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SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 27, 2009

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

Commission File Number: 0-12919

**PIZZA INN, INC.**

(Exact name of registrant as specified in its charter)

Missouri  
(State or other jurisdiction of  
Incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes \_\_\_ No \_\_\_

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

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

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

As of February 5, 2010, 8,010,919 shares of the issuer's common stock were outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	Three Months Ended		Six Months Ended	
	Dec. 27, 2009	Dec. 28, 2008	Dec. 27, 2009	Dec. 28, 2008
<b>REVENUES:</b>				
Food and supply sales	\$ 8,616	\$ 9,645	\$ 17,011	\$ 19,779
Franchise revenue	1,004	1,044	2,066	2,108
Restaurant sales	791	589	1,334	779
	<u>10,411</u>	<u>11,278</u>	<u>20,411</u>	<u>22,666</u>
<b>COSTS AND EXPENSES:</b>				
Cost of sales	8,461	9,376	16,577	19,031
Franchise expenses	430	470	897	949
General and administrative expenses	838	856	1,615	1,543
Severance	--	--	--	37
Bad debt	25	30	40	45
Provision for litigation costs	--	263	--	263
Interest expense	12	16	26	28
	<u>9,766</u>	<u>11,011</u>	<u>19,155</u>	<u>21,896</u>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<u>645</u>	<u>267</u>	<u>1,256</u>	<u>770</u>
Income taxes	217	74	423	235
<b>INCOME FROM CONTINUING OPERATIONS</b>	<u>428</u>	<u>193</u>	<u>833</u>	<u>535</u>
Loss from discontinued operations, net of taxes	<u>(41)</u>	<u>(57)</u>	<u>(80)</u>	<u>(106)</u>
<b>NET INCOME</b>	<u>\$ 387</u>	<u>\$ 136</u>	<u>\$ 753</u>	<u>\$ 429</u>
<b>EARNINGS PER SHARE OF COMMON STOCK - BASIC:</b>				
Income from continuing operations	\$ 0.05	\$ 0.02	\$ 0.10	\$ 0.06
Loss from discontinued operations	--	--	(0.01)	(0.01)
Net income	<u>\$ 0.05</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>
<b>EARNINGS PER SHARE OF COMMON STOCK - DILUTED:</b>				
Income from continuing operations	\$ 0.05	\$ 0.02	\$ 0.10	\$ 0.06
Loss from discontinued operations	--	--	(0.01)	(0.01)
Net income	<u>\$ 0.05</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>
<b>Weighted average common shares outstanding - basic</b>	<u>8,011</u>	<u>8,713</u>	<u>8,011</u>	<u>8,827</u>
<b>Weighted average common and potential dilutive common shares outstanding</b>	<u>8,011</u>	<u>8,713</u>	<u>8,011</u>	<u>8,832</u>

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

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

	<u>December 27, 2009 (unaudited)</u>	<u>June 28, 2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 77	\$ 274
Accounts receivable, less allowance for bad debts of \$117 and \$203, respectively	3,170	2,559
Income tax receivable	--	80
Inventories	1,686	1,371
Property held for sale	17	17
Deferred income tax assets	618	618
Prepaid expenses and other	411	233
Total current assets	5,979	5,152
<b>LONG-TERM ASSETS</b>		
Property, plant and equipment, net	2,214	1,743
Deferred income tax assets	86	86
Deposits and other	131	81
	\$ 8,410	\$ 7,062
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 1,980	\$ 1,806
Deferred revenues	283	132
Accrued expenses	1,205	1,009
Total current liabilities	3,468	2,947
<b>LONG-TERM LIABILITIES</b>		
Deferred gain on sale of property	146	159
Deferred revenues	227	246
Bank debt	659	621
Other long-term liabilities	27	37
Total liabilities	4,527	4,010
<b>COMMITMENTS AND CONTINGENCIES (See Note 3)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.01 par value; authorized 26,000,000 shares; issued 15,130,319 and 15,130,319 shares, respectively; outstanding 8,010,919 and 8,010,919 shares, respectively	151	151
Additional paid-in capital	8,819	8,741
Retained earnings	19,549	18,796
Treasury stock at cost		
Shares in treasury: 7,119,400 and 7,119,400, respectively	(24,636)	(24,636)
Total shareholders' equity	3,883	3,052
	\$ 8,410	\$ 7,062

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

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

	<b>Six Months Ended</b>	
	<b>December 27, 2009</b>	<b>December 28, 2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 753	\$ 429
Adjustments to reconcile net income to cash used for operating activities:		
Depreciation and amortization	164	143
Stock compensation expense	79	102
Provision for litigation costs	--	263
Provision for bad debts	40	45
Changes in operating assets and liabilities:		
Notes and accounts receivable	(571)	(111)
Inventories	(315)	81
Accounts payable - trade	172	(790)
Accrued expenses	196	(486)
Deferred revenue	119	28
Prepaid expenses and other	(238)	--
<b>Cash provided (used) by operating activities</b>	<b>399</b>	<b>(296)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(634)	(832)
<b>Cash used by investing activities</b>	<b>(634)</b>	<b>(832)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in line of credit, net	38	992
Cash overdraft	--	302
Repurchase of common stock	--	(1,173)
<b>Cash provided by financing activities</b>	<b>38</b>	<b>121</b>
Net decrease in cash and cash equivalents	(197)	(1,007)
Cash and cash equivalents, beginning of period	274	1,157
Cash and cash equivalents, end of period	<b>\$ 77</b>	<b>\$ 150</b>

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

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

	<u>Six Months Ended</u>	
	<u>December 27,</u> <u>2009</u>	<u>December 28,</u> <u>2008</u>
<b>CASH PAYMENTS FOR:</b>		
Interest	\$ 26	\$ 25
Income taxes	250	196

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

**PIZZA INN, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying condensed consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2009.

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

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

**Principles of Consolidation**

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

**Cash and Cash Equivalents**

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

**Fiscal Quarters**

Fiscal second quarters ended December 27, 2009 and December 28, 2008 both contained 13 weeks and fiscal year to date ended December 27, 2009 and December 28, 2008 both contained 26 weeks.

**Revenue Recognition**

The Company recognizes revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. The Company's Norco division sells food and supplies to franchisees on trade accounts under terms common in the industry. Food and supply revenue are recognized upon delivery of the product. Norco sales are reflected under the caption "Food and supply sales." Shipping and handling costs billed to customers are recognized as revenue.

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

**Stock-Based Compensation**

We account for stock options using the fair value recognition provisions of the authoritative guidance on share-based payments.

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

**Use of Management Estimates**

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



## **New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ("FASB") issued new authoritative guidance regarding accounting standards codification that will become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. The Company adopted the new guidance in the first quarter of fiscal 2010. The new guidance did not affect the Company's financial position and results of operations, but did affect the way U.S. GAAP is referenced within the consolidated financial statements and accounting policies.

### **(2) Long-Term Debt**

On January 23, 2007, the Company and The CIT Group / Commercial Services, Inc. ("CIT") entered into an agreement for a revolving credit facility of up to \$3.5 million (the "CIT Credit Facility"). The actual availability on the CIT Credit Facility was determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility was at a rate equal to the prime rate plus an interest rate margin of 0.0% to 0.5% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 2.0% to 3.0%. The specific interest rate margin was based on the Company's performance under certain financial ratio tests. An annual commitment fee was 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) were pledged to secure payment and performance of the CIT Credit Facility, which was 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 \$3.0 million, (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 \$0.8 million to \$3.0 million per fiscal year. On May 30, 2008, the Company again amended the CIT Credit Facility to permit the Company to repurchase up to \$7.0 million of the Company's common stock. As of December 27, 2009, \$0.7 million was outstanding on the CIT Credit Facility at an interest rate of 3.5% and the Company had additional borrowing availability of \$2.3 million.

Effective January 11, 2010, the Company repaid and terminated the CIT Credit Facility in connection with the implementation of a replacement credit facility. (See Note 10.)

### **(3) Commitments and Contingencies**

On April 22, 2009 the Company's board of directors amended the stock purchase plan first adopted on May 23, 2007 and previously amended on June 2, 2008, to increase the number of shares of common stock the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. As of December 27, 2009, there were 848,425 shares available to be repurchased under the plan.

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

### **(4) Stock-Based Compensation**

For the quarter and six months ended December 27, 2009, we recognized stock-based compensation of \$41,000 and \$79,000, respectively. As of December 27, 2009, unamortized stock-based compensation expense was \$0.3 million.

The following table summarizes the Company's outstanding stock options for the six months ended December 27, 2009 and December 28, 2008:

	Six Months Ended	
	December 27, 2009	December 28, 2008
Outstanding at beginning of year	485,000	275,000
Granted	115,510	290,000
Exercised	--	--
Forfeited/Canceled/Expired	--	(95,000)
Outstanding at end of period	<u>600,510</u>	<u>470,000</u>
Exercisable at end of period	<u>259,000</u>	<u>86,000</u>

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

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

	Three Months Ended			
	December 27, 2009		December 28, 2008	
	Diluted	Basic	Diluted	Basic
Income from continuing operations	\$ 428	\$ 428	\$ 193	\$ 193
Discontinued operations	(41)	(41)	(57)	(57)
Net income available to common stockholders	<u>\$ 387</u>	<u>\$ 387</u>	<u>\$ 136</u>	<u>\$ 136</u>
Weighted average common shares	8,011	8,011	8,713	8,713
Dilutive stock options	--	--	--	--
Average common shares outstanding	<u>8,011</u>	<u>8,011</u>	<u>8,713</u>	<u>8,713</u>
Income from continuing operations per share	\$ 0.05	\$ 0.05	\$ 0.02	\$ 0.02
Discontinued operations loss per common share	\$ --	\$ --	\$ --	\$ --
Net income per common share	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>

	Six Months Ended			
	December 27, 2009		December 28, 2008	
	Diluted	Basic	Diluted	Basic
Income from continuing operations	\$ 833	\$ 833	\$ 535	\$ 535
Discontinued operations	(80)	(80)	(106)	(106)
Net income available to common stockholders	<u>\$ 753</u>	<u>\$ 753</u>	<u>\$ 429</u>	<u>\$ 429</u>
Weighted average common shares	8,011	8,011	8,827	8,827
Dilutive stock options	--	--	5	--
Average common shares outstanding	<u>8,011</u>	<u>8,011</u>	<u>8,832</u>	<u>8,827</u>
Income from continuing operations per share	\$ 0.10	\$ 0.10	\$ 0.06	\$ 0.06
Discontinued operations loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Net income per common share	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>	<u>\$ 0.05</u>

For the quarter and six months ended December 27, 2009, options to purchase 600,510 shares of common stock at exercise prices ranging from \$1.90 to \$3.17 per share were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares for the period. For the quarter and six months ended December 28, 2008, options to purchase 465,000 and 225,000 shares of common stock, respectively, at exercise prices ranging from \$2.23 to \$3.17 and \$2.51 to \$3.17 per share, respectively, were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares for the period.

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

The authoritative guidance on “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” requires that discontinued operations that meet certain criteria be reflected in the statement of operations after results of continuing operations as a net amount. This guidance also requires that the operations of the closed restaurants, including any impairment charges, be reclassified to discontinued operations for all periods presented.

The authoritative guidance on “*Accounting for Costs Associated with Exit or Disposal Activities*,” requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This authoritative guidance also establishes that fair value is the objective for initial measurement of the liability.

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

(7) **Income Taxes**

Management re-evaluates the deferred tax asset each quarter and believes that it is more likely than not that the net deferred tax asset of \$0.7 million will be fully realized based on the Company’s recent history of pre-tax profits and the expectation of future taxable income as well as the future reversal of existing temporary differences. During the three and six months ended December 27, 2009, the Company provided \$0.2 million and \$0.4 million, respectively in net tax expense. In determining this amount, the Company made its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined was used to provide for income taxes on a current year to date basis.

(8) **Property Held for Sale**

Assets that are to be disposed of by sale are recognized in the 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 December 27, 2009, the Company had approximately \$17,000 of assets classified as held for sale, representing miscellaneous trailers and other transportation equipment.

(9) **Segment Reporting**

Summarized in the following tables are net sales and operating revenues, operating income and geographic information (revenues) for the Company’s reportable segments for the three month and six month periods ended December 27, 2009 and December 28, 2008 (in thousands). Operating income reported below excludes income tax provision and discontinued operations.

	Three Months Ended		Six Months Ended	
	December 27, 2009	December 28, 2008	December 27, 2009	December 28, 2008
<b>Net sales and operating revenues:</b>				
Food and equipment distribution	\$ 8,616	\$ 9,645	\$ 17,011	\$ 19,779
Franchise and other (2)	1,795	1,633	3,400	2,887
Intersegment revenues	262	232	461	297
Combined	<u>10,673</u>	<u>11,510</u>	<u>20,872</u>	<u>22,963</u>
Less intersegment revenues	(262)	(232)	(461)	(297)
Consolidated revenues	<u>\$ 10,411</u>	<u>\$ 11,278</u>	<u>\$ 20,411</u>	<u>\$ 22,666</u>
<b>Depreciation and amortization:</b>				
Food and equipment distribution	\$ --	\$ --	\$ --	\$ --
Franchise and other (2)	67	39	113	105
Combined	<u>67</u>	<u>39</u>	<u>113</u>	<u>105</u>
Corporate administration and other	25	21	51	38
Depreciation and amortization	<u>\$ 92</u>	<u>\$ 60</u>	<u>\$ 164</u>	<u>\$ 143</u>
<b>Interest expense:</b>				
Food and equipment distribution	\$ --	\$ --	\$ --	\$ --
Franchise and other (2)	--	--	--	--
Combined	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Corporate administration and other	12	16	26	28
Interest expense	<u>\$ 12</u>	<u>\$ 16</u>	<u>\$ 26</u>	<u>\$ 28</u>
<b>Operating income:</b>				
Food and equipment distribution (1)	\$ 478	\$ 398	\$ 912	\$ 686
Franchise and other (1), (2)	577	531	1,111	1,043
Intersegment profit	67	55	120	70
Combined	<u>1,122</u>	<u>984</u>	<u>2,143</u>	<u>1,799</u>
Less intersegment profit	(67)	(55)	(120)	(70)
Corporate administration and other	(410)	(662)	(767)	(959)
Operating income	<u>\$ 645</u>	<u>\$ 267</u>	<u>\$ 1,256</u>	<u>\$ 770</u>
<b>Geographic information (revenues):</b>				
United States	\$ 10,239	\$ 11,068	\$ 20,059	\$ 22,118
Foreign countries	172	210	352	548
Consolidated total	<u>\$ 10,411</u>	<u>\$ 11,278</u>	<u>\$ 20,411</u>	<u>\$ 22,666</u>

(10) **Subsequent Events**

On January 11, 2010, the Company entered into a Loan Agreement with Amegy Bank National Association (“Amegy”) providing for a \$2.0 million revolving credit facility (with a \$250 thousand letter of credit subfacility) and a \$1.0 million term loan facility.

The Company may borrow, repay and reborrow under the revolving credit facility through January 11, 2013, at which time all amounts outstanding under the revolving credit facility mature. Availability under the revolving credit facility is limited by advance rates on eligible inventory and accounts receivable, and the Company is required to maintain a zero balance on the revolving credit facility for at least 30 consecutive days each year. Interest on indebtedness from time to time outstanding under the revolving credit facility is computed at Amegy’s prime rate and is payable monthly. A quarterly commitment fee of 0.25% is payable on the average unused portion of the revolving credit facility.

Through January 11, 2011, Amegy has agreed to make up to four term loans under the term facility. Advances for such term loans are limited by a percentage of the costs of equipment and leasehold improvements for new restaurant locations of the Company and may not be reborrowed after repayment. Interest only is payable monthly on each term loan for up to 120 days after the initial advance. Thereafter, each term loan is payable in 36 equal monthly installments of principal plus accrued interest. Interest on each term loan accrues at Amegy's prime rate plus 1% or, at the Company's option, a fixed rate determined by Amegy. A fee of 0.5% of the total term loan facility was paid at closing.

The obligations of the Company under the Loan Agreement are secured by a pledge of substantially all of the assets of the Company and its subsidiaries including, but not limited to, accounts receivable, inventory and equipment. The Loan Agreement contains various affirmative covenants which, among other things, require the Company to provide Amegy with certain financial statements, compliance statements, reports and other information. The Loan Agreement also contains various negative covenants which, among other things, require the Company to maintain certain financial ratios and restrict the ability of the Company to engage in certain activities. If an event of default occurs under the Loan Agreement, Amegy may terminate all commitments under the credit facilities and declare all unpaid principal, interest and other amounts owing under the credit facilities to be immediately due and payable.

We have evaluated events or transactions occurring after December 27, 2009, the balance sheet date, through February 9, 2010, the date the financial statements were issued, and determined there have been no such events or transactions which would impact our financial statements for the quarter ended December 27, 2009, except as noted above.

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

*The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended June 28, 2009, and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words "believe," "expect," "anticipate," "estimate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to our business objectives, our customers and franchisees, our liquidity and capital resources, and the impact of our historical and potential business strategies on our business, financial condition, and operating results. Our actual results could differ materially from our expectations. Further information concerning our business, including additional factors that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth in our Annual Report on Form 10-K for the year ended June 28, 2009. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.*

### **Results of Operations**

#### **Overview**

The Company is a franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn." Our distribution division is Norco Restaurant Services Company ("Norco"). At December 27, 2009, there were 313 domestic and international Pizza Inn restaurants, consisting of three Company-owned domestic restaurants, 234 franchised domestic restaurants, and 76 franchised international restaurants. The 237 domestic restaurants consisted of: (i) 151 restaurants that offer dine-in, carry-out, and in many cases, delivery services ("Buffet Units"); (ii) 39 restaurants that offer delivery and carry-out services only ("Delco Units"); and (iii) 47 restaurants that are typically located within a convenience store, college campus building, airport terminal, or other commercial facility and offer quick carry-out service from a limited menu ("Express Units"). The 237 domestic restaurants were located in 17 states predominately situated in the southern half of the United States. The 76 international restaurants were located in 11 foreign countries.

Basic and diluted income per common share increased to \$0.05 for the three month period ended December 27, 2009 compared to \$0.02 for the comparable period ended December 28, 2008. Net income for the three month period ended December 27, 2009 increased \$0.3 million to \$0.4 million from \$0.1 million for the comparable period in the prior fiscal year, on revenues of \$10.4 million for the three month period ended December 27, 2009 and \$11.3 million for the comparable period in the prior fiscal year. The increase in net income during the three month period ended September 27, 2009, was primarily due to a non-recurring legal settlement in the prior year of approximately \$0.2 million.

Year-to-date basic and diluted net income per share increased to \$0.09 per share as of December 27, 2009, compared to \$0.05 for the comparable period ended December 28, 2008. Net income for the first six months of fiscal 2010 increased to \$0.8 million on revenues of \$20.4 million as compared to net income of \$0.4 million on revenues of \$22.7 million for the similar period of fiscal 2009. The increase in net income for the first half of fiscal 2010 as compared to the same period of fiscal 2009 was primarily attributable to a non-recurring legal settlement and severance payments incurred in fiscal 2009.

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

	Three Months Ended	
	December 27, 2009	December 28, 2008
Domestic retail sales Buffet Units (in thousands)	\$ 25,425	\$ 26,950
Domestic retail sales Delco Units (in thousands)	\$ 2,223	\$ 2,658
Domestic retail sales Express Units (in thousands)	\$ 977	\$ 1,277
Total domestic retail sales (in thousands)	<u>\$ 28,625</u>	<u>\$ 30,885</u>
Average number of domestic Buffet Units	153	154
Average number of domestic Delco Units	39	40
Average number of domestic Express Units	47	55

	Six Months Ended	
	December 27, 2009	December 28, 2008
Domestic retail sales Buffet Units (in thousands)	\$ 52,187	\$ 54,712
Domestic retail sales Delco Units (in thousands)	\$ 4,476	\$ 5,407
Domestic retail sales Express Units (in thousands)	\$ 2,014	\$ 2,539
Total domestic retail sales (in thousands)	<u>\$ 58,677</u>	<u>\$ 62,658</u>
Average number of domestic Buffet Units	153	155
Average number of domestic Delco Units	38	40
Average number of domestic Express Units	48	55

## Revenues

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

## Food and Supply Sales

Food and supply sales by Norco include food and paper products and other distribution revenues. Food and supply sales for the three month period ended December 27, 2009 decreased 11%, or \$1.0 million, to \$8.6 million from \$9.6 million in the same period in the prior fiscal year. Domestic food and paper sales accounted for the decrease, driven primarily by two factors: (i) a 15% decrease in cheese prices; and (ii) a decrease in total domestic chain-wide retail sales of 7%, or \$2.3 million, compared to the same period in the prior fiscal year. Food and supply sales for the six month period ended December 27, 2009 decreased 14%, or \$2.8 million, to \$17.0 million from \$19.8 million in the same period in the prior fiscal year. Domestic food and paper sales accounted for \$2.5 million of the decrease, driven primarily by the same two factors: (i) a 23% decrease in cheese prices; and (ii) a decrease in total domestic chain-wide retail sales of 6%, or \$4 million, compared to the same period in the prior fiscal year.

## Franchise Revenue

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license sales, decreased 4%, or \$40,000, for the three month period ended December 27, 2009 compared to the comparable period for the prior fiscal year. Franchise revenues decreased 2%, or \$42,000, for the six month period ended December 27, 2009 compared to the same period of the prior year. The decrease in domestic royalties is the result of lower retail sales driven by unit closures and the decrease in comparable store sales. The decrease in domestic royalties is offset by higher domestic and international franchise fees, and income generated from the buyout by a franchisee of the existing franchise agreement for \$44,000 in the first quarter of this fiscal year. Due to the "0% First Year Royalty" incentive program the Company had in place for new franchise Buffet Units signed by the end of the prior fiscal year, new Buffet Units opened during the current fiscal year will not generate increased domestic royalties. The following chart summarizes the major components of franchise revenue (in thousands):

	Three Months Ended	
	December 27, 2009	December 28, 2008
Domestic royalties	\$ 802	\$ 874
International royalties	113	110
Domestic franchise fees	54	60
International franchise fees	35	--
Franchise revenue	<u>\$ 1,004</u>	<u>\$ 1,044</u>

  

	Six Months Ended	
	December 27, 2009	December 28, 2008
Domestic royalties	\$ 1,653	\$ 1,789
Domestic royalties - buy-out	44	--
International royalties	234	250
Domestic franchise fees	94	69
International franchise fees	41	--
Franchise revenue	<u>\$ 2,066</u>	<u>\$ 2,108</u>

## Restaurant Sales

Restaurant sales, which consist of revenue generated by Company-owned restaurants, increased 34%, or \$0.2 million, to \$0.8 million for the three month period ended December 27, 2009 compared to \$0.6 million for the comparable period in the prior fiscal year. For the six month period ended December 27, 2009 restaurant sales increased 71%, or \$0.6 million, to \$1.3 million for the six month period ended December 27, 2009 compared to \$0.8 million for the comparable period in the prior fiscal year. The Company opened a new store in Denton, Texas on October 15, 2008 and a new store in Fort Worth, Texas on September 15, 2009. The following chart summarizes the sales by location (in thousands):

	Three Months Ended	
	December 27, 2009	December 28, 2008
Plano, Texas	\$ 167	\$ 176
Denton, Texas - opened October 2008	285	413
Fort Worth, Texas - opened September 2009	339	--
Restaurant sales	<u>\$ 791</u>	<u>\$ 589</u>

	Six Months Ended	
	December 27, 2009	December 28, 2008
Plano, Texas	\$ 327	\$ 366
Denton, Texas - opened October 2008	597	413
Fort Worth, Texas - opened September 2009	410	--
Restaurant sales	<u>\$ 1,334</u>	<u>\$ 779</u>

### ***Costs and Expenses***

#### **Cost of Sales**

Cost of sales, which includes primarily direct materials, distribution fees and labor directly related to food and supply sales and restaurant sales, decreased 10%, or \$0.9 million, for the three month period ended December 27, 2009 compared to the comparable period for the prior fiscal year. Cost of sales decreased 13%, or \$2.5 million, for the six month period ended December 27, 2009 compared to the comparable period for the prior fiscal year. These decreases were primarily the result of lower commodity costs combined with lower food and supply sales.

#### **Franchise Expenses**

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of domestic and international franchises. These expenses decreased 9%, or \$40,000, for the three month period ended December 27, 2009 compared to the comparable period in the prior fiscal year. For the six month period ended December 27, 2009 franchise expenses decreased 5%, or \$52,000, from the comparable period of the prior year. These savings were largely the result of lower amortization of a re-acquired area developer territory and reduced research and development, training material and sales related costs, offset by higher payroll for additional training and international franchise sales personnel. The following chart summarizes the major components of franchise expenses (in thousands):



	Three Months Ended	
	December 27, 2009	December 28, 2008
Payroll	\$ 456	\$ 435
Training Materials	7	20
Sales Related Costs	2	37
Travel	44	52
Allocated overhead	(108)	(105)
Research and development	--	15
Other	29	16
Franchise expenses	<u>\$ 430</u>	<u>\$ 470</u>

	Six Months Ended	
	December 27, 2009	December 28, 2008
Payroll	\$ 964	\$ 912
Training Materials	11	47
Sales Related Costs	6	46
Travel	88	81
Allocated overhead	(222)	(260)
Amortize re-acquired area developer territory	--	46
Research and development	8	37
Other	42	40
Franchise expenses	<u>\$ 897</u>	<u>\$ 949</u>

## General and Administrative Expenses

General and administrative expenses decreased 2%, or \$18,000, to \$838,000 for the three month period ended December 27, 2009 compared to \$856,000 for the comparable period for the prior fiscal year. For the six month period ended December 27, 2009 general and administrative expenses increased 5%, or \$0.1 million, to \$1.6 million from \$1.5 million for the prior fiscal year. The following chart summarizes the major components of general and administrative expenses (in thousands):

	Three Months Ended	
	December 27, 2009	December 28, 2008
Payroll	\$ 336	\$ 356
Legal fees	84	32
Other professional fees	156	167
Insurance and taxes	71	68
Allocated overhead	(238)	(239)
Occupancy costs	148	150
Company stores	87	116
Stock compensation expense	41	47
Other	153	159
General and administrative expenses	<u>\$ 838</u>	<u>\$ 856</u>

	Six Months Ended	
	December 27, 2009	December 28, 2008
Payroll	\$ 725	\$ 664
Legal fees	96	73
Other professional fees	261	273
Insurance and taxes	130	131
Allocated overhead	(491)	(472)
Occupancy costs	300	317
Company stores	212	150
Stock compensation expense	79	102
Other	303	305
General and administrative expenses	<u>\$ 1,615</u>	<u>\$ 1,543</u>

The decrease in general and administrative expenses during the three months ended December 27, 2009 was primarily due to a lower new store opening costs which were partially offset by higher legal fees. The increase in general and administrative expenses during the six months ended December 27, 2009 was due to higher payroll associated with earned bonuses and general and administrative expenses associated with the new Company owned store in Fort Worth, Texas.

## Provision for Bad Debts

Provision for bad debt expense decreased 17%, or \$5,000, for the three month period ended December 27, 2009 compared to the same period in the prior fiscal year. Provision for bad debt expense decreased 11%, or \$5,000, for the six month period ended December 27, 2009 compared to the same period in the prior fiscal year.

## Interest Expense

Interest expense decreased 25%, or \$4,000, for the three month period ended December 27, 2009 compared to the same period in the prior fiscal year. Interest expense decreased 7%, or \$2,000, for the six month period ended December 27, 2009 compared to the same period in the prior fiscal year.

## Provision for Income Tax

For the three month period and six month period ended December 27, 2009, income tax expense of \$0.2 million and \$0.4 million, respectively, was calculated on an effective income tax rate that is consistent with the statutory U.S. federal income tax rate of 34% adjusted for state income tax effects and permanent difference items. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the net deferred tax asset of \$0.7 million.

## **Discontinued Operations**

Discontinued operations includes ongoing occupancy costs associated with the two Company-owned stores closed in Houston, Texas during the first quarter of fiscal year 2008.

## **Restaurant Openings and Closings**

During the three month period ended December 27, 2009, one new domestic Buffet Unit, two new Delco Unit and six international Units were opened by Pizza Inn franchisees. Six domestic restaurants were closed by franchisees (four Buffet Units, one Delco and one Express Unit) typically because of unsatisfactory standards of operation or poor performance. During the six month period ended December 27, 2009, two new domestic Buffet Units, three new Delco Units and eight international Units were opened by Pizza Inn franchisees, with one additional domestic Buffet Unit opened as a Company store. Ten domestic restaurants were closed by franchisees (four Buffet Units, two Delco Units and four Express Units) typically because of unsatisfactory standards of operation or poor performance. The territory of one of the closed Buffet Units was acquired by the Company and is adjacent to an existing Company owned Buffet Unit. We do not believe that these closings had any material impact on the collectibility of our outstanding receivables and royalties due to us because (i) these amounts have been reserved for or are otherwise collectable and (ii) these closed restaurants were generally lower volume restaurants whose financial impact on our business as a whole was not significant. For those restaurants that are anticipated to close or are exhibiting signs of financial distress, credit terms are typically restricted, weekly food orders are required to be paid for on delivery and/or with certified funds and royalty and advertising fees are collected as add-ons to the delivered price of weekly food orders.

The following charts summarize restaurant activity for the three and six month periods ended December 27, 2009 and December 28, 2008:

Three months ended December 27, 2009

	<u>Beginning of Period</u>	<u>Opened</u>	<u>Closed</u>	<u>End of Period</u>
Domestic:				
Buffet Units	154	1	4	151
Delco Units	38	2	1	39
Express Units	48	--	1	47
International Units	<u>70</u>	<u>6</u>	<u>--</u>	<u>76</u>
Total	<u><u>310</u></u>	<u><u>9</u></u>	<u><u>6</u></u>	<u><u>313</u></u>

Three months ended December 28, 2008

	<u>Beginning of Period</u>	<u>Opened</u>	<u>Closed</u>	<u>End of Period</u>
Domestic:				
Buffet Units	155	3	2	156
Delco Units	41	1	2	40
Express Units	55	3	1	57
International Units	<u>68</u>	<u>1</u>	<u>1</u>	<u>68</u>
Total	<u><u>319</u></u>	<u><u>8</u></u>	<u><u>6</u></u>	<u><u>321</u></u>

Six months ended December 27, 2009

	<u>Beginning of Period</u>	<u>Opened</u>	<u>Closed</u>	<u>End of Period</u>
Domestic:				
Buffet Units	152	3	4	151
Delco Units	38	3	2	39
Express Units	51	--	4	47
International Units	<u>68</u>	<u>8</u>	<u>--</u>	<u>76</u>
Total	<u><u>309</u></u>	<u><u>14</u></u>	<u><u>10</u></u>	<u><u>313</u></u>

Six months ended December 28, 2008

	<u>Beginning of Period</u>	<u>Opened</u>	<u>Closed</u>	<u>End of Period</u>
Domestic:				
Buffet Units	158	3	5	156
Delco Units	41	1	2	40
Express Units	56	4	3	57
International Units	<u>68</u>	<u>1</u>	<u>1</u>	<u>68</u>
Total	<u><u>323</u></u>	<u><u>9</u></u>	<u><u>11</u></u>	<u><u>321</u></u>

## *Liquidity and Capital Resources*

### **Cash Flows**

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

Cash flows from operating activities generally reflect net income adjusted for depreciation and amortization, changes in working capital and accrued expenses. In the six month period ended December 27, 2009, cash provided by operations was \$0.4 million as compared to cash used by operating activities of \$0.3 million in the comparable period for the prior year. This increase in cash provided by operating activities was primarily due to an increase in net income, a slight increase in trade payables the current year compared to a significant decrease in the prior year, and an increase in accrued expenses in the current year compared to decrease in the prior year due to year end bonuses paid in the first quarter of the prior year and increased deferred franchise fees, all of which was partially offset by increase in accounts receivable, inventory and prepaid expenses.

Cash flows from investing activities generally reflect capital expenditures for the purchase of Company assets. The Company used cash of \$0.6 million during the six month period ended December 27, 2009, primarily for a new Company store that opened in Fort Worth, Texas. This compares to cash used by investing activities of \$0.8 million attributed primarily to the Denton store and corporate information technology upgrades for the same period in the prior fiscal year.

Cash flows from financing activities generally reflect changes in the Company's borrowings during the period and repurchases of outstanding shares of our common stock. Net cash provided by financing activities was \$38,000 in the six month period ended December 27, 2009 compared to \$121,000 for the comparable period in the prior fiscal year. This decrease in cash provided by financing activities was primarily due to the absence of stock repurchases in fiscal 2010, offset by lower net borrowings and cash overdraft.

### **Credit Facilities**

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 was determined by advance rates on eligible inventory and accounts receivable. Interest on borrowings outstanding on the CIT Credit Facility was at a rate equal to the prime rate plus an interest rate margin of 0.0% to 0.5% or, at the Company's option, at the LIBOR rate plus an interest rate margin of 2.0% to 3.0%. The specific interest rate margin was based on the Company's performance under certain financial ratio tests. An annual commitment fee was 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) were pledged to secure payment and performance of the CIT Credit Facility, which was 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 \$3.0 million, (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 \$0.8 million to \$3.0 million per fiscal year. On May 30, 2008, the Company again amended the CIT Credit Facility to permit the Company to repurchase up to \$7.0 million of the Company's common stock. As of December 27, 2009, \$0.7 million was outstanding on the CIT Credit Facility at an interest rate of 3.5% and the Company had additional borrowing availability of \$2.3 million. Effective January 11, 2010, the Company repaid and terminated the CIT Credit Facility in connection with the implementation of a replacement credit facility.

On January 11, 2010, the Company entered into a Loan Agreement with Amegy Bank National Association (“Amegy”) providing for a \$2.0 million revolving credit facility (with a \$250 thousand letter of credit subfacility) and a \$1.0 million term loan facility.

The Company may borrow, repay and reborrow under the revolving credit facility through January 11, 2013, at which time all amounts outstanding under the revolving credit facility mature. Availability under the revolving credit facility is limited by advance rates on eligible inventory and accounts receivable, and the Company is required to maintain a zero balance on the revolving credit facility for at least 30 consecutive days each year. Interest on indebtedness from time to time outstanding under the revolving credit facility is computed at Amegy’s prime rate and is payable monthly. A quarterly commitment fee of 0.25% is payable on the average unused portion of the revolving credit facility.

Through January 11, 2011, Amegy has agreed to make up to four term loans under the term facility. Advances for such term loans are limited by a percentage of the costs of equipment and leasehold improvements for new restaurant locations of the Company and may not be reborrowed after repayment. Interest only is payable monthly on each term loan for up to 120 days after the initial advance. Thereafter, each term loan is payable in 36 equal monthly installments of principal plus accrued interest. Interest on each term loan accrues at Amegy’s prime rate plus 1% or, at the Company’s option, a fixed rate determined by Amegy. A fee of 0.5% of the total term loan facility was paid at closing.

The obligations of the Company under the Loan Agreement are secured by a pledge of substantially all of the assets of the Company and its subsidiaries including, but not limited to, accounts receivable, inventory and equipment. The Loan Agreement contains various affirmative covenants which, among other things, require the Company to provide Amegy with certain financial statements, compliance statements, reports and other information. The Loan Agreement also contains various negative covenants which, among other things, require the Company to maintain certain financial ratios and restrict the ability of the Company to engage in certain activities. If an event of default occurs under the Loan Agreement, Amegy may terminate all commitments under the credit facilities and declare all unpaid principal, interest and other amounts owing under the credit facilities to be immediately due and payable.

## **Conclusion**

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

## **Critical Accounting Policies and Estimates**

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

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

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

Inventory, which consists primarily of food, paper products and supplies primarily warehoused by the Company's third-party distributors, is stated at lower of cost or market, with cost determined according to the weighted average cost method. The valuation of inventory requires us to estimate the amount of obsolete and excess inventory. The determination of obsolete and excess inventory requires us to estimate the future demand for the Company's products within specific time horizons, generally six months or less. If the Company's demand forecast for specific products is greater than actual demand and the Company fails to reduce purchasing accordingly, the Company could be required to write down additional inventory, which would have a negative impact on the Company's gross margin.

As of June 24, 2007 we had recorded a valuation allowance based on our assessment that the realization of a portion of our net deferred tax assets did not meet the "more likely than not" criterion under the authoritative guidance on "Accounting for Income Taxes." The entire valuation allowance was released in fiscal 2008. As a result, the effective tax rate for fiscal 2010 is estimated to be 34%.

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

### **Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ("FASB") issued new authoritative guidance regarding accounting standards codification that will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Company adopted the new guidance in the first quarter of fiscal 2010. The new guidance did not affect the Company's financial position and results of operations, but did affect the way U.S. GAAP is referenced within the consolidated financial statements and accounting policies.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable to smaller reporting company.

### **Item 4T. Controls and Procedures**

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

The Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive and principal financial officers, or persons performing similar functions, have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. During the most recent fiscal quarter, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

There have been no material developments in the six month period ended December 27, 2009 in any material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

### **Item 1A. Risk Factors**

Not applicable to smaller reporting company.

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

On May 23, 2007, the board of directors of the Company approved a stock purchase plan (the "2007 Stock Purchase Plan") authorizing the purchase of up to 1,016,000 shares of the Company's common stock in the open market or in privately negotiated transactions. On June 2, 2008, the Company's board of directors amended the 2007 Stock Purchase Plan to increase the number of shares the Company may repurchase by 1,000,000 shares to a total of 2,016,000 shares. On April 22, 2009, the board of directors further amended the 2007 Stock Purchase Plan by increasing the aggregate number of shares the Company may repurchase by 1,000,000 shares to a total of 3,016,000 shares. The 2007 Stock Purchase Plan does not have an expiration date. There were no stock purchases in the three months ending December 27, 2009. As of December 27, 2009, up to an additional 848,425 shares could be purchased under the 2007 Stock Purchase Plan.

### **Item 3. Defaults upon Senior Securities**

Not applicable.

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

At the Company's 2009 Annual Meeting of Shareholders held on December 16, 2009, the shareholders of the Company elected the following directors, constituting the entire Board of Directors of the Company, to serve terms expiring at the Company's 2010 Annual Meeting of Shareholders.



	<u>For</u>	<u>% Voted For</u>	<u>Withheld</u>	<u>%Voted Withheld</u>
Steven M. Johnson	6,050,098	97.17%	176,077	2.83%
James K. Zielke	6,033,375	96.90%	192,800	3.10%
Robert B. Page	5,730,193	92.03%	495,982	7.97%
Ramon D. Phillips	5,649,073	90.73%	577,102	9.27%
Mark E. Schwarz	6,051,191	97.19%	174,984	2.81%
Clinton J. Coleman	5,874,561	94.35%	351,614	5.65%
W.C. Hammett, Jr.	6,033,364	96.90%	192,811	3.10%

At the Company's 2009 Annual Meeting of Shareholders held on December 16, 2009, the shareholders of the Company also ratified the appointment of Montgomery, Coscia and Greilich, LLP as the Company's independent registered public accounting firm for fiscal year 2010 as follows:

	<u>For</u>	<u>Against</u>	<u>Abstain</u>
Ratification of Montgomery, Coscia and Greilich, LLP as Company's independent registered accounting firm.	5,989,236	181,733	55,206

#### **Item 5. Other Information**

Not applicable.

#### **Item 6. Exhibits**

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

**SIGNATURES**

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

PIZZA INN, INC.  
(Registrant)

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

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

Dated: February 9, 2009

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

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

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

Date: February 9, 2010

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

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

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

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

Date: February 9, 2010

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

**Exhibit 32.1**

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 27, 2009 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: February 9, 2010

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

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

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

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

The accompanying Quarterly Report on Form 10-Q for the quarter ended December 27, 2009 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: February 9, 2010

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

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