year's meeting will be contested even more," investment manager Guy Adams said after the Luby's meeting. "The clock is started, and people are going to have to see some visible results."