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SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended \_\_\_ September 28, 2008
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-12919

**PIZZA INN, INC.**

(Exact name of registrant as specified in its charter)

Missouri  
(State or other jurisdiction of  
Incorporation or organization)

47-0654575  
(I.R.S. Employer  
Identification No.)

3551 Plano Parkway  
The Colony, Texas 75056  
(Address of principal executive offices)

(469) 384-5000  
(Registrant's telephone number,  
including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 11, 2008, 8,727,003 shares of the issuer's common stock were outstanding.

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PIZZA INN, INC.

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

**PIZZA INN, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(In thousands, except per share amounts)*  
*(Unaudited)*

	Three Months Ended	
	September 28, 2008	September 23, 2007
<b>REVENUES:</b>		
Food and supply sales	\$ 10,134	\$ 10,779
Franchise revenue	1,064	1,116
Restaurant sales	190	183
	<u>11,388</u>	<u>12,078</u>
<b>COSTS AND EXPENSES:</b>		
Cost of sales	9,655	10,072
Franchise expenses	479	620
General and administrative expenses	687	621
Severance	37	300
Bad debt	15	23
Interest expense	12	14
	<u>10,885</u>	<u>11,650</u>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	503	428
Income taxes	161	—
<b>INCOME FROM CONTINUING OPERATIONS</b>	342	428
Loss from discontinued operations, net of taxes	(49)	(83)
<b>NET INCOME</b>	<u>293</u>	<u>345</u>
<b>EARNINGS PER SHARE OF COMMON STOCK — BASIC:</b>		
Income from continuing operations	\$ 0.04	\$ 0.04
Loss from discontinued operations	(0.01)	(0.01)
Net income	<u>\$ 0.03</u>	<u>\$ 0.03</u>
<b>EARNINGS PER SHARE OF COMMON STOCK — DILUTED:</b>		
Income from continuing operations	\$ 0.04	\$ 0.04
Loss from discontinued operations	(0.01)	(0.01)
Net income	<u>\$ 0.03</u>	<u>\$ 0.03</u>
<b>Weighted average common shares outstanding — basic</b>	<u>8,946</u>	<u>10,166</u>
<b>Weighted average common and potential dilutive common shares outstanding</b>	<u>8,970</u>	<u>10,167</u>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**PIZZA INN, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(In thousands, except share amounts)*

	<u>September 28,</u> <u>2008 (unaudited)</u>	<u>June 29,</u> <u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 153	\$ 1,157
Accounts receivable, less allowance for bad debts of \$142 and \$128, respectively	2,703	2,773
Notes receivable, current portion	8	6
Income tax receivable	120	272
Inventories	1,416	1,396
Property held for sale	299	301
Deferred income tax assets	555	555
Prepaid expenses and other	396	235
Total current assets	<u>5,650</u>	<u>6,695</u>
<b>LONG-TERM ASSETS</b>		
Property, plant and equipment, net	996	635
Notes receivable	3	7
Deferred income tax assets	237	237
Re-acquired development territory, net	—	46
Deposits and other	165	215
	<u>\$ 7,051</u>	<u>\$ 7,835</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable — trade	\$ 1,514	\$ 2,380
Cash overdraft	582	—
Accrued expenses	1,001	1,316
Short-term debt	301	—
Total current liabilities	<u>3,398</u>	<u>3,696</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred gain on sale of property	178	184
Deferred revenues	277	283
Other long-term liabilities	11	18
Total liabilities	<u>3,864</u>	<u>4,181</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 15,130,319 and 15,130,319 shares, respectively; outstanding 8,788,262 and 9,104,361 shares, respectively	151	151
Additional paid-in capital	8,598	8,543
Retained earnings	17,917	17,624
Treasury stock at cost Shares in treasury: 6,342,057 and 6,025,958, respectively	<u>(23,479)</u>	<u>(22,664)</u>
Total shareholders' equity	<u>3,187</u>	<u>3,654</u>
	<u>\$ 7,051</u>	<u>\$ 7,835</u>

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

**PIZZA INN, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands)*  
*(Unaudited)*

	<u>Three Months Ended</u>	
	<u>September 28,</u> <u>2008</u>	<u>September 23,</u> <u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 293	\$ 345
Adjustments to reconcile net income to cash used for operating activities:		
Depreciation and amortization	83	84
Severance accrual expense	—	300
Stock compensation expense	55	—
Provision for bad debts	15	23
Changes in operating assets and liabilities:		
Notes and accounts receivable	209	(380)
Inventories	(20)	184
Accounts payable — trade	(866)	(302)
Accrued expenses	(327)	(646)
Deferred revenue	12	—
Prepaid expenses and other	(120)	(92)
<b>Cash used for operating activities</b>	<u>(666)</u>	<u>(484)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(407)	(40)
<b>Cash used for investing activities</b>	<u>(407)</u>	<u>(40)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in line of credit, net	301	—
Cash overdraft	582	—
Repurchase of common stock	(814)	(35)
<b>Cash provided by (used) for financing activities</b>	<u>69</u>	<u>(35)</u>
Net decrease in cash and cash equivalents	(1,004)	(559)
Cash and cash equivalents, beginning of period	1,157	1,879
Cash and cash equivalents, end of period	<u>\$ 153</u>	<u>\$ 1,320</u>

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

**PIZZA INN, INC.**  
**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**  
*(In thousands)*  
*(Unaudited)*

<b>CASH PAYMENTS FOR:</b>	<u>Three Months Ended</u> <u>September 28,</u> <u>2008</u>	<u>September 23,</u> <u>2007</u>
Interest	\$ 12	\$ 14

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

**PIZZA INN, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying condensed consolidated financial statements of Pizza Inn, Inc. (the “Company”) have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 29, 2008.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company’s financial position and results of operations for the interim periods. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

**(1) Summary of Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All appropriate intercompany balances and transactions have been eliminated.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Fiscal Year**

Fiscal first quarters ended September 28, 2008 and September 23, 2007, both contained 13 weeks.

**Revenue Recognition**

The Company recognizes revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. The Company’s Norco division sells food and supplies to franchisees on trade accounts under terms common in the industry. Food and supply revenue are recognized upon delivery of the product. Equipment that is sold requires acceptance prior to installation. Recognition of revenue for equipment sales occurs upon acceptance of such equipment. Other than for large remodel projects, delivery date and acceptance date are the same. Norco sales are reflected under the caption “food and supply sales.” Shipping and handling costs billed to customers are recognized as revenue.

Franchise revenue consists of income from license fees, royalties, and area development and foreign master license fees. License fees are recognized as income when there has been substantial performance of the agreement by both the franchisee and the Company. Domestic license fees are generally recognized at the time the restaurant is opened. Foreign master license fees are generally recognized upon execution of the agreement as all material services relating to the sale have been substantially performed by the Company and the fee has been collected. Royalties are recognized as income when earned.

**Use of Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company’s management to make estimates and assumptions that affect its reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent liabilities. The Company bases its estimates on historical experience and other various assumptions that it believes are reasonable under the circumstances. Estimates and assumptions are reviewed periodically and actual results could differ materially from estimates.

**Reclassification**

The Company currently recognizes the ongoing fees and the amortization of the initial loan fees as interest expense. These costs were previously recorded as bank charges. These have been reclassified as interest.

## New Accounting Pronouncements

The Company has no assets at fair value, therefore no disclosures are necessary under SFAS No 157, *Fair Value Measurements*. In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments, including employee stock option plans and operating leases accounted for in accordance with SFAS No. 13, *Accounting for Leases*, at their fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company has not completed its evaluation of the impact of adoption of SFAS No. 159 on the Company's financial statements but currently believes the impact of the adoption of SFAS No. 159 will not require material modification of the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations*. SFAS No. 141(R) improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary and clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years beginning on or after December 15, 2008. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an Amendment of FASB Statement No. 133. SFAS No. 161 amends SFAS No. 133 and requires entities to enhance their disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning on or after November 15, 2008. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's financial position or results of operations.

## (2) Long-Term Debt

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to \$3.5 million (the "CIT Credit Facility"). The actual availability on the CIT Credit Facility is determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility is at a rate equal to the prime rate plus an interest rate margin of 0.0% to 0.5% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 2.0% to 3.0%. The specific interest rate margin is based on the Company's performance under certain financial ratio tests. An annual commitment fee is payable on any unused portion of the CIT Credit Facility at a rate of 0.375%. All of the Company's (and its subsidiaries') personal property assets (including, but not limited to, accounts receivable, inventory, equipment, and intellectual property) have been pledged to secure payment and performance of the CIT Credit Facility, which is subject to customary covenants for asset-based loans.

On June 27, 2007, the Company and CIT entered into an agreement to amend the CIT Credit Facility to (i) allow the Company to repurchase Company stock in an amount up to \$3,000,000, (ii) allow the Company to make permitted cash distributions or cash dividend payments to the Company's shareholders in the ordinary course of business and (iii) increase the aggregate capital expenditure limit from \$750,000 to \$3,000,000 per fiscal year. On May 30, 2008, the Company again amended the CIT Credit Facility to permit the Company to repurchase up to \$7,000,000 of the Company's common stock. As of September 28, 2008, \$301,000 was outstanding on the CIT Credit Facility and one letter of credit for approximately \$230,000 was outstanding to reinsurers to secure loss reserves.



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### (3) Commitments and Contingencies

On June 2, 2008, the Company announced that its Board of Directors had amended the stock repurchase plan authorized on May 23, 2007 increasing the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000. As of September 28, 2008, there are 625,768 shares available to be repurchased under the plan.

On August 31, 2006, the Company was served with notice of a lawsuit filed against it in federal court by a former franchisee and its guarantors who operated one restaurant in the Harlingen, Texas market in 2003. The former franchisee and guarantor alleged generally that the Company intentionally and negligently misrepresented costs associated with development and operation of the Company's franchise, and that as a result they sustained business losses that ultimately led to the closing of the restaurant. They seek damages of approximately \$768,000, representing amounts the former franchisees claim to have lost in connection with their development and operation of the restaurant. In addition, they seek unspecified punitive damages, and recovery of attorneys' fees and court costs. Pursuant to an Agreed Stipulation of Dismissal and Order, the plaintiff has dismissed the claim in federal court, with prejudice, and has re-filed the case in the state district courts of Dallas County, Texas. Pizza Inn has answered, denying all claims, and filed a counterclaim against Plaintiffs for (i) breach of the franchise agreement, (ii) breach of guaranty and (iii) recovery of attorney fees. The Company is waiting on a trial date to be set. The Company believes that the plaintiff's allegations are without merit and intends to vigorously defend against such allegations. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operation. Due to the preliminary nature of this matter and the general uncertainty surrounding the outcome, the Company has not made any accrual for such amounts as of September 28, 2008.

The Company is also subject to other various claims and contingencies related to employment agreements, franchise disputes, lawsuits, taxes, food product purchase contracts and other matters arising out of the normal course of business. With the possible exception of the matter set forth above, management believes that any such claims and actions currently pending are either covered by insurance or would not have a material adverse effect on the Company's annual results of operations or financial condition if decided in a manner that is unfavorable to us.

### (4) Earnings per Share (EPS)

The following table shows the reconciliation of the numerator and denominator of the basic EPS calculation to the numerator and denominator of the diluted EPS calculation (in thousands, except per share amounts).

	Three Months Ended			
	September 28, 2008		September 23, 2007	
	Diluted	Basic	Diluted	Basic
Income from continuing operations	\$ 342	\$ 342	\$ 428	\$ 428
Discontinued operations	(49)	(49)	(83)	(83)
Net income available to common stockholders	\$ 293	\$ 293	\$ 345	\$ 345
Weighted average common shares	8,946	8,946	10,166	10,166
Dilutive Stock options	24	—	1	—
Average common shares outstanding	8,970	8,946	10,167	10,166
Income from continuing operations per share	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04
Discontinued operations loss per common share	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)
Net income per common share	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03

At September 28, 2008, options to purchase 275,000 shares of common stock at exercise prices ranging from \$2.51 to \$3.17 per share were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares for the period. At September 23, 2007, options to purchase 62,858 shares of common stock of prices ranging from \$2.74 to \$2.85 per share were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares for the period.

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(5) **Closed restaurants and discontinued operations**

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires that discontinued operations that meet certain criteria be reflected in the statement of operations after results of continuing operations as a net amount. SFAS No. 144 also requires that the operations of the closed restaurants, including any impairment charges, be reclassified to discontinued operations for all periods presented.

SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also establishes that fair value is the objective for initial measurement of the liability.

The Company closed two of its restaurants in Houston, Texas during the quarter ended September 23, 2007. The results of operations for these two restaurants are reported as discontinued operations in the accompanying Consolidated Statement of Operations. No provision for impairment was required to be taken at that time because the impairment taken in the fiscal year ended June 24, 2007, reduced the carrying value of the properties to their estimated net realizable value. That net realizable value remains unchanged. The two properties are on the market for sub-lease and have received a number of site visits. Because we believe that the properties will sub-lease at or above the current lease rates, we have not reserved any additional costs related to our obligations under these non-cancelable leases.

A summary of discontinued operations is as follows in (thousands):

	Three Months Ended	
	September 28, 2008	September 23, 2007
Sales	\$ —	\$ 61
Cost of Sales	—	114
General and Administrative	49	30
Total loss from discontinued operations	\$ (49)	\$ (83)

(6) **Provision for Income Tax**

Management re-evaluates the deferred tax asset each quarter and believes that it is more likely than not that the net deferred tax asset of \$792,000 will be fully realized based on the Company's recent history of pre-tax profits and the expectation of future taxable income as well as the future reversal of temporary differences. The \$161,000 net tax expense recorded during the quarter ended September 28, 2008 represents the current provision for 2008 federal and state income tax obligations.

(7) **Property Held for Sale**

Assets that are to be disposed of by sale are recognized in the consolidated financial statements at the lower of carrying amount or estimated net realizable value (proceeds less cost to sell), and are not depreciated after being classified as held for sale. In order for an asset to be classified as held for sale, the asset must be actively marketed, be available for immediate sale and meet certain other specified criteria. At September

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28, 2008, the Company had approximately \$299,000 of assets classified as held for sale. As of September 28, 2008, approximately \$292,000 of such amount represents the carrying value of the Company's real estate and equipment located in Little Elm, Texas. As of September 28, 2008, the remaining \$7,000 of assets held for sale represents miscellaneous trailers and other transportation equipment.

### (8) Segment Reporting

Summarized in the following tables are net sales and operating revenues, operating income and geographic information (revenues) for the Company's reportable segments for the three month periods ended September 28, 2008 and September 23, 2007 (in thousands). Operating income excludes interest expense, income tax provision and discontinued operations.

	September 28, 2008	September 23, 2007
<b>Net sales and operating revenues:</b>		
Food and equipment distribution	\$ 10,134	\$ 10,779
Franchise and other (2)	1,254	1,299
Intersegment revenues	65	88
Combined	11,453	12,166
Less intersegment revenues	(65)	(88)
Consolidated revenues	<u>\$ 11,388</u>	<u>\$ 12,078</u>
<b>Depreciation and amortization:</b>		
Food and equipment distribution	\$ —	\$ 2
Franchise and other (2)	66	69
Combined	66	71
Corporate administration and other	17	13
Depreciation and amortization	<u>\$ 83</u>	<u>\$ 84</u>
<b>Interest expense:</b>		
Food and equipment distribution	\$ —	\$ —
Franchise and other (2)	—	—
Combined	—	—
Corporate administration and other	12	14
Interest expense	<u>\$ 12</u>	<u>\$ 14</u>
<b>Operating income:</b>		
Food and equipment distribution (1)	\$ 288	\$ 378
Franchise and other (1) (2)	524	499
Intersegment profit	15	22
Combined	827	899
Less intersegment profit	(15)	(22)
Corporate administration and other	(297)	(449)
Operating income	<u>\$ 515</u>	<u>\$ 428</u>
<b>Geographic information (revenues):</b>		
United States	\$ 11,050	\$ 11,536
Foreign countries	338	542
Consolidated total	<u>\$ 11,388</u>	<u>\$ 12,078</u>

(1) Does not include full allocation of corporate administration.

(2) Company stores that were closed are included in discontinued operations in the accompanying condensed consolidated statements of operations

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion should be read in conjunction with the consolidated financial statements, accompanying notes and selected financial data appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 29, 2008 and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words "believe," "expect," "anticipate," "estimate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to our business objectives, our customers and our franchisees, our liquidity and capital resources, the impact of our historical and potential business strategies on our business, financial condition, and operating results and the expected effects of potentially adverse litigation outcomes. Our actual results could differ materially from our expectations. Further information concerning our business, including additional factors that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth in our Annual Report on Form 10-K for the year ended June 29, 2008. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.*

#### **Results of Operations**

##### **Overview**

The Company is a franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn." Our distribution division is Norco Restaurant Services Company ("Norco"). At September 28, 2008, there were 319 domestic and international Pizza Inn restaurants, consisting of one Company-owned domestic restaurant, 250 franchised domestic restaurants, and 68 franchised international restaurants. The 251 domestic restaurants consisted of: (i) 155 restaurants that offer dine-in, carry-out, and in many cases, delivery services ("Buffet Units"); (ii) 41 restaurants that offer delivery and carry-out services only ("Delco Units"); and (iii) 55 restaurants that are typically located within a convenience store, college campus building, airport terminal, or other commercial facility and offer quick carry-out service from a limited menu ("Express Units"). The 251 domestic restaurants were located in 17 states predominately situated in the southern half of the United States. The 68 international restaurants were located in nine foreign countries.

Diluted income per common share remained \$0.03 for the three month period ended September 28, 2008 compared to \$0.03 for the comparable period ended September 23, 2007. Net income for the three month period ended September 28, 2008 decreased \$52,000 to \$293,000 from \$345,000 for the comparable period in the prior fiscal year, on revenues of \$11,388,000 for the three month period ended September 23, 2007 and \$12,078,000 for the comparable period in the prior fiscal year.

The decrease in net income during the three month period ended September 28, 2008, was primarily due to a non recurring inventory adjustment and increased income tax expense offset by lower severance costs, legal expenses and other operating expenses.

Management believes that key performance indicators in evaluating financial results include domestic chain-wide retail sales and the number and type of operating restaurants. The following table summarizes these key performance indicators.

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	Three Months Ended	
	September 28, 2008	September 23, 2007
Domestic retail sales Buffet Units (in thousands)	\$ 27,762	\$ 28,326
Domestic retail sales Delco Units (in thousands)	\$ 2,745	\$ 2,922
Domestic retail sales Express Units (in thousands)	\$ 1,262	\$ 1,626
Total domestic retail sales (in thousands)	\$ 31,769	\$ 32,874
Average number of domestic Buffet Units	156	163
Average number of domestic Delco Units	41	42
Average number of domestic Express Units	55	63

### Revenues

Our revenues are primarily derived from sales of food, paper products, and equipment and supplies by Norco to franchisees, franchise royalties and franchise fees. Our financial results are dependent in large part upon the pricing and cost of these products and supplies to franchisees, and the level of chain-wide retail sales, which are driven by changes in same store sales and restaurant count.

#### Food and Supply Sales

Food and supply sales by Norco include food and paper products, equipment and other distribution revenues. Food and supply sales for the three month period ended September 28, 2008 decreased 6%, or \$645,000, to \$10,134,000 from \$10,779,000 in the comparable period for the prior fiscal year. During the three month period ended September 28, 2008, international sales and equipment sales decreased by \$308,000. For the three month period ended September 28, 2008, total domestic chain-wide retail sales decreased 3%, or \$1,105,000, over the comparable period for the prior fiscal year due to a lower store count. As a result of this decrease in retail sales, domestic food and paper sales decreased 3%, or \$284,000, compared to the same period for the prior fiscal year.

#### Franchise Revenue

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license sales, decreased 5%, or \$52,000 to \$1,064,000 for the three month period ended September 28, 2008 compared to \$1,116,000 for the comparable period for the prior fiscal year. This decrease is primarily attributable to lower domestic royalties and franchise fees due to lower retail sales and fewer store openings compared to the comparable period in the prior fiscal year. The following chart summarizes the major components of franchise revenue (in thousands):

	Three Months Ended	
	September 28, 2008	September 23, 2007
Domestic royalties	\$ 915	\$ 971
International royalties	140	112
International franchise fees	9	(5)
Domestic franchise fees	—	38
Franchise revenue	\$ 1,064	\$ 1,116

#### Restaurant Sales

Restaurant sales, which consist of revenue generated by the Company-owned restaurant, increased 4%, or \$7,000, to \$190,000 for the three month period ended September 28, 2008 compared to \$183,000 for the comparable period for the prior fiscal year.

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### Costs and Expenses

#### Cost of Sales

Cost of sales decreased 4%, or \$417,000, for the three month period ended September 28, 2008 compared to the comparable period for the prior fiscal year. Cost of sales for the current period includes a \$154,000 adjustment increasing cost of sales due to a miscalculation of inventory as of the fiscal year ended June 29, 2008. The impact of this error is immaterial to prior public filings of financial statements of the Company and, accordingly, have been fully charged to the first quarter. Exclusive of this adjustment, cost of sales decreased 6%, or \$571,000, for the three month period ended September 28, 2008 compared to the comparable period for the prior fiscal year. This decrease is primarily the result of lower food and supply sales, distribution fees, payroll costs, as well as increased purchase discounts.

#### Franchise Expenses

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses decreased 23%, or \$141,000 for the three month period ended September 28, 2008 compared to the comparable period for the prior fiscal year. These savings were primarily the result of lower payroll and travel expenses compared to the same period in the prior fiscal year. The following chart summarizes the major components of franchise expenses (in thousands):

	Three Months Ended	
	September 28, 2008	September 23, 2007
Payroll	\$ 322	\$ 425
Travel	29	92
Other	128	103
Franchise expenses	<u>\$ 479</u>	<u>\$ 620</u>

#### General and Administrative Expenses

General and administrative expenses increased 11%, or \$66,000, to \$687,000 for the three month period ended September 28, 2008 compared to \$621,000 for the comparable period for the prior fiscal year. The following chart summarizes the major components of general and administrative expenses (in thousands):

	Three Months Ended	
	September 28, 2008	September 23, 2007
Payroll	\$ 310	\$ 433
Legal fees	41	105
Other professional fees	105	100
Insurance and taxes	73	57
Allocated overhead	(232)	(329)
Occupancy costs	154	132
Other	181	123
Stock compensation expense	55	—
General and administrative expenses	<u>\$ 687</u>	<u>\$ 621</u>

The increase in general and administrative expenses during the three month period ended September 28, 2008 was primarily due to higher allocated overhead and stock compensation offset by lower payroll and legal fees.

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### Provision for Bad Debts

Provision for bad debt expense decreased to \$15,000 for the three month period ended September 28, 2008 compared to \$23,000 for the comparable period for the prior fiscal year due to improved collection results.

### Interest Expense

Interest expense decreased to \$12,000 for the three month period ended September 28, 2008 compared to \$14,000 for the comparable period for the prior fiscal year.

### Provision for Income Tax

For the three month period ended September 28, 2008, income tax expense of \$161,000 is calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34%. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the net deferred tax asset of \$792,000. Income tax expense was \$0 for the three month period ended September 23, 2007 due to a full valuation allowance of the deferred tax asset.

### **Discontinued Operations**

Discontinued operations includes losses from the two Company-owned stores closed in Houston, Texas during the quarter ended September 23, 2007. Below is a summary of discontinued operations (in thousands):

	Three Months Ended	
	September 28, 2008	September 23, 2007
Sales	\$ —	\$ 61
Cost of Sales	—	114
General and Administrative	49	30
Total loss from discontinued operations	\$ (49)	\$ (83)

### **Restaurant Openings and Closings**

During the three month period ended September 28, 2008, one new Express unit was opened by a Pizza Inn franchise. Five domestic restaurants were closed by franchisees (three Buffet Units, two Express Units), typically because of unsatisfactory standards of operation or poor performance. We do not believe that these closings had any material impact on the collectibility of our outstanding receivables and royalties due to us because (i) these amounts have been reserved for or are otherwise collectable and (ii) these closed restaurants were generally lower volume restaurants whose financial impact on our business as a whole was not significant. For those restaurants that are anticipated to close or are exhibiting signs of financial distress, credit terms are typically restricted, weekly food orders are required to be paid for on delivery and/or with certified funds and royalty and advertising fees are collected as add-ons to the delivered price of weekly food orders.

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The following charts summarize restaurant activity for the three month periods ended September 28, 2008 and September 23, 2007:

Three months ended September 28, 2008

Domestic	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	158	—	3	—	155
Delco Units	41	—	—	—	41
Express Units	56	1	2	—	55
International Units	68	—	—	—	68
Total	323	1	5	—	319

Three months ended September 23, 2007

Domestic	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	166	1	4	—	163
Delco Units	42	—	—	—	42
Express Units	68	—	5	—	63
International Units	77	2	1	—	78
Total	353	3	10	—	346

### *Liquidity and Capital Resources*

Our primary sources of liquidity are cash flows from operating activities, investing activities, and use of our credit facilities from time to time.

Cash flows from operating activities generally reflect net income or loss adjusted for depreciation and amortization, changes in working capital and accrued expenses. In the three month period ended September 28, 2008 cash used by operations was \$666,000 as compared to cash used by operating activities of \$484,000 in the comparable period for the prior year. This increase in cash used for operating activities was primarily due a decrease in the Company's trade payables balance.

Cash flows from investing activities generally reflect capital expenditures for the purchase of Company assets. The Company used cash of \$407,000 for the three month period ended September 28, 2008, primarily for a new Company store to be opened in Denton, Texas and for computer upgrades. This compares to cash used by investing activities of \$40,000 for computer and related equipment for the same period in the prior fiscal year.

Cash flows from financing activities generally reflect changes in the Company's borrowings during the period, repurchases of outstanding shares of our common stock and the exercise of stock options. Net cash provided by financing activities was \$69,000 in the three month period ended September 28, 2008 compared to cash used of \$35,000 for the comparable period in the prior fiscal year. This change in the use of cash from financing activities was due to the repurchase of outstanding stock less a cash overdraft of \$582,000 and increased bank debt of \$301,000 used primarily to fund the new store in Denton, Texas.



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Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the net deferred tax asset of \$792,000 without reliance on material non-routine income.

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to \$3.5 million (the "CIT Credit Facility"). The actual availability on the CIT Credit Facility is determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility is at a rate equal to the prime rate plus an interest rate margin of 0.0% to 0.5% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 2.0% to 3.0%. The specific interest rate margin is based on the Company's performance under certain financial ratio tests. An annual commitment fee is payable on any unused portion of the CIT Credit Facility at a rate of 0.375%. All of the Company's (and its subsidiaries') personal property assets (including, but not limited to, accounts receivable, inventory, equipment, and intellectual property) have been pledged to secure payment and performance of the CIT Credit Facility, which is subject to customary covenants for asset-based loans.

On June 27, 2007, the Company and CIT entered into an agreement to amend the CIT Credit Facility to (i) allow the Company to repurchase Company stock in an amount up to \$3,000,000, (ii) allow the Company to make permitted cash distributions or cash dividend payments to the Company's shareholders in the ordinary course of business and (iii) increase the aggregate capital expenditure limit from \$750,000 to \$3,000,000 per fiscal year. On May 30, 2008, the Company again amended the CIT Credit Facility to permit the Company to repurchase up to \$7,000,000 of the Company's common stock. As of September 28, 2008, \$301,000 was outstanding on the CIT Credit Facility and one letter of credit for approximately \$230,000 was outstanding to reinsurers to secure loss reserves.

The Company has cash available to fund operations through fiscal year 2009.

### **Contractual Obligations and Commitments**

On August 15, 2007, the Company's then President and CEO, Tim Taft, submitted to the Company's Board of Directors, his written notice of resignation as a director and officer of the Company, effective immediately. In connection with Mr. Taft's separation from the Company, the Company agreed to pay severance of \$300,000 (representing one year of salary), payable in twelve equal monthly installments. This amount was recorded as severance expense in the quarter ended September 23, 2007.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent liabilities. The Company bases its estimates on historical experience and various other assumptions that it believes are reasonable under the circumstances. Estimates and assumptions are reviewed periodically. Actual results could differ materially from estimates.

The Company believes the following critical accounting policies require estimates about the effect of

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matters that are inherently uncertain, are susceptible to change, and therefore require subjective judgments. Changes in the estimates and judgments could significantly impact the Company's results of operations and financial condition in future periods.

Accounts receivable consist primarily of receivables generated from food and supply sales to franchisees and franchise royalties. The Company records an allowance for doubtful receivables to allow for any amounts which may be uncollectible based upon an analysis of the Company's prior collection experience, general customer creditworthiness and the franchisee's ability to pay, as reflected by the franchisee's sales and operating results and other general and local economic trends. Actual realization of amounts receivable could differ materially from the Company's estimates.

Inventory, which consists primarily of food, paper products, supplies and equipment primarily warehoused by the Company's two third-party distributors, is stated at lower of cost or market, with cost determined according to the weighted average cost method. The valuation of inventory requires us to estimate the amount of obsolete and excess inventory. The determination of obsolete and excess inventory requires us to estimate the future demand for the Company's products within specific time horizons, generally six months or less. If the Company's demand forecast for specific products is greater than actual demand and the Company fails to reduce purchasing accordingly, the Company could be required to write down additional inventory, which would have a negative impact on the Company's gross margin.

As of June 24, 2007 we had recorded a valuation allowance based on our assessment that the realization of a portion of our net deferred tax assets did not meet the "more likely than not" criterion under SFAS No. 109, "*Accounting for Income Taxes*." The entire valuation allowance was released in fiscal 2008. As a result of this determination the effective tax rate for fiscal 2009 is estimated to be 35%.

The Company assesses its exposures to loss contingencies, including legal matters, based upon factors such as the current status of the cases and consultations with external counsel and accrues a reserve if a loss is judged to be probable and can be reasonably estimated. If the actual loss from a contingency differs from management's estimate, operating results could be impacted.

### **Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments, including employee stock option plans and operating leases accounted for in accordance with SFAS No. 13, *Accounting for Leases*, at their fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company has not completed its evaluation of the impact of adoption of SFAS No. 159 on

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the Company's financial statements but currently believes the impact of the adoption of SFAS No. 159 will not require material modification of the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations*. SFAS No. 141(R) improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary and clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement is effective for fiscal years beginning on or after December 15, 2008. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an Amendment of FASB Statement No. 133. SFAS No. 161 amends SFAS No. 133 and requires entities to enhance their disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning on or after November 15, 2008. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AICPA Professional Standards AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The adoption of SFAS No. 162 is not expected to have a material impact on the Company's financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable to smaller reporting company.

### **Item 4T. Controls and Procedures**

The Company maintains disclosure controls and procedures designed to ensure that information it is required to disclose in the reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive and principal financial officers, or person performing similar functions, have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. During the most recent fiscal quarter, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As a result of the discovery of an immaterial inventory miscalculation in prior periods, the Company has strengthened controls surrounding the inventory reconciliation process. During the most recent fiscal quarter, there have been no other changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

On August 31, 2006, the Company was served with notice of a lawsuit filed against it in federal court by a former franchisee and its guarantors who operated one restaurant in the Harlingen, Texas market in 2003. The former franchisee and guarantor alleged generally that the Company intentionally and negligently misrepresented costs associated with development and operation of the Company's franchise, and that as a result they sustained business losses that ultimately led to the closing of the restaurant. They seek damages of approximately \$768,000, representing amounts the former franchisees claim to have lost in connection with their development and operation of the restaurant. In addition, they seek unspecified punitive damages, and recovery of attorneys' fees and court costs. Pursuant to an Agreed Stipulation of Dismissal and Order, the plaintiff has dismissed the claim in federal court, with prejudice, and has re-filed the case in the state district courts of Dallas County, Texas. Pizza Inn has answered, denying all claims, and filed a counterclaim against Plaintiffs for (i) breach of the franchise agreement, (ii) breach of guaranty and (iii) recovery of attorney fees. The Company is waiting on a trial date to be set. The Company believes that the plaintiff's allegations are without merit and intends to vigorously defend against such allegations. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operation. Due to the preliminary nature of this matter and the general uncertainty surrounding the outcome, the Company has not made any accrual for such amounts as of September 28, 2008.

Except as reported herein, there have been no material developments in the three month period ended September 28, 2008 in any material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

**Item 1A. Risk Factors**

Not applicable to smaller reporting company.

**Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds**

On May 23, 2007, the board of directors of the Company approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase, on our behalf, of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date.

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The following table furnishes information for purchases made pursuant to the 2007 Stock Purchase Plan during the first quarter of fiscal 2009:

### ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>Total Number Of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Cum. Number of Shares Purchased as Part of Publicly Announced Plan</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under The Plans</u>
06/29/2008 - 08/03/2008	29,454	\$ 2.40	1,103,587	912,413
08/04/2008 - 08/31/2008	235,941	\$ 2.58	1,339,528	676,472
09/01/2008 - 09/28/2008	50,704	\$ 2.54	1,390,232	625,768
	<u>316,099</u>	<u>\$ 2.64</u>	Cum. Average Price	

The Company's ability to purchase shares of its common stock is subject to various laws, regulations and policies as well as the rules and regulations of the Securities and Exchange Commission. Subsequent to September 28, 2008, the Company has purchased 61,259 shares at an average price of \$2.60 per share, and intends to make further purchases under the 2007 Stock Purchase Plan. The Company may also purchase shares of its common stock other than pursuant to any publicly announced plan or program.

#### **Item 3. Defaults upon Senior Securities**

Not applicable.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

#### **Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

- 3.1 Restated Articles of Incorporation (filed as Item 3.2 to Form 10-K for the fiscal year ended June 25, 2006 filed on November 30, 2006 and incorporated herein by reference)
- 3.2 Amended and Restated Bylaws (filed as Item 3.1 to Form 10-K for the fiscal year ended June 25, 2006 and incorporated herein by reference)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
- 32.1 Section 1350 Certification of Principal Executive Officer.
- 32.2 Section 1350 Certification of Principal Financial Officer.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIZZA INN, INC.  
(Registrant)

By: /s/ Charles R. Morrison  
Charles R. Morrison  
President and Chief  
Executive Officer  
(Principal Executive Officer)

By: /s/ Nancy Ellefson  
Nancy Ellefson  
Vice President and Principal  
Accounting Officer  
(Principal Financial Officer)

Dated: November 12, 2008

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Charles R. Morrison, Chief Executive Officer of Pizza Inn, Inc. (the "Company") certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 12, 2008

By: /s/ Charles R. Morrison

Charles R. Morrison  
President and  
Chief Executive Officer  
(Principal Executive Officer)



**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Nancy Ellefson, Vice President of Finance and Principal Accounting Officer of Pizza Inn, Inc. (the "Company") certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
6. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 12, 2008

By: /s/ Nancy Ellefson  
Nancy Ellefson  
Vice President and Principal Accounting Officer  
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Pizza Inn, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The accompanying Quarterly Report on Form 10-Q for the quarter ended September 28, 2008 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: November 12, 2008

By: /s/ Charles R. Morrison \_\_\_\_\_

Charles R. Morrison  
President and Chief  
Executive Officer  
(Principal Executive Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Pizza Inn, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The accompanying Quarterly Report on Form 10-Q for the quarter ended September 28, 2008 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: November 12, 2008

By: /s/ Nancy Ellefson  
Nancy Ellefson  
Vice President and Principal Accounting Officer  
(Principal Financial Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.