

## Pizza Inn, Inc. Reports Results for the Second Quarter Fiscal Year 2007

THE COLONY, Texas, Feb. 7 /PRNewswire-FirstCall/ -- PIZZA INN, INC. (Nasdaq: [PZZI - News](#)) today reported a net income per share for its second fiscal quarter ended December 24, 2006 of \$0.01 versus a net loss of (\$0.06) per share for the same quarter last year. The quarter resulted in net income of \$152,000 versus a net loss of (\$601,000) for the same quarter last year on revenues of \$12.4 million and \$12.8 million, respectively.

- \* Comparable buffet restaurant sales increased 0.6% for the quarter. Domestic chain-wide comparable restaurant sales decreased 1.3% for the quarter.
- \* Total domestic chain-wide restaurant sales decreased 6% for the quarter due to the decrease in comparable restaurant sales and a net reduction in franchised restaurants.
- \* Excluding the impact of gains on sale of assets and rental income, the Company's revenues decreased approximately 8%, or \$1,028,000, primarily due to the Company's recent decision to reduce the prices of key food and supply products sold to franchisees through the Company's distribution division, lower chain-wide restaurant sales, as discussed above, lower cheese prices, and lower equipment sales. The resulting reductions in food and supply sales and royalty revenue were partially offset by increased restaurant sales at company-owned restaurants as a result of the opening of three company-owned buffet restaurants in fiscal year 2006.
- \* During the quarter, the Company incurred \$375,000 of legal fees, as compared to \$442,000 in the prior year, which is reflected in general and administrative expenses.
- \* During the quarter, the Company incurred non-cash stock compensation expense of \$55,000 as compared to \$94,000 in the prior year, which is reflected in general and administrative expenses.
- \* During the quarter, the Company recognized a \$108,000 benefit from the reduction to the provision for litigation costs due to the reduction of accounts payable to PepsiCo as a result of the Company's recent settlement with PepsiCo, which is broken out separately in the statement of operations.

The Company's President and CEO, Tim Taft, commented, "Much has been accomplished in the pursuit of turning around this brand. Franchisees report being healthier than they have been in a long while and, with the recent hiring of Charlie Morrison (CFO) and Susan Gray (Training, HR), we have a complete management team capable of significantly affecting our positive momentum."

Certain statements in this press release, other than historical information, may be considered forward-looking statements, within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, and are subject to various risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ from those anticipated, estimated or expected. Among the key factors that may have a direct bearing on Pizza Inn's operating results, performance or financial condition are its ability to implement its growth strategies, national, regional and local economic conditions affecting the restaurant/ entertainment industry, competition within each of the restaurant and entertainment industries, store sales cannibalization, success of its franchise operations, negative publicity, fluctuations in quarterly results of operations, including seasonality, government regulations, weather, commodity, insurance and labor costs.

Pizza Inn, Inc. (<http://www.pizzainn.com>) is headquartered in The Colony, Texas, along with its distribution division, Norco Restaurant Services Company. Pizza Inn franchises approximately 282 domestic and 77 international restaurants and owns three restaurants with annual domestic and international chain-wide sales of approximately \$145 million.

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

	Three Months Ended		Six Months Ended	
	December 24,	December 25,	December 24,	December 25,
	2006	2005	2006	2005
REVENUES:				
Food and supply sales	\$10,232	\$11,215	\$20,620	\$22,523
Franchise revenue	1,118	1,199	2,307	2,379
Restaurant sales	375	339	745	557
Gain on sale of assets	554	---	564	147
Rental income	146	---	179	---
	12,425	12,753	24,415	25,606
COSTS AND EXPENSES:				
Cost of sales	10,207	11,060	20,385	22,153
Franchise expenses	746	793	1,418	1,601
General and administrative expenses	1,154	1,581	2,745	3,171
Provision for litigation costs	(108)	---	302	---
Interest expense	274	199	474	368
	12,273	13,633	25,324	27,293
INCOME (LOSS) BEFORE INCOME TAXES				
	152	(880)	(909)	(1,687)
Credit for income taxes	---	(279)	---	(596)
NET INCOME (LOSS)	\$152	\$(601)	\$(909)	\$(1,091)
Basic income (loss) per common share	\$0.01	\$(0.06)	\$(0.09)	\$(0.11)
Diluted income (loss) per common share	\$0.01	\$(0.06)	\$(0.09)	\$(0.11)
Weighted average common shares outstanding	10,138	10,108	10,138	10,119
Weighted average common and potential dilutive common shares outstanding	10,138	10,108	10,138	10,119

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

ASSETS	December 24, 2006	June 25, 2006
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(unaudited)

CURRENT ASSETS		
Cash and cash equivalents	\$287	\$184
Accounts receivable, less allowance for doubtful accounts of \$331 and \$324, respectively	2,625	2,627
Accounts receivable -- related parties	364	452
Notes receivable, current portion, less allowance	28	52
Inventories	1,560	1,772
Assets held for sale	383	---
Current deferred income tax asset	1,138	1,145
Prepaid expenses and other	411	299
Total current assets	6,796	6,531
LONG-TERM ASSETS		
Property, plant and equipment, net	1,008	11,921
Non-current notes receivable	16	20
Re-acquired development territory, net	335	431
Deposits and other	305	98
	\$8,460	\$19,001
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable -- trade	\$2,843	\$2,217
Accrued litigation expenses	410	2,800
Other accrued expenses	1,839	1,991
Current portion of long-term debt	---	8,044
Total current liabilities	5,092	15,052
LONG-TERM LIABILITIES		
Other long-term liabilities	654	437
	5,746	15,489
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 15,090,319 and 15,090,319 shares, respectively; outstanding 10,138,494 and 10,138,494 shares, respectively	151	151
Additional paid-in capital	8,523	8,426
Retained earnings	13,684	14,593
Accumulated other comprehensive loss	---	(14)
Treasury stock at cost		
Shares in treasury: 4,951,825 and 4,951,825, respectively	(19,644)	(19,644)
Total shareholders' equity	2,714	3,512
	\$8,460	\$19,001

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

Six Months Ended  
December 24, 2006      December 25, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$(909)	\$(1,091)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	448	568
Deferred rent expense	3	31
Stock compensation expense	97	197
Litigation expense accrual	302	---
Gain on sale of assets	(564)	(147)
Deferred revenue	196	---
Changes in operating assets and liabilities:		
Notes and accounts receivable	118	195
Inventories	212	(425)
Accounts payable -- trade	626	645
Accrued expenses	(3,096)	(385)
Prepaid expenses and other	(331)	70
Cash used in operating activities	(2,898)	(342)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of assets	11,319	474
Capital expenditures	(248)	(1,315)
Cash provided by (used for) investing activities	11,071	(841)

CASH FLOWS FROM FINANCING ACTIVITIES:

Deferred financing costs	(26)	---
Change in line of credit, net	---	1,381
Repayments of long-term bank debt	(8,044)	(209)
Proceeds from exercise of stock options	---	22
Cash (used for) provided by financing activities	(8,070)	1,194
Net increase in cash and cash equivalents	103	11
Cash and cash equivalents, beginning of period	184	173
Cash and cash equivalents, end of period	\$287	\$184