

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 December 29, 2013

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-12919

PIZZA INN HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
Incorporation or organization)

45-3189287
(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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definition 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

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 February 12, 2014 8,645,288 shares of the issuer's common stock were outstanding.

PIZZA INN HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
REVENUES:	\$ 10,157	\$ 10,548	\$ 20,369	\$ 20,986
COSTS AND EXPENSES:				
Cost of sales	8,610	8,875	17,458	17,667
General and administrative expenses	1,154	1,153	2,184	2,158
Franchise expenses	806	566	1,473	1,067
Pre-opening expenses	70	85	156	164
Bad debt	65	45	110	90
Interest expense	36	35	79	139
	<u>10,741</u>	<u>10,759</u>	<u>21,460</u>	<u>21,285</u>
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(584)	(211)	(1,091)	(299)
Income tax benefit	(199)	(103)	(368)	(148)
LOSS FROM CONTINUING OPERATIONS	<u>(385)</u>	<u>(108)</u>	<u>(723)</u>	<u>(151)</u>
Loss from discontinued operations, net of taxes	(12)	(12)	(25)	(27)
NET LOSS	<u>\$ (397)</u>	<u>\$ (120)</u>	<u>\$ (748)</u>	<u>\$ (178)</u>
EARNINGS PER SHARE OF COMMON STOCK - BASIC:				
Loss from continuing operations	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Loss from discontinued operations	(0.01)	-	(0.01)	-
Net loss	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.02)</u>
EARNINGS PER SHARE OF COMMON STOCK - DILUTED:				
Loss from continuing operations	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Loss from discontinued operations	-	-	-	-
Net loss	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>
Weighted average common shares outstanding - basic	<u>8,615</u>	<u>8,021</u>	<u>8,510</u>	<u>8,021</u>
Weighted average common and potential dilutive common shares outstanding	<u>9,246</u>	<u>8,184</u>	<u>9,115</u>	<u>8,172</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

ASSETS	December 29, 2013 (unaudited)	June 30, 2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 879	\$ 919
Accounts receivable, less allowance for bad debts of \$338 and \$228, respectively	3,663	3,139
Notes receivable	212	292
Inventories	1,366	1,615
Income tax receivable	343	343
Deferred income tax assets	889	882
Prepaid expenses and other	448	307
Total current assets	7,800	7,497
LONG-TERM ASSETS		
Property, plant and equipment, net	5,901	4,711
Long-term notes receivable	12	40
Long-term deferred tax asset	549	168
Deposits and other	-	119
	\$ 14,262	\$ 12,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 2,037	\$ 1,572
Accrued expenses	1,817	1,749
Deferred revenues	162	169
Bank debt	250	669
Total current liabilities	4,266	4,159
LONG-TERM LIABILITIES		
Bank debt, net of current portion	1,256	1,856
Deferred revenues, net of current portion	653	370
Deferred gain on sale of property	46	59
Other long-term liabilities	65	22
Total liabilities	6,286	6,466
COMMITMENTS AND CONTINGENCIES (See Note 3)		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 15,711,033 and 15,312,680 shares, respectively; outstanding 8,591,633 and 8,193,280 shares, respectively	157	153
Additional paid-in capital	12,825	10,174
Retained earnings	19,630	20,378
Treasury stock at cost		
Shares in treasury: 7,119,400	(24,636)	(24,636)
Total shareholders' equity	7,976	6,069
	\$ 14,262	\$ 12,535

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	December 29, 2013	December 23, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (748)	\$ (178)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	687	627
Gain on sale of assets	(40)	-
Stock compensation expense	30	90
Deferred taxes	(388)	(138)
Provision for bad debts	110	1
Changes in operating assets and liabilities:		
Notes and accounts receivable	(526)	(319)
Inventories	249	321
Accounts payable - trade	465	(140)
Accrued expenses	111	100
Deferred revenue	263	(103)
Prepaid expenses and other	(26)	(26)
Cash provided by operating activities	187	235
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	40	-
Capital expenditures	(1,873)	(1,324)
Cash used for investing activities	(1,833)	(1,324)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	2,625	-
Borrowings of bank debt	-	3,160
Repayments of bank debt	(1,019)	(2,127)
Cash provided by financing activities	1,606	1,033
Net decrease in cash and cash equivalents	(40)	(56)
Cash and cash equivalents, beginning of period	919	590
Cash and cash equivalents, end of period	\$ 879	\$ 534

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAYMENTS FOR:		
Interest	\$ 79	\$ 141
Income taxes - net	\$ 1	\$ -

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

PIZZA INN HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements of Pizza Inn Holdings, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). 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 the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

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 reflected. Except as noted, all adjustments are of a normal recurring nature. Results of operations for the fiscal periods presented 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 Quarters

The three month periods ended December 29, 2013 and December 23, 2012, each contained 13 weeks. The six month periods ended December 29, 2013 and December 23, 2012, each contained 26 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 sales revenues, including shipping and handling costs, are recognized upon delivery of the product. Revenue from restaurant sales is recognized when food and beverage products are sold. The Company reports revenue net of sales taxes collected from customers and remitted to governmental taxing authorities.

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 under the agreement by 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.

Stock-Based Compensation

The Company accounts for stock options using the fair value recognition provisions of the authoritative guidance on share-based payments. The Company uses the Black-Scholes formula to estimate the value of stock-based compensation for options granted to employees and directors and expects to continue to use this acceptable option valuation model in the future. The authoritative guidance also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow.

Use of Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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

Certain items have been reclassified in the prior year financial statements to conform to current year presentation.

(2) Long-Term Debt

On August 28, 2012, the Company entered into a Loan and Security Agreement (the "F&M Loan Agreement") with The F&M Bank & Trust Company ("F&M") providing for a \$2.0 million revolving credit facility (with a \$500 thousand letter of credit subfacility), a \$2.0 million fully funded term loan facility and a \$6.0 million advancing term loan facility. An origination fee of 0.5% of the total credit facilities was paid at closing. At closing, F&M funded a \$2.0 million term loan payable in 48 equal monthly installments of principal plus accrued interest at a fixed rate of 4.574% per annum. Amounts repaid under this fully funded term loan may not be reborrowed. Initial proceeds from the F&M Loan Agreement were used to repay amounts borrowed under a previous credit facility that subsequently was canceled.

On June 13, 2013 the Company entered into a First Amendment to the F&M Loan Agreement that revised certain financial covenants to address proceeds from the Company's at-the-market offering of common stock. On September 10, 2013 the Company entered into a Second Amendment to the F&M Loan Agreement that specified the application of prepayments to the loan amortization schedule and revised certain definitions.

The Company may borrow, repay and reborrow under the revolving credit facility through August 28, 2014, at which time all amounts outstanding under the revolving credit facility mature. Availability under the revolving credit facility is limited by advance rates on eligible inventory and accounts receivable. Per annum interest on indebtedness from time to time outstanding under the revolving credit facility is computed at the Wall Street Journal prime rate plus 1.00% and is payable monthly. An unused commitment fee of 0.50% per annum is payable quarterly on the average unused portion of the revolving credit facility.

Through August 28, 2014, F&M has agreed to make up to \$6.0 million in additional term loans to the Company. Advances for such additional term loans are limited by a percentage of the costs of equipment, leasehold improvements and other opening costs for new Company-owned Pie Five Units and may not be reborrowed after repayment. Interest only is payable monthly on all additional term loan advances during an annual borrowing period. At the end of each annual borrowing period, all additional term loan advances during such borrowing period become payable in 48 equal monthly installments of principal plus accrued interest. Interest on each term loan accrues at the Wall Street Journal prime rate plus 1.00% or, at the Company's option, a fixed rate equal to the Bloomberg 4-year LIBOR swap rate plus 3.90%.

As security for the credit facilities, the Company has pledged substantially all of its assets including, but not limited to, accounts receivable, inventory and equipment. The F&M Loan Agreement contains various affirmative covenants which, among other things, require the Company to provide F&M with certain financial statements, compliance statements, reports and other information. The F&M Loan Agreement also contains various negative covenants which, among other things, require the Company to maintain certain financial ratios and restrict the ability of the Company to engage in certain activities. If an event of default occurs under the F&M Loan Agreement and any cure periods have expired, F&M may terminate all commitments under the credit facilities and declare all unpaid principal, interest and other amounts owing under the credit facilities to be immediately due and payable.

The Company was in compliance with all covenants under the F&M Loan Agreement as of December 29, 2013. As of December 29, 2013, the balance on the initial term loan facility was \$1.1 million with an interest rate of 4.574%, the balance on the advancing term loan facility was \$0.4 million with an interest rate of 4.25%, the balance on the revolving credit facility was zero with an interest rate of 4.25% and the Company had an outstanding letter of credit of \$0.2 million.

(3) Commitments and Contingencies

On April 22, 2009, the Company's board of directors amended the stock purchase plan first adopted on May 23, 2007, and previously amended on June 2, 2008, to increase the number of shares of common stock the Company may repurchase to a total of 3,016,000 shares. As of December 29, 2013, up to an additional 848,425 shares could be purchased under the plan.

The Company is subject to various claims and legal actions in the ordinary course of its business. The Company believes that all such claims and actions currently pending against it are either adequately covered by insurance or would not have a material adverse effect on the Company's annual results of operations, cash flows or financial condition if decided in a manner that is unfavorable to the Company.

(4) **Stock-Based Compensation**

For the three months and six months ended December 29, 2013, the Company recognized stock-based compensation expense of \$15,000 and \$30,000, respectively. As of December 29, 2013, unamortized stock-based compensation expense was \$0.2 million.

The following table summarizes the number of shares of the Company's common stock subject to outstanding stock options:

	Six Months Ended	
	<u>December 29, 2013</u>	<u>December 23, 2012</u>
Outstanding at beginning of year	851,306	486,506
Granted	70,392	414,800
Exercised	-	-
Forfeited/Canceled/Expired	-	-
Outstanding at end of period	<u>921,698</u>	<u>901,306</u>
Exercisable at end of period	<u>502,506</u>	<u>380,706</u>

(5) **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		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Loss from continuing operations	\$ (385)	\$ (108)	\$ (723)	\$ (151)
Discontinued operations	(12)	(12)	(25)	(27)
Net loss available to common stockholders	<u>\$ (397)</u>	<u>\$ (120)</u>	<u>\$ (748)</u>	<u>\$ (178)</u>
BASIC:				
Weighted average common shares	8,615	8,021	8,510	8,021
Loss from continuing operations per share	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Discontinued operations per common share	(0.01)	-	(0.01)	-
Net loss per common share	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.02)</u>
DILUTED:				
Weighted average common shares	8,615	8,021	8,510	8,021
Dilutive stock options	631	163	605	151
Weighted average common shares outstanding	<u>9,246</u>	<u>8,184</u>	<u>9,115</u>	<u>8,172</u>
Loss from continuing operations per share	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.02)
Discontinued operations per common share	-	-	-	-
Loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>

For the three months and six months ended December 29, 2013, no options to purchase shares of common stock were excluded from the computation of diluted EPS because the options' exercise prices exceeded the average market price of the common shares for the period.

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

The authoritative guidance on "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. This guidance also requires that the operations of the closed restaurants, including any impairment charges, be reclassified to discontinued operations for all periods presented.

The authoritative guidance on "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 authoritative guidance also establishes that fair value is the objective for initial measurement of the liability.

Loss from discontinued operations reflects costs associated with a former Company-owned restaurant in Texas that was closed during the quarter ended September 23, 2007. This property is on the market for sub-lease. Because we believe that the property will sub-lease at or above the contracted lease rates, we have not reserved any additional costs related to our obligations under this non-cancelable lease.

(7) **Income Taxes**

For the three and six month period ended December 29, 2013, income tax benefit of \$0.2 million and \$0.4 million, respectively, was calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34% adjusted for state income tax effects and permanent difference items. 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 \$1.4 million.

(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 and six month periods ended December 29, 2013 and December 23, 2012 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Net sales and operating revenues:				
Franchising and food and supply distribution	\$ 7,764	\$ 8,591	\$ 15,563	\$ 17,203
Company-owned restaurants (1)	2,393	1,957	4,806	3,783
Consolidated revenues	<u>\$ 10,157</u>	<u>\$ 10,548</u>	<u>\$ 20,369</u>	<u>\$ 20,986</u>
Depreciation and amortization:				
Franchising and food and supply distribution	\$ 5	\$ -	\$ 7	\$ -
Company-owned restaurants (1)	286	259	592	483
Combined	291	259	599	483
Corporate administration and other	31	67	88	144
Depreciation and amortization	<u>\$ 322</u>	<u>\$ 326</u>	<u>\$ 687</u>	<u>\$ 627</u>
Income (loss) from continuing operations before taxes:				
Franchising and food and supply distribution (2)	\$ 328	\$ 605	\$ 620	\$ 1,281
Company-owned restaurants (1) (2)	(362)	(337)	(803)	(599)
Combined	(34)	268	(183)	682
Corporate administration and other (2)	(550)	(479)	(908)	(981)
Operating loss	<u>\$ (584)</u>	<u>\$ (211)</u>	<u>\$ (1,091)</u>	<u>\$ (299)</u>
Geographic information (revenues):				
United States	\$ 9,907	\$ 10,298	\$ 19,895	\$ 20,430
Foreign countries	250	250	474	556
Consolidated total	<u>\$ 10,157</u>	<u>\$ 10,548</u>	<u>\$ 20,369</u>	<u>\$ 20,986</u>

- (1) Company stores that were closed are included in discontinued operations in the accompanying Condensed Consolidated Statement of Operations.
- (2) Portions of corporate administration and other have been allocated to segments.

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 and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 30, 2013, 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," "intend," "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 franchisees, our liquidity and capital resources, and the impact of our historical and potential business strategies on our business, financial condition, and operating results. 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 30, 2013. 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 operates and franchises pizza buffet ("Buffet Units"), delivery/carry-out ("Delco Units") and express ("Express Units") restaurants domestically and internationally under the trademark "Pizza Inn" and operates and franchises domestic fast casual pizza restaurants ("Pie Five Units") under the trademarks "Pie Five Pizza Company" or "Pie Five". We provide or facilitate food, equipment and supply distribution to our domestic and international system of restaurants through our Norco Restaurant Services Company ("Norco") division and through agreements with third party distributors. At December 29, 2013, Company and franchised restaurants consisted of the following:

	Buffet Units	Delco Units	Express Units	Pie Five Units	Total Units
Company Owned	3	-	-	13	16
Domestic Franchise	106	27	46	5	184
International Franchise	24	52	10	-	86
Total Franchise	130	79	56	5	270
Total Units	133	79	56	18	286

Domestic restaurants are located predominantly in the southern half of the United States, with Texas, North Carolina, Arkansas and Mississippi accounting for approximately 34%, 16%, 10% and 7%, respectively, of the total number of domestic restaurants. International restaurants are located in eleven foreign countries.

Basic and diluted loss per common share increased \$0.04 and \$0.03, respectively, to a loss of \$0.05 and \$0.04, respectively, for the three month period ended December 29, 2013 compared to a loss of \$0.01 in the comparable period in the prior fiscal year. The Company had a net loss for the three month period ended December 29, 2013 of \$0.4 million compared to a net loss of \$0.1 million for the comparable period in the prior fiscal year, on revenues of \$10.2 million for the three month period ended December 29, 2013 compared to \$10.5 million in the comparable period in the prior fiscal year. Earnings before interest, taxes, depreciation, amortization, and stock compensation expense ("Adjusted EBITDA") for the three month period ended December 29, 2013 decreased \$0.4 million to a loss of \$0.2 million compared to earnings of \$0.2 million for the comparable period in the prior fiscal year.

The increase in net loss from prior year was primarily due to lower revenue earned from franchising and food and supply distribution, partially offset by higher revenue from Company-owned restaurants, as well as by higher costs related to the continued development of the Pie Five concept. The total increased costs associated with the Pie Five development were approximately \$0.3 million for the three months ended December 29, 2013.

Management believes that key performance indicators in evaluating financial results include domestic and international franchisee retail sales and the number and type of operating restaurants. The following tables summarize these key performance indicators for all franchise locations. All amounts are in thousands except the average number of units.

Franchise Stores - Total Stores

(in thousands, except average data)

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Domestic retail sales of Buffet Units	\$ 19,707	\$ 21,387	\$ 40,382	\$ 44,278
Domestic retail sales of Delco Units	1,310	1,606	2,678	3,257
Domestic retail sales of Express Units	634	840	1,319	1,753
Domestic retail sales of Pie Five Units	515	-	789	-
Total domestic retail sales	\$ 22,166	\$ 23,833	\$ 45,168	\$ 49,288
Average number of domestic Buffet Units	107	122	108	125
Average number of domestic Delco Units	26	29	26	29
Average number of domestic Express Units	44	47	43	47
Average number of domestic Pie Five Units	4	-	3	-

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
International retail sales of Buffet Units	\$ 1,894	\$ 1,337	\$ 3,504	\$ 2,499
International retail sales of Delco Units	2,577	4,258	4,797	7,553
International retail sales of Express Units	638	291	1,021	557
Total International retail sales	\$ 5,109	\$ 5,886	\$ 9,322	\$ 10,609
Average number of International Buffet Units	23	15	22	15
Average number of International Delco Units	47	53	46	53
Average number of International Express Units	7	8	7	8

Total domestic chain-wide franchisee retail sales decreased \$1.7 million, or 7.0%, and international chain-wide retail sales decreased \$0.8 million, or 13.2%, for the three months ended December 29, 2013 when compared to the same period of the prior year. Total domestic chain-wide franchisee retail sales decreased \$4.1 million, or 8.4%, and international chain-wide retail sales decreased \$1.3 million, or 12.1%, for the six months ended December 29, 2013 when compared to the same period of the prior year.

Management also believes that a comparison of period-to-period retail sales by restaurants open throughout both periods is an important performance measure in evaluating financial results. The calculation of “comparable store sales” includes the sales results for restaurants which have been open for at least 18 months as of the end of the reporting period. The sales results for a restaurant that was closed temporarily for remodeling or relocation within the same trade area are included in the calculation only for the days that the restaurant was open in both periods being compared. The following tables summarize franchisee comparable store retail sales for the periods presented:

Franchise Stores - Comparable Stores

(in thousands)

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Domestic retail sales of same store Buffet Units	\$ 18,937	\$ 19,599	\$ 38,754	\$ 40,071
Domestic retail sales of same store Delco Units	1,128	1,252	2,317	2,550
Domestic retail sales of same store Express Units	571	662	1,164	1,358
Total domestic same store retail sales	\$ 20,636	\$ 21,513	\$ 42,235	\$ 43,979
International retail sales of same store Buffet Units	\$ 1,350	\$ 2,020	\$ 2,489	\$ 3,220
International retail sales of same store Delco Units	2,475	2,920	4,675	5,470
International retail sales of same store Express Units	475	262	857	514
Total International same store retail sales	\$ 4,300	\$ 5,202	\$ 8,021	\$ 9,204

Domestic comparable store franchisee retail sales decreased \$0.9 million, or 4.1%, for the three months ended December 29, 2013 when compared to the same period of the prior year. International same store franchisee retail sales decreased \$0.9 million, or 17.3%, for the three months ended December 29, 2013 when compared to the same period of the prior year. Domestic comparable store franchisee retail sales decreased \$1.7 million, or 4.0%, for the six months ended December 29, 2013 when compared to the same period of the prior year. International same store franchisee retail sales decreased \$1.2 million, or 12.9%, for the six months ended December 29, 2013 when compared to the same period of the prior year.

The following table summarizes the results and key performance indicators for the Pie Five and Pizza Inn Company-owned restaurants. We believe this information is useful to management and investors to measure the performance of the Company-owned restaurants. These indicators provide performance trend information as well as the cash flow of the restaurants before pre-opening costs and allocated corporate administration and other expenses. This information is important in evaluating the effectiveness of our business strategies and for planning and budgeting purposes. These non-GAAP financial measures should not be viewed as an alternative or substitute for our reported GAAP results. All amounts are in thousands except the store weeks, average weekly sales and the average number of units.

Pie Five - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended		Six Months Ended	
	December 29,	December 23,	December 29,	December 23,
	2013	2012	2013	2012
Store weeks	156	101	296	183
Average weekly per store sales	11,805	11,408	11,820	11,553
Average number of units	12	8	11	7
Restaurant sales	1,844	1,152	3,503	2,114
Restaurant operating cash flow	69	95	150	157
Depreciation/amortization expense	(237)	(157)	(493)	(279)
Pre-opening expenses	(70)	(85)	(156)	(164)
Allocated corporate administration and other expenses	(59)	(51)	(100)	(77)
Deferred rent adjustment net of store closure/relocation costs	3	-	3	-
Loss from continuing operations before taxes	(294)	(198)	(596)	(363)

Pizza Inn - Company-Owned Restaurants

(in thousands, except store weeks and average data)

	Three Months Ended		Six Months Ended	
	December 29,	December 23,	December 29,	December 23,
	2013	2012	2013	2012
Store weeks	42	52	94	104
Average weekly per store sales	12,839	15,483	13,733	16,047
Average number of units	3	4	4	4
Restaurant sales	549	805	1,303	1,669
Restaurant operating cash flow	(79)	1	(138)	37
Depreciation/amortization expense	(49)	(102)	(99)	(204)
Pre-opening expenses	-	-	-	-
Allocated corporate administration and other expenses	(29)	(38)	(59)	(69)
Deferred rent adjustment net of store closure/relocation costs	89	-	89	-
Loss from continuing operations before taxes	(68)	(139)	(207)	(236)

Store weeks represent the total number of weeks Company-owned restaurants were open during the period. Average weekly per store sales represents the average weekly revenues earned by the Company-owned restaurants that were open during the period. Restaurant operating cash flow represents the income earned by Company-owned restaurants adjusted for (1) depreciation and amortization, (2) pre-opening expenses, (3) allocated corporate administration and other expenses and (4) deferred rent adjustment net of other costs related to store closures and relocations. Pre-opening expenses consist primarily of certain costs incurred prior to the opening of a restaurant, including: (a) marketing and promotional expenses, (b) accrued rent, and (c) manager salaries, employee payroll and related training costs.

For Pie Five Company-owned restaurants, the year over year increase in average weekly per store sales in the quarter ended December 29, 2013 was primarily a result of the opening of 5 new restaurants in the prior twelve months that collectively generated higher average weekly per store sales than the existing restaurants. Pie Five Company-owned comparable store sales declined by 0.3% as compared to the same quarter in the prior fiscal year. However, excluding four days of icy weather in the Dallas/Ft. Worth market where all Company-owned Pie Five Units are located, comparable store sales for the quarter increased by 2.5% when compared to the same quarter in the prior fiscal year.

Revenues

Revenues are derived from (1) sales of food, paper products and supplies from Norco to franchisees, (2) franchise royalties and franchise fees, and (3) Company-owned restaurant operations. Financial results are dependent in large part upon the volume, pricing and cost of the products and supplies sold to franchisees. The volume of products sold by Norco to franchisees is dependent on the level of franchisee chain-wide retail sales, which are impacted by changes in comparable store sales and restaurant count, and the products sold to franchisees through Norco rather than through third-party food distributors.

Total revenues for the three month period ended December 29, 2013 and for the same period in the prior fiscal year were \$10.2 million and \$10.5 million, respectively. Total revenues for the six month period ended December 29, 2013 and for the same period in the prior fiscal year were \$20.4 million and \$21.0 million, respectively. Revenue consisted of the following:

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Food and supply sales	\$ 6,903	\$ 7,701	\$ 13,864	\$ 15,411
Franchise revenue	861	890	1,699	1,792
Restaurant sales	2,393	1,957	4,806	3,783
Total revenue	<u>\$ 10,157</u>	<u>\$ 10,548</u>	<u>\$ 20,369</u>	<u>\$ 20,986</u>

Food and Supply Sales

Food and supply sales by Norco include food and paper products and other distribution revenues. For the three month period ended December 29, 2013, food and supply sales decreased to \$6.9 million compared to \$7.7 million the same period in the prior fiscal year due primarily to a decrease in sales to franchisees as a result of a \$1.7 million, or 7.0%, decrease in domestic franchisee retail sales primarily attributable to a reduction in the average number of stores open and a decrease in comparable store sales. For the six month period ended December 29, 2013, food and supply sales decreased to \$13.9 million compared to \$15.4 million the same period in the prior fiscal year for the same reasons.

Franchise Revenue

Franchise revenue, which includes income from domestic and international royalties and license fees, remained relatively stable for the three month period ended December 29, 2013 compared to the same period in the prior fiscal year. Decreased royalties resulting from lower Pizza Inn franchisee retail sales were largely offset by increased royalties and franchise fees from new Pie Five franchisees. Franchise revenue decreased by \$0.1 million for the six month period ended December 29, 2013 compared to the same period in the prior fiscal year for the same reasons.

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 22.3%, or \$0.4 million, to \$2.4 million for the three month period ended December 29, 2013, compared to \$2.0 million for the comparable period in the prior year. This increase was primarily due to the opening of two new Company-owned restaurants in the second half of fiscal 2013 and four new Company-owned restaurants in fiscal 2014, partially offset by the closing of one Company-owned restaurant in fiscal 2014. Similarly, restaurant sales increased 27.0%, or \$1.0 million, to \$4.8 million for the six month period ended December 29, 2013, compared to \$3.8 million for the comparable period in the prior year.

Costs and Expenses

Cost of Sales

Cost of sales, which primarily includes food and supply costs, distribution fees, and labor, occupancy and general and administrative expenses directly related to restaurant sales, decreased \$0.3 million or 3.0% for the three month period ended December 29, 2013 compared to the comparable period in the prior fiscal year. The decrease in costs was primarily the result of lower food and supply sales and was offset slightly by costs associated with new Company-owned restaurants. Cost of sales decreased 1.2%, or \$0.2 million, for the six month period ended December 29, 2013 compared to the comparable period in the prior year. The three month and six month periods ended December 29, 2013 included a net reduction to cost of sales of \$0.1 million related to the net impact of adjustments to deferred rent net of costs related to the closure of one Company-owned Pizza Inn restaurant and the relocation of one Company-owned Pie Five restaurant.

General and Administrative Expenses

General and administrative expenses remained relatively stable at \$1.2 million for the three month periods ended December 29, 2013 and December 23, 2012. Additional operating expenses associated with new Company-owned Pie Five Units were largely offset by reduced stock compensation expense and recruiting fees. General and administrative expenses increased \$0.1 million for the six month period ended December 29, 2013 for the same reasons.

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 increased \$0.2 million for the three month period ended December 29, 2013 compared to the comparable period in the prior fiscal year primarily due to higher employee costs and franchise marketing expenses associated with the Company's Pie Five franchising efforts. Franchise expenses increased \$0.4 million for the six month period ended December 29, 2013 compared to the comparable period in the prior year for the same reasons.

Pre-Opening Expenses

Pre-opening expenses consist primarily of certain costs incurred prior to the opening of a restaurant, including: (1) marketing and promotional expenses, (2) accrued rent, and (3) manager salaries, employee payroll and related training costs. Pre-opening expenses for the three month period ended December 29, 2013, were similar to the prior year comparable period, with one new Company-owned Pie Five Unit opened and one Company-owned Pie Five Unit relocated during the current year period. Pre-opening expenses also remained stable for the six month period ended December 29, 2013 compared to the comparable period in the prior year.

Bad Debt Expense

The Company monitors franchisee retail sales and receivable balances and adjusts credit terms when necessary to minimize the Company's exposure to high risk accounts receivable. Bad debt expense increased slightly for the three month and six month periods ended December 29, 2013 as compared to the comparable periods in the prior fiscal year.

Interest Expense

Interest expense remained relatively flat for the three month period ended December 29, 2013 as compared to the comparable period in the prior fiscal year. Interest expense decreased slightly for the six month period ended December 29, 2013 as compared to the comparable period in the prior fiscal year due to a lower average debt balance.

Provision for Income Tax

For the three month period ended December 29, 2013, an income tax benefit of \$0.2 million was calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34% adjusted for state income tax effects and permanent difference items. 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 \$1.4 million.

Discontinued Operations

Discontinued operations include losses from a leased building associated with a Company-owned restaurant in Texas that was closed during fiscal 2008.

Restaurant Openings and Closings

The following charts summarize restaurant activity for the three month and six month periods ended December 29, 2013 and December 23, 2012:

Three months ended December 29, 2013

	Beginning of Period	Opened	Closed	End of Period
Pizza Inn Domestic:				
Buffet Units	114	-	5	109
Delco Units	27	1	1	27
Express Units	42	5	1	46
Pizza International Units	83	3	-	86
Pie Five Units	15	3	-	18
Total	281	12	7	286

Three months ended December 23, 2012

	Beginning of Period	Opened	Closed	End of Period
Domestic:				
Buffet Units	130	-	4	126
Delco Units	30	1	-	31
Express Units	46	-	1	45
International Units	85	1	6	80
Pie Five Units	7	1	-	8
Total	298	3	11	290

Six months ended December 29, 2013

	Beginning of Period	Opened	Closed	End of Period
Domestic:				
Buffet Units	114	1	6	109
Delco Units	27	1	1	27
Express Units	43	6	3	46
International Units	81	5	-	86
Pie Five Units	11	7	-	18
Total	276	20	10	286

Six months ended December 23, 2012

	Beginning of Period	Opened	Closed	End of Period
Domestic:				
Buffet Units	135	-	9	126
Delco Units	29	2	-	31
Express Units	47	-	2	45
International Units	81	5	6	80
Pie Five Units	6	2	-	8
Total	298	9	17	290

We believe that the net decrease of one domestic Pizza Inn unit during the second quarter of fiscal 2014 reflects a return to an improving trend in net domestic store closures that was interrupted by the expiration of an abnormally high number of domestic franchise agreements in fiscal 2013. The addition of three new international Pizza Inn units during the second quarter of fiscal 2014 continues the trend of gradual growth in the international unit experience over the last several years. We believe that the addition of three Pie Five Units during the second quarter of fiscal 2014 reflects the beginning of an accelerated pace of growth in the opening of Pie Five Units as franchised stores begin to open pursuant to previously executed franchise development agreements and the Company continues to develop its own stores in the Dallas-Fort Worth and Houston metropolitan areas.

Non-GAAP Financial Measures

We report and discuss our operating results using financial measures consistent with GAAP. From time to time we disclose certain non-GAAP financial measures such as Adjusted EBITDA. We believe Adjusted EBITDA is useful to investors as a measure of operating performance without regard to items that can vary substantially depending upon financing and accounting methods, book value of assets, capital structures and methods by which assets have been acquired. In addition, our management uses Adjusted EBITDA in evaluating the effectiveness of our business strategies and for planning and budgeting purposes. However, this non-GAAP financial measure should not be viewed as an alternative or substitute for our reported GAAP results.

The following table sets forth a reconciliation of net income to Adjusted EBITDA for the periods shown (in thousands):

	Three Months Ended		Six Months Ended	
	December 29, 2013	December 23, 2012	December 29, 2013	December 23, 2012
Net loss	\$ (397)	\$ (120)	\$ (748)	\$ (178)
Interest expense	36	35	79	139
Income Taxes - Continuing Operations	(199)	(103)	(368)	(148)
Income Taxes - Discontinued Operations	(6)	(6)	(13)	(13)
Stock compensation expense	15	45	30	90
Depreciation and amortization	322	326	687	627
Adjusted EBITDA	\$ (229)	\$ 177	\$ (333)	\$ 517

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow from operating activities, borrowings under our credit facilities and, beginning in the fourth quarter of fiscal 2013, proceeds from the sale of common stock.

Cash flows from operating activities generally reflect net income adjusted for certain non-cash items including depreciation and amortization, changes in deferred tax assets, share based compensation, and changes in working capital. Cash provided by operating activities remained relatively flat at \$0.2 million for the three months ended December 29, 2013 compared to the three months ended December 23, 2012.

Cash flows from investing activities generally reflect capital expenditures for the purchase of Company assets. The Company used cash of \$1.8 million for the six month period ended December 29, 2013, primarily for new Company-owned restaurants that opened or will open in the Dallas/Fort Worth, Texas area. This compares to cash used by investing activities of \$1.3 million during the same period in the prior fiscal year attributable to Company-owned restaurants that opened in the Dallas/Fort Worth, Texas area.

Cash flows from financing activities generally reflect changes in the Company's borrowings and stock activity during the period. Net cash provided by financing activities was \$1.6 million for the six month period ended December 29, 2013, which reflected proceeds from the sale of stock partially offset by the repayment of bank debt. Net cash provided of \$1.0 million for the comparable period in the prior fiscal year reflected a net increase in borrowing.

On May 20, 2013, the Company entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC ("MLV") pursuant to which the Company could offer and sell shares of its common stock having an aggregate offering price of up to \$3,000,000 from time to time through MLV, acting as agent (the "ATM Offering"). The ATM Offering was undertaken pursuant to Rule 415 and a shelf Registration Statement on Form S-3 which was declared effective by the SEC on May 13, 2013. On November 20, 2013, the Company and MLV amended the At-the-Market Issuance Sales Agreement and the SEC declared effective a new shelf registration statement on Form S-3 to increase the ATM Offering by \$5,000,000. Through December 29, 2013, the Company had sold an aggregate of 570,714 shares in the ATM Offering, realizing aggregate net proceeds of \$3.7 million.

On August 28, 2012, the Company entered into a Loan and Security Agreement (the "F&M Loan Agreement") with The F&M Bank & Trust Company ("F&M") providing for a \$2.0 million revolving credit facility (with a \$500 thousand letter of credit subfacility), a \$2.0 million fully funded term loan facility and a \$6.0 million advancing term loan facility. An origination fee of 0.5% of the total credit facilities was paid at closing. At closing, F&M funded a \$2.0 million term loan payable in 48 equal monthly installments of principal plus accrued interest at a fixed rate of 4.574% per annum. Amounts repaid under this fully funded term loan may not be reborrowed. Initial proceeds from the F&M Loan Agreement were used to repay amounts borrowed under a previous credit facility that subsequently was canceled.

On June 13, 2013 the Company entered into a First Amendment to the F&M Loan Agreement that revised certain financial covenants to address proceeds from the Company's at-the-market offering of common stock. On September 10, 2013 the Company entered into a Second Amendment to the F&M Loan Agreement that specified the application of prepayments to the loan amortization schedule and revised certain definitions.

The Company may borrow, repay and reborrow under the revolving credit facility through August 28, 2014, at which time all amounts outstanding under the revolving credit facility mature. Availability under the revolving credit facility is limited by advance rates on eligible inventory and accounts receivable. Per annum interest on indebtedness from time to time outstanding under the revolving credit facility is computed at the Wall Street Journal prime rate plus 1.00% and is payable monthly. An unused commitment fee of 0.50% per annum is payable quarterly on the average unused portion of the revolving credit facility.

Through August 28, 2014, F&M has agreed to make up to \$6.0 million in additional term loans to the Company. Advances for such additional term loans are limited by a percentage of the costs of equipment, leasehold improvements and other opening costs for new Company-owned Pie Five Units and may not be reborrowed after repayment. Interest only is payable monthly on all additional term loan advances during an annual borrowing period. At the end of each annual borrowing period, all additional term loan advances during such borrowing period become payable in 48 equal monthly installments of principal plus accrued interest. Interest on each term loan accrues at the Wall Street Journal prime rate plus 1.00% or, at the Company's option, a fixed rate equal to the Bloomberg 4-year LIBOR swap rate plus 3.90%.

As security for the credit facilities, the Company has pledged substantially all of its assets including, but not limited to, accounts receivable, inventory and equipment. The F&M Loan Agreement contains various affirmative covenants which, among other things, require the Company to provide F&M with certain financial statements, compliance statements, reports and other information. The F&M Loan Agreement also contains various negative covenants which, among other things, require the Company to maintain certain financial ratios and restrict the ability of the Company to engage in certain activities. If an event of default occurs under the F&M Loan Agreement and any cure periods have expired, F&M may terminate all commitments under the credit facilities and declare all unpaid principal, interest and other amounts owing under the credit facilities to be immediately due and payable.

The Company was in compliance with all covenants under the F&M Loan Agreement as of December 29, 2013. As of December 29, 2013, the balance on the initial term loan facility was \$1.1 million with an interest rate of 4.574%, the balance on the advancing term loan facility was \$0.4 million with an interest rate of 4.25%, the balance on the revolving credit facility was zero with an interest rate of 4.25% and the Company had an outstanding letter of credit of \$0.2 million.

Management believes the cash on hand combined with cash from operations and available credit facilities is sufficient to fund operations for the next 12 months.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP 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 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 a provision for doubtful receivables to allow for any amounts which may be unrecoverable based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends. Actual realization of accounts receivable could differ materially from the Company's estimates.

Inventory, which consists primarily of food, paper products and supplies primarily warehoused by the Company's 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 inventory, which would have a negative impact on the Company's gross margin.

The Company reviews long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the assets compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows. During fiscal year 2013, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of \$0.8 million related to the carrying value of two Company-owned Buffet Units in Texas and one Company-owned Pie Five Unit in Texas that has been relocated in fiscal 2014.

The Company periodically evaluates the realizability of its deferred tax assets based upon the Company's analysis of existing tax credits by jurisdiction and expectations of the Company's ability to utilize these tax assets through a review of estimated future taxable income and establishment of tax strategies. These estimates could be materially impacted by changes in future taxable income, the results of tax strategies or changes in tax law.

The Company recognizes food and supply 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. Franchise revenue consists of income from license fees, royalties, and area development and foreign master license sales. License fees are recognized as income when there has been substantial performance of the agreement by both the franchisee and the Company, generally at the time the restaurant is opened. Royalties are recognized as income when earned.

The Company accounts for uncertain tax positions in accordance with ASC 740-10, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. ASC 740-10 requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of December 29, 2013 and December 23, 2012, the Company had no uncertain tax positions.

The Company assesses its exposures to loss contingencies from legal matters based upon factors such as the current status of the cases and consultations with external counsel and provides for the exposure by accruing an amount if it 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 adversely impacted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for a smaller reporting company.

Item 4. 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 officer and principal financial officer, 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 officer and principal financial officer, or persons 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, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to claims and legal actions in the ordinary course of its business. The Company believes that all such claims and actions currently pending against it are either adequately covered by insurance or would not have a material adverse effect on the Company's annual results of operations, cash flows or financial condition if decided in a manner that is unfavorable to the Company.

Item 1A. Risk Factors

Not required for a 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 of up to 1,016,000 shares of the Company's 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 the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the board of directors further amended the 2007 Stock Purchase Plan by increasing the aggregate number of shares the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the three or six month periods ending December 29, 2013. As of December 29, 2013, up to an additional 848,425 shares could be purchased under the 2007 Stock Purchase Plan.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- 3.1 Articles of Incorporation (filed as Exhibit 3.1 to Form 8-K filed on September 23, 2011 and incorporated herein by reference).
- 3.2 By-laws (filed as Exhibit 3.1 to Form 8-K filed on September 23, 2011 and incorporated herein by reference).
- 10.1 Amendment No. 1 to At-the-Market Issuance Sales Agreement between Pizza Inn Holdings, Inc. and MLV & Co. LLC dated November 20, 2013 (filed as Exhibit 1.1 to Form 8-K filed on November 20, 2013 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.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T

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 HOLDINGS, INC.
(Registrant)

By: /s/ Randall E. Gier
Randall E. Gier
President and Chief Executive Officer

By: /s/ Christi Key
Christi Key
Controller

Dated: February 12, 2014

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

I, Randall E. Gier, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pizza Inn Holdings, Inc. (“the Registrant”);
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 Registrant as of, and for, the periods presented in this report;
4. The Registrant’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 Registrant 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 Registrant, 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 Registrant’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 Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’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 Registrant’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 Registrant’s internal control over financial reporting.

Date: February 12, 2014

By: /s/ Randall E. Gier
Randall E. Gier
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, Christi Key, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pizza Inn Holdings, Inc. ("the Registrant");
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 Registrant as of, and for, the periods presented in this report;
4. The Registrant'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 Registrant 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 Registrant, 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 Registrant'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 Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant'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 Registrant'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 Registrant's internal control over financial reporting.

Date: February 12, 2014

By: /s/ Christi Key
Christi Key
Controller
(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 Holdings, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 29, 2013 (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: February 12, 2014

By: /s/ Randall E. Gier
Randall E. Gier
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 Holdings, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 29, 2013 (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: February 12, 2014

By: /s/ Christi Key
Christi Key
Controller
(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.