

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 29, 2009

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

Commission File Number: 0-12919

PIZZA INN, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
Incorporation or organization)

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of May 4, 2009, 8,136,884 shares of the issuer's common stock were outstanding.

PIZZA INN, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	March 29, 2009	March 23, 2008	March 29, 2009	March 23, 2008
REVENUES:				
Food and supply sales	\$ 9,136	\$ 10,316	\$ 28,915	\$ 32,269
Franchise revenue	1,056	1,181	3,164	3,643
Restaurant sales	565	171	1,344	529
	<u>10,757</u>	<u>11,668</u>	<u>33,423</u>	<u>36,441</u>
COSTS AND EXPENSES:				
Cost of sales	8,829	9,554	27,860	30,156
Franchise expenses	497	623	1,446	1,949
General and administrative expenses	793	649	2,336	1,977
Severance	12	4	49	383
Provision for bad debts	15	100	60	158
Loss on sale of assets	--	2	--	9
Provision for (recovery of) litigation costs	--	--	263	(284)
Interest expense	17	12	45	40
	<u>10,163</u>	<u>10,944</u>	<u>32,059</u>	<u>34,388</u>
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES				
	594	724	1,364	2,053
Income tax expense (benefit)	203	(216)	438	(216)
INCOME FROM CONTINUING OPERATIONS	<u>391</u>	<u>940</u>	<u>926</u>	<u>2,269</u>
Loss from discontinued operations, net of taxes	(30)	(42)	(136)	(173)
NET INCOME	<u>\$ 361</u>	<u>\$ 898</u>	<u>\$ 790</u>	<u>\$ 2,096</u>
EARNINGS PER SHARE OF COMMON STOCK - BASIC:				
Income from continuing operations	\$ 0.05	\$ 0.10	\$ 0.11	\$ 0.23
Loss from discontinued operations	--	(0.01)	(0.02)	(0.02)
Net income	<u>\$ 0.05</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.21</u>
EARNINGS PER SHARE OF COMMON STOCK - DILUTED:				
Income from continuing operations	\$ 0.05	\$ 0.10	\$ 0.11	\$ 0.23
Loss from discontinued operations	--	(0.01)	(0.02)	(0.02)
Net income	<u>\$ 0.05</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.21</u>
Weighted average common shares outstanding - basic	<u>8,522</u>	<u>9,634</u>	<u>8,725</u>	<u>9,955</u>
Weighted average common shares outstanding - diluted	<u>8,522</u>	<u>9,670</u>	<u>8,725</u>	<u>9,987</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 29, 2009 (Unaudited)	June 29, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 339	\$ 1,157
Accounts receivable, less allowance for bad debts of \$187 and \$128, respectively	2,554	2,773
Notes receivable, current portion	5	6
Income tax receivable	--	272
Inventories	1,267	1,396
Property held for sale	311	301
Deferred income tax assets, net	555	555
Prepaid expenses and other assets	305	235
Total current assets	<u>5,336</u>	<u>6,695</u>
LONG-TERM ASSETS		
Property, plant and equipment, net	1,489	635
Notes receivable	1	7
Deferred income tax assets	237	237
Re-acquired development territory, net	--	46
Deposits and other assets	66	215
	<u>\$ 7,129</u>	<u>\$ 7,835</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 1,679	\$ 2,380
Accrued expenses	1,341	1,316
Total current liabilities	<u>3,020</u>	<u>3,696</u>
LONG-TERM LIABILITIES		
Deferred gain on sale of property	165	184
Deferred revenues	256	283
Other long-term liabilities	33	18
Debt	527	--
Total liabilities	<u>4,001</u>	<u>4,181</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 15,130,319 and 15,130,319 shares, respectively; outstanding 8,392,700 and 9,104,361 shares, respectively	151	151
Additional paid-in capital	8,693	8,543
Retained earnings	18,414	17,624
Treasury stock, at cost		
Shares in treasury: 6,737,619 and 6,025,958, respectively	(24,130)	(22,664)
Total shareholders' equity	<u>3,128</u>	<u>3,654</u>
	<u>\$ 7,129</u>	<u>\$ 7,835</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	March 29, 2009	March 23, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 790	\$ 2,096
Adjustments to reconcile net income to cash (used) provided by operating activities:		
Depreciation and amortization	222	275
Deferred tax	--	(647)
Stock compensation expense	150	14
Provision for (recovery of) litigation costs	263	(284)
Loss on sale of assets	--	9
Provision for bad debts	60	158
Changes in operating assets and liabilities:		
Notes and accounts receivable	438	(504)
Inventories	129	133
Accounts payable - trade	(701)	(405)
Accrued expenses	(238)	296
Prepaid expenses and other	(8)	(84)
Cash provided by operating activities	<u>1,105</u>	<u>1,057</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	--	108
Capital expenditures	(984)	(96)
Cash (used) provided by investing activities	<u>(984)</u>	<u>12</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in line of credit, net	527	--
Repurchase of common stock	(1,466)	(1,935)
Cash used for financing activities	<u>(939)</u>	<u>(1,935)</u>
Net decrease in cash and cash equivalents	(818)	(866)
Cash and cash equivalents, beginning of period	1,157	1,879
Cash and cash equivalents, end of period	<u>\$ 339</u>	<u>\$ 1,013</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Nine Months Ended	
March 29, 2009	March 23, 2008

CASH PAYMENTS FOR:

Interest	\$	41	\$	--
Income taxes		220		195

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("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 our Annual Report on Form 10-K for the fiscal year ended June 29, 2008.

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

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

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

Cash and Cash Equivalents

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

Fiscal Year

Fiscal third quarters ended March 29, 2009 and March 23, 2008 both contained 13 weeks and fiscal years to date ended March 29, 2009 and March 23, 2008 both 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 revenue are recognized upon delivery of the product. Equipment that is sold requires acceptance prior to installation. Recognition of revenue for equipment sales occurs upon acceptance of such equipment. Other than for large remodel projects, delivery date and acceptance date are the same. Norco sales are reflected under the caption "Food and supply sales." Shipping and handling costs billed to customers are recognized as revenue.

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

Stock-Based Compensation

The Company adopted Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS No. 123R"), as of June 27, 2005, using the modified prospective method for all stock options granted prior to June 26, 2005 that were outstanding as of that date. Under this transition method, compensation cost is recognized for the unvested portion of stock option grants outstanding at June 26, 2005 over the remaining requisite service period using the fair value for these options as estimated at the date of grant using the Black-Scholes option-pricing model under the original provisions of SFAS No. 123 for pro-forma disclosure purposes. The Company recognizes stock-based compensation for all stock options granted after the adoption of SFAS No. 123R over the requisite service period using the fair value for the options as estimated at the date of grant using the Black-Scholes option-pricing model.

Use of Management Estimates

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

Reclassification

The Company currently recognizes ongoing loan fees and the amortization of initial loan fees as interest expense. These costs were recorded as general and administrative expenses in the prior fiscal year and have been reclassified as interest.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments, including employee stock option plans and operating leases accounted for in accordance with SFAS No. 13, *Accounting for Leases*, at their fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company has chosen not to change the valuation method of any of its financial assets or liabilities.

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

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

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

(2) Long-Term Debt

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to \$3.5 million (the "CIT Credit Facility"). CIT may terminate the CIT Credit Facility only as of January 23, 2012 or the same date any year thereafter, and then only by giving the Company at least 90 days prior written notice of such termination. The actual availability on the CIT Credit Facility is determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility is at a rate equal to the prime rate plus an interest rate margin of 0.0% to 0.5% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 2.0% to 3.0%. The specific interest rate margin is based on the Company's performance under certain

financial ratio tests. An annual commitment fee is payable on any unused portion of the CIT Credit Facility at a rate of 0.375%. All of the Company's (and its subsidiaries') personal property assets (including, but not limited to, accounts receivable, inventory, equipment, and intellectual property) have been pledged to secure payment and performance of the CIT Credit Facility, which is subject to customary covenants for asset-based loans.

On June 27, 2007, the Company and CIT entered into an agreement to amend the CIT Credit Facility to (i) allow the Company to repurchase Company stock in an amount up to \$3,000,000, (ii) allow the Company to make permitted cash distributions or cash dividend payments to the Company's shareholders in the ordinary course of business and (iii) increase the aggregate capital expenditure limit from \$750,000 to \$3,000,000 per fiscal year. On May 30, 2008, the Company again amended the CIT Credit Facility to permit the Company to repurchase up to \$7,000,000 of the Company's common stock. As of March 29, 2009, \$527,000 was outstanding on the CIT Credit Facility at an interest rate of 3.5% and one letter of credit for approximately \$230,000 was outstanding to reinsurers to secure loss reserves.

(3) Commitments and Contingencies

On May 23, 2007, the board of directors of the Company approved a 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 board of directors amended the stock repurchase plan by increasing the number of shares the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. As of March 29, 2009, there are 230,206 shares available to be repurchased under the plan. (See note 9.)

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

(4) Stock-Based Compensation

For the three and nine months ended March 29, 2009, we recognized stock-based compensation of \$48,000 and \$150,000, respectively. As of March 29, 2009, unamortized stock-based compensation expense was \$280,000.

The following table summarizes the Company's outstanding stock options for the nine months ended March 29, 2009 and March 23, 2008:

	Nine Months Ended	
	March 29, 2009	March 23, 2008
Outstanding at beginning of year	275,000	588,358
Granted	305,000	270,000
Exercised	--	(10,000)
Forfeited/Canceled/Expired	(95,000)	(563,358)
Outstanding at end of period	<u>485,000</u>	<u>285,000</u>
Exercisable at end of year	<u>86,000</u>	<u>30,000</u>

(5) **Earnings per Share (EPS)**

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

	Three Months Ended			
	March 29, 2009		March 23, 2008	
	Diluted	Basic	Diluted	Basic
Income from continuing operations	\$ 391	\$ 391	\$ 940	\$ 940
Loss from discontinued operations	(30)	(30)	(42)	(42)
Net income available for common shareholders	\$ 361	\$ 361	\$ 898	\$ 898
Weighted average equivalent shares				
Shares of common stock outstanding	8,522	8,522	9,634	9,634
Dilutive effect of stock options	--	--	36	--
Total weighted average equivalent shares	8,522	8,522	9,670	9,634
Per-share amounts				
Income from continuing operations	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10
Loss from discontinued operations	--	--	(0.01)	(0.01)
Net income	\$ 0.05	\$ 0.05	\$ 0.09	\$ 0.09

	Nine Months Ended			
	March 29, 2009		March 23, 2008	
	Diluted	Basic	Diluted	Basic
Income from continuing operations	\$ 926	\$ 926	\$ 2,269	\$ 2,269
Loss from discontinued operations	(136)	(136)	(173)	(173)
Net income available for common shareholders	\$ 790	\$ 790	\$ 2,096	\$ 2,096
Weighted average equivalent shares				
Shares of common stock outstanding	8,725	8,725	9,955	9,955
Dilutive effect of stock options	--	--	32	--
Total weighted average equivalent shares	8,725	8,725	9,987	9,955
Per-share amounts				
Income from continuing operations	\$ 0.11	\$ 0.11	\$ 0.23	\$ 0.23
Loss from discontinued operations	(0.02)	(0.02)	(0.02)	(0.02)
Net income	\$ 0.09	\$ 0.09	\$ 0.21	\$ 0.21

For the quarter and nine months ended March 29, 2009, options to purchase 485,000 shares of common stock at exercise prices ranging from \$2.00 to \$3.17 per share were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares for the period. For the quarter and nine months ended March 23, 2008, options to purchase 115,000 shares of common stock at exercise prices ranging from \$2.85 to \$3.17 were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares for the period.

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

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

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

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

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

	Three Months	
	Ended	
	March 29, 2009	March 23, 2008
Sales	\$ --	\$ --
Cost of Sales	--	--
General and Administrative	30	42
Total loss from discontinued operations	<u>\$ (30)</u>	<u>\$ (42)</u>

	Nine Months	
	Ended	
	March 29, 2009	March 23, 2008
Sales	\$ --	\$ 62
Cost of Sales	--	24
General and Administrative	136	211
Total loss from discontinued operations	<u>\$ (136)</u>	<u>\$ (173)</u>

(7) **Provision for Income Tax**

Management re-evaluates the deferred tax asset each quarter and believes that it is more likely than not that the net deferred tax asset of \$792,000 will be fully realized based on the Company's recent history of pre-tax profits and the expectation of future taxable income as well as the future reversal of existing temporary differences. During the three and nine months ended March 29, 2009, the Company has provided \$203,000 and \$438,000 in net tax expense. In determining these amounts, the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined is used to provide for income taxes on a current year to date basis.

(8) **Property Held for Sale**

Assets that are to be disposed of by sale are recognized in the condensed consolidated financial statements at the lower of carrying amount or estimated net realizable value (proceeds less cost to sell), and are not depreciated after being classified as held for sale. In order for an asset to be classified as held for sale, the asset must be actively marketed, be available for immediate sale and meet certain other specified criteria. At March 29, 2009, the Company had approximately \$311,000 of assets classified as held for sale. As of March 29, 2009, approximately \$304,000 of such amount represents the carrying value of the Company's real estate and equipment located in Little Elm, Texas. As of March 29, 2009, the remaining \$7,000 of assets held for sale represents miscellaneous trailers and other transportation equipment.

(9) **Subsequent Events**

On April 22, 2009, the board of directors of the Company amended the stock repurchase plan first authorized on May 23, 2007, and previously amended on June 2, 2008, by increasing the aggregate number of shares of common stock the Company may repurchase under the plan by 1,000,000 shares to a total of 3,016,000 shares. (See note 3.)

(10) 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 29, 2009 and March 23, 2008 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

	Three Months Ended		Nine Months Ended	
	March 29, 2009	March 23, 2008	March 29, 2009	March 23, 2008
Net sales and operating revenues:				
Food and equipment distribution	\$ 9,136	\$ 10,316	\$ 28,915	\$ 32,269
Franchise and other (2)	1,621	1,352	4,508	4,172
Intersegment revenues	175	70	478	230
Combined	<u>10,932</u>	<u>11,738</u>	<u>33,901</u>	<u>36,671</u>
Less intersegment revenues	(175)	(70)	(478)	(230)
Consolidated revenues	<u>\$ 10,757</u>	<u>\$ 11,668</u>	<u>\$ 33,423</u>	<u>\$ 36,441</u>
Depreciation and amortization:				
Food and equipment distribution	\$ -	\$ -	\$ -	\$ 2
Franchise and other (2)	45	87	150	226
Combined	<u>45</u>	<u>87</u>	<u>150</u>	<u>228</u>
Corporate administration and other	34	16	72	47
Depreciation and amortization	<u>\$ 79</u>	<u>\$ 103</u>	<u>\$ 222</u>	<u>\$ 275</u>
Interest expense:				
Food and equipment distribution	\$ -	\$ -	\$ -	\$ -
Franchise and other (2)				
Combined	--	--	--	--
Corporate administration and other	17	12	45	40
Interest expense	<u>\$ 17</u>	<u>\$ 12</u>	<u>\$ 45</u>	<u>\$ 40</u>
Operating income:				
Food and equipment distribution (1)	\$ 387	\$ 623	\$ 1,073	\$ 1,820
Franchise and other (1), (2)	588	529	1,631	1,574
Intersegment profit	45	14	115	52
Combined	<u>1,020</u>	<u>1,166</u>	<u>2,819</u>	<u>3,446</u>
Less intersegment profit	(45)	(14)	(115)	(52)
Corporate administration and other	(381)	(428)	(1,340)	(1,341)
Operating income	<u>\$ 594</u>	<u>\$ 724</u>	<u>\$ 1,364</u>	<u>\$ 2,053</u>
Geographic information (revenues):				
United States	\$ 10,548	\$ 11,442	\$ 32,666	\$ 35,137
Foreign countries	209	226	757	1,304
Consolidated total	<u>\$ 10,757</u>	<u>\$ 11,668</u>	<u>\$ 33,423</u>	<u>\$ 36,441</u>

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

(2) Company stores that were closed are included in discontinued operations in the accompanying Condensed Consolidated Statement of Operations.

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

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

Results of Operations

Overview

The Company is a franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn." Our distribution division is Norco Restaurant Services Company ("Norco"). At March 29, 2009, there were 316 domestic and international Pizza Inn restaurants, consisting of two Company-owned domestic restaurants, 246 franchised domestic restaurants, and 68 franchised international restaurants. The 248 domestic restaurants consisted of: (i) 152 restaurants that offer dine-in, carry-out, and in many cases, delivery services ("Buffet Units"); (ii) 40 restaurants that offer delivery and carry-out services only ("Delco Units"); and (iii) 56 restaurants that are typically located within a convenience store, college campus building, airport terminal, or other commercial facility and offer quick carry-out service from a limited menu ("Express Units"). The 248 domestic restaurants were located in 17 states predominately situated in the southern half of the United States. The 68 international restaurants were located in 10 foreign countries.

Diluted income per common share decreased to \$0.05 for the three month period ended March 29, 2009 compared to \$0.09 for the comparable period ended March 23, 2008. Net income for the three month period ended March 29, 2009 decreased \$537,000 to \$361,000 from \$898,000 for the comparable period in the prior fiscal year, on revenues of \$10,757,000 for the three month period ended March 29, 2009 and \$11,668,000 for the comparable period in the prior fiscal year. Diluted income per common share decreased to \$0.09 for the nine month period ended March 29, 2009 compared to \$0.21 for the comparable period ended March 23, 2008. Net income for the nine month period ended March 29, 2009 decreased \$1,306,000 to \$790,000 from \$2,096,000 for the comparable period in the prior fiscal year, on revenues of \$33,423,000 for the nine month period ended March 29, 2009 and \$36,441,000 for the comparable period in the prior fiscal year.

The decrease in net income during the three month period ended March 29, 2009, was primarily due to income tax expense in the current fiscal year compared to an income tax benefit in the prior year. The decrease in net income during the nine month period ended March 29, 2009, was primarily due to income tax expense and a non-recurring legal settlement of \$263,000 in the current fiscal year, compared to an income tax benefit and a legal settlement recovered in the prior year of \$284,000. In the absence of these items, net income would have been \$564,000, or \$0.07 per share, for the three months ended March 29, 2009 compared to \$682,000, or \$0.07 per share, for the same period in the prior year and \$1,491,000, or \$0.17 per share, for the nine months ended March 29, 2009 compared to \$1,596,000, or \$0.16 per share, for the same period in the prior year.

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

	Three Months Ended	
	March 29, 2009	March 23, 2008
Domestic retail sales Buffet Units (in thousands)	\$ 28,297	\$ 28,982
Domestic retail sales Delco Units (in thousands)	\$ 2,578	\$ 2,839
Domestic retail sales Express Units (in thousands)	\$ 1,287	\$ 1,320
Total domestic retail sales (in thousands)	\$ 32,162	\$ 33,141
Average number of domestic Buffet Units	152	162
Average number of domestic Delco Units	40	42
Average number of domestic Express Units	56	58

	Nine Months Ended	
	March 29, 2009	March 23, 2008
Domestic retail sales Buffet Units (in thousands)	\$ 83,008	\$ 85,654
Domestic retail sales Delco Units (in thousands)	\$ 7,983	\$ 8,705
Domestic retail sales Express Units (in thousands)	\$ 3,826	\$ 4,443
Total domestic retail sales (in thousands)	\$ 94,817	\$ 98,802
Average number of domestic Buffet Units	153	162
Average number of domestic Delco Units	40	42
Average number of domestic Express Units	55	60

Revenues

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

Food and Supply Sales

Food and supply sales by Norco include food and paper products, equipment and other distribution revenues. Food and supply sales for the three month period ended March 29, 2009 decreased 11%, or \$1,180,000, to \$9,136,000 from \$10,316,000 compared to the same period in the prior fiscal year. For the three month period ended March 29, 2009, total domestic chain-wide retail sales decreased 3%, or \$979,000, compared to the same period in the prior fiscal year due to a lower store count and lower comparable sales. As a result of this decrease in retail sales and a 34% decrease in cheese prices, domestic food and paper sales decreased 11%, or \$1,170,000, compared to the same period in the prior fiscal year.

Food and supply sales for the nine month period ended March 29, 2009 decreased 10% or \$3,354,000, to \$28,915,000 from \$32,269,000 compared to the same period in the prior fiscal year. During the nine month period ended March 29, 2009, international sales and equipment sales decreased by \$830,000. For the nine month period ended March 29, 2009, total domestic chain-wide retail sales decreased 4%, or \$3,985,000, compared to the same period in the prior fiscal year due to a lower store count and lower comparable sales. As a result of this decrease in retail sales and a 14% decrease in cheese prices, domestic food and paper sales decreased 7%, or \$2,303,000, compared to the same period in the prior fiscal year.

Franchise Revenue

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license sales, decreased 11%, or \$125,000, to \$1,056,000 for the three month period ended March 29, 2009 compared to \$1,181,000 in the comparable period for the prior fiscal year. This decrease is primarily attributable to lower domestic royalties resulting from lower retail sales compared to the comparable period in the prior fiscal year. Franchise revenues decreased 13%, or \$479,000, to \$3,164,000 for the nine month period ended March 29, 2009 compared to \$3,643,000 for the comparable period in the prior fiscal year. This decrease is primarily attributable to lower international franchise fees and lower domestic royalties resulting from lower retail sales compared to the comparable period in the prior fiscal year. The following chart summarizes the major components of franchise revenue (in thousands):

	Three Months Ended	
	March 29, 2009	March 23, 2008
Domestic royalties	\$ 912	\$ 981
International royalties	129	145
Domestic franchise fees	15	55
International franchise fees	--	--
Franchise revenue	<u>\$ 1,056</u>	<u>\$ 1,181</u>

	Nine Months Ended	
	March 29, 2009	March 23, 2008
Domestic royalties	\$ 2,701	\$ 2,926
International royalties	379	360
Domestic franchise fees	84	191
International franchise fees	--	166
Franchise revenue	<u>\$ 3,164</u>	<u>\$ 3,643</u>

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 230%, or \$394,000, to \$565,000 for the three month period ended March 29, 2009 compared to \$171,000 for the comparable period in the prior fiscal year. Restaurant sales increased 154%, or \$815,000, to \$1,344,000 for the nine month period ended March 29, 2009 compared to \$529,000 for the comparable period in the prior fiscal year. The Company opened a new store in Denton, Texas on October 15, 2008 accounting for \$391,000 of the increase over the same quarter in the prior year and \$804,000 of the increase over the prior year to date.

Costs and Expenses

Cost of Sales

Cost of sales, which includes primarily direct materials, distribution fees and labor directly related to food and supply sales and restaurant sales, decreased 8%, or \$725,000, for the three month period ended March 29, 2009 compared to the comparable period for the prior fiscal year. Cost of sales decreased 8%, or \$2,296,000, for the nine month period ended March 29, 2009 compared to the comparable period in the prior fiscal year. These decreases were primarily the result of lower food and supply sales, distribution fees and payroll costs, as well as lower commodity costs.

Franchise Expenses

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses decreased 20%, or \$126,000 for the three month period ended March 29, 2009 compared to the comparable period in the prior fiscal year. These expenses decreased 26%, or \$503,000 for the nine month period ended March 29, 2009 compared to the comparable period for the prior fiscal year. These savings were primarily the result of lower payroll and travel expenses due to eliminated or unfilled positions compared to the same periods in the prior fiscal year. The following chart summarizes the major components of franchise expenses (in thousands):

	Three Months Ended	
	March 29, 2009	March 23, 2008
Payroll	\$ 356	\$ 446
Travel	47	72
Other	94	105
Franchise expenses	<u>\$ 497</u>	<u>\$ 623</u>

	Nine Months Ended	
	March 29, 2009	March 23, 2008
Payroll	\$ 927	\$ 1,359
Travel	128	242
Other	391	348
Franchise expenses	<u>\$ 1,446</u>	<u>\$ 1,949</u>

General and Administrative Expenses

General and administrative expenses increased 22%, or \$144,000, to \$793,000 for the three month period ended March 29, 2009 compared to \$649,000 for the comparable period for the prior fiscal year. General and administrative expenses increased 18%, or \$359,000, to \$2,336,000 for the nine month period ended March 29, 2009 compared to \$1,977,000 for the comparable period for the prior fiscal year. The following chart summarizes the major components of general and administrative expenses (in thousands):

	Three Months Ended	
	March 29, 2009	March 23, 2008
Payroll	\$ 345	\$ 367
Legal fees	70	69
Other professional fees	161	115
Insurance and taxes	46	65
Company stores	51	16
Allocated overhead	(267)	(300)
Occupancy	120	110
Other	219	195
Stock compensation expense	48	12
General and administrative expenses	<u>\$ 793</u>	<u>\$ 649</u>

	Nine Months Ended	
	March 29, 2009	March 23, 2008
Payroll	\$ 1,009	\$ 1,181
Legal fees	143	279
Other professional fees	433	383
Insurance and taxes	177	170
Company stores	201	52
Allocated overhead	(739)	(931)
Occupancy	336	312
Other	626	517
Stock compensation expense	150	14
General and administrative expenses	<u>\$ 2,336</u>	<u>\$ 1,977</u>

The increase in general and administrative expenses during the three months ended March 29, 2009 was primarily due to the addition of general and administrative expenses associated with the new Company owned store in Denton, Texas, an increase in other professional fees resulting from outsourced purchasing services and the utilization of a site selection service, an increase in stock compensation expense related to stock option grants and a reduction in the allocation of overhead to the revenue producing units. These increases were offset by a reduction in payroll due to open and eliminated positions, and reductions in insurance and tax expenses

The increase in general and administrative expenses during the nine months ended March 29, 2009 was primarily due to the addition of general and administrative expenses associated with the new Company owned store in Denton, Texas (including pre opening and marketing costs of \$87,000), an increase in other professional fees resulting from outsourced purchasing services and the utilization of a site selection service, an increase in stock compensation expense related to stock option grants and a reduction in the allocation of overhead to the revenue producing units. These increases were offset by a reduction in payroll due to open and eliminated positions, and a decrease in legal fees.

Provision for Bad Debts

Provision for bad debt expense decreased 85%, or \$85,000, to \$15,000 for the three month period ended March 29, 2009 compared to \$100,000 for the comparable period in the prior fiscal year. Provision for bad debt expense decreased 62%, or \$98,000, to \$60,000 for the nine month period ended March 29, 2009 compared to \$158,000 for the comparable period for the prior fiscal year. The decrease is primarily due to the recording of an additional allowance in the quarter ended March 23, 2008 for a receivable obtained by a default judgment that management determined to be unrealizable.

Interest Expense

Interest expense was relatively unchanged for the three month and nine month periods ended March 29, 2009 from the comparable periods in the prior fiscal year.

Provision for Income Tax

For the three month and nine month periods ended March 29, 2009, income tax expense of \$203,000 and \$438,000, respectively, are calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34% adjusted for the 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 \$792,000. The \$216,000 net income tax benefit recorded during the three months ended March 23, 2008 was due to the release of a valuation allowance offset by the provision for the 2008 federal and state income tax obligations and the utilization of the Company's net operating loss.

Discontinued Operations

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

	Three Months Ended	
	March 29, 2009	March 23, 2008
Sales	\$ --	\$ -
Cost of Sales	--	--
General and Administrative	30	42
Total loss from discontinued operations	\$ (30)	\$ (42)

	Nine Months Ended	
	March 29, 2009	March 23, 2008
Sales	\$ --	\$ 62
Cost of Sales	--	24
General and Administrative	136	211
Total loss from discontinued operations	\$ (136)	\$ (173)

Restaurant Openings and Closings

During the three month period ended March 29, 2009, two new domestic Express Units and three international Units were opened by Pizza Inn franchisees. Seven domestic restaurants were closed by franchisees (four Buffet Units and three Express Units) and three international restaurants were closed, typically because of unsatisfactory standards of operation or poor performance. We do not believe that these closings had any material impact on the collectibility of our outstanding receivables and royalties due to us because (i) these amounts have been reserved for or are otherwise collectable and (ii) these closed restaurants were generally lower volume restaurants whose financial impact on our business as a whole was not significant. For those restaurants that are anticipated to close or are exhibiting signs of financial distress, credit terms are typically restricted, weekly food orders are required to be paid for on delivery and/or with certified funds and royalty and advertising fees are collected as add-ons to the delivered price of weekly food orders.

The following charts summarize restaurant activity for the three and nine month periods ended March 29, 2009 and March 23, 2008:

Three months ended March 29, 2009

Domestic	Beginning of Period	Opened	Closed	End of Period
Buffet Units	156	--	4	152
Delco Units	40	--	--	40
Express Units	57	2	3	56
International Units	68	3	3	68
Total	321	5	10	316

Three months ended March 23, 2008

Domestic	Beginning of Period	Opened	Closed	End of Period
Buffet Units	165	1	5	161
Delco Units	42	--	1	41
Express Units	59	1	2	58
International Units	75	--	1	74
Total	341	2	9	334

Nine months ended March 29, 2009

Domestic	Beginning of Period	Opened	Closed	End of Period
Buffet Units	158	3	9	152
Delco Units	41	1	2	40
Express Units	56	6	6	56
International Units	68	4	4	68
Total	323	14	21	316

Nine months ended March 23, 2008

Domestic	Beginning of Period	Opened	Closed	End of Period
Buffet Units	166	6	11	161
Delco Units	42	--	1	41
Express Units	68	1	11	58
International Units	77	3	6	74
Total	353	10	29	334

Liquidity and Capital Resources

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

Cash flows from operating activities generally reflect net income adjusted for depreciation and amortization, changes in working capital and accrued expenses. In the nine month period ended March 29, 2009, cash provided by operations was \$1,105,000 as compared to cash provided by operating activities of \$1,057,000 in the comparable period for the prior year. This increase in cash provided by operating activities was due to an increase in accounts receivable collections and less prepaid expenditures from the prior year, offset by lower adjusted net income and a decrease in the Company's trade payables and accrued expense balances.

Cash flows from investing activities generally reflect capital expenditures for the purchase of Company assets. The Company used cash of \$984,000 for the nine month period ended March 29, 2009, primarily for a new Company store that opened in Denton, Texas and for computer upgrades to its corporate systems. This compares to cash provided by investing activities of \$12,000 from the proceeds of assets sold of \$108,000 less expenditures of \$96,000 for computer and related equipment for the same period in the prior fiscal year.

Cash flows from financing activities generally reflect changes in the Company's borrowings during the period and repurchases of outstanding shares of our common stock. Net cash used for financing activities was \$939,000 in the nine month period ended March 29, 2009 compared to cash used of \$1,935,000 for the comparable period in the prior fiscal year. This reduction in cash used by financing activities was due to borrowing \$527,000 on the line of credit and a reduction in repurchases of outstanding stock outstanding.

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

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to \$3.5 million (the "CIT Credit Facility"). CIT may terminate the CIT Credit Facility only as of January 23, 2012 or the same date any year thereafter, and then only by giving the Company at least 90 days prior written notice of such termination. The actual availability on the CIT Credit Facility is determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility is at a rate equal to the prime rate plus an interest rate margin of 0.0% to 0.5% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 2.0% to 3.0%. The specific interest rate margin is based on the Company's performance under certain financial ratio tests. An annual commitment fee is payable on any unused portion of the CIT Credit Facility at a rate of 0.375%. All of the Company's (and its subsidiaries') personal property assets (including, but not limited to, accounts receivable, inventory, equipment, and intellectual property) have been pledged to secure payment and performance of the CIT Credit Facility, which is subject to customary covenants for asset-based loans.

On June 27, 2007, the Company and CIT entered into an agreement to amend the CIT Credit Facility to (i) allow the Company to repurchase Company stock in an amount up to \$3,000,000, (ii) allow the Company to make permitted cash distributions or cash dividend payments to the Company's shareholders in the ordinary course of business and (iii) increase the aggregate capital expenditure limit from \$750,000 to \$3,000,000 per fiscal year. On May 30, 2008, the Company again amended the CIT Credit Facility to permit the Company to repurchase up to \$7,000,000 of the Company's common stock. As of March 29, 2009, \$527,000 was outstanding on the CIT Credit Facility at an interest rate of 3.5% and one letter of credit for approximately \$230,000 was outstanding to reinsurers to secure loss reserves.

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.

Contractual Obligations and Commitments

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

Critical Accounting Policies and Estimates

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

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

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

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

As of June 24, 2007 we had recorded a valuation allowance based on our assessment that the realization of a portion of our net deferred tax assets did not meet the "more likely than not" criterion under SFAS No. 109, "Accounting for Income Taxes." During the third quarter of fiscal 2008, we determined that based upon a number of factors, including our cumulative taxable income in recent quarters and our expected profitability in future years, substantially all of our net deferred tax assets are "more likely than not" realizable through future earnings. The entire valuation allowance was released as a result of the determination.

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

Recent Accounting Pronouncements

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting company.

Item 4T. Controls and Procedures

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

The Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive and principal financial officers, or 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

In August 2006, a franchisee and its guarantors, who operated one franchise in Harlingen, Texas in 2003 and 2004, filed an initial action against the Company in the Eastern District Court of Texas, Marshall Division. The Company moved for, and the Eastern District granted, a transfer of the action to U.S. District Court, Northern District of Texas, Dallas Division. Once in the Northern District Court, the parties filed (and the Court entered) an Agreed Stipulation of Dismissal. On February 1, 2008, Plaintiffs re-filed their lawsuit in the 44th Judicial District County, in Dallas County, Texas. In their amended petition, Plaintiffs asserted a breach of contract claim against the Company, alleging that the Company breached its franchise agreement by not allowing Plaintiffs to use alternative building materials and equipment used to finish out Plaintiffs' restaurant. Plaintiffs sought approximately \$768,000 in damages from the Company. The Company answered, denying all claims, and filed a counterclaim against Plaintiffs for (i) breach of the franchise agreement, (ii) breach of guaranty and (iii) recovery of attorney fees. Effective January 12, 2009, we entered into an agreement to settle all claims, whereby the Company paid \$209,834.12 to Plaintiffs, and the parties exchanged mutual releases.

Except as reported herein, there have been no material developments in the nine month period ended March 29, 2009 in any material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

Item 1A. Risk Factors

Not applicable to smaller reporting company.

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

On May 23, 2007, the board of directors of the Company approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase 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. The following table furnishes information for purchases made pursuant to the 2007 Stock Purchase Plan during the third quarter of fiscal 2009:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Cum. Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under The Plans *
12/29/2008 - 2/1/2009	87,683	\$ 1.66	1,650,418	365,582
2/2/2009 - 3/1/2009	5,094	\$ 1.15	1,655,512	360,488
3/2/2009 - 3/29/2009	130,282	\$ 1.09	1,785,794	230,206
	<u>223,059</u>	<u>\$ 1.32</u>	Cum. Average Price	

* does not include shares authorized on April 22, 2009

The Company's ability to purchase shares of its common stock is subject to various laws, regulations and policies as well as the rules and regulations of the SEC. Subsequent to March 29, 2009, the Company has purchased an additional 257,100 shares at an average price of \$1.20 per share.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

SIGNATURES

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

PIZZA INN, INC.
(Registrant)

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

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

Dated: May 11, 2009

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

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

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

Date: May 11, 2009

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

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

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

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

Date: May 11, 2009

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

Exhibit 32.1

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 29, 2009 (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 11, 2009

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

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

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended March 29, 2009 (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 11, 2009

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

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