SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

☑ **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended June 24, 2007.

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

For the transition period from __________ to __________.

Commission File Number 0-12919

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

Missouri **(State or jurisdiction of incorporation or organization)**	**47-0654575** **(I.R.S. Employer Identification No.)**
3551 Plano Parkway **The Colony, Texas** (Address of principal executive offices)	**75056** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common stock, par value $.01 each	**NASDAQ Capital Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☑

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer ☑

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

As of December 22, 2006, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates was $18,350,674 computed by reference to the closing price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of September 21, 2007, there were 10,155,189 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act in connection with the registrant's annual meeting of shareholders scheduled for December 13, 2007, have been incorporated by reference in Part III of this report.

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PART I

ITEM 1. BUSINESS.

General

Pizza Inn, Inc. and its subsidiaries (collectively referred to as the “Company”, “Pizza Inn” or in the first person notations of “we”, “us” and “our”) operate and franchise pizza buffet, delivery/carry-out and express restaurants domestically and internationally under the trademark “Pizza Inn.” Through our Norco Restaurant Services Company (“Norco”) division, and through agreements with third party distributors, we provide or facilitate food, equipment and supply distribution to our domestic and international system of restaurants.

On June 24, 2007, the Pizza Inn system consisted of 353 restaurants, including three Company-owned restaurants, and 350 franchised restaurants. The domestic restaurants are comprised of 166 buffet restaurants, 42 delivery/carry-out restaurants and 68 express restaurants. The international franchised restaurants are comprised of 18 buffet restaurants, 49 delivery/carry-out restaurants and 10 express restaurants. Domestic restaurants are located predominantly in the southern half of the United States, with Texas, North Carolina, Arkansas and Mississippi accounting for approximately 35%, 15%, 8% and 8%, respectively, of the total number of domestic restaurants.

Our History

Pizza Inn has offered consumers affordable, high quality pizza since 1958, when the first Pizza Inn restaurant opened in Dallas, Texas. We awarded our first franchise in 1963 and opened our first buffet restaurant in 1969. We began franchising the Pizza Inn brand internationally in the late 1970s. In 1993, our stock began trading on the NASDAQ Stock Market, and presently trades on the NASDAQ Capital Market (formerly called the “NASDAQ SmallCap Market”) under the ticker symbol “PZZI.”

Our Concepts

We offer three concepts: buffet, delivery/carry-out and express. Each is designed to enhance the smooth flow of food ordering, preparation and service, and we believe that the overall configuration of each results in simplified operations, lower training and labor costs, increased efficiency and improved consistency and quality of our food products. Our restaurants may be configured to adapt to a variety of building shapes and sizes, offering the flexibility necessary for our concepts to be operated at any number of otherwise suitable locations.

Our focused menu is designed to present an appealing variety of high quality pizza and side items to our customers. Our basic buffet restaurant menu offers three main crusts (Original Thin Crust, New York Pan and Italian), with standard toppings and special combinations of toppings. Buffet restaurants also offer pasta, salad, sandwiches, appetizers, desserts and beverages, including beer and wine in some locations, in an informal, family-oriented atmosphere. We occasionally offer other items on a limited promotional basis. Delivery/carryout restaurants typically offer the three main crusts and some combination of side items. We believe that our focus on three main crust types creates a better brand identity among customers, improves operating efficiency and maintains food quality and consistency.

Our buffet and delivery/carry-out concepts feature crusts that are hand-made from dough made fresh in the restaurant each day. We do not use a centralized commissary for mass production of dough and our dough is never frozen (with the exception of certain dough products used in the express concept for pizza, discussed below). Pizza Inn pizzas are made from a proprietary all-in-one flour mixture, real mozzarella cheese and a proprietary mix of classic pizza spices. Domestically, all ingredients and toppings can be purchased from Norco which makes deliveries to each domestic restaurant in our system at least once per week. Beginning in November 2006, two authorized third party distributors, each of which has delivery responsibilities for different geographical regions of our system, began providing certain of the warehousing and delivery services that were previously provided by Norco. In international markets, the menu mix of toppings and side items is occasionally adapted to local tastes.

Buffet Restaurants

Buffet restaurants offer dine-in, carryout and catering service and, in many cases, also offer delivery service (“Buffet Units”). They are generally located in free standing buildings or in-line locations in retail developments in close proximity to offices, shopping centers and residential areas. The current standard Buffet

Units are between 2,100 and 4,500 square feet in size and seat 80 to 185 customers. The interior decor is designed to promote a casual, lively, contemporary, family-style atmosphere.

The buffet is typically offered at prices from $4.29 to $5.99, and the average ticket price per meal, including a drink, is approximately $6.38 per person for fiscal year 2007. These averages are slightly higher in restaurants offering beer and wine.

We have implemented an updated image for our domestic Buffet Units. The new image includes significant exterior and interior changes in signage, color schemes and dining area configuration, including the addition of a back-fed buffet bar offering an attractive and efficient presentation. The interior features vibrant colors, graphic accents, contemporary furnishings and updated signage and logos. Some Buffet Units feature game rooms that offer a range of electronic game entertainment for the entire family. Interiors feature selected memorabilia capturing some of the milestones in our nearly 50 years of operation. Additionally, some Buffet Units offer guests the convenience of curbside service. The new image has been introduced in new Company-owned Buffet Units, as well as in several new franchised Buffet Units and existing, remodeled franchise Buffet Units.

Delivery/Carryout Restaurants

Delivery/carryout restaurants offer delivery and carryout service only and are typically located in shopping centers or other in-line retail developments ("Delco Units"). These relatively small restaurants, occupying approximately 1,000 square feet, are primarily production facilities and, in most instances, do not offer seating. Because Delco Units do not typically offer dine-in areas, they usually do not require expensive real estate leasehold or ownership costs and are relatively less expensive to build and equip. The decor of the Delco Unit is designed to be bright and highly visible and feature neon, lighted displays and awnings. We have attempted to locate Delco Units strategically to facilitate timely delivery service and to provide easy access for carryout service.

Express Restaurants

Express restaurants serve our customers through a variety of non-traditional points of sale. Express restaurants are typically located in a convenience store, food court, college campus, airport terminal, athletic facility or other commercial facility ("Express Units"). They have limited or no seating and solely offer quick carryout service of a limited menu of pizza and other foods and beverages. An Express Unit typically occupies approximately 200 to 400 square feet and is commonly operated by the same person who owns the commercial host facility or who is licensed at one or more locations within the facility. We have developed a high-quality pre-prepared crust that is topped and cooked on-site, allowing this concept to offer a lower initial investment and reduced labor and operating costs while maintaining product quality and consistency. Like Delco Units, Express Units are primarily production-oriented facilities and, therefore, do not require all of the equipment, labor, real estate or square footage of the Buffet Unit.

Site Selection

We consider the restaurant site selection process critical to a restaurant's long-term success and devote significant resources to the investigation and evaluation of potential sites. The site selection process includes a review of trade area demographics and other competitive factors. We also rely on the franchisee's knowledge of the trade area and market characteristics when selecting a location for a franchised restaurant. A member of our development team will visit each potential domestic Company-owned restaurant location. We try to locate franchised and Company-owned restaurants in retail strip centers or freestanding buildings offering visibility, curb appeal and accessibility.

Development and Operations

We intend to continue our expansion domestically in markets with significant long-term growth potential and where we believe that we can use our competitive strengths to establish brand recognition and gain local market share. We believe our franchise-oriented business model will allow us to expand our franchised restaurant base with limited capital expenditures and working capital requirements. While we plan to expand our domestic restaurant base primarily through opening new franchised restaurants, we also will continue to evaluate our mix of Company-owned and franchised restaurants and may strategically develop Company-owned restaurants, acquire franchised restaurants and re-franchise Company-owned restaurants. We also believe that our most promising development and system growth opportunities lie with experienced, well-capitalized, multi-restaurant operators.

The specific rate at which we will be able to expand through franchise development is determined in part by our success at selecting qualified franchisees, by identifying satisfactory sites in appropriate markets and by our ability to continue training and monitoring our franchisees.

Franchise Operations

We have adopted a franchising strategy that has two major components: continued development within our existing market areas and new development in strategically targeted domestic territories. We also intend to continue to seek appropriate international development opportunities.

Franchise and development agreements. Our current forms of franchise agreements provide for: (i) an initial franchise fee of $25,000 for a Buffet Unit, $7,500 for a Delco Unit and $5,000 for an Express Unit, (ii) an initial franchise term of 20 years for a Buffet Unit and ten years for a Delco Unit or Express Unit, plus a renewal term of ten years for each concept, (iii) required contributions equal to 1% of gross sales to the Pizza Inn Advertising Plan ("PIAP") or to us, as discussed below, (iv) royalties equal to 4% of gross sales for a Buffet Unit or Delco Unit, and 5% of gross sales for an Express Unit, and (v) required advertising expenditures of at least 5% of gross sales for a Buffet Unit or Delco Unit, and 2% for an Express Unit. We have offered, to certain experienced restaurant operators, area developer rights in new and existing domestic markets. An area developer typically pays a negotiated fee to purchase the right to operate or develop restaurants within a defined territory and typically agrees to a multi-restaurant development schedule and to assist us in local franchise service and quality control in exchange for half of the franchise fees and royalties from all restaurants within the territory during the term of the agreement.

Since the Pizza Inn concept was first franchised in 1963, industry franchising concepts and development strategies have changed, and our present franchise relationships are evidenced by a variety of contractual forms. Common to those forms are provisions that: (i) require the franchisee to follow the Pizza Inn system of restaurant operation and management, (ii) require the franchisee to pay a franchise fee and continuing royalties, and (iii) except for Express Units, prohibit the development of one restaurant within a specified distance from another.

Training. We offer numerous training programs for the benefit of franchisees and their restaurant crew managers. The training programs, taught by experienced Company employees, focus on food preparation, service, cost control, sanitation, safety, local store marketing, personnel management and other aspects of restaurant operation. The training programs include group classes, supervised work in Company-owned restaurants and special field seminars. Initial and certain supplemental training programs are offered free of charge to franchisees, who pay their own travel and lodging expenses. Restaurant managers train their staff through on-the-job training, utilizing video and printed materials produced by us.

Standards. We require adherence to a variety of standards designed to ensure proper operations and to protect and enhance our brand. All franchisees are required to operate their restaurants in compliance with these written policies, standards and specifications, which include matters such as menu items, ingredients, materials, supplies, services, furnishings, decor and signs. Our efforts to maintain consistent operations may result from time to time in closing certain restaurants that have not achieved and maintained a consistent standard of quality or operations. We also provide ongoing support to our franchisees to support education and adherence to our standards through our franchise business consultants, who are deployed locally in markets where our franchisees are located.

Company Operations

One of our long-term objectives is to selectively expand the number of Company-owned restaurants by identifying appropriate opportunities. We believe that moving forward, our domestic network of Company-owned restaurants will play an important strategic role in our predominately franchised operating structure. In addition to generating revenues and earnings, we expect to use domestic Company-owned restaurants as test sites for new products and promotions as well as restaurant operational improvements and as a forum for training new managers and franchisees. We also believe that as the number of Company-owned restaurants increases, they may add to the economies of scale available for advertising, marketing and other costs for the entire system.

As of June 24, 2007, we operated one Buffet Unit in the Dallas, Texas market and two Buffet Units in the Houston, Texas market. We closed the two Buffet Units in the Houston, Texas market in July and August of 2007 and the Company is currently considering alternatives including sub-leasing the units to new or existing franchisees or unrelated third-party tenants and selling the equipment within the units to new or existing franchisees. From

time to time, we also consider opportunities to acquire select franchisee-owned restaurants in other markets. We do not currently intend to operate any Delco Units or Express Units.

Our ability to open Company-owned restaurants is affected by a number of factors, including, the terms of available financing, our ability to locate suitable sites, negotiate acceptable lease or purchase terms, secure appropriate local governmental permits and approvals and our capacity to supervise construction and to recruit and train management personnel.

International Operations

We also offer master franchise rights to develop Pizza Inn restaurants in certain foreign countries, with negotiated fees, development schedules and ongoing royalties. A master licensee for a foreign country pays a negotiated fee to purchase the right to develop and operate Pizza Inn restaurants within a defined territory, typically for a term of 20 years, plus a ten-year renewal option. The master licensee agrees to a multi-restaurant development schedule and we train the master licensee to monitor and assist franchisees in their territory with local service and quality control, with support from us. In return, the master licensee typically retains half the franchise fees and half the royalties on all restaurants within the territory during the term of the agreement. Master licensees may open restaurants that they own and operate, or they may open sub-franchised restaurants owned and operated by third parties through agreements with the master licensee, but subject to our approval.

Our first franchised restaurant outside of the United States opened in the late 1970s, and, as of June 24, 2007, there were 77 restaurants operating internationally, with 49 of those restaurants operated or sub-licensed by our franchisees in the United Arab Emirates and Saudi Arabia. Our master licensee in Saudi Arabia has also developed several express restaurants at U. S. military facilities in the Middle East.

Our ability to continue to develop select international markets is affected by a number of factors, including our ability to locate experienced, well-capitalized developers who can commit to an aggressive multi-restaurant development schedule and achieve maximum initial market penetration with a minimal of supervision by us.

Food and Supply Distribution

On August 28, 2006, we entered into distribution service agreements with two reputable and experienced restaurant distribution companies. Under these agreements, The SYGMA Network (“SYGMA”) and The Institutional Jobbers Company (“IJ”) began making deliveries to all restaurants on November 5, 2006, with delivery territories and responsibilities for each determined according to geographical region. Norco retained product sourcing, purchasing, quality assurance, research and development, franchisee order and billing services, and logistics support functions. We continue to own a significant majority of the inventory warehoused and delivered by SYGMA and IJ, and franchisees are expected to continue to purchase such products from Norco. We believe this division of responsibilities for our purchasing, franchisee support and distribution systems may result in lower operating costs, logistical efficiencies and increased customer satisfaction. Norco is able to leverage the advantages of direct vendor negotiations and volume purchasing of food, equipment and supplies for the franchisees’ benefit in the form of a concentrated, one-truck delivery system, competitive pricing and product consistency. Operators are able to purchase all products and ingredients from Norco and have them delivered by experienced and efficient distributors. In order to assure product quality and consistency, our franchisees are required to purchase, from Norco, certain food products that are proprietary to the Pizza Inn system, including our flour mixture and spice blend. In addition, almost all franchisees purchase other supplies from Norco. Franchisees may also purchase non-proprietary products and supplies from other suppliers who meet our requirements for quality and reliability.

Under its agreement with us, SYGMA agreed to lease Norco’s warehouse and distribution facility in The Colony, Texas, from which it provides distribution services to restaurants in the western areas of the franchise system. The initial term of the lease agreement begins on November 1, 2006 and continues for thirty-five months. On December 19, 2007, the Company completed a sale-leaseback transaction with Vintage Interests, L.P. (“Vintage”) and sold the real estate, corporate office building and distribution facility located at 3551 Plano Parkway, The Colony, Texas for approximately $11.5 million. Under the terms of the Sale-Leaseback Agreement, the Company assigned to Vintage, the three-year lease agreement for the distribution facility entered into between the Company and The SYGMA Network on August 25, 2006.

IJ will service eastern restaurants from its distribution center in Tennessee. Norco will continue to ship products and equipment to international franchisees. Non-proprietary food and ingredients, equipment and other supplies distributed by SYGMA and IJ are generally available from several qualified sources. With the exception of several proprietary food products, such as cheese and dough flour, we are not dependent upon any one supplier or

limited group of suppliers. We contract with established food processors for the production of our proprietary products.

We have not experienced any significant shortages of supplies or any delays in receiving our food or beverage inventories, restaurant supplies or products, and do not anticipate any difficulty in obtaining inventories or supplies in the foreseeable future. Prices charged to us by our suppliers are subject to fluctuation, and we may from time to time attempt to pass increased costs and savings on to our franchisees. We do not engage in commodity hedging.

Advertising

By communicating a common brand message at the regional, local market and restaurant levels, we believe we can create and reinforce a strong, consistent marketing message to consumers and increase our market share. We offer or facilitate a number of ways for the brand image and message to be promoted at the local and regional levels.

PIAP is a Texas non-profit corporation that is responsible for creating and producing print advertisements, television and radio commercials and in-store promotional materials, along with related advertising services for use by its members. Each operator of a Buffet Unit or Delco Unit, including us, is entitled to membership in PIAP. Nearly all of our existing franchise agreements for Buffet Units and Delco Units require the franchisees to become members of PIAP. Members contribute 1% of their gross sales to PIAP. PIAP is managed by a board of trustees comprised solely of franchisee representatives who are elected by the members each year. We do not have any ownership interest in PIAP. We provide certain administrative, marketing and other services to PIAP and are paid by PIAP for such services. As of June 24, 2007, the Company-owned Buffet Units and substantially all of our franchisees were members of PIAP. Operators of Express Units do not participate in PIAP; however, they contribute up to 1% of their gross sales directly to us to help fund purchases of Express Unit marketing materials and similar expenditures.

Groups of franchisees, that are also participants of PIAP, in some of our market areas have formed local advertising cooperatives. These cooperatives, which may be formed voluntarily or may be required by us under the franchise agreements, establish contributions to be made by their members and direct the expenditure of these contributions on local media advertising using materials developed by PIAP and/or us. Franchisees are required to conduct independent marketing efforts in addition to their participation in PIAP and local cooperatives.

We provide Company-owned and franchised restaurants with catalogs for the purchase of marketing and promotional items and pre-approved print and radio marketing materials. We have also developed an internet-based system, The Pizza Inn *Inn*-tranet, by which all of our restaurants may communicate with us and place orders for marketing and promotional products.

Trademarks and Quality Control

We own various trademarks, including the name “Pizza Inn,” that are used in connection with the restaurants and have been registered with the United States Patent and Trademark Office. The duration of our trademarks is unlimited, subject to periodic renewal and continued use. In addition, we have obtained trademark registrations in several foreign countries and have periodically re-filed and applied for registration in others. We believe that we hold the necessary rights for protection of the trademarks essential to our business.

Government Regulation

We and our franchisees are subject to various federal, state and local laws affecting the operation of our restaurants. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include health, safety, sanitation, wage and hour, alcoholic beverage, building and fire agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant or require the temporary or permanent closing of existing restaurants in a particular area.

We are subject to Federal Trade Commission (“FTC”) regulation and to various state laws regulating the offer and sale of franchises. Several state laws also regulate the substantive aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a franchise offering circular containing prescribed information. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a number of states, and bills have been introduced in Congress from time to time that would provide for further

federal regulation of the franchisor-franchisee relationship in certain respects. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship.

Employees

As of September 21, 2007, we had approximately 75 employees, including 53 in our corporate office of which 8 are part of our Norco division, and 5 full-time and 17 part-time employees at the Company-owned restaurant. None of our employees are currently covered by collective bargaining agreements.

Industry and Competition

The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well-established competitors with substantially greater brand recognition and financial and other resources than Pizza Inn. Competitors include a large number of international, national and regional restaurant and pizza chains, as well as local restaurants and pizza operators. Some of our competitors may be better established in the markets where our restaurants are located or may be located. Within the pizza segment of the restaurant industry, we believe that our primary competitors are national pizza chains and several regional chains, including chains executing a "take and bake" concept. A change in the pricing or other market strategies of one or more of our competitors could have an adverse impact on our sales and earnings.

With respect to the sale of franchises, we compete with many franchisors of restaurants and other business concepts. We believe that the principal competitive factors affecting the sale of franchises are product quality and price, value, consumer acceptance, franchisor experience and support and the quality of the relationship maintained between the franchisor and its franchisees. In general, there is also active competition for management personnel and attractive commercial real estate sites suitable for our restaurants.

Our Norco division competes with both national and local distributors of food, equipment and other restaurant suppliers. The distribution industry is very competitive. We believe that the principal competitive factors in the distribution industry are product quality, customer service and price. Norco or its designees are the sole authorized suppliers of certain proprietary products that all Pizza Inn restaurants are required to use.

Available Information

We file reports, including reports on Form 10-Q and Form 10-K, with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E. Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

We make available, free of charge on or through our Internet website (http://www.pizzainn.com), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We will provide electronic or paper copies of our filings free of charge upon written request to: Corporate Secretary, Pizza Inn, Inc., 3551 Plano Parkway, The Colony, TX 75056.

Our "Code of Business Conduct and Ethics" is also available on our website. We intend to satisfy the disclosure requirements regarding amendments to, or waivers from, a provision of the Code of Business Conduct and Ethics by posting such information on our Website.

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), including information within Management's Discussion and Analysis of Financial Condition and Results of Operations. The following cautionary statements are being made pursuant to the provisions of the PSLRA and with the intention of obtaining the benefits of the "safe harbor" provisions of the PSLRA. Although we believe that our expectations are based upon reasonable assumptions, actual results may differ materially from those in the forward-looking statements as a result of various factors, including, but not limited to, the factors discussed in this Form 10-K under the heading "Risk Factors."

ITEM 1A. RISK FACTORS.

In addition to the other information contained in this report, the following risks may affect us. Among the risks are: (i) risks associated with our business, (ii) risks associated with our common stock and (iii) risks associated with our industry. Our business, financial condition, cash flows or results of operations could be materially and adversely affected by any of these risks.

Risks Associated with Our Business

If we are not able to implement our growth strategy successfully, which includes opening new domestic Buffet Units and reimaging existing restaurants, our ability to increase our revenues and operating profits could be materially adversely affected.

A significant component of our growth strategy for developing new domestic franchised and Company-owned restaurants is the implementation of our new prototype Buffet Unit concept. We and our franchisees face many challenges in opening new restaurants, including, among other things, selection and availability of suitable restaurant locations and suitable employees, increases in food, paper, labor, utilities, fuel, employee benefits, insurance and similar costs, negotiation of suitable lease or financing terms, constraints on permitting and construction of restaurants, higher than anticipated construction costs, the hiring, training and retention of management and other personnel and securing required domestic or foreign governmental permits and approvals.

The opening of additional franchise restaurants also depends, in part, upon the availability of prospective franchisees who meet our criteria. Our new concept development program may require considerable management time as well as start-up expenses for franchisee recruitment and training and market development before any significant revenues and earnings are generated.

Accordingly, we may not be able to meet planned growth targets, open restaurants in markets now targeted for expansion or operate profitably in existing markets. In addition, even if we are able to continue to open new restaurants, we may not be able to keep restaurants from closing at a faster rate than we are able to open restaurants.

Our earnings and business growth strategy depends on the success of our franchisees, and we may be harmed by actions taken by our franchisees that are outside of our control.

A significant portion of our earnings comes from royalties generated by our franchised restaurants. Franchisees are independent operators whose employees are not our employees. We provide limited training and support to franchisees, but the quality of franchised restaurant operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If they do not, our image and reputation may suffer, and revenues could decline. Our franchisees may take actions that adversely affect the value of our intellectual property or reputation. Our domestic and international franchisees may not operate their franchises successfully. If one or more of our key franchisees were to become insolvent or otherwise were unable or unwilling to pay us our royalties, our business and results of operations would be adversely affected.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success will depend to a significant extent on our leadership team and other key management personnel. We may not be able to retain our executive officers and key personnel or attract additional qualified management. Our success also will depend on our ability to attract and retain qualified personnel to oversee our restaurants, distribution operations and international operations. The loss of these employees or any inability to recruit and retain qualified personnel could have a material adverse effect on our operating results.

We face risks of litigation from customers, franchisees, employees and others in the ordinary course of business, which diverts our financial and management resources. Any adverse litigation or publicity may negatively impact our financial condition and results of operations.

Claims of illness or injury relating to food quality or food handling are common in the food service industry. In addition to decreasing our sales and profitability and diverting our management resources, adverse

publicity or a substantial judgment against us could negatively impact our financial condition, results of operations and brand reputation, hindering our ability to attract and retain franchisees and grow our business.

Further, we may be subject to employee, franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, including those relating to overtime compensation. If one or more of these claims were to be successful or if there is a significant increase in the number of these claims, our business, financial condition and operating results could be harmed.

Shortages or interruptions in the delivery of food products could adversely affect our operating results.

We, and our franchisees, are dependent on frequent deliveries of food products that meet our specifications. Our Company-owned domestic restaurants purchase substantially all food and related products from our distribution division, Norco. Domestic franchisees are only required to purchase the flour mixture, spice blend and certain other items from Norco, and changes in purchasing practices by domestic franchisees as a result of delivery disruptions or otherwise could adversely affect the financial results of our distribution operation. Interruptions in the delivery of food products caused by unanticipated demand, problems in production or distribution by Norco, our suppliers, or our distribution service providers, inclement weather (including hurricanes and other natural disasters) or other conditions could adversely affect the availability, quality and cost of ingredients, which would adversely affect our operating results.

An increase in the cost of cheese or other commodities, including fuel and labor, could adversely affect our profitability and operating results.

An increase in our operating costs could adversely affect our profitability. Factors such as inflation, increased food costs, increased labor and employee benefit costs and increased energy costs may adversely affect our operating costs. Most of the factors affecting costs are beyond our control and, in many cases, we may not be able to pass along these increased costs to our customers or franchisees even if we attempted to do so. Most ingredients used in our pizza, particularly cheese, are subject to significant price fluctuations as a result of seasonality, weather, availability, demand and other factors. Sustained increases in fuel and utility costs could adversely affect the profitability of our restaurant and distribution businesses. Labor costs are largely a function of the minimum wage for a majority of our restaurant and distribution center personnel and, generally, are a function of the availability of labor. Further government initiatives, such as proposed minimum wage rate increases, could adversely affect us as well as the restaurant industry in general.

If we are not able to continue purchasing our key pizza ingredients from our current suppliers or find suitable replacement suppliers our financial results could be materially adversely affected.

We are dependent on a few suppliers for our some of our key ingredients. Domestically, we rely upon sole suppliers for our cheese and flour mixture which are key ingredients. Alternative sources for these ingredients may not be available on a timely basis to supply these key ingredients or be available on terms as favorable to us as under our current arrangements. Any disruptions in our supply of key ingredients could adversely affect our operations.

We are subject to extensive government regulation, and any failure to comply with existing or increased regulations could adversely affect our business and operating results.

We are subject to numerous federal, state, local and foreign laws and regulations, including those relating to:

- the preparation and sale of food;
- building and zoning requirements;
- minimum wage, citizenship, overtime and other labor requirements;
- compliance with the Americans with Disabilities Act; and
- working and safety conditions.

If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any of these laws or regulations.

We are also subject to a Federal Trade Commission rule and to various state and foreign laws that govern the offer and sale of franchises. These laws regulate various aspects of the franchise relationship, including terminations and the refusal to renew franchises. The failure to comply with these laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales, fines or other penalties, or require us to make offers of rescission or restitution, any of which could adversely affect our business and operating results.

Our current insurance coverage may not be adequate, our insurance premiums may increase and we may not be able to obtain insurance at acceptable rates, or at all.

Our insurance policies may not be adequate to protect us from liabilities that we incur in our business. In addition, in the future our insurance premiums may increase and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Any such inadequacy of, or inability to obtain, insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

Risks Associated With Our Common Stock

Even though our common stock is currently traded on the Nasdaq Capital Market, it has less liquidity than the stock of many other companies quoted on the NASDAQ Stock Market's Global Market or on a national securities exchange.

The trading volume in our common stock on the Nasdaq Capital Market has been relatively low when compared with larger companies listed on the Nasdaq Global Market or the other stock exchanges. Shareholders, therefore, may experience difficulty selling a substantial number of shares for the same price at which shareholders could sell a smaller number of shares. We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. Sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, may cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock may fluctuate in the future, and these fluctuations may be unrelated to our performance.

General market price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Risks Associated With Our Industry

If we are not able to compete effectively, our business, sales and earnings could be materially adversely affected.

The restaurant industry in general, as well as the pizza segment of the industry, is intensely competitive, both internationally and domestically, with respect to price, service, location and food quality. We compete against many regional and local businesses. There are many well-established competitors with substantially greater brand awareness and financial and other resources than we have. Some of these competitors may be better established in markets where restaurants we operate or that are operated by our franchisees are, or may be, located. Experience has shown that a change in the pricing or other marketing or promotional strategies, including new product and concept developments, of one or more of our major competitors can have an adverse impact on sales and earnings and our chainwide restaurant operations.

We could also experience increased competition from existing or new companies in the pizza segment of the restaurant industry. If we are unable to compete, we could experience downward pressure on prices, lower demand for our products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, all of which would have a material adverse effect on our operating results.

We also compete on a broader scale with quick service, fast casual and other international, national, regional and local restaurants. The overall food service market and the quick service restaurant sector are intensely competitive with respect to food quality, price, service, convenience and concept. We also compete within the food service market and the restaurant industry for management and hourly employees, suitable real estate sites and qualified franchisees.

Norco is also subject to competition from outside suppliers. If other suppliers who meet our qualification standards were to offer lower prices or better service to our franchisees for their ingredients and supplies and, as a result, our franchisees chose not to purchase from Norco, our financial condition, business and results of operations would be adversely affected.

Changes in consumer preferences and perceptions could decrease the demand for our products, which would reduce sales and harm our business.

Restaurant businesses are affected by changes in consumer tastes, national, regional and local economic conditions, demographic trends, disposable purchasing power, traffic patterns and the type, number and location of competing restaurants. For example, if prevailing health or dietary preferences cause consumers to avoid pizza and other products we offer, or quick service restaurant offerings generally, in favor of foods that are perceived as more healthy, our business and operating results would be harmed.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable

ITEM 2. PROPERTIES.

The Company currently owns one Buffet Unit in the Dallas, Texas area. It is operated from a leased location of approximately 4,100 square feet. Annual lease payments are approximately $22.00 per square foot. The lease has a five-year term with multiple renewal options. At June 24, 2007 the Company also operated two Buffet Units in the Houston, Texas market. One location has approximately 4,347 square feet and the other has approximately 2,760 square feet. Both are leased at annual rates of approximately $13.00 and $18.00 per square foot, respectively. The Houston leases expire in 2015 and each has at least one renewal option. We closed the two Buffet Units in the Houston, Texas market in July and August of 2007 and the Company is currently considering alternatives such as sub-leasing the units to new or existing franchisees or unrelated third-party tenants and selling the equipment within the units to new or existing franchisees. The Company also leases its corporate office facility from Vintage Interests, L.P. pursuant to the sale-leaseback transaction completed on December 19, 2006 at an annual rate of approximately $10.00 per square foot. This lease began on December 19, 2006 and has a ten year term.

The Company also owns property in Little Elm, Texas that was purchased in June 2003 for $127,000 from which the Company previously operated a Delco Unit. Finish out and improvements for the Delco Unit totaled approximately $440,000. The Company has listed the property with a broker for sale to a third party. This property is classified as “held for sale” at June 24, 2007.

ITEM 3. LEGAL PROCEEDINGS.

The Company is subject to claims and legal actions in the ordinary course of its business. With the possible exception of the matters set forth below, 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.

On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, (“Akin Gump”) and J. Kenneth Menges, one of the firm’s partners. Akin Gump served as the Company’s principal outside lawyers from 1997 through May 2004, when the Company terminated the relationship. The petition alleges that during the course of representation of the Company, the firm and Mr. Menges, as the partner in charge of the firm’s services for the Company, breached certain fiduciary responsibilities to the Company by giving advice and taking action to further the personal interests of certain of the Company’s executive officers to the detriment of the Company and its shareholders. Specifically, the petition alleges that the firm and Mr. Menges assisted in the creation and implementation of so-called “golden parachute” agreements, which, in the opinion of the Company’s current counsel, provided for potential severance payments to those executives in amounts greatly disproportionate to the Company’s ability to pay, and that, if paid, could expose the Company to significant financial liability which could have a material adverse effect on the Company’s financial position. The Company is unable to provide any meaningful analysis, projections or expectations at this time regarding the outcome of this matter. However, the Company believes that its claims against Akin Gump and Mr. Menges are well founded and intends to vigorously pursue all relief to which it may be entitled.

On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

On January 12, 2005, the Company instituted an arbitration proceeding against Mr. Parker with the American Arbitration Association in Dallas, Texas pursuant to the Parker Agreement seeking declaratory relief that Mr. Parker was not entitled to severance payments or any other further compensation from the Company. In addition, the Company was seeking compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Parker under the Parker Agreement. On January 31, 2005, Mr. Parker filed claims against the Company for alleged defamation, alleged wrongful termination, and recovery of amounts allegedly due under the Parker Agreement. Mr. Parker had originally sought in excess of $10.7 million from the Company, including approximately (i) $7.0 million for severance payments plus accrued interest, (ii) $0.8 million in legal expenses, and (iii) $2.9 million in other alleged damages.

On September 24, 2006, the parties entered into a compromise and settlement agreement (the "Parker Settlement Agreement") relating to the arbitration actions filed by the Company and Mr. Parker (collectively, the "Parker Arbitration"). Pursuant to the Settlement Agreement, each of the Company and Mr. Parker (i) denied wrongdoing and liability, (ii) agreed to mutual releases of liability, and (iii) agreed to dismiss all pending claims with prejudice. The Company also agreed to pay Mr. Parker $2,800,000 through a structured payment schedule to resolve all claims asserted by Mr. Parker in the Parker Arbitration, with the entire amount to be paid within six months of the date of the Parker Settlement Agreement. In addition, all payments under the Parker Settlement Agreement automatically and immediately became due upon the completion of the sale-leaseback transaction involving our corporate headquarters office and distribution facility on December 19, 2006. Following the completion of the sale-leaseback transaction, the Company paid off the entire amount of remaining payments due under the Parker Settlement Agreement. At June 24, 2007, there were no remaining amounts due to Mr. Parker under the Parker Settlement Agreement.

On April 22, 2005, the Company provided PepsiCo, Inc. ("PepsiCo") written notice of PepsiCo's breach of the beverage marketing agreement the parties had entered into in May 1998 (the "Beverage Agreement"). In the notice, the Company alleged that PepsiCo had not complied with the terms of the Beverage Agreement by failing to (i) provide account and equipment service, (ii) maintain and repair fountain dispensing equipment, (iii) make timely and accurate account payments, and by providing to the Company beverage syrup containers that leaked in storage and in transit. The notice provided PepsiCo 90 days within which to cure the instances of default. On May 18, 2005 the parties entered into a "standstill" agreement under which the parties agreed to a 60-day extension of the cure period to attempt to renegotiate the terms of the Beverage Agreement and for PepsiCo to complete its cure.

The parties were unable to renegotiate the Beverage Agreement, and the Company contended that PepsiCo did not cure each of the instances of default set forth in the Company's April 22, 2005 notice of default. On September 15, 2005, the Company provided PepsiCo notice of termination of the Beverage Agreement. On October 11, 2005, PepsiCo served the Company with a petition in the matter of *PepsiCo, Inc. v. Pizza Inn Inc.,* filed in District Court in Collin County, Texas. In the petition, PepsiCo alleged that the Company breached the Beverage Agreement by terminating it without cause. PepsiCo was seeking damages of approximately $2.6 million, an amount PepsiCo believed represents the value of gallons of beverage products that the Company was required to purchase under the terms of the Beverage Agreement, plus return of any marketing support funds that PepsiCo advanced to the Company but that the Company had not earned. The Company filed a counterclaim against PepsiCo for amounts earned by the Company under the Beverage Agreement but not yet paid by PepsiCo, and for damage for business defamation and tortuous interference with contract based upon statements and actions of the PepsiCo account representative servicing the Company's account.

On December 14, 2006, the Company and PepsiCo entered into a compromise settlement agreement (the "PepsiCo Settlement Agreement") and an agreed final judgment fully resolving all claims at issue in the litigation between the parties. Under the terms of the PepsiCo Settlement Agreement, among other things, (i) each party

agreed to dismiss all claims between the parties; (ii) the parties released and discharged each other from all pending and possible claims arising out of or in connection with the Beverage Agreement; (iii) the Company agreed to pay to PepsiCo $410,000 on or before December 29, 2006 and entered into the agreed final judgment to secure the Company's payment obligations; and (iv) each party bears its own attorneys' fees and court costs. The Company paid to PepsiCo the $410,000 settlement amount on December 29, 2006 and the parties subsequently entered the agreed joint motion with the court to dismiss the case. As of December 24, 2006, the Company had accrued the full amount paid to PepsiCo. As a result of the terms of the PepsiCo Settlement Agreement, the Company reduced to zero $108,000 of accounts payable to PepsiCo related to beverage product previously purchased from PepsiCo, which resulted in a reduction of the provision for litigation costs by that amount during the fiscal second quarter ended December 24, 2006. As of June 24, 2007, there were no remaining payments due under the PepsiCo Settlement Agreement.

On August 31, 2006, the Company was served with notice of a lawsuit filed against it by a former franchisee and its guarantors who operated one restaurant in the Harlingen, Texas market in 2003. The former franchisee and guarantor allege generally that the Company intentionally and negligently misrepresented costs associated with development and operation of the Company's franchise, and that as a result they sustained business losses that ultimately led to the closing of the restaurant. They seek damages of approximately $768,000, representing amounts the former franchisees claim to have lost in connection with their development and operation of the restaurant. In addition, they seek unspecified punitive damages, and recovery of attorneys' fees and court costs. The Eastern District of Texas magistrate recently ruled in the Company's favor to transfer this action to the Northern District of Texas pursuant to the forum selection clause in the franchise agreement. Due to the preliminary nature of this matter and the general uncertainty surrounding the outcome of any form of legal proceeding, it is not practicable for the Company to provide any certain or meaningful analysis, projection or expectation at this time regarding the outcome of this matter. Although the outcome of the legal proceeding cannot be projected with certainty, the Company believes that the plaintiff's allegations are without merit. The Company intends to vigorously defend against such allegations and to pursue all relief to which it may be entitled, including pursuing a counterclaim for recovery of past due amounts, future lost royalties and attorneys' fees and costs. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operation. The Company has not made any accrual for such amounts as of June 24, 2007.

On April 12, 2006, Pizza Inn filed a verified complaint and application for injunctive relief against James Minick. Minick was a Georgia franchisee with four (4) franchise agreements, which had been terminated for non-renewal of the franchise agreement, past due fees, and failure to comply with Pizza Inn's standards, policies, and procedures. At the time of filing the Verified Complaint, Pizza Inn had terminated and sought relief under only one of the franchise agreements ("The Eastman Franchise Agreement"). Minick failed to answer or otherwise respond by May 22, 2006. Pizza Inn moved for an entry of default against Minick. After the clerk entered the entry of default, Pizza Inn analyzed Minick's defaults under all the agreements and filed an amended verified complaint, asserting claims under two additional franchise agreements ("The Baxley and Dublin Franchise Agreements"). Pizza Inn also amended its application for preliminary injunction, to enjoin Minick from using Pizza Inn's marks without authorization and maintaining "Minick's Pizza" restaurants in violation of the covenant not to compete.

On November 9, 2006, the Court issued a preliminary injunction against Minick, restraining Minick from (1) operating pizza restaurants, while the Swainsboro Franchise Agreement is effective, (2) operating pizza restaurants within ten miles of the former Eastman and Dublin locations for a period of two years from the date of the order, and (3) using Pizza Inn's marks, trade names, and logos without authorization. On December 18, 2006, Pizza Inn filed its amended motion for default judgment against Minick, since Minick still failed to answer or otherwise respond. On December 20, 2006, the Court entered a Final Judgment against Minick. The Court granted damages in the principal sum of $238,375, plus $32,691 in attorney fees, and $3,310 in expenses. The Court ordered that Pizza Inn recover prejudgment interest on these sums at the rate allowed by law and post-judgment interest at the rate of 4.95% per annum. Furthermore, the Court issued a permanent injunction on the same terms as the preliminary injunction. On or about April 5, 2007, the United States Marshal in Georgia served Minick with the Final Judgment. The receipts and return of process were filed with the Court on April 10, 2007. Pizza Inn has registered the Final Judgment with the Georgia courts and has filed abstracts to record the Final Judgment in the deed records of each county in which Minick is believed to have real property. Pizza Inn also has the option to initiate a sheriff's sale of real properties in Georgia.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS. AND ISSUER PURCHASE OF EQUITY SECURITIES.

As of September 21, 2007, there were approximately 1,991 stockholders of record of the Company's common stock.

The Company had no sales of unregistered securities during fiscal 2007, 2006 or 2005.

The Company's common stock is listed on the Capital Market (formerly called the "NASDAQ SmallCap Market") of the NASDAQ Stock Market, LLC ("NASDAQ") exchange under the symbol "PZZI". The following table shows the highest and lowest daily closing price per share of the common stock during each quarterly period within the two most recent fiscal years, as reported by NASDAQ. Such prices reflect inter-dealer quotations, without adjustment for any retail markup, markdown or commission.

		Actual Trade Executed Price	
		High	Low
2007			
	First Quarter Ended 9/24/2006	$2.90	$1.85
	Second Quarter Ended 12/24/2006	2.25	1.51
	Third Quarter Ended 3/25/2007	2.53	1.77
	Fourth Quarter Ended 6/24/2007	3.22	2.24
2006			
	First Quarter Ended 9/25/2005	$2.97	$2.50
	Second Quarter Ended 12/25/2005	2.90	2.50
	Third Quarter Ended 3/26/2006	2.93	2.59
	Fourth Quarter Ended 6/25/2006	3.35	2.63

Under the Company's bank loan agreement (the "CIT Credit Facility"), the Company is allowed to pay dividends or make other distributions on its common stock up to an aggregate amount of $3,000,000.

The Company did not pay any dividends on its common stock during the fiscal years ended June 24, 2007 and June 25, 2006. Any determination to pay cash dividends in the future will be at the discretion of the Company's Board of Directors and will be dependent upon the Company's results of operations, financial condition, capital requirements, contractual restrictions and other factors deemed relevant. Currently, there is no intention to pay any dividends on its common stock.

On May 23, 2007, our board of directors approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase on our behalf of up to 1,016,000 shares of our common stock in the open market or in privately negotiated transactions. Although no repurchases were made in any month within the fourth quarter of the fiscal year covered by this report, 16,004 shares of our common stock were purchased, in the open market, and are being held by us as treasury shares, pursuant to the 2007 Stock Purchase Plan subsequent to June 24, 2007. The following table furnishes information for purchases made subsequent to June 24, 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (June 25, 2007 – July 29, 2007)	**0**	**—**	**—**	**1,016,000**
Month #2 (July 30, 2007 – August 26, 2007)	**2,924**	**$ 2.31**	**2,924**	**1,013,076**
Month #3 (August 27, 2007 – September 20, 2007)	**13,080**	**$ 2.19**	**13,080**	**999,996**
Total:	**16,004**	**$ 2.21**	**16,004(1)**	**999,996**

(1) These shares were purchased pursuant to the 2007 Stock Purchase Plan. The 2007 Stock Purchase Plan was announced on May 23, 2007. Our board of directors approved the purchase of up to 1,016,000 shares of our common stock pursuant to the 2007 Stock Purchase Plan. The 2007 Stock Purchase Plan does not have any expiration date.

Our ability to purchase shares of our common stock is subject to various laws, regulations and policies as well as the rules and regulations of the Securities and Exchange Commission. We intend to make further purchases under the 2007 Stock Purchase Plan. We may also purchase shares of our common stock other than pursuant to the 2007 Stock Purchase Plan and other than pursuant to a publicly announced plan or program.

Equity Compensation Plan Information

A summary of equity compensation under all of the Company's equity compensation plans follows:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of Securities remaining available for future issuance under equity compensation plans
Equity Compensation plans approved by security holders	88,358	$ 2.77	1,433,759
Equity Compensation plans not approved by security holders	500,000	$ 2.50	—
Total	588,358	$ 2.54	1,433,759

Additional information regarding equity compensation can be found in the notes to the consolidated financial statements.

ITEM 6. SELECTED FINANCIAL DATA.

The following table contains certain selected financial data for the Company for each of the last five fiscal years through June 24, 2007, and should be read in conjunction with the consolidated financial statements and schedules in Item 8 of this report.

	For The Year Ended				
	June 24, 2007	June 25, 2006	June 26, 2005	June 27, 2004	June 29, 2003
	(In thousands, except per share amounts)				
SELECTED INCOME STATEMENT DATA:					
Total revenues	$47,136	$50,459	$55,269	$59,988	$58,471
Income (loss) before taxes	206	(7,018)	359	3,648	4,643
Net income (loss)	206	(5,989)	204	2,243	3,093
Basic earnings (loss) per common share	0.02	(0.59)	0.02	0.22	0.31
Diluted earnings (loss) per common share	0.02	(0.59)	0.02	0.22	0.31
SELECTED BALANCE SHEET DATA:					
Total assets	8,194	19,001	20,255	20,906	20,796
Total debt and capital lease obligations	—	8,044	7,727	8,376	11,233

In the fiscal 2006 the Company adopted SFAS No. 123(R) that requires compensation expense for most equity-based awards be recognized over the requisite service period. Year ended June 24, 2007 and June 25, 2006 compensation reversal/expense was ($14,000) and $341,000, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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 Annual Report on Form 10-K 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 the strategies underlying the Company's business objectives, its customers and its franchisees, its liquidity and capital resources, the impact of its historical and potential business strategies on the Company's business, financial condition, and operating results and the expected effects of potentially adverse litigation outcomes. The Company's actual results could differ materially from its expectations. Further information concerning the Company's business, including additional risk factors and uncertainties that could cause actual results to differ materially from the forward-looking statements contained in this Annual Report on Form 10-K, are set forth above under Item 1 and below under the heading "Risk Factors." 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 Annual Report on Form 10-K and, except as may be required by applicable law and regulation, the Company does not undertake, and specifically disclaims 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.

Fiscal 2007 Compared to Fiscal 2006

Overview

The Company is a franchisor and food and supply distributor to a system of restaurants operating under the trademark "Pizza Inn". At June 24, 2007, there were 353 Pizza Inn restaurants, consisting of three Company-owned restaurants and 350 franchised restaurants. At June 24, 2007, the domestic restaurants were operated as: (i) 166 Buffet Units; (ii) 42 Delco Units; and (iii) 68 Express Units. The 276 domestic restaurants were located in 18 states predominately situated in the southern half of the United States. Additionally, the Company had 77 international restaurants located in nine foreign countries.

Diluted earnings per common share were $0.02 as compared to a diluted loss of $0.59 per share in the prior year. Net income was $206,000 as compared to net loss of ($5,989,000) in the prior year, on revenues of $47,136,000 in the current year and $50,459,000 in the prior year. Pre-tax income was $206,000 as compared to a pre-tax loss of ($7,018,000) in the prior year.

Results of operations for fiscal 2007 and 2006 both include fifty-two weeks.

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

	Fiscal Year Ended	
	June 24, 2007	June 25, 2006
Chainwide retail sales Buffet Units (in thousands)	$114,083	$119,369
Chainwide retail sales Delco Units (in thousands)	$ 12,576	$ 13,765
Chainwide retail sales Express Units (in thousands)	$ 7,175	$ 8,579
Average number of Buffet Units	171	186
Average number of Delco Units	46	51
Average number of Express Units	67	69

Revenues

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

Food and Supply Sales

Food and supply sales by Norco include food and paper products, equipment, marketing materials and other distribution revenues. Food and supply sales decreased 7%, or $3,173,000, to $41,029,000 from $44,202,000 compared to the comparable period last year. The decline in food and supply sales was due primarily to an overall decline in domestic chain wide sales, driven primarily by the strategic closure of underperforming franchise restaurants that were typically not compliant with Company operating standards, which accounted for $2,108,000 of the sales decline. The Company closed 33 domestic franchise restaurants during the year, or 9% of the total domestic franchise locations. Freight and storage revenue declined $557,000 due to outsourcing certain warehouse management and delivery services. In addition, the sale of restaurant-level marketing materials to franchisees decreased $365,000 primarily as a result of the Company’s decision to discontinue the sale of such materials to franchisees.

Franchise Revenue

Franchise revenue, which includes income from royalties and franchise fees, decreased 4% or $177,000 compared to the comparable period last year primarily due to lower royalties for the comparable period in the previous year as a result of lower retail sales. International royalties increased 14% due primarily to increased retail sales and more locations. The following chart summarizes the major components of franchise revenue (in thousands):

	Fiscal Year Ended	
	June 24, 2007	June 25, 2006
Domestic royalties	$ 3,963	$ 4,229
International royalties	423	370
Domestic franchise fees	191	147
International development fees	45	53
Franchise revenue	$ 4,622	$ 4,799

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 2%, or $27,000, compared to the comparable period of the prior year. The increase is the result of opening three new Buffet Units in fiscal 2006, which replaced one Buffet Unit that was sold to a franchisee and one Delco Unit that was closed. The following chart details the revenues at Company-owned restaurants (in thousands):

	Fiscal Year Ended	
	June 24, 2007	June 25, 2006
New Buffet Units — opened partial in Fiscal 2006	$ 1,485	$ 855
Buffet Unit — sold February 2006	—	354
Delco Unit — closed April 2006	—	249
Total Restaurant sales	$ 1,485	$ 1,458

Cost of Sales

Cost of sales decreased 8% or $3,661,000 compared to the comparable period in the prior year. This decrease is the primarily the result of lower food and supply sales. In addition, the Company's commencement of the outsourcing of certain of its warehouse management and delivery services for the distribution of food product to restaurants has resulted in a decreased cost of sales. Cost of sales, as a percentage of food and supply sales and restaurant sales, decreased to 94% from 96% for the comparable period last year.

Franchise Expenses

Franchise expenses include selling, general and administrative expenses (primarily wages and travel expenses) directly related to the sale and continuing service of franchises and territories. These expenses decreased 16% or $493,000 compared to the comparable period last year. This decrease is primarily the result of lower payroll, administrative and travel expenses which were offset slightly by higher research and development and promotion expenses.

General and Administrative Expenses

General and administrative expenses decreased 28% or $1,529,000 compared to the comparable period last year. The following chart summarizes the variances in general and administrative expenses (in thousands):

	Fiscal Year Ended	
	June 24, 2007	June 25, 2006
Legal and Other Professional Fees	$ 1,829	$ 1,850
Payroll	418	834
Stock Compensation	(14)	341
Occupancy Costs	622	833
Administrative Expenses and Other	416	662
Depreciation and Amortization	155	330
Information Technology	210	269
Utilities	189	216
Company Store Marketing	102	118
Repairs and Maintenance	75	78
Total general and administrative expenses	$ 4,002	$ 5,531

The decrease in payroll is primarily due to lower head count and a year end adjustment to the bonus accrual. The reduction of the stock compensation expense is a result of forfeitures associated with the resignation of the Company's President and CEO and options that became fully expensed in fiscal 2006. Occupancy costs decreased due to lower property tax and insurance costs which were slightly offset by rent expense. Administrative expenses and other include refunds on property taxes and insurance in the current year and lower expenses related to the Product Purchasing Committee. Depreciation and amortization is lower as a result of the sale of the corporate office and the impairment of two restaurants in Houston during fiscal year 2006. Prior year Information Technology expenses included the write-off of capitalized software development costs associated with a proprietary on-line ordering system that was under development for the Company by a third party and that had been intended to serve as an ordering and communication platform for franchisees placing orders with Norco. Travel costs were lower in fiscal 2007 as a result of lower head count as mentioned above.

Gain on Sale of Assets

The current year includes the net gain on the sale of the corporate office and warehouse facility and various warehouse equipment and trailers the Company no longer needed, of approximately $570,000. A $261,000 deferred gain was also recognized as a result of the sale of the office building and is being recognized ratably over the ten-year term of the office lease. Prior year included the gain on sale of property in Prosper, Texas of approximately $149,000.

Impairment of Long-lived Assets and Goodwill

In the fourth quarter of fiscal 2007, the Company recognized additional impairment of approximately $48,000 to certain property held for sale to value these assets at their approximate net realizable value and additional impairment of approximately $46,000 related to equipment and other fixed assets at the two Company-owned Houston area Buffet units based on management's decision to close these stores in the first quarter of fiscal 2008.

In the fourth quarter of fiscal 2006, the Company incurred impairment charges of approximately $152,000 to the goodwill related to the Company-owned stores and impairment charges of approximately $1,166,000 to the equipment and improvements related to the two Company-owned Buffet Units in the Houston, Texas market and one Company-owned Delco Unit in Little Elm, Texas. The impairments were recognized due to the underperformance of these Company-owned stores and the Company's determination that it was more likely than not that the Company-owned restaurants in Houston, Texas and Little Elm, Texas would be sold prior to the end of their useful lives.

Litigation Settlement Accrual

The prior year included a $2,800,000 expense to accrue future payments (paid in fiscal 2007) to be made pursuant to an agreement to settle litigation with the Company's former president and chief executive officer. The current year includes a net settlement with PepsiCo for $302,000.

Other (Income) Expense

Other income consisted primarily of rental income of $175,000 on the corporate warehouse prior to the sale of the building in the second quarter of fiscal year 2007.

Interest Expense

Interest expense decreased 39% or $310,000 for the period ended June 24, 2007, compared to the comparable period of the prior year due to the payoff of the Revolving Line of Credit with Wells Fargo in December of 2006.

Provision for Bad Debt

Bad debt provision related to accounts receivable from franchisees decreased by $205,000 to $96,000. The Company believes that most of the restaurant closings in fiscal year 2007 did not have a material impact on collectibility of any outstanding receivables and royalties due to us because the vast majority of these closed restaurants were lower volume restaurants whose financial impact on its business as a whole was immaterial. For those restaurants that are anticipated to close or 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.

Provision for Income Tax

There was no provision for income taxes for the year ended June 24, 2007 compared to the benefit of $1,029,000 for the prior year due to lower income in the prior year. The effective tax rate was 0% compared to 15% in the previous year. The change in the effective tax rate is primarily due to the effect of state net operating loss, foreign tax credit and the change in the valuation allowance. The 2006 loss was carried back against prior taxes paid, and the Company received a refund of approximately $680,000, in February 2007, for a portion of prior taxes paid.

Restaurant Openings and Closings

During fiscal 2007 a total of 15 new franchise restaurants opened, including 8 domestic and 7 international restaurants. Domestically, 33 restaurants were closed by franchisees or terminated by the Company, typically because of unsatisfactory standards of operation or performance. In addition, 4 international restaurants were closed. The following chart summarizes restaurant openings and closings for the periods ended June 24, 2007 compared to the comparable period in the prior year:

Fiscal year ended June 24, 2007

Domestic	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	182	3	20	1	166
Delco Units	49	1	8	—	42
Express Units	70	4	5	(1)	68
International Units	74	7	4	—	77
Total	375	15	37	—	353

Fiscal year ended June 25, 2006

Domestic	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	199	4	21	—	182
Delco Units	52	4	7	—	49
Express Units	73	5	8	—	70
International Units	74	11	11	—	74
Total	398	24	47	—	375

Fiscal 2006 Compared to Fiscal 2005

Overview

At June 25, 2006, there were 375 Pizza Inn restaurants, consisting of three Company-owned restaurants and 372 franchised restaurants. At June 25, 2006, the domestic restaurants were operated as: (i) 182 Buffet Units; (ii) 49 Delco Units; and (iii) 70 Express Units. The 301 domestic restaurants were located in 18 states predominately situated in the southern half of the United States. Additionally, the Company had 74 international restaurants located in nine foreign countries.

Diluted loss per common share was ($0.59) as compared to $0.02 of diluted income per share in the prior year. Net loss was ($5,989,000) as compared to net income of $204,000 in the prior year, on revenues of $50,459,000 in the current year and $55,269,000 in the prior year. Pre-tax loss was ($7,018,000) as compared to pre-tax income of $359,000 in the prior year. The increase in net loss is partially the result of a $2.8 million expense to accrue future payments to be made pursuant to an agreement to settle litigation with the Company's former president and chief executive officer, impairment of long-lived assets and write-off of capitalized software costs totaling $1,443,000, and a 10% reduction in food and supply sales and a 7% reduction in franchise revenue. In addition, pre-tax earnings were negatively impacted by stock compensation expense of $341,000 and an increase in bad debt provision of $271,000. Those negative impacts to pre-tax earnings were partially offset by a gain of $147,000 on the sale of land in Prosper, TX, a reduction in compensation expense of $24,000 due to a change in the estimate for the bonus accrual, and a reduction of state tax expense of $71,000 due to a change in estimated state taxes.

Results of operations for fiscal 2006 and 2005 both include fifty-two weeks.

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

	Fiscal Year Ended	
	June 25, 2006	June 26, 2005
Chainwide retail sales Buffet Units (in thousands)	$119,369	$126,723
Chainwide retail sales Delco Units (in thousands)	$ 13,765	$ 13,842
Chainwide retail sales Express Units (in thousands)	$ 8,579	$ 9,333
Average number of Buffet Units	186	203
Average number of Delco Units	51	53
Average number of Express Units	69	71

Revenues

Revenues are primarily derived from sales of food, paper products and equipment and supplies by Norco to franchisees, franchise royalties and franchise fees. 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 is driven by changes in same store sales and restaurant count.

Food and Supply Sales

Food and supply sales by Norco include food and paper products, equipment, marketing materials and other distribution revenues. Food and supply sales decreased 10%, or $4,959,000, to $44,202,000 from $49,161,000 compared to the comparable period last year. The decrease is partially due to lower cheese prices, which negatively impacted revenues by approximately $1,450,000. Cheese product sales were approximately $896,000 lower than the comparable period in the prior year due to the lower retail sales. Additionally, a decline of 5.5% in overall chainwide retail sales negatively impacted non-cheese sales by approximately $1,873,000. The sale of restaurant-level marketing materials to franchisees decreased $304,000 primarily as a result of the Company's decision to reduce the prices at which it sells such materials to franchisees.

Franchise Revenue

Franchise revenue, which includes income from royalties and franchise fees, decreased 7% or $363,000 compared to the comparable period last year primarily due to lower royalties for the comparable period in the previous year as a result of lower retail sales. The following chart summarizes the major components of franchise revenue (in thousands):

	Fiscal Year Ended	
	June 25, 2006	June 26, 2005
Domestic royalties	$ 4,229	$ 4,624
International royalties	370	365
Domestic franchise fees	147	173
International development fees	53	—
Franchise Revenue	$ 4,799	$ 5,162

Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 54%, or $512,000, compared to the comparable period of the prior year. The increase is the result of opening three new Buffet Units, which replaced one Buffet Unit that was sold to a franchisee and one Delco Unit that was closed. The following chart details the revenues at Company-owned restaurants (in thousands):

	June 25, 2006	June 26, 2005
Buffet Units	$ 855	$ 574
Buffet unit — sold February 2006	354	—
Delco unit — closed April 2006	249	372
Restaurant sales	$ 1,458	$ 946

Cost of Sales

Cost of sales decreased 6% or $2,855,000 compared to the comparable period in the prior year. This decrease is the primarily the result of lower food and supply sales. Cost of sales, as a percentage of food and supply sales and restaurant sales, increased to 96% from 93% for the comparable period last year. This percentage increase is primarily due to higher fuel and energy prices and $161,000 of pre-opening costs associated with the three new company-owned Buffet Units.

Franchise Expenses

Franchise expenses include selling, general and administrative expenses (primarily wages and travel expenses) directly related to the sale and continuing service of franchises and territories. These expenses increased 12% or $335,000 compared to the comparable period last year. This increase is primarily the result of higher payroll and travel due to increased head count. These expenses were partially offset by lower product research, and outside marketing expenses.

General and Administrative Expenses

General and administrative expenses increased 13% or $649,000 compared to the comparable period last year. The following chart summarizes the primary variances in general and administrative expenses (in thousands):

	Fiscal Year Ended	
	June 25, 2006	June 26, 2005
Professional Fees	$ 1,850	$ 1,657
Payroll	834	758
Stock Compensation	341	—
Occupancy Costs	833	944
Administrative expenses and other	380	383
Depreciation and Amortization	330	346
Information Technology	269	126
Utilities	216	138
Board of Directors Fees	191	297
Marketing	118	73
Travel	91	63
Repairs and Maintenance	78	97
Total general and administrative expenses	$ 5,531	$ 4,882

The increase in professional fees is primarily due to increased legal fees and outside franchise audits. The increase in payroll costs is the result of stock compensation expense and Chief Executive Officer bonus accrual. Stock compensation expense increased with the implementation of SFAS 123R on June 27, 2005. SFAS 123R requires the Company to record compensation charges for share-based transactions in the Consolidated Statement of Operations. See the “New Pronouncements” section below. Occupancy costs decreased due to lower taxes and insurance. The increase in IT costs related to the write off of the on line ordering system.

Gain on Sale of Assets

In fiscal 2006, the Company sold property in Prosper, Texas for a gain of approximately $149,000.

Impairment of Long-lived Assets and Goodwill

In the fourth quarter of fiscal 2006, the Company incurred an impairment of approximately $152,000 to the goodwill related to the Company-owned stores and an impairment of approximately $1,166,000 to the equipment and improvements related to the two Company-owned Buffet Units in the Houston, Texas market and one Company-owned Delco Unit in Little Elm, Texas. The impairments were recognized due to the underperformance of the Company-owned stores and the Company’s determination that it was more likely than not that the Company-owned restaurants in Houston, Texas and Little Elm, Texas would be sold prior to the end of their useful lives.

In fourth quarter of fiscal 2006, the Company incurred a $125,000 expense related to the write-off of capitalized software development costs associated with a proprietary on-line ordering system that was under development for the Company by a third party and that had been intended to serve as an ordering and communication platform for franchisees placing orders with Norco. The system was never fully developed or implemented and the Company’s decision to terminate the development contract and suspend system implementation was primarily a factor of the Company’s decision to outsource certain distribution services to third party providers. In the fourth quarter, the Company also accrued an expense of $20,000 to terminate a service agreement related to the online-ordering system.

Litigation Settlement Accrual

The fiscal year 2006 expense includes a $2,800,000 expense to accrue future payments to be made pursuant to an agreement to settle litigation with the Company's former president and chief executive officer. Both fiscal 2006 and fiscal 2005 include legal expenses related to ongoing and settled litigation and related matters.

Interest Expense

Interest expense increased 33% or $197,000 for the period ended June 25, 2006, compared to the comparable period of the prior year due to higher interest rates and a higher balance under the Revolving Credit Agreement (defined below).

Provision for Bad Debt

Bad debt provision related to accounts receivable from franchisees increased by $271,000 to $301,000. The Company believes that most of the restaurant closings in fiscal 2006 did not have a material impact on collectibility of any outstanding receivables and royalties due to us because the vast majority of these closed restaurants were lower volume restaurants whose financial impact on its business as a whole was immaterial. The majority of the Company's bad debt provision in fiscal 2006 was related to accounts receivable due from one franchisee that closed 2 restaurants during the year and has closed his 3 remaining restaurants in fiscal 2007. For those restaurants that are anticipated to close or 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.

Provision for Income Tax

Provision for income taxes was a benefit of $1,029,000, a decrease of $1,184,000 compared to the comparable period in the prior year due to lower income in the current year. The benefit from the income tax provision was reduced by a valuation allowance of $1,448,000 for a reserve against its deferred tax asset, which was recognized in the fourth quarter of 2006. The effective tax rate was 15% compared to 43% in the previous year. The change in the effective tax rate is primarily due to the effect of permanent differences on lower net income in the current year as compared to the prior year and the valuation allowance in 2006. The 2006 loss was carried back against prior taxes paid, and the Company received a refund of approximately $680,000 in February 2007 for a portion of prior taxes paid.

Restaurant Openings and Closings

During fiscal 2006 a total of 23 new franchise restaurants and one Company owned restaurant opened, including 13 domestic and 11 international restaurants. Domestically, 35 restaurants were closed by franchisees or terminated by the Company, typically because of unsatisfactory standards of operation or performance. In addition, one Company-owned Delco Unit closed and 11 international restaurants were closed. The following chart summarizes restaurant openings and closings for the periods ended June 25, 2006 compared to the comparable period in the prior year:

Fiscal year ended June 25, 2006

Domestic	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	199	4	21	—	182
Delco Units	52	4	7	—	49
Express Units	73	5	8	—	70
International Units	74	11	11	—	74
Total	398	24	47	—	375

Fiscal year ended June 26, 2005

Domestic	Beginning of Period	Opened	Closed	Concept Change	End of Period
Buffet Units	212	8	18	(3)	199
Delco Units	53	6	8	1	52
Express Units	73	8	10	2	73
International Units	67	7	—	—	74
Total	405	29	36	—	398

Liquidity and Capital Resources

Cash flows from operating activities are generally the result of net income (loss) adjusted for depreciation and amortization and changes in working capital. In fiscal 2007, the Company used cash of ($1,371,000) in operating activities as compared to generating cash flows from operating activities of $1,235,000 in fiscal 2006 and $1,088,000 in fiscal 2005. The net use of cash flows from operations in fiscal 2007 was primarily due to the payment of $2,800,000 to the Company's former Chief Executive Officer. This payment was fully accrued in fiscal 2006 and paid in fiscal 2007.

The Company generated net cash flows from investing activities of approximately $11,076,000 in fiscal 2007. Cash flows from investing activities primarily reflect (i) proceeds from the Company's sale of its corporate office building and distribution facility to Vintage Interests, L.P. for approximately $11.5 million in December 2007 (as discussed below) and (ii) a reduction in capital expenditures of approximately $1,978,000 in fiscal 2007 compared to fiscal 2006. In fiscal 2007, the Company used cash of approximately $249,000 for capital expenditures compared to approximately $2,227,000 in fiscal 2006 as no new Company-owned restaurants were opened or purchased in fiscal 2007. In fiscal 2006, the Company used cash of approximately $1,638,000 for investing activities as compared to approximately $753,000 in fiscal 2005. Cash flow used for investing activities during fiscal 2006 consisted primarily of the capital expenditures relating to the opening of one new Company-owned Buffet Unit, the Company's purchase, lease and remodeling of two existing Buffet Units, and purchases of warehouse equipment. Offsetting these expenditures was approximately $474,000 of proceeds from the sale of land in Prosper, Texas and approximately $115,000 from the sale of a Company-owned Buffet Unit in Dallas, Texas. In fiscal 2005, the Company used cash flow for investing activities of approximately $753,000, primarily to purchase land in Prosper, TX and for the enlargement of the warehouse parking lot.

Cash flows from financing activities generally reflect changes in the Company's net repayments of borrowings during the period, together with treasury stock purchases and exercise of stock options. During fiscal 2007, the Company used net cash for financing activities of approximately ($8,010,000). This use of cash included approximately $8,232,000 to pay off the Revolving Credit Agreement and Term Loan Agreement with Wells Fargo in December 2006. Net cash provided by financing activities was $414,000 in fiscal 2006 as compared to cash used for financing activities of $779,000 in fiscal 2005. In fiscal 2006, the Company increased its net bank borrowings by $747,000 primarily due to increased capital expenditures incurred in the current year. In fiscal 2005, the

Company used cash flow from operations to decrease its net bank borrowings and capital lease obligations by $649,000.

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 $458,000 primarily related to the Company's recent history of pre-tax losses and the potential expiration of certain foreign tax credit carryforwards. Additionally, management believes that taxable income based on the Company's existing franchise base should be more than sufficient to enable the Company to realize its net deferred tax asset without reliance on material non-routine income. The 2006 loss was carried back against prior taxes paid, and the Company received a refund of approximately $680,000 for a portion of taxes paid in the prior two years in February 2007.

On October 20, 2006, the Company and Vintage Interests, L.P. ("Vintage") entered into a purchase and sale agreement (the "Sale-Leaseback Agreement") pursuant to which Vintage agreed to purchase from the Company for $11.5 million the real estate, corporate office building and distribution facility located at 3551 Plano Parkway, The Colony, Texas. Under the terms of the Sale-Leaseback Agreement, the Company agreed to (i) assign to Vintage the three-year lease agreement for the distribution facility entered into between the Company and The SYGMA Network on August 25, 2006, and (ii) enter into a ten-year lease agreement with Vintage for the corporate office building (the "Office Lease"). On November 21, 2006, Pizza Inn and Vintage entered into an amendment to the Sale-Leaseback Agreement, the material terms of which were (i) Vintage could extend the closing date from December 19, 2006 to December 29, 2006 if Vintage provided notice of such extension by December 15, 2006 and deposited an additional $100,000 of earnest money by December 19, 2006, and (ii) upon closing, Pizza Inn would deposit with Vintage an amount equal to six months of rent for the office building in cash or by letter of credit until Pizza Inn's shareholders' equity exceeded $4 million. The sale-leaseback transaction was completed on December 19, 2006 when the Company sold the property, pursuant to the Sale-Leaseback Agreement for approximately $11.5 million.

The Company used a portion of the proceeds from the sale-leaseback transaction to pay off all obligations owed to Wells Fargo of $8,232,000 on December 19, 2006 and then terminated the Revolving Credit Agreement, the Term Loan Agreement, and all related agreements with Wells Fargo. At that time, the agreements with Newcastle regarding the Newcastle L/C were also terminated. Subsequently, the remaining proceeds from the sale-leaseback transaction were used to pay off amounts owed under two litigation settlement agreements. The Company paid to PepsiCo the $410,000 settlement amount due under the PepsiCo Settlement Agreement on December 29, 2006. The Company paid to Mr. Parker the remaining $2,350,000 due under the Parker Settlement Agreement on December 22, 2006. As of June 24, 2007 the Company had no debt outstanding and no amounts due under the above mentioned settlement agreements.

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to $3.5 million (the "CIT Credit Facility"). The actual availability on the CIT Credit Facility is determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility is provided for at a rate equal to a range of 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 per fiscal year to $3,000,000. As of June 24, 2007, there were no borrowings outstanding on the CIT Credit Facility, and the Company has used the facility to obtain one letter of credit for approximately $190,000 in connection with deposit requirements under the sale leaseback agreement and another letter of credit for approximately $230,000 to reinsurers to secure loss reserves.

We expect to fund planned capital expenditures, new restaurant openings and any additional share repurchases of our common stock for the next fiscal year from operating cash flow and the $3,500,000 CIT Credit Facility under our revolving line of credit, reduced for certain outstanding letters of credit. At June 24, 2007, there was no debt outstanding.

Contractual Obligations and Commitments

The following chart summarizes all of the Company's material obligations and commitments to make future payments under contracts such as operating lease and employment agreements as of June 24, 2007 (in thousands):

	Total	Fiscal Year 2008	Fiscal Years 2009 - 2010	Fiscal Years 2011 - 2012	After Fiscal Year 2012
Operating lease obligations	$ 5,297	$ 689	$ 1,190	$ 1,040	$ 2,378
Employment Agreements	300	300	—	—	—
Total contractual cash obligations	$ 5,597	$ 989	$ 1,190	$ 1,040	$ 2,378

Transactions with Related Parties

Two directors of the Company were franchisees during fiscal 2006 and one director was a franchisee during part of fiscal 2007.

This director, Ramon Phillips, did operate one restaurant in Oklahoma. He sold this restaurant in April 2007 and is no longer a Pizza Inn franchisee. Purchases by this franchisee comprised 0.4%, 0.4%, and 0.4% of the Company's total food and supply sales in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. Royalties from this franchisee comprised 0.4%, 0.4%, and 0.5% of the Company's total franchise revenues in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. As of June 24, 2007 and June 25, 2006, his accounts payable to the Company were $0 and approximately $10,000, respectively. This restaurant paid royalties to the Company and purchased a majority of its food and supplies from Norco.

One of the director franchisees, Bobby Clairday, currently operates a total of 10 restaurants located in Arkansas. Purchases by this franchisee comprised 6.9%, 6.5%, and 6.3% of the Company's total food and supply sales in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. Royalties and license fees and area development sales from this franchisee comprised 3.4%, 3.5%, and 3.4% of the Company's total franchise revenues in the years ended June 25, 2006, June 26, 2005 and June 27, 2004, respectively. As of June 25, 2006 and June 26, 2005, his accounts and note payable to the Company were $442,000 and $898,000, respectively. These restaurants pay royalties to the Company and purchase a majority of their food and supplies from Norco. This franchisee director did not stand for re-election on the board in December 2006.

The Company believes that the above transactions were at the same prices and on the same payment terms available to non-related parties, with one exception. This exception relates to the enforcement of the personal guarantee by Mr. Clairday of the debt of a franchisee of which he is the President and sole shareholder. In addition to normal trade receivables, the Company claimed that the franchisee, Advance Food Services, Inc., owed the Company approximately $339,000, representing debt incurred by Advance Foods, Inc. for royalty and advertising fee payments and Norco product deliveries during a period in 1996 and 1997 following Mr. Clairday's sale of that company to unrelated third parties and prior to his reacquisition of the company in 1997 ("Advance Foods Debt"). Mr. Clairday had guaranteed payment of approximately $236,000 of the Advance Foods Debt ("Guaranteed Amount"). During fiscal 2005 the Company applied against the Guaranteed Amount of the Advance Foods Debt approximately $7,250 in board fees due Mr. Clairday, and on June 20, 2006 the Company and Mr. Clairday entered into a settlement agreement whereby Mr. Clairday paid the Company the remaining balance of the Guaranteed Amount. In the fourth quarter of 2006 the Company recognized a bad debt provision to related party accounts receivable of approximately $76,000, representing the amount of the Advance Foods Debt either in dispute or not guaranteed by Mr. Clairday. The full amount of the provision was written off as uncollectible at that time.

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 a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, general customer creditworthiness and the franchisee's ability to pay, based upon the franchisee's sales, operating results and other general and local economic trends and conditions that may affect the franchisee's ability to pay. Actual realization of accounts receivable could differ materially from the Company's estimates.

Notes receivable primarily consist of notes from franchisees for trade receivables, franchise fees and equipment purchases. These notes generally have terms ranging from one to five years and interest rates of 6% to 12%. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, general customer creditworthiness and a franchisee's ability to pay, based upon the franchisee's sales, operating results and other general and local economic trends and conditions that may affect the franchisee's ability to pay. Actual realization of notes receivable could differ materially from the Company's estimates.

Inventory, which consists primarily of food, paper products, supplies and equipment primarily warehoused by the Company's two third-party distributors, The SYGMA Network and The Institutional Jobbers Company, are 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.

Re-acquired development franchise rights are initially recorded at cost. When circumstances warrant, the Company assesses the fair value of these assets based on estimated, undiscounted future cash flows, to determine if impairment in the value has occurred and an adjustment is necessary. If an adjustment is required, a discounted cash flow analysis would be performed and an impairment loss would be recorded.

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized based upon the Company's analysis of existing tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes 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 and the results of tax strategies.

The Company assesses its exposures to loss contingencies including legal and income tax 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 impacted.

New Pronouncements

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments” an amendment of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated from its host contract. The election to measure a hybrid financial instrument at fair value, in its entirety, is irrevocable and all changes in fair value are to be recognized in earnings. This Statement also clarifies and amends certain provisions of SFAS No. 133 and SFAS No. 140. This Statement is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Early adoption is permitted, provided the Company has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. The adoption of this Statement is not expected to have a material impact on the Company’s financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes.” This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This Interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is in the process of determining the impact of adopting this Interpretation.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. (“SAB 108”) which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is applicable for our fiscal 2007. The adoption of this statement did not have a material impact on the Company’s financial position or results of operation.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 establishes a framework for measuring fair value within generally accepted accounting principles clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurements. SFAS No. 157 does not require any new fair value measurements in generally accepted account principles. However, the definition of fair value in SFAS No. 157 may affect assumptions used by companies in determining fair value. The Company will be required to adopt SFAS No. 157 on June 30, 2008. The Company has not completed its evaluation of the impact of adoption of SFAS No. 157 on the Company’s financial statements, but currently believes the impact of the adoption of SFAS No. 157 will not require material modification of the Company’s fair value measurement and will be substantially limited to expanded disclosures in the notes to the Company’s consolidated financial statement.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has market risk exposure arising from changes in interest rates. The Company’s earnings are affected by changes in short-term interest rates as a result of borrowings under its credit facilities, which bear interest based on floating rates. There is no current known impact due to a lack of debt balances at June 24, 2007.

The Company is exposed to market risks from changes in commodity prices. During the normal course of business, the Company purchases cheese and certain other food products that are affected by changes in commodity prices and, as a result, the Company is subject to volatility in its food sales and cost of sales. Management actively

monitors this exposure; however, the Company does not enter into financial instruments to hedge commodity prices. The block price per pound of cheese averaged $1.38 in fiscal 2007. The estimated change in sales from a hypothetical $0.20 decrease in the average cheese block price per pound would have been approximately $1.18 million in fiscal 2007.

The Company does not believe inflation has materially affected earnings during the past three years. Substantial increases in costs, particularly commodities, labor, benefits, insurance, utilities and fuel, could have a significant impact on the Company.

PIZZA INN, INC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable, not required or because the required information is included in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Pizza Inn, Inc.
The Colony, Texas

We have audited the accompanying consolidated balance sheets of Pizza Inn, Inc. as of June 24, 2007 and June 25, 2006 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended June 24, 2007. We have also audited the schedule listed in the accompanying index for each of the three years in the period ended June 24, 2007. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor did we perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pizza Inn, Inc. at June 24, 2007 and June 25, 2006 and the results of its operations and its cash flows for each of the three years in the period ended June 24, 2007 in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule for each of the three years in the period ended June 24, 2007 presents fairly, in all material respects, the information set forth therein.

As more fully described in Note H to the consolidated financial statements, effective June 27, 2005, the Company adopted the provisions of SFAS 123(R), "Share Based Payment."

/s/ BDO Seidman, LLP
Dallas, Texas
September 20, 2007

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

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
REVENUES:			
Food and supply sales	$ 41,029	$ 44,202	$ 49,161
Franchise revenue	4,622	4,799	5,162
Restaurant sales	1,485	1,458	946
	47,136	50,459	55,269
COSTS AND EXPENSES:			
Cost of sales	40,101	43,762	46,617
Franchise expenses	2,633	3,126	2,791
General and administrative expenses	4,002	5,531	4,882
Gain on sale of assets	(570)	(149)	—
Impairment of long-lived assets and goodwill	48	1,319	—
Litigation settlement accrual	302	2,800	—
Other (income) expense	(159)	—	—
Provision for bad debt	96	301	30
Total costs and expenses, net	46,453	56,690	54,320
OPERATING INCOME (LOSS)	683	(6,231)	949
Interest expense	477	787	590
INCOME (LOSS) BEFORE INCOME TAXES	206	(7,018)	359
Provision (benefit) for income taxes	—	(1,029)	155
NET INCOME (LOSS)	$ 206	$ (5,989)	$ 204
Basic earnings (loss) per common share	$ 0.02	$ (0.59)	$ 0.02
Diluted earnings (loss) per common share	$ 0.02	$ (0.59)	$ 0.02
Weighted average common shares outstanding	10,145	10,123	10,105
Weighted average common and potentially dilutive common shares outstanding	10,146	10,123	10,142

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
Net income (loss)	$ 206	$ (5,989)	$ 204
Interest rate swap gain (net of income tax expense of $0, $89, and $59, respectively)	14	173	115
Comprehensive Income (Loss)	$ 220	$ (5,816)	$ 319

See accompanying Report of Independent Registered Public Accounting Firm and Notes to Consolidated Financial Statement.

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

	June 24, 2007	June 25, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,879	$ 184
Accounts receivable, less allowance for doubtful accounts of $451 and $324, respectively	2,716	2,627
Accounts receivable — related parties	—	452
Notes receivable, current portion	8	52
Inventories	1,518	1,772
Property held for sale	336	—
Deferred income tax assets	458	1,145
Prepaid expenses and other	165	299
Total current assets	7,080	6,531
LONG-TERM ASSETS		
Property, plant and equipment, net	778	11,921
Notes receivable	12	20
Re-acquired development territory, net	239	431
Deposits and other	85	98
	$ 8,194	$ 19,001
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable — trade	$ 2,082	$ 2,217
Accrued expenses	1,805	4,791
Current portion of long-term debt	—	8,044
Total current liabilities	3,887	15,052
LONG-TERM LIABILITIES		
Deferred gain on sale of property	209	—
Deferred revenues	314	379
Other long-term liabilities	7	58
Total liabilities	4,417	15,489
COMMITMENTS AND CONTINGENCIES (See Notes D and I)		
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value; authorized 26,000,000 shares; issued 15,120,319 and 15,090,319 shares, respectively; outstanding 10,168,494 and 10,138,494 shares, respectively	151	151
Additional paid-in capital	8,471	8,426
Retained earnings	14,799	14,593
Accumulated other comprehensive loss	—	(14)
Treasury stock at cost Shares in treasury: 4,951,825 for both years	(19,644)	(19,644)
Total shareholders' equity	3,777	3,512
	$ 8,194	$ 19,001

See accompanying Report of Independent Registered Public Accounting Firm and Notes to Consolidated Financial Statement.

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PIZZA INN, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accum. Other Comp. Income (Loss)	Treasury Stock at Cost	Total
BALANCE, JUNE 27, 2004	**10,134**	**150**	**7,975**	**20,378**	**(302)**	**(19,484)**	**8,717**
Exercise of stock options	15	—	30	—	—	—	30
Stock repurchase	(54)	—	—	—	—	(160)	(160)
Interest rate swap gain (net of income tax expense of $59)	—	—	—	—	115	—	115
Net income	—	—	—	204	—	—	204
BALANCE, JUNE 26, 2005	**10,095**	**150**	**8,005**	**20,582**	**(187)**	**(19,644)**	**8,906**
Exercise of stock options	44	1	80	—	—	—	81
Interest rate swap gain (net of income tax expense of $89)	—	—	—	—	173	—	173
Stock compensation expense	—	—	341	—	—	—	341
Net loss	—	—	—	(5,989)	—	—	(5,989)
BALANCE, JUNE 25, 2006	**10,139**	**151**	**8,426**	**14,593**	**(14)**	**(19,644)**	**3,512**
Exercise of stock options	30	—	59	—	—	—	59
Interest rate swap gain (net of income tax expense of $0)	—	—	—	—	14	—	14
Stock compensation expense (reversal)	—	—	(14)	—	—	—	(14)
Net income	—	—	—	206	—	—	206
BALANCE, JUNE 24, 2007	**10,169**	**151**	**8,471**	**14,799**	**—**	**(19,644)**	**3,777**

See accompanying Report of Independent Registered Public Accounting Firm and Notes to Consolidated Financial Statement.

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

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 206	$ (5,989)	$ 204
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:			
Depreciation and amortization	692	1,214	1,143
Impairment of long-lived assets & goodwill	48	1,443	—
Deferred rent expense	(9)	56	—
Provision for bad debt	96	301	30
Stock compensation expense	(14)	341	—
Litigation expense accrual	302	2,800	—
Gain on sale of assets	(570)	(149)	—
Deferred income taxes	687	(1,029)	39
Deferred revenue	196	542	—
Changes in operating assets and liabilities:			
Notes and accounts receivable	320	884	(256)
Inventories	254	145	(205)
Accounts payable — trade	(135)	255	716
Accrued expenses	(3,520)	7	(735)
Prepaid expenses and other	76	414	152
Cash (used for) provided by operating activities	(1,371)	1,235	1,088
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of assets	11,325	589	—
Capital expenditures	(249)	(2,227)	(753)
Cash provided by (used for) investing activities	11,076	(1,638)	(753)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Deferred financing costs	(25)	—	—
Change in line of credit, net	—	747	(234)
Repayments of long-term bank debt	(8,044)	(414)	(415)
Purchases of treasury stock	—	—	(160)
Proceeds from exercise of stock options	59	81	30
Cash (used for) provided by financing activities	(8,010)	414	(779)
Net increase in cash and cash equivalents	1,695	11	(444)
Cash and cash equivalents, beginning of year	184	173	617
Cash and cash equivalents, end of year	$ 1,879	$ 184	$ 173

See accompanying Report of Independent Registered Public Accounting Firm and Notes to Consolidated Financial Statement.

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

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
CASH PAID / (RECEIVED) FOR:			
Interest payments	$ 498	$ 782	$ 589
Income tax payments / (refunds)	(680)	(283)	633
NONCASH FINANCING AND INVESTING ACTIVITIES:			
Gain on interest rate swap	$ 14	$ 262	$ 74

See accompanying Report of Independent Registered Public Accounting Firm and Notes to Consolidated Financial Statement.

PIZZA INN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Business:

Pizza Inn, Inc. (the “Company”), a Missouri corporation incorporated in 1983, is the successor to a Texas company of the same name, which was incorporated in 1961. The Company is the franchisor and food and supply distributor to a system of restaurants operating under the trademark “Pizza Inn.”

On June 24, 2007, the Pizza Inn system consisted of 353 locations, including three Company-operated restaurants and 350 franchised restaurants, with franchises in 18 states and nine foreign countries. Domestic restaurants are located predominantly in the southern half of the United States, with Texas, North Carolina and Arkansas accounting for approximately 35%, 14%, and 8%, respectively, of the total domestic restaurants. Through the Company’s Norco Restaurant Services Company (“Norco”) division, and through agreements with third party distributors, the Company provides and facilitates food, equipment and supply distribution to its domestic and international system of restaurants.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All appropriate inter-company 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.

Inventories:

Inventory, which consists primarily of food, paper products, supplies and equipment primarily warehoused by the Company’s two third-party distributors, The SYGMA Network and The Institutional Jobbers Company, 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.

Property Held for Sale:

Assets that are to be disposed of by sale are recognized in the consolidated financial statements at the lower of carrying amount or estimated net realizable value (proceeds less cost to sell), and are not depreciated after being classified as held for sale. In order for an asset to be classified as held for sale, the asset must be actively marketed, be available for immediate sale and meet certain other specified criteria. At June 24, 2007, the Company had approximately $336,000 of assets classified as held for sale. As of June 24, 2007, approximately $293,000 of such amount represents the carrying value of the Company’s real estate and equipment located in Little Elm, Texas. As of June 24, 2007, the remaining $43,000 of assets held for sale represents miscellaneous trailers and other transportation equipment. The Company incurred impairment charges of approximately $48,000 in the fourth quarter of fiscal 2007 related to these assets. All assets held for sale are currently listed with brokers for sale to third parties.

Property, Plant and Equipment:

Property, plant and equipment, are stated at cost less accumulated depreciation and amortization. Repairs and maintenance are charged to operations as incurred; major renewals and betterments are capitalized. Upon the sale or disposition of a fixed asset, the asset and the related accumulated depreciation or amortization are removed from the accounts and the gain or loss is included in operations. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying asset and amortized over the estimated useful life of the asset.

Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the term of the lease including any reasonably assured renewal periods, if shorter. The useful lives of the assets range from three to 39 years.

Goodwill:

Goodwill is tested for impairment annually or at the time of a triggering event in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. The Company considers its Company-owned restaurants to be reporting units when it tests for goodwill impairment. Fair values are estimated based on the Company's best estimate of the expected present value of future cash flows and compared with the corresponding carrying value of the reporting unit, including goodwill. During the quarter ended June 25, 2006, the Company reduced its expectations for the Company-owned restaurants in Houston, Texas based on recent trends. At June 25, 2006, the Company recorded a pre-tax, non-cash impairment charge of $152,000 to fully impair (write off) the carrying value of the goodwill associated with the Houston area restaurants. Impairment charges are included in general and administrative expenses in the Consolidated Statements of Operations. At June 24, 2007 and June 25, 2006 there was no goodwill recorded on the Consolidated Balance Sheets.

Long-Lived Asset Impairment Assessments, Excluding Goodwill:

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 years 2007 and 2006, the Company tested its long-lived assets for impairment and recognized pre-tax, non-cash impairment charges of $46,000 and $1,166,000, during fiscal 2007 and fiscal 2006, respectively, related to the carrying value of the Houston area Company-owned restaurants and the Little Elm, Texas property. No impairment charges were necessary at June 26, 2005.

Accounts Receivable:

Accounts receivable consist primarily of receivables from food and supply sales and franchise royalties. The Company records a provision for doubtful receivables to allow for any amounts that may be unrecoverable and is based upon an analysis of the Company's prior collection experience, customer credit worthiness and current economic trends. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Finance charges may be accrued for at a rate of 18% per year, or up to the maximum amount allowed by law, on past due receivables.

Notes Receivable:

Notes receivable primarily consist of notes from franchisees for the refinancing of existing trade receivables. These notes generally have terms ranging from one to five years, with interest rates of 6% to 12%. The Company records a provision for doubtful receivables to allow for any amounts that may be unrecoverable and is based upon an analysis of the Company's prior collection experience, customer creditworthiness and current economic trends. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Re-acquired Development Territory:

Re-acquired development franchise rights are initially recorded at cost. When circumstances warrant, the Company assesses the fair value of these assets based on estimated, undiscounted future cash flows, to determine if impairment in the value has occurred and an adjustment is necessary. If an adjustment is required, a discounted cash flow analysis would be performed and an impairment loss would be recorded.

The Company has one re-acquired territory at June 24, 2007. The territory was re-acquired in December 2003, and is being amortized against incremental cash flows received, which is estimated to be approximately five years. The following chart summarizes the carrying amount at June 24, 2007 and June 25, 2006, the current year amortization expense and the estimated amortization schedule to be expensed in fiscal years 2007 through 2009 (in thousands).

	June 24, 2007	June 25, 2006
Gross Carrying Amount	$ 912	$ 912
Accumulated Amortization	(673)	(481)
Net	$ 239	$ 431
Aggregate Amortization Expense:		
For the year ended June 24, 2007	$ 192	
Estimated Amortization Expense:		
For the year ending 2008	192	
For the year ending 2009	47	
Total estimated amortization expense for the years ending 2007 - 2009	$ 239	

Income Taxes:

Income taxes are accounted for using the asset and liability method pursuant to Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“SFAS 109”). Deferred taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes future tax benefits to the extent that realization of such benefits is more likely than not.

The Company incurred significant pre-tax losses in fiscal 2006 but generated pre-tax profits in fiscal 2007. The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized, if future pre-tax profits are insufficient, and based upon the evidence of the Company’s significant pre-tax losses in fiscal 2006, the possibility of pre-tax losses in the future, and the Company’s analysis of existing tax credits by jurisdiction and expectations of the Company’s ability to utilize these tax attributes through a review of estimated future taxable income and establishment of tax strategies. These estimates could be impacted by changes in future taxable income and the results of tax strategies.

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 installation prior to acceptance. Recognition of revenue for equipment

sales occurs upon installation of such equipment. Other than for large remodel projects, delivery date and installation 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 (collectively, “Territory”) 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. For the years ended June 24, 2007, June 25, 2006 and June 26, 2005, 95%, 96% and 97%, respectively, of franchise revenue was comprised of recurring royalties.

Territory sales are the fees paid by selected experienced restaurant operators to the Company for the right to develop a specified number of restaurants in designated geographical territories. The Company recognizes the fee to the extent its obligations are fulfilled and to the extent of cash received. There were no territory fees recognized as income during the fiscal years ended June 24, 2007, June 25, 2006 and June 26, 2005.

Stock Options:

In December 2004 Financial Accounting Standards Board (the “FASB”) issued SFAS No. 123(R), “Share-Based Payment,” which revises SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), and supersedes Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”) and amends SFAS No. 95 “Statement of Cash Flows.” SFAS No. 123(R) requires companies to recognize in their income statement the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Pro forma disclosure is no longer an alternative. The Company adopted SFAS No. 123(R) on June 27, 2005. This Statement requires that compensation expense for most equity-based awards be recognized over the requisite service period, usually the vesting period, while compensation expense for liability-based awards (those usually settled in cash rather than stock) be re-measured to fair-value at each balance sheet date until the award is settled.

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. Because SFAS No. 123(R) must be applied not only to new awards, but also to previously granted awards that are not fully vested on the effective date, compensation cost for the unvested portion of some previously granted options are recognized under SFAS No. 123(R). SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required.

The Company elected to utilize the modified prospective transition method for adopting SFAS 123(R). Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS 123, shall be recognized in net earnings in the periods after the date of adoption.

At June 24, 2007 the Company has two stock-based employee compensation plans, two stock-based non-employee director compensation plans and an employment agreement with the Company’s President and Chief Executive Officer. Stock options under these plans are granted at exercise prices equal to the fair market value of the Company’s stock at the dates of grant; generally those options vest ratably over various vesting periods. The Company’s stock-based compensation plans are described more fully in Note H. The Company recognizes stock-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. Prior to June 27, 2005 the Company accounted for these plans under the intrinsic value method described in Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees,” and related Interpretations. Under the intrinsic value method, no stock-based employee compensation cost was reflected in net earnings. See Note H for effects on net earnings and earnings per share, if the Company had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation”, to stock-based compensation.

As a result of adopting SFAS No. 123(R) on June 27, 2005, our loss before income taxes and net loss for the year ended June 25, 2006, is approximately $341,000 and $221,000 higher, than if we had continued to account for share-based compensation under APB No. 25. These amounts represent previously issued awards, vesting in

fiscal years 2006, 2007 and 2008. Basic and diluted loss per share for the year ended June 25, 2006 are both $0.02 higher than if the Company had continued to account for share-based compensation under APB No. 25.

Disclosure about Fair Value of Financial Instruments:

The carrying amounts of accounts receivable, notes receivable and accounts payable approximate fair value because of the short maturity of these instruments. The Company had no long-term debt at June 24, 2007. The carrying amount of long-term debt at June 25, 2006 approximated its fair value. At June 25, 2006, the fair value of the Company's interest rate swap was based on pricing models using current market rates. The Company had no interest rate swap agreement at June 24, 2007.

Contingencies:

Provisions for settlements are accrued when payment is considered probable and the amount of loss is reasonably estimable in accordance with Statement of Financial Accounting Standard No. 5 (SFAS 5). If the best estimate of cost can only be identified within a range and no specific amount within that range can be determined more likely than any other amount within the range, and the loss is considered probable, the minimum of the range is accrued. Legal and related professional services costs to defend litigation of this nature have been expensed as incurred.

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. Actual results could differ materially from estimates.

Fiscal Year:

The Company's fiscal year ends on the last Sunday in June. Fiscal years ending June 24, 2007, June 25, 2006 and June 26, 2005 all contained 52 weeks.

New Pronouncements:

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated from its host contract. The election to measure a hybrid financial instrument at fair value, in its entirety, is irrevocable and all changes in fair value are to be recognized in earnings. This Statement also clarifies and amends certain provisions of SFAS No. 133 and SFAS No. 140. This Statement is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Early adoption is permitted, provided the Company has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This Interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is in the process of determining the impact of adopting this Interpretation.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is applicable for our fiscal 2007. The adoption of this statement did not have a material impact on the company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value within generally accepted accounting principles clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurements. SFAS No. 157 does not require any new fair value measurements in generally accepted account principles. However, the definition of fair value in SFAS No. 157 may affect assumptions used by companies in determining fair value. The Company will be required to adopt SFAS No. 157 on June 30, 2008. The Company has not completed its evaluation of the impact of adoption of SFAS No. 157 on the Company's financial statements, but currently believes the impact of the adoption of SFAS No. 157 will not require material modification of the Company's fair value measurements.

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

NOTE B – PROPERTY, PLANT AND EQUIPMENT:

Property, and plant and equipment consist of the following (in thousands):

	Estimated Useful Lives	June 24, 2007	June 25, 2006
Property, plant and equipment:			
Equipment, furniture and fixtures	3 – 7 yrs	$ 1,757	$ 5,861
Building	5 – 39 yrs	—	10,923
Land	—	—	2,071
Leasehold improvements	7 yrs or lease term if shorter	1,237	495
		2,994	19,350
Less: accumulated depreciation/amortization		(2,216)	(7,429)
		$ 778	$ 11,921

Depreciation and amortization expense was approximately $692,000, $1,214,000, and $1,143,000 for the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively.

The Company owned property in Prosper, Texas that was purchased with the intention of constructing and operating a Buffet restaurant. The Company decided not to pursue development at that location and sold the property for cash to a third party in September 2005 for $474,000, realizing a gain of $147,000 on the sale. The Company sold a Company-owned Buffet Unit in Dallas, Texas in March 2006 for $115,000, realizing no material gain or loss on the sale.

NOTE C — ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	June 24, 2007	June 25, 2006
Litigation reserve (Note I)	$ —	$ 2,800
Other	797	762
Compensation	667	664
Taxes	115	402
Other professional fees	226	163
	$ 1,805	$ 4,791

NOTE D — LONG-TERM DEBT:

The Company entered into an amendment to its existing credit agreement with Wells Fargo on August 29, 2005, effective June 26, 2005 (as amended, the “Revolving Credit Agreement”), for a $6.0 million revolving credit line that would have expired on October 1, 2007, replacing a $3.0 million line that was due to expire on December 23, 2005. The amendment provided, among other terms, for modifications to certain financial covenants, which would have resulted in an event of default under the existing credit agreement had the Company not entered into the Revolving Credit Agreement. Interest under the Revolving Credit Agreement was provided for at a rate equal to a range of Prime less an interest rate margin of 0.75% to Prime plus an interest rate margin of 1.75% or, at the Company’s option, at the LIBOR rate plus an interest rate margin of 1.25% to 3.75%. The interest rate margin was based on the Company’s performance under certain financial ratio tests. An annual commitment fee was payable on any unused portion of the Revolving Credit Agreement at a rate from 0.35% to 0.50% based on the Company’s performance under certain financial ratio tests. The interest rate realized in fiscal 2006 and in the first and second quarters of fiscal 2007 was higher than the rate structure described above due to the events of default described below. As of June 25, 2006 the variable interest rate was 9.75%, using a Prime interest rate basis. Amounts outstanding under the Revolving Credit Agreement as of June 24, 2007 and June 25, 2006 were $0 and approximately $1,713,000, respectively. Property, plant and equipment, inventory and accounts receivable had been pledged for the Revolving Credit Agreement.

The Company entered into an agreement effective December 28, 2000, as amended (the “Term Loan Agreement”), with Wells Fargo to provide up to $8.125 million of financing for the construction of the Company’s new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. The Term Loan Agreement amortized over a term of twenty years, with principal payments of $34,000 due monthly. Interest on the Term Loan Agreement was also payable monthly. Interest was provided for at a rate equal to a range of Prime less an interest rate margin of 0.75% to Prime plus an interest rate margin of 1.75% or, at the Company’s option, at the LIBOR rate plus an interest rate margin of 1.25% to 3.75%. The interest rate margin was based on the Company’s performance under certain financial ratio tests. The Company, to fulfill the requirements of Wells Fargo, fixed the interest rate on the Term Loan Agreement by utilizing an interest rate swap agreement as discussed below. The Term Loan Agreement had an outstanding balance of $0 at June 24, 2007 and approximately $6,300,000 at June 25, 2006. Property, plant and equipment, inventory and accounts receivable had been pledged for the Term Loan Agreement.

On October 18, 2005, the Company notified Wells Fargo that, as of September 25, 2005 the Company was in violation of certain financial ratio covenants in the Revolving Credit Agreement and that, as a result, an event of default existed under the Revolving Loan Agreement. As a result of the continuing event of default, all outstanding principal of the Company’s obligations under the Revolving Credit Agreement and Term Loan Agreement had been reclassified as a current liability on the Company’s balance sheet since that date.

On November 28, 2005 Wells Fargo notified the Company that as a result of the default, Wells Fargo would continue to make Revolving Credit Loans (as defined in the Revolving Credit Agreement) to the Company in accordance with the terms of the Revolving Credit Agreement, provided that the aggregate principal amount of all such Revolving Credit Loans did not exceed $3,000,000 at any one time. Additionally, Wells Fargo notified the Company that the LIBOR rate margin and the prime rate margin had been adjusted, effective as of October 1, 2005,

according to the pricing rate grid set forth in the Revolving Credit Agreement.

On August 14, 2006, the Company and Wells Fargo entered into a Limited Forbearance Agreement (the "Forbearance Agreement"), under which Wells Fargo agreed to forbear until October 1, 2006 (the "Forbearance Period") from exercising its rights and remedies as a result of the Company's existing defaults under the Revolving Credit Agreement, provided that the aggregate principal amount of all such Revolving Credit Loans did not exceed $2,250,000 at any one time.

On October 13, 2006, Wells Fargo provided written notice of acceleration to the Company that, as a result of the expiration of the Forbearance Agreement and the Company's existing defaults under the Revolving Credit Agreement and Term Loan Agreement, Wells Fargo elected to terminate the Revolving Credit Commitment (as defined in the Term Loan Agreement) and immediately accelerate and call due and payable all unpaid principal and accrued interest under the Notes (as defined in the Term Loan Agreement), along with all other unpaid obligations.

On October 19, 2006, the Company received a proposed commitment letter from Newcastle Partners, L.P. ("Newcastle") to provide the Company with a letter of credit in the amount of $1.5 million subject to certain conditions, including the execution of a new forbearance agreement with Wells Fargo. Newcastle is the Company's largest shareholder, owning approximately 48% of the Company's outstanding shares, and three of its officers are members of the Company's board of directors.

On November 5, 2006, the Company and Wells Fargo entered into a Supplemental Limited Forbearance Agreement (the "Supplemental Forbearance Agreement"), under which Wells Fargo agreed to forbear until December 28, 2006 (the "Supplemental Forbearance Period") from exercising its rights and remedies related to the Company's existing defaults under the Revolving Credit Agreement, subject to the conditions described below. Under the Supplemental Forbearance Agreement, Wells Fargo also agreed to fund additional advances on the Revolving Credit Loans during the Supplemental Forbearance Period, provided that the aggregate principal amount of all such Revolving Credit Loans did not exceed $2,020,000 at any one time, which amount was not to be reduced by a $230,000 letter of credit issued to one of the Company's insurers. The commencement of the Supplemental Forbearance Period was conditioned upon Wells Fargo receiving a letter of credit in the amount of $1.5 million from a financial institution on behalf of Newcastle (the "Newcastle L/C"), which was issued on November 10, 2006.

In connection with the Newcastle L/C, also on November 10, 2006, the Company and Newcastle entered into an agreement (the "Reimbursement Agreement") whereby the Company agreed to (i) reimburse Newcastle for a maximum of $15,000 of its expenses payable to its general partner, (ii) reimburse Newcastle for its out-of-pocket expenses incurred in obtaining and issuing the Newcastle L/C, and (iii) indemnify and hold harmless Newcastle and its officers and affiliates from certain potential costs, expenses and liabilities that they may incur or be subjected to that may arise in connection with the Newcastle L/C, the Supplemental Forbearance Agreement and the Reimbursement Agreement. On November 10, 2006, the Company and Newcastle also entered into (i) a promissory note agreement that provided that if the Newcastle L/C was drawn on then it would have been evidenced by a $1.5 million note issued to Newcastle that would have accrued interest at a rate equal to Prime plus an interest rate margin of 5.00% and (ii) a security agreement granting Newcastle an interest in certain of the Company's tangible and intangible assets, which was subordinate to Wells Fargo's security interests in such assets under the Loan Agreements. The Newcastle L/C could have been drawn on by Wells Fargo to pay down the Company's outstanding debt if there had been certain new events of default during the Supplemental Forbearance Period or if the Supplemental Forbearance Period expired and was not extended before the Company's obligations to Wells Fargo were paid in full. On November 13, 2006, the Company had satisfied all of the conditions required for the commencement of the Supplemental Forbearance Period. There were no new events of default during the Supplemental Forbearance Period, and the Newcastle L/C was not drawn upon by Wells Fargo.

On October 20, 2006, the Company and Vintage Interests, L.P. ("Vintage") entered into a purchase and sale agreement (the "Sale-Leaseback Agreement") pursuant to which Vintage agreed to purchase from the Company for $11.5 million the real estate, corporate office building and distribution facility located at 3551 Plano Parkway, The Colony, Texas. Under the terms of the Sale-Leaseback Agreement, the Company agreed to (i) assign to Vintage the three-year lease agreement for the distribution facility entered into between the Company and The SYGMA Network on August 25, 2006, and (ii) enter into a ten-year lease agreement with Vintage for the corporate office building (the "Office Lease"). On November 21, 2006, Pizza Inn and Vintage entered into an amendment to the Sale-Leaseback Agreement, the material terms of which were (i) Vintage could extend the closing date from

December 19, 2006 to December 29, 2006 if Vintage provided notice of such extension by December 15, 2006 and deposited an additional $100,000 of earnest money by December 19, 2006, and (ii) upon closing, Pizza Inn would deposit with Vintage an amount equal to six months of rent for the office building in cash or by letter of credit until Pizza Inn's shareholders' equity exceeded $4 million. The sale-leaseback transaction was completed on December 19, 2006 when the Company sold the property, pursuant to the Sale-Leaseback Agreement, for approximately $11.5 million.

As discussed above, on December 19, 2006, the Company sold its corporate office building and distribution facility to Vintage, pursuant to the Sale-Leaseback Agreement, for approximately $11.5 million. The Company realized a total gain on the sale of the property of approximately $985,000 of which approximately $724,000 was related to the sale of the distribution facility and recognized in the second quarter of fiscal 2007. The remaining $261,000 of the gain was related to the office building and was deferred and is being recognized ratably over the ten year term of the office lease as a reduction to rent expense.

The Company used a portion of the proceeds from the sale-leaseback transaction to pay off all obligations owed to Wells Fargo of $8,232,211 on December 29, 2006 and then terminated the Revolving Credit Agreement, the Term Loan Agreement, and all related agreements with Wells Fargo. At that time, the agreements with Newcastle regarding the Newcastle L/C were also terminated. Subsequently, the remaining proceeds from the sale-leaseback transaction were used to pay off amounts owed under two litigation settlement agreements. The Company paid to PepsiCo the $410,000 settlement amount due under the PepsiCo Settlement Agreement on December 29, 2006. The Company paid to Mr. Parker the remaining $2,350,000 due under the Parker Settlement Agreement on December 22, 2006. As of June 24, 2007 the Company had no debt outstanding and no amounts due under the above mentioned settlement agreements.

The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's headquarters and to fulfill bank requirements. The swap agreement had a notional principal amount of $8.125 million with a fixed pay rate of 5.84%, which began November 1, 2001 and would end November 19, 2007. The swap's notional amount amortized over a term of twenty years to parallel the terms of the Term Loan Agreement. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires that for cash flow hedges which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At June 25, 2006 there was no hedge ineffectiveness. At June 25, 2006 the fair value of the interest rate swap was a liability of $22,000. The interest rate swap was terminated on November 7, 2006, and the Company realized a loss of $42,000 based upon the fair value of the interest rate swap at that time.

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to $3.5 million (the "CIT Credit Facility"). The actual availability on the CIT Credit Facility is determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility is provided for at a rate equal to a range of 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 per fiscal year to $3,000,000. As of June 24, 2007, there were no borrowings outstanding on the CIT Credit Facility, and the Company has used the facility to obtain one letter of credit for approximately $190,000 in connection with deposit requirements under the sale leaseback agreement and another letter of credit for approximately $230,000 to reinsurers to secure loss reserves.

PIBCO, Ltd., a wholly-owned insurance subsidiary of the Company, in the normal course of operations, arranged for the issuance of a letter of credit for $230,000 to reinsurers to secure loss reserves. At June 25, 2006, this letter of credit was secured under the Revolving Credit Agreement. In December 2006, the letter of credit was terminated and replaced by a deposit of $230,000. At June 24, 2007 this deposit is included in cash and cash equivalents in the consolidated balance sheet. In July 2007, CIT issued a letter of credit for approximately $230,000 to secure loss reserves. Loss reserves for approximately the same amount have been recorded by PIBCO, Ltd. and are reflected as current liabilities in the Company's consolidated financial statements.

NOTE E — INCOME TAXES:

Income taxes are accounted for using the asset and liability method pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes future tax benefits to the extent that realization of such benefits is more likely than not.

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized. This allowance is based upon the Company's analysis of existing tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes through a review of estimated future taxable income and establishment of tax strategies. These estimates could be impacted by changes in future taxable income and the results of tax strategies.

Provision (benefit) for income taxes consist of the following (in thousands):

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
Current — Federal	$ (687)	$ —	$ 134
Current — State	—	—	7
Deferred — Federal	696	(889)	13
Deferred — State	(9)	(140)	1
Provision (benefit) for income taxes	$ —	$ (1,029)	$ 155

The effective income tax rate varied from the statutory rate for the years ended June 24, 2007, June 25, 2006 and June 26, 2005 as reflected below (in thousands):

	June 24, 2007	June 25, 2006	June 26, 2005
Federal income taxes based on 34% of pre-tax income (loss)	$ 70	$ (2,386)	$ 122
State income tax, net of federal effect	125	(92)	5
Permanent adjustments	5	15	15
Change in valuation allowance	(416)	1,448	(21)
Foreign tax credits	208	—	—
Other	8	(14)	34
	$ —	$ (1,029)	$ 155

The tax effects of temporary differences that give rise to the net deferred tax assets (liabilities) consisted of the following (in thousands):

	June 24, 2007	June 25, 2006
Reserve for bad debt	$ 160	$ 115
Depreciable assets	465	122
Deferred fees	74	31
Other reserves and accruals	473	1,409
Interest rate swap loss	—	7
Credit carryforwards	98	176
Net operating loss carry forwards	336	849
Gross deferred tax asset	1,606	2,709
Valuation allowance	(1,148)	(1,564)
Net deferred tax asset	$ 458	$ 1,145

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. The Company is required to record a valuation allowance to reduce the net deferred tax assets to the amount that the Company believes is more likely than not to be realized. In assessing the need for a valuation allowance, the Company has historically considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies, projected future taxable income and recent financial performance. The Company incurred significant pre-tax losses in fiscal 2006 but generated pre-tax profits in fiscal 2007. The accounting guidance in SFAS 109 suggests that the future earnings may not support the realizability of all of the deferred tax asset. As a result, the Company has concluded that a partial valuation allowance of $ 1,148,000 against our deferred tax asset was appropriate at June 24, 2007. No Provision for income tax expense was recorded in fiscal 2007. In the fourth quarter of fiscal 2006, the deferred tax asset was reduced by $1,448,000 with a corresponding adjustment to the provision for income taxes and the book value of the remaining net deferred tax asset was supported by the ability to carry back the significant majority of the net operating loss in 2006 against prior taxes paid and the likelihood of recognizing a gain on the sale of real estate assets. The Company filed a refund claim, carrying back the significant majority of the 2006 net operating loss against prior taxes paid and received a refund of approximately $680,000 in February 2007. The remaining net operating loss will be carried forward and will not expire until 2027.

As of June 24, 2007, the Company had $98,000 of foreign tax credit carryforwards expiring between 2008 and 2011. A related valuation allowance was established under SFAS 109, since it is more likely than not that a portion of the foreign tax credit carryforwards will expire before they can be utilized.

NOTE F — LEASES:

Premises occupied by Company-owned restaurants are leased for initial terms of five to ten years, and each has multiple renewal terms. Each lease agreement contains either a provision requiring additional rent if sales exceed specified amounts or an escalation clause based upon a predetermined multiple.

On December 19, 2006, the Company sold its real estate, corporate office building and distribution facility located at 3551 Plano Parkway, The Colony, Texas to Vintage Interests, L.P. ("Vintage"), as discussed above, and entered into a ten-year lease agreement with Vintage for the corporate office building (the "Office Lease").

Future minimum rental payments under non-cancelable leases with initial or remaining terms of one year or more at June 24, 2007 are as follows (in thousands):

	Operating Leases
2008	$ 689
2009	605
2010	585
2011	515
2012	525
Thereafter	2,378
	$ 5,297

Rental expense consisted of the following (in thousands):

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
Minimum rentals	$ 764	$ 1,162	$ 1,040
Contingent rentals	—	(3)	—
Sublease rentals	(187)	(12)	(75)
	$ 577	$ 1,147	$ 965

NOTE G — EMPLOYEE BENEFITS:

The Company has a tax advantaged savings plan that is designed to meet the requirements of Section 401(k) of the Internal Revenue Code (the "Code"). The current plan is a modified continuation of a similar savings plan established by the Company in 1985. Employees who have completed six months of service and are at least 21 years of age are eligible to participate in the plan. Effective January 1, 2002, as amended by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), the plan provides that participating employees may elect to have between 1% — 15% of their compensation deferred and contributed to the plan subject to certain IRS limitations. Effective January 1, 2001 through June 30, 2004, the Company contributed on behalf of each participating employee an amount equal to 50% of up to 4% of the employee's contribution. Effective July 1, 2004 through June 26, 2005, the Company elected to temporarily suspend its matching contribution to the plan. Effective June 27, 2005, the Company contributes on behalf of each participating employee an amount equal to 50% of up to 4% of the employee's contribution. Separate accounts are maintained with respect to contributions made on behalf of each participating employee. Employer matching contributions and earnings thereon are invested in common stock of the Company. The plan is subject to the provisions of the Employee Retirement Income Security Act, as amended, and is a profit sharing plan as defined in Section 401 of the Code.

For the years ended June 24, 2007, June 25, 2006 and June 26, 2005, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were approximately $48,000, $75,000 and $0, respectively.

NOTE H — STOCK OPTIONS:

In January 1994, the 1993 Stock Award Plan ("the 1993 Plan") was approved by the Company's shareholders with a plan effective date of October 13, 1993. Officers and employees of the Company were eligible to receive stock options under the 1993 Plan. Options were granted at market value of the stock on the date of grant, and were subject to various vesting periods ranging from six months to three years with exercise periods up to eight years, and could have been designated as incentive options (permitting the participant to defer resulting federal income taxes). Originally, a total of two million shares of common stock were authorized to be issued under the 1993 Plan. In December 1996, 1997 and 1998, the Company's shareholders approved amendments that increased the 1993 Plan by 500,000 shares in each year. In December 2000, the Company's shareholders approved amendments that increased the 1993 Plan by 100,000 shares. The 1993 Plan expired on October 13, 2003 and no further options may be granted pursuant to it.

The 1993 Outside Directors Stock Award Plan (the "1993 Directors Plan") was also adopted by the Company effective as of October 13, 1993 as approved by the shareholders. Elected directors not employed by the Company were eligible to receive stock options under the 1993 Directors Plan. Options for common stock equal to twice the number of shares of common stock acquired during the previous fiscal year were granted, up to 20,000 shares per year, to each outside director. Options were granted at market value of the stock on the first day of each fiscal year, which was also the date of grant, and with various vesting periods ranging from one to four years with exercise periods up to nine years. A total of 200,000 shares of Company common stock were authorized to be issued pursuant to the 1993 Directors Plan. The 1993 Directors Plan expired on October 13, 2003 and no further options may be granted pursuant to it.

On March 31, 2005 the Company and Tim Taft, the Company's President and Chief Executive Officer, entered into a non-qualified stock option award agreement as part of Mr. Taft's employment agreement. Pursuant to the agreement Mr. Taft was awarded options to purchase 500,000 shares of the Company's common stock at an exercise price of $2.50 per share, which was the market value of the stock on that day. Options for 50,000 shares vested immediately upon execution of the agreement and the remaining options vest incrementally over the next three years. Mr. Taft resigned on August 15, 2007, effective immediately. As of June 24, 2007 and as of the date of Mr. Taft's resignation, 300,000 options were vested. As a result of Mr. Taft's resignation, the Company revised its forfeiture rate for purposes of determining equity compensation expense. The revised forfeiture rate of 38.46% resulted in stock-based compensation expense of ($14,000) in fiscal 2007. See Note L.

In June 2005, the 2005 Employee Incentive Stock Option Award Plan (the "2005 Employee Plan") was approved by the Company's shareholders with a plan effective date of June 23, 2005. Under the 2005 Employee Plan, officers and employees of the Company are eligible to receive options to purchase shares of the Company's common stock. Options are granted at market value of the stock on the date of grant, are subject to various vesting and exercise periods as determined by the Compensation Committee of the Board of Directors, and may be designated as incentive options (permitting the participant to defer resulting federal income taxes). A total of one million shares of common stock are authorized to be issued under the 2005 Employee Plan. As of June 24, 2007 no options have been issued under the 2005 Employee Plan.

The shareholders also approved the 2005 Non-Employee Directors Stock Award Plan (the "2005 Directors Plan") in June 2005, to be effective as of June 23, 2005. Directors not employed by the Company are eligible to receive stock options under the 2005 Directors Plan. Options for common stock equal to twice the number of shares of common stock acquired during the previous fiscal year can be granted, up to 40,000 shares per year, to each non-employee director. Options are granted at market value of the stock on the first day of each fiscal year, which is also the date of grant, and with various vesting periods beginning at a minimum of six months and with exercise periods up to ten years. A total of 500,000 shares of Company common stock are authorized to be issued pursuant to the 2005 Directors Plan.

Summary of Stock Option Transactions

A summary of stock option transactions under all of the Company's stock option plans and information about fixed-price stock options follows:

	Year Ended					
	June 24, 2007		June 25, 2006		June 26, 2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	700,858	$ 2.68	810,958	$ 2.73	485,700	$ 3.40
Granted	—	$ —	20,000	$ 2.74	542,858	$ 2.53
Exercised	(30,000)	$ 2.00	(44,000)	$ 1.85	(15,000)	$ 2.00
Canceled/Expired	(82,500)	$ 3.73	(86,100)	$ 3.59	(202,600)	$ 3.86
Outstanding at end of year	588,358	$ 2.54	700,858	$ 2.68	810,958	$ 2.73
Exercisable at end of year	388,358	$ 2.56	330,858	$ 2.87	318,100	$ 3.00
Weighted-average fair value of options granted during the year		$ —		$ 1.22		$ 1.37
Total intrinsic value of options exercised		$13,200		$41,020		$11,772

The following table provides information on options outstanding and options exercisable at June 24, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding at June 24, 2007	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable at June 24, 2007	Weighted-Average Exercise Price
$ 2.00 - 3.25	577,858	7.34	$ 2.52	377,858	$ 2.46
$ 3.30 - 4.25	10,500	0.01	$ 3.56	10,500	$ 0.10
$ 4.38 - 5.50	0	—	$ 0.00	0	$ 0.00
$ 2.00 - 5.50	588,358	7.35	$ 2.54	388,358	$ 2.56

The Company adopted SFAS No. 123 (revised 2004), *"Share-Based Payment"* (SFAS 123(R)), effective June 27, 2005. SFAS 123(R) requires the recognition of the fair value of stock-based compensation in net earnings. At June 24, 2007 the Company had two stock-based employee compensation plans, two stock-based non-employee director compensation plans and an employment agreement with the Company's President and Chief Executive Officer.

Prior to July 27, 2005, the Company accounted for these plans under the intrinsic value method described in Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related Interpretations. The Company, applying the intrinsic value method, did not record stock-based compensation cost in

net earnings because the exercise price of its stock options equaled the market price of the underlying stock on the date of grant. The Company elected to utilize the modified prospective transition method for adopting SFAS 123(R). Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS 123, are recognized in net earnings in the periods after the date of adoption. The Company recognized stock-based compensation expense for the fiscal years 2007 and 2006 in the amount of approximately ($14,000) and $341,000, respectively, in the statement of operations. The Company also recorded no tax benefits in fiscal 2007 and related tax benefits for the fiscal year 2006 in the amount of $120,000. The effect on net income and loss from recognizing stock-based compensation for the fiscal year ended June 24, 2007 and June 25, 2006 was ($14,000) or $0.001 and $221,000, or $0.02 per basic share respectively.

SFAS 123(R) requires the Company to present pro forma information for periods prior to the adoption as if it had accounted for all stock-based compensation under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the awards at the date of grant is amortized to expense over the requisite service period, which generally equals the vesting period. The following table illustrates the effect on net earnings and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123(R) to its stock-based employee compensation for the periods indicated.

	June 26, 2005	
	As Reported	Pro Forma
Net income	$204,000	$80,000
Basic earnings per share	$ 0.02	$ 0.01
Diluted earnings per share	$ 0.02	$ 0.01

For all of the Company's stock-based compensation plans, the fair value of each grant was estimated at the date of grant using the Black-Scholes option-pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid any cash dividends) and employee exercise behavior. In fiscal 2007 no options were granted. If the Company had granted options in fiscal 2007, the following weighted average assumptions would have been used: risk free interest rate of 5.01%, expected volatility of 40.0%, forfeiture rates of 38.46%, expected dividend yield of 0% and expected life of 7.35. Assumptions used in fiscal 2006: risk-free interest rate of 3.77%, expected volatility of 40.1%, forfeiture rates of 0%, expected dividend yield of 0% and expected life of six years. The forfeiture rate increased to 38.46% during fiscal 2007 due to the resignation of the Company's President and Chief Executive Officer, Tim Taft, and the forfeiture of 200,000 unvested incentive stock options. Assumptions used in fiscal year 2005: risk-free interest rates ranging from 4.09% to 4.50%, expected volatility of 40.5% to 40.9%, expected dividend yield of 0%, forfeiture rates of 0%, and expected lives of six to nine years.

At June 24, 2007, the Company had unvested options to purchase 200,000 shares with a weighted average grant date fair value of $2.50. At June 25, 2006 we had unvested options to purchase 370,000 shares with a weighted average grant date fair value of $1.39. The total remaining unrecognized compensation cost related to unvested awards amounted to $0 at June 24, 2007 and $236,890 at June 25, 2006. The weighted average remaining requisite service period of the unvested awards was 16 months. The total fair value of awards that vested during the fiscal years ended June 24, 2007, June 25, 2006 and June 26, 2005 were $77,000, $196,730 and $69,800, respectively.

NOTE I — COMMITMENTS AND CONTINGENCIES:

On May 23, 2007, the Company announced that its Board of Directors had authorized a stock repurchase plan whereby the Company may repurchase up to 10% or 1,016,000 shares of its currently outstanding common stock. No shares had been repurchased as of June 24, 2007. See Note L.

On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, ("Akin Gump") and J. Kenneth Menges, one of the firm's partners. Akin Gump served as the Company's principal outside lawyers from 1997 through May 2004, when the Company terminated the relationship. The petition alleges

that during the course of representation of the Company, the firm and Mr. Menges, as the partner in charge of the firm's services for the Company, breached certain fiduciary responsibilities to the Company by giving advice and taking action to further the personal interests of certain of the Company's executive officers to the detriment of the Company and its shareholders. Specifically, the petition alleges that the firm and Mr. Menges assisted in the creation and implementation of so-called "golden parachute" agreements, which, in the opinion of the Company's current counsel, provided for potential severance payments to those executives in amounts greatly disproportionate to the Company's ability to pay, and that, if paid, could expose the Company to significant financial liability which could have a material adverse effect on the Company's financial position. The Company is unable to provide any meaningful analysis, projections or expectations at this time regarding the outcome of this matter. However, the Company believes that its claims against Akin Gump and Mr. Menges are well founded and intends to vigorously pursue all relief to which it may be entitled.

On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

On January 12, 2005, the Company instituted an arbitration proceeding against Mr. Parker with the American Arbitration Association in Dallas, Texas pursuant to the Parker Agreement seeking declaratory relief that Mr. Parker was not entitled to severance payments or any other further compensation from the Company. In addition, the Company was seeking compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Parker under the Parker Agreement. On January 31, 2005, Mr. Parker filed claims against the Company for alleged defamation, alleged wrongful termination, and recovery of amounts allegedly due under the Parker Agreement. Mr. Parker had originally sought in excess of $10.7 million from the Company, including approximately (i) $7.0 million for severance payments plus accrued interest, (ii) $0.8 million in legal expenses, and (iii) $2.9 million in other alleged damages.

On September 24, 2006, the parties entered into a compromise and settlement agreement (the "Parker Settlement Agreement") relating to the arbitration actions filed by the Company and Mr. Parker (collectively, the "Parker Arbitration"). Pursuant to the Settlement Agreement, each of the Company and Mr. Parker (i) denied wrongdoing and liability, (ii) agreed to mutual releases of liability, and (iii) agreed to dismiss all pending claims with prejudice. The Company also agreed to pay Mr. Parker $2,800,000 through a structured payment schedule to resolve all claims asserted by Mr. Parker in the Parker Arbitration, with the entire amount to be paid within six months of the date of the Parker Settlement Agreement. In addition, all payments under the Parker Settlement Agreement automatically and immediately became due upon the completion of the sale-leaseback transaction involving our corporate headquarters office and distribution facility on December 19, 2006. Following the completion of the sale-leaseback transaction, the Company paid off the entire amount of remaining payments due under the Parker Settlement Agreement. At June 24, 2007, there were no remaining amounts due to Mr. Parker under the Parker Settlement Agreement.

On April 22, 2005, the Company provided PepsiCo, Inc. ("PepsiCo") written notice of PepsiCo's breach of the beverage marketing agreement the parties had entered into in May 1998 (the "Beverage Agreement"). In the notice, the Company alleged that PepsiCo had not complied with the terms of the Beverage Agreement by failing to (i) provide account and equipment service, (ii) maintain and repair fountain dispensing equipment, (iii) make timely and accurate account payments, and by providing the Company beverage syrup containers that leaked in storage and in transit. The notice provided PepsiCo 90 days within which to cure the instances of default. On May 18, 2005 the parties entered into a "standstill" agreement under which the parties agreed to a 60-day extension of the cure period to attempt to renegotiate the terms of the Beverage Agreement and for PepsiCo to complete its cure.

The parties were unable to renegotiate the Beverage Agreement, and the Company contends that PepsiCo did not cure each of the instances of default set forth in the Company's April 22, 2005 notice of default. On

September 15, 2005, the Company provided PepsiCo notice of termination of the Beverage Agreement. On October 11, 2005, PepsiCo served the Company with a Petition in the matter of *PepsiCo, Inc. v. Pizza Inn Inc.,* filed in District Court in Collin County, Texas. In the Petition, PepsiCo alleges that the Company breached the Beverage Agreement by terminating it without cause. PepsiCo seeks damages of approximately $2.6 million, an amount PepsiCo believes represents the value of gallons of beverage products that the Company is required to purchase under the terms of the Beverage Agreement, plus return of any marketing support funds that PepsiCo advanced to the Company but that the Company has not earned. The Company has filed a counterclaim against PepsiCo for amounts earned by the Company under the Beverage Agreement but not yet paid by PepsiCo, and for damage for business defamation and tortuous interference with contract based upon statements and actions of the PepsiCo account representative servicing the Company's account.

On December 14, 2006, the Company and PepsiCo entered into a compromise settlement agreement (the "PepsiCo Settlement Agreement") and an agreed final judgment fully resolving all claims at issue in the litigation between the parties. Under the terms of the PepsiCo Settlement Agreement, among other things, (i) each party agreed to dismiss all claims between the parties; (ii) the parties released and discharged each other from all pending and possible claims arising out of or in connection with the Beverage Agreement; (iii) the Company agreed to pay to PepsiCo $410,000 on or before December 29, 2006 and entered into the agreed final judgment to secure the Company's payment obligations; and (iv) each party bears its own attorneys' fees and court costs. The Company paid to PepsiCo the $410,000 settlement amount on December 29, 2006 and the parties subsequently entered the agreed joint motion with the court to dismiss the case. As of December 24, 2006, the Company had accrued the full amount paid to PepsiCo. As a result of the terms of the PepsiCo Settlement Agreement, the Company reduced to zero $108,000 of accounts payable to PepsiCo related to beverage product previously purchased from PepsiCo, which resulted in a reduction of the provision for litigation costs by that amount during the fiscal second quarter ended December 24, 2006. As of June 24, 2007, there were no remaining payments due under the PepsiCo Settlement Agreement.

On August 31, 2006, the Company was served with notice of a lawsuit filed against it by a former franchisee and its guarantors who operated one restaurant in the Harlingen, Texas market in 2003. The former franchisee and guarantor allege generally that the Company intentionally and negligently misrepresented costs associated with development and operation of the Company's franchise, and that as a result they sustained business losses that ultimately led to the closing of the restaurant. They seek damages of approximately $768,000, representing amounts the former franchisees claim to have lost in connection with their development and operation of the restaurant. In addition, they seek unspecified punitive damages, and recovery of attorneys' fees and court costs. The Eastern District of Texas magistrate recently ruled in the Company's favor to transfer this action to the Northern District of Texas pursuant to the forum selection clause in the franchise agreement. Due to the preliminary nature of this matter and the general uncertainty surrounding the outcome of any form of legal proceeding, it is not practicable for the Company to provide any certain or meaningful analysis, projection or expectation at this time regarding the outcome of this matter. Although the outcome of the legal proceeding cannot be projected with certainty, the Company believes that the plaintiff's allegations are without merit. The Company intends to vigorously defend against such allegations and to pursue all relief to which it may be entitled, including pursuing a counterclaim for recovery of past due amounts, future lost royalties and attorneys' fees and costs. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operation. The Company has not made any accrual for such amounts as of June 24, 2007.

On November 9, 2006, the Company received a staff delinquency notice from the Nasdaq Stock Exchange, LLP ("Nasdaq") stating that, based upon information disclosed in the Company's Form 10-Q for the period ended September 24, 2006, the Company fails to comply with the minimum shareholders' equity, minimum market value of listed securities, and minimum net income requirements for continued listing on The Nasdaq Capital Market, as set forth in Marketplace Rule 4310(c)(2)(B). The notice further stated that if the Company did not provide Nasdaq, on or before November 24, 2006, with a specific plan to achieve and maintain compliance with at least one of the three listing requirements, or if Nasdaq determines that a plan submitted by the Company does not adequately address the deficiencies noted, the Company's securities would thereafter be delisted.

On November 24, 2006, the Company submitted to Nasdaq a proposed plan to regain compliance with the minimum shareholders' equity listing requirement through the realization of a gain on the sale of the Company's corporate office building and distribution facility in connection with the Sale-Leaseback Agreement entered into with Vintage, discussed previously. The plan further proposed that the Company anticipates remaining in

compliance with the minimum shareholders' equity listing requirement in the future by generating net income that will be accretive to shareholders' equity. Such net income projections were based upon, among other things, the realization of certain anticipated cost savings and an anticipated decrease in legal fees as a result of the settlement of certain litigated and arbitrated matters.

On December 4, 2006, Nasdaq notified the Company that it believes that the Company has presented a definitive plan evidencing its ability to achieve and sustain compliance with the minimum shareholders' equity listing requirement and therefore determined to grant the Company an extension of time through January 12, 2007, provided that on or before that date the Company must, among other actions, complete the sale of its corporate office building and distribution facility and furnish to Nasdaq a publicly available report that includes an affirmative statement that as of the date of the report the Company believes it has regained compliance with the shareholders' equity requirement.

On January 11, 2007, the Company publicly announced that it believes it has regained compliance with the minimum shareholders' equity requirement of $2,500,000 set forth in Nasdaq Marketplace Rule 4310(c)(2)(B)(i). Furthermore, the Company also stated that it believes that its financial performance in future periods will allow it to maintain compliance with the Nasdaq shareholders' equity requirement. On January 12, 2007, Nasdaq notified the Company that, based on the Company's announcement on January 11, 2007, the Company complies with Nasdaq Marketplace Rule 4310(c)(2)(B)(i), conditioned upon evidence of the Company's compliance in the Company's next periodic filing. Because the shareholders' equity stated in this Form 10-Q and the previous Form 10-Q is greater than $2,500,000, the Company believes that it is now in full compliance with Nasdaq Marketplace Rule 4310(c)(2)(B)(i).

In a separate matter, on December 19, 2006, the Company notified Nasdaq that the Company is aware that it fails to satisfy the audit committee composition requirements under Nasdaq Marketplace Rule 4350(d)(2)(A) due to one vacancy on the audit committee of the Company's Board of Directors. Nasdaq Marketplace Rule 4350(d)(2)(A) requires an audit committee of at least three members, each of whom must, among other requirements, be independent as defined under NASDAQ Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (subject to the exemptions provided in Exchange Act Rule 10A-3(c)). On January 8, 2007, the Company received a staff deficiency letter from Nasdaq indicating that the Company fails to comply with Nasdaq Marketplace Rule 4350(d)(2)(A). In the January 7, 2007 letter, Nasdaq notified the Company that Nasdaq will provide the Company until April 16, 2007 to regain compliance. However in a letter dated March 19, 2007, Nasdaq notified the Company that the Company will have until the earlier of its next annual shareholders' meeting or December 13, 2007 to add an additional member to its audit committee in order to regain compliance with the audit committee composition requirements under Nasdaq Marketplace Rule 4350 (d)(2)(A). The March 19, 2007 letter supersedes the staff deficiency letter dated January 8, 2007 in which Nasdaq notified the Company that the Company would only have until April 16, 2007 to regain compliance. The Company is considering its alternatives for regaining compliance with the Nasdaq audit committee composition requirements.

The Company is also subject to other various claims and contingencies related to employment agreements, lawsuits, taxes, food product purchase contracts and other matters arising out of the normal course of business. With the possible exception of the matters set forth above, management believes that any such claims and actions currently pending against us 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.

NOTE J — RELATED PARTIES:

Two directors of the Company were franchisees during fiscal 2006 and one director was a franchisee during part of fiscal 2007.

One director, Ramon Phillips, did operate one restaurant in Oklahoma. He sold this restaurant in April 2007 and is no longer a Pizza Inn franchisee. Purchases by this franchisee comprised 0.4%, 0.4%, and 0.4% of the Company's total food and supply sales in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. Royalties from this franchisee comprised 0.4%, 0.4%, and 0.5% of the Company's total franchise revenues in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. As of June 24, 2007 and

June 25, 2006, his accounts payable to the Company were $0 and approximately $10,000, respectively. This restaurant paid royalties to the Company and purchased a majority of its food and supplies from Norco.

The other director franchisee, Bobby Clairday, currently operates a total of 10 restaurants located in Arkansas. Purchases by this franchisee comprised 6.9%, 6.5%, and 6.3% of the Company's total food and supply sales in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. Royalties and license fees and area development sales from this franchisee comprised 3.4%, 3.5%, and 3.4% of the Company's total franchise revenues in the years ended June 24, 2007, June 25, 2006 and June 26, 2005, respectively. As of June 25, 2006 and June 26, 2005, his accounts and note payable to the Company were $442,000 and $898,000, respectively. These restaurants pay royalties to the Company and purchase a majority of their food and supplies from Norco. This franchisee director did not stand for re-election on the board in December 2006.

The Company believes that the above transactions were at the same prices and on the same payment terms available to non-related parties, with one exception. This exception relates to the enforcement of the personal guarantee by Mr. Clairday of the debt of a franchisee of which he is the President and sole shareholder. In addition to normal trade receivables, the Company claimed that the franchisee, Advance Food Services, Inc., owed the Company approximately $339,000, representing debt incurred by Advance Foods, Inc. for royalty and advertising fee payments and Norco product deliveries during a period in 1996 and 1997 following Mr. Clairday's sale of that company to unrelated third parties and prior to his reacquisition of the company in 1997 ("Advance Foods Debt"). Mr. Clairday had guaranteed payment of approximately $236,000 of the Advance Foods Debt ("Guaranteed Amount"). During fiscal 2005 the Company applied against the Guaranteed Amount of the Advance Foods Debt approximately $7,250 in board fees due Mr. Clairday, and on June 20, 2006 the Company and Mr. Clairday entered into a settlement agreement whereby Mr. Clairday paid the Company the remaining balance of the Guaranteed Amount. In the fourth quarter of 2006 the Company recognized a bad debt provision to related party accounts receivable of approximately $76,000, representing the amount of the Advance Foods Debt either in dispute or not guaranteed by Mr. Clairday. The full amount of the provision was written off as uncollectible at that time.

NOTE K — EARNINGS PER SHARE:

The Company computes and presents earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS excludes the effect of potentially dilutive securities while diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised, converted or resulted in the issuance of common stock that then shared in the earnings of the entity.

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).

	Income (loss) (Numerator)	Shares (Denominator)	Per Share Amount
Year Ended June 24, 2007			
BASIC EPS			
Income (Loss) Available to Common Shareholders	$ 206	10,145	$ 0.02
Effect of Dilutive Securities — Stock Options		1	
DILUTED EPS			
Income (Loss) Available to Common Shareholders & Potentially Dilutive Securities	$ 206	10,146	$ 0.02
Year Ended June 25, 2006			
BASIC EPS			
Income (Loss) Available to Common Shareholders	$ (5,989)	10,123	$ (0.59)
DILUTED EPS			
Income (Loss) Available to Common Shareholders & Potentially Dilutive Securities	$ (5,989)	10,123	$ (0.59)
Year Ended June 26, 2005			
BASIC EPS			
Income Available to Common Shareholders	$ 204	10,105	$ 0.02
Effect of Dilutive Securities — Stock Options		37	
DILUTED EPS			
Income Available to Common Shareholders & Potentially Dilutive Securities	$ 204	10,142	$ 0.02

At June 24, 2007, options to purchase 15,000 shares of common stock at exercise prices ranging from $2.00 to $2.15 per share were outstanding and included in the computation of diluted EPS, using the Treasury Stock Method, because the options' exercise price was less than the average market price of the common shares during the year. Options to purchase 373,358 shares of common stock at exercise prices ranging from $2.50 to $3.56 were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares during the year.

At June 25, 2006, options to purchase 120,858 shares of common stock at exercise prices ranging from $2.85 to $5.00 per share were outstanding but were not included in the computation of diluted EPS as such inclusion would have been anti-dilutive to EPS due to the Company's net loss. Options to purchase 206,958 and 391,650 shares of common stock during fiscal years 2005 and 2004, respectively, were not included in the computation of diluted EPS because the option's exercise price was greater than the average market price of the common share.

NOTE L – SUBSEQUENT EVENTS:

On August 22, 2007, the Company began repurchasing Pizza Inn stock in the open market in accordance with the Stock Repurchase Plan that was approved by the Company's Board of Directors on May 23, 2007. As of September 21, 2007, the Company had repurchased approximately 16,004 shares at an average price of $2.21 per share.

On August 15, 2007, the Company's President and CEO, Tim Taft, submitted to the Company's Board of Directors, his written notice of resignation as a director and President and Chief Executive Officer of the Company, effective immediately. In connection with Mr. Taft's separation from the Company, the Company agreed to pay Mr. Taft severance of $300,000 (representing one year of salary), payable in twelve equal monthly installments.

Effective August 15, 2007, the Company appointed Charlie Morrison as Interim Chief Executive Officer of the Company. Mr. Morrison currently serves as Chief Financial Officer of the Company.

Effective August 15, 2007, the Company's Board of Directors appointed Clinton Coleman to fill the board vacancy resulting from Mr. Taft's departure. Mr. Coleman is a Vice President of Newcastle Capital Management, L.P., the general partner of Newcastle Partners, L.P. ("Newcastle").

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 per fiscal year to $3,000,000. As of June 24, 2007, there were no borrowings outstanding on the CIT Credit Facility, and the Company has used the facility to obtain one letter of credit for approximately $190,000 in connection with deposit requirements under the sale leaseback agreement and another letter of credit for approximately $230,000 to reinsurers to secure loss reserves.

The Company closed the two Buffet Units in the Houston, Texas market in July and August of 2007 and is currently considering alternatives including sub-leasing the units to new or existing franchisees or unrelated third-party tenants and selling the equipment within the units to new or existing franchisees.

NOTE M – SEGMENT REPORTING:

The Company has two reportable operating segments as determined by management using the "management" approach as defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." (1) Food and Equipment Sales and Distribution, and (2) Franchise and Other. These segments are a result of differences in the nature of the products and services sold. Corporate administration costs, which include, but are not limited to, general accounting, human resources, legal and credit and collections, are partially allocated to the two operating segments. Other revenue consists of nonrecurring items.

The Food and Equipment Distribution segment sells and distributes proprietary and non-proprietary items to franchisees and to Company-owned restaurants. Inter-segment revenues consist of sales to the company-owned restaurants. Assets for this segment include equipment, furniture and fixtures.

The Franchise and Other segment include income from royalties, license fees and area development and foreign master license sales. The Franchise and Other segment include the company-owned restaurants, which are used as prototypes and training facilities. Assets for this segment include equipment, furniture and fixtures for the company restaurants.

Corporate administration and other assets primarily include the deferred tax asset, cash and short-term investments, as well as furniture and fixtures located at the corporate office. All assets are located within the United States.

Summarized in the following tables are net sales and operating revenues, depreciation and amortization expense, interest expense, interest income, operating profit, income tax expense, capital expenditures and assets for the Company's reportable segments for the years ended June 24, 2007, June 25, 2006, and June 26, 2005 (in thousands):

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
Net sales and operating revenues:			
Food and equipment distribution	$ 41,029	$ 44,202	$ 49,161
Franchise and other	6,107	6,257	6,108
Inter-segment revenues	541	10,013	228
Combined	47,677	60,472	55,497
Less inter-segment revenues	(541)	(10,013)	(228)
Consolidated revenues	$ 47,136	$ 50,459	$ 55,269
Depreciation and amortization:			
Food and equipment distribution	$ 166	$ 520	$ 516
Franchise and other	371	364	281
Combined	537	884	797
Corporate administration and other	155	330	346
Depreciation and amortization	$ 692	$ 1,214	$ 1,143
Interest expense:			
Food and equipment distribution	$ 267	$ 439	$ 329
Franchise and other	1	3	3
Combined	268	442	332
Corporate administration and other	209	345	258
Interest expense	$ 477	$ 787	$ 590
Pre-Tax Income (loss):			
Food and equipment distribution (1)	$ (49)	$ (994)	$ 614
Franchise and other (1)	1,596	(257)	2,240
Inter-segment profit	128	182	91
Combined	1,675	(1,069)	2,945
Less inter-segment profit	(128)	(182)	(91)
Corporate administration and other	(1,341)	(5,767)	(2,495)
Income (loss) before taxes	$ 206	$ (7,018)	$ 359
Income tax provision (benefit):			
Food and equipment distribution	$ —	$ (146)	$ 265
Franchise and other	—	(38)	967
Combined	—	(184)	1,232
Corporate administration and other	—	(845)	(1,077)
Income tax expense	$ —	$ (1,029)	$ 155

(1) Does not include full allocation of corporate administration

	Year Ended		
	June 24, 2007	June 25, 2006	June 26, 2005
Capital Expenditures:			
Food and equipment distribution	$ 225	$ 53	$ 353
Franchise and other	23	2,063	327
Combined	248	2,116	680
Corporate administration and other	1	111	73
Consolidated capital expenditures	$ 249	$ 2,227	$ 753
Assets:			
Food and equipment distribution	$ 4,181	$ 10,691	$ 8,653
Franchise and other	1,460	1,948	1,941
Combined	5,641	12,639	10,594
Corporate administration and other	2,553	6,362	9,661
Consolidated assets	$ 8,194	$ 19,001	$ 20,255
Geographic Information (Revenues):			
United States	$ 45,734	$ 49,276	$ 54,059
Foreign countries	1,402	1,183	1,210
Consolidated total	$ 47,136	$ 50,459	$ 55,269

NOTE N — QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

The following summarizes the unaudited quarterly results of operations for the fiscal years ended June 24, 2007 and June 25, 2006 (in thousands, except per share amounts):

	Quarter Ended			
	September 24, 2006	December 24, 2006	March 25, 2007	June 24, 2007
Fiscal Year 2007				
Revenues	$ 11,947	$ 11,726	$11,763	$11,700
Gross profit	580	401	806	626
Net (loss) income	(1,061)	152	457	658
Basic (loss) gain per common share	(0.10)	0.01	0.05	0.06
Diluted (loss) gain per common share	(0.10)	0.01	0.05	0.06

	Quarter Ended			
	September 25, 2005	December 25, 2005	March 26, 2006	June 25, 2006
Fiscal Year 2006				
Revenues	$ 12,706	$ 12,753	$12,843	$12,157
Gross profit	394	460	418	626
Net loss	(490)	(601)	(477)	(4,421)
Basic loss per common share	(0.05)	(0.06)	(0.05)	(0.43)
Diluted loss per common share	(0.05)	(0.06)	(0.05)	(0.43)

In the fourth quarter of fiscal 2007, the Company also incurred the following pre-tax items: (i) a bad debt provision of $75,000 related to accounts receivable from franchisees, (ii) a reduction in compensation expense of $153,000 due to a change in the estimate for bonus accrual, (iii) a reduction in compensation expense of $183,000 due to the resignation of the Company's President and CEO, Tim Taft, on August 15, 2007 which resulted in the reversal of approximately $183,000 of compensation expense that had been previously recognized related to unvested incentive stock options at the date of Mr. Taft's resignation, and (iv) impairment charges of approximately $48,000 related to property held for sale and approximately $46,000 related to the fixed assets in the two Houston area Company stores.

In the fourth quarter of fiscal 2006, the Company incurred an impairment charge of $152,000 to the goodwill related to the Company-owned restaurants and an impairment charge of $1,166,000 to the equipment and improvements related to the two Company-owned Buffet Units in the Houston, Texas market and one Company-owned Delco Unit in Little Elm, Texas. The impairments were recognized due to the underperformance of the Company-owned restaurants and the Company's determination that it is more likely than not that the Company-owned restaurants in Houston, Texas and Little Elm, Texas will be sold prior to the end of their useful lives. In addition, the Company incurred a $125,000 expense related to the write-off of capitalized software development costs associated with a proprietary on-line ordering system that was under development for the Company by a third party and that had been intended to serve as an ordering and communication platform for franchisees placing orders with Norco. The system was never fully developed or implemented and the Company's decision to terminate the development contract and suspend system implementation was primarily a factor of the Company's decision to outsource certain distribution services to third party providers. The Company also accrued an expense of $20,000 to terminate a service agreement related to the online-ordering system.

In the fourth quarter of fiscal 2006, the Company also incurred the following pre-tax items: (i) a bad debt provision of $201,000 related to accounts receivable from franchisees, (ii) a reduction in compensation expense of $126,000 due to a change in the estimate for bonus accrual, and (iii) a reduction of state tax expense of $109,000 and its related accrual due to a change in estimated state taxes.

On September 24, 2006, the Company and Mr. Parker, our former President and Chief Executive Officer, entered into the Settlement Agreement relating to the Parker Arbitration. Pursuant to the Settlement Agreement, each of the Company and Mr. Parker (i) denied wrongdoing and liability, (ii) agreed to mutual releases of liability, and (iii) agreed to dismiss all pending claims with prejudice. The Company also agreed to pay Mr. Parker $2,800,000 through a structured payment schedule to resolve all claims asserted by Mr. Parker in the Parker Arbitration, as described in Note I. Settlement payments of $2,800,000 were accrued in the fourth quarter of 2006.

SCHEDULE II

PIZZA INN, INC.
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at beginning of period	Additions: Charged to cost and expense	Additions: Recovered cost and expense	Other Deductions	Balance at end of period
Allowance for doubtful accounts and notes receivable					
Year Ended June 24, 2007	$ 324	$ 120	$ (24)	$ 31	$ 451
Year Ended June 25, 2006	$ 371	$ 301	$ (11)	$ (337)	$ 324
Year Ended June 26, 2005	$ 372	$ 30	$ —	$ (31)	$ 371

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There are no events to report under this item.

ITEM 9A. 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 Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the Commission'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.

During fiscal 2007, we designed and implemented numerous initiatives to improve our internal control structure. The parties responsible for designing and implementing the initiatives referenced below are the Chief Financial Officer and the Corporate Controller.

The following material weaknesses were identified for the year ended June 25, 2006 in our Annual Report on Form 10-K for fiscal year 2006 related to (a) significant turnover in our accounting staff, including the positions of chief financial officer and controller, (b) a lack of sufficient staff-level personnel with adequate technical expertise to analyze effectively, and review in a timely manner, our accounting for non-routine business matters and (c) as a result of the above mentioned accounting staff turnover and the unfilled management positions including the positions of chief financial officer and controller, certain remaining personnel were temporarily assigned responsibilities for which they did not have adequate training or experience. The remediation of these weaknesses resulted in changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the year ended June 24, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting as follows:

- The Company hired a qualified individual to serve as Chief Financial Officer on January 31, 2007.
- The Company hired a qualified individual to serve as Corporate Controller on March 1, 2007.
- We revised our processes, procedures and documentation standards relating to accounting for non-routine business matters.
- We implemented additional financial analysis and review processes related to the monthly close process.
- We hired an additional qualified individual to serve in the accounting and financial reporting functions.

These initiatives were part of our overall program that remediated all material control weaknesses identified for the year ended June 25, 2006 by June 24, 2007.

The Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, has evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report on Form 10-K. Based upon that evaluation, the Company's principal executive officer and principal financial officer, or persons performing similar functions, have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Form 10-K.

ITEM 9B. OTHER INFORMATION.

There is no information required to be disclosed under this item.

PART III

The information required by this Item will be incorporated by reference from the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's next annual meeting of shareholders, which is expected to be held on December 12, 2007.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this Item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES.

The information required by this Item will be included in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) 1. The financial statements filed as part of this report are listed in the Index to Financial Statements and Supplemental Data under Part II, Item 8 of this Form 10-K.

2. The financial statement schedule filed as part of this report are listed in the Index to Financial Statements and Supplemental Data under Part II, Item 8 of this Form 10-K.

3. Exhibits:

3.1 Amended and Restated By-Laws (filed as Item 3.1 to Form 10-K for the fiscal year ended June 25, 2006 and incorporated herein by reference)

3.2 Restated Articles of Incorporation (filed as Item 3.2 to Form 10-K for the fiscal year ended June 25, 2006 and incorporated herein by reference)

10.1 Construction Loan Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated December 28, 2000 (filed as Item 10.2 to Form 10-Q for the fiscal quarter ended December 24, 2000 and incorporated herein by reference).

10.2 Promissory Note between the Company and Wells Fargo Bank (Texas), N.A. dated December 28, 2000 (filed as Item 10.3 to Form 10-Q for the fiscal quarter ended December 24, 2000 and incorporated herein by reference).

10.3 Third Amended and Restated Loan Agreement dated January 22, 2003 but effective December 29, 2002, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 10.1 to Form 10-Q for the fiscal quarter ended December 29, 2002 and incorporated herein by reference).

10.4	Sixth Amended and Restated Revolving Credit Note Agreement dated January 22, 2003 but effective as of December 29, 2002, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 10.2 to Form 10-Q for the fiscal quarter ended December 29, 2002 and incorporated herein by reference.)
10.5	First Amendment to Third Amended and Restated Loan Agreement dated April 22, 2004 but effective as of March 28, 2004, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 10.1 to Form 10-Q for the fiscal quarter ended March 28, 2004 and incorporated herein by reference).
10.6	Seventh Amended and Restated Revolving Credit Note Agreement dated April 22, 2004 but effective as of March 28, 2004, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 10.2 to Form 10-Q for the fiscal quarter ended March 28, 2004 and incorporated herein by reference).
10.7	Second Amendment to Third Amended and Restated Loan Agreement and Amendment to Real Estate Note dated February 11, 2005 but effective as of December 26, 2004, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 10.2 to Form 10-Q for the fiscal quarter ended March 27, 2005 and incorporated herein by reference).
10.8	Eighth Amended and Restated Revolving Credit Note Agreement dated February 11, 2005 but effective as of December 26, 2004, between the Company and Wells Fargo Bank, N.A. (filed as Item 10.3 to Form 10-Q for the quarterly period ended March 27, 2005 and incorporated herein by reference).
10.9	Third Amendment to Third Amended and Restated Loan Agreement and Second Amendment to Real Estate Note dated August 29, 2005 but effective as of June 26, 2005, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 1.01 to Form 8-K on August 29, 2005 and incorporated herein by reference).
10.10	Ninth Amended and Restated Revolving Credit Note Agreement dated August 29, 2005 but effective as of June 26, 2005, between the Company and Wells Fargo Bank (Texas), N.A. (filed as Item 1.01 to Form 8-K on August 29, 2005 and incorporate herein by reference).
10.11	Employment Agreement dated March 31, 2005 between the Company and Timothy P. Taft (filed as Item 10.4 on Form 10-Q for the quarterly period ended March 27, 2005 and incorporated herein by reference). *
10.12	Amendment to Executive Employment Agreement entered into between the Company and Timothy P. Taft on November 30, 2006 (filed as Item 10.2 to Form 10-Q for the quarterly period ended December 24, 2006 and incorporated herein by reference)*
10.13	Notice of termination of the Executive Employment Agreement between the Company and Timothy P. Taft on August 15, 2007.*
10.14	Employment Letter entered into between the Company and Charles R. Morrison on January 31, 2007 (filed as Item 10.5 to Form 10-Q for the quarterly period ended December 24, 2006 and incorporated herein by reference).*
10.15	Non-Qualified Stock Option Agreement dated March 31, 2005 between the Company and Timothy P. Taft (filed as Item 10.5 on Form 10-Q for the quarterly period ended March 27, 2005 and incorporated herein by reference).*

10.16 2005 Non-Employee Directors Stock Award Plan of the Company and form of Stock Option Award Agreement (filed as Item 10.25 to Form 10-K for the fiscal year ended June 26, 2005 and incorporated herein by reference).*

10.17 2005 Employee Incentive Stock Option Award Plan of the Company and form of Stock Option Award Agreement (filed as Item 10.26 to Form 10-K for the fiscal year ended June 26, 2005 and incorporated herein by reference)*

10.18 Warehouse Lease Agreement dated August 25, 2006 between the Company and The SYGMA Network (filed as Item 10.15 to Form 10-K for the fiscal year ended June 25, 2006 and incorporated herein by reference)

10.19 Compromise and Settlement Agreement dated September 24, 2006 between the Company and Ronald W. Parker (filed as Item 10.16 to Form 10-K for the fiscal year ended June 25, 2006 and incorporated herein by reference).

10.20 Compromise Settlement Agreement and Mutual Release entered into between the Company and PepsiCo, Inc. on December 14, 2006 (filed as Item 10.3 to Form 10-Q for the quarterly period ended December 24, 2006 and incorporated herein by reference).

10.21 First Amendment to Purchase and Sale Agreement entered into between the Company and Vintage Interests, L.P. on November 21, 2006 (filed as Item 10.1 to Form 10-Q for the quarterly period ended December 24, 2006 and incorporated herein by reference).

10.22 Second Amendment to the Financing Agreement between the Company and The CIT Group / Commercial Services, Inc. (“CIT”) dated January 23, 2007.

10.23 Purchase and Sale Agreement entered into between the Company and Vintage Interests, L.P. on October 20, 2006 (filed as Item 10.1 to Form 10-Q for the quarterly period ended September 24, 2006 and incorporated herein by reference).

10.24 Supplemental Limited Forbearance Agreement entered into between the Company and Wells Fargo Bank, N.A. on November 5, 2006 (filed as Item 10.2 to Form 10-Q for the quarterly period ended September 24, 2006 and incorporated herein by reference).

21.0 List of Subsidiaries of the Company (filed as Exhibit 21.0 to the Company’s Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).

23.1 Consent of Independent Registered Public Accounting Firm.

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.

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* Denotes a management contract or any compensatory plan, contract or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 21, 2007

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

By: /s/ J. Kevin Bland
Principal Financial Officer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name and Position	Date
/s/ Mark E. Schwarz Mark E. Schwarz Director and Chairman of the Board	September 21, 2007
/s/ Ramon D. Phillips Ramon D. Phillips Director and Vice Chairman of the Board	September 21, 2007
/s/ Steven M. Johnson Steven M. Johnson Director	September 21, 2007
/s/ James K. Zielke James K. Zielke Director	September 21, 2007
/s/ Robert B. Page Robert B. Page Director	September 21, 2007
/s/ Steven J. Pully Steven J. Pully Director	September 21, 2007
/s/ Clinton J. Coleman Clinton J. Coleman Director	September 21, 2007

Exhibit 10.13

August 15, 2007

Mr. Mark E. Schwarz
Chairman of the Board
Pizza Inn, Inc.
3551 Plano Parkway
The Colony, Texas 75057

Dear Mark:

Pursuant to this letter, I hereby resign as an employee and Chief Executive Officer and President of Pizza Inn, Inc. (the "Company"), effective immediately. In addition, I also resign my position as a member of the Company's Board of Directors, effective immediately.

Pursuant to my resignation as set forth in the previous paragraph, the Company and I agree as follows:

1. I shall receive $300,000 from the Company, payable in twelve monthly installments of $25,000 each, consistent with the customary payroll practices of the Company. I shall also be entitled to receive any salary that has been accrued and earned through the date hereof, any unreimbursed expenses properly incurred prior to the date hereof and bonus for the fiscal year ended June 24, 2007 of $50,000.

2. I agree to release all claims which I may have again the Company, its agents, employees, officers, directors, successors, related or affiliated entities, including its investors and their affiliates, and their agents, employees, officers, directors and successors (the "Released Parties"), relating in any way to my employment or termination of employment. This release includes, but is not limited to, all claims and rights under all federal, state or local laws or regulations, employment practice laws and civil rights acts and claims and damages for unpaid compensation, un-reimbursed expenses, wrongful discharge, breach of contract, negligence, defamation, fraud and personal injury (including mental or emotional anguish, humiliation, embarrassment, loss of professional status, prestige and self-esteem) and all claims for loss of consortium or loss of services, support or affection, and damages, costs, expenses, compensation, benefits, attorneys' fees, and any other claims arising out of my employment or termination of employment. In addition, I promise never to sue over any such claims or institute any other action, administrative proceeding or lawsuit against the Company or any of the Released Parties for claims arising out of my employment or termination of employment.

3. I agree not to disparage the professional or personal reputation of the Company, its officers, shareholders, directors, employees, franchisees and other agents and the

Company agrees not to disparage my professional or personal reputation. This non-disparagement provision applies to any public or private statements, comments, or communications in any form, whether oral, written, or electronic.

4. Nothing in this letter shall supersede or amended the provisions of the agreement that I entered into with the Company on March 31, 2005, as amend on November 30, 2006 (collectively, the "Employment Agreement"). Notwithstanding the foregoing, I understand that the Company does not have any further obligations to me pursuant to Articles 3 and 4 of the Employment Agreement.

5. The Nonqualified Stock Option Agreement dated March 31, 2005 that I entered into with the Company (the "Option Agreement") is amended to grant me until 5 p.m. on the date which is thirty (30) days following the date of my resignation to exercise the vested options granted pursuant to the Option Agreement. I acknowledge and understand that without this amendment my right to exercise the vested options granted pursuant to the Option Agreement would expire at 5 p.m. on the date of my resignation of employment.

Please acknowledge your agreement and acceptance of the terms of this letter by signing below.

Sincerely,

/s/ Timothy P. Taft
Timothy P. Taft
5606 Palomar Lane
Dallas, Texas 75229

Agreed and Accepted:

PIZZA INN, INC.

/s/ Mark E. Schwarz
Mark E. Schwarz
Chairman of the Board

Exhibit 10.22

SECOND AMENDMENT TO FINANCING AGREEMENT

THIS SECOND AMENDMENT TO FINANCING AGREEMENT (this " Amendment") is entered into on this ___day of June, 2007, to be effective as of the date hereof (the "Effective Date"), by and between PIZZA INN, INC., a Missouri corporation with a principal place of business at 3551 Plano Parkway, The Colony, Texas 75056 (herein the "Company"), and THE CIT GROUP/COMMERCIAL SERVICES, INC., a New York corporation (the " Lender").

RECITALS

A. The Company and the Lender have entered into that certain Financing Agreement, dated as of January 23, 2007 (as amended from time to time, the "Financing Agreement").

B. The Company has requested (i) that Lender amend the Financing Agreement to permit Company to repurchase Company stock in an amount up to $3,000,000 (the "Stock Repurchase"), (ii) that Lender amend the Financing Agreement to waive the requirement that cash dividends or cash distributions may be allowed as a Permitted Distribution only as long as they are not made until the first anniversary of the Closing Date, and (iii) that Lender amend the Financing Agreement to increase the current aggregate Capital Expenditure limit of $750,000 per fiscal year pursuant to Section 7.3(b) of the Financing Agreement to $3,000,000.

C. Pursuant to the terms and conditions of this Amendment, Company and Lender are willing to amend the Financing Agreement as hereinafter set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

AGREEMENT

ARTICLE I
Definitions

1.01 Capitalized terms used in this Amendment are defined in the Financing Agreement, as amended hereby, unless otherwise stated.

ARTICLE II
Amendments and Other Agreements

2.01 Amendment to Section 1.1 of the Financing Agreement; Amendment to Definition of Permitted Distributions . Effective as of the Effective Date, Section 1.1 of the Financing Agreement is hereby amended by amending and restating the definition of "Permitted Distributions" to read as follows:

“**Permitted Distributions** shall mean:

(a) dividends from a wholly-owned subsidiary of the Company to the Company;

(b) dividends payable solely in stock or other equity interests of the Company;

(c) cash distributions or cash dividends to the Company’s shareholders in the ordinary course of the Company’s business, provided that (i) immediately prior to and after giving effect to such cash distribution or cash dividend no Event of Default shall have occurred or would result therefrom and (ii) immediately prior to and after giving effect to such cash distribution or cash dividend, Net Availability is at least $1,000,000; and

(d) any repurchase by the Company of outstanding equity interests of the Company, provided that (i) immediately prior to and after giving effect to such repurchase, no Event of Default shall have occurred or would result therefrom, (ii) immediately prior to and after giving effect to such repurchase, the Company shall be in pro forma compliance with the financial covenants as set forth in Section 7.3 of this Financing Agreement and (iii) immediately prior to and after giving effect to such repurchase, Net Availability is at least $1,000,000;

provided further, that the aggregate amount of all distributions and/or repurchases made pursuant to subsection (c) and subsection (d) hereof shall not exceed $3,000,000.”

2.02 Amendment Section 7.3(b) of the Financing Agreement. Effective as of the Effective Date, Section 7.3(b) of the Financing Agreement is hereby amended by deleting “$750,000” and substituting therewith “$3,000,000”.

ARTICLE III
Conditions Precedent

3.01 Conditions to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent in a manner satisfactory to Lender, unless specifically waived in writing by Lender:

(a) Lender shall have received each of the following, each in form and substance satisfactory to Lender, in its sole discretion, and, where applicable, each duly executed by each party thereto, other than Lender:

(i) This Amendment, duly executed by the Company; and

(ii) All other documents Lender may request with respect to any matter relevant to this Amendment or the transactions contemplated hereby.

(b) The representations and warranties contained herein and in the Financing Agreement and the other documents executed in connection with the Financing Agreement (herein referred to as "Loan Documents"), as each is amended hereby, shall be true and correct as of the date hereof, as if made on the date hereof.

(c) No Default or Event of Default shall have occurred and be continuing, unless such Default or Event of Default has been otherwise specifically waived in writing by Lender.

(d) All organizational proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender.

ARTICLE IV
Ratifications, Representations and Warranties

4.01 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Financing Agreement and the other Loan Documents, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Financing Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. Company and Lender agree that the Financing Agreement and the other Loan Documents, as amended hereby, shall continue to be legal, valid, binding and enforceable in accordance with their respective terms.

4.02 Representations and Warranties. The Company hereby represents and warrants to Lender that (a) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith have been authorized by all requisite organizational action on the part of the Company and will not violate the Articles of Incorporation or Bylaws of the Company; (b) the representations and warranties contained in the Financing Agreement, as amended hereby, and each other Loan Document are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (c) no Default or Event of Default under the Financing Agreement, as amended hereby, has occurred and is continuing, unless such Default or Event of Default has been specifically waived in writing by Lender; (d) the Company is in full compliance with all covenants and agreements contained in the Financing Agreement and the other Loan Documents, as amended hereby; and (e) the Company has not amended its Articles of Incorporation or its Bylaws since the date of the Financing Agreement.

ARTICLE V
Miscellaneous Provisions

5.01 Survival of Representations and Warranties. All representations and warranties made in the Financing Agreement, or any other Loan Document, including, without limitation, any document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

5.02 Reference to Financing Agreement. Each of the Financing Agreement and the other Loan Documents, and any and all other Loan Documents, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Financing Agreement, as amended hereby, are hereby amended so that any reference in the Financing Agreement and such other Loan Documents to the Financing Agreement shall mean a reference to the Financing Agreement, as amended hereby.

5.03 Expenses of Lender. As provided in the Financing Agreement, the Company agrees to pay on demand all costs and expenses incurred by Lender in connection with the preparation, negotiation, and execution of this Amendment and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel, and all costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Financing Agreement, as amended hereby, or any other Loan Documents, including, without, limitation, the costs and fees of Lender's legal counsel.

5.04 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

5.05 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Company and their respective successors and assigns, except that Company may neither assign nor transfer any of its rights or obligations hereunder without the prior written consent of Lender.

5.06 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

5.07 Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant or condition by the Company shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

5.08 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

5.09 Applicable Law. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

5.10 Final Agreement. THE FINANCING AGREEMENT AND THE OTHER LOAN DOCUMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE

EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE FINANCING AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS AMENDED HEREBY, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE OR AMENDMENT OF ANY PROVISION OF THIS AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY THE COMPANY AND LENDER.

5.11 Release. COMPANY HEREBY ACKNOWLEDGES THAT IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE "OBLIGATIONS" OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER. COMPANY HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, WHETHER FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, KNOWN IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH THE COMPANY MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE FINANCING AGREEMENT OR OTHER LOAN DOCUMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK].

IN WITNESS WHEREOF, this Amendment has been executed and is effective as of the date first written above.

COMPANY:

PIZZA INN, INC.

By: /s/ Charles R. Morrison
Name: Charles R. Morrison
Title: CFO

LENDER:

THE CIT GROUP/COMMERCIAL SERVICES, INC.

By: /s/ Charles Alcantar
Name: Charles Alcantar
Title: Vice President

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Pizza Inn, Inc.
The Colony, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 33-56590, 33-71700, as amended by Post-Effective Amendments No. One and Two, 333-77617, and 333-76296) of Pizza Inn, Inc. of our report dated September 20, 2007, relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K. Our report refers to the adoption of SFAS 123(R), “Share Based Payment.”

BDO Seidman, LLP

Dallas, Texas
September 20, 2007

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to section 3.02 of the Sarbanes-Oxley Act of 2002

I, Charles R. Morrison, certify that:

1. I have reviewed this annual report on Form 10-K of Pizza Inn, Inc.;

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(s) 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)) 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. 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

    c. 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(s) 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: September 21, 2007

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Section 3.02 of the Sarbanes-Oxley Act of 2002

I, J. Kevin Bland, certify that:

1. I have reviewed this annual report on Form 10-K of Pizza Inn, Inc.;

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(s) 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)) 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. 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

   c. 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(s) 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: September 21, 2007

By: /s/ J. Kevin Bland
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 Annual Report on Form 10-K for the year ended June 25, 2006 (the “Form 10-K”) 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-K 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-K.

Date: September 21, 2007

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

The foregoing certification is being furnished as an exhibit to the Form 10-K 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-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.2

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

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

The Annual Report on Form 10-K for the year ended June 25, 2006 (the "Form 10-K") 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-K 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-K.

Date: September 21, 2007

By: /s/ J. Kevin Bland
Principal Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-K 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-K 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.