

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 SEPTEMBER 26, 2004.

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 NOVEMBER 5, 2004, AN AGGREGATE OF 10,108,639 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

Index  
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	Page
Condensed Consolidated Statements of Operations for the three months ended September 26, 2004 and September 28, 2003 (unaudited)	3
Condensed Consolidated Statements of Comprehensive Income for the three months ended September 26, 2004 and September 28, 2003 (unaudited)	3
Condensed Consolidated Balance Sheets at September 26, 2004 (unaudited) and June 27, 2004	4
Condensed Consolidated Statements of Cash Flows for the three months ended September 26, 2004 and September 28, 2003 (unaudited)	5

Item 2.		
-----		
Management's Discussion and Analysis of		
-----		
Financial Condition and Results of Operations		11
-----		
Item 3.		
-----		
Quantitative and Qualitative Disclosures about Market Risk		14
-----		
Item 4.	Controls and Procedures	14
-----	-----	
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	15
-----	-----	
Item 4.	Submission of Matters to a Vote of Security Holders	16
-----	-----	
Item 5.	Other Information	16
-----	-----	
Item 6.	Exhibits and Reports on Form 8-K	16
-----	-----	
	Signatures	17

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

	THREE MONTHS ENDED	
	SEPTEMBER 26, 2004	SEPTEMBER 28, 2003
REVENUES:		
	-----	-----
Food and supply sales . . . . .	\$ 12,822	\$ 13,498
Franchise revenue . . . . .	1,340	1,451
Restaurant sales . . . . .	255	406
Other income . . . . .	4	21
	-----	-----
	14,421	15,376
	-----	-----
COSTS AND EXPENSES:		
Cost of sales . . . . .	12,193	12,597
Franchise expenses . . . . .	629	814
General and administrative expenses . . . . .	1,022	1,041
Interest expense . . . . .	136	160
	-----	-----
	13,980	14,612
	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	441	764
Provision for income taxes . . . . .	156	260
	-----	-----
NET INCOME . . . . .	\$ 285	\$ 504
	=====	=====
BASIC EARNINGS PER COMMON SHARE . . . . .	\$ 0.03	\$ 0.05
	=====	=====
DILUTED EARNINGS PER COMMON SHARE . . . . .	\$ 0.03	\$ 0.05
	=====	=====

WEIGHTED AVERAGE COMMON SHARES . . . . .	10,134	10,059
	=====	=====
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . . . . .	10,169	10,086
	=====	=====

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)

	THREE MONTHS ENDED	
	SEPTEMBER 26, 2004	SEPTEMBER 28, 2003
Net Income . . . . .	\$ 285	\$ 504
Interest rate swap gain (loss) - (net of tax (expense) benefit of \$20 and (\$63), respectively). . . . .	(39)	122
Comprehensive Income . . . . .	\$ 246	\$ 626
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

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

ASSETS	SEPTEMBER 26, 2004	JUNE 27, 2004
	-----	-----
	(UNAUDITED)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents. . . . .	\$ 231	\$ 617
Accounts receivable, less allowance for doubtful accounts of \$298 and \$310, respectively. . . . .	3,160	3,113
Accounts receivable - related parties. . . . .	890	912
Notes receivable, current portion, less allowance for doubtful accounts of \$62 and \$59, respectively . . . . .	60	50
Notes receivable - related parties . . . . .	54	54
Inventories. . . . .	1,912	1,713
Deferred taxes, net. . . . .	203	183
Prepaid expenses and other . . . . .	384	415
	-----	-----
Total current assets . . . . .	6,894	7,057
Property, plant and equipment, net . . . . .	12,823	12,756
Property under capital leases, net . . . . .	17	18
Deferred taxes, net. . . . .	157	105
Long-term notes receivable, less allowance for doubtful accounts of \$0 and \$3, respectively . . . . .	-	-
Re-acquired development territory. . . . .	768	866
Deposits and other . . . . .	95	104
	-----	-----
	\$ 20,754	\$ 20,906
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade . . . . .	\$ 2,138	\$ 1,246
Accrued expenses . . . . .	1,988	2,109
Current portion of long-term debt. . . . .	406	406
Current portion of capital lease obligations . . . . .	10	10
	-----	-----
Total current liabilities. . . . .	4,542	3,771
<b>LONG-TERM LIABILITIES</b>		
Long-term debt . . . . .	6,734	7,937
Long-term capital lease obligations. . . . .	21	23
Other long-term liabilities. . . . .	494	458
	-----	-----
	11,791	12,189

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 15,031,319 and 15,031,319 shares, respectively; outstanding 10,133,674 and 10,133,674 shares, respectively.	150	150
Additional paid-in capital . . . . .	7,975	7,975
Retained earnings . . . . .	20,663	20,378
Accumulated other comprehensive loss . . . . .	(341)	(302)
Treasury stock at cost, Shares in treasury: 4,897,645 and 4,897,645, respectively. .	(19,484)	(19,484)
Total shareholders' equity . . . . .	8,963	8,717
	<u>\$ 20,754</u>	<u>\$ 20,906</u>
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED	
	SEPTEMBER 26, 2004	SEPTEMBER 28, 2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income . . . . .	\$ 285	\$ 504
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization . . . . .	287	266
Provision for bad debt . . . . .	15	15
Utilization of deferred taxes . . . . .	(52)	323
Changes in assets and liabilities:		
Notes and accounts receivable . . . . .	(50)	(565)
Inventories . . . . .	(199)	(56)
Accounts payable - trade . . . . .	892	449
Accrued expenses . . . . .	(121)	171
Prepaid expenses and other . . . . .	69	(52)
CASH PROVIDED BY OPERATING ACTIVITIES . . . . .	1,126	1,055
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures . . . . .	(307)	(146)
CASH USED FOR INVESTING ACTIVITIES . . . . .	(307)	(146)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term bank debt and capital lease obligations, net	(1,205)	(1,143)
Officer loan payment . . . . .	-	2
Proceeds from exercise of stock options . . . . .	-	20
CASH USED FOR FINANCING ACTIVITIES . . . . .	(1,205)	(1,121)
	-----	-----
Net decrease in cash and cash equivalents . . . . .	(386)	(212)
Cash and cash equivalents, beginning of period . . . . .	617	399
Cash and cash equivalents, end of period . . . . .	\$ 231	\$ 187
	=====	=====

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

THREE MONTHS ENDED  
-----  
SEPTEMBER 26,      SEPTEMBER 28,  
2004                      2003  
-----

CASH PAYMENTS FOR:

Interest . . . . .	\$	137	\$	166
Income taxes . . . . .		50		-

See accompanying Notes to Condensed Consolidated Financial Statements.

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):

THREE MONTHS ENDED  
-----  
SEPTEMBER 26,      SEPTEMBER 28,  
2004                      2003  
-----

Net income, as reported. . . . .	\$	285	\$	504
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects. . . . .		-		-

Pro forma net income . . . . .	\$	285	\$	504
Earnings per share				
Basic-as reported. . . . .	\$	0.03	\$	0.05
Basic-pro forma. . . . .	\$	0.03	\$	0.05
Diluted-as reported. . . . .	\$	0.03	\$	0.05
Diluted-pro forma. . . . .	\$	0.03	\$	0.05

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 effective March 28, 2004 with its current lender to provide a \$4.0 million revolving credit line that will expire October 1, 2005, replacing a \$7.0 million line that was due to expire December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin from 1.0% to 0.5% or, at the Company's option, at the LIBOR rate plus 1.25% to 1.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.375% to 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. As of September 26, 2004 and September 28, 2003, the variable interest rates were 4.5% and 2.62%, using a prime and LIBOR rate basis, respectively. Amounts outstanding under the revolving credit line as of September 26, 2004 and September 28, 2003 were \$99,000 and \$1.8 million, respectively.

The Company entered into an agreement effective December 28, 2000, as amended, 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. This term loan will amortize over a term of twenty years, with principal payments of \$34,000 due monthly. Interest on this term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of September 26, 2004 and September 28, 2003, the LIBOR variable interest rates used were 3.31 % and 2.61%, respectively. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate by utilizing an interest rate swap agreement as discussed below. The \$8.125 million term loan had an outstanding balance of \$7.0 million at September 26, 2004 and \$7.4 million at September 28, 2003.

(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 September 26, 2004 there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will continue to be highly effective at achieving offsetting changes in cash flows.

(4) On January 18, 2002, the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. alleging that the Company sent or caused to be sent unsolicited facsimile advertisements. The Company has vigorously defended its position in this litigation. In July 2004 the court preliminarily approved a settlement agreement among all parties and certified the matter as a class action for settlement purposes only. Under the settlement agreement the Company would pay an amount that will not materially affect the Company's financial performance. At a hearing on September 13, 2004 the court entered its final order and judgment approving the settlement agreement and certifying the settlement class. Pursuant to the settlement agreement the Company paid \$90,000 in full and final settlement of all actual and potential claims of the members and potential members of the certified settlement class. The final order dismissed with prejudice all pending and potential claims against the Company.

(5)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).

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
-----			
THREE MONTHS ENDED SEPTEMBER 26, 2004			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 285	10,134	\$ 0.03
Effect of Dilutive Securities - Stock Options		35	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 285	10,169	\$ 0.03
	=====	=====	=====
THREE MONTHS ENDED SEPTEMBER 28, 2003			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 504	10,059	\$ 0.05
Effect of Dilutive Securities - Stock Options		27	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 504	10,086	\$ 0.05
	=====	=====	=====

(6) 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 period ended September 26, 2004 and September 28, 2003 (in thousands).

	SEPTEMBER 26, 2004	SEPTEMBER 28, 2003
-----		
NET SALES AND OPERATING REVENUES:		
Food and Equipment Distribution	\$12,822	\$13,498
Franchise and Other	1,595	1,857
Intersegment revenues	85	147
	-----	-----
Combined	14,502	15,502
Other revenues	4	21
Less intersegment revenues	(85)	(147)
	-----	-----
Consolidated revenues	\$ 14,421	\$ 15,376
	=====	=====
OPERATING PROFIT:		
Food and Equipment Distribution (1)	\$306	\$694
Franchise and Other (1)	690	657
Intersegment profit	22	41
	-----	-----
Combined	1,018	1,392
Other profit	4	21
Less intersegment profit	(22)	(41)
Corporate administration and other	(559)	(608)
	-----	-----
Income before taxes	\$ 441	\$ 764
	=====	=====
GEOGRAPHIC INFORMATION (REVENUES):		
United States	\$13,964	\$14,941
Foreign countries	457	435
	-----	-----
Consolidated total	\$ 14,421	\$ 15,376

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(1) Does not include full allocation of corporate administration

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
-----  
RESULTS OF OPERATIONS  
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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

The Company's Norco division sells food, supplies and equipment to franchisees on trade accounts under terms common in the industry. Revenue from such sales is recognized upon shipment. Norco sales are reflected under the caption "food and supply sales." Shipping and handling costs billed to customers are recognized as revenue.

Franchise revenue consists of income from license fees, royalties, and Territory sales. License fees are recognized as income when there has been substantial performance of the agreement by both the franchisee and the Company, generally at the time the unit is opened. Royalties are recognized as income when earned.

Territory sales are the fees paid by selected experienced restaurant operators to the Company for the right to develop Pizza Inn restaurants in specific geographical territories. The Company recognizes the fee to the extent its obligations are fulfilled and of cash received.

Inventories, which consist primarily of food, paper products, supplies and equipment located at the Company's distribution center, are stated at the lower of FIFO (first-in, first-out) cost or market. Provision is made for obsolete inventories and is based upon management's assessment of the market conditions for its products.

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

Notes receivable primarily consist of notes from franchisees for the purchase of area development and master license territories, trade receivables 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, customer creditworthiness, and current economic trends.

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

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 if it is judged to be probable and estimable. If the actual loss from a contingency differs from management's estimate, operating results could be impacted.

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 26, 2004 COMPARED TO THE QUARTER ENDED SEPTEMBER 28,



Diluted earnings per share for the quarter were \$0.03 versus \$0.05 for the same period last year. Net income for the quarter decreased 43% to \$285,000 from \$504,000 for the same quarter last year.

Food and supply sales by the Company's Norco division include food and paper products, equipment, marketing material, and other distribution revenues. Food and supply sales for the quarter decreased 5% or \$676,000 to \$12,822,000 from \$13,498,000 compared to the same period last year primarily due to lower sales prices on certain key ingredients.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased 8% or \$111,000 for the quarter compared to the same period last year. This decrease is primarily due to lower international royalties, resulting from the collection of previously unrecorded past due royalties in the prior year.

Restaurant sales, which consist of revenue generated by Company-owned training stores decreased 37% or \$151,000 for the quarter, compared to the same period of the prior year. Last year included the operations of a Company-owned buffet unit which was sold in February 2004. Additionally, comparable sales at the other Company-owned buffet unit were lower.

Other income consists primarily of interest income, third party commissions, and non-recurring revenue items. Other income decreased 81% or \$17,000 primarily due to lower interest income.

Cost of sales decreased 3% or \$404,000 for the quarter primarily due to staff reductions. Cost of sales, as a percentage of sales, increased to 93% from 91% for the same quarter last year. The percentage increase is due to overall lower sales prices of certain key ingredients as described above.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs decreased 23% or \$185,000 for the quarter compared to the same period last year primarily due staff reductions.

General and administrative expenses decreased 2% or \$19,000 for the quarter compared to the same period last year. This is primarily the result of staff reductions offset by higher legal and consulting fees.

Interest expense decreased 15% or \$24,000 for the quarter compared to the same period of the prior year due to lower debt balances.

Provision for income taxes decreased 40% or \$104,000 in the current year due to lower income as described above. The effective tax rate was 35% compared to 34% in the prior year.

## 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 quarter of fiscal 2005, the company generated cash flows of \$1,126,000 from operating activities as compared to \$1,055,000 in fiscal 2004. Cash provided by operations was utilized primarily to pay down debt and acquire land for a new Company store.

Cash flows used in investing activities primarily reflect the Company's capital expenditure strategy. In the first quarter of fiscal 2005, the Company used cash of \$307,000 for investing activities as compared to \$146,000 in fiscal 2004. The cash flow used during fiscal 2005 was primarily used to acquire land for a new Company store.

Cash flows used for 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 \$1,205,000 in the first quarter of fiscal 2005 as compared to cash used for financing activities of \$1,121,000 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 entered into an agreement effective March 28, 2004 with its current lender to provide a \$4.0 million revolving credit line that will expire October 1, 2005, replacing a \$7.0 million line that was due to expire December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin from 1.0% to 0.5% or, at the Company's option, at the LIBOR rate plus 1.25% to 1.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.375% to 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. As of September 26, 2004 and September 28, 2003, the variable interest rates were 4.5% and 2.62%, respectively, using a prime and LIBOR rate basis, respectively. Amounts outstanding under the revolving credit line as of September 26, 2004 and September 28, 2003 were \$99,000 and \$1.8 million, respectively.

On July 7, 2004, B. Keith Clark resigned as Senior Vice President-Corporate Development, Secretary and General Counsel of the Company. Mr. Clark has notified the Company that he has 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 2004 annual meeting of shareholders constituted a "change of control" under his employment agreement and/or that he was entitled to terminate his contract for "good reason". Pursuant to the terms of the employment agreement, the Company has initiated an arbitration proceeding to resolve this dispute. The arbitration proceeding is in the preliminary stages and the Company is unable to predict the outcome of the proceeding at this time. In the event the Company is unsuccessful in this proceeding, the Company could be liable to Mr. Clark for up to \$762,000. The employment agreements of each of Ronald W. Parker, Ward T. Olgreen and Shawn M. Preator contain similar provisions and the potential amounts payable to each of them are as follows: \$5.4 million to Mr. Parker, \$630,000 to Mr. Olgreen and \$597,000 to Mr. Preator. The aggregate of these payments for which the Company would be obligated is approximately \$7.4 million. The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under his employment agreement or that he is entitled to terminate his contract for "good reason". The Board obtained a written legal opinion that the "change of control" provision was not triggered by the results of its February 2004 annual meeting. The Company plans to vigorously defend our position in the matter; however, we cannot assure that we will prevail in this matter and our defense could be costly and consume the time of our management. We are unable to predict the outcome of this matter, and no accrual has been made as of September 26, 2004. An adverse resolution of the matter could materially affect our financial position and results of operations.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following chart summarizes all of the Company's material obligations and commitments to make future payments under contracts such as debt and lease agreements as of September 26, 2004 (in thousands):

	Fiscal Year		Fiscal Years		Fiscal Years		After Fiscal
	Total . .	2005	2006 - 2007	2008 - 2009	Year 2009		
Long-term debt . . . . .	\$ 7,140	\$ 406	\$ 911	\$ 5,823	\$ -		\$ -
Operating lease obligations . . . .	2,553	1,013	1,217	266	57		57
Capital lease obligations (1) . . .	31	10	21	-	-		-
Total contractual cash obligations.	\$ 9,724	\$ 1,429	\$ 2,149	\$ 6,089	\$ 57		\$ 57

(1) Does not include amount representing interest.

FORWARD-LOOKING STATEMENT

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At September 26, 2004 the Company has approximately \$7 million of variable rate debt obligations outstanding with a weighted average interest rate of 3.03%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at September 26, 2004, would change interest expense by approximately \$5,000 for the three months ended September 26, 2004. As discussed previously, the Company has entered into an interest rate swap designed to manage the interest rate risk relating to \$7million of the variable rate debt.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures. Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report, and they have concluded that as of that date our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

b) Changes in internal controls. There were no significant changes to our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their evaluation by our Chief Executive Officer and our Chief Financial Officer.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 18, 2002, the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. alleging that the Company sent or caused to be sent unsolicited facsimile advertisements. The Company has vigorously defended its position in this litigation. In July 2004 the court preliminarily approved a settlement agreement among all parties and certified the matter as a class action for settlement purposes only. Under the settlement agreement the Company would pay an amount that will not materially affect the Company's financial performance. At a hearing on September 13, 2004 the court entered its final order and judgment approving the settlement agreement and certifying the settlement class. Pursuant to the settlement agreement the Company paid \$90,000 in full and final settlement of all actual and potential claims of the members and potential members of the certified settlement class. The final order dismissed with prejudice all pending and potential claims against the Company.

On July 7, 2004, B. Keith Clark resigned as Senior Vice President-Corporate Development, Secretary and General Counsel of the Company. Mr. Clark has notified the Company that he has 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 2004 annual meeting of shareholders constituted a "change of control" under his employment agreement and/or that he was entitled to terminate his contract for "good reason". Pursuant to the terms of the employment agreement, the Company has initiated an arbitration proceeding to resolve this dispute. The arbitration proceeding is in the preliminary stages and the Company is unable to predict the outcome of the proceeding at this time. In the event the Company is unsuccessful in this proceeding, the Company could be liable to Mr. Clark for up to \$762,000. The employment agreements of each of Ronald W. Parker, Ward T. Olgreen and Shawn M. Preator contain similar provisions and the potential amounts payable to each of them are as follows: \$5.4 million to Mr. Parker, \$630,000 to Mr. Olgreen and \$597,000 to Mr. Preator. The aggregate of these payments for which the Company would be obligated is approximately \$7.4 million. The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under his employment agreement or that he is entitled to terminate his contract for "good reason". The Board obtained a written legal opinion that the "change of control" provision was not triggered by the results of its February 2004 annual meeting. The Company plans to vigorously defend our position in the matter; however, we cannot assure that we will prevail in this matter and our defense could be costly and consume the time of our management. We are unable to predict the outcome of this matter, and no accrual has been made as of September 26, 2004. An adverse resolution of the matter could materially affect our financial position and results of operations.

On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, and J. Kenneth Menges, Jr., one of the firm's partners. The Petition alleges that during the course of their representation of the Company on matters pertaining to board of director and executive duties, securities issues, and general corporate governance, the firm and Mr. Menges, as the firm's partner in charge of its engagement with 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. Specifically, the Petition 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 that, if paid, could expose the Company to significant financial liability and that could have a material adverse effect on the Company's financial position. This matter is in its preliminary stages, and we are unable to predict the outcome at this time.

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3.1 Amended and Restated By-Laws as adopted by the Board of Directors on February 11, 2004 (filed as Item 5 on 8-K on February 11, 2004 and incorporated herein by reference).

3.2 Restated Articles of Incorporation as amended on January 30, 1999 (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1999 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.

(b) Form 8-K

On September 29, 2004 the Company filed a report on Form 8-K, reporting a press release with respect to earnings for the fourth quarter ended June 26, 2004.

On October 6, 2004 the Company filed a report on Form 8-K, reporting a press release with respect to a complaint filed against the law firm of Akin Gump Strauss Hauer & Feld, the company's former counsel, and J. Kenneth Menges, Jr., one of the firm's partners.

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/Ronald W. Parker  
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Ronald W. Parker  
President and Chief Executive Officer

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

Dated: November 9, 2004



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  
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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,  
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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  
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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  
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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. Cumulative Voting. In all elections for Directors, every



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holder of voting shares shall have the right to vote, in person, or by proxy, or by his duly authorized attorney-in-fact, the number of shares owned by him for as many persons as there are Directors to be elected, or to cumulate said voting shares, and give one candidate as many votes as the number of Directors, multiplied by the number of his voting shares, shall equal or to distribute them on the same principle among any number of candidates as he shall see fit.

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  
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connection with any corporate action by any provisions of the statutes, the  
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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]

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ARTICLE IV - DIRECTORS

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

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

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

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

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

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]

ARTICLE V - MEETINGS OF THE BOARD

Section 1. Place of Meetings. Meetings of the Board of Directors of the

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

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

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 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 Registrant 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 devise, 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  
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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,

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"

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

AGAINST LIABILITIES AND EXPENSE IN ACTIONS

1. Indemnification with Respect to Third Party Actions. 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 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,

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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.

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 thereat 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:

By: /s/ B. Keith Clark  
B. Keith Clark  
Secretary

/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

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 3.22 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald W. Parker, President and Chief Executive Officer of Pizza Inn, Inc.,  
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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fourth quarter 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 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:
  - 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.

Date: November 8, 2004

By: /s/ Ronald W. Parker

Ronald W. Parker  
President and Chief Executive Officer  
(Principal Executive Officer)  
Director

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 3.22 OF THE SARBANES-OXLEY ACT OF 2002

I, Shawn M. Preator, Chief Financial Officer (Principal Accounting Officer) of Pizza Inn, Inc., 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. 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

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

1. The registrant's other certifying officer 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:

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.

November 8, 2004

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

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

This certification is intended to accompany the Quarterly Report of Pizza Inn, Inc. (the "Company") on Form 10-Q for the period ended September 26, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and is given solely for the purpose of satisfying the requirements of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The undersigned, in my capacity as set forth below, hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 8, 2004

/s/ Ronald W. Parker  
Ronald W. Parker  
President and Chief Executive Officer

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

This certification is intended to accompany the Quarterly Report of Pizza Inn, Inc. (the "Company") on Form 10-Q for the period ended September 26, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and is given solely for the purpose of satisfying the requirements of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The undersigned, in my capacity as set forth below, hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 8, 2004

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