



CEOCFO

Interviews & News!

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Pizza Inn negotiates turnaround that has seen the company become debt-free for the first time in its history as they reinvest in their franchisees future



Services
Restaurants
(PZZI-NASDAQ)

Pizza Inn, Inc.

3551 Plano Parkway
The Colony, TX 75056
Phone: 469-384-5000



Timothy P. Taft
President and CEO

BIO:

Favorite Pizza Inn pizza:
Meaty Max (with jalapeño, mushroom, green peppers, pineapple and onion) on New York Pan

Tim Taft, President, Chief Executive Officer and self titled "Head Dishwasher" of

Pizza Inn, Inc. is refocusing the brand and its franchisees for future success. "We are blessed in that we have an excellent product and a core group of engaged franchisees that are dedicated to making this once proud company great again! Together, corporate and franchisees plan to redevelop existing markets to a level of media efficiency, and bring the great dining experience of Pizza Inn to underserved areas of the country."

Prior to Pizza Inn, Mr. Taft was President and Chief Operating Officer of Corpus Christi based Whataburger, Inc., where he was largely credited with leading the turnaround of the Texas icon. When he stepped down in January of 2005, Whataburger had been named Nations Restaurant News "Hot! Again" concept and was in the midst of its 46th consecutive quarter of same-store restaurant sales increases.

Company Profile:

Pizza Inn, Inc. is headquartered in The Colony, Texas, along with its distribution division, Norco Restaurant Services Company. Pizza Inn franchises approximately 361 restaurants and owns three restaurants with annual domestic and international chain-wide sales of approximately \$150 million.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Taft, what was your vision when you took over as CEO, Pizza Inn and where are you today?

Mr. Taft: "The vision was multi-tiered, 1) Reestablish trust and confidence with our Franchise Operators and get them involved in the process of revitalizing the

Brand... 2) Improve Unit level economics so to stabilize the existing base of operators while making it attractive to potential franchisees... 3) Create processes and systems dedicated to creating consistency within the Brand... 4) Develop the brand domestically and internationally so that market penetration creates media efficiency which allows us to communicate our points of difference to our guests.

When I got here though it was different from the last job I had where I had as many as 500 corporate restaurants. There I could say, 'Ok folks, now we are now going to head in a different direction' and the preponderance of restaurants would follow. At Pizza Inn you say, 'Hey I know this way has not been working and although this direction is known and comfortable, but we need to go this way'. The response initially was 'you are fourth CEO in three years here, so I will see if you stick around because I can outlive you too.' The vision was to take the brand, drag it kicking and screaming first into the eighties and try to get people to re-engage and start delivering a consistent product and spend money on their restaurants so that we would be relevant again. Where were we? We were in debt and the franchisees called this campus the Taj Mahal. They were out there struggling and we had a beautiful campus with a 40,000 square foot state of the art building and 100,000 square foot warehouse behind it. We were to a point where it was kind of a catch 22 where we were looking at one another and saying, 'Hey you guys need to reinvest and the franchise operators were saying we don't have any money because our margins are too low'

We decided that we shouldn't be in the shipping business, so we outsourced our

distribution and took that money and the efficiency that was created, and redeployed it back into the franchisees pocket via lower food cost. We explained we were not doing this because we were nice guys, rather; we are doing this because we need to jumpstart the system and we need you to reinvest. Is it working? Two years ago, the franchisees remodeled four restaurants. Last year they remodeled six, this year they will remodel thirty-nine and next year we expect they will remodel fifty-one, that is a big victory. Same store sales, which had been in the midst of a five-year decline was a trend we focused marketing and our operators on and our many initiatives are paying off. We have new development happening using the new prototype. In addition to the remodeling activity we have existing franchisees rebuilding using the new look. Recently we had a new opening in Boiling Springs SC. producing first week sales records without delivery. All in all the brand is showing resiliency and showing we are still relevant. We are debt-free for the first time in the company's history. Our stock is pushing 52-week highs and we are beginning to enjoy ourselves."

CEOFCO: What is special about Pizza Inn pizza?

Mr. Taft: "It is the love and heart that goes into each one of our pies. The difference in a Pizza Inn pizza vs. anyone else is that our competitors talk about fresh ingredients, but a lot of them do not tell you that they start with frozen dough balls or they bring in frozen shells and they cook them or they come in pre-cooked. We make all of our dough from scratch and we offer three crusts. You can really taste the difference with homemade made from scratch dough vs. pre-made and we are making dough 24-hours a day. The sauce is a proprietary recipe and the toppings are very generous. Whenever a new pizza company will open up around them, our franchisees like to hang a banner out in the front of the building that says, 'You can get a cheaper pizza, but then you would have to eat it!'"

CEOFCO: How do you encourage the real pizza connoisseurs to come to Pizza Inn?

Mr. Taft: "Our customers do not call themselves customers; they call themselves cult members and because the pizza taste profile is unique, all we have to do is deliver the taste they've grown up eating. We are not the cheapest pizza on the corner yet our customer profile is very mixed; you can have blue-collar folks sitting next to white starched shirts, next to a mom with her kids. Pizza lovers come in every share and size."

CEOFCO: Why do the buffets work and how do you decide on location?

Mr. Taft: "Our target markets are focusing on the east coast; the eastern restaurants have volumes much larger than those to the west. Our target markets like North Carolina, South Carolina and Tennessee are all good markets that are well underserved."

If you go to our website www.pizzainn.com you can see what the

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- Timothy P. Taft

inside of our restaurants look like; they do not look like a typical pizza restaurant, they are not dark with red gingham and black white. They are very light and vibrant, they're hip. We stress customer service and it is kind of a stress-free zone for mom. You want families to come in and not worry about kids making a mess; you are allowed to do that here. Our buffets work because you can get an entire meal with dessert for under \$6.00."

CEOFCO: Are most of your new restaurants going to be buffets?

Mr. Taft: "We have three different concepts, buffet and that is instead of the center isle where everybody has to compete for it, we have a back-fed buffet design on one side of the building where you can go down the line and choose from as many as fifteen different pizzas and then choose from the whole dessert line-up. We have another concept, which

is the delivery carryout, which is inline in a strip mall or something like that, most of it is delivery. We have express stores, which might be in a food court or with a sandwich and sub place in a rest stop. Our emphasis though is on the buffet; that is the bread and butter for us. Something that we have focused on and our operators have been focused on and we believe the way we deliver it allows us to stand above the rest."

CEOFCO: How do you continue the positive developments and make sure the company stays on course?

Mr. Taft: "If this company has learned anything over the last decade, it is that trying to be all things to all people just does not work. We have recognized that if you are a franchise organization, the health and viability of your franchisees is paramount. I would say that without commenting on what has happened in the past, our focus over the last couple of years is to improve the financial stability of our franchisees and in doing so, that is paying dividends. Keeping focused on quality products and a quality dining experience and not letting our restaurants fall into disrepair is business 101, and it is not something that this company will do again."

CEOFCO: As your ingredients are fresh and because you are making them at each location, is the taste consistent from one location to the next?

Mr. Taft: "In theory yes and that is where training comes in. All of the toppings are the same and all the vendors are the same, the cook times and all the recipes are exactly the same. I would say with very few exceptions over the last couple of years that I have run across a taste that I was not familiar with. That was probably early on when we had people buying from other suppliers. The consistency of our product is one of the many things that on which we agree with on the franchisees; consistency is absolutely critical."

CEOFCO: Why should investors look at Pizza Inn now?

Mr. Taft: "The last couple of years have been rocky and early on I sent an open

letter to all the shareholders that said that you could consider suspect some of the things we were doing in the past. We had to rid ourselves of bad operators (a process that continues today). We had to change the way we made money and we needed to eliminate old and dated ways of doing things. We told them our earnings would take a beating for several quarters and they have. However, if you are an investor, and you look and say why Pizza Inn? The answer is next year we are going to be fifty years old and not many restaurant companies can say that. It is a company that has all the equity of a mature brand but at the same time, it has a brand new management team, a brand new operating philosophy with second and third generation franchisees that are now making more money they say than they have made in a decade. You have unprecedented remodeling going on, you have successful new store openings, you have same store sales increasing, and those are all elements in a healthy brand.

Finally, our largest shareholder is New-castle Partners, here in Dallas. My Chairman Mark Schwarz has committed to taking a long-term position with this turnaround. He and the board have made consistently difficult calls that have been

geared toward the long-term viability of this system. It is a common belief that he had not come along, this company would currently be in an extremely precarious position.”

CEOCFO: Are you doing a stock repurchase?

Mr. Taft: “We are and we announced that about three weeks ago.”

CEOCFO: That tends to show confidence in your changes and improvements!

Mr. Taft: “It was a nice demonstration by the board of directors to say we believe and have confidence in this company’s ability to improve. With all the bad press that we received over the last three years (a lawsuit between the company and former CEO which was costly and distracting), a suit with our old soft drink supplier, poor operating results, same store sales decreases, you can imagine the amount of angst produced by our investors and banks. However, we believe that’s all that behind us now.”

CEOCFO: How often do you eat pizza?

Mr. Taft: “I eat pizza five times a week and because we have breakfast pizzas, I

can eat pizza for breakfast, lunch and dinner. What’s sad is that we don’t have Pizza Inn in the area of the town in which we live. Everybody else on the street gets pizza delivered to his or her house, but because my family refuses to buy from a competitor, if they want pizza, dad will have to bring it home. I love Brand Loyalty.”

CEOCFO: What would you like people to remember most about Pizza Inn?

Mr. Taft: “That Pizza Inn has a strong heritage and a bright future. I want people to know that this Brand has survived missteps of the past and has franchise operators that are more than ever committed to our success. Your readers too should know that the team I work with is the finest I’ve ever been around and that I’m proud and grateful for their professionalism and commitment. The thing that has been so rewarding over the last couple of years is communicating the vision of what the future could look like, seeing folks re-engaged and breathing life back into a brand that a lot of people had given up for dead. Finally, the message, “You can buy a cheaper pizza, but then you’d have to eat it.”



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