SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 1996.
Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .

COMMISSION FILE NUMBER 0-12919

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

MISSOURI	47-0654575
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5050 QUORUM DRIVE SUITE 500 DALLAS, TEXAS	75240
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 701-9955
Securities Registered Pursuant to Section 12(b) of the Act: NONE
Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE $.01 EACH
(Title of Class)

At September 6, 1996, there were 12,918,801 shares of the registrant's Common Stock outstanding, and the aggregate market value of registrant's Common Stock held by non-affiliates was $39,911,998, based upon the average of the bid and ask prices.

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

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act of 1934 in connection with the registrant's annual meeting of shareholders in December 1996, have been incorporated by reference in Part III of this report.

PART I

ITEM 1 - BUSINESS

GENERAL

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

On September 6, 1996, the Pizza Inn system consisted of 470 units, including five Company operated units (which are used for product testing and franchisee training, in addition to serving customers) and 465 franchised units. The domestic units are comprised of 332 full service units, 30 delivery/carry-out units and 47 Express units. The international units are comprised of 38 full service units, 9 delivery/carry-out units and 14 Express units. Pizza Inn units are currently located in 19 states and 18 foreign countries. Domestic units are located predominantly in the southern half of the United States, with Texas accounting for approximately 32% of the total. Norco Manufacturing and Distributing Company ("Norco"), a division of the Company, distributes food products, equipment, and other supplies to units in the United States and, to the extent feasible, in other countries.

PIZZA INN RESTAURANTS

Full service restaurants ("Full-Service") offer dine-in and carry-out service and, in most cases, also offer delivery service. These restaurants serve pizza on three different crusts (The Original Thin Crust, San Francisco Crust and New York Pan), with standard toppings and special combinations of toppings. They also offer pasta, salad, sandwiches, desserts and beverages, including beer and wine in some locations. They are generally located in free standing buildings in close proximity to offices, shopping centers and residential areas. The current standard Full-Service units are between 3,000 and 4,400 square feet in size and seat 110 to 180 customers. The interior decor is designed to promote a contemporary, family style atmosphere.

Restaurants that offer delivery and carry-out service only ("Delcos") are growing in popularity and number. Delcos typically are located in shopping centers or other in-line arrangements, occupy approximately 1,000 square feet, and offer limited or no seating. Delcos generally offer the same menu as Full-Service units, except for buffet and dine-in service. The decor of these units is designed to be bright and highly visible, featuring neon, lighted displays and awnings.

A third version, Pizza Inn Express units ("Express"), are typically located in a convenience store, college campus, airport terminal or other commercial facility. They have limited or no seating and offer quick carry-out service of a limited menu of pizza and other foods and beverages. An Express unit typically occupies approximately 200 to 400 square feet and is operated by the same person who owns the commercial facility or who is licensed at one or more locations within the facility.

FRANCHISING

The Pizza Inn concept was first franchised in 1963. Since that time, industry franchising concepts and development strategies have changed, so that present franchise relationships are evidenced by a variety of contractual forms. Common to those forms are provisions which: (i) provide an initial franchise term of 20 years and a renewal term, (ii) require the franchisee to follow the Pizza Inn system of restaurant operation and management, (iii) require the franchisee to pay a franchise fee and continuing royalties, and (iv) prohibit the development of one unit within a specified distance from another.

The Company's current form of franchise agreement provides for: (i) a franchise fee of $20,000 for a Full-Service unit, $7,500 for a Delco and $3,500 for an Express unit, (ii) an initial franchise term of 20 years for a Full- Service unit, 10 years for a Delco, plus a renewal term of 10 years in both cases, and an initial term of five years for an Express unit plus a renewal term of five years, (iii) contributions equal to 1% of gross sales to the Pizza Inn Advertising Plan or to the Company, discussed below, (iv) royalties equal to 4% of gross sales for a Full-Service or Delco and 5% of gross sales for an Express unit and (v) required advertising expenditures of at least 4% of gross sales for a Full-Service unit, 5% for a Delco and 2% for an Express unit.

The Company has adopted a franchising strategy which has three major components: continued development within existing Pizza Inn market areas, development of new domestic territories, and continued growth in the international arena. As a cornerstone of this approach, the Company offers, to certain experienced restaurant operators, area developer rights in both new and existing domestic markets. An area developer pays a negotiated fee to purchase the right to operate or develop, along with the Company, Pizza Inn restaurants within a defined territory, typically for a term of 20 years plus renewal options for 10 years. The area developer agrees to a new store development schedule and assists the Company in local franchise service and quality control. In return, half of the franchise fees and royalties earned on all units within the territory are retained by the area developer during the term of the agreement. Similarly, the Company offers master franchise rights to develop Pizza Inn restaurants in certain foreign countries, with negotiated fees, development schedules and ongoing royalties.

FOOD AND SUPPLY DISTRIBUTION

The Company's Norco division offers substantially all of the food and paper products, equipment and other supplies necessary to operate a Pizza Inn restaurant. Franchisees are required to purchase from Norco certain food products which are proprietary to the Pizza Inn system. The vast majority of franchisees also purchase other supplies from Norco.

Norco operates its central distribution facility six days per week, and it delivers to all domestic units on a weekly basis, utilizing a fleet of refrigerated tractor-trailer units operated by Company drivers and independent owner-operators. Norco also ships products and equipment to international franchisees. The food, equipment, and other supplies distributed by Norco are generally available from several sources, and the Company is not dependent upon any one supplier or limited group of suppliers. The Company contracts with established food processors for the production of its proprietary products. The Company does not anticipate any difficulty in obtaining supplies in the foreseeable future.

ADVERTISING

The Pizza Inn Advertising Plan ("PIAP") is a non-profit corporation which creates and produces print advertisements, television and radio commercials, and promotional materials for use by its members. Each operator of a Full-Service or Delco unit, including the Company, is entitled to membership

in PIAP. Nearly all of the Company's existing franchise agreements for Full-Service and Delco units require the franchisees to become members of PIAP. Members contribute 1% of their gross sales. PIAP is managed by a Board of Trustees, comprised of franchisee representatives who are elected by the members each year. The Company does not have any ownership interest in PIAP. The Company provides certain administrative, marketing and other services to PIAP and is paid by PIAP for such services. On September 6, 1996, the Company and substantially all of its franchisees were members of PIAP. Operators of Express units do not participate in PIAP; however, they contribute up to 1% of their gross sales to the Company to help fund Express unit marketing materials and similar expenditures.

Groups of franchisees in many of the Pizza Inn system's market areas have formed local advertising cooperatives. These cooperatives, which may be formed voluntarily or may be required by the Company under the franchise agreements, establish contributions to be made by their members and direct the expenditure of these contributions on local advertising and promotions using materials developed by PIAP and the Company.

The Company and its franchisees conduct independent marketing efforts in addition to their participation in PIAP and local cooperatives.

TRADEMARKS AND QUALITY CONTROL

The Company owns various trademarks, including the name "Pizza Inn", which are used in connection with the restaurants and have been registered with the United States Patent and Trademark Office. The duration of such trademarks is unlimited, subject to continued use. In addition, the Company has obtained trademark registrations in several foreign countries and has applied for registration in others. The Company believes that it holds the necessary rights for protection of the trademarks essential to its business.

The Company requires all units to satisfy certain quality standards governing the products and services offered through use of the Company's trademarks. The Company has a staff of field representatives, whose responsibilities include periodic visits to provide advice in operational and marketing activities and to evaluate compliance with the Company's quality standards.

TRAINING

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

WORKING CAPITAL PRACTICES

The Company's Norco division maintains a sufficient inventory of food and other consumable supplies which it distributes to Pizza Inn units on a weekly basis, plus certain other items ordered on an irregular basis. The Company's accounts receivable consist primarily of receivables from food and supply sales, accrued franchise royalties, and deferred franchise fees.

GOVERNMENT REGULATION

The Company is subject to registration and disclosure requirements and other restrictions under federal and state franchise laws. The Company's Norco division is subject to various federal and state regulations, including those regarding transportation of goods, food labeling and distribution, and vehicle licensing.

The development and operation of Pizza Inn units are subject to federal, state and local regulations, including those pertaining to zoning, public health, and alcoholic beverages, where applicable. Many restaurant employees are paid at rates related to the minimum wage established by federal and state law. Increases in the federal minimum wage to become effective in October 1996 and September 1997 are expected to result in higher labor costs for the Company and its franchisees, which may be partially offset by price increases or operational efficiencies.

EMPLOYEES

On September 6, 1996, the Company had approximately 279 employees, including 62 in the Company's corporate office, 79 at its Norco division, and 62 full-time and 76 part-time employees at the Company operated restaurants. None of the Company's employees are currently covered by collective bargaining agreements. The Company believes that its employee relations are excellent.

COMPETITION

The restaurant business is highly competitive. The Company and its franchisees compete with other national and regional pizza chains, independent pizza restaurants, and other restaurants which serve moderately priced foods. The Company believes that Pizza Inn units compete primarily on the basis of the quality, value and price of their food, the consistency and level of service, and the location and attractiveness of their restaurant facilities.

Because of the importance of brand awareness, the Company has increased its emphasis on market penetration and cooperative advertising by franchisees.

The Company's Norco division competes with both national and local distributors of food, equipment and other restaurant supplies. The distribution industry is very competitive. The Company believes that the principal competitive factors in the distribution industry are quality, service and price. Norco is the sole authorized supplier of certain proprietary products which are required to be used by all Pizza Inn units.

In the sale of franchises, the Company competes with franchisors of other restaurant concepts and franchisors of a variety of other products and services. The Company believes that the principal competitive factors affecting the sale of franchises are product quality and value, consumer acceptance, franchisor experience and support, and the relationship maintained between the franchisor and its franchisees.

SEASONALITY

Historically, sales at Pizza Inn restaurants have been somewhat higher during the warmer months and somewhat lower during the colder months of the year. The Company believes that the increasing popularity of delivery service and expansion into the high impulse buying market of Express units should lessen the seasonal impact on future chainwide sales.

ITEM 2 - PROPERTIES

The Company leases 18,000 square feet in Dallas, Texas for its corporate office and 76,700 square feet in Grand Prairie, Texas for its Norco warehouse and office facilities. The leases expire in 2003 and 2001, respectively.

On September 6, 1996, all five of the Company operated Pizza Inn restaurants (all located in Texas) were leased. The Company also owns one restaurant property which it leases to a franchisee. The Company operated units range in size from approximately 1,000 to 4,000 square feet and incur annual minimum rent between $6.80 and $20.00 per square foot. Most of the leases require payment of additional rent based upon a percentage of gross sales and require the Company to pay for repairs, insurance and real estate taxes.

ITEM 3 - LEGAL PROCEEDINGS

On September 21, 1989, the Company, Pizza Inn, Inc. (a Delaware corporation) and Memphis Pizza Inns, Inc. filed for protection under the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division. The plan of reorganization, as confirmed by the court, became effective on September 5, 1990. The court retained jurisdiction to help ensure that the plan of reorganization was carried out and to hear any disputes that arose during the five year term of the plan. In May 1996, the court issued its final order finding that the proceedings have been completed and closing the bankruptcy cases.

On September 16, 1995, the Company filed a lawsuit against Choyung International, Inc. in the Seoul District Court in Korea. In the lawsuit and related proceedings, the Company seeks an order requiring the Company's former licensee in Korea to comply with its post-termination obligations and pay all amounts owed to the Company. The former licensee is contesting the proceedings.

Certain other pending legal proceedings exist against the Company which the Company believes are not material or have arisen in the ordinary course of its business.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's fiscal year 1996.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On September 6, 1996, there were 3,256 stockholders of record of the Company's Common Stock.

The Company's Common Stock is listed on the Small-Cap Market of the National Association of Securities Dealers Automated Quotation ("NASDAQ") system under the symbol "PZZI". The following table shows the highest and lowest bid price per share of the Common Stock during each quarterly period within the two most recent fiscal years, as reported by the National Association of Securities Dealers. Such prices reflect inter-dealer quotations, without adjustment for any retail markup, markdown or commission.

Bid

	High	Low
1995		
First Quarter Ended 9/25/94	3 11/16	2 7/8
Second Quarter Ended 12/25/94	3 3/8	2 1/2
Third Quarter Ended 3/26/95	3 1/16	2 1/2
Fourth Quarter Ended 6/25/95	3 7/16	2 5/16
1996		
First Quarter Ended 9/24/95	4 1/16	3 3/16
Second Quarter Ended 12/24/95	4 1/2	3 5/8
Third Quarter Ended 3/24/96	4 7/8	3 3/4
Fourth Quarter Ended 6/30/96	5 3/16	4 1/8

Under the Company's bank loan agreement, the Company is not permitted to pay dividends or make other distributions on the Common Stock (except distributions of additional shares of stock). The Company has not paid any dividends on its Common Stock during the past two years and has no present intention of paying cash dividends in the future. Future dividend policy with respect to the Common Stock will be determined by the Board of Directors of the Company, taking into consideration factors such as the bank loan, future earnings, capital requirements and the financial condition of the Company.

ITEM 6 - SELECTED FINANCIAL DATA

The following table contains certain selected financial data for the Company for each of the last five fiscal years through June 30, 1996, and should be read in conjunction with the financial statements and schedules in Item 8 of this report.

	Year Ended						
	June 30, 1996	June 25, 1995	June 26, 1994		June 27, 1993		June 28, 1992
	(In thousands, except per share amounts)						
SELECTED INCOME STATEMENT DATA:							
Total revenues	$ 69,441	$ 62,044	$ 57,378		$ 53,468		$ 49,596
Income (loss) before income taxes and extraordinary item	5,921	4,845	3,899		2,444		(866)
Income (loss) before extraordinary item	3,908	3,198	2,573		1,406		(866)
Income (loss) before extraordinary item per common share	.28	.22	.18		.11		(.07)
Net income (loss)	3,908	3,198	2,573		2,186	(1)	(866)
Income (loss) per common share	.28	.22	.18		.17		(.07)
SELECTED BALANCE SHEET DATA:							
Total assets	24,419	25,803	27,234		26,018		27,039
Long-term debt and capital lease obligations	7,902	11,039	14,538		15,600		16,062
Redeemable Preferred Stock	-	-	-	(2)	3,371		3,262

(1) Includes an extraordinary gain of $780,000 from the utilization of operating loss carryforwards.
(2) During fiscal 1994, the Company redeemed all outstanding shares of Redeemable Preferred Stock in exchange for Common Stock and cash.

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

RESULTS OF OPERATIONS

FISCAL 1996 COMPARED TO FISCAL 1995

Net income for fiscal year ended June 30, 1996 increased 22% to $3.9 million from $3.2 million in the prior year. Earnings per share grew 27% to $.28 from $.22. Excluding the effect of a prior year non-recurring gain, net income increased 37% and earnings per share grew 40%. Pre-tax income increased 22% to $5.9 million from $4.8 million in the prior year. The Company considers pre-tax income to be the best measure of its performance due to the significant benefit of its net operating loss carryforwards. These carryforwards, which total $26.9 million at June 30, 1996, reduce the income taxes paid by the Company from the 34% rate expensed on its statements of operations to approximately 2%.

Results of operations for fiscal 1996 include fifty-three weeks versus fifty-two weeks for fiscal 1995. The effect of the additional week on current year revenues and net income was an increase of approximately 2%.

Revenues for fiscal 1996 were up 12% to $69.4 million from $62 million last year. Food and supply sales grew 14% in fiscal 1996. This was partially the result of continued growth in domestic chainwide retail sales, which grew 5%. Additional factors contributing to growth in food and supply sales were increased market share on sales of non-proprietary food ingredients and equipment, as well as increases in the market price of certain commodities.

Franchise revenue, which includes royalties, license fees and income from area development ("A.D.") sales, increased 8% or $523,000 in fiscal 1996, due to higher royalties and A.D. sales, partially offset by lower license fees. Proceeds from A. D. sales vary depending on size, demographics and current market development in the territories. The timing and amount of proceeds from A.D. sales can vary significantly from year to year. Current year A.D. sales include installments on the sale of area development rights for Arkansas, portions of Missouri, North Carolina and South Carolina, as well as the Philippines. Revenue from royalties was up due to growth in domestic retail sales and international store openings at higher effective royalty rates than existing units. The increase in revenue occurred despite the closing during the current fiscal year of all units in Korea, which paid less than $150,000 in annual royalties. License fees were down because more stores opened in area development territories.

Restaurant sales decreased $219,000 in the current year as a result of closing one of the Company operated units that was not required for training or other purposes.

Other income consists primarily of interest income and non-recurring

revenue items. Other income increased because the current year includes a lawsuit settlement and a gain on the sale of a sublease.

Cost of sales increased 11% or $5.4 million in fiscal 1996. This increase is directly related to the growth in food and supply sales to the Company's franchisees. It includes the direct cost of increased product volume, as well as proportionate increases in direct transportation and warehouse costs. As a percentage of food and supply sales, cost of sales is slightly lower during the current year due to cost improvements achieved through fleet modernization and routing efficiencies, increased labor productivity and improved buying power through volume purchasing.

Franchise expenses include selling, general and administrative expenses directly related to the sale and service of franchises and A.D. territories. These costs increased 10% or $282,000 in fiscal 1996. This increase reflects investments in additional training and field service personnel and increases in related costs of providing services to franchisees.

General and administrative expenses increased 11% in the current year. This was due to the implementation of a new computer system, which resulted in additional expenses related to hardware, software, programming and support. Expenses for the current fiscal year also include a one-time charge of $95,000 to write down assets to market value at two Company operated units.

During fiscal 1995, certain sales and property tax liabilities were settled for amounts lower than estimated in previous years. A one-time credit of $531,000 ($350,000 net of tax) reflects the adjustment of the excess tax accrual.

Interest expense decreased 32% or $417,000 during the current year. Average debt balances were 25% lower in the current year as the Company made $2.1 million in scheduled principal payments and $1.4 million in voluntary principal payments. The average interest rate was also slightly lower in the current year.

During fiscal 1996, a total of 73 new Pizza Inn franchise units were opened for business, an 11% increase over the 66 locations opened during fiscal 1995. A total of 32 units were closed by franchisees or terminated by the Company in the current year, typically because of unsatisfactory standards of operation or poor performance, compared to 33 units last year. In addition, all 39 units operated by the Company's former licensee in Korea were closed during the current year, after the Company terminated the license following extensive efforts to resolve problems by mutual agreement. In September 1996, the Company granted a new license to a Seoul, Korea-based firm to be the Company's exclusive operator and subfranchisor in Korea. The Company currently expects to open approximately 100 new franchised locations, including domestic and international units, during the next twelve months.

FISCAL 1995 COMPARED TO FISCAL 1994

Pre-tax income for the fiscal year ended June 25, 1995 increased 24% to $4.8 million from $3.9 million in the prior year. Net income for fiscal 1995 increased 24% to $3.2 million or 22 per share, from $2.6 million or 18 per share in fiscal 1994.

Food and supply sales by the Company's distribution division increased 10% or $4.9 million in fiscal 1995. This increase was fueled by growth in chainwide retail sales, which grew 7% to $222 million in fiscal 1995 versus $207 million in fiscal 1994. Increased market share on sales of non-proprietary food products and equipment and on sales to international franchisees also contributed to higher food and supply sales.

Franchise revenue, which includes royalties, license fees and income from area development ("A.D.") sales, decreased 2% or $172,000 in fiscal 1995, due to lower A.D. sales. Fiscal 1995 A.D. sales included installments on the sale of area development rights for Arkansas, portions of Missouri, as well as Cyprus and Guatemala.

Other income consists primarily of interest income and non-recurring revenue items, and varies from year to year. Other income decreased during fiscal 1995 due to the inclusion of several favorable lawsuit settlements in fiscal 1994.

Cost of sales increased 9% or $4.1 million in fiscal 1995. This growth is directly related to the growth in food and supply sales to the Company's franchisees. It includes the direct cost of products from increased volume, as well as proportionate increases in direct transportation and warehouse costs. As a percentage of food and supply sales, the distribution component of cost of sales is slightly improved for fiscal 1995 year due to improved buying power through volume purchasing.

Franchise expenses increased 13% or $324,000 in fiscal 1995. The increase reflects additional training, marketing and field service personnel, as well as expenditures for updated franchisee training materials and new prototype restaurant building plans.

General and administrative expenses decreased slightly for fiscal 1995. This was due to lower total corporate salaries, reflecting a reallocation of resources to the franchising area of the business. In addition, general and administrative expenses declined due to lower legal fees and a consolidation of management duties not directly related to field service support.

During fiscal 1995, certain sales and property tax liabilities were

settled for amounts lower than previously estimated. A one-time credit of $531,000 ($350,000 net of tax) reflects the adjustment of the excess tax accrual.

Interest expense decreased 12% or $184,000 during fiscal 1995, as the effect of higher prime and Eurodollar interest rates was offset by lower debt balances.

During fiscal 1995, a total of 66 new Pizza Inn units were opened for business, a 40% increase over the 47 locations opened during fiscal 1994. A total of 33 units were closed by franchisees or terminated by the Company in fiscal 1995, typically because of unsatisfactory standards of operation or poor performance, compared to 28 units during fiscal 1994.

FINANCIAL CONDITION

Cash and cash equivalents decreased $1 million in fiscal 1996, as cash flow from operations was used to reduce debt and purchase shares of the Company's own common stock. Current year debt payments, totaling $3.5 million and including $2.1 million in scheduled payments and $1.4 million in voluntary payments, reduced debt from $12.4 million to $8.9 million at June 30, 1996. The Company also used $3.7 million in working capital to reacquire 941,094 shares of its own common stock, including 262,094 shares acquired on favorable terms from a former lender and 679,000 shares purchased at prevailing prices on the open market.

At June 28, 1993, upon adoption of SFAS 109, the Company recorded a net deferred tax asset of $15.4 million, primarily representing the benefit of pre-reorganization net operating loss carryforwards which expire in varying amounts between 2004 and 2005. The net deferred tax asset was recorded as a reduction of intangibles to the extent available ($13.7 million), and then as an increase in additional paid-in capital ($1.7 million). At June 30, 1996, the net deferred tax asset balance was $10.7 million.

Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the deferred tax asset, net of a valuation allowance of $1.5 million related to the potential expiration of certain tax credit carryforwards. Future taxable income at the same level as fiscal 1996 would be sufficient for full realization of the net tax asset. Management believes that, based on recent growth trends and future projections, maintaining current levels of taxable income is achievable. Expansion of the Company's franchise base, through the sale of new franchises and area development territories with agreements containing minimum required development schedules, is expected to cause future growth in the Company's royalties, franchise fees and distribution sales. In addition, average unit sales for the chain have increased in each of the last five years. These factors are expected to contribute to growth in future taxable income and should be more than sufficient to enable the Company to realize its deferred tax asset without reliance on material, non-routine income.

While the Company expects to realize substantial benefit from the utilization of its net operating loss carryforwards to reduce its federal tax liability, current accounting standards dictate that this benefit can not be reflected in the Company's results of operations. Carryforwards resulting from losses incurred after the Company's reorganization in September 1990 were reflected as an extraordinary item, reducing a portion of income tax expense on the statement of operations for the first three quarters of fiscal 1993. When post-reorganization carryforwards were exhausted, the Company began utilizing its pre-reorganization carryforwards, which currently total $26.9 million and require a different accounting treatment.

In accordance with SFAS 109, these carryforwards are reflected as a reduction of the deferred tax asset rather than a reduction of income tax expense. Beginning in the last quarter of fiscal 1993, this has caused the Company to reflect an amount for federal income tax expense at the corporate rate of 34% on its statement of operations that is significantly different from the alternative minimum tax that it actually pays (approximately 2% of taxable income).

Historically, the differences between pre-tax earnings for financial reporting purposes and taxable income for tax purposes have consisted of temporary differences arising from the timing of depreciation, deductions for accrued expenses and deferred revenues, as well as permanent differences as a result of goodwill amortization deducted for financial reporting purposes but not for income tax purposes.

Under the Internal Revenue Code, the utilization of net operating loss and credit carryforwards could be limited if certain changes in ownership of the Company's Common Stock were to occur. The Company's Articles of Incorporation contain certain restrictions which are intended to reduce the likelihood that such changes in ownership would occur.

The following summarizes, as of June 30, 1996, the annual amounts of net operating loss carryforwards for income tax purposes that expire by year:

Net Operating Loss Carryforwards (In Thousands)	Expires in Year
$2,300	2004
24,600	2005

$26,900
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LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled $6.2 million in fiscal 1996 and was used primarily to service debt, to acquire the Company's common stock, and to fund capital expenditures.

The Company reduced its term loan balance from $12.4 million at June 25, 1995 to $8.9 million at June 30, 1996. On June 30, 1995, the Company purchased 262,094 shares of its own common stock from a former lender for $596,285. Since September 1995, the Company has also purchased 679,000 shares of its own common stock on the open market at a total cost of $3.1 million. All of the reacquired shares will be held as treasury stock until retired. Capital expenditures included remodels for several of the Company operated restaurants and purchase of new point-of-sale cash register systems for two of these locations. They also included costs related to installing and customizing the new computer system purchased in the prior fiscal year, and updates to the freezer facilities at the Company's distribution warehouse. The Company, in continuing to update its transportation fleet, entered into leases for eight new trailers during fiscal 1996, while retiring eight older trailers.

The Company's future requirements for cash relate primarily to debt service, the periodic purchase of its own common stock and capital expenditures. Under the term loan agreement, the Company is required to make principal payments of $2 million during the fiscal year ending June 29, 1997, and plans to make periodic voluntary pre-payments from current year cash flow. The Company considers its common stock to be currently undervalued, and plans to continue purchasing its own shares on the open market to the extent that current prices prevail. Anticipated capital expenditures include warehouse and information system updates at the distribution division as well as capital improvements at several training stores. The Company expects to enter into leases for five new trailers in the next year as it continues to update the fleet.

The Company's primary sources of cash are royalties, license fees and area development sales, as well as sales from the distribution division. Existing area development agreements contain development commitments that should result in future chainwide growth. Related growth in royalties and distribution sales are expected to provide adequate working capital to supply the needs described above. The signing of any new area development agreements, which cannot be predicted with certainty, would also provide significant infusions of cash.

ECONOMIC FACTORS

The costs of operations, including labor, supplies, utilities, financing and rental costs, to the Company and its franchisees, are significantly affected by inflation and other economic factors. Increases in any such costs would result in higher costs to the Company and its franchisees, which may be partially offset by price increases and increased efficiencies in operations. The Company's revenues are also affected by local economic trends in Texas and other markets where units are concentrated. The Company intends to pursue franchise development in new markets in the United States and other countries, which would mitigate the impact of local economic factors.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" contains certain projections and other forward-looking statements that are not historical facts and are subject to various risks and uncertainties, 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.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and Shareholders of Pizza Inn, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Pizza Inn, Inc. (the "Company") and its subsidiaries at June 30, 1996 and June 25, 1995, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Dallas, Texas
August 19, 1996

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

	Year Ended		
	June 30, 1996	June 25, 1995	June 26, 1994
REVENUES:			
Food and supply sales	$ 58,823	$ 51,820	$ 46,922
Franchise revenue	7,412	6,889	7,061
Restaurant sales	2,934	3,153	3,044
Other income	272	182	351
	69,441	62,044	57,378
COSTS AND EXPENSES:			
Cost of sales	54,273	48,881	44,733
Franchise expenses	3,019	2,737	2,413
General and administrative expenses	5,353	4,820	4,857
Non-recurring gain	-	(531)	-
Interest expense	875	1,292	1,476
	63,520	57,199	53,479
INCOME BEFORE INCOME TAXES	5,921	4,845	3,899
Provision for income taxes	2,013	1,647	1,326
NET INCOME	$ 3,908	$ 3,198	$ 2,573
NET INCOME PER COMMON SHARE	$ 0.28	$ 0.22	$ 0.18

See accompanying Notes to Consolidated Financial Statements

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

	June 30, 1996	June 25, 1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 653	$ 1,672
Restricted cash and short-term investments, (including $230 pledged as collateral for certain letters of credit)	360	353
Notes and accounts receivable, less allowance for doubtful accounts of $900 and $1,119, respectively	6,652	5,109
Inventories	1,919	1,590
Prepaid expenses and other assets	466	590
Net assets held for sale	70	243
Total current assets	10,120	9,557
PROPERTY, PLANT AND EQUIPMENTS, at cost, less accumulated depreciation	1,866	1,722
PROPERTY UNDER CAPITAL LEASES, net	1,107	747
DEFERRED TAXES, net	10,687	12,582
OTHER ASSETS		
Long-term notes and accounts receivable, less allowance for doubtful accounts of $63 and $199, respectively	149	690
Deposits and other	490	505
	$ 24,419	$ 25,803

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Current portion of long-term debt	$ 2,000	$ 1,995
Current portion of capital lease obligations	109	71
Accounts payable - trade	2,331	1,184
Accrued expenses	3,158	2,808
Total current liabilities	7,598	6,058
LONG-TERM LIABILITIES		
Long-term debt	6,910	10,393
Long-term capital lease obligations	992	646
Other long-term liabilities	813	1,304
COMMITMENTS AND CONTINGENCIES (See Note J)		
SHAREHOLDERS' EQUITY		
Common Stock, $.01 par value; 26,000,000 shares authorized; outstanding 12,876,801 and 13,526,970 shares, respectively (after deducting shares in treasury: 1996 - 1,360,567; 1995 - 418,898)	129	135
Additional paid-in capital	3,684	3,974
Retained earnings	4,293	3,293
Total shareholders' equity	8,106	7,402
	$ 24,419	$ 25,803

See accompanying Notes to Consolidated Financial Statements

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
BALANCE, JUNE 27, 1993	-	-	12,740	$ 127	$ (35)	$ (2,317)	$(2,225)
Prospective adoption of SFAS 109	-	-	-	-	1,736	-	1,736
Exchange of Common Stock for Preferred Stock	-	-	662	7	1,649	-	1,656
Reclassification of Preferred Stock from debt to equity pursuant to the Option Agreement	1,715	$ 1,715	-	-	-	-	1,715
Redemption of Preferred Stock	(1,715)	(1,715)	-	-	1,144	-	(571)
Stock issued to former unsecured creditors in exchange for rights to excess cash flow	-	-	273	3	(3)	-	-
Stock compensation expense	-	-	-	-	32	-	32
Stock options exercised	-	-	157	1	226	-	227
Unissued management shares and other	-	-	(25)	-	-	-	-
Net income	-	-	-	-	-	2,573	2,573
BALANCE, JUNE 26, 1994	-	-	13,807	138	4,749	256	5,143
Stock options exercised	-	-	121	1	177	-	178
Management shares issued	-	-	18	-	49	-	49
Purchase of treasury stock	-	-	(419)	(4)	(1,001)	(161)	(1,166)
Net income	-	-	-	-	-	3,198	3,198
BALANCE, JUNE 25, 1995	-	-	13,527	135	3,974	3,293	7,402
Stock options exercised	-	-	291	3	491	-	494
Purchases of treasury stock	-	-	(941)	(9)	(781)	(2,908)	(3,698)
Net income	-	-	-	-	-	3,908	3,908
BALANCE, JUNE 30, 1996	-	-	12,877	$ 129	$ 3,684	$ 4,293	$ 8,106

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended		
	June 30, 1996	June 25, 1995	June 26, 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,908	$ 3,198	$ 2,573
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	595	500	493
Provision for doubtful accounts and notes	-	-	8
Utilization of pre-reorganization net operating loss carryforwards	1,895	1,550	1,248
Non-recurring gain	-	(531)	-
Changes in assets and liabilities:			
Restricted cash and other short-term investments	(7)	(64)	74
Notes and accounts receivable	(1,002)	(495)	(314)
Inventories	(329)	196	36
Prepaid expenses and other	124	44	18
Accounts payable - trade	1,147	(333)	36
Accrued expenses	(83)	(238)	(925)
Deferred franchise revenue	(100)	(901)	(101)
Other	71	(169)	(443)
Cash provided by operating activities	6,219	2,757	2,703
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(639)	(955)	(749)
Proceeds from sales of assets	84	420	152
Cash used for investing activities	(555)	(535)	(597)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of debt	(3,479)	(2,487)	(1,310)
Redemption of preferred stock	-	-	(571)
Proceeds from exercise of stock options	494	179	227
Purchases of treasury stock	(3,698)	(1,166)	-
Cash used for financing activities	(6,683)	(3,474)	(1,654)
Net increase (decrease) in cash and cash equivalents	(1,019)	(1,252)	452
Cash and cash equivalents, beginning of period	1,672	2,924	2,472
Cash and cash equivalents, end of period	$ 653	$ 1,672	$ 2,924

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Year Ended		
	June 30, 1996	June 25, 1995	June 26, 1994
CASH PAYMENTS FOR:			
Interest	$ 880	$ 1,320	$ 1,474
Income taxes	110	60	111
NONCASH FINANCING AND INVESTING ACTIVITIES:			
Notes received upon sale of assets and area development territories	-	511	45
Capital lease obligations incurred	477	659	-

See accompanying Notes to Consolidated Financial Statements

PIZZA INN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF BUSINESS:

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

On June 30, 1996 the Pizza Inn system consisted of 469 locations, including five Company operated units and 464 franchised units. They are currently franchised in 19 states and 18 foreign countries. Domestic units are located predominantly in the southern half of the United States, with Texas, North Carolina and Arkansas accounting for approximately 32%, 14%, and 11%, respectively, of the total. Norco Manufacturing and Distributing Company ("Norco"), a division of the Company, distributes food products, equipment, and other supplies to units in the United States and, to the extent feasible, in other countries.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. 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.

RESTRICTED CASH AND OTHER SHORT-TERM INVESTMENTS:

PIBCO, Ltd., a wholly owned insurance subsidiary of the Company, in the normal course of operations, arranged for the issuance of letters of credit to reinsurers to secure unearned premium and loss reserves. At June 30, 1996 and June 25, 1995, time deposits and short-term investments in the amount of $230,000 were pledged as collateral for these letters of credit. Unearned premium and loss reserves for approximately the same amount have been recorded by PIBCO, Ltd. and are reflected as current liabilities in the Company's financial statements.

INVENTORIES:

Inventories, which consist primarily of food, paper products, supplies and equipment located at the Company's distribution center, are stated at the lower of FIFO (first-in, first-out) cost or market.

NET ASSETS HELD FOR SALE:

Net assets held for sale include restaurants and vacant properties that will be sold or franchised by the Company. These assets are recorded at expected net realizable value and classified as current assets. Subsequent changes in the balance reflect depreciation, sales and related gains or losses, and changes in market value. At June 30, 1996 and June 25, 1995, one property and three properties, respectively, were classified as net assets held for sale.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, including property under capital leases, is stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the useful lives of the assets or, in the case of leasehold improvements, over the term of the lease, if shorter. The useful lives of the assets range from seven to eight years.

NOTES RECEIVABLE:

Notes receivable primarily consist of notes from franchisees for the purchase of Company restaurants and area development territories. As of June 30, 1996 and June 25, 1995, net notes receivable totaled $926,284, and $1,143,928, respectively. The carrying amount of notes receivable currently approximates fair value.

INCOME TAXES:

Effective June 28, 1993, the Company, as required by current accounting standards, prospectively adopted SFAS 109 which requires a change from the deferred method of accounting for income taxes to the liability method. Under SFAS 109, deferred tax assets and liabilities result from differences between the financial statement carrying amounts of existing assets and liabilities compared to their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are projected to be recovered.

TREASURY STOCK:

The excess of the cost of shares acquired for the treasury over par value is allocated to additional paid-in capital based on the per share amount of additional capital for all shares in the same issue, with any difference charged to retained earnings.

DISTRIBUTION DIVISION OPERATIONS:

The Company's distribution division ("Norco") sells food, supplies and equipment to franchisees on trade accounts under terms common in the industry. Revenue from such sales is recognized upon shipment. Norco sales are reflected under the caption "food and supply sales."

FRANCHISE REVENUE:

Franchise revenue consists of income from license fees, royalties and area development fees. License fees are recognized as income when there has been

substantial performance of the agreement by both the franchisee and the Company, generally at the time the unit is opened. Royalties are recognized as income when earned. For the years ended June 30, 1996, June 25, 1995, and June 26, 1994, 75%, 79%, and 77%, respectively, of franchise revenue was comprised of recurring royalties.

An area development fee is the fee paid by selected experienced restaurant operators to the Company for the right to develop Pizza Inn restaurants in a specific geographical territory. When the Company has no continuing substantive obligations of performance to the area developer regarding the area development fee, the Company recognizes the fee to the extent of cash received. If continuing obligations exist, fees are recognized ratably during the performance of those obligations. Area development fees recognized as income for years ended June 30, 1996, June 25, 1995, and June 26, 1994 were $1,630,000, $1,054,000 and $1,200,000, respectively.

NON-RECURRING GAIN:

During the year ended June 25, 1995, the Company settled certain sales and property tax liabilities for amounts lower than previously estimated. The excess tax accruals, which had been classified as other long-term liabilities, were reversed and recorded as a non-recurring gain in the statement of operations.

NET INCOME PER COMMON SHARE:

Net income per common share is computed based on the weighted average number of common and equivalent shares outstanding during each period. Common stock equivalents include shares issuable upon exercise of the Company's stock options. For the years ended June 30, 1996, June 25, 1995, and June 26, 1994, the weighted average number of shares considered to be outstanding were 14,007,380 and 14,234,431 and 14,051,548, respectively. Fully diluted earnings per share is not presented because the effect of considering any potentially dilutive securities is immaterial.

STOCK-BASED COMPENSATION:

In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" ("SFAS No. 123") was issued. This statement requires the fair value of stock options and other stock-based compensation issued to employees to either be included as compensation expense in the income statement or the pro-forma effect on net income and earnings per share of such compensation expense to be disclosed in the footnotes to the Company's financial statements beginning in fiscal year 1997. The Company expects to adopt SFAS No. 123 on a disclosure basis only. As such, implementation of SFAS No. 123 is not expected to impact the Company's consolidated balance sheet or results of operations.

DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company values financial instruments as required by Statement of Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments". The carrying amounts of current assets and current liabilities approximate fair value.

USE OF MANAGEMENT ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FISCAL YEAR:

The Company's fiscal year ends on the last Sunday in June. Fiscal year ended June 30, 1996 contained 53 weeks, and fiscal years ended June 25, 1995 and June 26, 1994 each contained 52 weeks.

NOTE B - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment and property under capital leases consist of the following (in thousands):

	June 30, 1996	June 25, 1995
Property, plant and equipment:		
Equipment, furniture and fixtures	$ 3,337	$ 2,903
Leasehold improvements	992	989
	4,329	3,892
Less: accumulated depreciation	(2,463)	(2,170)
	$ 1,866	$ 1,722
Property under capital leases:		

Real Estate	$ 118	$ 118
Equipment	1,396	918
	1,514	1,036
Less: accumulated amortization	(407)	(289)
	$ 1,107	$ 747

During the year ended June 30, 1996, the Company leased eight new refrigerated trailers for its distribution fleet and retired eight older trailers.

Depreciation and amortization expense was $595,000, $508,000 and $425,000 for the years ended June 30, 1996, June 25, 1995, and June 26, 1994, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	June 30, 1996	June 25, 1995
Compensation	$ 1,295	$ 1,129
Taxes other than income	222	154
Insurance loss reserves	239	293
Interest	11	74
Deferred franchise revenue	772	339
Other	619	819
	$ 3,158	$ 2,808

NOTE D - LONG-TERM DEBT:

The following table summarizes the components of long-term debt (in thousands):

	June 30, 1996	June 25, 1995
Note payable under a term loan facility	$ 8,910	$ 12,388
Note payable under a revolving line of credit	-	-
	$ 8,910	$ 12,388
Less current portion	(2,000)	(1,995)
	$ 6,910	$ 10,393

In December 1994, the Company entered into a loan agreement (the "Loan Agreement") with two banks, in which the Company refinanced its existing indebtedness of $14 million under a term loan facility which matures in November 1998. The Loan Agreement also provides for a $1 million revolving credit line, which is renewable in November 1997.

Interest on both the term loan and the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime plus an interest rate margin from 0.5% to 1.25% or, at the Company's option, at the Eurodollar rate plus 1.25% to 2.25%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. As of June 30, 1996, the Company's effective interest rate was 7.24% (with a Eurodollar rate basis).

Principal payments on the term loan are payable quarterly, with a balloon payment due at the end of the term.

The Loan Agreement contains covenants which, among other things, require the Company to satisfy certain financial ratios and restrict additional debt and payment of dividends. As of June 30, 1996, the Company was in compliance with all of its debt covenants.

The aggregate amount of all advances outstanding under the revolving credit line is subject to limitation under a borrowing base, which is defined by certain calculations of eligible inventory and accounts receivable. As of June 30, 1996, there were no advances outstanding under the revolving credit line.

The above indebtedness is secured by essentially all of the Company's assets.

Maturities of debt for each of the next five fiscal years are as follows:

1997	$2,000,000
1998	$2,000,000
1999	$4,910,000
2000	$0
2001	$0

NOTE E - REDEEMABLE PREFERRED STOCK:

The previous bank loan agreement allowed for the issuance of up to $5 million of redeemable preferred stock ("Redeemable Preferred Stock"), under certain circumstances, in lieu of interest payments on the term loan. A total of 3,370,570 shares were issued under this provision during fiscal years 1991 through 1993. During the year ended June 27, 1993, the Company issued 108,873 shares of Redeemable Preferred Stock in lieu of interest payments.

In September 1993, the Company redeemed 1,655,235 shares of its Redeemable Preferred Stock through the exchange of 662,094 shares of its Common Stock under the terms of an agreement with its former lender. In June 1994, the Company redeemed the remaining 1,715,335 preferred shares for $571,000 in cash paid to its former lender. In April and June 1995, the Company bought back all of the 662,094 common shares previously issued (see Note L).

Dividends were paid on outstanding shares of Redeemable Preferred Stock at an annual rate of 10%. Accrued dividends were charged to interest expense. Dividends accrued during the year ended June 26, 1994 were $179,010. The Company paid remaining accrued, unpaid dividends concurrently with the redemption of the 1,715,335 shares of preferred stock in June 1994.

NOTE F - INCOME TAXES:

As discussed in Note A, the Company adopted SFAS 109, "Accounting for Income Taxes", effective June 28, 1993, which changed its method of accounting for income taxes from the deferred method to the liability method. The cumulative effect of adoption of SFAS 109 was a balance sheet benefit of $15.4 million. At June 30, 1996, the deferred tax asset balance was $10.7 million.

Income tax expense for the three years ended June 30, 1996, June 25, 1995, and June 26, 1994 is computed by applying the applicable U.S. corporate income tax rate of 34% to net income before income taxes.

Income tax expense consists of the following (in thousands):

	June 30, 1996	June 25, 1995	June 26, 1994
Federal:			
Current	$ 118	$ 97	$ 78
Deferred	1,895	1,550	1,248
Provision for income taxes	$ 2,013	$ 1,647	$ 1,326

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

	June 30, 1996	June 25, 1995	June 26, 1994
Reserve for bad debt	$ 368	$ 457	$ 480
Depreciable assets	378	343	275
PIBCO reserves	113	121	169
Deferred fees	261	293	425
Other reserves	(6)	(37)	149
NOL carryforwards	9,130	11,076	12,133
Credit carryforwards	1,820	1,706	1,671
Gross deferred tax asset	$ 12,064	$ 13,959	$ 15,302
Valuation allowance	(1,377)	(1,377)	(1,170)
Net deferred tax asset	$ 10,687	$ 12,582	$ 14,132

As of June 30, 1996, the Company had $26.9 million of net operating loss carryforwards that expire between 2004 and 2005. The Company also had $1.5 million of general business credit carryforwards expiring between 1998 and 2001 and $320,000 of minimum tax credits that can be carried forward indefinitely. The valuation allowance was established upon adoption of SFAS

109, since it is more likely than not that a portion of certain of the general business credit carryforwards will expire before they can be utilized.

Under the Internal Revenue Code, the utilization of net operating loss and credit carryforwards could be limited if certain changes in ownership of the Company's Common Stock were to occur. The Company's Articles of Incorporation contain certain restrictions which are intended to reduce the likelihood that such changes in ownership would occur.

NOTE G - LEASES:

All of the real property occupied by the Company operated restaurants is leased for initial terms ranging from five to 25 years with renewal options ranging from five to 15 years. Most of the lease agreements contain either provisions requiring additional rent if sales exceed specified amounts, or escalation clauses based on changes in the Consumer Price Index.

The Company leases 18,000 square feet in Dallas, Texas for its corporate office and 76,700 square feet in Grand Prairie, Texas for its Norco warehouse and office facilities. The leases expire in 2003 and 2001, respectively.

The Company's distribution division currently leases a significant portion of its transportation equipment under leases with terms from five to seven years. Some of the leases include fair market value purchase options at the end of the term.

Future minimum rental payments under non-cancelable leases with initial or remaining terms of one year or more at June 30, 1996 are as follows (in thousands):

	Capital Leases	Operating Leases
1997	$ 188	$ 938
1998	193	615
1999	193	534
2000	193	522
2001	193	391
Thereafter	538	548
	$ 1,498	$ 3,548
Less amount representing interest	(397)	
Present value of total obligations under capital leases	1,101	
Less current portion	(109)	
Long-term capital lease obligations	$ 992	

Rental expense consisted of the following (in thousands):

	Year Ended June 30, 1996	Year Ended June 25, 1995	Year Ended June 26, 1994
Minimum rentals	$ 1,068	$ 1,053	$ 823
Contingent rentals	11	8	16
Sublease rentals	(127)	(166)	(170)
	$ 952	$ 895	$ 669

NOTE H - EMPLOYEE BENEFITS:

The Company has a tax advantaged savings plan which is designed to meet the requirements of Section 401(k) of the Internal Revenue Code. The current plan is a modified continuation of a similar savings plan established by the Company in 1985. Employees who have completed one year of service and are at least 21 years of age are eligible to participate in the plan. The plan provides that participating employees may elect to have between 1% and 15% of their compensation deferred and contributed to the plan. Effective January 1, 1993, the Company contributes on behalf of each participating employee an amount equal to 50% of the first 3% and 25% of next 3% of the employee's contribution. Separate accounts are maintained with respect to contributions made on behalf of each participating employee. The plan is subject to the provisions of the Employee Retirement Income Security Act and is a profit sharing plan as defined in Section 401 of the Code. The Company is the administrator of the plan. Employees may direct investment of all

contributions to a variety of funds or to purchase shares of Common Stock of the Company.

For the years ended June 30, 1996, June 25, 1995, and June 26, 1994, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were $60,394, $56,738, and $52,054, respectively.

NOTE I - STOCK OPTIONS:

On September 1, 1992, the Company adopted the 1992 Stock Award Plan (the "1992 Plan"). All officers, employees and elected outside directors are eligible to participate. The Company's 1992 Plan is a combined nonqualified stock option and stock appreciation rights arrangement. A total of two million shares of Pizza Inn, Inc. Common Stock were originally authorized to be awarded under the 1992 Plan. A total of 973,073 options were actually granted under the 1992 Plan through December 1993. In January 1994, the 1993 Stock Award Plan ("the 1993 Plan") was approved by the Company's shareholders with a plan effective date of October 13, 1993. Officers and employees of the Company are eligible to receive stock options under the 1993 Plan. Options are granted at market value of the stock on the date of grant, are subject to various vesting and exercise periods, and may be designated as incentive options (permitting the participant to defer resulting federal income taxes). A total of two million shares of Common Stock are authorized to be issued under the 1993 Plan.

The 1993 Outside Directors Stock Award Plan (the "1993 Directors Plan") was also adopted by the Company effective as of October 13, 1993. Directors who are not employed by the Company are eligible to receive stock options under the 1993 Directors Plan. Options are granted, up to 20,000 shares per year, to each outside director who purchased a matching number of shares of Common Stock of the Company during the preceding year. Options are granted at market value of the stock on the first day of the fiscal year, which is also the date of grant, and are subject to various vesting and exercise periods. A total of 200,000 shares of Company Common Stock are authorized to be issued pursuant to the 1993 Directors Plan.

During the year ended June 25, 1995, the Company canceled certain employee options and granted replacement options at the then current market value of the stock. In December 1994 and June 1995, 781,500 and 1,446,500 of these options, respectively, were canceled and an equal number were granted. These transactions are reflected in shares Granted and in shares Canceled in the schedule below.

During the year ended June 30, 1996, 781,333 new options were granted and 62,500 options were canceled. A total of 291,500 options were exercised during fiscal year 1996.

	Shares	Option Prices
Outstanding at June 28, 1992	-	
Granted	926,750	$ 1.13 - $2.25
Exercised	-	
Canceled	(24,500)	$ 2.25
Outstanding at June 27, 1993	902,250	$1.13 - $2.25
Granted	865,323	$ 1.75 - $3.94
Exercised	(156,667)	$ 1.13 - $2.25
Canceled	(47,333)	$ 2.25 - $3.88
Outstanding at June 26, 1994	1,563,573	$ 1.13 - $3.94
Granted	3,053,500	$ 2.50 - $3.25
Exercised	(121,000)	$ 1.75 - $2.25
Canceled	(2,315,000)	$ 2.25 - $3.88
Outstanding at June 25, 1995	2,181,073	$1.13 - $3.94
Granted	781,333	$ 2.69 - $4.13
Exercised	(291,500)	$ 1.13 - $3.25
Canceled	(62,500)	$ 2.25 - $2.50
Outstanding at June 30, 1996	2,608,406	$ 1.13 - $4.13

NOTE J - COMMITMENTS AND CONTINGENCIES:

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

NOTE K - RELATED PARTIES:

One of the individuals nominated by the Company and elected to serve on its Board of Directors is a franchisee. This franchisee currently operates a total of 22 restaurants located in Arkansas, Texas and Missouri. Purchases by this franchisee made up 8% of the Company's food and supply sales in fiscal 1996. Royalties, license fees and A.D. sales from this franchisee made up 6% of the Company's franchise revenues in fiscal 1996. As franchised units, his restaurants pay royalties to the Company and purchase a majority of their food and supplies from the Company's distribution division.

On September 24, 1990, this franchisee entered into an agreement with the Company to purchase seven Pizza Inn restaurants for a price of $1,308,000. Of this amount, $250,000 was paid in cash and the remainder in the form of promissory notes with an interest rate of prime plus 2% and a maturity of July 1995. At June 30, 1996, these notes had been paid in full.

Also in December 1992, this franchisee purchased area development rights for Arkansas and certain areas in Missouri. The total price was $1,250,000, of which $800,000 was paid in cash and $450,000 in the form of a promissory note with an interest rate of 8% and a maturity date of July 1998. At June 30, 1996, this note had been paid in full.

The Company believes the above transactions were at the same prices and on the same terms available to non-related third parties.

NOTE L - TREASURY STOCK:

In January 1995, the Company implemented an odd lot buy-back program, in which the Company offered to purchase its Common Stock for $3.50 per share from shareholders who owned less than 100 shares. The program was implemented in order to reduce future administrative costs related to small shareholder accounts. The program, which was completed in March 1995, resulted in the purchase of 18,898 shares from 675 shareholders, at a total cost of $66,143.

On April 28, 1995, the Company signed an agreement to purchase 662,094 shares of its Common Stock held by a former lender. Under the terms of the agreement, the Company paid $1,100,000 to purchase 400,000 of the shares on April 28, 1995. The Company had the option to purchase the remaining 262,094 shares for a price of $596,285 on or before June 30, 1995, or for a price of $720,758 between July 1 and September 30, 1995. On June 30, 1995, the Company exercised its option to purchase the remaining 262,094 shares for a price of $596,285. These common shares had been issued to the former lender in September 1993, in exchange for 1,655,235 shares of the Company's redeemable preferred stock. The redeemable preferred stock had been issued during the period of September 1990 through August 1992, in lieu of $1,655,235 in interest payments on the Company's term loan.

For the period of September 1995 through June 1996, the Company purchased 679,000 shares of its own Common Stock from time to time on the open market at a total cost of $3.1 million.

The purchases of common shares described above were funded from working capital, and reduced the Company's outstanding shares by approximately 10%. The Company plans to retire the shares at the earliest opportunity.

NOTE M - SUBSEQUENT EVENT (UNAUDITED):

In July 1996, in order to further reduce future administrative costs related to small shareholder accounts, the Company implemented another odd lot buy-back program to purchase Common Stock for $5.25 per share from shareholders who own less than 100 shares. As of September 17, 1996 a total of 8,149 shares had been purchased by the Company under this program.

NOTE N - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

The following summarizes the unaudited quarterly results of operations for the fiscal years ended June 30, 1996 and June 25, 1995 (in thousands, except per share amounts):

	Quarter Ended			
	September 24, 1995	December 24, 1995	March 24, 1996	June 30, 1996
FISCAL YEAR 1996				
Revenues	$ 16,152	$ 16,894	$ 16,557	$ 19,838
Net Income	793	975	920	1,220

Primary earnings per share on net income	0.06	0.07	0.07	0.09

	Quarter Ended			
	September 25, 1994	December 25, 1994	March 26, 1995	June 25, 1995
FISCAL YEAR 1995				
Revenues	$ 15,583	$ 15,169	$ 15,243	$ 16,049
Net Income	540	1,037	723	898
Primary earnings per share on net income	0.04	0.07	0.05	0.06

SCHEDULE II

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

		Additions			
	Balance at beginning of period	Charged to cost and expense	Charged to other accounts	Deductions (1)	Balance at end of period
YEAR ENDED JUNE 30, 1996					
Allowance for doubtful accounts and notes	$ 1,318	$ -	$ -	$ 355	$ 963
YEAR ENDED JUNE 25, 1995					
Allowance for doubtful accounts and notes	1,386	-	-	68	$ 1,318
YEAR ENDED JUNE 26, 1994					
Allowance for doubtful accounts and notes	2,416	8	-	1,038	$ 1,386

(1) Write-off of receivables, net of recoveries.

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

There are no events to report under this item.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's annual meeting of shareholders to be held in December 1996 (the "Proxy Statement"), and is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

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

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON 10-K

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

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

3. Exhibits:

3.1 Restated Articles of Incorporation as filed on September 5, 1990 and amended on February 16,1993 (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1993 and incorporated herein by reference).

3.2 Amended and Restated By-Laws as adopted by the Board of Directors on July 30, 1993 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1993 and incorporated herein by reference).

4.1 Provisions regarding Common Stock in Article IV of the Restated Articles of Incorporation, as amended (filed as Exhibit 3.1 to this Report and incorporated herein by reference).

4.2 Provisions regarding Redeemable Preferred Stock in Article V of the Restated Articles of Incorporation, as amended (filed as Exhibit 3.1 to this Report and incorporated herein by reference).

10.1 Loan Agreement among the Company, First Interstate Bank of Texas, N.A. and The Provident Bank dated December 1, 1994, and the forms of the Term Notes, Revolving Credit Notes and the Security Agreement thereunder (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 25, 1994 and incorporated herein by reference).

10.2 First Amendment to the Loan Agreement among the Company, First Interstate Bank of Texas, N.A. and The Provident Bank dated April 28, 1995 (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended June 25, 1995 and incorporated herein by reference).

10.3 Second Amendment to the Loan Agreement among the Company, First Interstate Bank of Texas, N.A., and First Interstate Bank of Texas, N.A. as agent, dated November 30, 1995, and the forms of the Amended and Restated Term Note and the Amended and Restated Revolving Credit Note thereunder (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 24, 1995 and incorporated herein by reference).

10.4 Third Amendment to Loan Agreement between the Company and Wells Fargo Bank (Texas), National Association, formerly named First Interstate Bank of Texas, N.A. dated June 28, 1996.

10.5 Stock Purchase Agreement between the Company and Kleinwort Benson Limited dated April 28, 1995 (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 1995 and incorporated herein by reference).

10.6 Redemption Agreement between the Company and Kleinwort Benson Limited dated June 24, 1994 (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).

10.7 Employment Agreement between the Company and C. Jeffrey Rogers dated July 1, 1994 (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).*

10.8 Form of Executive Compensation Agreement between the Company and certain executive officers (filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).*

10.9 1993 Stock Award Plan of the Company (filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).*

10.10 1993 Outside Directors Stock Award Plan of the Company (filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).*

10.11 1992 Stock Award Plan of the Company (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1993 and incorporated herein by reference).*

11.0 Computation of Net Income Per Share.

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

23.0 Consent of Independent Accountants.

* Denotes a management contract or compensatory plan or arrangement filed pursuant to Item 14 (c) of this report.

(b) No reports were filed on Form 8-K during the fourth quarter of the Company's fiscal year 1996.

SIGNATURES

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

Date: September 27, 1996

By: /s/ Amy E. Manning

Amy E. Manning
Controller and Treasurer
(Principal Accounting Officer)

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

NAME AND POSITION	DATE
/s/Steve A. Ungerman Steve A. Ungerman Director and Chairman of the Board	September 27, 1996
/s/C. Jeffrey Rogers C. Jeffrey Rogers Director, Vice Chairman, President and Chief Executive Officer (Principal Executive Officer)	September 27, 1996
/s/Don G. Navarro Don G. Navarro Director	September 27, 1996
/s/Ramon D. Phillips Ramon D. Phillips Director	September 27, 1996
/s/F. Jay Taylor F. Jay Taylor Director	September 27, 1996
/s/Bobby L. Clairday Bobby L. Clairday Director	September 27, 1996
/s/Ronald W. Parker Ronald W. Parker Director, Executive Vice President and Chief Operating Officer (Principal Financial Officer)	September 27, 1996

EXHIBIT 10.4

THIRD AMENDMENT TO LOAN AGREEMENT

THIS THIRD AMENDMENT TO LOAN AGREEMENT (hereinafter called this "Amendment") is entered into as of June 28,1996, between Pizza Inn, Inc., a Missouri corporation (the "Borrower") and Wells Fargo Bank (Texas), National Association, formerly First Interstate Bank of Texas, N.A. (the "Bank").

W I T N E S S E T H:

WHEREAS, the Borrower, The Provident Bank ("Provident") and First Interstate Bank of Texas, N.A. ("First Interstate"), for itself as a "Bank", and as agent for itself and Provident, entered into a Loan Agreement dated as of December 1, 1994 (hereinafter called the "Original Agreement"), whereby, upon the terms and conditions therein stated, the Bank agreed to make available to the Borrower a credit facility upon the terms and conditions set forth in the Agreement; and

WHEREAS, the Borrower, Provident and First Interstate, for itself as a "Bank", and as Agent for itself and Provident, entered into a First Amendment to Loan Agreement, dated as of April 28, 1995 (the "First Amendment"); and

WHEREAS, Provident has transferred and assigned all of its right, title and interest in and to the Agreement to First Interstate, such that First Interstate is the sole remaining "Bank" as defined in the Agreement; and

WHEREAS, the Borrower and First Interstate, for itself as a "Bank", and as Agent for itself and any other Banks, entered into a Second Amendment to Loan Agreement, dated as of November 30, 1995 (the "Second Amendment") (the Original Agreement, as amended by the First Amendment and the Second Amendment is hereinafter referred to as the "Agreement"); and

WHEREAS, the Borrower and the Bank have agreed to certain amendments to the Agreement;

WHEREAS, pursuant to the Agreement, Barko Realty, Inc., R-Check, Inc. and Pizza Inn of Delaware, Inc. (collectively, the "Guarantors"), executed that certain Guaranty Agreement dated as of December 1, 1994, pursuant to which the Guarantors guaranteed the payment and performance of the "Obligations", as defined in the Agreement;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, the parties to this Amendment hereby agree as follows:

SECTION 1. Terms Defined in Agreement. As used in this Amendment, except as may otherwise be provided herein, all capitalized terms which are defined in the Agreement shall have the same meaning herein as therein, all of such terms and their definitions being incorporated herein by reference.

SECTION 2. Amendments to Agreement. Subject to the conditions precedent set forth in Section 3 hereof, the Agreement is hereby amended as follows:

(a) Section 1.1 of the Agreement is hereby amended by deleting from such section the definition of "Consolidated Free Cash Flow" in its entirety and by substituting the following lieu thereof:

"Consolidated Free Cash Flow" means, for any period, the aggregate net income (or net loss) of the Borrower and the Subsidiaries on a consolidated basis calculated before federal income taxes, depreciation and amortization but after deducting Capital Expenditures, any Federal income taxes paid or payable in cash by the Borrower and any extraordinary gains of the Borrower during the period in question; provided, however, that for the purposes of determining the Eurodollar Rate Margin only, the amount of any extraordinary losses during the period in question shall be added thereto.

(b) Section 1.1 of the Agreement is further amended by deleting from such section the definition of "Funded Debt Ratio" in its entirety and by substituting the following lieu thereof:

"Funded Debt Ratio" means, at any time, the quotient determined by dividing (a) the sum of all Debt and Capital Lease Obligations by (b) the Consolidated Free Cash Flow less the amount of any purchases by Borrower of its common stock in excess of $800,000 during the preceding twelve (12) calendar months.

(c) Section 10.1 of the Agreement is hereby amended by deleting such section in its entirety and by substituting the following lieu thereof:

Section 10.1 Debt. The Borrower will not incur, create, assume, or permit to exist, and will not permit any Subsidiary to incur, create, or permit to exist, any Debt, except:

(a) Debt to the Banks pursuant to the Loan Documents;

(b) Existing Debt described on Schedule 3 hereto and any renewal or extension thereof which does not increase the outstanding amount thereof;

(c) Debt of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or another Subsidiary; and

(d) Capital Lease Obligations and or purchase money Debt for purchases of equipment in the ordinary course of business not exceeding $1,600,000 in the aggregate at any one time.

(d) Section 11.2 of the Agreement is hereby amended by deleting such section in its entirety and by substituting the following lieu thereof:

Section 11.2 Consolidated Net Worth. The Borrower will at all times maintain Consolidated Net Worth in an amount not less than the sum of (a) Seven Million Dollars ($7,000,000), and (b) fifty percent (50%) of the cumulative total of all Consolidated Net Income earned in each successive fiscal quarter, without deduction for any net loss incurred in any fiscal quarter.

(e) Section 11.6 of the Agreement is hereby amended by deleting such section in its entirety and by substituting the following lieu thereof:

Section 11.6 Funded Debt Ratio. From July, 1996, to and including November 1996, the Borrower will at all times maintain a Funded Debt Ratio of not greater than 4.00 to 1.00. From and after December, 1996, the Borrower will at all times maintain a Funded Debt Ratio of not greater than 3.50 to 1.00.

(f) Section 11.7 of the Agreement is hereby amended by deleting such section in its entirety and by substituting the following lieu thereof:

Section 11.7 Fixed Charge Coverage Ratio. The Borrower will at all times maintain a Fixed Charge Coverage Ratio of not less than 1.80 to 1.00.

SECTION 3. Conditions of Effectiveness.

(a) The Bank has relied upon the representations and warranties contained in this Amendment in agreeing to the amendments to the Agreement set forth herein and the amendments to the Agreement set forth herein are conditioned upon and subject to the accuracy of each and every representation and warranty of the Borrower made or referred to herein, and performance by the Borrower of its obligations to be performed under the Agreement on or before the date of this Amendment (except to the extent amended herein).

(b) The amendments to the Agreement set forth herein are further conditioned upon receipt by the Bank of certificates of the Secretary or Assistant Secretary of the Borrower setting forth resolutions of its Board of Directors in form and substance reasonably satisfactory to the Bank with respect to this Amendment.

SECTION 4. Representations and Warranties of the Borrower. The Borrower represents and warrants to the Bank, with full knowledge that the Bank is relying on the following representations and warranties in executing this Amendment, as follows:

(a) The Borrower has corporate power and authority to execute, deliver and perform this Amendment, and all corporate action on the part of the Borrower requisite for the due execution, delivery and performance of this Amendment has been duly and effectively taken.

(b) The Agreement as amended by this Amendment and the Loan Documents and each and every other document executed and delivered in connection with this Amendment to which the Borrower or any of its Subsidiaries is a party constitute the legal, valid and binding obligations of the Borrower and any of its Subsidiaries to the extent it is a party thereto, enforceable against such Person in accordance with their respective terms.

(c) This Amendment does not and will not violate any provisions of the articles or certificate of incorporation or bylaws of the Borrower, or any contract, agreement, instrument or requirement of any Governmental Authority to which the Borrower is subject. The Borrower's execution of this Amendment will not result in the creation or imposition of any lien upon any properties of the Borrower, other than those permitted by the Agreement and this Amendment.

(d) The Borrower's execution, delivery and performance of this Amendment do not require the consent or approval of any other Person, including, without limitation, any regulatory authority or governmental body of the United States of America or any state thereof or any political subdivision of the United States of America or any state thereof.

(e) The monthly unaudited consolidated balance sheet of the Borrower and its Subsidiaries as of May 26, 1996, the related consolidated statements of earnings, capital accounts, and cash flows of the Borrower for the month then ended and the consolidated balance sheet and related consolidated statements of earnings, capital accounts and cash flows for the period commencing the first day of the fiscal year and ending on the last day of such month which have been furnished to the Bank, fairly present the financial condition of the Borrower and its Subsidiaries as at such date and the results of the operations of the Borrower and its Subsidiaries for the periods ended on such date, all in accordance with GAAP applied on a consistent basis, and since May 26, 1996, there has been no material adverse change in such condition or operations.

(f) The Borrower has performed and complied with all agreements and conditions contained in the Agreement required to be performed or complied with by the Borrower prior to or at the time of delivery of this Amendment.

(g) After giving effect to this Amendment, no Default or Event of

Default exists and all of the representations and warranties contained in the Agreement and all instruments and documents executed pursuant thereto or contemplated thereby are true and correct in all material respects on and as of this date.

(h) Nothing in this Section 4 of this Amendment is intended to amend any of the representations or warranties contained in the Agreement or of the Loan Documents to which the Borrower or any of the Subsidiaries is a party.

SECTION 5. Reference to and Effect on the Agreement.

(a) Upon the effectiveness of Sections 1 and 2 hereof, on and after the date hereof, each reference in the Agreement to "this Agreement", "hereunder", "hereof", "herein", or words of like import, shall mean and be a reference to the Agreement as amended hereby.

(b) Except as specifically amended by this Amendment, the Agreement shall remain in full force and effect and is hereby ratified and confirmed.

SECTION 6. No Waiver. Except as specifically amended hereby, the Borrower agrees that no Event of Default and no Default has been waived or remedied by the execution of this Amendment by the Bank and any such Default or Event or Default heretofore arising and currently continuing shall continue after the execution and delivery hereof.

SECTION 7. Cost, Expenses and Taxes. The Borrower agrees to pay on demand all reasonable costs and expenses of the Bank in connection with the preparation, reproduction, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including reasonable attorneys' fees and out-of-pocket expenses of the Bank. In addition, the Borrower shall pay any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution and delivery, filing or recording of this Amendment and the other instruments and documents to be delivered hereunder, and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes or fees.

SECTION 8. Extent of Amendments. Except as otherwise expressly provided herein, the Agreement and the other Loan Documents are not amended, modified or affected by this Amendment. The Borrower ratifies and confirms that (i) except as expressly amended hereby, all of the terms, conditions, covenants, representations, warranties and all other provisions of the Agreement remain in full force and effect, (ii) each of the other Loan Documents are and remain in full force and effect in accordance with their respective terms, and (iii) the Collateral is unimpaired by this Amendment.

SECTION 9. Grant and Affirmation of Security Interest. The Borrower hereby confirms and agrees that any and all liens, security interests and other security or Collateral now or hereafter held by the Bank as security for payment and performance of the Obligations hereby are renewed and carried forth to secure payment and performance of all of the Obligations. The Loan Documents are and remain legal, valid and binding obligations of the parties thereto, enforceable in accordance with their respective terms.

SECTION 10. Guaranties. Each of the Guarantors hereby consents to and accepts the terms and conditions of this Amendment, agrees to be bound by the terms and conditions hereof and ratifies and confirms that its continuing Guaranty Agreement, executed and delivered to the Bank as of December 1, 1994, guaranteeing payment of the Obligations, is and remains in full force and effect and secures payment of, among other things, the Note as renewed, rearranged and extended hereby.

SECTION 11. Execution and Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of the signature page of this Amendment by facsimile shall be equally as effective as delivery of a manually executed counterpart of this Amendment.

SECTION 12. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas.

SECTION 13. Headings. Section headings in this Amendment are included herein for convenience and reference only and shall not constitute a part of this Amendment for any other purpose.

SECTION 14. Arbitration Program. The parties agree to be bound by the terms and provisions of the current Arbitration Program of First Interstate Bank of Texas, N.A., which is incorporated by reference herein and is acknowledged as received by the parties pursuant to which any and all disputes arising hereunder, under the Agreement, under any of the other Loan Documents, or under any of the documents and instruments contemplated thereby, or pertaining hereto or thereto, shall be resolved by mandatory binding arbitration upon the request of any party.

SECTION 15. NO ORAL AGREEMENTS. THE AGREEMENT (AS AMENDED BY THIS AMENDMENT) AND THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized.

BORROWER:

PIZZA INN, INC.

By:______________________________
Name:
Title:

BANK:

WELLS FARGO BANK (TEXAS), NATIONAL ASSOCIATION

By:______________________________
Name:
Title:

CONSENTED AND AGREED TO AS OF THIS 28TH DAY OF JUNE, 1996:

BARKO REALTY, INC.

By:___________________________
Name:
Title:

R-CHECK, INC.

By:____________________________
Name:
Title:

PIZZA INN OF DELAWARE, INC.

By:____________________________
Name:
Title:

EXHIBIT 11.0

PIZZA INN, INC.
COMPUTATION OF NET INCOME PER SHARE
(In thousands, except per share amounts)

	Year Ended		
	June 30, 1996	June 25, 1995	June 26, 1994
PRIMARY			
NET INCOME	$ 3,908	$ 3,198	$ 2,573
COMMON SHARES OUTSTANDING	13,209	13,869	13,558
COMMON SHARES EQUIVALENTS:			
Net shares issuable upon exercise of stock options (computed by the "Treasury Stock Method")	798	365	493
Weighted average shares and equivalent shares for primary earnings per share	14,007	14,234	14,051
NET INCOME PER SHARE	$ 0.28	$ 0.22	$ 0.18
FULLY DILUTED			
COMMON SHARES OUTSTANDING	13,209	13,869	13,558
COMMON SHARES EQUIVALENTS:			
Net shares issuable upon exercise of stock options (computed by the "Treasury Stock Method")	924	365	445
Weighted average shares and equivalent shares for fully diluted earnings per share	14,133	14,234	14,003
NET INCOME PER SHARE	$ 0.28	$ 0.22	$ 0.18

EXHIBIT 23.0

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-56590 and 33-71700), the latter as amended by Post-Effective Amendment No. 1, of Pizza Inn, Inc. of our report dated August 19, 1996 appearing on page 15 of this Form 10-K.

PRICE WATERHOUSE, LLP

Dallas, TX
September 27, 1996

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YEAR
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JUN-30-1996
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