

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 26, 1999.  
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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 IN ITS CHARTER)

MISSOURI 47-0654575  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER  
INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

5050 QUORUM DRIVE  
SUITE 500  
DALLAS, TEXAS 75240  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES,  
INCLUDING ZIP CODE)

(972) 701-9955  
(REGISTRANT'S TELEPHONE NUMBER,  
INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR 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 [X] NO [ ]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS FILED ALL DOCUMENTS AND REPORTS REQUIRED TO BE FILED BY SECTIONS 12, 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN CONFIRMED BY A COURT. YES [X] NO [ ]

AT FEBRUARY 4, 2000, AN AGGREGATE OF 11,588,878 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL INFORMATION

PIZZA INN, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 26, 1999	DECEMBER 27, 1998	DECEMBER 26, 1999	DECEMBER 27, 1998
REVENUES:				
Food and supply sales	\$ 14,292	\$ 15,390	\$ 29,621	\$ 29,832
Franchise revenue	1,399	1,396	2,868	2,850
Restaurant sales	581	550	1,158	1,146
Other income	59	27	78	119
	----- 16,331	----- 17,363	----- 33,725	----- 33,947
COSTS AND EXPENSES:				
Cost of sales	13,814	14,866	28,398	28,947
Franchise expenses	280	592	907	1,237
General and administrative expenses	929	743	1,837	1,808
Interest expense	179	143	318	256
	----- 15,202	----- 16,344	----- 31,460	----- 32,248
INCOME BEFORE INCOME TAXES	1,129	1,019	2,265	1,699
Provision for income taxes	384	314	772	524
NET INCOME	\$ 745	\$ 705	\$ 1,493	\$ 1,175
BASIC EARNINGS PER COMMON SHARE	\$ 0.06	\$ 0.06	\$ 0.13	\$ 0.10
DILUTED EARNINGS PER COMMON SHARE	\$ 0.06	\$ 0.06	\$ 0.13	\$ 0.09
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12
WEIGHTED AVERAGE COMMON SHARES	11,570	11,597	11,411	11,903
WEIGHTED AVERAGE COMMON AND DILUTIVE POTENTIAL COMMON SHARES	11,691	12,206	11,581	12,606

See accompanying Notes to Consolidated Financial Statements.

PIZZA INN, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	DECEMBER 26, 1999	JUNE 27, 1999
ASSETS	-----	-----

(unaudited)

CURRENT ASSETS		
Cash and cash equivalents	\$ 377	\$ 509
Accounts receivable, less allowance for doubtful accounts of \$784 and \$808, respectively	4,904	4,588
Notes receivable, current portion, less allowance for doubtful accounts of \$109 and \$144, respectively	462	814
Inventories	2,805	2,393
Deferred taxes, net	1,151	1,149
Prepaid expenses and other	499	591
	-----	-----
Total current assets	10,198	10,044
Property, plant and equipment, net	1,784	1,754
Property under capital leases, net	1,561	1,587
Deferred taxes, net	3,978	4,407
Long-term notes receivable, less allowance for doubtful accounts of \$127 and \$80, respectively	549	380
Deposits and other	402	414
	-----	-----
	\$ 18,472	\$ 18,586
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 2,284	\$ 2,641
Accrued expenses	1,585	1,795
Current portion of capital lease obligations	513	428
	-----	-----
Total current liabilities	4,382	4,864
LONG-TERM LIABILITIES		
Long-term debt	8,463	5,700
Long-term capital lease obligations	1,086	1,244
Other long-term liabilities	717	719
	-----	-----
	14,648	12,527
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; outstanding 11,647,058 and 11,499,570 shares, respectively.	159	149
Additional paid-in capital	9,933	7,321
Loans to officers	(2,507)	-
Retained earnings	14,495	14,375
Treasury stock at cost		
Shares in treasury: 3,304,128 and 3,420,486 shares, respectively.	(18,256)	(15,786)
	-----	-----
Total shareholders' equity	3,824	6,059
	-----	-----
	\$ 18,472	\$ 18,586
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

PIZZA INN, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	SIX MONTHS ENDED	
	DECEMBER 26, 1999	DECEMBER 27, 1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,493	\$ 1,175
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	570	430
Provision for bad debt	25	92
Utilization of pre-reorganization net operating loss carryforwards	427	459
Changes in assets and liabilities:		

Notes and accounts receivable	(158)	(841)
Inventories	(412)	65
Accounts payable - trade	(357)	1,426
Accrued expenses	(164)	66
Prepaid expenses and other	129	150
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	1,553	3,022
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(444)	(388)
Proceeds from transfer of assets to capital lease	-	249
	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(444)	(139)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term bank debt	3,300	2,337
Repayments of long-term bank debt and capital lease obligations	(767)	(117)
Dividends paid	(1,374)	(1,424)
Proceeds from exercise of stock options	71	21
Purchases of treasury stock	(2,471)	(5,457)
	-----	-----
CASH USED FOR FINANCING ACTIVITIES	(1,241)	(4,640)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(132)	(1,757)
Cash and cash equivalents, beginning of period	509	2,335
	-----	-----
Cash and cash equivalents, end of period	\$ 377	\$ 578
	-----	-----

See accompanying Notes to Consolidated Financial Statements.

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION  
(IN THOUSANDS)  
(UNAUDITED)

	SIX MONTHS ENDED	
	DECEMBER 26, 1999	DECEMBER 27, 1998
	-----	-----
CASH PAYMENTS FOR:		
Interest	\$ 214	\$ 193
Income taxes	60	-
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Capital lease obligations incurred	\$ 158	\$ 669

PIZZA INN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1) The accompanying consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements in its Form 10-K for the fiscal year ended

June 27, 1999. Certain prior year amounts have been reclassified to conform with current year presentation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods. All adjustments contained herein are of a normal recurring nature.

(2) On December 27, 1999, the Company's Board of Directors declared a quarterly dividend of \$.06 per share on the Company's common stock, payable January 21, 2000 to shareholders of record on January 7, 2000.

(3) The Company entered into an agreement effective August 31, 1999 with its current lender to extend the term of its existing \$9.5 million revolving credit line through August 2001 and to modify certain financial covenants.

(4) In June 1995, the Company adopted the par value method of accounting for treasury share purchases with the intent to retire the shares purchased. In December 1999, the Company changed its method of accounting for treasury shares purchased to the cost method because it is now the Company's intent to reissue a portion of the shares held in treasury. Retained earnings and additional paid-in capital for the period ending December 26, 1999 have been adjusted by \$14,195,000 and \$2,683,000 respectively, to reflect this change in accounting method. Accordingly, balances for the period ending June 27, 1999 were adjusted by \$13,195,000 and \$2,556,000.

(5)

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 (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
THREE MONTHS ENDED DECEMBER 26, 1999			
BASIC EPS			
Income Available to Common Shareholders	\$ 745	11,570	\$ 0.06
Effect of Dilutive Securities - Stock Options		121	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 745	11,691	\$ 0.06
	=====	=====	=====
THREE MONTHS ENDED DECEMBER 27, 1998			
BASIC EPS			
Income Available to Common Shareholders	\$ 705	11,597	\$ 0.06
Effect of Dilutive Securities - Stock Options		609	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 705	12,206	\$ 0.06
	=====	=====	=====
SIX MONTHS ENDED DECEMBER 26, 1999			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,493	11,411	\$ 0.13
Effect of Dilutive Securities - Stock Options		170	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,493	11,581	\$ 0.13
	=====	=====	=====
SIX MONTHS ENDED DECEMBER 27, 1998			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,175	11,903	\$ 0.10
Effect of Dilutive Securities - Stock Options		703	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,175	12,606	\$ 0.09
	=====	=====	=====

(6) Summarized in the following tables are net sales and operating revenues, operating profit (loss), and geographic information (revenues) for the Company's reportable segments for the three months and six months ended December 26, 1999, and December 27, 1998.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 26, 1999	DECEMBER 27, 1998	DECEMBER 26, 1999	DECEMBER 27, 1998
	-----	-----	-----	-----
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution	\$ 14,292	\$ 15,390	\$ 29,621	\$ 29,832
Franchise and Other	1,980	1,946	4,026	3,996
Intersegment revenues	201	207	418	454
	-----	-----	-----	-----
Combined	16,473	17,543	34,065	34,282
Other Revenues	59	27	78	119
Less intersegment revenues	(201)	(207)	(418)	(454)

Consolidated Revenues	\$ 16,331	\$ 17,363	\$ 33,725	\$ 33,947
OPERATING PROFIT:				
Food and Equipment Distribution (1)	\$ 578	\$ 844	\$ 1,182	\$ 1,261
Franchise and Other (1)	1,085	725	2,053	1,411
Intersegment profit	123	53	179	113
Combined	1,786	1,622	3,414	2,785
Other Profit or loss	59	27	78	119
Less intersegment profit	(123)	(53)	(179)	(113)
Corporate administration and other	(593)	(577)	(1,048)	(1,092)
Income before taxes	\$ 1,129	\$ 1,019	\$ 2,265	\$ 1,699
GEOGRAPHIC INFORMATION (REVENUES):				
United States	\$ 16,113	\$ 16,906	\$ 33,186	\$ 33,112
Foreign countries	218	457	539	835
Consolidated total	\$ 16,331	\$ 17,363	\$ 33,725	\$ 33,947

(1) Does not include full allocation of corporate administration

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

Quarter and six months ended December 26, 1999 compared to the quarter and six months ended December 27, 1998.

Diluted earnings per share for the second quarter of the current fiscal year were \$0.06 versus \$0.06 for the same period last year. For the six months ended December 26, 1999, diluted earnings per share increased 44% to \$0.13 from \$0.09 for the same period last year. Net income for the quarter increased 6% to \$745,000 from \$705,000 for the same quarter last year. For the six months ended December 26, 1999, net income increased 27% to \$1,493,000 from \$1,175,000 compared to the same period last year.

Food and supply sales for the quarter decreased 7% to \$14,292,000 from \$15,390,000 compared to the same period last year. This was primarily due to substantially higher cheese prices during the prior year's quarter. For the six month period, food and supply sales decreased to \$29,621,000 from \$29,832,000 for the same period last year. Excluding the change in cheese prices, food and supply sales increased \$1,143,000 year-to-date reflecting greater chainwide sales.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, for the quarter and the six months period increased \$3,000 and \$18,000, respectively, compared to the same period of the prior year. These increases include higher domestic and international royalties of \$105,000 due to higher chainwide sales, partially offset by recognition of higher Territory sales in the prior year.

Restaurant sales, which consists of revenue generated by Company-owned stores, for the quarter increased 6% or \$31,000 compared to the same period of the prior year. For the six month period, restaurant sales increased \$12,000. Sales for the six month period were partially offset by the lease expiration and closing of one Delco store in August 1998. Comparable store sales growth at Company-owned stores increased 5% for the first six months.

Cost of sales decreased 7% or \$1,052,000 and 2% or \$549,000 for the quarter and six month periods, respectively. This decrease is primarily due to higher cheese prices in the prior year which were partially offset by higher transportation expenses in the current year. As a percentage of sales for the quarter, cost of sales remained the same at 93%. For the six months, cost of sales, as a percentage of sales decreased from 93% to 92%.

Franchise expenses include selling, general and administrative expenses directly related to the sale and service of franchises and Territories. These costs decreased 53% or \$312,000 for the quarter and 27% or \$330,000 for the six



month period compared to the same periods last year. This decrease was primarily due to lower marketing materials expense in the second three month period and lower compensation expense relating to franchise sales in the first three month period.

General and administrative expenses increased 25% or \$186,000 for the quarter and 2% or \$29,000 for the first six months, compared to the same periods last year. This is a result of higher insurance costs, property taxes, and franchise taxes.

Interest expense increased 25% or \$36,000 for the quarter and 24% or \$62,000 for the first six months, compared to the same period of the prior year. This is a result of higher average debt and slightly higher average interest rates.

#### LIQUIDITY AND CAPITAL RESOURCES

During the first six months of fiscal 2000, the Company utilized cash provided by operations in the amount of \$1,553,000, bank borrowings of \$3,300,000, and a portion of its cash balances to purchase 684,900 shares of its own common stock for \$2,471,000 and to pay dividends of \$1,374,000 on the Company's common stock.

Capital expenditures of \$444,000 during the first six months included computer equipment and upgrades, a cash register system for each of the three Company-owned stores, leasehold improvements at the Company-owned stores, corporate office and distribution facility.

The Company continues to realize substantial benefit from the utilization of its net operating loss carryforwards (which currently total \$8.5 million and expire in 2005) to reduce its federal tax liability from the 34% or 31% tax rate reflected on its statement of operations to an actual payment of approximately 2% of taxable income. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize its net deferred tax asset balance (\$5.1 million as of December 26, 1999) without reliance on material, non-routine income. Taxable income in future years at the current level would be sufficient for full realization of the net tax asset.

This report contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to the Company that are based on the beliefs of the management of the Company, as well as assumptions and estimates made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or the Company's management, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions relating to the operations and results of operations of the Company as well as its customers and suppliers, including as a result of competitive factors and pricing pressures, shifts in market demand, general economic conditions and other factors including but not limited to, changes in demand for Pizza Inn products or franchises, the impact of competitors' actions, changes in prices or supplies of food ingredients, and restrictions on international trade and business. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

PART II. OTHER INFORMATION

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

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At the Annual Meeting of Shareholders on December 14, 1999, the Company's shareholders elected all three nominees to the Board of Directors. The results of the voting were as follows:

NOMINEE -----	FOR ---	VOTES WITHHELD -----
C. Jeffrey Rogers	7,160,284	73,819
F. Jay Taylor	7,160,408	73,695
Steve A. Ungerman	7,160,346	73,757

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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Exhibits:

18.1 Preferability letter regarding the change of method of accounting for treasury share purchases dated as of February 3, 2000.

27.0 Financial Data Schedule

No reports on Form 8-k were filed in the quarter for which this report is filed.

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

PIZZA INN, INC.  
Registrant

By: /s/Ronald W. Parker  
-----  
Ronald W. Parker  
Executive Vice President and  
Principal Financial Officer

By: /s/Shawn Preator  
-----  
Shawn Preator  
Controller and  
Principal Accounting Officer

Dated: February 8, 2000

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SIGNATURES  
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FEBRUARY 3, 2000

Board of Directors  
Pizza Inn, Inc.  
5050 Quorum Drive, Suite 500  
Dallas, Texas 75240

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to your Form 10-Q filing pursuant to Item 601 of Regulation S-K.

We have been provided a copy of the Company's Quarterly Report on Form 10-Q for the period ended December 26, 1999. Note 4 therein describes a change in accounting principle from the par value method of accounting for treasury share purchases to the cost method of accounting for treasury share purchases. It should be understood that the preferability of one acceptable method of accounting over another for treasury stock purchases has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-Q, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, the adoption of a preferable accounting principle in conformity with Accounting Principles Board Opinion No. 20.

We have not audited any financial statements of the Company as of any date or for any period subsequent to June 27, 1999. Accordingly, our comments are subject to change upon completion of an audit of the financial statements covering the period of the accounting change.

Very truly yours,

PricewaterhouseCoopers LLP

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YEAR	
JUN-25-2000	
JUN-28-1999	
DEC-26-1999	377
	0
	5366
	893
	2805
10198	
	1784
	4065
	18472
4382	
	0
	159
0	
	0
	3665
18472	
	14873
16331	
	13814
	13814
	280
	25
179	
	1129
	384
745	
	0
	0
	0
	745
	.06
	.06