

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 MARCH 27, 2005.  
-----

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

COMMISSION FILE NUMBER 0-12919

PIZZA INN, INC.  
(EXACT NAME OF REGISTRANT 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 IS AN ACCELERATED FILER (AS DEFINED IN RULE 12 B-2 OF THE EXCHANGE ACT). YES  NO

AT MAY 1, 2005, AN AGGREGATE OF 10,091,294 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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PIZZA INN, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 27, 2005	MARCH 28, 2004	MARCH 27, 2005	MARCH 28, 2004
REVENUES:				
<S>	<C>	<C>	<C>	<C>
Food and supply sales . . . . .	\$ 11,859	\$ 12,774	\$ 36,981	\$ 39,304
Franchise revenue . . . . .	1,319	1,323	3,884	4,038
Restaurant sales . . . . .	223	452	721	1,234
	-----	-----	-----	-----
	13,401	14,549	41,586	44,576
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Cost of sales . . . . .	11,241	11,802	35,125	36,380
Franchise expenses . . . . .	723	847	2,044	2,380
General and administrative expenses . . . . .	1,311	814	3,497	2,572
Interest expense . . . . .	157	150	431	470
	-----	-----	-----	-----
	13,432	13,613	41,097	41,802
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES . . . . .	(31)	936	489	2,774
Provision for income taxes . . . . .	(11)	319	173	1,095
	-----	-----	-----	-----
NET INCOME (LOSS) . . . . .	\$ (20)	\$ 617	\$ 316	\$ 1,679
	=====	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE . . . . .	\$ -	\$ 0.06	\$ 0.03	\$ 0.17
	=====	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE . . . . .	\$ -	\$ 0.06	\$ 0.03	\$ 0.17
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES . . . . .	10,089	10,079	10,109	10,070

WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . . . . .	10,117	10,132	10,142	10,114
---	--------	--------	--------	--------

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 27, 2005	MARCH 28, 2004	MARCH 27, 2005	MARCH 28, 2004
Net Income (Loss) . . . . .	\$ (20)	\$ 617	\$ 316	\$ 1,679
Interest rate swap gain (loss) - (net of tax benefit (loss) of \$56 and (\$20) and \$70 and \$75, respectively) . . . . .	(109)	38	(137)	(145)
Comprehensive Income (Loss) . . . . .	\$ (129)	\$ 655	\$ 179	\$ 1,534

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>  
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PIZZA INN, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MARCH 27, <C> 2005	JUNE 27, <C> 2004
(UNAUDITED)		
<b>ASSETS . . . . .</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 170	\$ 617
Accounts receivable, less allowance for doubtful accounts of \$357 and \$310, respectively . . . . .	3,488	3,113
Accounts receivable - related parties . . . . .	648	577
Notes receivable, current portion, less allowance for doubtful accounts of \$14 and \$59, respectively. . . . .	1	50
Notes receivable - related parties . . . . .	-	54
Inventories . . . . .	2,148	1,713
Deferred taxes, net . . . . .	194	183
Prepaid expenses and other . . . . .	450	415
Total current assets . . . . .	7,099	6,722
Property, plant and equipment, net . . . . .	12,649	12,756
Property under capital leases, net . . . . .	14	18
Deferred taxes, net . . . . .	40	105
Long-term notes receivable, less allowance for doubtful accounts of \$0 and \$3, respectively. . . . .	-	-
Long-term receivable - related party . . . . .	320	335
Re-acquired development territory . . . . .	671	866
Deposits and other . . . . .	188	104
	\$ 20,981	\$ 20,906
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade . . . . .	\$ 2,032	\$ 1,246
Accrued expenses . . . . .	1,398	2,109
Current portion of long-term debt . . . . .	1,817	406
Current portion of capital lease obligations . . . . .	10	10
Total current liabilities . . . . .	5,257	3,771
<b>LONG-TERM LIABILITIES</b>		
Long-term debt . . . . .	6,432	7,937
Long-term capital lease obligations . . . . .	15	23
Other long-term liabilities . . . . .	251	458
	11,955	12,189

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY  
Common Stock, \$.01 par value; authorized 26,000,000 shares;

issued 15,043,119 and 15,031,319 shares, respectively; outstanding 10,091,294 and 10,133,674 shares, respectively	150	150
Additional paid-in capital . . . . .	7,991	7,975
Retained earnings . . . . .	20,694	20,378
Accumulated other comprehensive loss . . . . .	(165)	(302)
Treasury stock at cost, Shares in treasury: 4,951,825 and 4,897,645, respectively .	(19,644)	(19,484)
	-----	-----
Total shareholders' equity . . . . .	9,026	8,717
	-----	-----
	\$ 20,981	\$ 20,906
	=====	=====

<FN>

See accompanying Notes to Condensed Consolidated Financial Statements.

</TABLE>

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

	NINE MONTHS ENDED	
	MARCH 27, 2005	MARCH 28, 2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income . . . . .	\$ 316	\$ 1,679
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization . . . . .	861	827
Non cash settlement of accounts receivable . . . . .	-	(281)
Provision for (recovery of) bad debt, net . . . . .	30	(249)
Utilization of deferred taxes . . . . .	(20)	467
Changes in assets and liabilities:		
Notes and accounts receivable . . . . .	(358)	(236)
Inventories . . . . .	(435)	(300)
Accounts payable - trade . . . . .	786	923
Accrued expenses . . . . .	(711)	279
Prepaid expenses and other . . . . .	51	330
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES . . . . .	520	3,439
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets . . . . .	-	38
Acquisition of area development territory . . . . .	-	(682)
Capital expenditures . . . . .	(721)	(554)
	-----	-----
CASH USED FOR INVESTING ACTIVITIES . . . . .	(721)	(1,198)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term bank debt and capital lease obligations	(102)	(2,487)
Officer loan payment . . . . .	-	9
Stock repurchase . . . . .	(160)	-
Proceeds from exercise of stock options . . . . .	16	50
	-----	-----
CASH USED FOR FINANCING ACTIVITIES . . . . .	(246)	(2,428)
	-----	-----
Net decrease in cash and cash equivalents . . . . .	(447)	(187)
Cash and cash equivalents, beginning of period . . . . .	617	399
	-----	-----
Cash and cash equivalents, end of period . . . . .	\$ 170	\$ 212
	-----	-----

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

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PIZZA INN, INC.  
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION  
 (IN THOUSANDS)  
 (UNAUDITED)

	NINE MONTHS ENDED			
	MARCH 27,		MARCH 28,	
	2005		2004	
CASH PAYMENTS FOR:				
<S>	<C>		<C>	
Interest . . . . .	\$	433	\$	478
Income taxes . . . . .		420		309

NON-CASH FINANCING AND INVESTING  
 ACTIVITIES:

Non-cash settlement of accounts receivable	\$	-	\$	281
--	----	---	----	-----

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

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

(1) The accompanying condensed consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the notes to the Company's audited condensed consolidated financial statements in its Form 10-K for the fiscal year ended June 27, 2004. Certain prior year amounts have been reclassified to conform with current year presentation.

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

The Company elected to follow APB No. 25, and related Interpretations in accounting for employee stock options because the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of our employee stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required to be determined as if the Company had accounted for its stock options granted subsequent to June 25, 1995 under the fair value method of SFAS No. 123. For purposes of pro forma disclosures, the estimated fair value of the stock options is amortized over the option vesting periods. The Company's pro forma information follows (in thousands, except for earnings per share information):

<TABLE>  
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	NINE MONTHS ENDED			
	MARCH 27,		MARCH 28,	
	2005		2004	
<S>	<C>		<C>	
Net income, as reported. . . . .	\$	316	\$	1,679
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects. . . . .		-		(1)

Pro forma net income . . . . .	\$	316	\$	1,678
		-----		-----
Earnings per share				
Basic-as reported. . . . .	\$	0.03	\$	0.17
Basic-pro forma. . . . .	\$	0.03	\$	0.17
Diluted-as reported. . . . .	\$	0.03	\$	0.17
Diluted-pro forma. . . . .	\$	0.03	\$	0.17

</TABLE>

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts as the pro forma amounts above do not include the impact of additional awards anticipated in future years.

(2)

The Company entered into an agreement on February 11, 2005, effective December 26, 2004 (the "Revolving Credit Agreement"), with Wells Fargo to provide a \$3.0 million revolving credit line that will expire December 23, 2005, replacing a \$4.0 million line that was due to expire October 1, 2005. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime plus 0.50%, or, at the Company's option, at the LIBOR rate plus 2.75%. A 0.375% annual commitment fee is payable on any unused portion of the revolving credit line. As of March 27, 2005 and March 28, 2004, the variable interest rates were 6.00% and 2.59%, using a prime and LIBOR rate basis, respectively. Amounts outstanding under the revolving credit line as of March 27, 2005 and March 28, 2004 were \$1.4 million and \$1.3 million, respectively.

The Company entered into an agreement effective December 28, 2000, as amended (the "Term Loan Agreement"), with Wells Fargo 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. The term loan amortizes over a term of twenty years, with principal payments of \$34,000 due monthly. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime or, at the Company's option, at the LIBOR rate plus 2.25%. The Company, to fulfill the requirements of Wells Fargo, fixed the interest rate on the term loan by utilizing an interest rate swap agreement as discussed below. The \$8.125 million term loan had an outstanding balance of \$6.8 million at March 27, 2005 and \$7.2 million at March 28, 2004.

Wells Fargo notified the Company on February 4, 2005 that it had not been given proper notice of the Company's repurchase of shares of its common stock, and that as a result an event of default existed under the Company's loan agreement. Such event of default was waived by Wells Fargo upon execution of the Revolving Credit Agreement.

(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 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 March 27, 2005 there was no hedge ineffectiveness.

(4)

On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "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." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

On January 12, 2005, the Company instituted an arbitration proceeding against Mr. Parker with the American Arbitration Association in Dallas, Texas pursuant to the Parker Agreement seeking declaratory relief that Mr. Parker is not entitled to severance payments or any other further compensation from the Company. In addition, the Company is seeking compensatory damages, consequential damages, and disgorgement of compensation paid to Mr. Parker under the Parker Agreement. On January 31, 2005, Mr. Parker filed claims against the Company for breach of the Parker Agreement, seeking the severance payment provided for in the Parker Agreement for a termination of Mr. Parker by the Company for reason other than for cause (as defined in the Parker Agreement), plus interest, attorney's fees and costs. No arbitrator has been appointed and no date for an arbitration hearing has been set.

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company believes that its claims against Mr. Parker are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately \$5.4 million under the Parker Agreement plus accrued interest and legal expenses. No accrual for any amount has been made as of March 27, 2005.

(5) On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004, Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the board of directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement (the "Clark Agreement"). As a result of the alleged change of control under the Clark Agreement, Clark claims that he was entitled to terminate the Clark Agreement within twelve (12) months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. On January 18, 2005, Mr. Clark filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement if a termination occurs following a change of control plus a bonus payment for 2003 of approximately \$12,500. The arbitration hearing is scheduled to begin on August 8, 2005.

The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under the Clark Agreement or that he is entitled to terminate the Clark Agreement for "good reason". On May 4, 2004, the board of directors obtained a written legal opinion that the "change of control" provision in the Clark Agreement was not triggered by the results of the February 11, 2004 annual meeting. Due to the nature of the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty, the Company believes that its claims against Mr. Clark are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Clark for the severance payment of approximately \$762,000, the \$12,500 bonus payment, and costs and fees. No accrual for any such amounts has been made as of March 27, 2005.

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

THREE MONTHS ENDED MARCH 27, 2005  
BASIC EPS

Income Available to Common Shareholders	\$ (20)	10,089	\$ -
Effect of Dilutive Securities - Stock Options		28	
		--	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ (20)	10,117	\$ -
	=====	=====	=====
THREE MONTHS ENDED MARCH 28, 2004			
BASIC EPS			
Income Available to Common Shareholders	\$ 617	10,079	\$ 0.06
Effect of Dilutive Securities - Stock Options		53	
		--	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 617	10,132	\$ 0.06
	=====	=====	=====
NINE MONTHS ENDED MARCH 27, 2005			
BASIC EPS			
Income Available to Common Shareholders	\$ 316	10,109	\$ 0.03
Effect of Dilutive Securities - Stock Options		33	
		--	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 316	10,142	\$ 0.03
	=====	=====	=====
NINE MONTHS ENDED MARCH 28, 2004			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,679	10,070	\$ 0.17
Effect of Dilutive Securities - Stock Options		44	
		--	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,679	10,114	\$ 0.17
	=====	=====	=====

(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 months and nine month periods ended March 27, 2005 and March 28, 2004 (in thousands).

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	-----		-----	
<S>	MARCH 27, <C> 2005	MARCH 28, <C> 2004	MARCH 27, <C> 2005	MARCH 28, <C> 2004
	-----	-----	-----	-----
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution . . . . .	\$ 11,859	\$ 12,774	\$ 36,981	\$ 39,304
Franchise and Other . . . . .	1,542	1,775	4,605	5,272
Intersegment revenues . . . . .	80	173	255	537
	-----	-----	-----	-----
Combined . . . . .	13,481	14,722	41,841	45,113
Less intersegment revenues . . . . .	(80)	(173)	(255)	(537)
	-----	-----	-----	-----
Consolidated revenues . . . . .	\$ 13,401	\$ 14,549	\$ 41,586	\$ 44,576
	=====	=====	=====	=====
OPERATING PROFIT:				
Food and Equipment Distribution (1)	41	846	576	1,964
Franchise and Other (1) . . . . .	563	567	1,754	2,075
Intersegment profit . . . . .	24	51	70	142
	-----	-----	-----	-----
Combined . . . . .	628	1,464	2,400	4,181
Less intersegment profit . . . . .	(24)	(51)	(70)	(142)
Corporate administration and other.	(635)	(477)	(1,841)	(1,265)
	-----	-----	-----	-----
Income before taxes . . . . .	\$ (31)	\$ 936	\$ 489	\$ 2,774
	=====	=====	=====	=====

GEOGRAPHIC INFORMATION (REVENUES):



United States . . . . .	\$ 13,060	\$ 14,201	\$ 40,593	\$ 43,523
Foreign countries . . . . .	341	348	993	1,053
	-----	-----	-----	-----
Consolidated total . . . . .	\$ 13,401	\$ 14,549	\$ 41,586	\$ 44,576
	=====	=====	=====	=====

<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  
 -----

The following discussion should be read in conjunction with the consolidated financial statements, accompanying notes and selected financial data appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words "believe," "expect," "anticipate," "estimate," "intends," "opinion," "potential" and similar expressions identify forward-looking statements. Forward-looking statements in this report include, without limitation, statements relating to the strategies underlying our business objectives, our customers and our franchisees, our liquidity and capital resources, the impact of our historical and potential business strategies on our business, financial condition, and operating results, and the expected effects of potentially adverse litigation outcomes. Our actual results could differ materially from our expectations. Further information concerning our business, including additional risk factors and uncertainties that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth below under the heading "Factors That May Affect Future Results." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law and regulation, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Except as the context otherwise requires, references herein to "the Company," "we," or "our" refer to the business of Pizza Inn, Inc. and its consolidated subsidiaries.

RESULTS OF OPERATIONS

OVERVIEW

We are a franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn ". At March 27, 2005, there were 410 Pizza Inn restaurants, consisting of two Company-owned restaurants and 408 franchised restaurants. Domestic restaurants are operated as: (i) 210 buffet restaurants ("Buffet Units") that offer dine-in, carry-out, and, in most cases, delivery services; (ii) 54 restaurants that offer delivery and carry-out services only ("Delco Units"); and (iii) 74 express units ("Express Units") typically located within a convenience store, college campus building, airport terminal, or other commercial facility that offer quick carry-out service from a limited menu. Of these franchised restaurants, 336 were located in 18 states predominately situated in the southern half of the United States. Additionally, we have 72 international restaurants located in 11 foreign countries.

REVENUES

Our revenues are primarily derived from sales of food, paper products, and equipment and supplies by our Norco division to franchisees, franchise royalties, and area development rights. Management believes that key performance indicators in evaluating financial results include chainwide retail sales, the number and type of operating restaurants and the percentage of product and supplies such restaurants purchase from our Norco Division. Our financial results are dependent in large part upon the pricing and cost of these products and supplies to franchisees, and the level of chainwide retail sales, which is driven by changes in same store sales and restaurant count.

FOOD AND SUPPLY SALES

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 three month period ended March 27, 2005 decreased 7%, or \$915,000, to \$11,859,000 from \$12,774,000 compared to the comparable period last year. The decrease in revenues for the three month period ended March 27, 2005 compared to the quarter ended March 28, 2004 is primarily due to a decline of 5.3% in overall chainwide retail sales, which negatively impacted product sales at our distribution division by approximately \$487,000. Additionally, the Company lowered sales prices on certain key ingredients, including dough products and tomato tidbits, for these comparable periods, which

negatively impacted revenues by approximately \$290,000. For the nine month period ended March 27, 2005, food and supply sales decreased 6%, or \$2,323,000, to \$36,981,000 from \$39,304,000 for the comparable period in the previous year. For the nine month period ended March 27, 2005, lower prices for certain key ingredients negatively impacted revenue by approximately \$859,000 and a 3.1% decline in overall chainwide retail sales negatively impacted non-cheese product sales by approximately \$760,000. In addition, cheese product sales were approximately \$326,000 lower than the comparable nine month period in the prior year due to lower retail sales which were partially offset by higher cheese prices.

FRANCHISE REVENUE

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased \$4,000 for the three month period ended March 27, 2005 compared to the comparable period last year and decreased 4% or \$154,000 for the nine month period ended March 27, 2005 compared to the comparable period last year. International royalties were higher for the comparable nine month period in the previous year as a result of the collection of previously unrecorded past due royalties, which were partially offset by lower retail sales. The following chart summarizes the major components of franchise revenue (in thousands):

<TABLE>  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	March 27,	March 28,	March 27,	March 28,
	<C>	<C>	<C>	<C>
	2005	2004	2005	2004
Domestic royalties . . . . .	\$ 1,208	\$ 1,172	\$ 3,475	\$ 3,396
International royalties . . . . .	92	100	269	284
Previously unrecorded international royalties	-	-	-	173
Domestic franchise fees . . . . .	19	51	140	172
International development fees . . . . .	-	-	-	13
Franchise revenue . . . . .	\$ 1,319	\$ 1,323	\$ 3,884	\$ 4,038

</TABLE>

RESTAURANT SALES

Restaurant sales, which consist of revenue generated by Company-owned stores, decreased 51% or \$229,000 for the three month period ended March 27, 2005, compared to the comparable period of the prior year. For the nine month period ended March 27, 2005, restaurant sales decreased 42% or \$513,000 compared to the comparable period in the prior year. The decreases for both comparable periods are the result of the sale of one buffet unit, which was replaced by a smaller, lower sales volume Delco unit, and lower comparable sales at the other Company-owned buffet unit. The following chart details the revenues at the respective Company-owned restaurants (in thousands):

<TABLE>  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	March 27,	March 28,	March 27,	March 28,
	<C>	<C>	<C>	<C>
	2005	2004	2005	2004
Buffet unit . . . . .	\$ 140	\$ 157	\$ 437	\$ 484
Buffet unit - sold end of February 2004	-	161	-	616
Delco unit - opened mid-January 2004. .	83	134	284	134
Restaurant sales . . . . .	\$ 223	\$ 452	\$ 721	\$ 1,234

</TABLE>

COSTS AND EXPENSES

COST OF SALES

Cost of sales decreased 5% or \$561,000 for the three month period ended March 27, 2005 and decreased 3% or \$1,255,000 for the nine month period ended March 27, 2005 compared to the comparable periods in the prior year, respectively. These decreases are the result of lower retail sales and lower payroll costs as a result of earlier staff reductions. Cost of sales, as a percentage of sales for the three month ended March 27, 2005 and the nine month period ended March 27, 2005, increased to 93% from 89% and increased to 93% from 90% from the comparable periods last year, respectively. These percentage increases are

primarily due to higher product costs of approximately 5% offset partially by payroll savings of \$72,000 for the quarter and \$218,000 for the nine month period resulting from earlier staff reductions. Although the Company does not currently intend to raise prices to compensate for the increases in product costs referenced, in part, because we do not believe that we would be able to do so as a result of the competitive environment in which we operate, it may become necessary to increase prices in the future. The Company experiences fluctuations in commodity prices (most notably, block cheese prices), increases in transportation costs (particularly in the price of diesel fuel), fluctuations in interest rates, and net gains or losses in the number of restaurants open in any particular period, among other things, all of which have impacted operating margins over the past several quarters to some extent. Future fluctuations in these factors are difficult for the Company to meaningfully predict with any certainty.

#### FRANCHISE EXPENSES

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs decreased 15% or \$124,000 for the three month period ended March 27, 2005 and decreased 14% or \$336,000 for the nine month period ended March 27, 2005 compared to the comparable periods last year, respectively. These decreases in both periods are primarily the result of lower payroll and related expenses resulting from earlier staff reductions and are partially offset by higher product research expenses.

#### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased 61% or \$497,000 for the three month period ended March 27, 2005 and 36% or \$925,000 for the nine month period ended March 27, 2005, compared to the comparable periods last year. The previous year's quarter included the reversal of \$390,000 in legal reserves relating to the settlement of the fax litigation, partially offset by proxy solicitation expenses of \$190,000. In addition, the current year includes legal expenses related to on-going litigation and related matters described previously which are partially offset by lower payroll and related expenses resulting from earlier staff reductions. The Company anticipates a higher level of legal expenses from the on-going litigation and related matters described previously, until all such matters are resolved. The following chart summarizes the primary variances in general and administrative expenses (in thousands):

<TABLE>  
<CAPTION>

<S>	Three Months Ended		Nine Months Ended	
	March 27, <C>	March 28, <C>	March 27, <C>	March 28, <C>
	2005	2004	2005	2004
Legal fees . . . . .	\$ 482	\$ (298)	\$ 818	\$ (112)
Proxy solicitation and related filing fees	16	207	53	228
Executive search fees . . . . .	71	-	117	-
Primary variances in general and administrative expenses . . . . .	\$ 569	\$ (91)	\$ 988	\$ 116

=====

</TABLE>

#### INTEREST EXPENSE

Interest expense increased 5% or \$7,000 for the three month period ended March 27, 2005 and decreased 8% or \$39,000 for the nine month period three month period ended March 27, 2005, compared to the comparable periods of the prior year due to lower debt balances offset by higher interest rates.

#### PROVISION FOR INCOME TAX

Provision for income taxes decreased 103% or \$330,000 for the quarter and 84% or \$922,000 for the nine month period compared to the comparable periods in the prior year. The effective tax rate was 35% for the quarter, 34% for the comparable period in the previous year, 35% for the nine month period, and 39% for the comparable nine month period in the previous year.

#### RESTAURANT OPENINGS AND CLOSINGS

During the first nine months of fiscal 2005 a total of 22 new Pizza Inn franchise units opened, including 17 domestic and 5 international. Domestically, 17 units were closed by franchisees or terminated by the Company, typically because of unsatisfactory standards of operation or performance during this nine month period. No international units were closed during the nine month period ended March 27, 2005. The following chart summarizes store activity for the nine month period ended March 27, 2005 compared to the comparable period in the prior year:

<TABLE>  
<CAPTION>

Nine months ending March 27, 2005

<S>	Beginning <C> of Period	<C> Opened	<C> Closed	Concept <C> Change	End of <C> Period
	-----	-----	-----	-----	-----
Buffet. . . . .	212	7	9	-	210
Delco . . . . .	53	4	2	(1)	54
Express . . . . .	73	6	6	1	74
International . . . . .	67	5	-	-	72
	-----	-----	-----	-----	-----
Total . . . . .	405	22	17	-	410
	=====	=====	=====	=====	=====

Nine months ending March 28, 2004

	Beginning of Period	Opened	Closed	Concept Change	End of Period
	-----	-----	-----	-----	-----
Buffet. . . . .	220	8	9	-	219
Delco . . . . .	56	2	5	1	54
Express . . . . .	75	3	5	(1)	72
International . . . . .	59	8	-	-	67
	-----	-----	-----	-----	-----
Total . . . . .	410	21	19	-	412
	=====	=====	=====	=====	=====

</TABLE>

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities are generally the result of net income, deferred taxes, depreciation and amortization, and changes in working capital. In the first nine months of fiscal 2005, the Company generated cash flows of \$520,000 from operating activities as compared to \$3,439,000 for the same period in fiscal 2004. Cash provided by operations was utilized primarily to make capital expenditures, repurchase shares of the Company's own stock and pay down debt. Reductions in cash flows from operating activities for the nine month period ended March 27, 2005 as compared to the comparable period last year resulted from lower net income in the current year and recoveries of bad debt and non-cash settlements of accounts receivable in the prior year.

Cash flows from investing activities primarily reflect the Company's capital expenditure strategy. In the first nine months of fiscal 2005, the Company used cash of \$721,000 for investing activities as compared to \$1,198,000 for the comparable period in fiscal 2004. The cash used during the first nine months of fiscal 2005 consisted primarily of costs associated with development of a new Company-owned store, purchase of warehouse equipment, construction of additional parking for the warehouse and purchase of new software. In the prior year, the Company used \$682,000 to re-acquire an area development territory.

Cash flows from financing activities generally reflect changes in the Company's borrowings during the period, treasury stock transactions and exercise of stock options. Net cash used for financing activities was \$246,000 in the first nine months of fiscal 2005 as compared to cash used for financing activities of \$2,428,000 for the comparable period in fiscal 2004.

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 \$137,000 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's prior net operating loss carryforwards and alternative minimum tax carryforwards have now been fully utilized and the Company began making estimated quarterly tax payments in January 2004.

The Company entered into an agreement on February 11, 2005, effective December 26, 2004 (the "Revolving Credit Agreement"), with Wells Fargo to provide a \$3.0 million revolving credit line that will expire December 23, 2005, replacing a \$4.0 million line that was due to expire October 1, 2005. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime plus 0.50%, or, at the Company's option, at the LIBOR rate plus 2.75%. A 0.375% annual commitment fee is payable on any unused portion of the revolving credit line. As of March 27, 2005 and March 28, 2004, the variable interest rates were 6.00% and 2.59%, using a prime and LIBOR rate basis, respectively. Amounts outstanding under the revolving credit line as of

March 27, 2005 and March 28, 2004 were \$1.4 million and \$1.3 million, respectively.

The Company entered into an agreement effective December 28, 2000, as amended (the "Term Loan Agreement"), with Wells Fargo 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. The term loan amortizes over a term of twenty years, with principal payments of \$34,000 due monthly. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime or, at the Company's option, at the LIBOR rate plus 2.25%. The Company, to fulfill the requirements of Wells Fargo, fixed the interest rate on the term loan by utilizing an interest rate swap agreement as discussed below. The \$8.125 million term loan had an outstanding balance of \$6.8 million at March 27, 2005 and \$7.2 million at March 28, 2004.

Wells Fargo notified the Company on February 4, 2005 that it had not been given proper notice of the Company's repurchase of shares of its common stock, and that as a result an event of default existed under the Company's loan agreement. Such event of default was waived by Wells Fargo upon execution of the Revolving Credit Agreement.

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 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 March 27, 2005 there was no hedge ineffectiveness.

The Company is in arbitration proceedings with Messrs. Parker and Clark, as previously described. Although the ultimate outcome of the arbitration proceedings cannot be projected with certainty at this time, the Company believes that its claims against Messrs. Parker and Clark are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceedings could materially affect the Company's financial position, results of operations and liquidity. In the event the Company is unsuccessful, it could be liable to Messrs. Parker and Clark for approximately \$6.2 million under the Parker Agreement and the Clark Agreement plus accrued interest and legal expenses. The Company maintains that it does not owe Messrs. Parker and Clark severance payments or any other compensation, but it believes it has the ability to make any payments required by an adverse determination. No accrual for any amount has been made as of March 27, 2005. The Company anticipates a higher level of legal expenses from the on-going litigation and related matters described previously, until all such matters are resolved.

#### 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 March 27, 2005 (in thousands):

<TABLE>  
<CAPTION>

<S>	<C>	Fiscal Year				After
		Fiscal Year	Fiscal Years	Fiscal Years	Fiscal Year	
	Total	2005	2006 - 2007	2008 - 2009	2009	
Bank debt (1)	\$ 8,249	\$ 1,817	\$ 812	\$ 5,620	\$ -	
Operating lease obligations	1,992	897	893	180	22	
Capital lease obligations (1)	25	10	15	-	-	
<b>Total contractual cash obligations</b>	<b>\$ 10,266</b>	<b>\$ 2,724</b>	<b>\$ 1,720</b>	<b>\$ 5,800</b>	<b>\$22</b>	

</TABLE>

(1) Does not include amount representing interest.

The preparation of financial statements in conformity with generally accepted accounting principles requires our management to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent liabilities. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances. Estimates and assumptions are reviewed periodically. Actual results could differ materially from estimates.

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

Accounts receivable consist primarily of receivables generated from food and supply sales to franchisees 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, general customer creditworthiness, and the franchisee's ability to pay, based upon the franchisee's sales, operating results, and other general and local economic trends and conditions that may affect the franchisee's ability to pay. Actual realization of amounts receivable could differ materially from our estimates.

Notes receivable primarily consist of notes from franchisees for trade receivables, franchise fees and equipment purchases. These notes generally have terms ranging from one to five years and interest rates of 6% 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, general customer creditworthiness, and a franchisee's ability to pay, based upon the franchisee's sales, operating results, and other general and local economic trends and conditions that may affect the franchisee's ability to pay. Actual realization of amounts receivable could differ materially from our estimates.

Inventory, which consists 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. The valuation of inventory requires us to estimate the amount of obsolete and excess inventory. The determination of obsolete and excess inventory requires us to estimate the future demand for our products within specific time horizons, generally six months or less. If the Company's demand forecast for specific products is greater than actual demand and the Company fails to reduce purchasing accordingly, the Company could be required to write down additional inventory, which would have a negative impact on our gross margin.

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 materially impacted by changes in future taxable income and the results of tax strategies.

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

#### FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Act"), including information within Management's Discussion and Analysis of Financial Condition and Results of Operations. The forward-looking statements are based upon management's current expectations and assumptions about future events. The following cautionary statements are being made pursuant to the provisions of the 1995 Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the 1995 Act. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward looking statements as a result of various factors, including but not limited to, the following:

- - Our ability to maintain good relationships with our franchisees;
- - Our ability to compete domestically and internationally in our intensely competitive industry;
- - Our ability to successfully implement cost-saving strategies;
- - Increases in our operating costs, including cheese, fuel and other commodity costs and the minimum wage;

- - Adverse legal judgments or settlements;
- - The ability to obtain ingredients from alternative suppliers if needed;
- - Increased advertising promotions and discounting by competitors which may adversely affect sales;
- - New product and concept developments by food industry competitors;
- - Our ability to retain or replace our executive officers and other key members of management and our ability to adequately staff our stores and distribution center with qualified personnel;
- - Our ability to pay principal and interest on our debt;
- - Our ability to borrow in the future;
- - Adverse legislation or regulation;
- - Changes in consumer taste, demographic trends and traffic patterns;
- - Health- or disease-related disruptions or consumer concerns about the commodity supply;
- - Continuation of certain trends and general economic conditions in the industry; and
- - Adequacy of insurance coverage.

We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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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 March 27, 2005, the Company has approximately \$6.9 million of variable rate debt obligations outstanding with a weighted average interest rate of 3.63%. A hypothetical 10% increase in the effective interest rate for these borrowings, assuming debt levels at March 27, 2005, would have increased interest expense by approximately \$19,000 for the nine month period ended March 27, 2005. As discussed previously, the Company has entered into an interest rate swap designed to manage the interest rate risk relating to \$6.9 million of the variable rate debt.

#### ITEM 4. CONTROLS AND PROCEDURES

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The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "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." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

On January 12, 2005, the Company instituted an arbitration proceeding against Mr. Parker with the American Arbitration Association in Dallas, Texas pursuant to the Parker Agreement seeking declaratory relief that Mr. Parker is not entitled to severance payments or any other further compensation from the Company. In addition, the Company is seeking compensatory damages, consequential damages, and disgorgement of compensation paid to Mr. Parker under the Parker Agreement. On January 31, 2005, Mr. Parker filed claims against the Company for breach of the Parker Agreement, seeking the severance payment provided for in the Parker Agreement for a termination of Mr. Parker by the Company for reason other than for cause (as defined in the Parker Agreement), plus interest, attorney's fees and costs. No arbitrator has been appointed and no date for an arbitration hearing has been set.

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company believes that its claims against Mr. Parker are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately \$5.4 million under the Parker Agreement plus accrued interest and legal expenses. No accrual for any amount has been made as of March 27, 2005.

On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, and J. Kenneth Menges, one of the firm's partners. Akin Gump served as the Company's principal outside lawyers from 1997 through May 2004, when the Company terminated the relationship. The lawsuit alleges that during the course of representation of the Company, the firm and Mr. Menges, as the partner in charge of the firm's services for the Company, breached certain fiduciary responsibilities to the Company by giving advice and taking action to further the personal interests of certain of the Company's executive officers to the detriment of the Company and its shareholders. Specifically, the lawsuit alleges that the firm and Mr. Menges assisted in the creation and implementation of so-called "golden parachute" agreements, which, in the opinion of the Company's current counsel, provided for potential severance payments to those executives in amounts greatly disproportionate to the Company's ability to pay, and that if paid, could expose the Company to significant financial liability which could have a material adverse effect on the Company's financial position. This matter is in its preliminary stages, and the Company is unable to provide any meaningful analysis, projections, or expectations at this time regarding the outcome of this matter.

On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004, Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the board of directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement (the "Clark Agreement"). As a result of the alleged change of control under the Clark Agreement, Clark claims that he was entitled to terminate the Clark Agreement within twelve (12) months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. On January 18, 2005, Mr. Clark filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement if a termination occurs following a change of control plus a bonus payment for 2003 of approximately \$12,500. The arbitration hearing is scheduled to begin on August 8, 2005.

The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under the Clark Agreement or that he is entitled to terminate the Clark Agreement for "good reason". On May 4, 2004, the board of directors obtained a written legal opinion that the "change of control" provision in the Clark Agreement was not triggered by the results of the February 11, 2004 annual meeting. Due to the nature of the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty, the Company believes that its



claims against Mr. Clark are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Clark for the severance payment of approximately \$762,000, the \$12,500 bonus payment, and costs and fees. No accrual for any such amounts has been made as of March 27, 2005.

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 ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND THE USE OF PROCEEDS  
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The Company made the following share repurchases in the quarter covered by this report:

<TABLE>  
 <CAPTION>

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number Of Shares That May Yet Be Purchased Under The Plans Or Programs
<S>	<C>	<C>	<C>	<C>
Month #1 December 27, 2004 - January 30, 2005. .	14,745	\$ 2.90	14,745	1,051,659
Month #2 January 31, 2005 - February 27, 2005 .	-	-	-	1,051,659
Month #3 March 1, 2005 - . . March 27, 2005	-	\$ -	-	1,051,659
Total . . . . .	14,745	\$ 2.90	14,745	1,051,659

</TABLE>

The Company purchased 2,200 shares of its common stock on December 27, 2004, 5,945 shares on December 29, 2004, 2,200 shares on December 30, 2004 and 4,400 shares on December 31, 2004 as part of plan approved by the board of directors of the Company on August 15, 2001 and publicly announced on August 16, 2001. The Company was approved to purchase up to 1,500,000 shares of its own common stock as part of the plan and a predecessor plan. There are 1,051,659 shares that may yet be purchased as part of these plans. These plans have no expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES  
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None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS  
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None

ITEM 5. OTHER INFORMATION  
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Wells Fargo notified the Company on February 4, 2005 that Wells Fargo had not been given proper notice of the Company's purchase of shares of its common stock, and that as a result an event of default existed under the Company's loan agreement. Such event of default was waived by Wells Fargo upon execution of the Revolving Credit Agreement.

ITEM 6. EXHIBITS  
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3.1 Restated Articles of Incorporation

3.2 Amended and Restated By-laws

10.1 Letter Agreement dated February 9, 2005 between the Company and Wells Fargo Bank, N.A. (filed as item 10.1 on Form 10-Q for the quarterly period ended December 26, 2004 and incorporated herein by reference)

10.2 Second Amendment to Third Amended and Restated Loan Agreement and Amendment to Real Estate Note dated February 11, 2005 but effective as of December 26, 2004, between the Company and Wells Fargo Bank, N.A. (filed as Item 1.01 on Form 8-K on February 15, 2005 and incorporated herein by reference)

10.3 Eighth Amended and Restated Revolving Credit Note Agreement dated February 11, 2005 but effective as of December 26, 2004, between the Company and Wells Fargo Bank, N.A. (filed as Item 1.01 on Form 8-K on February 15, 2005 and incorporated herein by reference)

10.4 Employment Agreement dated March 31, 2005 between the Company and Timothy P. Taft (filed as Item 1.01 on Form 8-K on April 5, 2005 and incorporated herein by reference)

10.5 Non-Qualified Stock Option Agreement dated March 31, 2005 between the Company and Timothy P. Taft.

10.6 Executive Compensation Agreement dated April 22, 2005 between the Company and Ward T. Olgreen (filed as item 1.01 on Form 8-K on April 26, 2005 and incorporated herein by reference)

10.7 Executive Compensation Agreement dated April 22, 2005 between the Company and Shawn M. Preator (filed as item 1.01 on Form 8-K on April 26, 2005 and incorporated herein by reference)

31.1 Certification of Chief Executive Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES  
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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/Timothy P. Taft  
-----  
Timothy P. Taft  
Chief Executive Officer

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

Dated: May 6, 2005

RESTATED ARTICLES OF INCORPORATION  
OF  
PIZZA INN, INC.  
(as amended on JANUARY 30, 1999)

The undersigned being the President and Secretary of Pizza Inn, Inc. (the "Corporation") do hereby certify that the following RESTATEMENT OF THE ARTICLES OF INCORPORATION OF PIZZA INN, INC. (the "RESTATED ARTICLES") were adopted by the unanimous consent of the Board of Directors of the Corporation on August 31, 1990, and the following RESTATED ARTICLES correctly set forth without change the corresponding provisions of the Articles of Incorporation of the Corporation as theretofore amended, and the following RESTATED ARTICLES supercede the original Articles of Incorporation of the Corporation and all amendments thereto. The incorporator of the Corporation was Roy Breeling, 5074 South 107th Street, Omaha, Nebraska 68127.

ARTICLE I

The name of this Corporation shall be PIZZA INN, INC.

ARTICLE II

The period of the Corporation's duration is perpetual.

ARTICLE III

3.1 The purposes for which this Corporation is organized are the following:

(1) To acquire, lease, own, hold, manage, conduct and/or otherwise operate a fast food service facility and/or facilities, including, but not limited to, food vending facilities, and/or other connection therewith to conduct, perform and/or otherwise operate services and facilities ancillary thereto.

(2) To acquire, and pay for in cash, stock or bonds of this Corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

(3) To acquire, hold, use, sell, assign, mortgage, lease and grant licenses and franchises in respect of, letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with any business of this Corporation.

(4) To acquire by purchase, subscription or otherwise and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or voting trust certificates in respect of the shares of the capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts, and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency and as owner thereof to possess and exercise all the rights, power and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things, necessary or advisable for the preservation, protection, improvement and enhancement invention value thereof.

(5) To borrow or raise moneys for any of the purposes of the Corporation, and from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the Corporation and for its corporate purposes.

(6) To purchase, receive, take by grant, gift, devise, bequest or otherwise, lease, or otherwise acquire, own, hold, improve, employ, use and otherwise deal in and with real or personal property, or any interest therein, wherever situated, and to sell, convey, lease, exchange, transfer or otherwise dispose of, or mortgage or pledge, all or any of the Corporation's property and assets, or any interest therein, wherever situated.

(7) To purchase, receive or otherwise acquire, hold, own, pledge, transfer or otherwise dispose of its own shares, provided that it shall not purchase, either directly or indirectly, its own shares when its net assets are less than its stated capital or when, by so doing, its net assets would be reduced below its stated capital.

(8) To aid either by loans or by guarantee of securities or in any other manner, any corporation, domestic or foreign, any shares of stock, or any bonds, debentures, evidences of indebtedness or other securities whereof are held by this Corporation or in which it shall have any interest, and to do any acts designed to protect, preserve, improve, or enhance the value of any property at any time held or controlled by this Corporation or in which it at the time may

be interest.

(9) To do any or all of the things hereinabove enumerated alone for its own account, or for the account of others, or as the agent for others, or in association with others or by or through others, and to enter into all lawful contracts and undertakings in respect thereof.

(10) To have one or more offices, to conduct its business, carry on its operations and promote its objects within and without the State of Missouri, in other states, the District of Columbia, the territories, colonies and dependencies of the United States, in foreign countries and anywhere in the World, without restriction as to place, manner or amount, but subject to the laws applicable thereto; and to do any or all of the things herein set forth to the same extent as a natural person might or could do and in any part of the world, either alone or in company with others.

(11) In general, to carry on any other business in connection with each and all of the foregoing or incidental thereto, and to carry on, transact and engage in any and every lawful business or other lawful thing calculated to be of gain, profit or benefit to the Corporation as fully and freely as a natural person might do, to the extent and in the manner, and anywhere within and without the State of Missouri, as it may from time to time determine; and to have and exercise each and all of the powers and privileges, either direct or incidental, which are given and provided by or are available under the laws of the State of Missouri in respect of general and business corporations organized for profit thereunder; provided, however, that the Corporation shall not engage in any activity for which a Corporation may not be formed under the laws of the State of Missouri.

None of the purposes and powers specified in any of the paragraphs of this ARTICLE III shall be in any way limited or restricted by reference to or inference from the terms of any other paragraph, and the purposes and powers specified in each of the paragraphs of this ARTICLE III shall be regarded as independent purposes and powers. The enumeration of specific purposes and powers in this ARTICLE III shall not be construed to restrict in any manner the general purposes and powers of this Corporation, nor shall the expression of one thing be deemed to exclude another, although it be of like nature. The enumeration of purposes or powers herein shall not be deemed to exclude or in any way limit by inference any purposes or powers which this Corporation has power to exercise, whether expressly by the laws of the State of Missouri, nor hereafter in effect, or implied by any reasonable construction of such laws.

#### ARTICLE IV

4.1 The total number and designation of shares of capital stock that the Corporation shall have the authority to issue is Twenty-Six Million (26,000,000) shares of Common Stock, with the par value of one cent (\$.01) per share and Five Million (5,000,000) shares of Preferred Stock, with the par value of one dollar (\$1.00) per share.

4.2 Each holder of Common Stock shall be entitled to cast one (1) vote for each share of Common Stock issued and outstanding in his or her name. No Common Stock shall be issued without voting rights. Except as hereinafter provided in Section 5.7, Preferred Stock shall be non-voting unless converted to Common Stock.

[Sections 4.3-4.17 deleted]

#### ARTICLE V

5.1 The distinctive designation of the series of Preferred Stock authorized hereby shall be "10% Non-Voting Cumulative Convertible Preferred Stock" (the "Preferred Stock"). The number of authorized shares of Preferred Stock shall be 5,000,000. Shares of Preferred Stock which have been issued and reacquired in any manner, including shares purchased or redeemed, shall (upon compliance with any applicable provisions of the General Corporation Law of Missouri) have the status of authorized and unissued shares. The Preferred Stock shall only be issued prior to August 1, 1992 in lieu of payment of interest on the Term Loan pursuant to the Amended and Restated Credit Agreement. Any reallocation of the respective interests of Lloyds Bank Plc and Kleinwort Benson Limited between themselves with respect to ownership of the Preferred Stock shall not be subject to the provisions of Section 4.10. Except as hereinafter provided in Section 5.7, the Preferred Stock shall be non-voting; provided, however, that the Preferred Stock may be converted into voting Common Stock as hereinafter set forth in Section 5.5 hereof.

5.2 The holders of shares of Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, dividends at the annual rate of ten percent (\$0.10) per share, and no more. Such dividend shall be cumulative and shall be payable within 110 days after the end of the Corporation's fiscal year commencing with the first fiscal year ended subsequent to the issuance of any shares of Preferred Stock and within 110 days of the end of each fiscal year ended thereafter (each of such dates being a "dividend payment date") with respect to each fiscal year of the Corporation ending subsequent to the issuance of any

shares of Preferred Stock, to stockholders of record on the respective date, not exceeding 50 days preceding such dividend payment date, as shall be fixed for this purpose by the Board of Directors in advance of payment of each particular dividend. In the event that Preferred Stock has been outstanding for less than a full fiscal year or the Corporation shall have changed its fiscal year, as the case may be, such dividend shall accrue at the annual rate of 10% only for such period of time as such Preferred Stock shall have been issued and outstanding. All dividends paid with respect to shares of Preferred Stock shall be paid pro rata to the holders entitled thereto. Dividends on such Preferred Stock shall be fully cumulative and shall accrue (whether or not earned or declared) from and after their respective issuance date. Holders of Preferred Stock will not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends. No interest or sum of money in lieu of interest shall be payable in respect of any accumulated unpaid dividends.

5.3 (a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, then, before any distribution or payment shall be made to the holders of Common Stock, the holders of shares of Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders an amount in cash equal to \$1.00 for each share of Preferred Stock outstanding (which amount is hereinafter referred to as the "liquidation preference"), together with an amount in cash equal to all accrued and unpaid dividends thereon to the date fixed for liquidation, dissolution or winding up. Except as provided in the preceding sentence, holders of Preferred Stock shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Corporation. If the assets of the Corporation are not sufficient to pay in full the liquidation payments payable to the holders of outstanding shares of the Preferred Stock, then the holders of all such shares shall share ratably in any distribution of assets in accordance with the amount which would be payable on such distribution if the amounts to which the holders of outstanding shares of Preferred Stock are entitled were paid in full.

(b) For the purposes of this Section 5.3, neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation nor the consolidation or merger of the Corporation with any other corporation shall be deemed to be a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, unless such voluntary sale, conveyance, exchange, transfer, consolidation, or merger shall be in connection with a plan of liquidation, dissolution or winding up of the Corporation.

5.4 (a) Subject to subsection (b) of this Section 5.4, to the extent the Corporation shall have funds legally available for such redemption, the Corporation, at the option of the Board of Directors, may redeem, in whole or in part, the shares of Preferred Stock at the time outstanding, at any time or from time to time, upon notice given as hereinafter specified, at a redemption price of \$1.00 per share, together with accrued and unpaid dividends thereon to the redemption date.

(b) Notwithstanding the foregoing provisions of Section 5.4(a) hereof, unless the full cumulative dividends on all outstanding shares of preferred Stock shall have been paid or contemporaneously are declared and paid for all past dividend periods, none of the shares of preferred Stock shall be redeemed pursuant to Section 5.4(a) hereof unless all outstanding shares of Preferred Stock are simultaneously redeemed.

(c) On or prior to 100 days after the end of each fiscal year of the Corporation, commencing with the fiscal year ending in 1991, to the extent the Corporation shall have funds legally available therefor, the Corporation shall apply an amount equal to Excess Cash Flow as of the end of the immediately preceding fiscal year of the Corporation to mandatory redemption, in whole or in part, of the shares of Preferred Stock at the time outstanding, upon notice given as hereinafter specified, at a redemption price of \$1.00 per share, together with accrued and unpaid dividends thereon to the redemption date. If any shares of Preferred Stock shall be outstanding on August 1, 1995, to the extent the Corporation shall have funds legally available for such payment, the Corporation shall redeem all outstanding shares of Preferred Stock at a redemption price of \$1.00 per share, together with accrued and unpaid dividends thereon to the redemption date.

(d) If the Corporation shall fail to discharge its obligation to redeem any outstanding shares of Preferred Stock pursuant to Section 5.4(c) hereof (the "Mandatory Redemption Obligation"), the Mandatory Redemption Obligation shall be discharged as soon as the Corporation is able to discharge such Mandatory Redemption Obligation. If and so long as the Mandatory Redemption Obligation with respect to the Preferred Stock shall not be fully discharged, the Corporation shall not declare or pay any dividend or make any distribution on, or, directly or indirectly, purchase, redeem or satisfy any mandatory redemption, sinking and/or other similar obligations in respect of Common Stock (other than as a result of a reclassification of Common Stock, or the exchange or conversion of one class or series of Common Stock for or into another class or series of Common Stock, or other than through the use of the proceeds of a substantially contemporaneous sale of the Common Stock) or any warrants, rights

or options exercisable for or convertible into any of the Common Stock.

(e) In the event that fewer than all the outstanding shares of Preferred Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors and the shares shall be redeemed on a pro rata basis among holders of Preferred Stock.

(f) In the event that the Corporation shall redeem shares of Preferred Stock, notice of every redemption of shares of Preferred Stock shall be mailed by first class mail, postage prepaid, and mailed not less than 30 days nor more than 60 days prior to the redemption date addressed to the holders of record of the shares to be redeemed at their respective last addresses as they shall appear on the books of the Corporation; provided, however, that failure to give such notice or any defect therein or in the mailing thereof shall not affect the validity of the procedure for the redemption of any shares of Preferred Stock to be redeemed except as to any holder to whom the Corporation has failed to give such notice or except as to any holder to whom notice was defective. Each such notice shall state: (i) the redemption date; (ii) the number of shares of Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date.

(g) Notice having been mailed as aforesaid and provided that on or before the redemption date specified in such notice all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and to continue to be available therefor, then, from and after the redemption date dividends on the shares of Preferred Stock so called for redemption shall cease to accrue, and said shares shall no longer be deemed to be outstanding and shall not have the status of shares of Preferred Stock, and all rights of the holders thereof as shareholders of the Corporation (except the right to receive from the Corporation the redemption price and any accrued and unpaid dividends) shall cease. Upon surrender in accordance with said notice of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares without cost to the holder thereof.

5.5 Upon the occurrence of a default resulting from the Corporation's failure to make a scheduled payment of principal or accrued interest on the Term Loan, the Revolving Credit Loan or the Asset Paydown Loan (as such loans are defined in the Plan) and the continuance of such default for 90 calendar days, the Agent for the Banks (as defined in the Plan) will be entitled to convert all shares of Preferred Stock into shares of Common Stock equal to 51% of the issued and outstanding shares of Common Stock on a fully diluted basis; provided, however, that the Agent will only be entitled to consummate the foregoing conversion if at the time of default the Agent is holding shares of Preferred Stock with an aggregate par value equal to or greater than \$250,000.00; and provided further that in the event the Corporation has reduced the outstanding principal indebtedness on such loans to an aggregate of \$15,000,000.00, the Preferred Stock will be converted into a lesser percentage of Common Stock on a fully diluted basis as defined by the following formula: (par value of Preferred Stock held by the Agent on the date of exercise of conversion, divided by the par value of the maximum amount of Preferred Stock previously issued) times 51%.

5.6 No holder of shares of stock authorized or issued pursuant to ARTICLE IV or this ARTICLE V shall have any preferential or preemptive rights of subscription to any shares of capital stock of this Corporation, either now or hereafter authorized, or to any obligations convertible into capital stock of this Corporation, issued or sold, nor any rights of subscription to any thereof, other than such rights, if any, as are hereinabove stated in this Article V with respect to the Preferred Stock.

5.7 The holders of the Common Stock shall have the exclusive right to vote upon all questions presented for shareholder vote, and the holders of the Preferred Stock shall have no right to vote upon any such question except as otherwise expressly provided by Missouri law, these Articles of Incorporation or by any other law, rule or regulation to which the Corporation is or may become subject.

5.8 The Corporation reserves the right to alter, amend, or repeal any provision contained in its Articles of Incorporation in the manner now or hereafter prescribed by the statutes of Missouri, and all rights and powers conferred herein are granted subject to this reservation; and, in particular, the Corporation reserves the right and privilege to amend its Articles of Incorporation from time to time so as to authorize other or additional classes of shares (including preferential shares), to increase or decrease the number of shares of any class now or hereafter authorized, to establish, limit or deny to stockholders of any class the right to purchase or subscribe for any shares of stock of the Corporation of any class, whether now or hereafter authorized or

whether issued for cash, property or services or as a dividend or otherwise, or to purchase or subscribe for any obligations, bonds, notes, debentures, or securities or stock convertible into shares of stock of the Corporation or carrying or evidencing any right to purchase shares of stock of any class, and to vary the preferences, priorities, special powers, qualifications, limitations, restrictions and the special or relative rights or other characteristics in respect to the shares of each class, and to accept and avail itself of or subject itself to, the provisions of any statutes of Missouri hereafter enacted pertaining to general and business corporations, to exercise all the rights, powers and privileges conferred upon corporations organized thereunder or accepting the provisions thereof and to assume the obligations and duties imposed therein, upon the affirmative vote of the holders of a majority of the shares of each class whose separate vote is required thereon.

#### ARTICLE VI

In the absence of fraud, no contract or other transaction between the Corporation and any other person, corporation, firm, syndicate, association, partnership, or joint venture shall be wholly or partially invalidated or otherwise affected by reason of the fact that one or more of the directors of the Corporation are or are to become Directors or officers of such other corporation, firm, syndicate or association, or members of such partnership or joint venture, or are pecuniarily or otherwise interested in such contractual transaction, provided, that the fact such director or directors of the Corporation are so situated or so interested or both, shall be disclosed or shall have been known to the Board of Directors of the Corporation. Any director or directors of the Corporation who is also a director or officer of such other corporation, firm, syndicate or association, or a member of such partnership, or joint venture, or pecuniarily or otherwise interested in such contract or transaction, may be counted for the purpose of determining the existence of a quorum at any meeting of the Board of Directors of the Corporation which shall authorize any such contract or transaction and in the absence of fraud, and as long as he acts in good faith, any such director may vote there at to authorize any such contract or transaction, with like force and effect as if he were not a director or officer of such other corporation, firm, syndicate, or association, or a member of such partnership or joint venture, or pecuniarily or otherwise interested in such contract or transaction; it is expressly provided, however, that the Board of Directors may not authorize the contract or transaction without the affirmative vote of a majority of the disinterested directors, even though the disinterested directors constitute less than a quorum.

#### ARTICLE VII

The street address of the registered office of the Corporation is 906 Olive Street, St. Louis, Missouri 63101, and the initial registered agent at such address is CT Corporation System.

#### ARTICLE VIII

8.1 The business and affairs of the Corporation shall be managed by, or under the direction of, a Board of Directors. The number of directors to constitute the Board of Directors is seven (7).

8.2 The directors shall be divided into two (2) classes with respect to the time for which they severally hold office, designated Class I and Class II. Class I shall be composed of four (4) directors who shall hold office until the 1994 Annual meeting and until their respective successors shall be elected and shall qualify. Class II shall be composed of three (3) directors (the initial members of this class being designated in the Plan), who shall hold office until the annual meeting of the shareholders in 1993 and until their respective successors shall be elected and shall qualify. Upon expiration of the initial terms of the office of directors as classified above, their successors shall be elected for a term expiring at the annual meeting of the Corporation's shareholders held in the second year following the year of their election. Any director elected to fill any vacancy on the Board of Directors shall hold office for the remainder of the full term of the class of directors in which such vacancy occurs.

8.3 Any vacancy on the Board of Directors arising from the death, resignation, retirement, disqualification or removal from office of one or more directors may be filled by a majority of the Board of Directors then in office, although less than a quorum, or by a sole remaining director. At any time until August 1, 1995, the shareholders shall have the power by vote of the holders of 75% of the shares of stock then entitled to vote at any meeting expressly called for that purpose, to remove any director from office with or without cause; provided, however, that notwithstanding the foregoing, during the initial terms of office of the Class I and Class II Directors, no director shall be removed from office except for cause, cause being defined solely as fraud, physical disability or mental incapacity. Any director elected to fill a vacancy shall have the same remaining term as that of his or her predecessor.

8.4 The method of nomination and conduct of the election of directors at the annual meeting of shareholders shall be prescribed in the By-Laws.

8.5 Notwithstanding any other provision of these Articles of Incorporation, until August 1, 1995, no amendment, alteration or repeal of this Article VIII shall be effective unless approved by the holders of shares of stock of the Corporation representing at least 75% of the votes entitled to be cast thereon at a meeting of the shareholders duly called for consideration of such amendment.

#### ARTICLE IX

The private property of the stockholders shall not be subject to the payment of the corporate debts of the Corporation.

#### ARTICLE X

10.1 The Corporation shall have and exercise all powers and rights conferred upon corporations by the General and Business Corporation Law of Missouri and any enlargement of such powers conferred by subsequent legislative acts; and, in addition thereto, the Corporation shall have and exercise all powers and rights, not otherwise denied corporations by the General and Business Corporation Law of Missouri, as are necessary, suitable, proper, convenient or expedient to the attainment of the purposes set forth in Article III above.

10.2 Except as may be otherwise specifically provided by statute, or the Articles of Incorporation or the By-laws of the Corporation, as from time to time amended, all powers of management, direction and control of the Corporation shall be, and hereby are, vested in the Board of Directors.

10.3 The By-laws of the Corporation may from time to time be altered, amended, suspended or repealed, or new By-laws may be adopted by a majority vote of the Board of Directors, subject to any and all restrictions imposed, or prohibitions provided, by the General and Business Corporation Law of Missouri.

10.4 The Board of Directors may designate an Executive Committee in the manner and subject to the limitations set forth in the By-laws of the Corporation.

10.5 The directors shall have power to hold their meetings and to keep the books (except any books required to be kept in the State of Missouri, pursuant to the laws thereof) at any place within or without the State of Missouri.

#### ARTICLE XI

11.1 The Corporation may agree to the terms and conditions upon which any director or officer accepts his office or position and in its By-laws or by contract may agree to indemnify and protect each and all of such persons and any person who, at the request of the Corporation served as a director or officer of another Corporation in which this Corporation owned stock against all costs and expenses reasonably incurred by any or all of them, and all liability imposed or threatened to be imposed upon any or all of them, by reason of or arising out of their or any of them being or having been a director or officer of this Corporation or of such other corporation; but any such By-law or contractual provision shall not be exclusive of any other right or rights of any such director or officer to be indemnified and protected against such costs and liabilities which he may otherwise possess.

11.2 The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of this Corporation) by reason of the fact that he is or was a director, officer, employee or agent of this Corporation, or is or was serving at the request of this Corporation as a director, officer, employee, partner, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines, taxes and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of this Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a

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presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of this Corporation, and, with respect to any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

11.3 This Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit by or in the right of this Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of this Corporation, or is or was serving at the request of this Corporation as a director, officer, employee, partner, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) and amounts paid in settlement actually and



reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of this Corporation except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation unless and only to the extent that the Court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which the Court shall deem proper. Any indemnification under this Article XI (unless ordered by a Court) shall be made by this Corporation only as authorized in the specific instance upon a determination that indemnification of the director, officer, employee, partner, trustee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in this Article XI. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (3) by the shareholders. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in this Article XI, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the action, suit, or proceeding.

11.4 Expenses incurred in defending any actual or threatened civil or criminal action, suit or proceeding may be paid by this Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific instance upon receipt of an undertaking by or on behalf of the director, officer, employee, partner, trustee or agent to repay such amount unless it shall be ultimately determined that he is entitled to be indemnified by the Corporation as authorized in this Article XI.

11.5 The indemnification provided by this Article XI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any By-law, agreement, vote of shareholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has caused to be a director, officer, employee, partner, trustee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

11.6 For the purposes of this Article XI, references to this "Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any person who is or was a director, officer, employee, partner, trustee or agent of such a constituent corporation as a director, officer, employee, partner, trustee or agent of another enterprise shall stand in the same position under the provisions of this Article XI with respect to the resulting surviving corporation in the same capacity.

11.7 In the event any provision of this Article XI shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provisions of this Article XI and any other provisions of this Article XI shall be construed as if such invalid provisions had not been contained in this Article XI.

IN WITNESS WHEREOF, the undersigned, C Jeffrey Rogers, President, has executed this instrument and its Assistant Secretary has affixed its corporate seal hereto and attested said seal as of the 17th day of March, 1999. (seal)

PIZZA INN, INC.

ATTEST:

/s/B. Keith Clark  
B. Keith Clark  
Secretary

By: /s/ C. Jeffrey Rogers  
C. Jeffrey Rogers  
President

THE STATE OF TEXAS )  
 )  
COUNTY OF DALLAS )

I \_\_\_\_\_, Notary Public, do hereby certify that on this 17th day of March, 1999, personally appeared before me C. Jeffrey Rogers, who, being by me first duly sworn, declared that he is the President of Pizza Inn, Inc. that he signed the foregoing document as President of the Corporation, and that the statements therein contained are true.

Notary Public, State of

My Commission Expires:

Printed Name of Notary Public

AMENDED AND RESTATED BY-LAWS  
OF  
PIZZA INN, INC.

(AS AMENDED FEBRUARY 11, 2004)

ARTICLE I - OFFICE  
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The principal office of the Corporation shall be located in the County of Dallas, Texas. The Corporation may have offices at such other places, both within and without the State of Missouri, as the Board of Directors may from time to time designate.

ARTICLE II - SEAL  
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The corporate seal shall have inscribed thereon the name of the Corporation.

ARTICLE III - SHAREHOLDERS' MEETING  
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Section 1. Place of Meeting. All meetings of the shareholders shall be held at such location, either within or without the State of Missouri, as designated, from time to time, by a majority of the Board of Directors.

Section 2. Annual Meeting. The annual meeting of the shareholders, commencing with the year 1992, shall be held on Wednesday of the second full calendar week of December of each year at 10:00 a.m., or any other day determined by the Board of Directors within sixty (60) calendar days before or after such date, when the shareholders shall conduct business as shall properly come before the meeting. It is expressly provided in Article IV hereof that the Board of Directors is divided into two classes, Class I Directors consisting of four (4) Directors who shall hold office for two (2) years from election at the annual meeting of the shareholders in 1992, and Class II Directors consisting of three (3) Directors who shall hold office until the annual meeting of shareholders in 1993. Commencing with the annual meeting of shareholder in 1992 and 1993, the shareholders shall elect members to Class I and Class II, respectively, to serve for their respective two (2) year terms and until their successors are duly elected or chosen and qualify. Vacancies occurring on the Board of Directors shall be filled in accordance with the provision hereinafter set forth in Section 3 of Article IV hereof.

Section 3. Quorum. The holders of a majority of the stock issued and outstanding entitled to vote at any meeting, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by express provision of the statutes, the Articles of Incorporation or by these By-laws.

Section 4. Voting. At each meeting of the shareholders, every shareholder entitled to vote at any meeting shall be entitled to vote in person, or by proxy, appointed by an instrument in writing subscribed by such shareholder, or by his duly authorized attorney-in-fact, and he shall have one vote for each share of stock registered in his name at the time of the closing of the transfer books for said meeting. The vote of the holders of a majority of the stock having voting power, present in person or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes, the Articles of Incorporation or these By-laws, a different vote is required, in which case, such express provision shall govern and control the decision of such questions.

Section 5. No Cumulative Voting. Unless otherwise provided in the Articles of Incorporation, cumulative voting is not permitted with respect to the election of directors and, thus, no shareholders entitled to vote in the election of directors shall have the right to cast as many votes in the aggregate as shall equal the number of votes held by the shareholders in the Corporation, multiplied by the number of directors to be elected at the election, for one candidate, or distribute them among two or more candidates.

Section 6. Notice of Meeting. Notice of any special or annual meeting

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shall be served personally on each shareholder or shall be mailed to each shareholder at such address as appears on the stock book of the Corporation not less than ten (10) days nor more than sixty (60) days before such meeting. Service or mailing of such notice shall be made by the Secretary. In addition, such published notice shall be given as required by law. The notice of any special meeting shall state the purpose or purposes of the proposed meeting.

Section 7. Special Meetings. Special meetings of the shareholders for any

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purpose or purposes may be called by the Chief Executive Officer or by the Board of Directors, or by the Secretary at the request in writing by shareholders owning at least one-third (1/3) in amount of the entire capital stock of the Corporation issued and outstanding.

Section 8. Waiver of Notice. Any shareholder may waive notice of any

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meeting of the shareholders, by a writing signed by him, or by his duly authorized attorney-in-fact, either before or after the time of such meeting. A copy of such waiver shall be entered in the minutes, and shall be deemed to be the notice required by law or by these By-laws. Any shareholder present in person, represented by proxy or represented by his duly authorized attorney-in-fact, at any meeting of the shareholders, shall be deemed to have thereby waived notice of such meeting, except where a shareholder attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 9. Informal Action by Shareholders. Whenever the vote of

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shareholders at a meeting thereof is required or permitted to be taken in connection with any corporate action by any provisions of the statutes, the Articles of Incorporation or these By-laws, the meeting, any notice thereof and vote of shareholders thereat may be dispensed with if all the shareholders who would have been entitled to vote upon the action, if such meeting were held, shall consent in writing to such corporate action being taken. Such consents shall have the same force and effect as a unanimous vote of the shareholders at a meeting duly held, and may be stated as such in any certificate or document filed under the statutes of Missouri. Such written consent shall be filed with the minutes of shareholders' meetings.

Section 10. Shareholders Entitled to Vote. The Board of Directors may

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prescribe a period not exceeding sixty (60) days prior to any meeting of the shareholders during which no transfer of stock on the books of the Corporation may be made. The Board of Directors may fix a day not more than sixty (60) days prior to the holding of any meeting of the shareholders as the day as of which shareholders are entitled to notice of and to vote at such meeting.

Section 11. Organization. The Chairman of the Board, and in his absence,

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the Chief Executive Officer, and in his absence, the President, and in the absence of the Chairman of the Board, the Chief Executive Officer, the President and all the Vice Presidents, a chairman pro tem chosen by the shareholders present, shall preside at such meeting of shareholders and shall act as chairman thereof. The Secretary, and in his absence the Assistant Secretary, a Secretary pro tem chosen by the shareholders present, shall act as secretary of all meetings of the shareholders.

Section 12. Adjournment. If at any meeting of the shareholders, a quorum

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shall fail to attend at the time and place for which the meeting was called, or if the business of such meeting shall not be completed, the shareholders present in person, represented by proxy may, by a majority vote, adjourn the meeting from day to day or from time to time, not exceeding ninety (90) days from such adjournment without further notice until a quorum shall attend or the business thereof shall be completed. At any such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally called.

Section 13. Business at Shareholders' Meeting. [Deleted]

Section 1. Number and Election. The number of Directors of the

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Corporation to constitute the Board of Directors shall be seven (7). Each Director shall hold office until such Director's successor has been elected and has qualified, or until such Director's death, retirement, disqualification, resignation or removal.

Section 2. Classes, Election and Term. The Board of Directors shall be

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and is divided into two (2) classes, designated Class I and Class II. Class I Directors shall consist of four (4) Directors who shall hold for office two (2) years from election at the annual meeting of the shareholders in 1992, and Class II shall consist of three (3) Directors who shall hold office until the annual meeting of shareholders in 1993. Commencing with the annual meeting of shareholders in 1992 and 1993, the shareholders shall elect members to Class I and Class II, respectively, to serve for their respective two (2) year terms and until their successors are duly elected or chosen and qualified. Vacancies occurring on the Board of Directors shall be filled in accordance with the provision hereinafter set forth in Section 3 of Article IV hereof.

Section 3. Vacancies. Any vacancy on the Board of Directors arising from

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the death, resignation, retirement, disqualification, or removal from office of one or more Directors, may be filled by a majority of the Board of Directors then in office, although less than a quorum, or by a sole remaining Director. Any Director elected to fill a vacancy shall have the same remaining term as that of his or her predecessor.

Section 4. Powers of the Board. The business of the Corporation shall be

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managed by its Board of Directors, which may exercise all such powers of the Corporation, and do all such lawful acts and things as are not by statute, or by the Articles of Incorporation, or by these By-laws, directed or required to be exercised or done by the shareholders.

Section 5. Removal of Directors. Except as otherwise expressly provided

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in the Articles of Incorporation, the shareholders shall have the power by a vote of the holders of a majority of the seventy-five percent (75%) shares then entitled to vote at an election of Directors at any meeting expressly called for that purpose, to remove any Director from office with or without cause. Such meeting shall be held at the registered office or principal business office of the Corporation in the State of Texas or at such other location within or without the States of Missouri or Texas, as directed, from time to time, by the Board of Directors. If less than the entire Board is to be removed, no one of the Directors may be removed if the votes cast against his removal would be sufficient to elect him, if then cumulatively voted at an election of the entire Board of Directors.

Section 6. Nominations to Board of Directors. [Deleted]

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ARTICLE V - MEETINGS OF THE BOARD  
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Section 1. Place of Meetings. Meetings of the Board of Directors of the

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Corporation, both regular and special, may be held at any place either within or without the State of Missouri. Members of the Board of Directors or of any committee designated by the Board of Directors may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment, whereby all persons participating in the meeting can hear each other, and participation in a meeting in this manner shall constitute presence in person at the meeting.

Section 2. Regular Meetings. Regular meetings of the Board of Directors may be

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held at such time and place as shall from time to time be determined by the Board.

Section 3. Notice of Regular Meetings. After the time and place of

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regular meetings shall have been determined, no notice of any regular meetings need be given. Notice of any change in the place of holding any regular meeting, or any adjournment of a regular meeting, shall be given by mail, telegram, or telephone not less than forty-eight (48) hours before such meeting, to all Directors who were absent at the time such action was taken.

Section 4. Special Meetings. Special meetings of the Board, for any

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purpose, may be called by the Chairman of the Board on three (3) days' notice to each Director, either personally, by mail or by telegram. Upon like notice, the Secretary of the Corporation, upon the written request of a majority of the Directors, shall call a special meeting of the Board. Such request shall state the purpose or purposes of the proposed meeting. The officer calling the special meeting may designate the place for holding same.

Section 5. Quorum. At all meetings of the Board, a majority of the

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Directors entitled to vote shall constitute a quorum for the transaction of business, and the act of a majority of the Directors so entitled to vote, present at any meeting at which there is a quorum, shall be the act of the Board of Directors, except where otherwise provided by statute, by the Articles of Incorporation or by these By-laws. If a quorum shall not be present at any meeting of the Board of Directors, the Directors entitled to vote present thereat may adjourn the meeting, from time to time, without notice other than announcement, at the meeting that the meeting is adjourned until a quorum shall be present.

Section 6. Waiver of Notice. Any Director may waive notice of any meeting

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of the Board by a writing signed by him, either before or after the time of such meeting. A copy of such waiver shall be entered in the minutes and shall be deemed to be the notice required by statute or by these By-laws. Any Director present in person, or by means of conference telephone or similar communications equipment, at any meeting of the Board, shall be deemed to have thereby waived notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 7. Informal Meetings. Whenever the vote of Directors at a meeting

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thereof is required or permitted to be taken in connection with any corporate action by any provisions of the statutes or of the Articles of Incorporation, the meeting, any notice thereof, and vote of Directors thereat, may be dispensed with if all the Directors who would have been entitled to vote upon the action, if such meeting were held, shall consent in writing to such corporate action being taken. Such written consent shall be filed with the minutes of the Board.

Section 8. Organization. The Chairman of the Board, and in his absence,

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the Chief Executive Officer, and in his absence, the President, and in the absence of the Chairman of the Board, the Chief Executive Officer, the President and all the Vice Presidents, a chairman pro tem chosen by the Directors present, shall preside at each meeting of the Directors and shall act as Chairman thereof. The Secretary, and in his absence, the Assistant Secretary, and in his absence a secretary pro tem chosen by the Directors present, shall act as Secretary of all meetings of the Directors.

Section 9. Minutes and Statements. The Board of Directors shall cause to

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be kept a complete record of their meetings and acts, and of the proceedings of the shareholders.

ARTICLE VI - OFFICERS

Section 1. Officers. The officers of this Corporation shall be a Chairman

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of the Board, any number of Vice Chairmen (who may be specifically designated with a descriptive title), a President, one or more Vice Presidents (any one of whom may be specifically designated or Senior Vice President, or some particular phrase descriptive of a portion of the Corporation's business), a Secretary, one or more assistant Secretaries, and a Treasurer, all of whom shall be chosen by the Board of Directors. Any person may hold two or more offices, except the offices of President and Secretary.

Section 2. Subordinate Officers and Employees. The Board of Directors

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may appoint such other officers and agents, as it may deem necessary, who shall hold their offices for such terms, and shall exercise such powers and perform such duties, as shall be determined from time to time by the Board.

Section 3. Compensation. The Board of Directors shall, from time to time,  
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in its discretion, fix or alter the compensation of any officer or agent.

Section 4. Tenure of Office and Removal. The officers of the Corporation  
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shall hold office until their successors are chosen and qualify. Any officer, elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors.

Section 5. Chairman of the Board. The Chairman of the Board shall preside  
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at all meetings of the shareholders and the Directors. He shall perform such other duties and have such other powers as the Board of Directors may, from time to time, prescribe.

Section 6. Vice Chairman. The Vice Chairman, if any, in such order as  
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designated by the Board of Directors, shall, in the absence or disability of the Chairman, perform the duties and exercise the powers of the Chairman and shall perform such other duties and have such other powers as the Board of Directors or the Chairman may, from time to time, prescribe.

Section 7. Chief Executive Officer. The Chief Executive Officer shall be  
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the ranking chief executive officer of the Company, shall have general supervision of the affairs of the Company and general control of all of its business and shall see that all orders and resolutions of the Board are carried into effect. The Chief Executive Officer may delegate all or any of his powers or duties to the president, if and to the extent deemed by the Chief Executive Officer to be desirable or appropriate.

Section 8. President. The President shall be the chief operating officer  
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of the Company and shall, subject to the supervision of the Chief Executive Officer and the Board, have general management and control of the day-to-day business operations of the Company. The President shall put into operation the business policies of the Company as determined by the Chief Executive Officer and the Board and as communicated to him by such officer and bodies. In the absence of the Chief Executive Officer or in the event of his inability or refusal to act, the President shall perform the duties and exercise the powers of the Chairman of the Board.

Section 9. Vice Presidents. The Vice Presidents, in the order designated  
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by the Board of Directors, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the Board of Directors or the President may, from time to time, prescribe.

Section 10. Secretary. The Secretary shall attend all meetings of the  
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shareholders of the Corporation and of the Board of Directors, and shall record all of the proceedings of such meetings in minute books kept for that purpose. He shall keep in safe custody the corporate seal of the Corporation, and is authorized to affix the same to all instruments requiring the Corporation's seal. He shall have charge of the corporate records, and, except to the extent authority may be conferred upon any transfer agent or registrar duly appointed by the Board of Directors, he shall maintain the Corporation's books and stock ledgers, and such other books, records and papers as the Board of Directors may, from time to time, entrust to him. He shall give or cause to be given proper notice of all meetings of shareholders and Directors, as required by law and the By-laws, and shall, with the President, or a Vice President, sign the stock certificates of the Corporation, and shall perform such other duties as may, from time to time, be prescribed by the Board of Directors or the President.

Section 11. Assistant Secretary. Each Assistant Secretary shall assist  
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the Secretary in the performance of his duties, and may at any time, perform any of the duties of the Secretary; in case of the death, resignation, absence, or disability of the Secretary, the duties of the Secretary shall be performed by an Assistant Secretary, and each Assistant Secretary shall have such other powers and perform such other duties as, from time to time, may be assigned to him by the Board of Directors.

Section 12. Treasurer. The Treasurer shall have the custody of the  
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corporate funds and securities, and shall keep full and accurate accounts of  
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receipts and disbursements in books belonging to the Corporation, and shall  
deposit all monies and other valuable effects in the name and to the credit of  
the Corporation, in such depositories as may be designated by the Board of  
Directors. He shall deposit the funds of the Corporation in such depositories  
as may be designated by the Board of Directors. He shall disburse the funds of  
the Corporation, as may be ordered by the Board, taking proper vouchers for such  
disbursements, and shall render to the President and Directors at the regular  
meetings of the Board, or whenever they may require it, an account of all his  
transactions as Treasurer, and of the financial condition of the Corporation.

ARTICLE VII - RESIGNATIONS  
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Any Director or officer may resign his office at any time, such resignation  
to be made in writing and to take effect from the time of its receipt by the  
Corporation, unless some time be fixed in the resignation, and then from that  
time. The acceptance of a resignation shall not be required to make it  
effective.

ARTICLE VIII - CERTIFICATES OF STOCK AND TRANSFERS  
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Section 1. Form and Execution of Certificates. Each shareholder of the  
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Corporation, whose stock has been paid for in full, shall be entitled to have a  
certificate or certificates certifying the number of shares of stock of the  
Corporation owned by him. The certificates of stock shall be numbered and  
registered as they are issued. They shall exhibit the holder's name and the  
number of shares, and shall be signed by the Chairman of the Board, the Chief  
Executive Officer, the President or the Vice President, and the Secretary or the  
Assistant Secretary, and have affixed to them the seal of the Corporation.

Section 2. Restricted Stock. The Corporation shall, at all times, have  
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the authority and discretion to place a restrictive legend on those shares of  
stock which may not be transferred pursuant to the various federal, state and  
local securities laws, rules and regulations.

Section 3. Transfer of Stock. Shares of nonrestricted stock may be  
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transferred by endorsement thereon of the signature of the proprietor, his  
agent, attorney or legal representative, and such guaranties as may be required  
by the Transfer Agent and Registrar, and the delivery of the certificate; but  
such transfer shall not be valid against the Corporation until the same is so  
entered on the books of the Corporation and the old certificate is surrendered  
for cancellation.

Section 4. Registered Shareholders. The Corporation shall be entitled to  
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treat the registered holder of any share or shares of stock, whose name appears  
on its books as the owner or holder thereof, as the absolute owner of all legal  
and equitable interest therein, for all purposes and (except as may be otherwise  
provided by law) shall not be bound to recognize any equitable or other claim to  
or interest in such shares of stock on the part of any other person, regardless  
of whether or not it shall have actual or implied notice of such claim or  
interest.

Section 5. Closing of Stock Transfer Books - Fixing Record Date. The Board  
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of Directors shall have power to close the stock transfer books of the  
Corporation for a period not exceeding sixty (60) days preceding the date of any  
meeting of shareholders, or the date for payment of any dividend, or the date  
for the allotment of rights, or the date when any change, conversion, or  
exchange of capital stock shall go into effect; provided, however, that in lieu  
of closing the stock transfer books as aforesaid, the Board of Directors may  
fix, in advance, a date not exceeding sixty (60) days preceding the date of any  
meeting of shareholders, or the date of the payment of any dividend, or the date  
for the allotment of rights, or the date when any change, conversion, or  
exchange of capital stock shall go into effect, as a record date for the  
determination of the shareholders entitled to notice of, and to vote at any such



meeting and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case such shareholders, and only such shareholders who are shareholders of record on the date so fixed, shall be entitled to notice of, and to vote at such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. If the Board of Directors does not close the transfer books or set a record date for the determination of the shareholders entitled to notice of, and to vote at, a meeting of shareholders, only the shareholders who are shareholders of record at the close of business on the twentieth day preceding the date of the meeting shall be entitled to notice of, and to vote at, the meeting, and any adjournment of the meeting, except that, if prior to the meeting written waivers of notice of the meeting are signed and delivered to the Corporation by all of the shareholders of record at the time the meeting is convened, only the shareholders who are shareholders of record at the time the meeting is convened shall be entitled to vote at the meeting, and any adjournment of the meeting.

Section 6. Lost Certificates. The Board of Directors may direct a new

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certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed and the Board may adopt and approve a Comprehensive Bond offered by the Transfer Agent and Registrar. When authorizing such issue of a new certificate or certificates, the Board of Directors or the Transfer Agent and Registrar may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates or his legal representative, to advertise the same in such manner as it shall require, and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

ARTICLE IX - DEALINGS WITH COMPANIES IN

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WHICH DIRECTORS MAY HAVE AN INTEREST  
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Inasmuch as the Directors of this Corporation are or may be persons of diversified business interests, and are likely to be connected with other corporations with which from time to time this Corporation may have business dealings, no contract or other transaction between this Corporation and any other corporation shall be affected by the fact that Directors of this Corporation are interested in, or are directors or officers of such other corporation.

ARTICLE X - MISCELLANEOUS PROVISIONS

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Section 1. Fiscal Year. The fiscal year of the Corporation shall be  
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determined by the Board of Directors.

Section 2. Inspection of Books. The Directors shall determine, from time  
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to time, whether, and if allowed, when and under what conditions and regulations, the accounts and books of the Corporation (except such as may by statute be specifically open to inspection) or any of them, shall be open to inspection of the shareholders, and shareholders' rights, in this respect, are and shall be restricted and limited accordingly.

Section 3. Checks and Notes. All checks and drafts on the Corporation's  
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bank accounts, and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be signed by such officer or officers, or agent or agents, as shall be thereunto duly authorized, from time to time, by the Board of Directors; provided, that checks drawn on the Corporation's payroll, dividend and special accounts, may bear the facsimile signatures, affixed thereto by a mechanical device, of such officers or agents as the Board of Directors may authorize.

Section 4. Dividends. The Board of Directors shall declare such  
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dividends, as they in their discretion see fit, whenever the condition of the Corporation, in their opinion, shall warrant the same. The Board may declare dividends in cash, in property or in capital stock.

Section 5. Notices. Whenever, under the provisions of these By-laws,  
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notice is required to be given to any Director, officer or shareholder, it shall not be construed to mean personal notice, but such notice may be given in writing by depositing the same in the post office or letter box, in a postage paid sealed wrapper addressed to such shareholder, officer or Director at such address as appears on the records of the Corporation, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

Section 6. Plan of Reorganization. The term "Plan of Reorganization"  
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shall mean the Debtors' Second Amended Joint Plan of Reorganization, together with any modifications thereto as may be filed by the debtors and debtors-in-possession, in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, in the following Chapter 11 reorganization cases: In Re: Pizza Inn, Inc. f/k/a PZ Acquico, Inc., Debtor, Case No. 389-35942-HCA-11; In Re: Memphis Pizza Inns, Inc., Debtor, Case No. 389-35944-HCA-11; and In Re: Pantera's Corporation, Debtor, Case No. 389-35943-HCA-11, as approved by the Bankruptcy Court.

ARTICLE XI - INDEMNIFICATION OF OFFICERS AND DIRECTORS  
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AGAINST LIABILITIES AND EXPENSE IN ACTIONS  
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1. Indemnification with Respect to Third Party Actions. The  
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Corporation shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of this Corporation) by reason of the fact that he is or was a director, officer, employee or agent of this Corporation, or is or was serving at the request of this Corporation as a director, officer, employee, partner, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines, taxes and amounts paid in settlement, actually and reasonably incurred by him in connection with such action, suit or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of this Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its  
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equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of this Corporation, and, with respect to any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

2. Indemnification with Respect to Actions by or in the Right of the  
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Corporation. This Corporation shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action, suit by or in the right of this Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of this Corporation, or is or was serving at the request of this Corporation as a director, officer, employee, partner, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of this Corporation, except that no indemnification shall be made in respect of any claim, issue or matter if such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation, unless and only to the extent that the court in which such action or suit was brought, shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Any indemnification under this Article XI (unless ordered by a court) shall be made by this Corporation only as authorized in the specific instance upon a

determination that indemnification of the director, officer, employee, partner, trustee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in this Article XI. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (3) by the shareholders. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in this Article XI, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees), actually and reasonably incurred by him, in connection with the action, suit, or proceeding.

3. Payment of Expenses in Advance of Disposition of Action. Expenses

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incurred in defending any actual or threatened civil or criminal action, suit, or proceeding may be paid by this Corporation in advance of the final disposition of such action, suit, or proceeding, as authorized by the Board of Directors in the specific instance upon receipt of an undertaking by or on behalf of the director, officer, employee, partner, trustee or agent to repay such amount, unless it shall be ultimately determined that he is entitled to be indemnified by the Corporation as authorized in this Article XI.

4. Indemnification Provided in this Article Non-Exclusive. The

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indemnification provided in this Article XI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any By-law, agreement, vote of shareholders or disinterested Directors or otherwise, both as to action in his official capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, partner, trustee or agent and shall inure to the benefit of the heirs, executors and administrator of such a person.

5. Definition of "Corporation". For the purposes of this Article XI,

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references to this "Corporation" include all constituent corporations absorbed in a consolidation or merger, as well as the resulting or surviving corporation so that any person who is or was a director, officer, employee, partner, trustee or agent of such a constituent corporation as a director, officer, employee, partner, trustee or agent of another enterprise shall stand in the same position under the provision of this Article XI with respect to the resulting surviving corporation in the same capacity.

6. Saving Clause. In the event any provision of this Article XI shall

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be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provisions of this Article XI and any other provisions of this Article XI shall be construed as if such invalid provisions had not been contained in this Article XI.

ARTICLE XII - AMENDMENTS

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Subject to any and all restrictions imposed, or prohibitions provided by the General and Business Corporation Law of Missouri, these By-laws may be altered, amended, suspended, or repealed and new By-laws may be adopted, from time to time, by a majority vote of the Board of Directors.

NONQUALIFIED STOCK OPTION AGREEMENT

PIZZA INN, INC.

1. Grant of Option. Pursuant to and in accordance with that certain  
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Employment Agreement (the "Employment Agreement") dated March 31, 2005 between  
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Pizza Inn, Inc., a Missouri corporation (the "Company"), and Timothy P. Taft  
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(the "Participant") the Company grants to Participant an option (the "Option" or  
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"Stock Option") to purchase Five Hundred Thousand (500,000) shares (the  
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"Optioned Shares") of common stock of the Company ("Common Stock"), par value  
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\$0.01 per share; the exercise price (the "Option Price") for purchase of the  
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Optioned Shares under the Option is \$2.50 per share. Such Option is subject to  
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the terms and conditions set forth in this Nonqualified Stock Agreement (the  
"Agreement"). The "Date of Grant" of this Stock Option is March 31, 2005.  
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The "Option Period" shall commence on the Date of Grant and shall expire on  
the date immediately preceding the tenth (10th) anniversary of the Date of  
Grant. The Stock Option is a nonqualified stock option.

2. Subject to Committee. This Stock Option shall be subject to such  
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administrative rules as may be promulgated by the Compensation Committee (the  
"Committee") appointed by the Company's Board of Directors (the "Board") and  
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communicated to the Participant in writing. If necessary to satisfy the  
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requirements of Rule 16b-3 promulgated under the Securities Exchange Act of 1934  
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(the "1934 Act"), membership on the Committee shall be limited to those members  
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of the Board who are "non-employee directors" as defined in Rule 16b-3  
promulgated under the 1934 Act. The Committee shall select one of its members  
to act as its Chairman. A majority of the Committee shall constitute a quorum,  
and the act of a majority of the members of the Committee present at a meeting  
at which a quorum is present shall be the act of the Committee. The Committee  
shall have the discretion to interpret the terms of this Stock Option; any such  
interpretation that is not clearly erroneous shall be binding on all parties  
interested herein.

3. Vesting; Time of Exercise. Except as specifically provided in this  
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Agreement, the Optioned Shares shall be vested and the Stock Option shall be  
exercisable as follows:

i. Fifty Thousand (50,000) of the total Optioned Shares shall vest and  
that portion of the Stock Option shall become exercisable on the Date of Grant.

ii. One Hundred Thousand (100,000) of the total Optioned Shares shall  
vest and that portion of the Stock Option shall become exercisable on the first  
anniversary of the Date of Grant, provided the Participant is employed by the  
Company, an affiliate, or a subsidiary on that date.

iii. One Hundred Fifty Thousand (150,000) of the total Optioned Shares  
shall vest and that portion of the Stock Option shall become exercisable on the  
second anniversary of the Date of Grant, provided the Participant is employed by  
the Company, an affiliate, or a subsidiary on that date.

iv. Two Hundred Thousand (200,000) of the total Optioned Shares shall  
vest and that portion of the Stock Option shall become exercisable on the third  
anniversary of the Date of Grant, provided the Participant is employed by the  
Company, an affiliate, or a subsidiary on that date.

v. Notwithstanding the foregoing, in the event that (i) a Change in  
Control (as defined below) occurs, and (ii) within six months following the  
Change in Control, the Company terminates the employment of the Participant  
without Cause (as defined below), or the Participant terminates his employment  
with the Company for Good Reason (as defined below), then all Optioned Shares  
shall become immediately vested and the entire Stock Option shall become  
exercisable and shall remain exercisable for a period of 90 days thereafter, at

which time the Stock Option shall expire.

vi. For purposes of this Agreement, "Change in Control" shall have the meaning assigned to such term in the Employment Agreement.

vii. For purposes of this Agreement, "Good Reason" shall have the meaning assigned to such term in the Employment Agreement.

viii. For purposes of this Agreement, "Cause" shall have the meaning assigned to such term in the Employment Agreement

4. Term; Forfeiture. Except as otherwise provided in this Agreement, to the extent the unexercised portion of the Stock Option relates to Optioned Shares that are not vested on the date of the Participant's Termination of Employment (as defined below), the Stock Option will be terminated on that date. The unexercised portion of the Stock Option that relates to Optioned Shares that are vested will terminate at the first of the following to occur:

- i. 5 p.m. on the date the Option Period terminates;
- ii. 5 p.m. on the date of the Participant's Termination of Employment by the Company for Cause, or the Participant's voluntary Termination of Employment;
- iii. 5 p.m. on the date that is thirty (30) days following the date of the Participant's Termination of Employment by the Company without Cause;
- iv. 5 p.m. on the date the Company causes any portion of the Option to be forfeited pursuant to Section 7 hereof.

v. For purposes of this Agreement, "Termination of Employment" shall occur when the Participant ceases to serve as an employee of the Company and its Subsidiaries, for any reason. All times are Central Standard Time.

5. Who May Exercise. Subject to the terms and conditions set forth in Sections 3 and 4 above, the Stock Option may be exercised only by the Participant, or by the Participant's guardian or personal or legal representative.

6. No Fractional Shares. The Stock Option may be exercised only with respect to full shares, and no fractional share of stock shall be issued.

7. Manner of Exercise. Subject to such administrative regulations as the Committee may from time to time adopt and to standard Company policy regarding stock trading, the Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised, the date of exercise thereof (the "Exercise Date"), which shall be at least three (3) days

after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as follows: (a) a cashier's check payable in United States currency, or (b) if acceptable to the Committee, a personal check, or (c) in any other form of valid consideration that is acceptable to the Committee.

Upon payment of all amounts due from the Participant, the Company shall cause certificates for the Optioned Shares then being purchased to be delivered to the Participant in a form (DWAC, physical delivery, or other) and at an address designated by Participant within ten (10) business days after the Exercise Date. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Company shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Optioned Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, then the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

If the Participant fails to pay for any of the Optioned Shares specified in

such notice or fails to accept delivery thereof, then the Stock Option, and right to purchase such Optioned Shares may be forfeited by the Participant.

8. Nonassignability. The Stock Option is not assignable or transferable by the Participant.

9. Rights as Stockholder. The Participant will have no rights as a stockholder with respect to any shares covered by the Stock Option until the issuance of a certificate or certificates to the Participant for the Optioned Shares. The Optioned Shares shall be subject to the terms and conditions of this Agreement regarding such Shares. Except as otherwise provided in Section 10 hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to the issuance of such certificate or certificates.

10. Adjustment of Number of Optioned Shares and Related Matters. The number of shares of Common Stock covered by the Stock Option, and the Option Prices thereof, shall be subject to adjustment as provided in this Section 10.

i. No Effect on Company's Authority. The grant of this Stock Option shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

ii. Capital Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the Common Stock such that an adjustment is determined by the Committee to be appropriate to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under this Stock Option, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number of shares and type of Common Stock (or other securities or property) subject to this Option and (ii) the Option Price; provided however, that the number of shares of Common Stock (or other securities or property) subject to this Stock Option shall always be a whole number. In lieu of the foregoing, if deemed appropriate and not otherwise in violation of Section 409A of the Internal Revenue Code of 1986, as amended, (the "Code"), the Committee may make provision for a cash payment to the Participant. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject. Upon the occurrence of any such adjustment or cash payment, the Company shall provide notice to the Participant of its computation of such adjustment or cash payment, which shall be conclusive and shall be binding upon the Participant.

iii. Exchange or Cancellation of Incentives Where Company Does Not Survive.

(A) Subject to Section 10.iii.(B) hereof, in the event of any merger, consolidation, or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of this Stock Option, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting, or consolidated company that were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, and this Stock Option shall be thereafter exercisable for such stock, securities, cash, or property in accordance with the terms of this Agreement.

(B) Notwithstanding the foregoing, however, this Stock Option may be canceled by the Company, in its sole discretion, as of the effective date of any such reorganization, merger, consolidation, or share exchange, or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

(1) giving notice to the Participant or his personal representative of

its intention to cancel this Stock Option and permitting the purchase during the thirty (30) day period next preceding such effective date of any or all of the shares subject to this Stock Option, including in the Board's discretion some or all of the shares as to which this Stock Option would not otherwise be vested and exercisable; or

(2) provided it will not violate Section 409A of the Code, paying the Participant an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the exercise price per share of this Stock Option (the "Spread"), multiplied by the number of shares subject to the Stock Option. In estimating the Spread, appropriate adjustments to give effect to the existence of all outstanding stock options of the Company shall be made, such as deeming such stock options to have been exercised, with the Company receiving the exercise price payable thereunder, and treating the shares receivable upon exercise of such stock options as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to, taxes payable by the Company before such liquidation could be completed.

iv. Conversion of Incentives Where Company Survives. Subject to any  
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required action by the stockholders, if the Company shall be the surviving or resulting corporation in any merger, consolidation, or share exchange, the Stock Option granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to this Stock Option would have been entitled.

v. Liquidation or Dissolution. Subject to Section 10.iii. hereof, in  
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case the Company shall, at any time while this Stock Option shall be in force and remain unexpired, (i) sell all or substantially all of its property, or (ii) dissolve, liquidate, or wind up its affairs, then the Participant shall be entitled to receive, in lieu of each share of Common Stock of the Company that such Participant could have been entitled to receive under this Stock Option, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of this Stock Option, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) then in such event the Option Price shall be reduced, on the payment date of such distribution, in proportion to the percentage reduction in the tangible book value of the shares of the Company's Common Stock (determined in accordance with generally accepted accounting principles) resulting by reason of such distribution.

11. Nonqualified Stock Option. The Stock Option shall not be treated  
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as an incentive stock option under Section 422 of the Code.

12. Voting. The Participant, as record holder, if applicable, of some  
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or all of the Optioned Shares following exercise of this Stock Option, has the exclusive right to vote, or consent with respect to, such Optioned Shares until such time as the Optioned Shares are transferred in accordance with this Agreement; provided, however, that this Section shall not create any voting  
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right where the holders of such Optioned Shares otherwise have no such right.

13. Community Property. Each spouse individually is bound by, and such  
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spouse's interest, if any, in any Optioned Shares is subject to, the terms of this Agreement. Nothing in this Agreement shall create a community property interest where none otherwise exists.

14. Participant's Representations. Notwithstanding any of the  
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provisions hereof, the Participant hereby agrees that he will not exercise the Stock Option granted hereby, and that the Company will not be obligated to issue any shares to the Participant hereunder, if the exercise thereof or the issuance of such shares shall constitute a violation by the Participant or the Company of any provision of any law or regulation of any governmental authority. Any determination in this connection by the Company shall be final, binding, and conclusive. The obligations of the Company and the rights of the Participant are subject to all applicable laws, rules, and regulations.

15. Investment Representation. Unless the Common Stock is issued to  
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him in a transaction registered under applicable federal and state securities laws, by his execution hereof, the Participant represents and warrants to the

Company that all Common Stock that may be purchased hereunder will be acquired by the Participant for investment purposes for his own account and not with any intent for resale or distribution in violation of federal or state securities laws. Unless the Common Stock is issued to him in a transaction registered under the applicable federal and state securities laws, all certificates issued with respect to the Common Stock shall bear an appropriate restrictive investment legend and shall be held indefinitely, unless they are subsequently registered under the applicable federal and state securities laws or the Participant obtains an opinion of counsel, in form and substance satisfactory to the Company and its counsel, that such registration is not required.

16. Legend. The following legend shall be placed on all certificates  
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representing Optioned Shares:

"The shares evidenced by this certificate are subject to a Stock Option Agreement containing certain rights and limitations on transfer. A copy of that agreement is on file at the principal place of business or the registered office of the Company, and a copy may be obtained without charge upon written request to the Company at its principal place of business or its registered office."

All Optioned Shares and shares into which Optioned Shares may be converted owned by the Participant shall be subject to the terms of this Agreement and shall be represented by a certificate or certificates bearing the foregoing legend.

17. Participant's Acknowledgments. The Participant represents that he  
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or she is familiar with the terms and provisions of this Agreement and hereby accepts this Option subject to all the terms and provisions hereof. The Participant hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committee or the Board, as appropriate, upon any questions arising under this Agreement.

18. Law Governing. This Agreement shall be governed by, construed, and  
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enforced in accordance with the laws of the State of Texas (excluding any conflict of laws rule or principle of Texas law that might refer the governance, construction, or interpretation of this agreement to the laws of another state).

19. No Right to Continue Service or Employment. Nothing herein shall  
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be construed to confer upon the Participant the right to continue in the employ or to provide services to the Company or any Subsidiary, whether as an employee or as a consultant or as a director, or interfere with or restrict in any way the right of the Company or any Subsidiary to discharge the Participant as an employee, consultant, or director at any time, subject to the provisions of the Employment Agreement.

20. Legal Construction. In the event that any one or more of the  
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terms, provisions, or agreements that are contained in this Agreement shall be held by a Court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect for any reason, the invalid, illegal, or unenforceable term, provision, or agreement shall not affect any other term, provision, or agreement that is contained in this Agreement and this Agreement shall be construed in all respects as if the invalid, illegal, or unenforceable term, provision, or agreement had never been contained herein.

21. Covenants and Agreements as Independent Agreements. Each of the  
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covenants and agreements that is set forth in this Agreement shall be construed as a covenant and agreement independent of any other provision of this Agreement. The existence of any claim or cause of action of the Participant against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements that are set forth in this Agreement.

22. Entire Agreement. This Agreement supersedes any and all other  
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prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitutes the sole and only agreement between the parties with respect to the said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement and that any agreement, statement, or promise that is not contained in this Agreement shall not be valid or binding or of any force or effect.

23. Parties Bound. The terms, provisions, and agreements that are  
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contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective heirs, executors, administrators,



legal representatives, and permitted successors and assigns, subject to the limitation on assignment expressly set forth herein.

24. Modification. No change or modification of this Agreement shall be

valid or binding upon the parties unless the change or modification is in writing and signed by the parties; provided, however, that the Company may change or modify this Agreement without the Participant's consent or signature if the Company determines, that such change or modification is necessary for purposes of compliance with or exemption from the requirements of Section 409A of the Code or any regulations or other guidance issued thereunder.

25. Headings. The headings that are used in this Agreement are used

for reference and convenience purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

26. Gender and Number. Words of any gender used in this Agreement

shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, and vice versa, unless the context requires otherwise.

27. Notice. Any notice required or permitted to be delivered hereunder

shall be deemed to be delivered only when actually received by the Company or by the Participant, as the case may be, at the addresses set forth below, or at such other addresses as they have specified by written notice delivered in accordance herewith:

i. Notice to the Company shall be addressed and delivered as follows:

Pizza Inn, Inc.  
3551 Plano Parkway  
The Colony, Texas 75056  
Attn: Chairman, Compensation Committee  
Facsimile: 469.384.5061

ii. Notice to the Participant shall be addressed and delivered to the address shown from time to time on the employment records of the Company.

28. Tax Requirements. The Participant shall be required to pay the

Company or a Subsidiary, as applicable (for purposes of this Section 28, the

term Company shall be deemed to include an applicable Subsidiary), the amount of any and all taxes that the Company is required to withhold in connection with this Stock Option, the issuance of stock hereunder, or otherwise arising out of this Stock Option. The Participant's obligation to pay such taxes may be satisfied by any of the following or any combination thereof: (i) the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding obligation of the Company; (ii) if the Company, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock other than Common Stock that the Participant owns but has acquired from the Company within six months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; or (iii) if the Company, in its sole discretion, so consents in writing, the Company's withholding of a number of shares to be delivered upon the exercise of the Stock Option, which shares so withheld have an aggregate Fair Market Value that equals (but does not exceed) the required tax withholding payment; provided that, shares cannot be withheld in connection with the exercise of this Stock Option in excess of the minimum number required for tax withholding, and to permit the Stock Option to be accounted for as a fixed award. Any such withholding payments with respect to the exercise of any portion of the Stock Option in cash or by actual delivery of shares of Common Stock shall be made when required by the Company and prior to the delivery of any certificate representing the shares of Common Stock acquired upon exercise of the Stock Option. The Company may, in its sole discretion, withhold such taxes from any other cash remuneration otherwise paid by the Company to the Participant.

29. Confidentiality. Participant agrees that, as partial consideration

for the granting of this Stock Option, he will keep confidential all information and knowledge that he has relating to the manner and amount of his Option Share grant hereunder; provided, however, that such information may be given in confidence to the Participant's spouse or to a financial institution or advisor to the extent that such information is necessary in order to secure a loan, or for tax or retirement planning purposes.

30. Use of Proceeds. Proceeds from the sale of Common Stock pursuant

to the exercise of this Stock Option shall constitute general funds of the Company.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Participant, to evidence his consent and approval of all the terms hereof, has duly executed this Agreement, as of the date specified in Section 1 hereof.  
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PIZZA INN, INC.

By: /s/ Mark E. Schwarz  
Name: Mark E. Schwarz  
Title: Chairman of the Board

/s/ Timothy P. Taft  
Timothy P. Taft

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
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I, Timothy P. Taft, certify that:

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

By: /s/Timothy P. Taft  
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Timothy P. Taft  
Chief Executive Officer

Date: May 6, 2005

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CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Shawn M. Preator, certify that:

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

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

Date: May 6, 2005

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

The Quarterly Report on Form 10-Q for the quarter ended March 27, 2005 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

By: /s/Timothy P. Taft  
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Timothy P. Taft  
Chief Executive Officer

Date: May 6, 2005

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

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

The Quarterly Report on Form 10-Q for the quarter ended March 27, 2005 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

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

Date: May 6, 2005

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