

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 29, 2002.  
-----

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

COMMISSION FILE NUMBER 0-12919

PIZZA INN, INC.  
(EXACT NAME OF REGISTRANT IN ITS CHARTER)

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

3551 PLANO PARKWAY  
THE COLONY, TEXAS 75056  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES,  
INCLUDING ZIP CODE)

(469) 384-5000  
(REGISTRANT'S TELEPHONE NUMBER,  
INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES  NO

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

AT FEBRUARY 7, 2003, AN AGGREGATE OF 10,058,524 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

Index  
-----

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	Page
Consolidated Statements of Operations for the three months and six months Ended December 29, 2002 and December 23, 2001 (unaudited)	3
Consolidated Statements of Comprehensive Income for the three months and six months ended December 29, 2002 and December 23, 2001 (unaudited)	3
Consolidated Balance Sheets at December 29, 2002 (unaudited) and June 30, 2002	4
Consolidated Statements of Cash Flows for the six months ended December 29, 2002 and December 23, 2001 (unaudited)	5
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11

Item 3.		
-----		
Quantitative and Qualitative Disclosures about Market Risk		15
-----		
Item 4. Controls and Procedures		15
-----		
PART II. OTHER INFORMATION		
Item 1. Legal Proceedings		16
-----		
Item 4. Submission of Matters to a Vote of Security Holders		16
-----		
Item 6. Exhibits and Reports on Form 8-K		16
-----		
Signatures		18
Certifications		19

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

-----

<TABLE>  
<CAPTION>

ENDED	THREE MONTHS ENDED		SIX MONTHS	
	-----		-----	
	DECEMBER 29, 2002	DECEMBER 23, 2001	DECEMBER 29, 2002	DECEMBER 2001
REVENUES:				
Food and supply sales . . . . .	\$ 13,275	\$ 14,020	\$ 26,804	\$
29,183				
Franchise revenue . . . . .	1,307	1,316	2,609	
2,696				
Restaurant sales . . . . .	453	517	920	
1,091				
Other income . . . . .	129	134	192	
324				
-----	15,164	15,987	30,525	-----
33,294	-----	-----	-----	-----
-----				
COSTS AND EXPENSES:				
Cost of sales . . . . .	12,167	13,159	24,572	
27,770				
Franchise expenses . . . . .	835	667	1,543	
1,348				
General and administrative expenses . . . . .	(910)	1,146	649	
2,148				
Interest expense . . . . .	205	156	434	
275				
-----	12,297	15,128	27,198	-----
31,541	-----	-----	-----	-----
-----				
INCOME BEFORE INCOME TAXES . . . . .	2,867	859	3,327	

1,753

Provision for income taxes . . . . .	975	292	1,131
596			
-----			
NET INCOME . . . . .	\$ 1,892	\$ 567	\$ 2,196
1,157			
=====			
BASIC EARNINGS PER COMMON SHARE. . . . .	\$ 0.19	\$ 0.06	\$ 0.22
0.11			
=====			
DILUTED EARNINGS PER COMMON SHARE. . . . .	\$ 0.19	\$ 0.06	\$ 0.22
0.11			
=====			
WEIGHTED AVERAGE COMMON SHARES . . . . .	10,058	10,067	10,058
10,127			
=====			
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . . . . .	10,060	10,068	10,059
10,134			
=====			

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)

	THREE MONTHS ENDED . . . . .		SIX MONTHS ENDED
	DECEMBER 29, . . .	DECEMBER 23,	DECEMBER 29,
	2002	2001	2002
	-----	-----	-----
Net Income . . . . .	\$ 1,892	\$ 567	\$ 2,196
1,157			
Interest rate swap gain (loss) - (net of tax (expense) benefit of \$2 and (\$48) and \$141 and \$152. respectively). . . . .	(4)	93	(281)
(110)			
-----			
Comprehensive Income . . . . .	\$ 1,888	\$ 660	\$ 1,915
1,047			
=====			

See accompanying Notes to Consolidated Financial Statements.

<TABLE>  
<CAPTION>

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

ASSETS	DECEMBER 29, 2002	JUNE 30, 2002
	-----	-----
<S> (UNAUDITED)	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents . . . . .	\$ 199	\$ 770
Accounts receivable, less allowance for doubtful accounts of \$789 and \$829, respectively . . . . .	4,304	3,867
Notes receivable, current portion, less allowance for doubtful accounts of \$154 and \$354, respectively. . . . .	295	332
Inventories . . . . .	1,755	1,526

Deferred taxes, net . . . . .	953	1,297
Property held for sale. . . . .	-	170
Prepaid expenses and other. . . . .	356	735
	-----	-----
Total current assets. . . . .	7,862	8,697
Property, plant and equipment, net. . . . .	13,434	13,567
Property under capital leases, net. . . . .	211	337
Deferred taxes, net . . . . .	705	1,347
Long-term notes receivable, less allowance for doubtful accounts of \$20 and \$20, respectively. . . . .	93	191
Deposits and other. . . . .	176	475
	-----	-----
	\$ 22,481	\$ 24,614
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade. . . . .	\$ 2,303	\$ 1,527
Accrued expenses. . . . .	2,364	2,529
Current portion of long-term debt . . . . .	1,656	1,656
Current portion of capital lease obligations. . . . .	193	229
	-----	-----
Total current liabilities . . . . .	6,516	5,941
LONG-TERM LIABILITIES		
Long-term debt. . . . .	10,163	15,091
Long-term capital lease obligations . . . . .	37	136
Other long-term liabilities . . . . .	920	517
	-----	-----
	17,636	21,685
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,956,119 and 14,955,819 shares, respectively; outstanding 10,058,474 and 10,058,174 shares, respectively . . . . .	150	150
Additional paid-in capital. . . . .	7,825	7,824
Loans to officers (less allowance of \$0 and \$1,750, respectively)	(575)	(575)
Retained earnings . . . . .	17,534	15,338
Accumulated other comprehensive loss. . . . .	(605)	(324)
Treasury stock at cost		
Shares in treasury: 4,897,645 and 4,897,645 respectively. . . . .	(19,484)	(19,484)
	-----	-----
Total shareholders' equity. . . . .	4,845	2,929
	-----	-----
	\$ 22,481	\$ 24,614
	=====	=====

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

<TABLE>

<CAPTION>

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

	SIX MONTHS ENDED	
	DECEMBER 29, 2002	DECEMBER 23, 2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income. . . . .	\$ 2,196	\$ 1,157
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization . . . . .	768	635
Provision (recovery) for bad debt, net. . . . .	(1,850)	100
Utilization of deferred taxes . . . . .	1,131	-
Utilization of pre-reorganization net operating loss carryforwards. . . . .	-	504
Changes in assets and liabilities:		
Notes and accounts receivable . . . . .	(402)	(371)
Inventories . . . . .	(229)	(39)
Accounts payable - trade. . . . .	776	(314)
Accrued expenses. . . . .	(165)	(153)
Prepaid expenses and other. . . . .	553	246
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES . . . . .	2,778	1,765
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures . . . . .	(236)	(6,842)
CASH USED FOR INVESTING ACTIVITIES . . . . .	(236)	(6,842)

CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowings of long-term bank debt . . . . .	-	6,634
Repayments of long-term bank debt and capital lease obligations	(5,063)	(1,260)
Officer loan payment . . . . .	1,950	-
Purchases of treasury stock . . . . .	-	(573)
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES . . . . .	(3,113)	4,801

Net decrease in cash and cash equivalents . . . . .	(571)	(276)
Cash and cash equivalents, beginning of period . . . . .	770	540
Cash and cash equivalents, end of period . . . . .	\$ 199	\$ 264

<FN>  
See accompanying Notes to Consolidated Financial Statements.

</TABLE>

<TABLE>  
<CAPTION>

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

SIX MONTHS ENDED  
-----  
DECEMBER 29,      DECEMBER 23,  
2002                      2001  
-----

CASH PAYMENTS FOR:			
<S>	<C>	<C>	
Interest . . . . \$	432	\$ 445	
Income taxes . .	-	50	

</TABLE>

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

(1) The accompanying consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements in its Form 10-K for the fiscal year ended June 30, 2002. Certain prior year amounts have been reclassified to conform with current year presentation.

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

(2) The Company entered into an agreement effective December 29, 2002 with its current lender to provide a \$7.0 million revolving credit line that will expire December 31, 2004, replacing a \$9.5 million line that was due to expire December 31, 2003. The \$7.0 million revolving credit line will reduce quarterly by \$500,000 beginning March 31, 2003 through December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin from 1.0% to 0.5% or, at the Company's option, at the LIBOR rate plus 1.25% to 1.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.375% annual commitment fee is payable on any unused portion of the revolving credit line. As of December 29, 2002 and December 23, 2001, the variable interest rates were 3.4622% and 3.1875%, respectively, using a LIBOR rate basis. Amounts outstanding under the revolving credit line for the periods ending December 29, 2002 and December 23, 2001 were \$2.4 million and \$8.0 million, respectively.

The Company entered into a term note effective March 31, 2000 with its current lender. The \$5,000,000 term note had outstanding balances of \$1.7 million and \$2.9 million at December 29, 2002 and December 23, 2001, respectively. The term note requires monthly principal payments of \$104,000 with the balance maturing on March 31, 2004. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, at the LIBOR rate plus 1.5%. As of December 29, 2002 and December 23, 2001, the variable interest rates were 2.9375% and 3.4375%, respectively.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. This term loan will amortize over a term of twenty years, with principal payments of \$34,000 due monthly. Interest on this term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of December 29, 2002 and December 23, 2001, the variable interest rates were 2.89% and 3.4375%, respectively. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate by utilizing an interest rate swap agreement as discussed below. The \$8.125 million term loan had an outstanding balance of \$7.7 million at December 29, 2002 and \$6.8 million at December 23, 2001.

(3) The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of \$8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the term loan. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that for cash flow hedges, which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At December 29, 2002 there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will continue to be highly effective at achieving offsetting changes in cash flows.

(4) On April 30, 1998, Mid-South Pizza Development, Inc., an area developer of the Company ("Mid-South") entered into a promissory note whereby, among other things, Mid-South borrowed \$1,330,000 from a third party lender (the "Loan"). The proceeds of the Loan, less transaction costs, were used by Mid-South to purchase area developer rights from the Company for certain counties in Kentucky and Tennessee. As of December 29, 2002 the outstanding principal balance of this loan was approximately \$764,000 and matures on May 17, 2006. As part of the terms and conditions of the Loan, the Company was required to guaranty the obligations of Mid-South under the Loan. In the event such guaranty ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property. In the event the personal guarantees and security interest pledged do not sufficiently fulfill the obligation, the Company would assume the obligation. As of this date, the obligation could be fully offset by the assumption of the area development rights which are currently pledged to Mid-South's third party lender.

(5) On January 18, 2002 the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. alleging Pizza Inn sent or caused to be sent unsolicited facsimile advertisements. The plaintiff has requested this matter be certified as a class action. We plan to vigorously defend our position in this litigation. We cannot assure you that we will prevail in this lawsuit and our defense could be costly and consume the time of our management. We are unable to predict the outcome of this case. However, an adverse resolution of this matter could materially affect our financial position and results of operations.

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

<TABLE>  
<CAPTION>

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
<S>	<C>	<C>	<C>

THREE MONTHS ENDED DECEMBER 29, 2002

BASIC EPS

Income Available to Common Shareholders	\$ 1,892	10,058	\$ 0.19
Effect of Dilutive Securities - Stock Options		2	

DILUTED EPS

Income Available to Common Shareholders & Assumed Conversions	\$ 1,892	10,060	\$ 0.19
---	----------	--------	---------

THREE MONTHS ENDED DECEMBER 23, 2001

BASIC EPS

Income Available to Common Shareholders	\$ 567	10,067	\$ 0.06
Effect of Dilutive Securities - Stock Options		1	

DILUTED EPS

Income Available to Common Shareholders & Assumed Conversions	\$ 567	10,068	\$ 0.06
---	--------	--------	---------

SIX MONTHS ENDED DECEMBER 29, 2002

BASIC EPS

Income Available to Common Shareholders	\$ 2,196	10,058	\$ 0.22
Effect of Dilutive Securities - Stock Options		1	

DILUTED EPS

Income Available to Common Shareholders & Assumed Conversions	\$ 2,196	10,059	\$ 0.22
---	----------	--------	---------

SIX MONTHS ENDED DECEMBER 23, 2001

BASIC EPS

Income Available to Common Shareholders	\$ 1,157	10,127	\$ 0.11
Effect of Dilutive Securities - Stock Options		7	

DILUTED EPS

Income Available to Common Shareholders & Assumed Conversions	\$ 1,157	10,134	\$ 0.11
---	----------	--------	---------

</TABLE>

(7) Summarized in the following tables are net sales and operating revenues, operating profit, and geographic information (revenues) for the Company's reportable segments for the three month and six month periods ended December 29, 2002 and December 23, 2001.

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 29, 2002	DECEMBER 23, 2001	DECEMBER 29, 2002	DECEMBER 23, 2001
<S>	<C>	<C>	<C>	<C>
(In thousands)	(In thousands)			
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution	\$ 13,275	\$ 14,020	\$ 26,804	\$ 29,183
Franchise and Other	1,760	1,833	3,529	3,787
Intersegment revenues	176	184	351	408
Combined	15,211	16,037	30,684	33,378
Other revenues	129	134	192	324
Less intersegment revenues	(176)	(184)	(351)	(408)
Consolidated revenues	\$ 15,164	\$ 15,987	\$ 30,525	\$ 33,294
OPERATING PROFIT:				
Food and Equipment Distribution (1)	\$ 652	\$ 690	\$ 1,396	\$ 1,173
Franchise and Other (1)	800	781	1,400	1,591
Intersegment profit	42	53	96	112
Combined	1,494	1,524	2,892	2,876
Other profit or loss	130	169	192	324
Less intersegment profit	(42)	(53)	(96)	(112)

Corporate administration and other.	1,285	(781)	339	(1,335)
Income before taxes . . . . .	\$ 2,867	\$ 859	\$ 3,327	\$ 1,753
GEOGRAPHIC INFORMATION (REVENUES):				
United States . . . . .	\$ 14,860	\$ 15,843	\$ 30,028	\$ 33,038
Foreign countries . . . . .	304	144	497	256
Consolidated total. . . . .	\$ 15,164	\$ 15,987	\$ 30,525	\$ 33,294

<FN>

(1) Does not include full allocation of corporate administration.

</TABLE>

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

Quarter and six months ended December 29, 2002 compared to the quarter and six months ended December 23, 2001.

Earnings per share for the quarter were \$0.19 versus \$0.06 for the same period last year. Net income was \$1,892,000 versus \$567,000, on revenues of \$15.2 million versus \$16.0 million in the previous year. For the six-month period, earnings per share were \$0.22 versus \$0.11 last year. Net income was \$2,196,000 compared to \$1,157,000 on revenues of \$30.5 million versus \$33.3 million last year. The current quarter includes the reversal of a previously recorded pre-tax charge of approximately \$1.9 million. The reserve was previously recorded in the fourth quarter of fiscal 2002 to fully reserve for the expected nonpayment of a note receivable owed to the Company from the Company's former Chief Executive Officer. The Company received payment in full for the note receivable in December 2002.

Food and supply sales by the Company's Norco division include food and paper products, equipment, marketing material, and other distribution revenues. Food and supply sales for the quarter decreased 5% to \$13,275,000 from \$14,020,000 compared to the same period last year. For the six month period, food and supply sales decreased 8% to \$26,804,000 from \$29,183,000. Lower retail sales combined with a decrease in the sales price of cheese contributed to the decrease in food and supply sales.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased 1% or \$9,000 for the quarter compared to the same period last year and 3% or \$87,000 for the six month period. Lower royalties, resulting from lower retail sales, were partially offset by higher foreign master license fees.

Restaurant sales, which consist of revenue generated by Company-owned training stores decreased 12% or \$64,000 for the quarter, compared to the same period of the prior year. For the six month period, restaurant sales decreased 16% or \$171,000. These decreases are a result of the closing of the Delco unit during September of the prior year combined with lower comparable sales at the remaining stores.

Other income consists primarily of interest income and non-recurring revenue items. Other income decreased 4% or \$5,000 for the quarter, compared to the same period of the prior year. For the six month period, other income decreased 41% or \$132,000, due to lower vendor incentives.

Cost of sales decreased 8% or \$992,000 for the quarter and decreased 12% or \$3,198,000 for the six month period. As a percentage of sales for the quarter, cost of sales decreased to 89% from 91% compared to the same period last year. For the six month period, cost of sales, as a percentage of sales, decreased to 89% from 92% compared to the same period of the prior year. The decreases are due primarily to lower cheese prices as compared to the same period last year.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs increased 25% or \$168,000 for the quarter and 14% or \$195,000 for the six month period compared to the same periods last year. These increases are primarily due to additional staffing levels, increased advertising expenses, and marketing research.

General and administrative expenses decreased 179% or \$2,056,000 for the quarter and 70% or \$1,499,000 for the six months, compared to the same periods last year. This is primarily the result of the reversal of a previously recorded pre-tax charge of approximately \$1.9 million for bad debt as described above.

Interest expense increased 31% or \$49,000 for the quarter and 58% or \$159,000 for the six months, compared to the same periods of the prior year.



Lower interest rates and debt balances in the current year were offset by capitalized interest of approximately \$179,000 used in construction of the new corporate headquarters in the prior year.

Provision for income taxes increased 234% or \$683,000 for the quarter, and 90% or \$535,000 for the six months compared to the same periods in the prior year. The effective tax rate was 34% for both the current and prior quarters and six months.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$2,778,000 during the first six months of fiscal 2003 and was utilized, in conjunction with a portion of its cash balance, primarily to pay down debt. Management believes that current cash and cash equivalents, projected cash flows from operations, and its existing debt capacity should be sufficient during fiscal 2003 and for the foreseeable future to fund planned capital expenditures, working capital needs, and other cash requirements.

Capital expenditures of \$236,000 during the first six months consist primarily of the Company's implementation of a bar code system for its warehouse operations, computer system upgrades, and office equipment.

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 \$225,000 primarily related to the potential expiration of certain foreign tax credit carryforwards. Additionally, management believes that taxable income based on the Company's existing franchise base should be more than sufficient to enable the Company to realize its net deferred tax asset without reliance on material, non-routine income.

The Company entered into an agreement effective December 29, 2002 with its current lender to provide a \$7.0 million revolving credit line that will expire December 31, 2004, replacing a \$9.5 million line that was due to expire December 31, 2003. The \$7.0 million revolving credit line will reduce quarterly by \$500,000 beginning March 31, 2003 through December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin from 1.0% to 0.5% or, at the Company's option, at the LIBOR rate plus 1.25% to 1.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.375% to 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. As of December 29, 2002 and December 23, 2001, the variable interest rates were 2.9375% and 3.1875%, respectively, using a LIBOR rate basis. Amounts outstanding under the revolving credit line for the periods ending December 29, 2002 and December 23, 2001 were \$2.4 million and \$8.0 million, respectively.

The Company entered into a term note effective March 31, 2000 with its current lender. The \$5,000,000 term note had outstanding balances of \$1.7 million and \$2.9 million at December 29, 2002 and December 23, 2001, respectively. The term note requires monthly principal payments of \$104,000 with the balance maturing on March 31, 2004. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, at the LIBOR rate plus 1.5%. As of December 29, 2002 and December 23, 2001, the variable interest rates were 2.9375% and 3.4375%, respectively.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. This term loan will amortize over a term of twenty years, with principal payments of \$34,000 due monthly. Interest on this term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of December 29, 2002 and December 23, 2001, the variable interest rates were 2.89% and 3.4375%, respectively. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate by utilizing an interest rate swap agreement as discussed below. The \$8.125 million term loan had an outstanding balance of \$7.7 million at December 29, 2002 and \$6.8 million at December 23, 2001.

The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of \$8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the term loan. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that for cash flow hedges, which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the

forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At December 29, 2002 there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will continue to be highly effective at achieving offsetting changes in cash flows.

On April 30, 1998, Mid-South Pizza Development, Inc., an area developer of the Company ("Mid-South") entered into a promissory note whereby, among other things, Mid-South borrowed \$1,330,000 from a third party lender (the "Loan"). The proceeds of the Loan, less transaction costs, were used by Mid-South to purchase area developer rights from the Company for certain counties in Kentucky and Tennessee. As of December 29, 2002 the outstanding principal balance of this loan was approximately \$764,000 and matures on May 17, 2006. As part of the terms and conditions of the Loan, the Company was required to guaranty the obligations of Mid-South under the Loan. In the event such guaranty ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property. In the event the personal guarantees and security interest pledged do not sufficiently fulfill the obligation, the Company would assume the obligation. As of this date, the obligation could be fully offset by the assumption of the area development rights which are currently pledged to Mid-South's third party lender.

On January 18, 2002, the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. alleging Pizza Inn sent or caused to be sent unsolicited facsimile advertisements. The plaintiff has requested this matter be certified as a class action. We plan to vigorously defend our position in this litigation. We cannot assure you that we will prevail in this lawsuit and our defense could be costly and consume the time of our management. We are unable to predict the outcome of this case. However, an adverse resolution of this matter could materially affect our financial position and results of operations.

#### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following chart summarizes all of the Company's material obligations and commitments to make future payments under contracts such as debt and lease agreements as of December 29, 2002 (in thousands):

<TABLE>  
<CAPTION>

<S>	<C> Total	Less Than 1		4-5	After 5
		<C> Year	<C> Years	<C> Years	<C> Years
Bank debt . . . . .	\$11,819	\$1,656	\$ 3,629	\$ 813	\$5,721
Operating lease obligations . . . .	4,024	1,247	2,565	212	-
Capital lease obligations (1) . . . .	230	193	30	7	-
Total contractual cash obligations.	\$16,073	\$3,096	\$ 6,224	\$1,032	\$5,721

</TABLE>

(1) Does not include amount representing interest.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis is based on the Company's consolidated financial statements and related footnotes contained within this report. The Company's more critical accounting policies used in the preparation of those consolidated financial statements are discussed below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates made by management include the allowance for doubtful accounts, inventory valuation, deferred tax asset valuation allowances, and legal accruals. Actual results could differ from those estimates.

The Company's Norco division 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." Shipping and handling costs billed to customers are recognized as revenue.

Franchise revenue consists of income from license fees, royalties, and

Territory sales. 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.

Territory sales are the fees paid by selected experienced restaurant operators to the Company for the right to develop Pizza Inn restaurants in specific geographical territories. When the Company has no continuing substantive obligations of performance to the area developer or master licensee regarding the 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.

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. Provision is made for obsolete inventories and is based upon management's assessment of the market conditions for its products.

Accounts receivable consist primarily of receivables from food and supply sales and franchise royalties. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, customer creditworthiness, and current economic trends.

Notes receivable primarily consist of notes from franchisees for the purchase of area development and master license territories and trade receivables. These notes generally have terms ranging from one to five years and interest rates of 8% to 12%. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, customer creditworthiness, and current economic trends.

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized based upon the Company's analysis of existing tax credits by jurisdiction and expectations of the Company's ability to utilize these tax attributes through a review of estimated future taxable income and establishment of tax strategies. These estimates could be impacted by changes in future taxable income and the results of tax strategies.

#### FORWARD-LOOKING STATEMENT

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

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

-----

The Company has market risk exposure arising from changes in interest rates. The Company's earnings are affected by changes in short-term interest rates as a result of borrowings under its credit facilities which bear interest based on floating rates.

At December 29, 2002 the Company has approximately \$11.8 million of variable rate debt obligations outstanding with a weighted average interest rate of 3.3591%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at December 29, 2002, would change interest expense by approximately \$25,000 for the six months ended December 29, 2002.

#### ITEM 4. CONTROLS AND PROCEDURES

-----

a) Evaluation of disclosure controls and procedures. Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and

procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

-----

On January 18, 2002, the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. in the District Court, L-193rd Judicial District, Dallas County, Texas (Cause No. 01-11043). The suit alleges Pizza Inn sent or caused to be sent unsolicited facsimile advertisements to plaintiff and others in violation of (i) 47 U.S.C. Section 227(b)(1)(C) and (b)(3), the Telephone Consumer Protection Act, and (ii) Texas Business and Commerce Code Section 35.47. The plaintiff has requested this matter be certified as a class action. We plan to vigorously defend our position in this litigation. We cannot assure you that we will prevail in this lawsuit and our defense could be costly and consume the time of our management. We are unable to predict the outcome of this case. However, an adverse resolution of this matter could materially affect our financial position and results of operations.

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

-----

At the Annual Meeting of Shareholders on December 18, 2002, the Company's shareholders elected all four nominees to the Board of Director. The results of the voting were as follows:

Nominee	For	Votes Withheld
-----	---	-----
Ronald W. Parker	7,548,259	161,820
Bobby L. Clairday	7,551,259	159,225
Raymond D. Phillips	7,551,717	158,767
Butler E. Powell	7,551,737	158,747

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

-----

(a) Exhibits:

10.1 Third amended and restated loan agreement between the Company and Wells Fargo Bank (Texas), N.A. dated January 22, 2003 but effective December 29, 2002.

10.2 Amended Employment Agreement between the Company and Ronald W. Parker dated December 16, 2002.

10.3 Form of Executive Employment Contract.

99.1 Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Form 8-K filed under Item 5 - other events

On December 23, 2002 the Company filed a report on Form 8-K, amending the Company's Amended and Restated By-Laws limiting the business that can be conducted at any meeting of the shareholders, and detailing proper procedures for nominations to the Board of Directors.

On December 20, 2002 the Company filed a report on Form 8-K, announcing the resignation of two Directors and the appointment of two new Directors, and publishing an agreement between the Company and Newcastle Partners, L.P.

On December 9, 2002 the Company filed a report on Form 8-K, announcing that the Company had received full payment on a note receivable owed to the Company by the Company's former Chief Executive Officer.

SIGNATURES  
-----

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

PIZZA INN, INC.  
Registrant

By: /s/Ronald W. Parker  
-----  
Ronald W. Parker  
President and Chief Executive Officer

By: /s/Shawn M. Preator  
-----  
Shawn M. Preator  
Chief Financial Officer

Dated: February 11, 2003

CERTIFICATION  
-----

I, Ronald W. Parker, Chief Executive Officer of Pizza Inn, Inc. certify that:

1. I have reviewed the quarterly report on Form 10-Q of Pizza Inn, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the

registrant's auditors any material weaknesses in internal controls; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 11, 2003

By: /s/Ronald W. Parker  
-----

Ronald W. Parker  
President and Chief Executive Officer

CERTIFICATION  
-----

I, Shawn M. Preator, Chief Financial Officer of Pizza Inn, Inc. certify that:

1. I have reviewed the quarterly report on Form 10-Q of Pizza Inn, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 11, 2003

By: /s/Shawn M. Preator  
-----

Shawn M. Preator  
Chief Financial  
Officer

THIRD AMENDED AND RESTATED LOAN AGREEMENT  
Dated as of January 22, 2003  
between  
WELLS FARGO BANK (TEXAS), NATIONAL ASSOCIATION  
and  
PIZZA INN, INC.

TABLE OF CONTENTS  
-----

	Page
	----
ARTICLE I.	
DEFINITIONS	2
Section 1.1. Definitions	2
Section 1.2. Other Definitional Provisions	14
ARTICLE II.	
REVOLVING CREDIT LOANS	14
Section 2.1. Revolving Credit Commitment	14
Section 2.2. Revolving Credit Note	14
Section 2.3. Repayment of Advances	14
Section 2.4. Interest	14
Section 2.5. Borrowing Procedure	15
Section 2.6. Use of Proceeds	16
Section 2.7. Commitment Fee	16
Section 2.8. Reduction or Termination of Revolving Credit Commitment	16
Section 2.9. Letters of Credit.	17
ARTICLE III.	
TERM LOAN	19
Section 3.1. Term Loan	19
Section 3.2. Intentionally Deleted.	19
Section 3.3. Repayment of Term Loan	20
Section 3.4. Interest	20
ARTICLE IV.	
REAL ESTATE LOAN	20
Section 4.1. Real Estate Loan	20
Section 4.2. Use of Proceeds	20
ARTICLE V.	
PAYMENTS	21
Section 5.1. Method of Payment	21
Section 5.2. Voluntary Prepayment	21
Section 5.3. Mandatory Prepayment of Advances	21
Section 5.4. Withholding Taxes	21
Section 5.5. Computation of Interest	22
ARTICLE VI.	
SPECIAL PROVISIONS REGARDING LIBOR ADVANCES	22
Section 6.1. Conversions and Continuations	22
Section 6.2. Additional Costs.	22
Section 6.3. Limitation on Types of Advances	24
Section 6.4. Illegality	24
Section 6.5. Treatment of Affected Advances	24
Section 6.6. Compensation	25
Section 6.7. Capital Adequacy	25
ARTICLE VII.	
SECURITY	26
Section 7.1. Collateral	26
Section 7.2. Existing Liens to Continue	26
Section 7.3. Setoff	26
Section 7.4. Guaranty	27
ARTICLE VIII.	
CONDITIONS PRECEDENT AND CLOSING	27
Section 8.1. Conditions Precedent to Initial Advance	27
Section 8.2. [Intentionally Deleted].	28
Section 8.3. Conditions Precedent to All Advances	28
Section 8.4. Closing	29
ARTICLE IX.	
REPRESENTATIONS AND WARRANTIES	29
Section 9.1. Corporate Existence	29
Section 9.2. Financial Statements	29
Section 9.3. Corporate Action; No Breach	30
Section 9.4. Operation of Business	30
Section 9.5. Litigation and Judgments	30

Section 9.6.	Rights in Properties; Liens	30
Section 9.7.	Enforceability	31
Section 9.8.	Approvals	31
Section 9.9.	Debt	31
Section 9.10.	Taxes	31
Section 9.11.	Use of Proceeds; Margin Securities	31
Section 9.12.	ERISA	31
Section 9.13.	Disclosure	32
Section 9.14.	Subsidiaries	32
Section 9.15.	Agreements	32
Section 9.16.	Compliance with Laws	32
Section 9.17.	Inventory	32
Section 9.18.	Investment Company Act	32
Section 9.19.	Public Utility Holding Company Act	32
Section 9.20.	Environmental Matters	33
ARTICLE X.		
POSITIVE COVENANTS		34
Section 10.1.	Reporting Requirements	34
Section 10.2.	Maintenance of Existence; Conduct of Business	36
Section 10.3.	Maintenance of Properties	36
Section 10.4.	Taxes and Claims	36
Section 10.5.	Insurance	36
Section 10.6.	Inspection Rights	37
Section 10.7.	Keeping Books and Records	37
Section 10.8.	Compliance with Laws	37
Section 10.9.	Compliance with Agreements	37
Section 10.10.	Further Assurances	37
Section 10.11.	ERISA	37
Section 10.12.	Change of Control	37
Section 10.13.	Interest Rate Protection	38
ARTICLE XI.		
NEGATIVE COVENANTS		38
Section 11.1.	Debt	38
Section 11.2.	Limitation on Liens	38
Section 11.3.	Mergers, Etc	39
Section 11.4.	Restricted Payments	39
Section 11.5.	Investments	40
Section 11.6.	Limitation on Issuance of Capital Stock	41
Section 11.7.	Transactions With Affiliates	41
Section 11.8.	Disposition of Assets	41
Section 11.9.	Sale and Leaseback	42
Section 11.10.	Prepayment of Debt	42
Section 11.11.	Nature of Business	42
Section 11.12.	Environmental Protection	42
Section 11.13.	Accounting	42
ARTICLE XII.		
FINANCIAL COVENANTS		43
Section 12.1.	Current Ratio	43
Section 12.2.	Funded Debt Ratio	43
Section 12.3.	Fixed Charge Coverage Ratio	43
Section 12.4.	Operating Leases	43
ARTICLE XIII.		
DEFAULT		43
Section 13.1.	Events of Default	43
Section 13.2.	Remedies	46
Section 13.3.	Performance by the Bank	47
ARTICLE XIV.		
MISCELLANEOUS		47
Section 14.1.	Expenses	47
Section 14.2.	INDEMNIFICATION	47
Section 14.3.	Limitation of Liability	48
Section 14.4.	No Duty	48
Section 14.5.	No Fiduciary Relationship	48
Section 14.6.	Equitable Relief	48
Section 14.7.	No Waiver; Cumulative Remedies	49
Section 14.8.	Successors; Assignment	49
Section 14.9.	Participations	49
Section 14.10.	Survival	49
Section 14.11.	ENTIRE AGREEMENT	49
Section 14.12.	Amendments, Etc	49
Section 14.13.	Maximum Interest Rate	50
Section 14.14.	Notices	50
Section 14.15.	Governing Law; Venue; Service of Process	50
Section 14.16.	Arbitration.	51
Section 14.17.	Counterparts	53
Section 14.18.	Severability	53
Section 14.19.	Headings	53
Section 14.20.	Non-Application of Chapter 346 of Texas Finance Code	53
Section 14.21.	Construction	53
Section 14.22.	Independence of Covenants	53



-----  
THIRD AMENDED AND RESTATED LOAN AGREEMENT  
-----

THIS THIRD AMENDED AND RESTATED LOAN AGREEMENT (this "Agreement"), is executed as of January 22, 2003 (the "Execution Date"), effective for all purposes as of December 29, 2002 (the "Effective Date"), between PIZZA INN, INC., a corporation duly organized and validly existing under the laws of the State of Missouri (the "Borrower"), and WELLS FARGO BANK (TEXAS), NATIONAL ASSOCIATION (the "Bank").

-----  
RECITALS:  
-----

WHEREAS, Borrower entered into that certain Loan Agreement dated as of December 1, 1994 with The Provident Bank and Bank, as amended by (a) First Amendment to Loan Agreement dated April 28, 1995, (b) Second Amendment to Loan Agreement dated November 30, 1995 (the "Second Amendment"), (c) Third Amendment to Loan Agreement dated June 28, 1996, and (d) Fourth Amendment to Loan Agreement dated April 1, 1997 (as amended, the "1994 Loan Agreement"); and

WHEREAS, pursuant to the terms of the Second Amendment, the Bank acquired all of The Provident Bank's rights and obligations under the 1994 Loan Agreement and the other Loan Documents, and the Bank became the sole bank thereunder; and

WHEREAS, the Borrower and the Bank (a) renewed, extended and restructured the existing indebtedness under the 1994 Loan Agreement and (b) amended and restated the 1994 Loan Agreement in its entirety by entering into that certain Amended and Restated Loan Agreement dated as of August 28, 1997, as amended by (a) First Amendment to Amended and Restated Loan Agreement dated as of September 14, 1998 and (b) Second Amendment to Amended and Restated Loan Agreement dated as of August 31, 1999 (as amended, the "1997 Loan Agreement"); and

WHEREAS, the Borrower and the Bank (a) renewed, extended and restructured the existing indebtedness under the 1997 Loan Agreement and (b) amended and restated the 1997 Loan Agreement in its entirety by entering into that certain Second Amended and Restated Loan Agreement dated as of March 31, 2000, as amended by (a) First Amendment to Second Amended and Restated Loan Agreement dated as of December 28, 2000, (b) Second Amendment to Second Amended and Restated Loan Agreement dated as of January 31, 2002, and (c) Third Amendment to Second Amended and Restated Loan Agreement dated as of September 26, 2002 (as amended, the "Existing Loan Agreement").

WHEREAS, the Borrower has requested the Bank to make certain amendments and modifications to the terms and provisions of the Existing Loan Agreement and to amend and restate the Existing Loan Agreement in its entirety; and WHEREAS, subject to the terms and provisions of this Agreement, the Bank is willing to amend and modify the terms and provisions of the Existing Loan Agreement in certain respects and to amend and restate the Existing Loan Agreement in its entirety; NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree that the Existing Loan Agreement is amended and restated in its entirety as of the Effective Date to hereafter read as follows:

ARTICLE I.

Definitions

Section 1.1. Definitions. As used in this Agreement, the following terms have the following meanings:  
"AAA" has the meaning set forth in Section 14.16(b).  
"Additional Costs" has the meaning set forth in Section 6.2.  
"Advance" means the Existing Loans and any advance of funds by the Bank to the Borrower pursuant to Article II, Article III or Article IV and the Continuation or Conversion thereof pursuant to the provisions hereof.  
"Advance Request Form" means, a certificate, in substantially the form of Exhibit C hereto, properly completed and signed by the Borrower requesting a Revolving Credit Advance or the Term Loan Advance.

"Affiliate" means, as to any Person, any other Person (a) that directly or  
-----  
indirectly, through one or more intermediaries, controls or is controlled by, or  
----  
is under common control with, such Person; (b) that directly or indirectly  
beneficially owns or holds five percent (5%) or more of any class of voting  
stock of such Person; or (c) five percent (5%) or more of the voting stock of  
which is directly or indirectly beneficially owned or held by the Person in  
question. The term "control" means possession, directly or indirectly, of the  
-----

power to direct or cause direction of the management and policies of a Person,  
whether through the ownership of voting securities, by contract, or otherwise;  
provided, however, in no event shall the Bank be deemed an Affiliate of the  
Borrower or any of its Subsidiaries.

"Applicable Lending Office" means, for each Type of Advance, the lending office  
-----

of the Bank (or of an Affiliate of Bank) designated for such Type of Advance  
below its name on the signature pages hereof or such other office of Bank (or of  
an Affiliate of Bank) as Bank may from time to time specify to the Borrower as  
the office by which its Advances of such Type are to be made and maintained.

"Applicable Rate" means: (a) during the period that an Advance is a Prime Rate  
-----

Advance, the Prime Rate plus the Prime Rate Margin applicable to such Advance;  
and (b) during the period that an Advance is a LIBOR Advance, the LIBOR Rate  
plus the LIBOR Rate Margin applicable to such Advance.

"Authorized Officer" means the chief executive officer, the chief operating  
-----

officer, the chief financial officer, the controller or the secretary of a  
---

corporation.  
---

"Base LIBOR" means, for any LIBOR Advance for any Interest Period, the rate  
-----

per annum for United States dollar deposits quoted by the Reference Bank as the  
Inter-Bank Market Offered Rate on the date that is two Business Days prior to  
the Interest Period, with the understanding that such rate is quoted by the  
Reference Bank for the purpose of calculating effective rates of interest for  
loans making reference thereto, on the first day of an Interest Period for  
delivery of funds on such date for a period of time approximately equal to the  
number of days in such Interest Period, and in an amount approximately equal to  
the principal amount to which such Interest Period applies. Borrower  
understands and agrees that the Reference Bank may base its quotation of the  
Inter-Bank Market Offered Rate upon such offers or other market indicators of  
the Inter-Bank Market as the Reference Bank, in its sole discretion, deems  
appropriate including, without limitation, the rate offered for United States  
dollar deposits on the London Inter-Bank Market.

"Basle Accord" means, the proposals for risk-based capital framework described  
-----

by the Basle Committee on Banking Regulations and Supervisory Practices in its  
paper entitled "International Convergence of Capital Measurement and Capital  
Standards" dated July 1988, as amended, supplemented and otherwise modified and  
in effect from time to time, or any replacement thereof.

"Business Day" means (a) any day on which commercial banks are not authorized or  
-----

required to close in Dallas, Texas, and (b) with respect to all borrowings,  
payments, Conversions, Continuations, Interest Periods, and notices in  
connection with LIBOR Advances, any day which is a Business Day described in  
clause a above and which is also a day on which dealings in Dollar deposits are  
-----

carried out in the London interbank market.

"Capital Expenditures" means expenditures of Borrower and the Subsidiaries in  
-----

respect of the purchase or other acquisition of fixed or capital assets less the  
-

amounts expended in connection with the construction on the Real Property.

"Capital Lease Obligations" means, as to any Person, the obligations of such  
-----

Person to pay rent or other amounts under a lease of (or other agreement  
--

conveying the right to use) real and/or personal property, which obligations are  
--

required to be classified and accounted for as a capital lease on a balance  
sheet of such Person under GAAP. For purposes of this Agreement, the amount of  
such Capital Lease Obligations shall be the capitalized amount thereof,  
determined in accordance with GAAP.

"Change of Control" means (a) the merger or consolidation of the Borrower with  
-----

any other Person with the effect that the then existing shareholders of the  
Borrower will hold less than fifty percent (50%) of the total voting power of  
the surviving corporation, (b) the acquisition of at least forty percent (40%)  
of the voting power or any class of voting stock of the Borrower by any Person  
or related group of Persons, (c) any existing shareholder of Borrower  
(including, without limitation, Newcastle Partners, L.P., a Texas limited  
partnership, and any of its subsidiaries or Affiliates) or any related group of  
Persons to such existing shareholder beneficially owns, holds or controls,

directly or indirectly, in excess of forty percent (40%) of the voting power or any class of voting stock of the Borrower or (d) Ronald Parker shall cease to be the chief executive officer of the Borrower or, in the opinion of Bank, shall cease to be actively engaged in the management of the Borrower and in its day-to-day operations.

"Closing Date" has the meaning set forth in Section 8.4.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated and rulings issued thereunder.

"Collateral" has the meaning set forth in Section 7.1.

"Commitment Fee Rate" means 0.375% per annum.

"Consolidated Assets" means, at any particular time, all amounts which, in conformity with GAAP, would be included as assets on a consolidated balance sheet of Borrower and the Subsidiaries.

"Consolidated Current Assets" means, at any particular time, all amounts which, in conformity with GAAP, would be included as current assets on a consolidated balance sheet of the Borrower and the Subsidiaries, excluding any prepaid expenses.

"Consolidated Current Liabilities" means, at any particular time, all amounts which, in conformity with GAAP, would be included as current liabilities on a consolidated balance sheet of the Borrower and the Subsidiaries.

"Consolidated Liabilities" means, at any particular time, all amounts which, in conformity with GAAP, would be included as liabilities on a consolidated balance sheet of the Borrower and the Subsidiaries.

"Consolidated Net Income" means, for any period, the aggregate net income (or net loss) of the Borrower and the Subsidiaries on a consolidated basis as determined in accordance with GAAP.

"Construction Loan Agreement" means that certain Construction Loan Agreement between the Borrower and the Bank dated as of December 28, 2000, executed in connection with the Real Estate Loan, together with all amendments, modifications and supplements thereto.

"Continue," "Continuation," and "Continued" shall refer to the continuation pursuant to Section 6.1 of a LIBOR Advance as a LIBOR Advance from one Interest Period to the next Interest Period.

"Convert," "Conversion," and "Converted" shall refer to a conversion pursuant to Article VI of one Type of Advance into another Type of Advance.

"Current Ratio" means, at any particular time, the ratio of Consolidated Current Assets to Consolidated Current Liabilities.

"Debt" means, as to any Person at any time (without duplication): (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, notes, debentures, or other similar instruments, (c)

all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable of such Person arising in the ordinary course of business that are not past due by more than ninety (90) days, (d) all Capital Lease Obligations of such Person, (e) all indebtedness or other obligations of others Guaranteed by such Person, (f) all obligations secured by a Lien existing on property owned by such Person, whether or not the obligations secured thereby have been assumed by such Person or are non-recourse to the credit of such Person, (g) all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers' acceptances, surety or other bonds and similar instruments, and (h) all liabilities of such Person in respect of unfunded vested benefits under any Plan.

"Deed of Trust" means that certain Deed of Trust and Security Agreement dated as of December 28, 2000, executed by Borrower in favor of the Bank in connection with the Real Estate Loan and recorded in Denton County, Texas, together with all amendments, modifications and supplements thereto.

"Default" means an Event of Default or the occurrence of an event or condition which with notice or lapse of time or both would become an Event of Default. "Default Rate" means the lesser of (i) the Maximum Rate or (ii) the sum of the

-----  
Prime Rate in effect from day to day plus three and twenty-five one hundredths percent (3.25%).

"Dispute" has the meaning set forth in Section 14.16(a).  
-----

"Dollars" and "\$" mean lawful money of the United States of America.  
-----

"Domestic Subsidiaries" means Barko Realty, Inc., a Texas corporation, R-Check, Inc., a Texas corporation, and Pizza Inn of Delaware, Inc., a Delaware corporation, and any other subsidiaries organized under the laws of the jurisdiction of any state in the United States which have guaranteed the Obligations pursuant to the Guaranty.

"EBITDA" means, for the preceding 12 month period, Consolidated Net Income calculated before federal income taxes, plus depreciation and amortization and interest expenses, minus (a) any extraordinary gains or losses of the Borrower during the period in question, plus (b) any write-off (whether as a bad debt

expense or otherwise) resulting directly from the loan made by the Borrower to C. Jeffrey Rogers on October 6, 1999 in the original principal amount of \$1,949,697.51 or minus any recovery resulting directly from such loan.

"Environmental Laws" means any and all federal, state, and local laws, regulations, and requirements pertaining to health, safety, or the environment,

including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601 et seq., the Resource

Conservation and Recovery Act of 1976, 42 U.S.C. 6901 et seq., the Clean Air Act, 42 U.S.C. 7401 et seq., the Clean Water Act, 33 U.S.C. 1251 et seq.,

and the Toxic Substances Control Act, 15 U.S.C. 2601 et seq., as such laws, regulations, and requirements may be amended or supplemented from time to time.

"Environmental Liabilities" means, as to any Person, all liabilities, obligations, responsibilities, Remedial Actions, losses, damages, punitive

damages, consequential damages, treble damages, costs, and expenses (including, without limitation, all reasonable fees, disbursements and expenses of counsel,

expert and consulting fees and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand, by any Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute, including any Environmental Law, permit, order or agreement with any Governmental Authority or other Person, arising from environmental, health or safety conditions or the Release or threatened Release of a Hazardous Material into the environment, resulting from the past, present, or future operations of such Person or its Affiliates.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereunder.

"ERISA Affiliate" means any corporation or trade or business which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Borrower or is under common control (within the meaning of Section 414(c) of the Code) with the Borrower.

"Event of Default" has the meaning specified in Section 13.1.

"Existing Letters of Credit" means those letters of credit more specifically described on Schedule 1.1(a) attached hereto.

"Existing Loans" means the existing revolving credit loans provided by the Bank to the Borrower pursuant to the Existing Loan Agreement.

"Facility Fee" means Seventeen Thousand Five Hundred Dollars (\$17,500.00).

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if

necessary, to the nearest 1/16 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on federal

funds transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if such rate is not so published on such next succeeding Business Day, the Federal Funds Rate for any day shall be the average rate charged to Wells Fargo Bank (Texas), National Association on such day on federal funds transactions as determined by the Bank.

"Fixed Charge Coverage Ratio" means, at any time, the quotient determined by

-----  
dividing (a) the sum of (i) EBITDA for the preceding twelve (12) calendar

---  
months, minus (ii) treasury stock purchases made by the Borrower for the

---  
preceding twelve (12) calendar months, minus (iii) dividends paid by the

---  
Borrower during the preceding twelve (12) calendar months, by (b) the sum of (i)

---  
all scheduled payments on all Long Term Debt of the Borrower and the Subsidiaries and all scheduled payments under Capital Lease Obligations of the Borrower and the Subsidiaries to be paid during the next twelve (12) calendar months, plus (ii) interest expenses and tax expenses (to the extent paid in cash) of the Borrower and the Subsidiaries for the preceding twelve (12) calendar months.

"Foreign Subsidiaries" means PIBCO, Ltd., a Bermuda corporation, Pizza Inn of

-----  
South Africa, a South Africa corporation, and Pizza Inn Servicos De Gestao De

-  
Franchising Lda., a Madeira, Portugal corporation, collectively.

-  
"Funded Debt Ratio" means, at any time, the quotient determined by dividing (a)

-----  
the sum of all Debt for borrowed money, Capital Lease Obligations and purchase money Debt of the Borrower and the Subsidiaries (including the current portion of such Debt which constitutes Long Term Debt), by (b) EBITDA for the preceding twelve (12) complete fiscal months.

"GAAP" means generally accepted accounting principles, applied on a consistent

-----  
basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or in statements of the Financial Accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question. Accounting principles are applied on a "consistent basis" when the accounting principles applied in a current period are comparable in all material respects to those accounting principles applied in a preceding period.

"Governmental Authority" means any nation or government, any state or political

-----  
subdivision thereof and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such

-----  
Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect the obligee against loss in respect thereof (in whole or in part), provided that the term "Guarantee" shall not include endorsements for collection or deposit in the

-----  
ordinary course of business. The term "Guarantee" used as a verb has a

---  
corresponding meaning.

---  
"Guarantors" means all Domestic Subsidiaries and any future Domestic

-----  
Subsidiaries which become a party to the Guaranty.

-----  
"Guaranty" means the Third Amended and Restated Guaranty of Guarantors in favor

-----  
of the Bank, in substantially the form of Exhibit H hereto, as the same may be

-----  
amended, supplemented or modified from time to time.

"Hazardous Material" means any substance, product, waste, pollutant, material,

-----  
chemical, contaminant, constituent, or other material which is or becomes listed, regulated, or addressed under any Environmental Law, including, without limitation, asbestos, petroleum, and polychlorinated biphenyls.

"Hedging Obligations" of a Person means any and all obligations of such Person,

-----  
whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to

such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collateral protection agreements, forward rate currency or interest rate options, puts and warrants, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Interest Period" means the period commencing, with respect to any LIBOR

Advances, on the date such LIBOR Advances are made or Converted from Advances of

another Type or, in the case of each subsequent, successive Interest Period applicable to a LIBOR Advance, the last day of the next preceding Interest Period with respect to such Advance, and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Borrower may select as provided in Section 2.5 or 6.1 hereof, except that each

such Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (a) each Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day or, if such succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day; (b) for Revolving Credit Advances, any Interest Period which would otherwise extend beyond the Termination Date shall end on the Termination Date; (c) for the Term Loan, any Interest Period which would otherwise extend beyond the Term Loan Maturity Date shall end on the Term Loan Maturity Date; and (d) no more than three (3) Interest Periods shall be in effect at the same time.

"Interest Rate Agreement" means any interest rate protection agreement, interest

rate future, interest rate option, interest rate swap, interest rate cap or other interest rate hedge or arrangement which is designed solely to protect against fluctuations in interest rates and does not increase the Debt of the obligor outstanding at any time (other than as a result of fluctuations in interest rates) under which the Borrower is a party or a beneficiary.

"Letter of Credit" means the Existing Letters of Credit and any letter of credit

issued by the Bank for the account of the Borrower pursuant to Section 2.10(a).

"Letter of Credit Disbursement" means a disbursement by the Bank to the

beneficiary of a Letter of Credit in connection with a drawing thereunder.

"Letter of Credit Liabilities" means, at any time, the aggregate face amount of

all outstanding Letters of Credit.

"Letter of Credit Request Form" means a certificate, substantially in the form

of Exhibit F hereto, properly completed and signed by the Borrower requesting

issuance of a Letter of Credit.

"LIBOR Advances" means Advances the interest rates on which are determined on

the basis of the rates referred to in the definition of LIBOR Rate in this

Section 1.1.

"LIBOR Rate" means, for any LIBOR Advance for any Interest Period, the rate per

annum determined pursuant to the following formula: (a) Base LIBOR applicable to such LIBOR Advance for such Interest Period, divided by (b) one hundred percent (100%) minus the LIBOR Reserve Percentage for such LIBOR Advance for such Interest Period.

"LIBOR Rate Margin" means, with respect to the Term Loan and the Revolving

Credit Loans, at such time and from time to time as the relevant Funded Debt

Ratio is in one of the following ranges, the percentage per annum set forth

opposite such Funded Debt Ratio:

Funded Debt Ratio	Percentage
Less than 2.0 to 1.0	1.25%
2.0 to 1.0 or greater and less than 2.5 to 1.0	1.50%
2.5 to 1.0 or greater and less than 3.0 to 1.0	1.75%

The Borrower shall give written notice to the Bank of any changes in the Funded Debt Ratio which results in a change to the LIBOR Rate Margin concurrently with its delivery of the items required under Section 10.1(c) hereof, and any change to the LIBOR Rate Margin shall be effective with respect to any Interest Period

commencing after the Bank has received such information.

"LIBOR Reserve Percentage" means, for any LIBOR Advance for any Interest  
-----  
Period, the reserve percentage prescribed by the Board of Governors of the Federal Reserve system (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D), adjusted by the Bank for expected changes in such reserve percentage during the applicable Interest Period.

"Lien" means any lien, mortgage, security interest, tax lien, pledge,  
----  
charge, hypothecation, assignment, preference, priority, or other encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or title retention agreement), whether arising by contract, operation of law, or otherwise.

"Loan Documents" means this Agreement, the Notes, the Real Estate Loan  
-----  
Documents, the Security Documents, the Guaranty, and all promissory notes,  
-----  
security agreements, deeds of trust, assignments, guaranties, and other  
-----  
instruments, documents, and agreements executed and delivered pursuant to or in  
-----

connection with this Agreement, as such instruments, documents, and agreements may be amended, modified, renewed, extended, or supplemented from time to time.

"Long Term Debt" means any Debt for borrowed money which will not mature or  
-----  
become due within the next twelve (12) months.

---  
"Material Debt" has the meaning set forth in Section 13.1(j).  
-----

"Maximum Rate" means the maximum rate of interest under applicable law that the  
-----  
Bank may charge the Borrower. The Maximum Rate shall be calculated in a manner that takes into account any and all fees, payments, and other charges in respect of the Loan Documents that constitute interest under applicable law. Each change in any interest rate provided for herein based upon the Maximum Rate resulting from a change in the Maximum Rate shall take effect without notice to the Borrower at the time of such change in the Maximum Rate. For purposes of determining the Maximum Rate under Texas law, the applicable rate ceiling shall be the weekly ceiling described in, and computed in accordance with, Chapter 303 of the Texas Finance Code.

"Monthly Payment Date" means the last Business Day of each calendar month of  
-----  
each year, the first of which shall be the first such day after the Closing  
--  
Date.  
--

"Multiemployer Plan" means a multiemployer plan defined as such in Section 3(37)  
-----  
of ERISA to which contributions have been made by the Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Notes" means, collectively, the Revolving Credit Note, the Term Note and the  
-----  
Real Estate Note.

---  
"Obligated Party" means each Guarantor and any other Person who is or becomes a  
-----  
party to any agreement that guarantees or secures payment and performance of the Obligations or any part thereof.

"Obligations" means all obligations, indebtedness, and liabilities of the  
-----  
Borrower to the Bank arising pursuant to any of the Loan Documents, now existing  
-----  
or hereafter arising, whether direct, indirect, related, unrelated, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several, including, without limitation, the obligations, indebtedness, and liabilities of the Borrower under this Agreement and the other Loan Documents and Hedging Obligations, and all interest accruing thereon and all attorneys' fees and other expenses incurred in the enforcement or collection thereof.

"Operating Lease" means any lease (other than a lease constituting a Capital  
-----  
Lease Obligation) of real or personal property.  
--

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding  
-----  
to all or any of its functions under ERISA.

"Person" means any individual, corporation, business trust, association,  
-----  
company, partnership, joint venture, Governmental Authority, or other entity.  
-----

"Plan" means any employee benefit or other plan established or maintained by the  
-----  
Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Pledged Shares" means 100% of the shares of stock of the Domestic Subsidiaries,  
-----  
owned or to be owned by the Borrower or any of the Subsidiaries, and all

dividends, cash, stock dividends, instruments and other property from time to time received, receivable by, or otherwise distributed to, the Borrower or any Subsidiary for its account in respect of or in exchange for any or all of such shares.

"Prime Rate" means, at any time, the rate of interest per annum then most recently established by Wells Fargo Bank (Texas), National Association as its prime rate, which rate may not necessarily be the lowest rate of interest charged by Wells Fargo Bank (Texas), National Association to its borrowers. Each change in any interest rate provided for herein based upon the Prime Rate resulting from a change in the Prime Rate shall take effect without notice to the Borrower at the time of such change in the Prime Rate.

"Prime Rate Advances" means Advances that bear interest at rates based upon the Prime Rate.

"Prime Rate Margin" means, with respect to the Term Loan and the Revolving Credit Loans, at any time, the following percentage determined by reference to the Funded Debt Ratio then existing:

FUNDED DEBT RATIO	PERCENTAGE
Less than 2.0 to 1.0	-1.00%
2.0 to 1.0 or greater and less than 2.5 to 1.0	-0.75%
2.5 to 1.0 or greater and less than 3.0 to 1.0	-0.50%

The Borrower shall give written notice to the Bank of any changes in the Funded Debt Ratio which results in a change to the Prime Rate Margin concurrently with its delivery of the items required under Section 10.1(c)

hereof, and any change to the Prime Rate Margin shall be effective the first day of the next fiscal quarter.

"Principal Office" means the Dallas office of the Bank, presently located at 1445 Ross Avenue, Dallas, Texas.

"Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"Real Estate Loan" means the real estate loan made by Bank to Borrower pursuant to the Existing Loan Agreement and the Real Estate Loan Documents.

"Real Estate Loan Documents" means the Construction Loan Agreement, the Real Estate Note, the Deed of Trust, UCC financing statements and all other instruments, documents and agreements now or hereafter executed and delivered pursuant to or in connection with the Real Estate Loan, as the same may be amended, modified, renewed, extended or supplemented from time to time.

"Real Estate Maturity Date" means 10:00 A.M. Dallas, Texas time on December 28, 2007, or such earlier date and time as provided in this Agreement; provided, however, if such date is not a Business Day, the "Real Estate Maturity Date" shall be the first Business Day following such date.

"Real Estate Note" means that certain Promissory Note dated as of December 28, 2000, executed by the Borrower and payable to the order of the Bank in the aggregate principal amount of Eight Million One Hundred Twenty-Five Thousand Dollars (\$8,125,000), together with all amendments, modifications, and renewals thereof.

"Real Property" means the real property and interests in real property identified on Schedule 1.1(b) attached hereto and all improvements and fixtures thereon and all appurtenances thereto.

"Reference Bank" means Wells Fargo Bank (Texas), National Association. If for any reason Wells Fargo Bank (Texas), National Association shall no longer participate in the Eurodollar market, then "Reference Bank" shall thereafter mean such financial institution as the Bank may from time to time specify to the Borrower.



"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as the same may be amended or supplemented from time to time.

"Regulatory Change" means any change after the date of this Agreement in United States federal, state, or foreign laws or regulations (including Regulation D) or the adoption or making after such date of any interpretations, directives, or requests applying to a class of banks including the Bank of or under any United States federal or state, or any foreign, laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Release" means, as to any Person, any release, spill, emission, leaking, pumping, injection, deposit, disposal, disbursement, leaching, or migration of Hazardous Materials into the indoor or outdoor environment or into or out of property owned by such Person, including, without limitation, the movement of Hazardous Materials through or in the air, soil, surface water, ground water, or property.

"Remedial Action" means all actions required to (a) clean up, remove, treat, or otherwise address Hazardous Materials in the indoor or outdoor environment, (b) prevent the Release or threat of Release or minimize the further Release of Hazardous Materials so that they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, or (c) perform pre-remedial studies and investigations and post-remedial monitoring and care.

"Reportable Event" means any of the events set forth in Section 4043 of ERISA.

"Revolving Credit Advance" means an Advance under the Revolving Credit Loan.

"Revolving Credit Commitment" means the obligation of the Bank to make Revolving Credit Advances hereunder in an aggregate principal amount at any one time outstanding up to but not exceeding Seven Million and No/100 Dollars (\$7,000,000), as the same will be automatically reduced quarterly pursuant to Section 2.8(a) and may further be voluntarily reduced pursuant to Section 2.8(b) or terminated pursuant to Section 2.8(b) or 13.2.

"Revolving Credit Loan" means the Existing Loans and the additional revolving credit loans made or to be made hereunder to Borrower pursuant to Section 2.1.

"Revolving Credit Note" means the Sixth Amended and Restated Revolving Credit Note executed by the Borrower and payable to the order of the Bank in the aggregate principal amount of the Revolving Credit Commitment, in substantially the form of Exhibit A hereto, together with all amendments, modifications, and renewals thereof.

"RICO" means the Racketeer Influenced and Corrupt Organization Act of 1970, as amended from time to time.

"Security Agreement" means the Third Amended and Restated Security Agreement executed by the Borrower and the Guarantors in favor of the Bank, in substantially the form of Exhibit G hereto, together with all amendments, modifications and renewals thereof.

"Security Documents" means, collectively, the Security Agreement, the Trademark Security Interest Document, the Deed of Trust, and all other mortgages, deeds of trust, security agreements, assignments, financing statements, and other documents securing the Obligations.

"Subsidiary" means any corporation of which at least a majority of the outstanding shares of stock having by the terms thereof ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Borrower or one or more of the Subsidiaries or by the Borrower and one or more of the Subsidiaries.

"Term Loan" means the term loan made by Bank to Borrower pursuant to the Existing Loan Agreement.

"Term Loan Maturity Date" means 10:00 A.M. Dallas, Texas time on March 31, 2004,

-----  
or such earlier date and time as provided in this Agreement; provided, however, if such date is not a Business Day, the "Term Loan Maturity Date" shall be the first Business Day following such date.

"Term Note" means the Term Note dated March 31, 2000, in the stated principal amount of \$5,000,000.00 executed by the Borrower and payable to the order of the

Bank, together with all amendments, modifications and renewals thereof. "Termination Date" means 10:00 A.M. Dallas, Texas time on December 31, 2004, or

-----  
such earlier date and time on which the Revolving Credit Commitment terminates as provided in this Agreement; provided, however, if such date is not a Business Day, the "Termination Date" shall be the first Business Day following such date.

"Trademark Security Interest Document" means the Third Amended and Restated Trademark Security Interest Document executed by the Borrower in favor of the

Bank, in substantially the form of Exhibit I hereto, together with all amendments, modifications and renewals thereof.

"Type" means a type of Advance consisting of either a Prime Rate Advance or a LIBOR Advance.

"UCC" means the Uniform Commercial Code as in effect in the State of Texas.

-----  
Section 1.2. Other Definitional Provisions. All definitions contained in

-----  
this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof," "herein," and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Article and Section references pertain to this Agreement. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. Terms used herein that are defined in the UCC, unless otherwise defined herein, shall have the meanings specified in the UCC.  
ARTICLE II.

#### Revolving Credit Loans

Section 2.1. Revolving Credit Commitment. Subject to the terms and

-----  
conditions of this Agreement, the Bank agrees to make one or more additional Revolving Credit Advances to the Borrower from time to time from the Closing Date to and including the Termination Date, provided that the aggregate amount of all Revolving Credit Advances at any time outstanding shall not exceed the amount of the Revolving Credit Commitment minus the Letter of Credit Liabilities, of which amount, \$2,400,000 is advanced and unpaid as of the Effective Date of this Agreement. Borrower represents and warrants to Bank that such amount is unconditionally owed by Borrower to Bank without offset, defense, or counterclaim of any kind, nature, or description whatsoever. Subject to the foregoing limitations, and the other terms and provisions of this Agreement, the Borrower may borrow, repay, and reborrow hereunder the amount of the Revolving Credit Commitment by means of Prime Rate Advances and LIBOR Advances and, until the Termination Date, the Borrower may Convert Revolving Credit Advances of one Type into Revolving Credit Advances of another Type. Revolving Credit Advances of each Type made by the Bank shall be made and maintained at the Bank's Applicable Lending Office for Revolving Credit Advances of such Type.

Section 2.2. Revolving Credit Note. The obligation of the Borrower to repay

-----  
the Bank for Revolving Credit Advances and interest thereon shall be evidenced by the Revolving Credit Note. The Revolving Credit Note shall be executed by the Borrower, payable to the order of Bank, in the principal amount equal to the Revolving Credit Commitment as originally in effect, and dated the Effective Date.

Section 2.3. Repayment of Advances. The Borrower shall repay the unpaid

-----  
principal amount of all Revolving Credit Advances on the Termination Date.

Section 2.4 Interest. The unpaid principal amount of the Revolving Credit Advances shall

-----  
bear interest at a varying rate per annum equal from day to day to the lesser of (a) the Maximum Rate, or (b) the Applicable Rate. If at any time the Applicable Rate for any Revolving Credit Advance shall exceed the Maximum Rate, thereby causing the interest accruing on such Revolving Credit Advance to be limited to the Maximum Rate, then any subsequent reduction in the Applicable Rate for such Revolving Credit Advance shall not reduce the rate of interest on such Revolving Credit Advance below the Maximum Rate until the aggregate amount of interest accrued on such Revolving Credit Advance equals the aggregate amount of interest which would have accrued on such Revolving Credit Advance if the Applicable Rate had at all times been in effect. Accrued and unpaid interest on the Revolving Credit Advances shall be due and payable as follows:

(i) in the case of all Prime Rate Advances, on each Monthly Payment Date;

(ii) in the case of all LIBOR Advances, on the last day of each Interest Period applicable thereto, and with respect to any Interest Period exceeding three (3) months, on the last day of the third month after the commencement of such Interest Period; and  
(iii) on the Termination Date.

Notwithstanding the foregoing, all outstanding principal of all Revolving Credit Advances and (to the fullest extent permitted by law) any other amount payable by the Borrower under this Agreement or any other Loan Document that is not paid in full when due (whether at stated maturity, by acceleration, or otherwise) shall bear interest at the Default Rate for the period from and including the due date thereof to but excluding the date the same is paid in full. Interest payable at the Default Rate shall be payable from time to time on demand.  
Section 2.5. Borrowing Procedure. The Borrower shall give the Bank notice

-----  
by means of an Advance Request Form of each requested Revolving Credit Advance at least one (1) Business Day before the requested date of each Prime Rate Advance and at least three (3) Business Days before the requested date of each LIBOR Advance, specifying: (a) the requested date of such Revolving Credit Advance (which shall be a Business Day), (b) the amount of such Revolving Credit Advance, (c) the Type of the Revolving Credit Advance, and (d) in the case of a LIBOR Advance, the duration of the Interest Period for such Revolving Credit Advance. The Bank at its option may accept telephonic requests for Revolving Credit Advances, provided that such acceptance shall not constitute a waiver of the Bank's right to delivery of an Advance Request Form in connection with subsequent Revolving Credit Advances. Any telephonic request for a Revolving Credit Advance by the Borrower shall be promptly confirmed by submission of a properly completed Advance Request Form to the Bank. Each LIBOR Advance shall be in the minimum amount of One Hundred Thousand Dollars (\$100,000) or an integral multiple of Fifty Thousand Dollars (\$50,000). Not later than 1:00 p.m. Dallas, Texas time on the date specified for each Revolving Credit Advance hereunder, and subject to the other terms and conditions of this Agreement, the Bank will make each Revolving Credit Advance available to the Borrower by depositing the same, in immediately available funds, in an account of the Borrower (designated by the Borrower) maintained with the Bank at the Principal Office. All notices by the Borrower under this Section shall be irrevocable and shall be given not later than 10:00 A.M. Dallas, Texas, time on the day which is not less than the number of Business Days specified above for such notice. No more than three (3) Interest Periods shall be in effect at the same time for the Revolving Credit Loans.

Section 2.6. Use of Proceeds. The proceeds of Revolving Credit Advances  
-----  
have been and shall be used by the Borrower and the Domestic Subsidiaries for working capital in the ordinary course of business and general corporate purposes.

Section 2.7. Commitment Fee. The Borrower agrees to pay to the Bank a  
-----  
Commitment Fee (herein so called) on the daily average unused amount of the Revolving Credit Commitment, for the period from and including the date of this Agreement to and including the Termination Date, at the Commitment Fee Rate based on a 360 day year and the actual number of days elapsed. The accrued Commitment Fee shall be payable in arrears on each Monthly Payment Date and on the Termination Date. For the purpose of calculating the Commitment Fee, the Revolving Credit Commitment shall be deemed utilized to the extent of all outstanding Revolving Credit Advances and Letter of Credit Liabilities.

Section 2.8. Reduction or Termination of Revolving Credit Commitment.  
-----

(a) Automatic Reduction of Revolving Credit Commitment. Commencing on March  
-----  
31, 2003 and on the last day of each and every June, September, December, and March thereafter until the Termination Date, the Revolving Credit Commitment shall automatically be reduced by an amount equal to \$500,000.00. By way of example, the Revolving Credit Commitment shall equal the following amounts on the dates indicated:

Period -----	Amount -----
From Effective Date March 30, 2003	\$7,000,000.00
From March 31, 2003 through June 29, 2003	\$6,500,000.00
From June 30, 2003 through September 29, 2003	\$6,000,000.00
From September 30, 2003 December 30, 2003	\$5,500,000.00
From December 31, 2003 through March 30, 2004	\$5,000,000.00
From March 31, 2004 through June 29, 2004	\$4,500,000.00
From June 30, 2004	\$4,000,000.00

through September 29, 2004

From September 30, 2004  
through December 30, 2004

\$3,500,000.00

Termination Date

\$3,000,000.00

The Borrower shall simultaneously prepay the amount by which the unpaid principal amount of the Revolving Credit Advance exceeds the Revolving Credit Commitment (after giving effect to such automatic reduction) plus accrued and unpaid interest on the principal amount so prepaid.

(b) Voluntary Reduction or Termination of Revolving Credit Commitment. In

-----  
addition to the automatic reductions required by the terms of Section 2.8(a)  
-----

above, the Borrower shall have the right to terminate in whole or reduce in part the unused portion of the Revolving Credit Commitment upon at least two (2) Business Days' prior notice (which notice shall be irrevocable) to the Bank specifying the effective date thereof, whether a termination or reduction is being made, and the amount of any partial reduction, provided that each partial reduction shall be in the amount of One Hundred Thousand Dollars (\$100,000) or an integral multiple of \$50,000 in excess thereof and the Borrower shall simultaneously prepay the amount by which the unpaid principal amount of the Revolving Credit Advances exceeds the Revolving Credit Commitment (after giving effect to such notice) plus accrued and unpaid interest on the principal amount so prepaid. The Revolving Credit Commitment may not be reinstated after it has been terminated or reduced.

Section 2.9. Letters of Credit.

-----  
(a) Pursuant to the Existing Loan Agreement, the Bank has issued the Existing Letters of Credit which, on the Effective Date of this Agreement, are in the aggregate amount of \$230,000. Subject to the terms and conditions of this Agreement, the Bank agrees to issue one or more additional Letters of Credit for the account of the Borrower or any Domestic Subsidiary from time to time from the date hereof to and including the Termination Date; provided, however, the outstanding Letter of Credit Liabilities (including the face amount of the Existing Letter of Credit) shall not at any time exceed an amount equal to the aggregate amount of the then existing Revolving Credit Commitment minus the outstanding Revolving Credit Advances. Each Letter of Credit shall have an initial expiration date not to exceed 365 days from the date of issuance, shall not have an expiration date beyond the Termination Date, shall be payable in Dollars, shall be satisfactory in form and substance to the Bank and shall be issued pursuant to such documents and instruments consistent with this Agreement (including, without limitation, the Bank's standard application for issuance of letters of credit as then in effect) as the Bank may reasonably require. Each Letter of Credit shall be issued on at least five (5) Business Days prior notice from the Borrower to the Bank by means of a Letter of Credit Request Form describing the transaction proposed to be supported thereby and specifying (1) the requested date of issuance (which shall be a Business Day), (2) the face amount of the Letter of Credit, (3) the expiration date of the Letter of Credit, (4) the name and address of the beneficiary, (5) the conditions permitting the drawing or drawings thereunder and (6) the form of the draft and any other documents required to be presented at the time of any drawing (such request to set forth the exact wording of such documents or to attach copies thereof). Upon fulfillment of the applicable conditions precedent in this Section 2.10(a), the

-----  
Bank shall make the applicable Letter of Credit available to the Borrower or, if so requested by the Borrower, to the beneficiary of the Letter of Credit.

(b) Each Letter of Credit Disbursement shall constitute and be deemed a Revolving Credit Advance (which shall initially be a Prime Rate Advance) by the Bank to the Borrower as of the day and time such Letter of Credit Disbursement is made by the Bank and in the amount of such Letter of Credit Disbursement. The Borrower shall pay to the Bank a letter of credit fee on the outstanding face amount of each Letter of Credit, for the period from and including the date of issuance of such Letter of Credit to the date of its expiration or termination, at a per annum rate equal to the applicable LIBOR Rate Margin for Revolving Credit Loans based on a 360 day year and the actual number of days elapsed. The accrued letter of credit fee shall be payable in arrears on each Monthly Payment Date and on the Termination Date.

(c) The obligations of the Borrower to reimburse the Bank for drawings under each Letter of Credit shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the other Loan Documents under all circumstances whatsoever, including without limitation the following circumstances:

(i) Any lack of validity or enforceability of any Letter of Credit or any other Loan Document;

(ii) Any amendment or waiver of or any consent to departure from any Loan Documents;

(iii) The existence of any claim, setoff, counterclaim, defense or other rights which Borrower, any Obligated Party, or any other Person may have at any time against the beneficiary of any Letter of Credit, the Bank or any other Person, whether in connection with this Agreement or any other Loan Documents or any unrelated transaction;

(iv) Any statement, draft, or other document presented under any Letter of

Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(v) Payment by the Bank under any Letter of Credit against presentation of a draft or other document which does not comply with the terms of such Letter of Credit; or

(vi) Any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

(d) The Borrower assumes all risk of the acts or omissions of any beneficiary of any Letter of Credit with respect to its use of any Letter of Credit. Neither the Bank nor any of its affiliates, correspondents, officers or directors shall have any responsibility or liability to the Borrower or any Person for (i) any error, loss, omission, interruption or delay in transmission,

dispatch or delivery of any one or more messages or advices in connection with any Letter of Credit, whether transmitted by cable, radio, telegraph, mail or otherwise and despite any cipher or code which may be employed, or (ii) any action, inaction or omission which may be taken or suffered by it or them in good faith or through inadvertence in identifying or failing to identify any beneficiary(ies) or otherwise in connection with any Letter of Credit, or (iii) the validity, sufficiency or genuineness of documents even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged, or (iv) any act, error, neglect or default, omission, insolvency or failure in business of any of the Bank's correspondents, or (v) any failure of the beneficiary of any Letter of Credit to comply fully with conditions required in order to draw upon such Letter of Credit, or (vi) if any Letter of Credit is transferable, the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason, or (vii) errors in interpretation of technical terms, or (viii) any consequences arising from causes beyond the control of the Bank. The happening of any one or more of the contingencies referred to in the preceding sentence shall not affect, impair or prevent the vesting of any of the Bank's rights or powers hereunder. If any Letter of Credit (or any Loan Document executed in connection with a Letter of Credit) shall be terminated or revoked by operation of law as to the Borrower or any applicant under any Letter of Credit, or if the payment of any Letter of Credit shall be restrained or attempted to be restrained by court order or any other means, Borrower will indemnify and save the Bank harmless from any and all loss, cost, damage, expense and attorneys' fees which may be suffered or incurred by such Person. In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by the Bank under or in connection with any Letter of Credit, if taken or omitted in good faith, shall not put the Bank under any resulting liability to the Borrower or any other Person. The Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

#### ARTICLE III.

##### Term Loan

Section 3.1. Term Loan. Borrower hereby represents and warrants that on

-----  
March 31, 2000, Bank made the Term Loan to Borrower in the principal amount of \$5,000,000.00 for the purpose set forth in the Existing Loan Agreement. The obligation of the Borrower to repay the Term Loan is currently evidenced by the Term Note, upon which there is owing a principal balance of \$1,666,667 as of the Effective Date of this Agreement. Borrower represents and warrants that such unpaid amount is unconditionally owed by Borrower to Bank without offset, defense, or counterclaim of any kind, nature or description whatsoever. Subject to the other terms and provisions of this Agreement, the Borrower may Convert the Term Loan from one Type into another Type. The Term Loan shall be made and maintained at the Bank's Applicable Lending Office for an Advance of such Type.

Section 3.2. Intentionally Deleted.

Section 3.3. Repayment of Term Loan. The Borrower shall repay the

-----  
outstanding principal amount of the Term Loan in accordance with the terms of the Term Note.

Section 3.4. Interest. The unpaid principal amount of the Term Loan shall

-----  
bear interest prior to maturity at a varying rate per annum equal from day to day to the lesser of (a) the Maximum Rate, or (b) the Applicable Rate. If at any time the Applicable Rate shall exceed the Maximum Rate, thereby causing the interest accruing on the Term Loan to be limited to the Maximum Rate, then any subsequent reduction in the Applicable Rate shall not reduce the rate of interest on the Term Loan below the Maximum Rate until the aggregate amount of interest accrued on the Term Loan equals the aggregate amount of interest which would have accrued on the Term Loan if the Applicable Rate had at all times been in effect. Accrued and unpaid interest on the Term Loan shall be payable as follows:

- (i) in the case of all Prime Rate Advances, on each Monthly Payment Date;
- (ii) in the case of all LIBOR Advances, on the last day of each Interest Period applicable thereto, and with respect to any Interest Period exceeding three (3) months, on the last day of the third month after the commencement of such Interest Period; and
- (iii) on the Term Loan Maturity Date.

Notwithstanding the foregoing, any outstanding principal of the Term Loan and

(to the fullest extent permitted by law) any other amount payable by the Borrower under this Agreement or any other Loan Document that is not paid in full when due (whether at stated maturity, by acceleration, or otherwise) shall bear interest at the Default Rate for the period from and including the due date thereof to but excluding the date the same is paid in full. Interest payable at the Default Rate shall be payable from time to time on demand.

ARTICLE IV.

Real Estate Loan

Section 4.1. Real Estate Loan. Borrower hereby represents and warrants that

-----  
on December 28, 2000, Bank made the Real Estate Loan to Borrower in the principal amount of \$8,125,000.00 for the purposes set forth in the Construction Loan Agreement. The obligation of Borrower to repay the Real Estate Loan is currently evidenced by the Real Estate Note, upon which there is currently owing a principal balance of \$7,752,604 as of the Effective Date of this Agreement. Borrower represents and warrants that such unpaid amount is unconditionally owed by Borrower to Bank without offset, defense or counterclaim of any kind, nature or description whatsoever. The outstanding principal balance of the Real Estate Loan bears interest and is payable as set forth in the Real Estate Loan Documents.

Section 4.2. Use of Proceeds. The proceeds of the Real Estate Loan were

-----  
used to provide permanent financing for the Real Property.

ARTICLE V.

Payments

Section 5.1. Method of Payment. All payments of principal, interest, and

-----  
other amounts to be made by the Borrower under this Agreement and the other Loan

Documents shall be made to the Bank at the Principal Office in Dollars and in immediately available funds, without setoff, deduction, or counterclaim, not later than 10:00 A.M., Dallas, Texas time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day). The Borrower shall, at the time of making each such payment, specify to the Bank the sums payable by the Borrower under this Agreement and the other Loan Documents to which such payment is to be applied (and in the event that the Borrower fails to so specify, or if an Event of Default has occurred and is continuing, the Bank may apply such payment to the Obligations in such order and manner as it may elect in its sole discretion, subject to Sections 5.2, 5.3 and 5.4 hereof).

-----  
Whenever any payment under this Agreement or any other Loan Document shall be stated to be due on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of the payment of interest and Commitment Fee, as the case may be.

Section 5.2. Voluntary Prepayment. The Borrower may, upon at least two (2)

-----  
Business Days' prior notice to the Bank, voluntarily prepay the Advances in whole at any time or from time to time in part without premium or penalty but with accrued interest to the date of prepayment on the amount so prepaid, provided that (a) prepayment of LIBOR Advances may give rise to a claim by the Bank for compensation under Section 6.6, and (b) each partial prepayment shall

-----  
be in the principal amount of One Hundred Thousand Dollars (\$100,000) or an integral multiple of Fifty Thousand Dollars (\$50,000) in excess of One Hundred Thousand Dollars (\$100,000). All notices under this Section shall be irrevocable

and shall be given not later than 10:00 A.M. Dallas, Texas, time on the day which is not less than the number of Business Days specified above for such notice. If the Borrower fails to specify the application of prepayments, prepayments shall be applied in the following order: (i) first, to Prime Rate Advances under the Revolving Credit Loan and then to LIBOR Advances under the Revolving Credit Loan (ii) second, to Prime Rate Advances under the Term Loan and then to LIBOR Advances under the Term Loan; and (iii) third, to Prime Rate Advances under the Real Estate Loan and then to LIBOR Advances under the Real Estate Loan.

Section 5.3. Mandatory Prepayment of Advances. If at any time the

-----  
outstanding principal amount of all Revolving Credit Advances exceeds the Revolving Credit Commitment, the Borrower shall immediately prepay the amount of excess plus accrued and unpaid interest on the amount so prepaid. Any such mandatory prepayments shall be applied to such excess in the following order: first to Prime Rate Advances and then to LIBOR Advances.

Section 5.4. Withholding Taxes. All payments by the Borrower of principal

-----  
of and interest on the Advances and of all fees and other amounts payable under any Loan Document are payable without deduction for or on account of any present or future taxes, duties or other charges levied or imposed by the United States of America or by any political subdivision or taxing authority of or in any of the foregoing through withholding or deduction with respect to any such payments. If any such taxes, duties or other charges are so levied or imposed, the Borrower will pay additional interest or will make additional payments in such amounts so that every net payment of principal of and interest on the Advances and of all other amounts payable by it under any Loan Document, after

withholding or deduction for or on account of any such present or future taxes, duties or other charges, will not be less than the amount provided for herein or therein, provided that the Borrower shall have no obligation to pay such additional amounts to the Bank to the extent that such taxes, duties, or other charges are imposed on or measured by the net income of the Bank by any jurisdiction. The Borrower shall furnish promptly to the Bank official receipts evidencing any such withholding or reduction.

Section 5.5. Computation of Interest. Interest on the Advances and all

other amounts payable by the Borrower hereunder shall be computed on the basis of a year of 365 days and the actual number of days elapsed (including the first day but excluding the last day), except that interest on the Eurodollar Advances shall be computed on the basis of a year of 360 days.

ARTICLE VI.

Special Provisions Regarding LIBOR Advances

Section 6.1. Conversions and Continuations. The Borrower shall have the

right from time to time to Convert all (but not less than all) of an Advance of one Type into an Advance of another Type or to Continue LIBOR Advances as LIBOR Advances by giving the Bank written notice at least one (1) Business Day before Conversion into a Prime Rate Advance and at least three (3) Business Days before Conversion into or Continuation of a LIBOR Advance, specifying: (a) the Conversion or Continuation date, (b) the amount of the Advance to be Converted or Continued, (c) in the case of Conversions, the Type of Advance to be Converted into, and (d) in the case of a Continuation of or Conversion into a LIBOR Advance, the duration of the Interest Period applicable thereto; provided that (i) except for Conversions into Prime Rate Advances, no Conversions shall be made while a Default has occurred and is continuing, and (ii) no more than three (3) Interest Periods shall be in effect at the same time. All notices by the Borrower under this Section shall be irrevocable and shall be given to the Bank not later than 10:00 A.M. Dallas, Texas time on the day which is not less than the number of Business Days specified above for such notice. If the Borrower shall fail to give the Bank the notice as specified above for Continuation or Conversion of a LIBOR Advance prior to the end of the Interest Period with respect thereto, such LIBOR Advance shall be Converted automatically into a Prime Rate Advance on the last day of the then current Interest Period for such LIBOR Advance.

Section 6.2. Additional Costs.

(a) The Borrower shall pay directly to the Bank from time to time such amounts as the Bank may determine to be necessary to compensate it for any costs incurred by the Bank which the Bank reasonably determines are attributable to its making or maintaining of any LIBOR Advances hereunder or its obligation to make any of such Advances hereunder, or any reduction in any amount receivable by the Bank hereunder in respect of any such Advances or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change which:

(i) changes the basis of taxation of any amounts payable to the Bank under this Agreement or the Notes in respect of any of such Advances (other than taxes imposed on the overall net income of the Bank or its Applicable Lending Office for any of such Advances by the jurisdiction in which the Bank has its principal office or such Applicable Lending Office);

(ii) imposes or modifies any reserve, special deposit, minimum capital, capital ratio, or similar requirement relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, the Bank (including any of such Advances or any deposits referred to in the definition of "Base LIBOR" in Section 1.1 hereof); or

(iii) imposes any other condition affecting this Agreement or the Notes or any of such extensions of credit or liabilities or commitments.

The Bank will notify the Borrower of any event occurring after the date of this Agreement which will entitle the Bank to compensation pursuant to this Article

VI as promptly as practicable after it obtains knowledge thereof and determines

to request such compensation (provided that any claim by the Bank for compensation pursuant to this Article VI shall be made within ninety (90) days

after the initial occurrence of the event giving rise to such claim), and will designate a different Applicable Lending Office for the Advances affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of the Bank, violate any law, rule, or regulation or be in any way disadvantageous to the Bank, provided that the Bank shall have no obligation to so designate an Applicable Lending Office located in the United States of America. The Bank will furnish the Borrower with a certificate setting forth the basis and the amount of each request of the Bank for compensation under this Section 6.2(a). If the Bank

requests compensation from the Borrower under this Section 6.2(a), the Borrower

may, by notice to the Bank suspend the obligation of the Bank to make or Continue making, or Convert Advances into, Advances of the Type with respect to which such compensation is requested until the Regulatory Change giving rise to

such request ceases to be in effect (in which case the provisions of Section 6.5

hereof shall be applicable).

(b) Without limiting the effect of the foregoing provisions of this Section

6.2, in the event that, by reason of any Regulatory Change, the Bank either (i)

incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of the Bank which includes deposits by reference to which the interest rate on LIBOR Advances is determined as provided in this Agreement or a category of extensions of credit or other assets of the Bank which includes LIBOR Advances or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if the Bank so elects by notice to the Borrower, the obligation of the Bank to make or Continue making, or Convert Advances into, Advances of such Type hereunder shall be suspended until such Regulatory Change ceases to be in effect (in which case the provisions of Section 6.5 hereof shall be applicable).

(c) Determinations and allocations by the Bank for purposes of this Section

6.2 of the effect of any Regulatory Change on its costs of maintaining its

obligations to make Advances or of making or maintaining Advances or on amounts

receivable by it in respect of Advances, and of the additional amounts required to compensate the Bank in respect of any Additional Costs, shall be conclusive, provided that such determinations and allocations are made in good faith and on a reasonable basis and without duplication of the LIBOR Reserve Percentage. Section 6.3. Limitation on Types of Advances. Anything herein to the

contrary notwithstanding, if with respect to any LIBOR Advances for any Interest Period therefore, the Bank determines (which determination shall be conclusive if made in good faith) that quotations of interest rates for the relevant deposits referred to in the definition of "Base LIBOR" in Section 1.1

hereof are not being provided in the relative amounts or for the relative maturities for purposes of determining the rate of interest for such Advances as provided in this Agreement, then the Bank shall give the Borrower prompt notice thereof specifying the relevant amounts or periods, and so long as such condition remains in effect, the Bank shall be under no obligation to make additional LIBOR Advances or to Convert Prime Rate Advances into LIBOR Advances and the Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding LIBOR Advances, either prepay such LIBOR Advances or Convert such LIBOR Advances into Prime Rate Advances in accordance with the terms of this Agreement. The Bank shall be deemed to have acted in good faith under this Section 6.3 if the Bank is giving notice to its customers generally

of the occurrence of either of the conditions specified in this Section 6.3.

Section 6.4. Illegality. Notwithstanding any other provision of this

Agreement, in the event that it becomes unlawful for the Bank or its Applicable Lending Office to (a) honor its obligation to make LIBOR Advances hereunder or (b) maintain LIBOR Advances hereunder, then the Bank shall promptly notify the Borrower thereof and the Bank's obligation to make or maintain LIBOR Advances and to Convert Prime Rate Advances into LIBOR Advances hereunder shall be suspended until such time as the Bank may again make and maintain LIBOR Advances (in which case the provisions of Section 6.5 hereof shall be applicable).

Section 6.5. Treatment of Affected Advances. If the LIBOR Advances of the

Bank (such LIBOR Advances being hereinafter called "Affected Advances") are to

be Converted pursuant to Section 6.2 or 6.4 hereof, the Bank's Affected Advances

shall be automatically Converted into Prime Rate Advances on the last day(s) of the then current Interest Period(s) for the Affected Advances (or, in the case of a Conversion required by Section 6.2(b) or 6.4 hereof, on such earlier date

as the Bank may specify to the Borrower), and, unless and until the Bank gives notice as provided below that the circumstances specified in Section 6.2 or 6.4

hereof which gave rise to such Conversion no longer exist:

(a) To the extent that the Bank's Affected Advances have been so Converted, all payments and prepayments of principal which would otherwise be applied to the Bank's Affected Advances shall be applied instead to its Prime Rate Advances; and

(b) All Advances which would otherwise be made or Continued by the Bank as LIBOR Advances shall be made as or Converted into Prime Rate Advances and all Advances of the Bank which would otherwise be Converted into LIBOR Advances shall remain as Prime Rate Advances.

Section 6.6. Compensation. The Borrower shall pay to the Bank, upon the

request of the Bank, which request shall be made within one hundred eighty (180)



days after the occurrence of any event specified in subsection (a) or (b)

-----  
below, such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or expense incurred by it as a result of:

(a) Any payment, prepayment or Conversion of a LIBOR Advance for any reason (including, without limitation, the acceleration of the outstanding Advances pursuant to Section 13.2) on a date other than the last day of an Interest

-----  
Period for such LIBOR Advance; or

(b) Any failure by the Borrower for any reason (including, without limitation, the failure of any conditions precedent specified in Article VIII to

-----  
be satisfied) to borrow, Convert, or prepay a LIBOR Advance on the date for such borrowing, Conversion, or prepayment, specified in the relevant notice of borrowing, prepayment, or Conversion under this Agreement.

Without limiting the effect of the preceding sentence, such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest which otherwise would have accrued on the principal amount so paid or Converted or not borrowed for the period from the date of such payment, Conversion, or failure to borrow to the last day of the Interest Period for such LIBOR Advance (or, in the case of a failure to borrow, the Interest Period for such LIBOR Advance which would have commenced on the date specified for such borrowing) at the applicable rate of interest for such LIBOR Advance provided for herein minus (ii) the interest component of the amount the Bank would have bid in the London interbank market.

Section 6.7. Capital Adequacy. If, after the date hereof, the Bank shall

-----  
have determined in good faith that the adoption or implementation of any applicable law, rule, or regulation regarding capital adequacy (including, without limitation, any law, rule, or regulation implementing the Basle Accord),

or any change therein, or any change in the interpretation or administration thereof by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or compliance by the Bank (or its parent) with any guideline, request, or directive regarding capital adequacy (whether or not having the force of law) of any central bank or other Governmental Authority (including, without limitation, any guideline or other requirement implementing the Basle Accord), has or would have the effect of reducing the rate of return on the Bank's (or its parent's) capital as a consequence of its obligations hereunder or the transactions contemplated hereby to a level below that which the Bank (or its parent) could have achieved but for such adoption, implementation, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then from time to time, within ten (10) Business Days after demand by the Bank, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank (or its parent) for such reduction; provided that any claim by the Bank for compensation pursuant to this Section 6.7 shall

-----  
be made within ninety (90) days after the initial occurrence of the event giving rise to such claim. A certificate of the Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive, provided that the determination thereof is made in good faith and on a reasonable basis. In determining such amount or amounts, the Bank may use any reasonable averaging and attribution methods.

#### ARTICLE VII.

##### Security

Section 7.1. Collateral. Borrower hereby acknowledges, agrees and confirms

-----  
that, as continuing security for the full and complete payment and performance of the Obligations, the Security Documents grant to the Bank a Lien in the collateral described below (which, together with any other property and collateral which may now or hereafter secure the Obligations or any part thereof, is sometimes herein called the "Collateral").

-----  
(a) Borrower has previously granted to the Bank a first priority lien on the Real Property and has previously assigned to the Bank all present and future rents, leases, and profits relating to the Real Property, pursuant to the Deed of Trust.

(b) Each of the Borrower and the Guarantors have previously granted to the Bank a first priority security interest in all of its accounts, accounts receivable, equipment, machinery, fixtures, inventory, chattel paper, documents, instruments, the Pledged Shares, and general intangibles, whether now owned or hereafter acquired, and all products and proceeds thereof, pursuant to the Security Agreement and subject to exceptions set forth therein.

(c) Each of the Borrower and the Guarantors have previously executed or shall execute and cause to be executed such further documents and instruments, including without limitation, Uniform Commercial Code financing statements and trademark security interest documents, as the Bank, in its reasonable discretion, deems necessary or desirable to evidence and perfect its Liens and security interests in the Collateral.

Section 7.2. Existing Liens to Continue. Borrower hereby acknowledges,

-----  
agrees and confirms that the Liens previously granted to the Bank shall continue and survive the execution and delivery of this Agreement, and all of the

rights granted to the Bank pursuant to the Security Documents shall also continue and survive the execution and delivery of this Agreement and the other Loan Documents executed in connection herewith; provided, however, to the extent there is any conflict, of whatever nature, between the conditions, terms and provisions of the Security Documents and this Agreement and the other Loan Documents executed in connection herewith, this Agreement and such new Loan Documents shall govern, prevail and control any such conflict or inconsistency. Section 7.3. Setoff. If an Event of Default shall have occurred and is

-----  
continuing, the Bank is hereby authorized at any time and from time to time, without prior notice to the Borrower (any such notice being hereby expressly waived by the Borrower), to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement, the Notes, or any other Loan Document, irrespective of whether or not the Bank shall have made any demand under this Agreement or the Notes, or such other Loan Document and although such obligations may be unmatured. The Bank agrees promptly to notify the Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights and remedies of the Bank hereunder are in addition to other rights and remedies (including, without limitation, other rights of setoff) which the Bank may have. Section 7.4. Guaranty. The Obligations have been and shall continue to be

-----  
unconditionally guaranteed in whole or in part by each of the Subsidiaries (other than the Foreign Subsidiaries) pursuant to the Guaranty.

#### ARTICLE VIII.

#### Conditions Precedent and Closing

Section 8.1. Conditions Precedent to Initial Advance. The effectiveness of

-----  
this Agreement and the obligation of the Bank to make the initial Advance hereunder is subject to the condition precedent that the Bank shall have received on or before the Closing Date all of the following, each dated (unless otherwise indicated) the Closing Date, in form and substance satisfactory to the Bank:

(a) Resolutions. (i) Resolutions of the Board of Directors of the Borrower

-----  
certified by its Secretary or an Assistant Secretary which authorize the execution, delivery, and performance by the Borrower of this Agreement and the other Loan Documents to which the Borrower is or is to be a party; and (ii) resolutions of the Board of Directors of each Guarantor certified by its Secretary or Assistant Secretary which authorize the execution, delivery and performance by the Guarantor of the Guaranty and the other Loan Documents to which such Guarantor is or is to be a party.

(b) Incumbency Certificate. (i) A certificate of incumbency certified by

-----  
the Secretary or an Assistant Secretary of the Borrower certifying the names of the officers of the Borrower authorized to sign this Agreement and each of the other Loan Documents to which the Borrower is or is to be a party (including the certificates contemplated herein) together with specimen signatures of such officers; and (ii) a certificate of incumbency certified by the Secretary or an Assistant Secretary of such Guarantor certifying the names of the officers of such Guarantor authorized to sign the Loan Documents to which such Guarantor is or is to be a party (including the certificates contemplated herein) together with specimen signatures of such officers.

(c) Articles of Incorporation. (i) The articles of incorporation of the

-----  
Borrower certified by the Secretary of State of the state of incorporation of the Borrower and dated within ten (10) days prior to the Closing Date or a certificate from the Secretary or an Assistant Secretary of Borrower certifying that such articles of incorporation have not been amended or otherwise modified since they were delivered to Bank in connection with the Existing Loan Agreement; and (ii) the articles of incorporation of each Subsidiary certified, in the case of each Guarantor only, by the Secretary of State of the jurisdiction of incorporation of such Subsidiary and dated within ten (10) days prior to the Closing Date or a certificate from the Secretary or an Assistant Secretary of such Subsidiary or Guarantor, as the case may be, certifying that such articles of incorporation have not been amended or otherwise modified since they were delivered to Bank in connection with the Existing Loan Agreement.

(d) Bylaws. (i) The bylaws of the Borrower certified by the Secretary or an

-----  
Assistant Secretary of the Borrower or a certificate from the Secretary or an Assistant Secretary of Borrower certifying that such bylaws have not been amended or otherwise modified since they were delivered to Bank in connection with the Existing Loan Agreement; and (ii) the bylaws of each Subsidiary certified by the Secretary or an Assistant Secretary of such Subsidiary or Guarantor, as the case may be, certifying that such bylaws have not been amended or otherwise modified since they were delivered to Bank in connection with the Existing Loan Agreement.

(e) Revolving Credit Note. The Revolving Credit Note executed by the

-----  
Borrower.

(f) Intentionally Deleted.

(g) Amendments to Other Security Documents. Amendments to other Security

Documents as may be necessary in order to preserve and perfect the Bank's first priority Lien in the Collateral.

(h) Attorneys' Fees and Expenses. Evidence that the costs and expenses

(including reasonable attorneys' fees) referred to in Section 14.1, to the extent incurred, shall have been paid in full by the Borrower.

(i) Facility Fee. Evidence that the Facility Fee has been paid in full by

the Borrower.

(j) Interest and Fees. Evidence that all accrued interest and the commitment fee through the Closing Date with respect to the Existing Loans have

been paid in full by the Borrower.

(k) Additional Documentation. Such additional approvals, opinions, or documents as the Bank or its legal counsel, Munsch Hardt Kopf & Harr, P.C., may reasonably request.

Section 8.2. [INTENTIONALLY DELETED].

Section 8.3. Conditions Precedent to All Advances. The obligation of the

Bank to make any Advance (excluding any Continuation or Conversion) is subject to the following additional conditions precedent:

(a) Advance Request Form. The Bank shall have received, in accordance with

Section 2.6, an Advance Request Form, dated the date of such Advance, executed by an Authorized Officer of the Borrower;

(b) No Default. No Default shall have occurred and be continuing, or would

result from such Advance;

(c) Representations and Warranties. All of the representations and

warranties contained in Article IX hereof and in the other Loan Documents shall be true and correct on and as of the date of such Advance with the same force and effect as if such representations and warranties had been made on and as of such date; and

(d) Additional Documentation. The Bank shall have received such additional

approvals, opinions, or documents as the Bank or its legal counsel, Munsch Hardt Kopf & Harr, P.C., may reasonably request.

Section 8.4. Closing. The closing of the transactions contemplated hereby

shall occur no later than January \_\_, 2003, at 10:00 A.M. (Dallas, Texas time),

or such later date and time as the parties hereto may mutually agree (the "Closing Date") at the offices of Munsch Hardt Kopf & Harr, P.C., 1445 Ross

Avenue, Suite 4000, Dallas, Texas 75202.

#### ARTICLE IX.

##### Representations and Warranties

To induce the Bank to enter into this Agreement, the Borrower represents and warrants to the Bank as follows:

Section 9.1. Corporate Existence. The Borrower and each Subsidiary (a) is a

corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation; (b) has all requisite corporate power and authority to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business in all jurisdictions in which the nature of its business makes such qualification necessary and where failure to so qualify would have a material adverse effect on its business, condition (financial or otherwise), operations, prospects, or properties. The Borrower and each Subsidiary has the corporate power and authority to execute, deliver, and perform its obligations under this Agreement and the other Loan Documents to which it is or may become a party.

Section 9.2. Financial Statements. The Borrower has delivered to the Bank

audited consolidated financial statements of the Borrower and its Subsidiaries as at and for the fiscal year ended June 30, 2002, and unaudited consolidated financial statements of the Borrower and its Subsidiaries for the three (3) month period ended September 30, 2002. Such financial statements are true and correct, have been prepared in accordance with GAAP, and fairly and accurately present, on a consolidated basis, the financial condition of the Borrower and its Subsidiaries as of the respective dates indicated therein and the results of operations for the respective periods indicated therein. To the best of Borrower's knowledge, neither the Borrower nor any of its Subsidiaries has any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments, or unrealized or anticipated losses from any unfavorable commitments required by GAAP to be reflected in such financial statements except as reflected in such financial statements. To the best of Borrower's knowledge, there has been no material adverse change in the business, condition (financial

or otherwise), operations, prospects, or properties of the Borrower or any of its Subsidiaries since the effective date of the most recent financial statements referred to in this Section.

Section 9.3. Corporate Action; No Breach. The execution, delivery, and

performance by the Borrower of this Agreement and the other Loan Documents to which the Borrower is or may become a party, the execution, delivery and performance by the Guarantors of the Guaranty and the other Loan Documents to which they are or may become a party, and compliance with the terms and provisions hereof and thereof have been duly authorized by all requisite corporate action on the part of the Borrower and the Guarantors and do not and will not (a) violate or conflict with, or result in a breach of, or require any consent under (i) the articles of incorporation or bylaws of the Borrower or any of the Guarantors, (ii) any applicable law, rule, or regulation or any order, writ, injunction, or decree of any Governmental Authority or arbitrator, or (iii) any agreement or instrument to which the Borrower or any of the Guarantors is a party or by which any of them or any of their property is bound or subject, or (b) constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien (except as provided in Article VII) upon

any of the revenues or assets of the Borrower or any Guarantor.

Section 9.4. Operation of Business. The Borrower and each of its

Subsidiaries possess all licenses, permits, franchises, patents, copyrights, trademarks, service marks and trade names, or rights thereto, necessary to conduct their respective businesses substantially as now conducted and as presently proposed to be conducted, and the Borrower and each of its Subsidiaries are not in violation of any valid rights of others with respect to any of the foregoing. Schedule 9.4 identifies all trademarks, trade names,

service marks, copyrights, patents and applications for any of the foregoing owned by or issued to the Borrower or any of the Subsidiaries and includes the name under which the rights are claimed, and the dates of issuance or application, as the case may be. Except as set forth on Schedule 9.4, neither

the Borrower nor any Subsidiary pays any royalty for the use of such trademarks, trade names, service marks, copyrights, patents and applications, and Borrower has the exclusive right to bring actions for the infringement thereof. No product made or sold by the Borrower or any Subsidiary violates any license granted to the Borrower or such Subsidiary or, to the best of Borrower's knowledge, infringes any trademark, trade name, service mark, copyright or patent of another. There is no pending nor, to be best of Borrower's knowledge, threatened claim of litigation against the Borrower or any Subsidiary contesting its right to use any of the trademarks, trade names and service marks or the validity of any of the copyrights and patents listed on Schedule 9.4 or

asserting the misuse thereof.

Section 9.5. Litigation and Judgments. Except as disclosed on Schedule 9.5

hereto, Borrower has no knowledge of any action, suit, investigation, or proceeding before or by any Governmental Authority or arbitrator pending or threatened against or affecting the Borrower or any Subsidiary, that would, if adversely determined, have a material adverse effect on the business, condition (financial or otherwise), operations, prospects, or properties of the Borrower or any Subsidiary or the ability of the Borrower to pay and perform the Obligations. There are no outstanding judgments against the Borrower or any Subsidiary.

Section 9.6. Rights in Properties; Liens. The Borrower and each Subsidiary

have good and indefeasible title to, or valid leasehold interests in, their respective properties and assets, real and personal, including the properties, assets, and leasehold interests reflected in the financial statements described in Section 9.2, and, to the best of Borrower's knowledge, none of the

properties, assets, or leasehold interests of the Borrower or any Subsidiary is

subject to any Lien, except as permitted by Section 11.2.

Section 9.7. Enforceability. This Agreement constitutes, and the other Loan

Documents to which the Borrower or any Guarantor is party, when delivered, shall constitute the legal, valid, and binding obligations of the Borrower and each such Guarantor, enforceable against the Borrower and each such Guarantor in accordance with their respective terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditors' rights.

Section 9.8. Approvals. No authorization, approval, or consent of, and no

filing or registration with, any Governmental Authority or third party is or will be necessary for the execution, delivery, or performance by the Borrower of this Agreement and by the Borrower or any Guarantor of the other Loan Documents to which the Borrower or such Guarantor, as applicable, is or may become a party or for the validity or enforceability thereof.

Section 9.9. Debt. The Borrower and its Subsidiaries have no Debt, except

as permitted under Section 11.1.

-----  
Section 9.10. Taxes. The Borrower and each Subsidiary have filed all tax

-----  
returns (federal, state, and local) required to be filed, including all income, franchise, employment, property, and sales tax returns, and have paid, subject to any matters being contested in good faith by appropriate proceedings, all of their respective liabilities for taxes, assessments, governmental charges, and other levies that are due and payable. The Borrower knows of no pending investigation of the Borrower or any Subsidiary by any taxing authority or of any pending but unassessed tax liability of the Borrower or any Subsidiary.

Section 9.11. Use of Proceeds; Margin Securities. Neither the Borrower nor

-----  
any Subsidiary is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T, U, or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock.

Section 9.12. ERISA. The Borrower and each Subsidiary are in compliance in

-----  
all material respects with all applicable provisions of ERISA. Neither a Reportable Event nor a Prohibited Transaction has occurred and is continuing with respect to any Plan with the result that there is an unfunded liability currently or prospectively owed by Borrower or any Subsidiary. No notice of intent to terminate a Plan has been filed, nor has any Plan been terminated. No circumstances exist which constitute grounds entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings. Neither the Borrower nor any ERISA Affiliate has completely or partially withdrawn from a Multiemployer Plan. The Borrower and each ERISA Affiliate have met their minimum funding requirements under ERISA with respect to all of their Plans, and the present value of all vested benefits under each Plan do not exceed the fair market value of all Plan assets allocable to such benefits, as determined on the most recent valuation date of the Plan and in accordance with ERISA. Neither the Borrower nor any ERISA Affiliate has incurred any liability to the PBGC under ERISA.

Section 9.13. Disclosure. No statement, information, report,

-----  
representation, or warranty made by the Borrower in this Agreement or in any other Loan Document or furnished to the Bank by the Borrower or any Guarantor in connection with this Agreement or any transaction contemplated hereby contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein, when taken as a whole, not misleading. There is no fact known to the Borrower which has a material adverse effect, or which in the future could reasonably be expected to have a material adverse effect, on the business, condition (financial or otherwise), operations, prospects, or properties of the Borrower or any Subsidiary that has not been disclosed in writing to the Bank.

Section 9.14. Subsidiaries. The Borrower has no Subsidiaries other than

-----  
those listed on Schedule 9.14 hereto, and Schedule 9.14 sets forth the

-----  
jurisdiction of incorporation of each Subsidiary and the percentage of the Borrower's ownership of the outstanding voting stock of each Subsidiary. All of the outstanding capital stock of each Subsidiary has been validly issued, is fully paid, and is nonassessable.

Section 9.15. Agreements. Neither the Borrower nor any Subsidiary is a

-----  
party to any indenture, loan, or credit agreement, or to any lease or other agreement or instrument, or subject to any charter or corporate restriction which could reasonably be expected to have a material adverse effect on the business, condition (financial or otherwise), operations, prospects, or properties of the Borrower or any Subsidiary, or the ability of the Borrower to pay and perform its obligations under the Loan Documents to which it is a party. Neither the Borrower nor any Subsidiary is in default in any respect in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument material to its business to which it is a party.

Section 9.16. Compliance with Laws. Neither the Borrower nor any Subsidiary

-----  
is in violation of any law, rule, regulation, order, or decree of any Governmental Authority or arbitrator, the violation of which would or could reasonably be expected to have a material adverse effect on the business, condition (financial or otherwise), operations, prospects or properties of the Borrower or any Subsidiary.

Section 9.17. Inventory. All inventory of the Borrower and any Subsidiary

-----  
has been and will hereafter be produced in compliance with all applicable laws, rules, regulations, and governmental standards, including, without limitation, the minimum wage and overtime provisions of the Fair Labor Standards Act, as amended (29 U.S.C. 201-219), and the regulations promulgated thereunder.

Section 9.18. Investment Company Act. Neither the Borrower nor any

-----  
Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 9.19. Public Utility Holding Company Act. Neither the Borrower nor

any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 9.20. Environmental Matters. Except as disclosed on Schedule 9.20

hereto:

(a) The Borrower, each Subsidiary, and all of their respective properties, assets, and operations are in full compliance with all Environmental Laws. The Borrower is not aware of, nor has the Borrower received notice of, any past, present, or future conditions, events, activities, practices, or incidents which may interfere with or prevent the compliance or continued compliance of the Borrower and the Subsidiaries with all Environmental Laws;

(b) The Borrower and each Subsidiary have obtained all permits, licenses, and authorizations that are required under applicable Environmental Laws, and all such permits are in good standing and the Borrower and its Subsidiaries are in compliance with all of the terms and conditions of such permits;

(c) No Hazardous Materials exist on, about, or within or have been used, generated, stored, transported, disposed of on, or Released from any of the properties or assets of the Borrower or any Subsidiary. The use which the Borrower and the Subsidiaries make and intend to make of their respective properties and assets will not result in the use, generation, storage, transportation, accumulation, disposal, or Release of any Hazardous Material on, in, or from any of their properties or assets, except for the handling, storage, use, transportation, or generation of materials and products used, produced or generated in the business of food preparation, processing, packaging, warehousing, transportation and restaurant operations including, without limitation, chemicals for processing or preserving food products, chemicals and other substances used for building and grounds maintenance, disinfectants, pesticides, cleaning agents, motor fuels, lubricants, processing by-products and food wastes, all of which have been stored, used, transported and generated in compliance with all Environmental Laws;

(d) Neither the Borrower nor any of its Subsidiaries nor any of their respective currently owned or leased properties or operations is subject to any outstanding or, to the best of its knowledge, threatened order from or agreement with any Governmental Authority or other Person or subject to any judicial or docketed administrative proceeding with respect to (i) failure to comply with Environmental Laws, (ii) Remedial Action, or (iii) any Environmental Liabilities arising from a Release or threatened Release;

(e) There are no conditions or circumstances associated with the currently owned or leased properties or operations of the Borrower or any of its Subsidiaries that could reasonably be expected to give rise to any Environmental Liabilities;

(f) Neither the Borrower nor any of its Subsidiaries is a treatment, storage, or disposal facility requiring a permit under the Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq., regulations thereunder or any

comparable provision of state law;

(g) Neither the Borrower nor any of its Subsidiaries has filed or failed to file any notice required under applicable Environmental Law reporting a Release; and

(h) To the best of Borrower's knowledge, no Lien arising under any Environmental Law has attached to any property or revenues of the Borrower or its Subsidiaries.

ARTICLE X.

Positive Covenants

The Borrower covenants and agrees that, as long as the Obligations or any part thereof are outstanding or the Bank has any Commitment hereunder, the Borrower will perform and observe the following positive covenants:

Section 10.1. Reporting Requirements. The Borrower will furnish to the Bank:

(a) Annual Financial Statements. As soon as available, and in any event

within ninety (90) days after the end of each fiscal year of the Borrower, beginning with the fiscal year ending in June of 2003, (i) a copy of the annual audit report of the Borrower and the Subsidiaries for such fiscal year containing, on a consolidated and (to the extent required by GAAP) consolidating basis, balance sheets and statements of income, retained earnings, and cash flow as at the end of such fiscal year and for the 12-month period then ended, in each case setting forth in comparative form the figures for the preceding fiscal year, all in reasonable detail and audited and certified by PriceWaterhouseCoopers, or other independent certified public accountants of recognized standing acceptable to the Bank, to the effect that such report has been prepared in accordance with GAAP; and (ii) a certificate of such independent certified public accountants to the Bank (A) stating that to their knowledge no Default has occurred and is continuing, or if in their opinion a Default has occurred and is continuing, a statement as to the nature thereof, and (B) confirming the calculations set forth in the officer's certificate delivered simultaneously therewith;

(b) Quarterly Financial Statements. As soon as available, and in any event

within forty-five (45) days after the end of each of the first three (3) fiscal quarters of each fiscal year of the Borrower, a copy of an unaudited financial

report of the Borrower and the Subsidiaries as of the end of such fiscal quarter and for the portion of the fiscal year then ended, containing, on a consolidated and (to the extent required by GAAP) consolidating basis, balance sheets and statements of income, retained earnings, and cash flow, in each case setting forth in comparative form the figures for the corresponding period of the preceding fiscal year, all in reasonable detail certified by an Authorized Officer of the Borrower to have been prepared in accordance with GAAP and to fairly and accurately present (subject to the absence of footnotes and year-end audit adjustments) the financial condition and results of operations of the Borrower and the Subsidiaries, on a consolidated and (to the extent required by GAAP) consolidating basis, at the date and for the periods indicated therein;

(c) Quarterly Calculations. As soon as available, and in any event within  
-----  
forty-five (45) days after the end of each fiscal quarter of the Borrower, (i) a certificate of an Authorized Officer of the Borrower in substantially the form of Exhibit E hereto (A) stating to the best of such officer's knowledge, no

-----  
Default has occurred and is continuing, or if a Default has occurred and is  
-----  
continuing, a statement as to the nature thereof and the action that is proposed

-----  
to be taken with respect thereto, and (B) showing in reasonable detail the most recent calculations demonstrating compliance with Article XII and (ii) if  
-----  
applicable, the notice required under the definition of "LIBOR Rate Margin" and "Prime Rate Margin";

(d) Certificate of No Default. Concurrently with the delivery of each of  
-----  
the financial statements referred to in subsection 10.1(a), a certificate of an  
-----  
Authorized Officer of the Borrower in substantially the form of Exhibit E hereto

-----  
(i) stating that to the best of such officer's knowledge, no Default has occurred and is continuing, or if a Default has occurred and is continuing, a statement as to the nature thereof and the action that is proposed to be taken with respect thereto, and (ii) showing in reasonable detail the most recent calculations demonstrating compliance with Article XII;

(e) Management Letters. As soon as practicable and in any event within five  
-----  
(5) days after receipt thereof, a copy of any management letter or written report submitted to the Borrower or any Subsidiary by independent certified public accountants with respect to the business, condition (financial or otherwise), operations, prospects, or properties of the Borrower or any Subsidiary;

(f) Notice of Litigation. Promptly after the commencement thereof, notice  
-----  
of all actions, suits, and proceedings before any Governmental Authority or arbitrator affecting the Borrower or any Subsidiary which, if determined adversely to the Borrower or such Subsidiary, is likely to result in liability, over and above any portion covered by insurance, in excess of \$500,000;

(g) Notice of Default. As soon as practicable and in any event within five  
-----  
(5) days after the Borrower knows or has reason to know of the occurrence of any Default, a written notice setting forth the details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(h) ERISA Reports. As soon as practicable and in any event within five (5)  
-----  
days after the filing or receipt thereof, copies of all reports, including annual reports, reports of Reportable Events, and material notices which the Borrower or any Subsidiary files with or receives from the PBGC or the U.S. Department of Labor under ERISA; and as soon as practicable and in any event within five (5) days after the Borrower or any Subsidiary knows or has reason to know that any Prohibited Transaction has occurred with respect to any Plan or that the PBGC or the Borrower or any Subsidiary has instituted or will institute proceedings under Title IV of ERISA to terminate any Plan, a certificate of the Authorized Officer of the Borrower setting forth the details as to such Prohibited Transaction or Plan termination and the action that the Borrower proposes to take with respect thereto;

(i) Notice of Material Adverse Change. As soon as practicable and in any  
-----  
event within five (5) days after the Borrower knows or has reason to know of the occurrence thereof, written notice of any matter that is likely to have a material adverse effect on the business, condition (financial or otherwise), operations, prospects, or properties of the Borrower or any Subsidiary;

(j) Proxy Statements, Etc. As soon as available; one copy of each financial  
-----  
statement, report, notice or proxy statement sent by the Borrower or any Subsidiary to its stockholders generally and one copy of each regular, periodic or special report, registration statement, or prospectus filed by the Borrower or any Subsidiary with any securities exchange or the Securities and Exchange Commission or any successor agency; and

(k) General Information. As soon as practicable, such other information  
-----  
concerning the Borrower or any Subsidiary as the Bank may from time to time

reasonably request.

Section 10.2. Maintenance of Existence; Conduct of Business. The Borrower

-----  
will preserve and maintain, and will cause each Subsidiary to preserve and maintain, its corporate existence and all of its material leases, privileges, licenses, permits, franchises, qualifications, and rights that are necessary or desirable in the ordinary conduct of its business. The Borrower will conduct, and will cause each Subsidiary to conduct, its business in an orderly and efficient manner in accordance with good business practices.

Section 10.3. Maintenance of Properties. The Borrower will maintain, keep,

-----  
and preserve, and cause each Subsidiary to maintain, keep, and preserve, all of its material properties (tangible and intangible) necessary or useful in the proper conduct of its business in good working order and condition.

Section 10.4. Taxes and Claims. The Borrower will pay or discharge, and will

-----  
cause each Subsidiary to pay or discharge, at or before maturity or before becoming delinquent (a) all taxes, levies, assessments, and governmental charges imposed on it or its income or profits or any of its property, and (b) all lawful claims for labor, material, and supplies, which, if unpaid, might become a Lien upon any of its property; provided, however, that neither the Borrower nor any Subsidiary shall be required to pay or discharge any tax, levy, assessment, or governmental charge which is being contested in good faith by appropriate proceedings diligently pursued, and for which adequate reserves have been established.

Section 10.5. Insurance. The Borrower will maintain, and will cause each of

-----  
the Subsidiaries to maintain, insurance with financially sound and reputable insurance companies in such amounts and covering such risks as is usually carried by corporations engaged in similar businesses and owning similar properties in the same general areas in which the Borrower and the Subsidiaries operate, provided that in any event the Borrower will maintain and cause each Subsidiary to maintain workmen's compensation insurance (or utilize legally available alternatives to such insurance), property insurance, comprehensive general liability insurance, products liability insurance, and business interruption insurance reasonably satisfactory to the Bank. The Borrower will provide evidence of all such insurance to the Bank, and all such insurance must be reasonably satisfactory to the Bank. Each insurance policy covering Collateral shall name the Bank as an additional loss payee and shall provide that such policy will not be cancelled or reduced without thirty (30) days prior written notice to the Bank.

Section 10.6. Inspection Rights. At any reasonable time and from time to

-----  
time, the Borrower will permit, and will cause each Subsidiary to permit, representatives of the Bank to examine, copy, and make extracts from its books and records, to visit and inspect its properties, and to discuss its business, operations, and financial condition with its officers, employees, and independent certified public accountants. Without limiting the generality of the foregoing, the Borrower will permit, and will cause each Subsidiary to permit, representatives of the Bank to conduct semi-annual field audits, the cost of which will be borne by the Borrower in an amount not to exceed \$10,000 annually.

Section 10.7. Keeping Books and Records. The Borrower will maintain, and

-----  
will cause each Subsidiary to maintain, proper books of record and account in which full, true, and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities.

Section 10.8. Compliance with Laws. The Borrower will comply, and will cause

-----  
each Subsidiary to comply, in all material respects with all applicable laws, rules, regulations, orders, and decrees of any Governmental Authority or arbitrator.

Section 10.9. Compliance with Agreements. The Borrower will comply, and will

-----  
cause each Subsidiary to comply, in all material respects with all agreements, contracts, and instruments binding on it or affecting its properties or business.

Section 10.10. Further Assurances. The Borrower will, and will cause each

-----  
Subsidiary to, execute and deliver such further agreements and instruments and take such further action as may be reasonably requested by the Bank to carry out the provisions and purposes of this Agreement and the other Loan Documents and to create, preserve, and perfect the Liens of the Bank in the Collateral.

Section 10.11. ERISA. The Borrower will comply, and will cause each

-----  
Subsidiary to comply, with all minimum funding requirements, and all other material requirements, of ERISA, if applicable, so as not to give rise to any liability thereunder.

Section 10.12. Change of Control. As soon as possible and in any event

-----  
within five (5) days after the Borrower knows or has reason to know that a Change of Control has occurred or is contemplated, the Borrower shall give the Bank notice thereof and shall offer to accelerate payment of all the Obligations. The Bank shall have forty-five (45) days after its receipt of such notice to notify the Borrower of its election to accelerate payment of all the Obligations, in which event the Borrower shall pay the Obligations in full



within thirty (30) days after the later of (a) the date of the Bank's notice to the Borrower of its election to accelerate payment or (b) the date of the occurrence of the Change of Control. In addition, if the Change of Control occurs as a result of Ronald Parker's ceasing to be the Chief Executive Officer of Borrower or ceasing, in the opinion of Bank, to be actively engaged in the management of the Borrower and in its day-to-day operations, the Revolving Credit Commitment and all other lending obligations of Bank under this Agreement or any of the other Loan Documents shall automatically terminate upon the earliest of (x) the date of Borrower's notice to Bank of the occurrence of such Change of Control, (y) the date the Bank becomes aware of the occurrence of such Change of Control, or (z) the date of the occurrence of such Change of Control. Section 10.13. Interest Rate Protection. The Borrower will at all times

-----  
during the term of this Agreement, cause at least one hundred percent (100%) of the aggregate outstanding principal amount of the Real Estate Loan to be either (a) subject to a fixed interest rate or (b) subject to Interest Rate Agreements with the Bank and/or with a bank or other financial institution having capital, surplus and undivided profits of at least \$500,000,000 on terms satisfactory to the Bank.

#### ARTICLE XI.

##### Negative Covenants

The Borrower covenants and agrees that, as long as the Obligations or any part thereof are outstanding or the Bank has any Commitment hereunder, the Borrower will perform and observe the following negative covenants:

Section 11.1. Debt. The Borrower will not incur, create, assume, or permit

-----  
to exist, and will not permit any Subsidiary to incur, create, assume, or permit to exist, any Debt, except:

- (a) Debt to the Bank pursuant to the Loan Documents;
- (b) Existing Debt described on Schedule 11.1 hereto and any renewal or

-----  
extension thereof which does not increase the outstanding amount thereof; and  
(c) Debt of the Borrower to any Domestic Subsidiary and of any Domestic Subsidiary to the Borrower or another Domestic Subsidiary; and  
(d) Capital Lease Obligations and/or purchase money Debt for purchases of equipment in the ordinary course of business not exceeding \$2,250,000 in the aggregate at any one time.

Section 11.2. Limitation on Liens. The Borrower will not incur, create,

-----  
assume, or permit to exist, and will not permit any Subsidiary to incur, create, assume, or permit to exist, any Lien upon any of its property, assets, or revenues, whether now owned or hereafter acquired, except:

- (a) Liens disclosed on Schedule 11.2 hereto;
- (b) Liens in favor of the Bank;
- (c) Encumbrances consisting of minor easements, zoning restrictions, or other restrictions on the use of real property that do not (individually or in the aggregate) materially affect the value of the assets encumbered thereby or materially impair the ability of the Borrower or the Subsidiaries to use such assets in their respective businesses;

(d) Liens for taxes, assessments, or other governmental charges which are not delinquent or which are being contested in good faith and for which adequate reserves have been established;

(e) Liens of mechanics, materialmen, warehousemen, carriers, or other similar statutory Liens (including statutory landlord's Liens) securing obligations that are not yet due and are incurred in the ordinary course of business;

(f) Liens resulting from good faith deposits to secure payments of workmen's compensation or other social security programs, to secure the performance of reinsurance agreements or to secure payments to utilities or the performance of tenders, statutory obligations, surety and appeal bonds, bids, contracts (other than for payment of Debt), or leases made in the ordinary course of business;

(g) Purchase money liens, purchase money security interests or title retention arrangements upon or in any equipment acquired or held by the Borrower in the ordinary course of business to secure purchase money indebtedness incurred solely for the purpose of financing the acquisition of such equipment; provided that such purchase money indebtedness does not exceed limitations contained in clause (d) of Section 11.1 hereof; and provided, further, that such

-----  
purchase money liens, purchase money security interests or title retention arrangements shall attach only to equipment so acquired and shall not attach to any other Collateral;

(h) Attachment and judgment Liens not constituting an Event of Default under Section 13(g) or 13(h);

-----  
(i) Inchoate Liens arising under ERISA to secure the contingent liability of the Borrower or any Subsidiary; and

(j) Liens renewing and extending the Liens permitted hereunder, provided that no such Lien is expanded to cover any additional property.

Section 11.3. Mergers, Etc. The Borrower will not, and will not permit any

-----  
Subsidiary to, become a party to a merger or consolidation, or purchase or otherwise acquire all or any substantial part of the business or assets of any

Person or any shares or other evidence of beneficial ownership of any Person, or wind-up, dissolve, or liquidate itself, except that (a) a wholly-owned Subsidiary may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation), (b) the Borrower may purchase or otherwise acquire the assets of existing franchisees or area development rights up to an aggregate amount of \$5,000,000 and (c) the Borrower may purchase or otherwise acquire all or any substantial part of the business or assets of any Person upon obtaining the prior written approval of the Bank.

Section 11.4 Restricted Payments. The Borrower will not declare or pay any

-----  
dividends or make any other payment or distribution (whether in cash, property, or obligations) on account of its capital stock, or redeem, purchase, retire, or otherwise acquire any of its capital stock, or permit any of its Subsidiaries to purchase or otherwise acquire any capital stock of the Borrower or another Subsidiary, or set apart any money for a sinking or other analogous fund for any dividend or other distribution on its capital stock or for any redemption, purchase, retirement, or other acquisition of any of its capital stock; provided that the foregoing restrictions do not prohibit (a) dividend payments on any class of capital stock payable solely in shares of capital stock of the Borrower; (b) payments of dividends from any Subsidiary to the Borrower; (c) payments in lieu of taxes to the Borrower or a Subsidiary pursuant to a tax sharing agreement; (d) any exchange of stock not involving any cash consideration pursuant to a stock option plan for employees or directors of the Borrower; and (e) any other redemption, purchase, retirement or the acquisition of the Borrower's capital stock or payment of cash dividends upon obtaining the prior written approval of the Bank, it being understood that, based on performance, the Borrower may request the Bank to consider granting its approval of restricted payments on a quarterly basis, or at such other time as deemed necessary.

Section 11.5 Investments. The Borrower will not make, and will not permit

-----  
any Subsidiary to make, any advance, loan, extension of credit (other than trade credit extended to any franchisee or purchaser of inventory from Borrower or any Subsidiary), or capital contribution to or investment in, or purchase or own, or permit any Subsidiary to purchase or own, any stock, bonds, notes, debentures, or other securities of, any Person, except:

(a) readily marketable direct obligations of the United States of America or any agency thereof with maturities of one year or less from the date of acquisition;

(b) fully insured certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank operating in the United States of America having capital and surplus in excess of \$50,000,000;

(c) commercial paper of a domestic issuer if at the time of purchase such paper is rated in one of the two highest rating categories of Standard and Poor's Corporation or Moody's Investors Service, Inc.;

(d) advances, loans and capital contributions by the Borrower to any Subsidiary which is in existence at the Closing Date, and advances or loans to the Borrower by any Subsidiary;

(e) loans to franchisees in an aggregate amount not to exceed \$100,000 to any one franchisee or \$250,000 in the aggregate;

(f) loans or advances to (i) employees of the Borrower in the ordinary course of business not to exceed \$100,000 to any one individual or \$250,000 in the aggregate and (ii) shareholders of the Borrower in an amount not to exceed \$750,000 in the aggregate to enable such shareholders to exercise their vested options to purchase stock of the Borrower;

(g) investments outstanding at any time with respect to hedging exposure to foreign currency fluctuations in which the Borrower has currency exposure, provided that the actual exposure covered by such investments does not exceed \$100,000;

(h) investments listed on Schedule 11.5;

-----  
(i) promissory notes or other evidences of indebtedness arising from sales of franchises or area development rights or transfers of franchises, equipment, and related property by the Borrower; and

(j) investments in joint ventures or other business combinations or entities for the purpose of promoting franchise operations in an aggregate amount not to exceed \$100,000 in any one transaction or \$250,000 in the aggregate; provided that the Borrower shall form a separate Subsidiary to be a partner or investor in any such joint venture or other business combination.

Notwithstanding the foregoing, the Borrower shall be permitted to form new Subsidiaries subsequent to the Closing Date and make advances, loans and capital contributions thereto subject to the provisions of this Agreement, provided that each such new Subsidiary becomes a party to the Guaranty, the Security Agreement and any other Loan Documents requested by the Bank on terms satisfactory to the Bank within ten (10) days after the formation thereof.

Section 11.6 Limitation on Issuance of Capital Stock. The Borrower will

-----  
not, and will not permit any of its Subsidiaries to, at any time issue, sell, assign, or otherwise dispose of (a) any of its capital stock, (b) any securities exchangeable for or convertible into or carrying any rights to acquire any of its capital stock, or (c) any option, warrant, or other right to acquire any of its capital stock, except pursuant to a stock option plan for employees or directors of the Borrower.

Section 11.7 Transactions With Affiliates. Except for those transactions

-----  
described in Section 11.5(f), the Borrower will not enter into, and will not  
-----

permit any Subsidiary to enter into, any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate of the Borrower or such Subsidiary, except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would be obtained in a comparable arm's-length transaction with a Person not an Affiliate of the Borrower or such Subsidiary.

Section 11.8 Disposition of Assets. The Borrower will not sell, lease,  
-----

assign, transfer, or otherwise dispose of any of its assets, or permit any Subsidiary to do so with any of its assets without the prior written approval of the Bank, except as follows:

- (a) dispositions of inventory in the ordinary course of business;
- (b) sales of franchises and area development rights;
- (c) dispositions to the Borrower or a Subsidiary who is a party to the Security Agreement;
- (d) dispositions of worn-out or obsolescent equipment, provided that the proceeds thereof are used to acquire replacements thereof; and
- (e) sales of other assets at not less than the fair market value thereof, provided that (i) no Default or Event of Default has occurred and is continuing, (ii) the aggregate book value of all assets then proposed to be disposed of plus the aggregate book value of all other assets disposed of by the Borrower and the Subsidiaries pursuant to this subsection (e) in a twelve month period

-----  
immediately preceding the date of such proposed disposition does not exceed five percent (5%) of Consolidated Assets at the end of the preceding fiscal year, and (iii) the aggregate book value of all assets then proposed to be disposed of plus the aggregate book value of all assets disposed of by the Borrower and the Subsidiaries during the period from the Closing Date to the date of such proposed disposition does not exceed ten percent (10%) of Consolidated Assets at the end of the preceding fiscal year.

Section 11.9. Sale and Leaseback. The Borrower will not enter into, and will  
-----

not permit any Subsidiary to enter into, any arrangement with any Person pursuant to which it leases from such Person real or personal property that has been or is to be sold or transferred, directly or indirectly, by it to such Person.

Section 11.10 Prepayment of Debt. The Borrower will not prepay, and will not  
-----

permit any Subsidiary to prepay, any Debt, except the Obligations.

Section 11.11 Nature of Business. The Borrower will not, and will not  
-----

permit any Subsidiary to, engage in any business other than existing businesses and any business producing or offering for sale, by Borrower or through contracts with third parties, any food product by any method of marketing or distribution, or other products related to promoting or enhancing the public reputation and good-will of Borrower or any Subsidiary.

Section 11.12. Environmental Protection. Except for the handling, storage,  
-----

use, transportation or generation of materials and products used, produced or generated in the business of food preparation, processing, packaging, warehousing, transportation and restaurant operations including, without limitation, chemicals for processing or preserving food products, chemicals and other substances used for building and grounds maintenance, disinfectants, pesticides, cleaning agents, motor fuels, lubricants, processing by-products and food wastes, all of which shall be handled, stored, used, transported and generated in compliance with all Environmental Laws, the Borrower will not, and will not permit any of its Subsidiaries to, (a) use (or permit any tenant to use) any of their respective properties or assets for the handling, processing, storage, transportation, or disposal of any Hazardous Material, (b) generate any Hazardous Material, (c) conduct any activity that is likely to cause a Release or threatened Release of any Hazardous Material, or (d) otherwise conduct any activity or use any of their respective properties or assets, in each case in any manner that is likely to violate any Environmental Law or create any Environmental Liabilities for which the Borrower or any of its Subsidiaries would be responsible, whereby such use or activity is likely to have a material adverse effect on the business or financial condition of the Borrower and its Subsidiaries when viewed as a whole.

Section 11.13. Accounting. The Borrower will not, and will not permit any of  
-----

its Subsidiaries to, change its fiscal year or make any material change (a) in accounting treatment or reporting practices, except as required by GAAP and disclosed to the Bank, or (b) in tax reporting treatment, except as required by law and disclosed to the Bank.

#### ARTICLE XII.

##### Financial Covenants

The Borrower covenants and agrees that, as long as the Obligations or any part thereof are outstanding or any Bank has any Commitment hereunder, the Borrower will perform and observe the following financial covenants, such performance and observance to be evidenced and tested for compliance as of the

end of each fiscal quarter;

Section 12.1. Current Ratio. The Borrower will at all times maintain a  
-----

Current Ratio of not less than 1.0 to 1.0, as measured at the end of each fiscal  
quarter.

Section 12.2. Funded Debt Ratio. The Borrower will maintain, as of the end  
-----

of each fiscal quarter, a Funded Debt Ratio of not greater than (a) 2.75 to 1.00  
for the fiscal quarters ending December 31, 2002 and March 31, 2003, (b) 2.50 to  
1.00 for the fiscal quarters ending June 30, 2003, September 30, 2003, December  
31, 2003, and March 31, 2004, and (c) 2.25 to 1.00 for the fiscal quarter ending  
June 30, 2004, and at all times thereafter.

Section 12.3. Fixed Charge Coverage Ratio. The Borrower will maintain, as of  
-----

the end of each fiscal quarter commencing with the fiscal quarter ending  
December 31, 2002, a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00.

Section 12.4. Operating Leases. The Borrower will not incur, create, assume,  
-----

or permit to exist, and will not permit any Subsidiary to incur, create, assume,  
or permit to exist, any liabilities for payments under any Operating Leases  
without the prior written approval of the Bank, which approval shall not be  
unreasonably withheld, provided that (i) the Borrower and the Subsidiaries may  
incur, create, or assume liabilities for payments under Operating Leases in an  
aggregate amount (including taxes, insurance, maintenance, and similar expenses  
which the Borrower or any Subsidiary is obligated to pay under any such  
Operating Lease) not to exceed Six Million Dollars (\$6,000,000) on a  
consolidated basis, plus One Million Five Hundred Thousand Dollars (\$1,500,000)  
per fiscal year commencing with the fiscal year ending in June of 2002, (ii) the  
amount of any permitted increase in liabilities under Operating Leases not  
incurred in any fiscal year may be carried forward to the next succeeding fiscal  
year but not thereafter, and (iii) the aggregate payments of the Borrower and  
the Subsidiaries with respect to Operating Leases shall not exceed Two Million  
Dollars (\$2,000,000) during any fiscal year commencing with the fiscal year  
ending in June of 2002.

#### ARTICLE XIII.

##### Default

Section 13.1. Events of Default. Each of the following shall be deemed an  
-----

"Event of Default"

(a) The Borrower shall fail to pay (including, but not limited to, any  
failure to pay any mandatory prepayment required by Section 2.8 or Section 5.3  
-----

of this Agreement) any principal of, or interest on, or fees in connection with,  
the Obligations, or any part thereof when due and payable, and such failure  
continues unremedied for a period of one (1) Business Day after the date such  
Obligations or portion thereof were due.

(b) The Borrower shall fail to pay any of the Obligations (other than the  
Obligations described in subsection (a) above) or any part thereof, and such  
-----

failure continues unremedied for a period of five (5) Business Days after the  
date such Obligations or portion thereof were due.

(c) Any representation or warranty made or deemed made by the Borrower or  
any Obligated Party (or any of their respective officers) in any Loan Document  
or in any certificate, report, notice, or financial statement furnished at any  
time in connection with this Agreement shall be false, misleading, or erroneous  
in any material respect when made or deemed to have been made.

(d) The Borrower shall fail to perform, observe, or comply with any  
covenant, agreement, or term contained in Section 10.1, Article XI, or Article  
-----

XII of this Agreement and, in the case of Section 10.1(a), 10.1(b), 10.1(j), or  
-----

11.1(k) only, such failure shall continue unremedied for a period of three (3)  
-----

Business Days after the date of such failure.

(e) The Borrower or any Obligated Party shall fail to perform, observe, or  
comply with any other covenant, agreement, or term contained in this Agreement  
or any other Loan Document (other than as provided in clauses (a) through (d) of  
-----

this Section) and such failure shall continue unremedied for a period of ten  
(10) days after the date of such failure.

(f) The Borrower, any Subsidiary, or any Obligated Party shall commence a  
voluntary proceeding seeking liquidation, reorganization, or other relief with  
respect to itself or its debts under any bankruptcy, insolvency, or other  
similar law now or hereafter in effect or seeking the appointment of a trustee,  
receiver, liquidator, custodian, or other similar official of it or a  
substantial part of its property or shall consent to any such relief or to the  
appointment of or taking possession by any such official in an involuntary case  
or other proceeding commenced against it or shall make a general assignment for  
the benefit of creditors or shall generally fail to pay its debts as they become  
due or shall take any corporate action to authorize any of the foregoing.

(g) An involuntary proceeding shall be commenced against the Borrower, any  
Subsidiary, or any Obligated Party seeking liquidation, reorganization, or other  
relief with respect to it or its debts under any bankruptcy, insolvency, or  
other similar law now or hereafter in effect or seeking the appointment of a

trustee, receiver, liquidator, custodian or other similar official for it or a substantial part of its property, and such involuntary proceeding shall remain undismissed and unstayed for a period of forty-five (45) days.

(h) The Borrower, any Subsidiary, or any Obligated Party shall fail to discharge within a period of forty-five (45) days after the commencement thereof any attachment, sequestration, or similar proceeding or proceedings involving an aggregate amount in excess of Five Hundred Thousand Dollars (\$500,000) against any of its assets or properties.

(i) A final judgment or judgments for the payment of money in excess of Five Hundred Thousand Dollars (\$500,000) in the aggregate shall be rendered by a court or courts against the Borrower, any of its Subsidiaries, or any Obligated Party and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within thirty (30) days from the date of entry thereof and the Borrower or the relevant Subsidiary or Obligated Party shall not, within such period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

(j) The Borrower, any Subsidiary, or any Obligated Party shall fail to pay when due (and after giving effect to any applicable grace period or any extension of the applicable maturity date) any principal of or interest on any Material Debt (other than the Obligations), or the maturity of any such Material Debt shall have been accelerated, or any such Material Debt shall have been required to be prepaid prior to the stated maturity thereof, or any default shall have occurred (after giving effect to any applicable grace period) that permits any holder or holders of such Debt or any Person acting on behalf of such holder or holders to accelerate the maturity thereof or require any such prepayment. For purposes of this subsection (j), the term "Material Debt" means

-----  
Debt owed by the Borrower or any Subsidiary, the principal amount of which exceeds Five Hundred Thousand Dollars (\$500,000).

(k) This Agreement, the Notes, the Security Documents, the Guaranty, the Real Estate Loan Documents or any other material Loan Document shall cease to be in full force and effect or shall be declared null and void or the validity or enforceability thereof shall be contested or challenged by the Borrower, any Subsidiary, any Obligated Party or any of their respective shareholders, or the Borrower or any Obligated Party shall deny that it has any further liability or obligation under any of such Loan Documents, or any lien or security interest created by such Loan Documents shall for any reason cease to be a valid, first priority (subject to exceptions permitted therein) perfected security interest in and lien upon any of the Collateral purported to be covered thereby.

(l) Any of the following events shall occur or exist with respect to the Borrower or any ERISA Affiliate: (i) any Prohibited Transaction involving any Plan; (ii) any Reportable Event with respect to any Plan; (iii) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan; (iv) any event or circumstance that might constitute grounds entitling the PBGC to institute proceedings under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any Plan, or the institution by the PBGC of any such proceedings; or (v) complete or partial withdrawal under Section 4201 or 4204 of ERISA from a Multiemployer Plan or the reorganization, insolvency, or termination of any Multiemployer Plan; and in each case above, such event or condition, together with all other events or conditions, if any, have subjected or could in the reasonable opinion of the Bank subject the Borrower to any tax, penalty, or other liability to a Plan, a Multiemployer Plan, the PBGC, or otherwise (or any combination thereof) which in the aggregate exceed or could reasonably be expected to exceed Five Hundred Thousand Dollars (\$500,000).

(m) The Borrower or any of its Subsidiaries, or any of their properties, revenues, or assets, shall become the subject of an order of forfeiture, seizure, or divestiture (whether under RICO or otherwise) and the same shall not have been discharged (or provisions shall not be made for such discharge) within forty-five (45) days from the date of entry thereof.

(n) A Change of Control shall occur, the Bank shall have given notice to the Borrower pursuant to Section 10.12 that the Bank desires to accelerate payment

-----  
of all the Obligations, and the Borrower shall have failed to pay the Obligations in full within the thirty (30) day period specified in Section

10.12.

(o) The occurrence of any event or condition which constitutes a Default or Event of Default under any of the Real Estate Loan Documents or under any Interest Rate Agreement.

Section 13.2. Remedies. If any Event of Default shall occur and be

-----  
continuing, the Bank may do any one or more of the following:

(a) Acceleration. Declare all outstanding principal of and accrued and

-----  
unpaid interest on the Notes and all other obligations of the Borrower under the Loan Documents immediately due and payable, and the same shall thereupon become immediately due and payable, without notice, demand, presentment, notice of dishonor, notice of acceleration, notice of intent to accelerate, protest, or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

(b) Termination of Commitment. Terminate the Revolving Credit Commitment

-----  
without notice to the Borrower.

(c) Judgment. Reduce any claim to judgment.

(d) Foreclosure. Foreclose or otherwise enforce any Lien granted to the

Bank to secure payment and performance of the Obligations in accordance with the terms of the Loan Documents.

(e) Rights. Exercise any and all rights and remedies afforded by the laws

of the State of Texas or any other jurisdiction, by any of the Loan Documents, by equity, or otherwise.

Provided, however, that upon the occurrence of an Event of Default under Subsection (e) or (f) of Section 13.1, the Revolving Credit Commitment and the

Term Commitment shall automatically terminate, and the outstanding principal of and accrued and unpaid interest on the Notes and all other obligations of the Borrower under the Loan Documents shall thereupon become immediately due and payable without notice, demand, presentment, notice of dishonor, notice of acceleration, notice of intent to accelerate, protest, or other formalities of any kind, all of which are hereby expressly waived by the Borrower.  
Section 3.3. Performance by the Bank. If, at any time after the occurrence

and during the continuance of an Event of Default, the Borrower shall fail to perform any covenant or agreement in accordance with the terms of the Loan Documents after notice from the Bank, the Bank may perform or attempt to perform such covenant or agreement on behalf of the Borrower. In such event, the Borrower shall, at the request of the Bank, promptly pay any amount expended by the Bank in connection with such performance or attempted performance to the Bank at the Principal Office, together with interest thereon at the Default Rate from and including the date of such expenditure to but excluding the date such expenditure is paid in full. Notwithstanding the foregoing, it is expressly agreed that the Bank shall not have any liability or responsibility for the performance of any obligation of the Borrower under this Agreement or any of the other Loan Documents.

#### ARTICLE XIV.

##### Miscellaneous

Section 14.1. Expenses. The Borrower hereby agrees to pay on demand: (a) all

reasonable out of pocket costs and expenses of the Bank in connection with the preparation, negotiation, execution, and delivery of this Agreement and the other Loan Documents and any and all amendments, modifications, renewals, extensions, and supplements thereof and thereto, including, without limitation, the reasonable fees and expenses of legal counsel for the Bank, (b) all out of pocket costs and expenses of the Bank in connection with any Default and the enforcement of this Agreement or any other Loan Document, including, without limitation, the fees and expenses of legal counsel for the Bank, (c) all transfer, stamp, documentary, or other similar taxes, assessments, or charges levied by any Governmental Authority in respect of this Agreement or any of the other Loan Documents, (d) all out of pocket costs, expenses, assessments, and other charges incurred in connection with any filing, registration, recording, or perfection of any security interest or Lien contemplated by this Agreement or any other Loan Document, and (e) all other reasonable out of pocket costs and expenses incurred by the Bank in connection with this Agreement or any other Loan Document, including, without limitation, all reasonable costs, expenses, and other charges incurred in connection with obtaining any title report, survey, audit, or appraisal in respect of the Collateral.

Section 14.2. INDEMNIFICATION. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN

THE BORROWER SHALL INDEMNIFY THE BANK AND EACH OF ITS AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, ATTORNEYS, AND AGENTS FROM, AND HOLD EACH OF THEM HARMLESS AGAINST, ANY AND ALL LOSSES, LIABILITIES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, DISBURSEMENTS, COSTS, AND EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES) TO WHICH ANY OF THEM MAY BECOME SUBJECT WHICH DIRECTLY OR INDIRECTLY ARISE FROM OR RELATE TO (A) THE NEGOTIATION, EXECUTION, DELIVERY, PERFORMANCE, ADMINISTRATION, OR ENFORCEMENT OF ANY OF THE LOAN DOCUMENTS, (B) ANY OF THE TRANSACTIONS CONTEMPLATED BY THE LOAN DOCUMENTS, (C) ANY BREACH BY THE BORROWER OF ANY REPRESENTATION, WARRANTY, COVENANT, OR OTHER AGREEMENT CONTAINED IN ANY OF THE LOAN DOCUMENTS, (D) THE PRESENCE, RELEASE, THREATENED RELEASE, DISPOSAL, REMOVAL, OR CLEANUP OF ANY HAZARDOUS MATERIAL LOCATED ON, ABOUT, WITHIN, OR AFFECTING ANY OF THE PROPERTIES OR ASSETS OF THE BORROWER OR ANY SUBSIDIARY, OR (E) ANY INVESTIGATION, LITIGATION, OR OTHER PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY THREATENED INVESTIGATION, LITIGATION, OR OTHER PROCEEDING RELATING TO ANY OF THE FOREGOING. WITHOUT LIMITING ANY PROVISION OF THIS AGREEMENT OR OF ANY OTHER LOAN DOCUMENT, IT IS THE EXPRESS INTENTION OF THE PARTIES HERETO THAT EACH PERSON TO BE INDEMNIFIED UNDER THIS SECTION SHALL BE INDEMNIFIED FROM AND HELD HARMLESS AGAINST ANY AND ALL LOSSES, LIABILITIES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, DISBURSEMENTS, COSTS, AND EXPENSES (INCLUDING ATTORNEYS' FEES) ARISING OUT OF OR RESULTING FROM THE SOLE OR CONTRIBUTORY NEGLIGENCE OF SUCH PERSON BUT NOT ARISING OUT OF OR RESULTING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH PERSON.

Section 14.3. Limitation of Liability. None of the Bank, or any Affiliate,

officer, director, employee, attorney, or agent thereof shall have any liability with respect to, and the Borrower hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, or

consequential damages suffered or incurred by the Borrower in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents, except for such Person's willful misconduct, gross negligence or failure to comply with the express provisions of any of the Loan Documents. The Borrower hereby waives, releases, and agrees not to sue the Bank or any of its Affiliates, officers, directors, employees, attorneys, or agents for punitive damages in respect of any claim in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents.

Section 14.4. No Duty. All attorneys, accountants, appraisers, and other

professional Persons and consultants retained by the Bank shall have the right to act exclusively in the interest of the Bank and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to the Borrower or any of the Borrower's shareholders or any other Person.

Section 14.5. No Fiduciary Relationship. The relationship between the

Borrower and each Bank is solely that of debtor and creditor, and the Bank does not have any fiduciary or other special relationship with the Borrower, and no term or condition of any of the Loan Documents shall be construed so as to deem the relationship between the Borrower and the Bank to be other than that of debtor and creditor.

Section 14.6. Equitable Relief. The Borrower recognizes that in the event

the Borrower fails to pay, perform, observe, or discharge any or all of the Obligations, any remedy at law may prove to be inadequate relief to the Bank. The Borrower therefore agrees that the Bank, if the Bank so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

Section 14.7. No Waiver; Cumulative Remedies. No failure on the part of the

Bank to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in this Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 14.8. Successors; Assignment. This Agreement shall be binding upon

and inure to the benefit of the Bank and the Borrower and their respective successors and assigns; provided however, that (a) the Borrower may not assign or transfer its interest hereunder without Bank's prior written consent and (b) the Bank must give notice to the Borrower at least sixty (60) days prior to assigning its interest hereunder.

Section 14.9. Participations. The Bank shall have the right at any time and

from time to time to grant participations in the Notes and any other Loan Documents. Each actual or proposed participant shall be entitled to receive all information received by the Bank regarding the Borrower, including, without limitation, information required to be disclosed to a participant pursuant to Banking Circular 181 (Rev., August 2, 1984), issued by the Comptroller of the Currency (whether the actual or proposed participant is subject to the circular or not).

Section 14.10. Survival. All representations and warranties made in this

Agreement or any other Loan Document or in any document, statement, or certificate furnished in connection with this Agreement shall survive the execution and delivery of this Agreement and the other Loan Documents, and no investigation by the Bank or any closing shall affect the representations and warranties or the right of the Bank to rely upon them. Without prejudice to the survival of any other obligation of the Borrower hereunder, the obligations of the Borrower under Article VI and Sections 14.1 and 14.2 shall survive repayment

of the Notes and termination of the Revolving Credit Commitment and the Term Commitment.

Section 14.11. ENTIRE AGREEMENT. THIS AGREEMENT, THE NOTES, AND THE OTHER

LOAN DOCUMENTS REFERRED TO HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

Section 14.12. Amendments, Etc. No amendment or waiver of any provision of

this Agreement, the Notes, or any other Loan Document to which the Borrower is a party, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be agreed or consented to by the Bank and the Borrower, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 14.13. Maximum Interest Rate. No provision of this Agreement or of

-----  
any other Loan Document shall require the payment or the collection of interest in excess of the maximum amount permitted by applicable law. If any excess of interest in such respect is hereby provided for, or shall be adjudicated to be so provided, in any Loan Document or otherwise in connection with this loan transaction, the provisions of this Section shall govern and prevail and neither the Borrower nor the sureties, guarantors, successors, or assigns of the Borrower shall be obligated to pay the excess amount of such interest or any other excess sum paid for the use, forbearance, or detention of sums loaned pursuant hereto. In the event any Bank ever receives, collects, or applies as interest any such sum, such amount which would be in excess of the maximum amount permitted by applicable law shall be applied as a payment and reduction of the principal of the indebtedness evidenced by the Notes; and, if the principal of the Notes has been paid in full, any remaining excess shall forthwith be paid to the Borrower. In determining whether or not the interest paid or payable exceeds the Maximum Rate, the Borrower and each Bank shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the indebtedness evidenced by the Notes so that interest for the entire term does not exceed the Maximum Rate.  
Section 14.14. Notices. All notices and other communications provided for in

-----  
this Agreement and the other Loan Documents to which the Borrower is a party shall be given or made by telex, telegraph, telecopy, cable, or in writing and telexed, telecopied, telegraphed, cabled, mailed by certified mail return receipt requested, or delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof; or, as to any party, at such other address as shall be designated by such party in a notice to each other party given in accordance with this Section. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telex or telecopy, subject to telephone confirmation of receipt, or delivered to the telegraph or cable office, subject to telephone confirmation of receipt, or when personally delivered or, in the case of a mailed notice, when duly deposited in the mails, in each case given or addressed as aforesaid; provided, however, notices to the Bank pursuant to Article II shall not be effective until received by the Bank.  
Section 14.15. Governing Law; Venue; Service of Process. This Agreement

-----  
shall be governed by and construed in accordance with the laws of the State of Texas and the applicable laws of the United States of America. This Agreement has been entered into in Dallas County, Texas, and it shall be performable for all purposes in Dallas County, Texas. Any action or proceeding against the Borrower under or in connection with any of the Loan Documents may be brought in any state or federal court in Dallas County, Texas. The Borrower hereby irrevocably (a) submits to the nonexclusive jurisdiction of such courts, and (b) waives any objection it may now or hereafter have as to the venue of any such action or proceeding brought in any such court or that any such court is an inconvenient forum. The Borrower agrees that service of process upon it may be made by certified or registered mail, return receipt requested, at its address specified or determined in accordance with the provisions of Section 14.13.

-----  
Nothing herein or in any of the other Loan Documents shall affect the right of the Bank to serve process in any other manner permitted by law or shall limit the right of the Bank to bring any action or proceeding against the Borrower or with respect to any of its property in courts in other jurisdictions. Any action or proceeding by the Borrower against the Agent or any Bank shall be brought only in a court located in Dallas County, Texas.  
Section 14.16. Arbitration.

-----  
(a) Arbitration. Upon the demand of any party, any Dispute shall be resolved by binding arbitration (except as set forth in subsection(e) below) in accordance with the terms of this Agreement. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, any of the Loan Documents, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) Governing Rules. Arbitration proceedings shall be administered by the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in



accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in Texas selected by the AAA or other administrator. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. 91 or any similar applicable state law.

(c) No Waiver; Provisional Remedies, Self Help and Foreclosure. No

-----  
provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver, from a court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration hereunder.

(d) Arbitrator Qualifications and Powers Awards. Arbitrators must be active

-----  
members of the Texas State Bar with expertise in the substantive laws applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of Texas, (ii) may grant any remedy or relief that a court of the state of Texas could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Texas Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees and expenses). By submission to a single arbitrator, each party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) Judicial Review. Notwithstanding anything herein to the contrary, in

-----  
any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitration (i) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (ii) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the state of Texas, and (iii) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (A) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (B) whether the conclusions of law are erroneous under the substantive law of the state of Texas. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the state of Texas.

(f) Miscellaneous. To the maximum extent practicable, the AAA, the

-----  
arbitrators and the parties shall take all action required to conclude any arbitration proceedings within one hundred eighty (180) days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulations, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provisions most directly related to the Loan Documents or the subject matter of the Dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

Section 14.17. Counterparts. This Agreement may be executed in one or more

-----  
counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 14.18. Severability. Any provision of this Agreement held by a court

-----  
of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement and the effect thereof shall be confined to the provision held to be invalid or illegal.

Section 14.19. Headings. The headings, captions, and arrangements used in

-----  
this Agreement are for convenience only and shall not affect the interpretation

of this Agreement.

Section 14.20. Non-Application of Chapter 346 of Texas Finance Code. The

provisions of Chapter 346 of the Texas Finance Code are specifically declared by the parties hereto not to be applicable to this Agreement or any of the other Loan Documents or to the transactions contemplated hereby.

Section 14.21. Construction. The Borrower and the Bank acknowledge that each

of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement and the other Loan Documents with its legal counsel and that this Agreement and the other Loan Documents shall be construed as if jointly drafted by the parties hereto.

Section 14.22. Independence of Covenants. All covenants hereunder shall be

given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default if such action is taken or such condition exists.

Section 14.23. WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY

APPLICABLE LAW, EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND EXPRESSLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY OR THE ACTIONS OF THE BANK IN THE NEGOTIATION, ADMINISTRATION, OR ENFORCEMENT THEREOF.

Section 14.24. NOTICE OF INDEMNIFICATION. THE PARTIES TO THIS AGREEMENT

HEREBY ACKNOWLEDGE AND AGREE THAT THIS AGREEMENT CONTAINS CERTAIN INDEMNIFICATION PROVISIONS PURSUANT TO SECTION 14.2 HEREOF.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

BORROWER:

PIZZA INN, INC.
By: /S/Ronald W. Parker
Name: Ronald W. Parker
Title: Chief Executive Officer
Address for Notices:
3551 Plano Parkway
The Colony, Texas 75056
Fax No.: (972) 702-9510
Telephone No.: (972) 701-9955
Attention:

BANK:

WELLS FARGO BANK (TEXAS), NATIONAL ASSOCIATION
By:/s/ Austin Nettle
Name: Austin Nettle
Title: Vice President
Address for Notices:
1445 Ross Avenue
Dallas, Texas 75202
Fax No.: (214) 953-3982
Telephone No.: (214) 777-4001
Attention: Austin Nettle
Lending Office for Prime Rate Advances:
1445 Ross Avenue
Dallas, Texas 75202
Lending Office for LIBOR Advances:
1445 Ross Avenue
Dallas, Texas 75202

INDEX TO EXHIBITS

Table with 2 columns: Exhibit, Description of Exhibit. Rows A through I listing various documents like Form of Revolving Credit Note, Intentionally Deleted, Advance Request Form, etc.

INDEX TO SCHEDULES

Table with 2 columns: Schedule, Description of Schedule

1.1(a) Existing Letters of Credit  
1.1(b) Legal Description of Real Property  
9.4 Intellectual Property  
9.5 Existing Litigation  
9.14 List of Subsidiaries  
9.20 Environmental Matters  
11.1 Existing Debt  
11.2 Existing Liens  
11.5 Permitted Investments

EXECUTIVE COMPENSATION AGREEMENT

THIS EXECUTIVE COMPENSATION AGREEMENT ("Agreement") is made and entered into and effective the 16th day of December, 2002, by and between Ronald W. Parker (hereinafter referred to as "Executive") and Pizza Inn, Inc. (hereinafter referred to as the "Company").

W I T N E S S E T H:

WHEREAS, the Company currently employs Executive as its President and Chief Executive Officer, and the Company and Executive desire to continue and extend such employment on the terms and conditions set forth; NOW THEREFORE, for and in consideration of the premises and the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Executive hereby agree as follows:

ARTICLE I

COMPENSATION

1.01 SALARY. During the period of employment of Executive by the Company, the Board of Directors of the Company (the "Board") or the Compensation Committee or Stock Award Plan Committee thereof shall determine, based on the recommendations of the Compensation Committee from time to time, the compensation of Executive, including salary, bonus, grants of stock options, and other benefits; provided, however, that Executive shall receive an annual salary, bonus and all other benefits not less than (i) his then current annual salary, (ii) a bonus equal to fifty percent (50%) of his then current annual salary (the "Section 1.01 Bonus"), and (iii) other benefits, except stock options, including such increases as the Board or Compensation Committee approve from time to time. Such salary shall be payable in such periodic installments as established by the Board of Directors of the Company.

1.02 BENEFITS. Executive shall receive a \$150,000 cumulative yearly allowance for additional life and disability benefits, secondary medical benefits, and supplemental retirement benefits, which shall be paid quarterly on a pro rata basis. In addition, Executive shall receive a Company provided vehicle or a car allowance and reimbursement of certain expenses, all as approved from time to time by the Compensation Committee. All benefits listed above in this section 1.02 shall be referred to as the "Defined Benefits." Executive may also participate in the Company's benefit plans.

1.03 BONUS. The Company agrees to pay Executive the cash bonuses as provided above and as discussed in the Executive Bonus Plan attached as Exhibit

-----  
A and made a part hereof during the term of this Agreement. The Compensation Committee also has the authority, in its sole discretion, to authorize an additional bonus to Executive at each fiscal quarter end and fiscal year end if the Compensation Committee deems such a bonus appropriate.

ARTICLE II

TERMINATION OF EMPLOYMENT

2.01 TERMINATION BY THE COMPANY FOR CAUSE. In addition to any other remedies which the Company may have at law or in equity, the Company may at any time terminate Executive's employment for Cause. The Company shall provide at least ten (10) days prior written notice to Executive of its intention to discharge Executive for Cause, and such notice must specify in detail the nature of the Cause alleged and provide Executive an opportunity to be heard by the Board prior to the expiration of such ten-day period (in addition to any applicable cure period). "Cause" shall mean the occurrence of any of the following events:

(a) the Executive engages in any violation of this Agreement which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so;

(b) the Executive is convicted of any felony or of any misdemeanor involving dishonesty such as theft, forgery or fraud, or having been indicted for, or had an information filed on him for, such a crime, enters a plea of guilty or nolo contendere;

(c) the Executive engages in any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so;

(d) the Executive engages in the intemperate use of alcohol or drugs on a repeated basis in a manner which, in the good faith opinion of the Company's Board of Directors, is impairing the Executive's ability to perform his duties or obligations hereunder and such intemperate use thereafter continues in such a manner following written notice thereof to Executive, with at least thirty (30) days to correct following such notice;

(e) the Executive engages in conduct giving rise to a breach of a monetary obligation to the Company and such breach continues following written notice thereof to Executive, with at least thirty (30) days to correct following such notice; or

(f) the Executive willfully fails to substantially perform his duties within fifteen (15) business days after written demand for substantial performance is delivered to Executive by the Board, which demand specifically identifies the manner in which the Board believes that Executive has not substantially performed his duties.

2.02 TERMINATION BY EXECUTIVE IN WINDOW PERIOD. Executive's employment may be terminated by Executive with or without any reason at any time within twelve months after a Change of Control (the "Window Period") by giving the Company at least ten days prior written notice of such termination. "Change of Control" shall mean any of the following:

(a) all or substantially all of the assets of the Company are sold, leased, exchanged or otherwise transferred to any person or entity or group of persons or entities acting in concert as a partnership, limited partnership, syndicate or other group (a "Group of Persons") other than a person or entity or Group of Persons at least 50% of the combined voting power of which is held by Executive; or

(b) the Company is merged or consolidated with or into another corporation with the effect that the then existing stockholders of the Company hold less than 50% of the combined voting power of the then outstanding securities of the surviving corporation of such merger or the corporation resulting from such consolidation ordinarily having the right to vote in the election of directors; or

(c) a person or entity or Group of Persons (other than (i) the Company or (ii) an employee benefit plan sponsored by the Company) shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of securities of the Company representing 50% or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors; or

(d) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

2.03 TERMINATION BY EXECUTIVE FOR GOOD REASON. Executive may terminate his employment for good reason at any time during the term of this Agreement (the "Good Reason Period"). For purposes of this Agreement, "good reason" shall mean, without the Executive's express written consent, that, (i) Executive is required to relocate, (ii) Executive is assigned a position other than that of President and Chief Executive Officer or diminished responsibilities with the Company, (iii) Executive is assigned responsibilities or travel requirements inconsistent with the office of President and Chief Executive Officer, (iv) Executive is assigned office facilities or support staff inferior to that currently provided, or (v) Executive's then current annual base salary, Section 1.01 Bonus or Defined Benefits, as the same may be increased from time to time, are reduced.

2.04 NOTICE AND DATE OF TERMINATION. Any termination by the Company or by Executive shall be communicated by written notice. "Date of Termination" means (i) if Executive's employment is terminated by the Company for Cause or by Executive, the date of receipt of the notice of termination or any later date specified therein, as the case may be, or (ii) if Executive's employment is terminated by the Company other than for Cause, the Date of Termination shall be the date on which the Company notifies Executive of such termination.

#### ARTICLE III

##### OBLIGATIONS OF THE COMPANY UPON TERMINATION

3.01 WINDOW PERIOD; OTHER THAN FOR CAUSE. If the Company terminates Executive's employment other than for Cause or Executive terminates employment during the Window Period or Executive terminates his employment for good reason during the Good Reason period, the Company shall pay to Executive in a lump sum in cash within thirty (30) days after the Date of Termination an amount equal to: (a) four (4) multiplied by (b) the sum of (i) Executive's then current annual salary (provided that such salary shall be deemed to be no lower than Executive's highest salary during any one of the immediately preceding three fiscal years) plus (ii) the highest amount of bonus and any other cash compensation (except salary) received by Executive during any one of the immediately preceding three (3) fiscal years.

3.02 OUTSIDE THE WINDOW PERIOD; FOR CAUSE. If (a) Executive terminates employment outside of the Window Period without good reason, (b) Executive's employment is terminated by the Company for Cause, (c) Executive terminates his employment outside the Good Reason Period, or (d) Executive's employment is terminated due to death or disability (as defined in the Company's long-term disability plan), this Agreement shall terminate without further obligations to Executive other than the obligation to pay to Executive, within thirty (30) days of the Date of Termination, salary plus accrued bonus and other benefits due

Executive through the Date of Termination and the amount of any compensation previously deferred by Executive, in each case to the extent theretofore unpaid.

3.03 NOT A PENALTY OR FORFEITURE. The parties hereto acknowledge and agree that any payment under this Agreement is not a penalty or a forfeiture; rather, the amount specified is a reasonable and fair reflection of damages that Executive may incur in the event of Executive's termination.

3.04 TAX LIMITATION. (a) If any payment received or to be received by Executive in connection with a Change in Control of the Company or termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, any person whose actions result in a Change in Control of the Company, or any person affiliated with the Company or such person (the "Total Payments")), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, the Company will pay to Executive, within 30 days of any payments giving rise to excise tax, an additional amount (the "gross-up payment") such that the net amount retained or to be retained by Executive, after deduction of any excise tax on the total payments and any federal and state and local income tax and excise tax on the gross-up payment provided for by this section, will equal the total payments.

(b) For purposes of determining the amount of the gross-up payment, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year that the payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the executive's residence on the date of termination or the date that excise tax is withheld by the Company, net of the maximum reduction in federal income taxes that could be obtained by deducting such state and local taxes.

(c) For purposes of determining whether any of the total payments would not be deductible by the Company and would be subject to the excise tax, and the amount of such excise tax, (i) total payments will be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Internal Revenue Code, and all parachute payments in excess of the base amount within the meaning of Section 280G(b)(3) will be treated as subject to the excise tax unless, in the opinion of tax counsel selected by the Company's independent auditors and acceptable to Executive such total payments (in whole or in part) are not parachute payments, or such parachute payments in excess of the base amount (in whole or in part) are otherwise not subject to the excise tax, and (ii) the value of any non-cash benefits or any deferred payment or benefit will be determined by the Company's independent auditors in accordance with Sections 280G(d)(3) and (4) of the Internal Revenue Code.

#### ARTICLE IV

##### TERM

4.01 The term (the "Term") of this Agreement shall commence on the date of this Agreement as set forth above (the "Effective Date") and shall continue through December 31, 2007. During each fiscal year of the Company, beginning with the fiscal year ending in June, 2003, the Board may extend the Term by an additional year, by adopting an appropriate resolution which expressly extends the Term for such additional year but without the need to execute an amendment to this Agreement.

#### ARTICLE V

##### NONCOMPETE, ETC.

5.01 TRADE SECRETS AND NONCOMPETITION. (a) Trade Secrets. During his

-----  
employment by the Company and at all times thereafter, Executive shall not use for his personal benefit, or disclose, communicate or divulge to, or use for the direct or indirect benefit of any person, firm, association or company other than the Company or any affiliate or subsidiary of the Company, any material referred to in Paragraph 5.02(a) or (b) or any information regarding the business methods, business policies, procedures, techniques, research or development projects or results, trade secrets or other knowledge or processes of a proprietary nature belonging to, or developed by, the Company or any other confidential information relating to or dealing with the business operations or activities of the Company or any affiliate or subsidiary of the Company, made known to Executive or learned or acquired by Executive while in the employ of the Company.

(b) Non-Competition. In consideration of Executive's participation in

-----  
the Executive Bonus Plan and receipt of specialized training and proprietary information during the term hereof and other good and valuable consideration, in the event that the employment of Executive hereunder terminates for any reason, Executive shall not become employed by, consult with or otherwise assist in any manner any company (or any affiliate thereof) the primary business of which involves or relates to the sale of pizza in the continental United for a period of years equal to the number by which Executive's annual salary and bonus is multiplied pursuant to any payments made to Executive under Paragraph 3.01.

(c) Remedies. Executive acknowledges that the restrictions contained

-----  
in the foregoing Paragraphs 5.01(a) and (b) (the "Restrictions"), in view of the nature of the business in which the Company and its affiliates and subsidiaries are engaged, are reasonable and necessary in order to protect the legitimate

interests of the Company and its affiliates and subsidiaries, and that any violation thereof would result in irreparable injury to the Company, and Executive therefore further acknowledges that, in the event Executive violates, or threatens to violate, any such Restrictions, the Company and its affiliates and subsidiaries shall be entitled to obtain from any court of competent jurisdiction, without the posting of any bond or other security, preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies in law or equity to which the Company or any affiliate or subsidiary of the Company may be entitled.

(d) Invalid Provisions. If any Restriction, or any part thereof, is determined in any judicial or administrative proceeding to be invalid or unenforceable, the remainder of the Restrictions shall not thereby be affected and shall be given full effect, without regard to the invalid provisions.

(e) Judicial Reformation. If the period of time or the area specified in the Restrictions should be adjudged unreasonable in any judicial or administrative proceeding, then the court or administrative body shall have the power to reduce the period of time or the area covered and, in its reduced form, such provision shall then be enforceable and shall be enforced.

(f) Tolling. If Executive violates any of the Restrictions, the restrictive period shall not run in favor of Executive from the time of the commencement of any such violation until such time as such violation shall be cured by Executive to the satisfaction of the Company.

5.02 PROPRIETARY INFORMATION. (a) Disclosure of Information. It is recognized that Executive will have access to certain confidential information of the Company and its affiliates and subsidiaries, and that such information constitutes valuable, special and unique property of the Company and its affiliates and subsidiaries. Executive shall not at any time disclose any such confidential information to any party for any reason or purpose except as may be made in the normal course of business of the Company or its affiliates and subsidiaries and for the Company's or its affiliates' or subsidiaries' benefits.

(b) Return of Information. All advertising, sales and other materials or articles of information, including without limitation data processing reports, invoices, or any other materials or data of any kind furnished to Executive by the Company or developed by Executive on behalf of the Company or at the Company's direction or for the Company's use or otherwise in connection with Executive' employment hereunder, are and shall remain the sole and confidential property of the Company; if the Company requests the return of such materials at any time during, upon or after the termination of Executive's employment, Executive shall immediately deliver the same to the Company.

#### ARTICLE VI

##### TITLE AND AUTHORITY

6.01 In performing the duties of President and Chief Executive Officer hereunder, Executive shall give the Company the benefit of his special knowledge, skills, contacts and business experience and shall devote substantially all of his business time, attention, ability and energy exclusively to the business of the Company. It is agreed that Executive may have other business investments and participate in other business ventures which may, from time to time, require minor portions of his time, but which shall not interfere or be inconsistent with his duties hereunder.

#### ARTICLE VII

##### ARBITRATION

7.01 Any controversy or claim arising out of or relating to this Agreement or the breach thereof of Executive's employment relationship with the Company shall be settled by arbitration in the City of Dallas in accordance with the laws of the State of Texas by one arbitrator. The American Arbitration Association shall provide each party with a list of five arbitrators and each party to the arbitration shall be allowed to strike up to two of the arbitrators from the list provided. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction.

#### ARTICLE VIII

##### MISCELLANEOUS

8.01 NOTICES. Any notices to be given hereunder by either party to the other shall be in writing and may be effected either by personal delivery or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at the following addresses:

If to Company: Pizza Inn, Inc.  
3551 Plano Parkway  
The Colony, Texas 75056  
Attn: Corporate Secretary

If to Executive: Ronald W. Parker  
Pizza Inn, Inc.  
3551 Plano Parkway  
The Colony, Texas 75056

Any party may change his or its address by written notice in accordance with this Paragraph 8.01. Notice delivered personally shall be deemed communicated as of actual receipt; mailed notices shall be deemed communicated as of three days after proper mailing.

8.02 LAW GOVERNING AGREEMENT. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and all obligations shall be performable in Denton County, Texas.

8.03 WAIVERS. No term or condition of this Agreement shall be deemed to have been waived nor shall there be any estoppel to enforce any of the terms or provisions of this Agreement except by written instrument of the party charged with such waiver or estoppel, and, if the Company is the waiving party, such waiver must be approved by the Board. Further, it is agreed that no waiver at any time of any of the terms or provisions of this Agreement shall be construed as a waiver of any of the other terms or provisions of this Agreement, and that a waiver at any time of any of the terms or provisions of this Agreement shall not be construed as a waiver at any subsequent time of the same terms or provisions.

8.04 AMENDMENTS. No amendment or modification of this Agreement shall be deemed effective unless and until executed in writing by all of the parties hereto and approved by the Board.

8.05 SEVERABILITY AND LIMITATION. All agreements and covenants contained herein are severable and in the event any of them shall be held to be invalid by any competent court, this Agreement shall be interpreted as if such invalid agreements or covenants were not contained herein. Should any court or other legally constituted authority determine that for any such agreement or covenant to be effective that it must be modified to limit its duration or scope, the parties hereto shall consider such agreement or covenant to be amended or modified with respect to duration and scope so as to comply with the orders of any such court or other legally constituted authority, and, as to all other portions of such agreements or covenants, they shall remain in full force and effect as originally written.

8.06 HEADINGS. All headings set forth in this Agreement are intended for convenience only and shall not control or affect the meaning, construction or effect of this Agreement or of any of the provisions thereof.

8.07 SURVIVAL. Articles III, V and VII shall survive termination of this Agreement.

EXECUTED as of the date and year first above written.  
PIZZA INN, INC.

By: /s/B. Keith Clark  
Name: B. Keith Clark  
Title: Senior VP, General Counsel

EXECUTIVE  
/s/Ronald W. Parker

Ronald W. Parker

#### EXECUTIVE BONUS PLAN

-----

The Company agrees to pay Executive the cash bonuses provided below, during the term of the Employment Agreement, in the manner and under the terms described herein. The Compensation Committee also has the authority, in its sole discretion, to authorize an additional bonus to Executive at each fiscal quarter end and fiscal year end if the Compensation Committee deems such a bonus appropriate. The Compensation Committee shall also consider non-recurring events as relevant for determining discretionary bonuses, if any, and as such events may effect the criteria listed below.

On a quarterly basis, the Compensation Committee of the Company shall determine the bonus or bonuses to be paid to Executive using the guidelines listed below. The Compensation Committee shall make such determination, and all relevant bonuses shall be paid, no later than twenty (20) days after fiscal quarter end or fiscal year end, as appropriate.

The Compensation Committee shall review the following criteria to determine calculation of all non-discretionary bonuses. A maximum bonus allocated as a percentage of salary for each listed criteria shall be twenty percent (20%) for each Group A criteria and ten percent (10%) for each Group B criteria. Specific considerations listed in each individual criteria are intended to be illustrative of matters relevant for consideration, not an exhaustive list. Consideration will also be given to decisions negatively impacting the given criteria over a short term to better enhance long term Company prospects.

#### Group A Criteria

Revenue growth will be analyzed quarterly, giving due consideration to commodity price fluctuations. Revenue growth will be reviewed at the top line, in separate profit centers and in new business opportunities.

Net income growth will be analyzed quarterly. Net income growth will be reviewed at the top line, in separate profit centers, and in new business opportunities.

New store openings will be analyzed quarterly. The review will include number of openings, type of unit, and strength of opening. Consideration will also be given to area developer agreements, master license agreements, and multiple unit commitments.



Store sales will be analyzed quarterly, giving due consideration to market conditions and industry trends. The review will consider same store sales, new store sales, company store sales and relevant current and prior year promotional efforts.

Stock price movement will be analyzed quarterly, as well as Company efforts to increase its visibility in the marketplace.

#### Group B Criteria

Unit closings will be analyzed, reviewing the number of closings, unit types, reasons for closings, and efforts undertaken to reduce closings.

General and administrative expenses, as a percentage of total revenue, will be analyzed quarterly.

## EXECUTIVE COMPENSATION AGREEMENT

THIS EXECUTIVE COMPENSATION AGREEMENT ("Agreement") is made and entered into and effective the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, by and between \_\_\_\_\_ (hereinafter referred to as "Executive") and Pizza Inn, Inc. (hereinafter referred to as the "Company").

## W I T N E S S E T H:

WHEREAS, the Company currently employs Executive as its \_\_\_\_\_, and the Company and Executive desire to continue and extend such employment on the terms and conditions set forth;

NOW THEREFORE, for and in consideration of the premises and the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Executive hereby agree as follows:

## ARTICLE I

## COMPENSATION

1.01 SALARY AND BONUS. During the period of employment of Executive by the Company, the Board of Directors of the Company (the "Board") or the Compensation Committee or Stock Award Plan Committee thereof shall determine, based on the recommendations of the Company's Chief Executive Officer from time to time, the compensation of Executive, including salary, bonus, grants of stock options, and other benefits; provided, however, that Executive shall receive an annual salary, bonus and all other benefits not less than (i) his then current annual salary, (ii) a bonus equal to twenty percent (20%) of his then current annual salary (the "Section 1.01 Bonus"), and (iii) other benefits, except stock options, including such increases as the Board or Compensation Committee approve from time to time. Such salary shall be payable in such periodic installments as established by the Board of Directors of the Company.

1.02 BENEFITS. Executive shall receive a Company provided vehicle or a car allowance and reimbursement of certain expenses, all as approved from time to time by the Compensation Committee. All benefits listed above in this section 1.02 shall be referred to as the "Defined Benefits." Executive may also participate in the Company's benefit plans.

## ARTICLE II

## TERMINATION OF EMPLOYMENT

2.01 TERMINATION BY THE COMPANY FOR CAUSE. In addition to any other remedies which the Company may have at law or in equity, the Company may at any time terminate Executive's employment for Cause. The Company shall provide at least ten (10) days prior written notice to Executive of its intention to discharge Executive for Cause, and such notice must specify in detail the nature of the Cause alleged and provide Executive an opportunity to be heard by the Board prior to the expiration of such ten-day period (in addition to any applicable cure period). "Cause" shall mean the occurrence of any of the following events:

(a) the Executive engages in any violation of this Agreement which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so;

(b) the Executive is convicted of any felony or of any misdemeanor involving dishonesty such as theft, forgery or fraud, or having been indicted for, or had an information filed on him for, such a crime, enters a plea of guilty or nolo contendere;

(c) the Executive engages in any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so;

(d) the Executive engages in the intemperate use of alcohol or drugs on a repeated basis in a manner which, in the good faith opinion of the Company's Board of Directors, is impairing the Executive's ability to perform his duties or obligations hereunder and such intemperate use thereafter continues in such a manner following written notice thereof to Executive, with at least thirty (30) days to correct following such notice;

(e) the Executive engages in conduct giving rise to a breach of a monetary obligation to the Company and such breach continues following written notice thereof to Executive, with at least thirty (30) days to correct following such notice; or

(f) the Executive willfully fails to substantially perform his duties within fifteen (15) business days after written demand for substantial performance is delivered to Executive by the Board, which demand specifically identifies the manner in which the Board believes that Executive has not substantially performed his duties.

2.02 TERMINATION BY EXECUTIVE IN WINDOW PERIOD. Executive's employment may be terminated by Executive with or without any reason at any time within twelve

months after a Change of Control (the "Window Period") by giving the Company at least ten days prior written notice of such termination. "Change of Control" shall mean any of the following:

(a) all or substantially all of the assets of the Company are sold, leased, exchanged or otherwise transferred to any person or entity or group of persons or entities acting in concert as a partnership, limited partnership, syndicate or other group (a "Group of Persons") other than a person or entity or Group of Persons at least 50% of the combined voting power of which is held by Executive; or

(b) the Company is merged or consolidated with or into another corporation with the effect that the then existing stockholders of the Company hold less than 50% of the combined voting power of the then outstanding securities of the surviving corporation of such merger or the corporation resulting from such consolidation ordinarily having the right to vote in the election of directors; or

(c) a person or entity or Group of Persons (other than (i) the Company or (ii) an employee benefit plan sponsored by the Company) shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of securities of the Company representing 50% or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors; or

(d) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

2.03 TERMINATION BY EXECUTIVE FOR GOOD REASON. Executive may terminate his employment for good reason at any time during the term of this Agreement (the "Good Reason Period"). For purposes of this Agreement, "good reason" shall mean, without the Executive's express written consent, that, (i) Executive is required to relocate, (ii) Executive is assigned a position other than Chief Financial Officer and Vice President of Distribution or diminished responsibilities with the Company, (iii) Executive is assigned responsibilities or travel requirements inconsistent with the office of Chief Financial Officer and Vice President of Distribution, (iv) Executive is assigned office facilities or support staff inferior to that currently provided, or (v) Executive's then current annual base salary, Section 1.01 Bonus or Defined Benefits, as the same may be increased from time to time, are reduced.

2.04 NOTICE AND DATE OF TERMINATION. Any termination by the Company or by Executive shall be communicated by written notice. "Date of Termination" means (i) if Executive's employment is terminated by the Company for Cause or by Executive, the date of receipt of the notice of termination or any later date specified therein, as the case may be, or (ii) if Executive's employment is terminated by the Company other than for Cause, the Date of Termination shall be the date on which the Company notifies Executive of such termination.

#### ARTICLE III

##### OBLIGATIONS OF THE COMPANY UPON TERMINATION

3.01 WINDOW PERIOD; OTHER THAN FOR CAUSE. If the Company terminates Executive's employment other than for Cause or Executive terminates employment during the Window Period or Executive terminates his employment for good reason during the Good Reason period, the Company shall pay to Executive in a lump sum in cash within thirty (30) days after the Date of Termination an amount equal to: (a) two and one half (2.5) multiplied by (b) the sum of (i) Executive's then current annual salary (provided that such salary shall be deemed to be no lower than Executive's highest salary during any one of the immediately preceding three fiscal years) plus (ii) the highest amount of bonus and any other cash compensation (except salary) received by Executive during any one of the immediately preceding three (3) fiscal years.

3.02 OUTSIDE THE WINDOW PERIOD; FOR CAUSE. If (a) Executive terminates employment outside of the Window Period without good reason, (b) Executive's employment is terminated by the Company for Cause, (c) Executive terminates his employment outside the Good Reason Period, or (d) Executive's employment is terminated due to death or disability (as defined in the Company's long-term disability plan), this Agreement shall terminate without further obligations to Executive other than the obligation to pay to Executive, within thirty (30) days of the Date of Termination, salary plus accrued bonus and other benefits due Executive through the Date of Termination and the amount of any compensation previously deferred by Executive, in each case to the extent theretofore unpaid.

3.03 NOT A PENALTY OR FORFEITURE. The parties hereto acknowledge and agree that any payment under this Agreement is not a penalty or a forfeiture; rather, the amount specified is a reasonable and fair reflection of damages that Executive may incur in the event of Executive's termination.

3.04 TAX LIMITATION. (a) If any payment received or to be received by Executive in connection with a Change in Control of the Company or

termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, any person whose actions result in a Change in Control of the Company, or any person affiliated with the Company or such person (the "Total Payments")), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, the Company will pay to Executive, within 30 days of any payments giving rise to excise tax, an additional amount (the "gross-up payment") such that the net amount retained or to be retained by Executive, after deduction of any excise tax on the total payments and any federal and state and local income tax and excise tax on the gross-up payment provided for by this section, will equal the total payments.

(b) For purposes of determining the amount of the gross-up payment, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year that the payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the executive's residence on the date of termination or the date that excise tax is withheld by the Company, net of the maximum reduction in federal income taxes that could be obtained by deducting such state and local taxes.

(c) For purposes of determining whether any of the total payments would not be deductible by the Company and would be subject to the excise tax, and the amount of such excise tax, (i) total payments will be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Internal Revenue Code, and all parachute payments in excess of the base amount within the meaning of Section 280G(b)(3) will be treated as subject to the excise tax unless, in the opinion of tax counsel selected by the Company's independent auditors and acceptable to Executive such total payments (in whole or in part) are not parachute payments, or such parachute payments in excess of the base amount (in whole or in part) are otherwise not subject to the excise tax, and (ii) the value of any non-cash benefits or any deferred payment or benefit will be determined by the Company's independent auditors in accordance with Sections 280G(d)(3) and (4) of the Internal Revenue Code.

#### ARTICLE IV

##### TERM

4.01 The term (the "Term") of this Agreement shall commence on the date of this Agreement as set forth above (the "Effective Date") and shall continue through \_\_\_\_\_, \_\_\_\_\_. During each fiscal year of the Company, beginning with the fiscal year ending in June, \_\_\_\_\_, the Board may extend the Term by an additional year, by adopting an appropriate resolution which expressly extends the Term for such additional year but without the need to execute an amendment to this Agreement.

#### ARTICLE V

##### NONCOMPETE, ETC.

5.01 TRADE SECRETS AND NONCOMPETITION. (a) Trade Secrets. During his

-----  
employment by the Company and at all times thereafter, Executive shall not use for his personal benefit, or disclose, communicate or divulge to, or use for the direct or indirect benefit of any person, firm, association or company other than the Company or any affiliate or subsidiary of the Company, any material referred to in Paragraph 5.02(a) or (b) or any information regarding the business methods, business policies, procedures, techniques, research or development projects or results, trade secrets or other knowledge or processes of a proprietary nature belonging to, or developed by, the Company or any other confidential information relating to or dealing with the business operations or activities of the Company or any affiliate or subsidiary of the Company, made known to Executive or learned or acquired by Executive while in the employ of the Company.

(b) Non-Competition. In consideration of Executive's receipt of  
-----  
specialized training and proprietary information during the term hereof and other good and valuable consideration, in the event that the employment of Executive hereunder terminates for any reason, Executive shall not become employed by, consult with or otherwise assist in any manner any company (or any affiliate thereof) the primary business of which involves or relates to the sale of pizza in the continental United States for a period of years equal to the number by which Executive's annual salary and bonus is multiplied pursuant to any payments made to Executive under Paragraph 3.01.

(c) Remedies. Executive acknowledges that the restrictions contained  
-----  
in the foregoing Paragraphs 5.01(a) and (b) (the "Restrictions"), in view of the nature of the business in which the Company and its affiliates and subsidiaries are engaged, are reasonable and necessary in order to protect the legitimate interests of the Company and its affiliates and subsidiaries, and that any violation thereof would result in irreparable injury to the Company, and Executive therefore further acknowledges that, in the event Executive violates, or threatens to violate, any such Restrictions, the Company and its affiliates and subsidiaries shall be entitled to obtain from any court of competent jurisdiction, without the posting of any bond or other security, preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such violation, which

rights shall be cumulative and in addition to any other rights or remedies in law or equity to which the Company or any affiliate or subsidiary of the Company may be entitled.

(d) Invalid Provisions. If any Restriction, or any part thereof, is

-----  
determined in any judicial or administrative proceeding to be invalid or unenforceable, the remainder of the Restrictions shall not thereby be affected and shall be given full effect, without regard to the invalid provisions.

(e) Judicial Reformation. If the period of time or the area specified

-----  
in the Restrictions should be adjudged unreasonable in any judicial or administrative proceeding, then the court or administrative body shall have the power to reduce the period of time or the area covered and, in its reduced form, such provision shall then be enforceable and shall be enforced.

(f) Tolling. If Executive violates any of the Restrictions, the

-----  
restrictive period shall not run in favor of Executive from the time of the commencement of any such violation until such time as such violation shall be cured by Executive to the satisfaction of the Company.

5.02 PROPRIETARY INFORMATION. (a) Disclosure of Information. It is

-----  
recognized that Executive will have access to certain confidential information of the Company and its affiliates and subsidiaries, and that such information constitutes valuable, special and unique property of the Company and its affiliates and subsidiaries. Executive shall not at any time disclose any such confidential information to any party for any reason or purpose except as may be made in the normal course of business of the Company or its affiliates and subsidiaries and for the Company's or its affiliates' or subsidiaries' benefits.

(b) Return of Information. All advertising, sales and other materials

-----  
or articles of information, including without limitation data processing reports, invoices, or any other materials or data of any kind furnished to Executive by the Company or developed by Executive on behalf of the Company or at the Company's direction or for the Company's use or otherwise in connection with Executive' employment hereunder, are and shall remain the sole and confidential property of the Company; if the Company requests the return of such materials at any time during, upon or after the termination of Executive's employment, Executive shall immediately deliver the same to the Company.

#### ARTICLE VI

#### TITLE AND AUTHORITY

6.01 In performing the duties of

\_\_\_\_\_ hereunder, Executive shall give the Company the benefit of his special knowledge, skills, contacts and business experience and shall devote substantially all of his business time, attention, ability and energy exclusively to the business of the Company. It is agreed that Executive may have other business investments and participate in other business ventures which may, from time to time, require minor portions of his time, but which shall not interfere or be inconsistent with his duties hereunder.

#### ARTICLE VII

#### ARBITRATION

7.01 Any controversy or claim arising out of or relating to this Agreement or the breach thereof of Executive's employment relationship with the Company shall be settled by arbitration in the City of Dallas in accordance with the laws of the State of Texas by one arbitrator. The American Arbitration Association shall provide each party with a list of five arbitrators and each party to the arbitration shall be allowed to strike up to two of the arbitrators from the list provided. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction.

#### ARTICLE VIII

#### MISCELLANEOUS

8.01 NOTICES. Any notices to be given hereunder by either party to the other shall be in writing and may be effected either by personal delivery or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at the following addresses:

If to Company: Pizza Inn, Inc.  
3551 Plano Parkway  
The Colony, Texas 75056  
Attn: Corporate Secretary

If to Executive: \_\_\_\_\_

Any party may change his or its address by written notice in accordance with this Paragraph 8.01. Notice delivered personally shall be deemed communicated as of actual receipt; mailed notices shall be deemed communicated as of three days after proper mailing.

8.02 LAW GOVERNING AGREEMENT. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and all obligations shall be performable in Denton County, Texas.

8.03 WAIVERS. No term or condition of this Agreement shall be deemed to have been waived nor shall there be any estoppel to enforce any of the terms or

provisions of this Agreement except by written instrument of the party charged with such waiver or estoppel, and, if the Company is the waiving party, such waiver must be approved by the Board. Further, it is agreed that no waiver at any time of any of the terms or provisions of this Agreement shall be construed as a waiver of any of the other terms or provisions of this Agreement, and that a waiver at any time of any of the terms or provisions of this Agreement shall not be construed as a waiver at any subsequent time of the same terms or provisions.

8.04 AMENDMENTS. No amendment or modification of this Agreement shall be deemed effective unless and until executed in writing by all of the parties hereto and approved by the Board.

8.05 SEVERABILITY AND LIMITATION. All agreements and covenants contained herein are severable and in the event any of them shall be held to be invalid by any competent court, this Agreement shall be interpreted as if such invalid agreements or covenants were not contained herein. Should any court or other legally constituted authority determine that for any such agreement or covenant to be effective that it must be modified to limit its duration or scope, the parties hereto shall consider such agreement or covenant to be amended or modified with respect to duration and scope so as to comply with the orders of any such court or other legally constituted authority, and, as to all other portions of such agreements or covenants, they shall remain in full force and effect as originally written.

8.06 HEADINGS. All headings set forth in this Agreement are intended for convenience only and shall not control or affect the meaning, construction or effect of this Agreement or of any of the provisions thereof.

8.07 SURVIVAL. Articles III, V and VII shall survive termination of this Agreement.

EXECUTED as of the date and year first above written.

PIZZA INN, INC.

By:

Ronald W. Parker, President and CEO

EXECUTIVE

---

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS  
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pizza Inn, Inc. ("the Company") on Form 10-Q for the period ending December 29, 2002 as filed with Securities and Exchange Commission on the date hereof ("the Report"), I, Ronald W. Parker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. I have reviewed this quarterly report on Form 10-Q of the Company;
3. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
4. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

February 11, 2003

/s/ Ronald W. Parker

-----

Ronald W. Parker  
President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pizza Inn, Inc. ("the Company") on Form 10-Q for the period ending December 29, 2002 as filed with the Securities and Exchange Commission on the date hereof ("the Report"), I, Shawn M. Preator, Chief Financial Officer, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. I have reviewed this quarterly report on Form 10-Q of the Company;
3. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
4. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

February 11, 2003

/s/ Shawn M. Preator

-----

Shawn M. Preator  
Chief Financial Officer