

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 March 30, 2014

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

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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 May 13, 2014 8,767,944 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 share and per share amounts)*  
*(Unaudited)*

|   | <u>Three Months Ended</u> |                           | <u>Nine Months Ended</u>  |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | <u>March 30,<br/>2014</u> | <u>March 24,<br/>2013</u> | <u>March 30,<br/>2014</u> | <u>March 24,<br/>2013</u> |
| <b>REVENUES:</b>  | \$ 10,912                 | \$ 9,781                  | \$ 31,281                 | \$ 30,767                 |
| <b>COSTS AND EXPENSES:</b>  |                           |                           |                           |                           |
| Cost of sales   | 9,570                     | 8,460                     | 27,028                    | 26,127                    |
| General and administrative expenses   | 1,130                     | 840                       | 3,314                     | 2,995                     |
| Franchise expenses  | 677                       | 608                       | 2,150                     | 1,675                     |
| Pre-opening expenses  | 4                         | 82                        | 160                       | 249                       |
| Bad debt  | 93                        | 45                        | 203                       | 135                       |
| Interest expense  | 34                        | 58                        | 113                       | 197                       |
|   | <u>11,508</u>             | <u>10,093</u>             | <u>32,968</u>             | <u>31,378</u>             |
| <b>LOSS FROM CONTINUING OPERATIONS BEFORE TAXES</b>                             | (596)                     | (312)                     | (1,687)                   | (611)                     |
| Income tax benefit  | (159)                     | (22)                      | (527)                     | (170)                     |
| <b>LOSS FROM CONTINUING OPERATIONS</b>  | <u>(437)</u>              | <u>(290)</u>              | <u>(1,160)</u>            | <u>(441)</u>              |
| Loss from discontinued operations, net of taxes                                 | (14)                      | (100)                     | (39)                      | (127)                     |
| <b>NET LOSS</b>   | <u>\$ (451)</u>           | <u>\$ (390)</u>           | <u>\$ (1,199)</u>         | <u>\$ (568)</u>           |
| <b>EARNINGS PER SHARE OF COMMON STOCK - BASIC:</b>                              |                           |                           |                           |                           |
| Loss from continuing operations   | \$ (0.05)                 | \$ (0.04)                 | \$ (0.14)                 | \$ (0.05)                 |
| Loss from discontinued operations   | -                         | (0.01)                    | -                         | (0.02)                    |
| Net loss  | <u>\$ (0.05)</u>          | <u>\$ (0.05)</u>          | <u>\$ (0.14)</u>          | <u>\$ (0.07)</u>          |
| <b>EARNINGS PER SHARE OF COMMON STOCK - DILUTED:</b>                            |                           |                           |                           |                           |
| Loss from continuing operations   | \$ (0.05)                 | \$ (0.04)                 | \$ (0.13)                 | \$ (0.05)                 |
| Loss from discontinued operations   | -                         | (0.01)                    | -                         | (0.02)                    |
| Net loss  | <u>\$ (0.05)</u>          | <u>\$ (0.05)</u>          | <u>\$ (0.13)</u>          | <u>\$ (0.07)</u>          |
| <b>Weighted average common shares outstanding - basic</b>                       | <u>8,771</u>              | <u>8,021</u>              | <u>8,566</u>              | <u>8,021</u>              |
| <b>Weighted average common and potential dilutive common shares outstanding</b> | <u>9,290</u>              | <u>8,267</u>              | <u>9,109</u>              | <u>8,198</u>              |

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

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

|  | <b>March 30,<br/>2014</b> | <b>June 30,<br/>2013</b> |
|--|---------------------------|--------------------------|
|  | <u>(unaudited)</u>        | <u>2013</u>              |
| <b>ASSETS</b>  |                           |                          |
| <b>CURRENT ASSETS</b>  |                           |                          |
| Cash and cash equivalents  | \$ 365                    | \$ 919                   |
| Accounts receivable, less allowance for bad debts<br>of \$417 and \$228, respectively  | 3,679                     | 3,139                    |
| Notes receivable   | 123                       | 292                      |
| Inventories  | 1,601                     | 1,615                    |
| Income tax receivable  | 343                       | 343                      |
| Deferred income tax assets   | 943                       | 882                      |
| Prepaid expenses and other   | 336                       | 307                      |
| Total current assets   | <u>7,390</u>              | <u>7,497</u>             |
| <b>LONG-TERM ASSETS</b>  |                           |                          |
| Property, plant and equipment, net   | 5,652                     | 4,711                    |
| Long-term notes receivable   | 14                        | 40                       |
| Long-term deferred tax asset   | 657                       | 168                      |
| Deposits and other   | 430                       | 119                      |
| Total assets   | <u>\$ 14,143</u>          | <u>\$ 12,535</u>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                           |                          |
| <b>CURRENT LIABILITIES</b>   |                           |                          |
| Accounts payable - trade   | \$ 2,178                  | \$ 1,572                 |
| Accrued expenses   | 1,611                     | 1,749                    |
| Deferred revenues  | 154                       | 169                      |
| Bank debt  | 375                       | 669                      |
| Total current liabilities  | <u>4,318</u>              | <u>4,159</u>             |
| <b>LONG-TERM LIABILITIES</b>   |                           |                          |
| Bank debt, net of current portion  | 750                       | 1,856                    |
| Deferred revenues, net of current portion  | 680                       | 370                      |
| Deferred gain on sale of property  | 40                        | 59                       |
| Other long-term liabilities  | 70                        | 22                       |
| Total liabilities  | <u>5,858</u>              | <u>6,466</u>             |
| <b>COMMITMENTS AND CONTINGENCIES (See Note 3)</b>  |                           |                          |
| <b>SHAREHOLDERS' EQUITY</b>  |                           |                          |
| Common stock, \$.01 par value; authorized 26,000,000<br>shares; issued 15,849,615 and 15,312,680 shares, respectively;<br>outstanding 8,730,215 and 8,193,280 shares, respectively | 158                       | 153                      |
| Additional paid-in capital   | 13,584                    | 10,174                   |
| Retained earnings  | 19,179                    | 20,378                   |
| Treasury stock at cost   |                           |                          |
| Shares in treasury: 7,119,400  | (24,636)                  | (24,636)                 |
| Total shareholders' equity   | <u>8,285</u>              | <u>6,069</u>             |
|  | <u>\$ 14,143</u>          | <u>\$ 12,535</u>         |

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

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

|  | <b>Nine Months Ended</b>  |                          |
|--|---------------------------|--------------------------|
|  | <b>March 30,<br/>2014</b> | <b>March 24<br/>2013</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |                           |                          |
| Net loss   | \$ (1,199)                | \$ (568)                 |
| Adjustments to reconcile net loss to cash (used) provided by operating activities: |                           |                          |
| Depreciation and amortization  | 1,056                     | 958                      |
| (Gain) loss on sale of assets  | (40)                      | 129                      |
| Stock compensation expense   | 45                        | 135                      |
| Deferred taxes   | (551)                     | (243)                    |
| Provision for bad debts  | 203                       | 44                       |
| Changes in operating assets and liabilities:                                       |                           |                          |
| Notes and accounts receivable  | (548)                     | (172)                    |
| Inventories  | 14                        | 330                      |
| Accounts payable - trade   | 606                       | (21)                     |
| Accrued expenses   | (90)                      | 129                      |
| Deferred revenue   | 276                       | 61                       |
| Prepaid expenses and other   | (367)                     | (102)                    |
| <b>Cash (used) provided by operating activities</b>                                | <b>(595)</b>              | <b>680</b>               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |                           |                          |
| Proceeds from sale of assets   | 58                        | 184                      |
| Capital expenditures   | (1,987)                   | (1,547)                  |
| <b>Cash used for investing activities</b>  | <b>(1,929)</b>            | <b>(1,363)</b>           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |                           |                          |
| Proceeds from sale of stock  | 3,288                     | -                        |
| Proceeds from stock options  | 82                        | -                        |
| Borrowings of bank debt  | -                         | 3,160                    |
| Repayments of bank debt  | (1,400)                   | (2,252)                  |
| <b>Cash provided by financing activities</b>                                       | <b>1,970</b>              | <b>908</b>               |
| Net increase (decrease) in cash and cash equivalents                               | (554)                     | 225                      |
| Cash and cash equivalents, beginning of period                                     | 919                       | 590                      |
| Cash and cash equivalents, end of period   | <b>\$ 365</b>             | <b>\$ 815</b>            |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

**CASH PAYMENTS FOR:**

|                    |        |         |
|--------------------|--------|---------|
| Interest           | \$ 113 | \$ 248  |
| Income taxes - net | \$ 1   | \$ (84) |

*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 March 30, 2014 and March 24, 2013, each contained 13 weeks. The nine month periods ended March 30, 2014 and March 24, 2013, each contained 39 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. The Company has not drawn borrowings on the revolving credit facility during fiscal year 2014. 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. After such date any outstanding term loans continue to amortize according to each loan's specified payment schedule. 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 March 30, 2014. As of March 30, 2014, the balance on the initial term loan facility was \$1.1 million with an interest rate of 4.574% and scheduled monthly principle payments through September 1 2016. The balance on the advancing term loan facility was zero 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 March 30, 2014, 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 nine months ended March 30, 2014, the Company recognized stock-based compensation expense of \$15,000 and \$45,000, respectively. As of March 30, 2014, 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:

|                                  | Nine Months Ended     |                       |
|----------------------------------|-----------------------|-----------------------|
|                                  | <u>March 30, 2014</u> | <u>March 24, 2013</u> |
| Outstanding at beginning of year | 851,306               | 486,506               |
| Granted                          | 85,392                | 464,800               |
| Exercised                        | (39,144)              | -                     |
| Forfeited/Canceled/Expired       | <u>(38,856)</u>       | <u>-</u>              |
| Outstanding at end of period     | <u>858,698</u>        | <u>951,306</u>        |
| Exercisable at end of period     | <u>473,659</u>        | <u>391,939</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).

|  | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>March 30,<br/>2014</b> | <b>March 24,<br/>2013</b> | <b>March 30,<br/>2014</b> | <b>March 24,<br/>2013</b> |
| Loss from continuing operations            | \$ (437)                  | \$ (290)                  | \$ (1,160)                | \$ (441)                  |
| Discontinued operations                    | (14)                      | (100)                     | (39)                      | (127)                     |
| Net loss available to common stockholders  | <u>\$ (451)</u>           | <u>\$ (390)</u>           | <u>\$ (1,199)</u>         | <u>\$ (568)</u>           |
| <b>BASIC:</b>                              |                           |                           |                           |                           |
| Weighted average common shares             | 8,771                     | 8,021                     | 8,566                     | 8,021                     |
| Loss from continuing operations per share  | \$ (0.05)                 | \$ (0.04)                 | \$ (0.14)                 | \$ (0.05)                 |
| Discontinued operations per common share   | -                         | (0.01)                    | -                         | (0.02)                    |
| Net loss per common share                  | <u>\$ (0.05)</u>          | <u>\$ (0.05)</u>          | <u>\$ (0.14)</u>          | <u>\$ (0.07)</u>          |
| <b>DILUTED:</b>                            |                           |                           |                           |                           |
| Weighted average common shares             | 8,771                     | 8,021                     | 8,566                     | 8,021                     |
| Dilutive stock options                     | 519                       | 246                       | 543                       | 177                       |
| Weighted average common shares outstanding | <u>9,290</u>              | <u>8,267</u>              | <u>9,109</u>              | <u>8,198</u>              |
| Loss from continuing operations per share  | \$ (0.05)                 | \$ (0.04)                 | \$ (0.13)                 | \$ (0.05)                 |
| Discontinued operations per common share   | -                         | (0.01)                    | -                         | (0.02)                    |
| Loss per common share                      | <u>\$ (0.05)</u>          | <u>\$ (0.05)</u>          | <u>\$ (0.13)</u>          | <u>\$ (0.07)</u>          |

For the three months and nine months ended March 30, 2014, options to purchase 15,000 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 nine month period ended March 30, 2014, income tax benefit of \$0.2 million and \$0.5 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 \$1.6 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 nine month periods ended March 30, 2014 and March 24, 2013 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

|   | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | <b>March 30,<br/>2014</b> | <b>March 24,<br/>2013</b> | <b>March 30,<br/>2014</b> | <b>March 24,<br/>2013</b> |
| <b>Net sales and operating revenues:</b>                      |                           |                           |                           |                           |
| Franchising and food and supply distribution                  | \$ 8,104                  | \$ 7,719                  | \$ 23,667                 | \$ 24,922                 |
| Company-owned restaurants (1)                                 | 2,808                     | 2,062                     | 7,614                     | 5,845                     |
| Consolidated revenues   | <u>\$ 10,912</u>          | <u>\$ 9,781</u>           | <u>\$ 31,281</u>          | <u>\$ 30,767</u>          |
| <b>Depreciation and amortization:</b>                         |                           |                           |                           |                           |
| Franchising and food and supply distribution                  | \$ -                      | \$ -                      | \$ 7                      | \$ -                      |
| Company-owned restaurants (1)                                 | 329                       | 279                       | 921                       | 762                       |
| Combined  | <u>329</u>                | <u>279</u>                | <u>928</u>                | <u>762</u>                |
| Corporate administration and other                            | 41                        | 61                        | 128                       | 205                       |
| Depreciation and amortization                                 | <u>\$ 370</u>             | <u>\$ 340</u>             | <u>\$ 1,056</u>           | <u>\$ 967</u>             |
| <b>Income (loss) from continuing operations before taxes:</b> |                           |                           |                           |                           |
| Franchising and food and supply distribution (2)              | \$ (74)                   | \$ 245                    | \$ 546                    | \$ 1,526                  |
| Company-owned restaurants (1) (2)                             | (259)                     | (357)                     | (1,062)                   | (956)                     |
| Combined  | <u>(333)</u>              | <u>(112)</u>              | <u>(516)</u>              | <u>570</u>                |
| Corporate administration and other (2)                        | (263)                     | (200)                     | (1,171)                   | (1,181)                   |
| Operating loss  | <u>\$ (596)</u>           | <u>\$ (312)</u>           | <u>\$ (1,687)</u>         | <u>\$ (611)</u>           |
| <b>Geographic information (revenues):</b>                     |                           |                           |                           |                           |
| United States   | \$ 10,666                 | \$ 9,509                  | \$ 30,561                 | \$ 29,939                 |
| Foreign countries   | 246                       | 272                       | 720                       | 828                       |
| Consolidated total  | <u>\$ 10,912</u>          | <u>\$ 9,781</u>           | <u>\$ 31,281</u>          | <u>\$ 30,767</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 March 30, 2014, 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      | 104          | 25          | 52            | 6              | 187         |
| International Franchise | 19           | 44          | 8             | -              | 71          |
| Total Franchise         | 123          | 69          | 60            | 6              | 258         |
| Total Units             | 126          | 69          | 60            | 19             | 274         |

Domestic restaurants are located predominantly in the southern half of the United States, with Texas, North Carolina, Arkansas and Mississippi accounting for approximately 34%, 15%, 11% and 6%, respectively, of the total number of domestic restaurants. International restaurants are located in seven foreign countries.

Basic and diluted loss per common share remained consistent at \$0.05 for the three month periods ended March 30, 2014 and March 24, 2013. The Company had a net loss for the three month period ended March 30, 2014 of \$0.5 million compared to a net loss of \$0.4 million for the comparable period in the prior fiscal year, on revenues of \$10.9 million for the three month period ended March 30, 2014 compared to \$9.8 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 March 30, 2014 decreased \$0.2 million to a loss of \$0.2 million compared to breakeven for the comparable period in the prior fiscal year.

The increase in net loss from prior year was primarily due to higher general and administrative expenses, franchise costs and bad debt. Recruiting fees, increased marketing expenses and a legal settlement related to patent litigation contributed to the increased costs.

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 |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | March 30,<br>2014  | March 24,<br>2013 | March 30,<br>2014 | March 24,<br>2013 |
| Domestic retail sales of Buffet Units     | \$ 20,249          | \$ 20,809         | \$ 60,631         | \$ 65,087         |
| Domestic retail sales of Delco Units      | 1,292              | 1,573             | 3,971             | 4,830             |
| Domestic retail sales of Express Units    | 811                | 675               | 2,130             | 2,428             |
| Domestic retail sales of Pie Five Units   | 899                | -                 | 1,688             | -                 |
| Total domestic retail sales               | \$ 23,251          | \$ 23,057         | \$ 68,420         | \$ 72,345         |
| Average number of domestic Buffet Units   | 104                | 114               | 106               | 121               |
| Average number of domestic Delco Units    | 25                 | 31                | 26                | 29                |
| Average number of domestic Express Units  | 51                 | 42                | 46                | 45                |
| Average number of domestic Pie Five Units | 6                  | -                 | 4                 | -                 |
|   | 186                | 187               | 182               | 195               |

|   | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | March 30,<br>2014  | March 24,<br>2013 | March 30,<br>2014 | March 24,<br>2013 |
| International retail sales of Buffet Units    | \$ 1,663           | \$ 2,154          | \$ 5,167          | \$ 4,653          |
| International retail sales of Delco Units     | 2,269              | 2,992             | 7,066             | 10,545            |
| International retail sales of Express Units   | 489                | 261               | 1,510             | 818               |
| Total International retail sales              | \$ 4,421           | \$ 5,407          | \$ 13,743         | \$ 16,016         |
| Average number of International Buffet Units  | 21                 | 20                | 22                | 20                |
| Average number of International Delco Units   | 44                 | 48                | 47                | 49                |
| Average number of International Express Units | 7                  | 8                 | 7                 | 8                 |
|   | 72                 | 76                | 76                | 77                |

Total domestic chain-wide franchisee retail sales increased \$0.2 million, or 0.8%, and international chain-wide retail sales decreased \$1.0 million, or 18.2%, for the three months ended March 30, 2014 when compared to the same period of the prior year. Total domestic chain-wide franchisee retail sales decreased \$3.9 million, or 5.4%, and international chain-wide retail sales decreased \$2.3 million, or 14.2%, for the nine months ended March 30, 2014 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 |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | March 30,<br>2014  | March 24,<br>2013 | March 30,<br>2014 | March 24,<br>2013 |
| Domestic retail sales of same store Buffet Units       | \$ 19,053          | \$ 18,771         | \$ 56,003         | \$ 56,750         |
| Domestic retail sales of same store Delco Units        | 986                | 1,069             | 3,029             | 3,364             |
| Domestic retail sales of same store Express Units      | 531                | 569               | 1,617             | 1,753             |
| Total domestic same store retail sales                 | \$ 20,570          | \$ 20,409         | \$ 60,649         | \$ 61,867         |
| International retail sales of same store Buffet Units  | \$ 1,395           | \$ 1,711          | \$ 3,536          | \$ 4,381          |
| International retail sales of same store Delco Units   | 2,237              | 2,571             | 6,587             | 7,590             |
| International retail sales of same store Express Units | 336                | 346               | 1,195             | 860               |
| Total International same store retail sales            | \$ 3,968           | \$ 4,628          | \$ 11,318         | \$ 12,831         |

Domestic comparable store franchisee retail sales increased \$0.2 million, or 0.8%, for the three months ended March 30, 2014 when compared to the same period of the prior year. International same store franchisee retail sales decreased \$0.7 million, or 14.3%, for the three months ended March 30, 2014 when compared to the same period of the prior year. Domestic comparable store franchisee retail sales decreased \$1.2 million, or 2.0%, for the nine months ended March 30, 2014 when compared to the same period of the prior year. International same store franchisee retail sales decreased \$1.5 million, or 11.8%, for the nine months ended March 30, 2014 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 |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | March 30,<br>2014  | March 24,<br>2013 | March 30,<br>2014 | March 24,<br>2013 |
| Store weeks  | 169                | 113               | 465               | 296               |
| Average weekly per store sales                                 | 13,189             | 11,283            | 12,327            | 11,449            |
| Average number of units  | 13                 | 9                 | 12                | 8                 |
| Restaurant sales   | 2,229              | 1,275             | 5,732             | 3,389             |
| Restaurant operating cash flow                                 | 205                | 121               | 355               | 278               |
| Depreciation/amortization expense                              | (280)              | (176)             | (773)             | (455)             |
| Pre-opening expenses   | (4)                | (82)              | (160)             | (246)             |
| Allocated corporate administration and other expenses          | (59)               | (47)              | (159)             | (124)             |
| Deferred rent adjustment net of store closure/relocation costs | -                  | -                 | 3                 | -                 |
| Loss from continuing operations before taxes                   | (138)              | (184)             | (734)             | (547)             |

**Pizza Inn - Company-Owned Restaurants**

(in thousands, except store weeks and average data)

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | March 30,<br>2014  | March 24,<br>2013 | March 30,<br>2014 | March 24,<br>2013 |
| Store weeks  | 39                 | 52                | 133               | 156               |
| Average weekly per store sales                                 | 14,846             | 15,145            | 14,150            | 15,746            |
| Average number of units  | 3                  | 4                 | 3                 | 4                 |
| Restaurant sales   | 579                | 787               | 1,882             | 2,456             |
| Restaurant operating cash flow                                 | (36)               | (29)              | (174)             | 8                 |
| Depreciation/amortization expense                              | (49)               | (103)             | (148)             | (307)             |
| Pre-opening expenses   | -                  | -                 | -                 | -                 |
| Allocated corporate administration and other expenses          | (36)               | (41)              | (95)              | (110)             |
| Deferred rent adjustment net of store closure/relocation costs | -                  | -                 | 89                | -                 |
| Loss from continuing operations before taxes                   | (121)              | (173)             | (328)             | (409)             |

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 March 30, 2014 was primarily a result of the opening of five new restaurants in the prior twelve months that collectively generated higher average weekly per store sales than the existing restaurants. In addition, a 4.4% increase in Pie Five Company-owned comparable store sales as compared to the same quarter in the prior fiscal year also contributed to the increase in average weekly per store sales.

**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 March 30, 2014 and for the same period in the prior fiscal year were \$10.9 million and \$9.8 million, respectively. Total revenues for the nine month period ended March 30, 2014 and for the same period in the prior fiscal year were \$31.3 million and \$30.8 million, respectively. Revenue consisted of the following:

|                       | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                       | <b>March 30,<br/>2014</b> | <b>March 24,<br/>2013</b> | <b>March 30,<br/>2014</b> | <b>March 24,<br/>2013</b> |
| Food and supply sales | \$ 7,274                  | \$ 6,893                  | \$ 21,138                 | \$ 22,304                 |
| Franchise revenue     | 830                       | 826                       | 2,529                     | 2,618                     |
| Restaurant sales      | 2,808                     | 2,062                     | 7,614                     | 5,845                     |
| Total revenue         | <u>\$ 10,912</u>          | <u>\$ 9,781</u>           | <u>\$ 31,281</u>          | <u>\$ 30,767</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 March 30, 2014, food and supply sales increased to \$7.3 million compared to \$6.9 million the same period in the prior fiscal year due primarily to an increase in sales to franchisees as a result of increased domestic franchisee retail sales and higher food commodity costs passed through in price. For the nine month period ended March 30, 2014, food and supply sales decreased to \$21.1 million compared to \$22.3 million due primarily to a decline in domestic franchisee retail sales in the first half of fiscal 2014.

#### Franchise Revenue

Franchise revenue, which includes income from domestic and international royalties and license fees, had a slight increase for the three month period ended March 30, 2014 compared to the same period in the prior fiscal year. Decreased international royalties resulting from lower Pizza Inn franchisee retail sales were offset primarily by increased franchise fees from new Pie Five franchisees. Franchise revenue decreased by \$0.1 million for the nine month period ended March 30, 2014 compared to the same period in the prior fiscal year for primarily the same reasons.

#### Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 36.2%, or \$0.7 million, to \$2.8 million for the three month period ended March 30, 2014, compared to \$2.1 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 (one of which was a relocation of an existing restaurant), partially offset by the closing of one Company-owned restaurant in fiscal 2014. Similarly, restaurant sales increased 30.3%, or \$1.8 million, to \$7.6 million for the nine month period ended March 30, 2014, compared to \$5.8 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, increased \$1.1 million, or 13.1%, for the three month period ended March 30, 2014 compared to the comparable period in the prior fiscal year. The increase in costs was primarily the result of higher food and supply sales. Cost of sales increased 3.4%, or \$0.9 million, for the nine month period ended March 30, 2014 compared to the comparable period in the prior year. The nine month period ended March 30, 2014 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 increased \$0.3 million for the three month period ended March 30, 2014. Additional operating expenses associated with new Company-owned Pie Five Units and a legal settlement related to patent litigation was partially offset by reduced stock compensation expense. General and administrative expenses increased \$0.3 million for the nine month period ended March 30, 2014 for substantially 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 \$0.1 million for the three month period ended March 30, 2014 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 \$0.5 million for the nine month period ended March 30, 2014 compared to the comparable period in the prior year for substantially 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 and nine month periods ended March 30, 2014 decreased \$0.1 million compared to the similar periods of the prior year due to the timing of store openings.

### 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 marginally for the three month period ended March 30, 2014 as compared to the comparable period in the prior fiscal year. Bad debt expense increased \$0.1 million for the nine month period ended March 30, 2014 as compared to the comparable period in the prior fiscal year.

### Interest Expense

Interest expense remained relatively flat for the three month period ended March 30, 2014 as compared to the comparable period in the prior fiscal year. Interest expense decreased slightly for the nine month period ended March 30, 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 March 30, 2014, 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 \$1.6 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 nine month periods ended March 30, 2014 and March 24, 2013:



Three months ended March 30, 2014

|                           | <u>Beginning<br/>of Period</u> | <u>Opened</u> | <u>Closed</u> | <u>End of<br/>Period</u> |
|---------------------------|--------------------------------|---------------|---------------|--------------------------|
| Pizza Inn Domestic:       |                                |               |               |                          |
| Buffet Units              | 109                            | -             | 2             | 107                      |
| Delco Units               | 27                             | -             | 2             | 25                       |
| Express Units             | 46                             | 7             | 1             | 52                       |
| Pizza International Units | 71                             | -             | -             | 71                       |
| Pie Five Units            | 18                             | 1             | -             | 19                       |
| <b>Total</b>              | <u>271</u>                     | <u>8</u>      | <u>5</u>      | <u>274</u>               |

Three months ended March 24, 2013

|                     | <u>Beginning<br/>of Period</u> | <u>Opened</u> | <u>Closed</u> | <u>End of<br/>Period</u> |
|---------------------|--------------------------------|---------------|---------------|--------------------------|
| Domestic:           |                                |               |               |                          |
| Buffet Units        | 126                            | -             | 6             | 120                      |
| Delco Units         | 31                             | 2             | 1             | 32                       |
| Express Units       | 45                             | -             | 4             | 41                       |
| International Units | 65                             | -             | -             | 65                       |
| Pie Five Units      | 8                              | 1             | -             | 9                        |
| <b>Total</b>        | <u>275</u>                     | <u>3</u>      | <u>11</u>     | <u>267</u>               |

Nine months ended March 30, 2014

|                     | <u>Beginning<br/>of Period</u> | <u>Opened</u> | <u>Closed</u> | <u>End of<br/>Period</u> |
|---------------------|--------------------------------|---------------|---------------|--------------------------|
| Domestic:           |                                |               |               |                          |
| Buffet Units        | 114                            | 1             | 8             | 107                      |
| Delco Units         | 27                             | 1             | 3             | 25                       |
| Express Units       | 43                             | 13            | 4             | 52                       |
| International Units | 66                             | 5             | -             | 71                       |
| Pie Five Units      | 11                             | 8             | -             | 19                       |
| <b>Total</b>        | <u>261</u>                     | <u>28</u>     | <u>15</u>     | <u>274</u>               |

Nine months ended March 24, 2013

|                     | <u>Beginning<br/>of Period</u> | <u>Opened</u> | <u>Closed</u> | <u>End of<br/>Period</u> |
|---------------------|--------------------------------|---------------|---------------|--------------------------|
| Domestic:           |                                |               |               |                          |
| Buffet Units        | 135                            | -             | 15            | 120                      |
| Delco Units         | 29                             | 4             | 1             | 32                       |
| Express Units       | 47                             | -             | 6             | 41                       |
| International Units | 81                             | 5             | 21            | 65                       |
| Pie Five Units      | 6                              | 3             | -             | 9                        |
| <b>Total</b>        | <u>298</u>                     | <u>12</u>     | <u>43</u>     | <u>267</u>               |

We believe that the net increase of two domestic Pizza Inn units during the third 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. We believe that the opening of 28 new domestic stores during the last nine months of fiscal 2014 reflects the beginning of an accelerated pace of growth in store openings, particularly for the Pie Five concept and Pizza Inn Express concept.

### 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 |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | March 30,<br>2014  | March 24,<br>2013 | March 30,<br>2014 | March 24,<br>2013 |
| Net loss                               | \$ (451)           | \$ (390)          | \$ (1,199)        | \$ (568)          |
| Interest expense                       | 34                 | 58                | 113               | 197               |
| Income Taxes - Continuing Operations   | (159)              | (22)              | (527)             | (170)             |
| Income Taxes - Discontinued Operations | (7)                | (8)               | (20)              | (66)              |
| Stock compensation expense             | 15                 | 45                | 45                | 135               |
| Depreciation and amortization          | 370                | 340               | 1,056             | 958               |
| Adjusted EBITDA                        | <u>\$ (198)</u>    | <u>\$ 23</u>      | <u>\$ (532)</u>   | <u>\$ 486</u>     |

### 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 used by operating activities increased \$1.3 million for the nine months ended March 30, 2014 compared to the nine months ended March 24, 2013 largely due to the decrease in net income net of deferred taxes.

Cash flows from investing activities generally reflect capital expenditures for the purchase of Company assets. The Company used cash of \$1.9 million for the nine month period ended March 30, 2014, 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 \$1.4 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 \$2.0 million for the nine month period ended March 30, 2014, which reflected proceeds from the sale of stock partially offset by the repayment of bank debt. Net cash provided of \$0.9 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 March 30, 2014, the Company had sold an aggregate of 670,152 shares in the ATM Offering, realizing aggregate net proceeds of \$4.2 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. The Company has not drawn borrowings on the revolving credit facility during fiscal 2014. 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. After such date any outstanding term loans continue to amortize according to each loan's specified payment schedule. 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 March 30, 2014. As of March 30, 2014, the balance on the initial term loan facility was \$1.1 million with an interest rate of 4.574% and scheduled monthly principle payments through September 1, 2016. The balance on the advancing term loan facility was zero 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 March 30, 2014 and March 24, 2013, 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 nine month periods ending March 30, 2014. As of March 30, 2014, 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/ Donna Lee  
Donna Lee  
Controller

Dated: May 14, 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: May 14, 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, Donna Lee, 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: May 14, 2014

By: /s/ Donna Lee  
Donna Lee  
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 March 30, 2014 (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: May 14, 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 March 30, 2014 (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: May 14, 2014

By: /s/ Donna Lee  
Donna Lee  
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.