

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 24, 2000.

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

COMMISSION FILE NUMBER 0-12919

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

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

5050 QUORUM DRIVE
SUITE 500
DALLAS, TEXAS 75240
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES,
INCLUDING ZIP CODE)

(972) 701-9955
(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[X] NO

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

AT FEBRUARY 2, 2001, AN AGGREGATE OF 10,587,113 SHARES OF THE REGISTRANT'S
COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF
COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL INFORMATION

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 24, 2000	DECEMBER 26, 1999	DECEMBER 24, 2000	DECEMBER 26, 1999
REVENUES:				
Food and supply sales	\$ 13,502	\$ 14,292	\$ 28,230	\$ 29,621
Franchise revenue	1,338	1,399	2,739	2,868
Restaurant sales	582	581	1,151	1,158
Other income	98	59	216	78
	-----	-----	-----	-----
	15,520	16,331	32,336	33,725
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Cost of sales	12,710	13,814	26,635	28,398
Franchise expenses	597	280	1,181	907
General and administrative expenses	1,163	929	2,183	1,837
Interest expense	248	179	503	318
	-----	-----	-----	-----
	14,718	15,202	30,502	31,460
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	802	1,129	1,834	2,265
Provision for income taxes	273	384	659	772
	-----	-----	-----	-----
NET INCOME	\$ 529	\$ 745	\$ 1,175	\$ 1,493
	=====	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE . . .	\$ 0.05	\$ 0.06	\$ 0.11	\$ 0.13
	=====	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE . .	\$ 0.05	\$ 0.06	\$ 0.11	\$ 0.13
	=====	=====	=====	=====
DIVIDENDS DECLARED PER COMMON SHARE .	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES . . .	10,723	11,570	10,729	11,411
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . .	10,725	11,691	10,735	11,581
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	DECEMBER 24, 2000	JUNE 25, 2000
ASSETS		

(UNAUDITED)		
CURRENT ASSETS		
Cash and cash equivalents	\$ 403	\$ 484
Accounts receivable, less allowance for doubtful accounts of \$774 and \$776, respectively	5,146	4,681

Notes receivable, current portion, less allowance for doubtful accounts of \$280 and \$260, respectively	1,010	810
Inventories	2,439	2,910
Deferred taxes, net	1,117	1,117
Prepaid expenses and other	465	566
	-----	-----
Total current assets	10,580	10,568
Property, plant and equipment, net	3,379	1,650
Property under capital leases, net	899	1,165
Deferred taxes, net	2,768	3,312
Long-term notes receivable, less allowance for doubtful accounts of \$21 and \$66, respectively	13	262
Deposits and other	568	734
	-----	-----
	\$ 18,207	\$ 17,691
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 2,264	\$ 2,251
Accrued expenses	1,916	1,797
Current portion of long-term debt	1,250	1,250
Current portion of capital lease obligations	556	534
	-----	-----
Total current liabilities	5,986	5,832
LONG-TERM LIABILITIES		
Long-term debt	10,552	9,842
Long-term capital lease obligations	529	813
Other long-term liabilities	755	715
	-----	-----
	17,822	17,202
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,954,919 and 14,954,789 shares, respectively outstanding 10,686,803 and 10,645,380 shares, respectively	150	150
Additional paid-in capital	7,823	7,708
Loans to officers	(2,325)	(2,250)
Retained earnings	12,894	13,163
Treasury stock at cost Shares in treasury: 4,268,116 and 4,309,409 respectively	(18,157)	(18,282)
	-----	-----
Total shareholders' equity	385	489
	-----	-----
	\$ 18,207	\$ 17,691
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	SIX MONTHS ENDED	
	-----	-----
	DECEMBER 24, 2000	DECEMBER 26, 1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,175	\$ 1,493
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	676	570
Provision for bad debt	125	25
Utilization of pre-reorganization net operating loss carryforwards	544	427
Changes in assets and liabilities:		
Notes and accounts receivable	(541)	(158)
Inventories	471	(412)
Accounts payable - trade	13	(357)
Accrued expenses	119	(164)
Prepaid expenses and other	311	129
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	2,893	1,553
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		

Capital expenditures	(2,067)	(444)
	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(2,067)	(444)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term bank debt	2,235	3,300
Repayments of long-term bank debt and capital lease obligations	(1,787)	(767)
Dividends paid	(1,243)	(1,374)
Proceeds from exercise of stock options	298	71
Officer loan payment	165	-
Purchases of treasury stock	(575)	(2,471)
	-----	-----
CASH USED FOR FINANCING ACTIVITIES	(907)	(1,241)
	-----	-----
Net decrease in cash and cash equivalents	(81)	(132)
Cash and cash equivalents, beginning of period	484	509
	-----	-----
Cash and cash equivalents, end of period	\$ 403	\$ 377
	-----	-----

See accompanying Notes to Consolidated Financial Statements.

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

	SIX MONTHS ENDED	
	-----	-----
	DECEMBER 24, 2000	DECEMBER 26, 1999
	-----	-----
CASH PAYMENTS FOR:		
Interest	\$ 525	\$ 214
Income taxes	25	60
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Stock issued to officers in exchange for loans \$	303	-
Capital lease obligations incurred	-	158

See accompanying Notes to Consolidated Financial Statements.

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

(1) The accompanying consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements in its Form 10-K for the fiscal year ended June 25, 2000. Certain prior year amounts have been reclassified to conform with current year presentation.

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

(2) The Company entered into an agreement effective March 31, 2000 with its current lender to extend the term of its existing \$9.5 million revolving credit line through March 2002 and to modify certain financial covenants. In addition, the Company entered into a \$5,000,000 term note with monthly principal payments of \$104,000 maturing on March 31, 2004. Interest on the term loan is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .75%, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company entered into an amendment to this agreement, effective December 28, 2000, modifying certain financial covenants, as a result of a new construction loan as noted below. The Company has used approximately \$2.0

million of its credit line to fund costs of the new building project, including the land acquisition and certain development costs incurred to date.

The Company entered into an agreement effective December 28, 2000 with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan will convert to a term loan upon completion of the construction phase and the then unpaid principal balance will mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal and interest payments due monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .50% prior to loan conversion and .75% following loan conversion, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company has the obligation after the conversion date to cause the outstanding principal amount to be subject to a fixed interest rate.

(3) In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101, which provides the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements, must be adopted by the Company in its fiscal fourth quarter. Based on preliminary analysis, the Company does not expect the adoption of SAB 101 to have a material effect on its consolidated financial statements.

(4) 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 DECEMBER 24, 2000			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 529	10,723	\$ 0.05
Effect of Dilutive Securities - Stock Options		2	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 529	10,725	\$ 0.05
	=====	=====	=====
THREE MONTHS ENDED DECEMBER 26, 1999			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 745	11,570	\$ 0.06
Effect of Dilutive Securities - Stock Options		121	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 745	11,691	\$ 0.06
	=====	=====	=====
SIX MONTHS ENDED DECEMBER 24, 2000			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,175	10,729	\$ 0.11
Effect of Dilutive Securities - Stock Options		6	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,175	10,735	\$ 0.11
	=====	=====	=====
SIX MONTHS ENDED DECEMBER 26, 1999			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,493	11,411	\$ 0.13
Effect of Dilutive Securities - Stock Options		170	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,49	11,581	\$ 0.13
	=====	=====	=====

(5) Summarized in the following tables are net sales and operating revenues, operating profit (loss), and geographic information (revenues) for the Company's reportable segments for the three months and six months ended December 24, 2000, and December 26, 1999.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 24, 2000	DECEMBER 26, 1999	DECEMBER 24, 2000	DECEMBER 26, 1999
(In thousands)		(In thousands)		
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution . . .	\$ 13,502	\$ 14,292	\$ 28,230	\$ 29,621
Franchise and Other	1,920	1,980	3,890	4,026
Intersegment revenues	213	201	419	418
Combined	15,635	16,473	32,539	34,065
Other revenues	98	59	216	78
Less intersegment revenues	(213)	(201)	(419)	(418)
Consolidated revenues	\$ 15,520	\$ 16,331	\$ 32,336	\$ 33,725
OPERATING PROFIT:				
Food and Equipment Distribution (1)	\$ 756	\$ 578	\$ 1,563	\$ 1,182
Franchise and Other (1)	629	1,085	1,321	2,053
Intersegment profit	66	123	127	179
Combined	1,451	1,786	3,011	3,414
Other profit or loss	98	59	216	78
Less intersegment profit	(66)	(123)	(127)	(179)
Corporate administration and other.	(681)	(593)	(1,266)	(1,048)
Income before taxes	\$ 802	\$ 1,129	\$ 1,834	\$ 2,265
GEOGRAPHIC INFORMATION (REVENUES):				
United States	\$ 15,382	\$ 16,113	\$ 31,973	\$ 33,186
Foreign countries	138	218	363	539
Consolidated total	\$ 15,520	\$ 16,331	\$ 32,336	\$ 33,725

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

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

Quarter and six months ended December 24, 2000 compared to the quarter and six months ended December 26, 1999.

Diluted earnings per share for the second quarter of the current fiscal year were \$0.05 versus \$0.06 for the same period last year. For the six months ended December 24, 2000, diluted earnings per share decreased 16% to \$0.11 from \$0.13 for the same period last year. Net income for the quarter decreased 29% to \$529,000 from \$745,000 for the same quarter last year. For the six months ended December 24, 2000, net income decreased 21% to \$1,175,000 from \$1,493,000 compared to the same period last year.

Food and supply sales for the quarter decreased 6% to \$13,502,000 from \$14,292,000 compared to the same period last year. For the six month period, food and supply sales decreased 5% to \$28,230,000 from \$29,621,000 for the same period last year. This decrease is the result of lower chainwide sales and lower cheese prices in the first two quarters of this year.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased 4% or \$61,000 for the quarter and 4% or \$129,000 for the six month period, compared to the same periods last year. These decreases are primarily the result of lower royalties due to lower chainwide sales in the first and second quarters of the current year.

Restaurant sales, which consists of revenue generated by Company-owned

training stores remained consistent for the quarter compared to the same period of the prior year. For the six month period, restaurant sales decreased 1% or \$7,000.

Cost of sales decreased 8% or \$1,104,000 for the quarter and decreased 6% or \$1,763,000 for the six month period. This decrease is due to lower chainwide sales and lower cheese prices in the current year. These lower costs are partially offset by higher depreciation and amortization costs, and higher transportation costs in the current year. As a percentage of sales for the quarter, cost of sales decreased to 90% from 93% compared to the same period of the prior year. For the six months, cost of sales, as a percentage of sales, decreased from 92% to 91%.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs increased 113% or \$317,000 for the quarter and 30% or \$274,000 for the six month period compared to the same periods last year. This increase was primarily due to lower marketing materials expense in the prior year and lower compensation expense relating to franchise sales in the prior year.

General and administrative expenses increased 25% or \$234,000 for the quarter and increased 19% or \$346,000 for the first six months, compared to the same periods last year. This is a result of higher bad debt expense, increased insurance costs, and programming costs that were capitalized as software development costs in the prior year. Salaries and wages increased 2% and 3% for the quarter and year-to-date, respectively.

Interest expense increased 39% or \$69,000 for the quarter and 58% or \$185,000 for the first six months, compared to the same period of the prior year. This is a result of higher average debt and higher average interest rates.

LIQUIDITY AND CAPITAL RESOURCES

During the first six months of fiscal 2001 the Company utilized cash provided by operations in the amount of \$2,893,000, net bank borrowings of \$710,000, and a portion of its cash balance to purchase 173,707 shares of its own common stock for \$575,000 and to pay dividends of \$1,243,000 on the Company's common stock.

Capital expenditures of \$2,067,000 during the first six months included the land acquisition for the new Corporate headquarters, vehicle upgrades, and computer equipment and system upgrades.

The Company continues to realize substantial benefit from the utilization of its net operating loss carryforwards (which currently total \$6.6 million and expire in 2005) to reduce its federal tax liability from the 34% tax rate reflected on its statement of operations to an actual payment of approximately 2% of taxable income. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize its net deferred tax asset balance (\$3.9 million as of December 24, 2000) without reliance on material, non-routine income. Taxable income in future years at the current level would be sufficient for full realization of the net tax asset.

The Company entered into an agreement effective March 31, 2000 with its current lender to extend the term of its existing \$9.5 million revolving credit line through March 2002 and to modify certain financial covenants. In addition, the Company entered into a \$5,000,000 term note with monthly principal payments of \$104,000 maturing on March 31, 2004. Interest on the term loan is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .75%, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company entered into an amendment to this agreement, effective December 28, 2000, modifying certain financial covenants, as a result of a new construction loan as noted below. The Company has used approximately \$2.0 million of its credit line to fund costs of the new building project, including the land acquisition and certain development costs incurred to date.

The Company entered into an agreement effective December 28, 2000 with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan will convert to a term loan upon completion of the construction phase and the then unpaid principal balance will mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal and interest payments due monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .50% prior to loan conversion and .75% following loan conversion, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company has the obligation after the conversion date to cause the outstanding principal amount to be subject to a fixed interest rate.

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.

PART II. OTHER INFORMATION

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

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

10.1 First Amendment to the Second Amended and Restated Loan Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated December 28, 2000.

10.2 Construction Loan Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated December 28, 2000.

10.3 Promissory Note between the Company and Wells Fargo Bank (Texas), N.A. dated December 28, 2000.

10.4 Form of Executive Employment Contract.

No reports on Form 8-k were filed in the quarter for which this report is filed.

SIGNATURES

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

PIZZA INN, INC.
Registrant

By: /s/Ronald W. Parker

Ronald W. Parker
President and
Principal Financial Officer

By: /s/Shawn Preator

Shawn Preator
Vice President,
Principal Accounting Officer

Controller and

Dated: February 6, 2001

FIRST AMENDMENT TO THE SECOND AMENDED AND RESTATED LOAN AGREEMENT

This FIRST AMENDMENT TO THE SECOND AMENDED AND RESTATED LOAN AGREEMENT (this "Amendment"), dated as of December 28, 2000, is by and between PIZZA INN, INC., a Missouri corporation ("Borrower"), and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, a national banking association (successor by consolidation to Wells Fargo Bank (Texas), National Association) (the "Bank").

R E C I T A L S:

A. The Borrower entered into that certain Second Amended and Restated Loan Agreement dated as of March 31, 2000 with the Bank (the "Loan Agreement").

B. In connection with the Loan Agreement, Barko Realty, Inc., a Texas corporation, R-Check, Inc., a Texas corporation, and Pizza Inn of Delaware, Inc., a Delaware corporation (collectively, the "Guarantors"), executed that certain Second Amended and Restated Guaranty dated as of March 31, 2000 in favor of the Bank (as the same may be amended, restated or modified from time to time, the "Guaranty").

C. The Borrower and the Bank now desire to amend the Loan Agreement as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.1 Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Loan Agreement as amended hereby.

ARTICLE II

Amendments

Section 2.1 Amendment to Definitions. Effective as of the date hereof, the following definitions in Section 1.1 of the Loan Agreement are hereby amended and restated in their entirety to read as follows:

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

by dividing (a) the sum of (1) EBITDA for the preceding twelve (12) calendar months, plus (2) for the fiscal year ending on or around June 24, 2001, rent

expense including without limitation, base rent, CAM charges and repairs and maintenance, incurred in connection with the Norco distribution warehouse located at 920 Avenue R, Grand Prairie, Texas 75050 the Borrower's corporate headquarters located at 5050 Quorum Drive, Suite 500, Dallas, Texas 75240, and the Borrower's training center located at 4819 Keller Springs, Addison, Texas 75248

minus (3) treasury stock purchases made by the Borrower for the preceding twelve

(12) calendar months but excluding such purchases of treasury stock made prior to June 24, 2000, minus (4) dividends paid by the Borrower during the preceding

twelve (12) calendar months, but excluding any dividends paid for the fiscal years prior to the fiscal year ending on or around June 24, 2001 by (b) the sum of (i) all scheduled payments on all Long Term Debt of the Borrower and the Subsidiaries and all scheduled payments under Capital Lease Obligations of the Borrower and the Subsidiaries to be paid during the next twelve (12) calendar months, plus (ii) interest expenses and tax expenses (to the extent paid in cash) of the Borrower and the Subsidiaries for the preceding twelve (12) calendar months.

"Real Estate Maturity Date" means 10:00 a.m. Dallas, Texas time on December 28,

2007, or such earlier date and time in which the Real Estate Commitment terminates as provided in this Agreement; provided, however, if such date is not a Business Day, the "Real Estate Maturity Date" shall be the first Business Day

following such date.

Section 2.2 Amendment to Section 11.4. Effective as of the date hereof,

Section 11.4 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

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

any dividends or make any other payment or distribution (whether in cash, property, or obligations) on account of its capital stock, or redeem, purchase, retire, or otherwise acquire any of its capital stock, or permit any of its Subsidiaries to purchase or otherwise acquire any capital stock of the Borrower or another Subsidiary, or set apart any money for a sinking or other analogous fund for any dividend or other distribution on its capital stock or for any

redemption, purchase, retirement, or other acquisition of any of its capital stock; provided that the foregoing restrictions do not prohibit (a) the purchase of common stock of the Borrower in open market transactions, so long as no Default or Event of Default exists at the time of such purchase nor would result after giving effect thereto; (b) dividend payments on any class of capital stock payable solely in shares of capital stock of the Borrower; (c) payments of dividends from any Subsidiary to the Borrower; (d) payments in lieu of taxes to the Borrower or a Subsidiary pursuant to a tax sharing agreement; (e) any exchange of stock not involving any cash consideration pursuant to a stock option plan for employees or directors of the Borrower; (f) payments of cash dividends on any class of capital stock of Borrower so long as no Default or Event of Default exists at the time of such payment nor would result after giving effect thereto at the time of such payment; and (g) any other redemption, purchase, retirement or the acquisition of the Borrower's capital stock upon obtaining the prior written approval of the Bank (clauses (a) through and

including (g) being hereinafter referred to as "Permitted Restricted Payments").

Notwithstanding anything to the contrary contained herein, (i) the Permitted Restricted Payments shall not at any time exceed \$2,000,000 in the aggregate during any fiscal year of the Borrower, (ii) upon the occurrence of a violation of any provision of Article XII, the Borrower may not make any Permitted

Restricted Payment for a period of at least six (6) months following the curing or the waiver of such violation, and (iii) the Borrower may make Permitted Restricted Payments so long as no Default or Event of Default has occurred or would result from such Permitted Restricted Payment.

Section 2.3 Amendment to Section 12.2. Effective as of the date

hereof, Section 12.2 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

Section 12.2 Funded Debt Ratio. Beginning with the fiscal quarter

ending on or around December 24, 2000, the Borrower will maintain, as of the end of each fiscal quarter, a Funded Debt Ratio of not greater than (a) 3.25 to 1.00 during the fiscal year ending on or around June 24, 2001, (b) 3.00 to 1.00 during the fiscal year ending on or around June 24, 2002, and (c) 2.75 to 1.00 thereafter.

Section 2.4 Amendment to Section 12.3. Effective as of the date hereof,

Section 12.3 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

Section 12.3 Fixed Charge Coverage Ratio. Beginning with the fiscal

quarter ending on or around September 24, 2000, the Borrower will maintain, as of the end of each fiscal quarter, a Fixed Charge Coverage Ratio of not less than 1.25 to 1.0 at all times.

Section 2.5 Amendment to Section 10.13. Effective as of the date hereof,

Section 10.13 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

Section 10.13 Interest Rate Protection. The Borrower will, within

one hundred eighty (180) days after December 28, 2000 and at all times thereafter, cause at least one hundred percent (100%) of the aggregate outstanding principal amount of the Real Estate Loan to be either (a) subject to a fixed interest rate or (b) subject to Interest Rate Agreements with the Bank and/or with a bank or other financial institution having capital, surplus and undivided profits of at least \$500,000,000 on terms satisfactory to the Bank.

Section 2.6 Amendment to Exhibit E. Effective as of the date hereof, all

references in the Loan Agreement to "Exhibit E" shall be deemed to mean the "Exhibit E" attached hereto as Exhibit E.

ARTICLE III

Conditions Precedent

Section 3.1 Conditions. The effectiveness of this Amendment is subject to

the satisfaction of the following conditions precedent:

(a) The Bank shall have received all of the following, each dated (unless otherwise indicated) as of the date hereof, in form and substance satisfactory to the Bank:

(1) Resolutions. Resolutions of the Board of Directors of the Borrower

and each Guarantor certified by its Secretary or an Assistant Secretary which authorize the execution, delivery, and performance by the Borrower and each Guarantor of this Amendment and the other Loan Documents to which the Borrower or such Guarantor is or is to be a party hereunder;

(2) Incumbency Certificate. A certificate of incumbency certified by

the Secretary or an Assistant Secretary of the Borrower and each Guarantor certifying the names of the officers of the Borrower and each Guarantor authorized to sign this Amendment and each of the other Loan Documents to which the Borrower or such Guarantor is or is to be a party hereunder (including the certificates contemplated herein), together with specimen signatures of such officers;

(3) Articles of Incorporation. A certificate certified by the

Secretary or an Assistant Secretary of the Borrower and each Guarantor certifying that the articles of incorporation of the Borrower and each Guarantor have not been amended or modified since March 31, 2000 and are still in full force and effect;

(4) Bylaws. A certificate certified by the Secretary or an Assistant

Secretary of the Borrower and each Guarantor certifying that the bylaws of the Borrower and each Guarantor have not been amended or modified since March 31, 2000 and are still in full force and effect; and

(5) Governmental Certificates. Certificates of the appropriate

government officials of the state of incorporation of the Borrower and each Guarantor as to the existence and good standing of the Borrower and each Guarantor, each dated within ten (10) days prior to the date hereof.

(b) The representations and warranties contained herein and in all other Loan Documents, as amended hereby, shall be true and correct as of the date hereof as if made on the date hereof.

(c) No Event of Default shall have occurred and be continuing and no event or condition shall have occurred that with the giving of notice or lapse of time or both would be an Event of Default.

(d) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments, and other legal matters incident thereto shall be satisfactory to the Bank and its legal counsel, Winstead Sechrest & Minick P.C.

ARTICLE IV

Ratifications, Representations and Warranties

Section 4.1 Ratifications. The terms and provisions set forth in this

Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement are ratified and confirmed and shall continue in full force and effect. The Borrower and the Bank agree that the Loan Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 4.2 Representations and Warranties. The Borrower hereby represents

and warrants to the Bank that (i) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of the Borrower and will not violate the articles of incorporation or bylaws of the Borrower, (ii) the representations and warranties contained in the Loan Agreement, as amended hereby, and any other Loan Document are true and correct on and as of the date hereof as though made on and as of the date hereof, (iii) no Event of Default has occurred and is continuing and no event or condition has occurred that with the giving of notice or lapse of time or both would be an Event of Default, and (iv) Borrower is in material compliance with all covenants and agreements contained in the Loan Agreement as amended hereby.

ARTICLE V

Miscellaneous

Section 5.1 Survival of Representations and Warranties. All representations

and warranties made in this Amendment or any other Loan Document including any Loan Document furnished in connection with this Amendment shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by the Bank or any closing shall affect the representations and warranties or the right of the Bank to rely upon them.

Section 5.2 Reference to Agreement. Each of the Loan Documents, including

the Loan Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement as amended hereby, are hereby amended so that any reference in such Loan Documents to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.

Section 5.3 Expenses of Bank. As provided in the Loan Agreement, the

Borrower agrees to pay on demand all costs and expenses incurred by the Bank in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including without limitation the costs and fees of the Bank's legal counsel, and all costs and expenses incurred by the Bank in connection with the enforcement or preservation of any rights under the Loan Agreement, as amended hereby, or any other Loan Document, including without limitation the costs and fees of the Bank's legal counsel.

Section 5.4 Severability. Any provision of this Amendment held by a court

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

Section 5.5 Applicable Law. This Amendment and all other Loan Documents

executed pursuant hereto shall be deemed to have been made and to be performable in Dallas, Dallas County, Texas and shall be governed by and construed in accordance with the laws of the State of Texas.

Section 5.6 Successors and Assigns. This Amendment is binding upon and

shall inure to the benefit of the Bank and the Borrower and their respective successors and assigns, except the Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Bank.

Section 5.7 Counterparts. This Amendment may be executed in one or more

counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.8 Effect of Waiver. No consent or waiver, express or implied, by

the Bank to or for any breach of or deviation from any covenant, condition or duty by the Borrower or any of the Guarantors shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 5.9 Headings. The headings, captions, and arrangements used in this

Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.10 ENTIRE AGREEMENT. THIS AMENDMENT AND ALL OTHER INSTRUMENTS,

DOCUMENTS AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

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Executed as of the date first written above.

Borrower:
PIZZA INN, INC.

By: /s/Ronald W. Parker
Ronald W. Parker
Executive Vice President

BANK:
WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION

By:/s/Austin D. Nettle
Austin D. Nettle
Vice President

Each of the Guarantors hereby consents and agrees to this Amendment and agrees that the Guaranty shall remain in full force and effect and shall continue to be the legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with its terms.

Guarantors:
BARKO REALTY, INC.
R-CHECK, INC.
PIZZA INN OF DELAWARE, INC.

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

EXHIBIT E
FORM OF COMPLIANCE CERTIFICATE

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01/15/2001 - 4814-129

CONSTRUCTION LOAN AGREEMENT
 BETWEEN
 PIZZA INN, INC., A MISSOURI CORPORATION
 AND
 WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION

EXECUTED AS OF DECEMBER 28, 2000

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CONSTRUCTION LOAN AGREEMENT

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is executed as of December 28, 2000, by and between PIZZA INN, INC., a Missouri corporation ("Borrower") and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION ("Lender").

R E C I T A L S

A. Borrower owns or will own certain real property described in Exhibit A hereto ("Property").

B. Borrower proposes to construct on the Property certain improvements consisting of: an office/warehouse facility together with all appurtenances, fixtures, and tenant improvements now or hereafter located on the Property ("Improvements"). The Improvements shall be constructed in accordance with plans and specifications which Borrower has heretofore, or will hereafter deliver to Lender, as amended in order to comply with the terms and conditions of this Agreement ("Plans and Specifications"). Borrower has requested from Lender a loan for the purpose of such construction.

NOW, THEREFORE, Borrower and Lender agree as follows:

ARTICLE 1. DEFINITIONS

1.1 DEFINED TERMS. The following capitalized terms generally used in this

Agreement shall have the meanings defined or referenced below. Certain other capitalized terms used only in specific sections of this Agreement are defined in such sections.

"Account" - means an account with Lender, in the name of Borrower or Borrower's designee into which Loan proceeds will be deposited.

"ADA" - means the Americans with Disabilities Act, 42 U.S.C. 12101, et. seq.

as now or hereafter amended or modified.

"Affidavit of Commencement" - shall have the meaning ascribed to such term in Section 4.1.

"Affidavit of Completion" - shall have the meaning ascribed to such term in Section 4.2.

"Agreement" - shall have the meaning ascribed to such term in the preamble hereto.

"Architect" - means Alliance Architects, Inc.

"Architect's Agreement" - means that certain agreement by and between Borrower and Architect.

"Bankruptcy Code" - means the Bankruptcy Reform Act of 1978 (11 USC 101-1330) as now or hereafter amended or recodified.

"Bonded Work" - shall have the meaning ascribed to such term in Section 8.1.

"Borrower" - means PIZZA INN, INC., a Missouri corporation.

"Borrower's Funds" - means all funds of Borrower deposited with Lender pursuant to the terms and conditions of this Agreement.

"Borrower's Funds Account" - means the account with Lender into which all funds deposited with Lender pursuant to this Agreement shall be placed.

"Business Day" - means a day of the week (but not a Saturday, Sunday or holiday)

on which the offices of Lender are open to the public for carrying on substantially all of Lender's business functions. Unless specifically referenced in this Agreement as a Business Day, all references to "days" shall be to calendar days.

"Completion Date" - means November 1, 2001, the date by which construction of the Improvements must be complete.

"Construction Agreement" - means an agreement to construct the Improvements now or hereafter executed between Borrower and Contractor.

"Construction Loan" - the Loan made for the purpose of the acquisition and construction of the Property and maturing on January 1, 2002 unless the Loan Conversion occurs.

"Contractor" - means Bob Moore Construction.

"Deed of Trust" - means that certain Construction Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith executed by Borrower, as Grantor, for the benefit of Lender, as

Beneficiary, as hereafter amended, supplemented, replaced or modified.

"Default" - shall have the meaning ascribed to such term in Section 11.1.

"Effective Date" - means the date that the Loan Documents are unconditionally executed and delivered by Borrower and Lender.

"Guarantor" - has the meaning specified in the Master Loan Agreement.

"Hazardous Materials" - shall have the meaning ascribed to such term in Section 7.1(a).

"Hazardous Materials Claims" - shall have the meaning ascribed to such term in Section 7.1(c).

"Hazardous Materials Laws" - shall have the meaning ascribed to such term in Section 7.1(b).

"Improvements" - shall have the meaning ascribed to such term in Recital B.

"Indebtedness" - means all principal, interest and other charges payable by Borrower to Lender pursuant to the Note and all other sums which may become payable by Borrower to Lender pursuant to the Master Loan Agreement and the other Loan Documents.

"Lender" - means WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION.

"Loan" - means the principal sum that Lender agrees to lend and Borrower agrees to borrow pursuant to the terms and conditions of this Agreement: Eight Million One Hundred Twenty-Five Thousand and No/100 Dollars (\$8,125,000.00).

"Loan Conversion" - The conversion of the Loan from the Construction Loan to the Mini-Perm Loan all in accordance with the provisions of Section 2.4 hereof. The effective date of the Loan Conversion shall be the first (1st) day of the calendar month following the satisfaction of the Loan Conversion requirements set forth in Section 2.4, which effective date shall not be later than January 1, 2002.

"Loan Documents" - means those documents, as hereafter amended, supplemented, replaced or modified, properly executed and in recordable form, if necessary, listed in Exhibit B as Loan Documents.

"Loan-to-Value Percentage" - shall have the meaning ascribed to such term in Section 2.7.

"Master Loan Agreement" - means the Second Amended and Restated Loan Agreement dated as of March 31, 2000 between Borrower and Lender, as amended by First Amendment to the Second Amended and Restated Loan Agreement dated of even date herewith.

"Maturity Date" - has the meaning specified in Section 2.5.

"Maximum Lawful Rate" - shall have the meaning ascribed to such term in Section 12.24(b).

"Mini-Perm Loan" - to the extent Loan Conversion occurs, the Loan, as so converted and scheduled to mature December 28, 2007.

"Note" - means that certain Promissory Note of even date herewith, in the original principal amount of the Loan, executed by Borrower and payable to the order of Lender, as hereafter amended, supplemented, replaced or modified.

"Obligee" - shall have the meaning ascribed to such term in Section 8.1.

"Participant" - shall have the meaning ascribed to such term in Section 12.13.

"Plans and Specifications" - shall have the meaning ascribed to such term in Recital B.

"Property" - shall have the meaning ascribed to such term in Recital A.

"Secured Obligations" - shall have the meaning ascribed to such term in the Deed of Trust.

"Set Aside Letter" - shall have the meaning ascribed to such term in Section 8.1.

"Subdivision Map" - shall have the meaning ascribed to such term in Section 9.7.

"Surety" - shall have the meaning ascribed to such term in Section 8.1.

"Title Company" means Republic Title of Texas, Inc., as agent for Commonwealth

Land Title Insurance Company.

"Title Policy" - means the standard Texas promulgated form of Mortgagee Policy

of Title Insurance as issued by the Title Company.

1.2 EXHIBITS INCORPORATED. Exhibits A, B, C, D, E and F, all attached

hereto, are hereby incorporated into this Agreement.

ARTICLE 2. LOAN

2.1 LOAN. By and subject to the terms of this Agreement, Lender agrees to

lend to Borrower and Borrower agrees to borrow from Lender the principal sum of Eight Million One Hundred Twenty-Five Thousand and No/100 Dollars (\$8,125,000.00), said sum to be evidenced by the Note of even date herewith. The Note shall be secured, in part, by the Deed of Trust, of even date herewith, encumbering certain real property and improvements as legally defined therein. Amounts disbursed to or on behalf of Borrower pursuant to the Note shall be used to finance the acquisition and construction of the Property and Improvements and for such other purposes and uses as may be permitted under this Agreement and the other Loan Documents.

2.2 LOAN DOCUMENTS. Borrower shall deliver to Lender concurrently with this

Agreement each of the documents, properly executed and in recordable form, as applicable, described in Exhibit B as Loan Documents.

2.3 EFFECTIVE DATE. The date of the Loan Documents is for reference

purposes only. The Effective Date of the parties' obligations under this Agreement and the other Loan Documents shall be the date that such Loan Documents are unconditionally executed and delivered by Borrower and Lender, and Borrower's and Lender's rights and obligations under the Loan Documents shall not be effective until the Effective Date.

2.4 LOAN CONVERSION. The Construction Loan may be converted into the

Mini-Perm Loan upon written request of Borrower given to Lender not less than thirty (30) days before the anticipated date for the Loan Conversion, and upon satisfaction of the following:

(a) Completion of all construction work contemplated by the Plans and Specifications and the Budget to the satisfaction of Lender, together with Borrower's provision to Lender of a certificate of substantial completion in a form acceptable to Lender and certified by Borrower and Borrower's architect;

(b) Evidence satisfactory to Lender, reflecting the full payment of, and executed lien waivers from, all contractors, subcontractors and others with respect to the construction of the Improvements.

(c) Borrower's provision to Lender with an as-built survey for the Property in a form satisfactory to Lender in all respects and not indicating any matters not shown in any previous survey provided to Lender which are reasonably objectionable to Lender;

(d) No Default or any event, circumstance or action which, with the giving of notice, passage of time or failure to cure would give rise to a Default, has occurred and is then existing;

(e) Lender shall have received a down-date endorsement pursuant to Procedural Rule P-9b(4), and other endorsements amending the mechanic's and materialmen's lien coverage and, if applicable, deleting the pending disbursements clause pursuant to Procedural Rule P-8b(2), and, if applicable, a Form T38 Endorsement pursuant to Procedural Rule P-9b(3) to the Title Policy in form and content satisfactory to Lender.

Loan Conversion shall occur or be deemed to have occurred on the 1st day of the calendar month which follows Borrower's satisfaction of the foregoing conditions precedent to Loan Conversion, as determined by Lender. To the extent Loan Conversion has not occurred by January 1, 2002, then Borrower shall not thereafter be eligible for Loan Conversion.

2.5 MATURITY DATE. The Maturity Date of the Loan means (a) at all times

prior to Loan Conversion, January 1, 2002, and (b) if Loan Conversion occurs on or before January 1, 2002, then December 28, 2007; subject to the right of acceleration provided herein and elsewhere in the Loan Documents, at which time all sums due and owing under this Agreement and the other Loan Documents shall be repaid in full. All payments due to Lender under this Agreement, whether at the Maturity Date or otherwise, shall be paid in immediately available funds.

2.6 CREDIT FOR PRINCIPAL PAYMENTS. Any payment made upon the outstanding

principal balance of the Loan shall be credited as of the Business Day received, provided such payment is received by Lender no later than 11:00 a.m. (Pacific Standard Time or Pacific Daylight Time, as applicable) and constitutes immediately available funds. Any principal payment received after said time or which does not constitute immediately available funds shall be credited upon such funds having become unconditionally and immediately available to Lender.

2.7 APPRAISAL REQUIREMENT. Lender shall have received a written appraisal

prepared in conformance with the requirements of the Comptroller of the Currency confirming to the satisfaction of Lender that the Loan amount as a percentage of the fair market value of the Property and Improvements (after adjustment for senior liens and regular and special taxes and assessments) does not exceed

seventy-five percent (75%) ("Loan-to-Value Percentage"); provided, however, in

the event such fair market value is not adequate to meet the required Loan-to-Value Percentage, then Borrower shall, within thirty (30) days after written demand from Lender, pay down the outstanding principal balance of the Loan such that said required Loan-to-Value Percentage may be met.

2.8 FULL REPAYMENT AND RELEASE OF LIEN. Upon receipt of all sums owing and

outstanding under the Loan Documents, Lender shall issue a full release of lien covering the Property and Improvements from the lien of the Deed of Trust; provided, however, that all of the following conditions shall be satisfied at

the time of, and with respect to, such release of lien: (a) Lender shall have received all escrow, closing and recording costs, the costs of preparing and delivering such release of lien and any sums then due and payable under the Loan Documents; and (b) Lender shall have received a written release satisfactory to Lender of any set aside letter, letter of credit or other form of undertaking which Lender has issued to any surety, governmental agency or any other party in connection with the Loan and/or the Property and Improvements. Lender's obligation to make further disbursements under the Loan shall terminate as to any portion of the Loan undisbursed as of the date of issuance of such full release of lien, and any commitment of Lender to lend any undisbursed portion of the Loan shall be canceled.

ARTICLE 3. DISBURSEMENT

3.1 CONDITIONS PRECEDENT. Lender's obligation to make any disbursements or

take any other action under the Loan Documents shall be subject at all times to satisfaction of each of the following conditions precedent:

(a) There shall exist no Default, as defined in this Agreement, or Default as defined in any of the other Loan Documents, or event, omission or failure of condition which would constitute a Default after notice or lapse of time, or both; and

(b) Any undisbursed Loan funds together with all sums, if any, to be provided by Borrower as shown in Exhibit C shall be at all times equal to or

greater than the amount which Lender from time to time determines necessary to: (i) pay, through completion, all costs of development and construction of the Property and Improvements in accordance with the Loan Documents; (ii) pay all sums which may accrue under the Loan Documents prior to repayment of the Loan; and (iii) enable Borrower to perform and satisfy all of the covenants of Borrower contained in the Loan Documents. If Lender determines at any time that the undisbursed Loan funds are insufficient for said purposes, Borrower shall deposit the amount of such deficiency in the Borrower's Funds Account within seven (7) days of Lender's written demand; and

(c) Lender shall have received all Loan Documents, other documents, instruments, policies, and forms of evidence or other materials requested by Lender under the terms of this Agreement or any of the other Loan Documents; and

(d) As a condition to the initial advance hereunder, Lender shall have received and approved in form and substance satisfactory to Lender: (i) a soils report for the Property and Improvements; (ii) an environmental questionnaire and environmental site assessment with respect to the presence, if any, of Hazardous Materials on the Property and Improvements; (iii) two sets of the Plans and Specifications, certified as complete by the Architect, together with evidence of all necessary or appropriate approvals of governmental agencies; (iv) copies of all agreements which are material to completion of the Improvements; (v) copies of all building permits and similar permits, licenses, approvals, development agreements and other authorizations of governmental agencies required in connection with the development of the Property and Improvements; and (vi) copies of any initial study, negative declaration, mitigated negative declaration, environmental impact report, notice of determination or notice of exemption prepared, adopted, certified or filed by or with any governmental agency in connection with the Property and Improvements.

3.2 ACCOUNT, PLEDGE AND ASSIGNMENT, AND DISBURSEMENT AUTHORIZATION. The

proceeds of the Loan and Borrower's Funds, when qualified for disbursement, shall be deposited into the Account or otherwise disbursed to or for the benefit or account of Borrower under the terms of this Agreement. Disbursements hereunder may be made by Lender upon the written request of any person who has been authorized by Borrower to request such disbursements until such time as written notice of Borrower's revocation of such authority is received by Lender at the address shown in Exhibit D. As additional security for Borrower's

performance under the Loan Documents, Borrower hereby irrevocably pledges and assigns to Lender all monies at any time deposited in the Account.

3.3 BORROWER'S FUNDS ACCOUNT, PLEDGE AND ASSIGNMENT. Except as otherwise

provided in this Agreement, all of the Borrower's Funds which are deposited with Lender by Borrower as shown in Exhibit C, or any other provision of the Loan

Documents, shall be placed in the Borrower's Funds Account with, and controlled by, Lender for disbursement under this Agreement. As additional security for Borrower's performance under the Loan Documents, Borrower hereby irrevocably pledges and assigns to Lender all monies at any time deposited in the Borrower's Funds Account.

3.4 LOAN DISBURSEMENTS. Subject to the conditions set forth in Section 3.1,

the proceeds of the Loan and Borrower's Funds shall be disbursed in accordance with the terms and conditions of Exhibit D. Disbursements made after the

deposit of Borrower's Funds shall be made first from the Borrower's Funds Account until depleted. All disbursements shall be held by Borrower in trust and applied by Borrower solely for the purposes for which the funds have been disbursed. Lender has no obligation to monitor or determine Borrower's use or application of the disbursements.

ARTICLE 4. CONSTRUCTION

4.1 COMMENCEMENT OF CONSTRUCTION. Borrower shall commence construction of

the Improvements without delay after recordation of the Deed of Trust. Within ten (10) days after the commencement of construction of the Improvements, Borrower shall execute and cause the Contractor to execute and shall file in Real Property Records of the county in which the Property is located, an affidavit ("Affidavit of Commencement"), in the form attached as Exhibit E or

otherwise satisfactory to Lender. The date of commencement of the construction of the Improvements as set forth in such Affidavit of Commencement shall be a date after the date of the recordation of the Deed of Trust.

4.2 COMPLETION OF CONSTRUCTION. Borrower shall complete construction of the

Improvements on or before the Completion Date. Within ten (10) days after the construction of the Improvements has been completed, Borrower shall execute and file in the Real Property Records of the county in which the Property is located, an affidavit ("Affidavit of Completion") in the form attached as Exhibit F or otherwise satisfactory to Lender.

4.3 COMMENCEMENT AND COMPLETION. Borrower shall commence construction of

the Improvements without delay after recordation of the Deed of Trust. Borrower shall complete construction of the Improvements on or before the Completion Date.

4.4 COMMENCEMENT AND COMPLETION OF OFFSITE IMPROVEMENTS. Borrower shall

commence construction of any offsite improvements required by any governmental authority in connection with the construction of the Improvements without delay and shall complete construction of any such offsite improvements on or before the Completion Date.

4.5 FORCE MAJEURE. The time within which construction of the Improvements

must be completed shall be extended for a period of time equal to the period of any delay directly affecting construction which is caused by fire, earthquake or other acts of God, strike, lockout, acts of public enemy, riot, insurrection, or governmental regulation of the sale or transportation of materials, supplies or labor; provided, however, that Borrower shall furnish Lender with written notice

satisfactory to Lender evidencing any such delay within ten (10) days from the occurrence of any such delay. In no event shall the time for completion of the Improvements be extended beyond the Maturity Date or more than sixty (60) days beyond the Completion Date.

4.6 CONSTRUCTION AGREEMENT. Borrower and Contractor have entered (or will

enter) into the Construction Agreement pursuant to the terms and conditions of which Contractor is to construct the Improvements. Borrower shall require Contractor to perform in accordance with the terms of the Construction Agreement in all material respects and shall not materially amend, modify or alter the responsibilities of Contractor under the Construction Agreement without Lender's prior written consent. Except for any change orders permitted without Lender's consent pursuant to the terms hereof, Borrower shall execute, upon Lender's request, an assignment of Borrower's rights under the Construction Agreement to Lender as security for Borrower's obligations under this Agreement and the other Loan Documents and shall cause the Contractor to consent to any such assignment.

4.7 ARCHITECT'S AGREEMENT. Borrower and Architect have entered into the

Architect's Agreement, pursuant to which Architect is to design the Improvements. Borrower shall require Architect to perform in accordance with the terms of the Architect's Agreement and shall not amend, modify or alter the responsibilities of Architect under the Architect's Agreement without Lender's prior written consent. Upon Lender's request, Borrower shall execute an assignment of the Architect's Agreement and the Plans and Specifications to Lender as additional security for Borrower's performance under this Agreement and the other Loan Documents and shall cause the Architect to consent to any such assignment.

4.8 PLANS AND SPECIFICATIONS.

(a) CHANGES; LENDER CONSENT. Except as otherwise provided in this Agreement, Borrower shall not make any changes in the Plans and Specifications

without Lender's prior written consent if such change: (i) constitutes a material change in the building material or equipment specifications, or in the architectural or structural design, value or quality of any of the Improvements; (ii) would result in an increase of construction costs in excess of \$100,000 for any single change or in excess of \$500,000 for all such changes; or (iii) would affect the structural integrity, quality of building materials, or overall efficiency of operating systems of the Improvements. Without limiting the above, Lender agrees that Borrower may make minor changes in the Plans and Specifications without Lender's prior written consent, provided that such changes do not violate any of the conditions specified herein. Borrower shall at all times maintain, for inspection by Lender, a full set of working drawings of the Improvements.

(b) CHANGES; SUBMISSION REQUIREMENTS. Borrower shall submit any proposed

change in the Plans and Specifications to Lender at least ten (10) days prior to the commencement of construction relating to such proposed change whether or not such change is subject to Lender's consent. Requests for any change which requires consent shall be accompanied by working drawings and a written description of the proposed change, submitted on a change order form acceptable to Lender, signed by Borrower and, if required by Lender, also by the Architect and the Contractor. At its option, Lender may require Borrower to provide: (i) evidence satisfactory to Lender of the cost and time necessary to complete the proposed change; (ii) a deposit in the amount of any increased costs into Borrower's Funds Account; and (iii) a complete set of "as built" Plans and Specifications for the completed Improvements.

(c) CONSENT PROCESS. Borrower acknowledges that Lender's review of any changes and required consent may result in delays in construction and hereby consents to any such delays.

(d) FINAL PLANS AND SPECIFICATIONS. Upon completion of the Improvements, Borrower shall deliver to Lender within ten (10) days a set of final Plans and Specifications.

4.9 CONTRACTOR/CONSTRUCTION INFORMATION. Within ten (10) days of Lender's

written request, Borrower shall deliver to Lender from time to time in a form acceptable to Lender: (a) a list detailing the name, address and phone number of each contractor, subcontractor and material supplier to be employed or used for construction of the Improvements together with the dollar amount, including changes, if any, of each contract and subcontract, and the portion thereof, if any, paid through the date of such list; (b) copies of each contract and subcontract identified in such list, including any changes thereto; (c) a cost breakdown of the projected total cost of constructing the Improvements, and that portion, if any, of each cost item which has been incurred; and (d) a construction progress schedule detailing the progress of construction and the projected sequencing and completion time for uncompleted work, all as of the date of such schedule.

Borrower agrees that Lender may disapprove any contractor, subcontractor or material supplier which, in Lender's good faith determination, is deemed financially or otherwise unqualified; provided, however, that the absence of any

such disapproval shall not constitute a warranty or representation of qualification by Lender. Lender may contact any such contractor, subcontractor or material supplier to discuss the course of construction.

4.10 PROHIBITED CONTRACTS. Without Lender's prior written consent, Borrower

shall not contract for any materials, furnishings, equipment, fixtures or other parts or components of the Improvements, if any third party shall retain any ownership interest (other than lien rights created by operation of law) in such items after their delivery to the Property and Improvements. Borrower shall have five (5) days to effect the removal of any such retained interest.

4.11 LIENS AND NOTICES. Subject to the provisions of Section 4.11, if a

lien affidavit is recorded or a notice of claim for unpaid work, materials or specially fabricated items or a notice of a contractual retainage claim is given to the Borrower or Contractor which affects the Property or Improvements, Borrower shall, within twenty (20) calendar days of such recording or receipt of such notice or within ten (10) calendar days of Lender's written demand, whichever occurs first: (a) pay and discharge the lien claim; (b) effect the release thereof by recording or delivering to Lender a surety bond in sufficient form and amount; or (c) provide Lender with other assurances which Lender deems, in its reasonable discretion, to be satisfactory for the payment of such lien claim and for the full and continuous protection of Lender from the effect of such lien claim.

4.12 CONSTRUCTION RESPONSIBILITIES. Borrower shall cause Contractor to

construct the Improvements in a workmanlike manner substantially according to the Plans and Specifications and the recommendations of any soils or engineering report approved by Lender. Borrower shall comply in all material respects with all applicable laws, ordinances, rules, regulations, building restrictions, recorded covenants and restrictions, and requirements of all regulatory authorities having jurisdiction over the Property or Improvements. Borrower shall be solely responsible for all aspects of Borrower's business and conduct in connection with the Property and Improvements, including, without limitation, for the quality and suitability of the Plans and Specifications and their compliance with all governmental requirements, the supervision of the work of construction, the qualifications, financial condition and performance of all architects, engineers, contractors, material suppliers, consultants and property managers, and the accuracy of all applications for payment and the proper application of all disbursements. Lender is not obligated to supervise, inspect or inform Borrower or any third party of any aspect of the construction of the Improvements or any other matter referred to above.

4.13 ASSESSMENTS AND COMMUNITY FACILITIES DISTRICTS. Without Lender's prior

written consent, Borrower shall not cause to become effective or otherwise consent to the formation of any assessment district or community facilities district which includes all or any part of the Property and Improvements pursuant to: (a) contractual agreements among property owners and/or other governmental or quasi-governmental agencies or political subdivisions or districts, or other entity providing such community facilities; or (b) any state, county or municipal ordinance, law, regulation or statute. Nor shall

Borrower cause or otherwise consent to the levying of special taxes or assessments against the Property and Improvements by any such assessment district or community facilities district.

4.14 DELAY. Borrower shall promptly notify Lender in writing of any event

causing substantial delay or interruption of construction, or the timely completion of construction. The notice shall specify the particular work delayed, and the cause and period of each delay.

4.15 INSPECTIONS. Upon reasonable prior notice to Borrower, Lender shall

have the right to enter upon the Property at all reasonable times to inspect the Improvements and the construction work to verify information disclosed or required pursuant to this Agreement. Any inspection or review of the Improvements by Lender is solely to determine whether Borrower is properly discharging its obligations to Lender and may not be relied upon by Borrower or by any third party as a representation or warranty of compliance with this Agreement or any other agreement. Lender owes no duty of care to Borrower or any third party to protect against, or to inform Borrower or any third party of, any negligent, faulty, inadequate or defective design or construction of the Improvements as determined by Lender.

4.16 SURVEYS. Upon Lender's written request, Borrower shall promptly

deliver to Lender: (a) upon completion of the foundations of the Improvements, a survey showing the location of the Improvements on the Property and confirming that the Improvements are located entirely within the Property and do not encroach upon any easement, or breach or violate any governmental requirement; and (b) upon completion of the Improvements, an as-built survey acceptable to a title insurer for purposes of issuing a standard Texas promulgated form of mortgagee policy of title insurance. All such surveys shall be performed and certified by a licensed engineer or surveyor acceptable to the insurer and shall be in accordance with a Category 1A, Condition I survey pursuant to the most recent edition of the Manual of Practice for Land Surveying in the State of Texas, published by the Texas Society of Professional Surveyors or in accordance with the ALTA/ACSM Minimum Standard Detail Requirements and Classifications for ALTA/ACSM Land Title Surveys (1992) for an urban business district survey class.

ARTICLE 5. INSURANCE

Borrower shall, while any obligation of Borrower or any Guarantor under any Loan Document remains outstanding, maintain at Borrower's sole expense, with licensed insurers approved by Lender, the following policies of insurance in form and substance satisfactory to Lender:

5.1 TITLE INSURANCE. A Mortgagee Title Policy, together with any

endorsements which Lender may require, insuring Lender, in the principal amount

of the Loan, of the validity and the priority of the lien of the Deed of Trust upon the Property and Improvements, subject only to matters approved by Lender in writing and including a Rule P-8(b)(1) exception prior to completion of the Improvements. During the term of the Loan, Borrower shall deliver to Lender, within five (5) days of Lender's written request, such other endorsements to the Title Policy as Lender may require.

5.2 PROPERTY INSURANCE. A Builders Risk Completed Value Hazard Insurance

policy, including, without limitation, such endorsements as Lender may require, insuring Lender against damage to the Property and Improvements in an amount acceptable to Lender. Lender shall be named on the policy under a Lender's Loss Payable Endorsement and Standard Mortgage Clause Endorsement (in forms acceptable to Lender).

5.3 FLOOD HAZARD INSURANCE. A policy of flood insurance, as required by

applicable governmental regulations.

5.4 LIABILITY INSURANCE. A policy of comprehensive general liability

insurance with limits as required by Lender, insuring against liability for injury and/or death to any person and/or damage to any property occurring on the Property and/or in the Improvements from any cause whatsoever.

5.5 GENERAL. Borrower shall provide to Lender the originals of all required

insurance policies, or other evidence of insurance acceptable to Lender. All insurance policies shall provide that the insurance shall not be cancelable or materially changed without ten (10) days prior written notice to Lender. Lender shall be named under a Lender's Loss Payable Endorsement and Standard Mortgage Clause Endorsement (in forms acceptable to Lender) on all insurance policies which Borrower actually maintains with respect to the Property and Improvements. Borrower shall provide to Lender evidence of any other insurance Lender may deem necessary at any time during the Loan.

ARTICLE 6. REPRESENTATIONS AND WARRANTIES

As a material inducement to Lender's entry into this Agreement, Borrower represents and warrants to Lender as of the Effective Date and continuing thereafter that:

6.1 AUTHORITY/ENFORCEABILITY. Borrower is in compliance with all laws and

regulations applicable to its organization, existence and transaction of business and has all necessary rights and powers to own, develop and operate the Property and Improvements as contemplated by the Loan Documents, the failure of which would or could reasonably be expected to have a material adverse affect on the Property or Borrower's business.

6.2 BINDING OBLIGATIONS. Borrower is authorized to execute, deliver and

perform its obligations under the Loan Documents, and such obligations shall be

valid and binding obligations of Borrower.
6.3 FORMATION AND ORGANIZATIONAL DOCUMENTS. Borrower has delivered to

Lender all formation and organizational documents of Borrower, of the partners, joint venturers or members of Borrower, if any, and of all guarantors of the Loan, if any, and all such formation and organizational documents remain in full force and effect and have not been amended or modified since they were delivered to Lender. Borrower shall immediately provide Lender with copies of any amendments or modifications of the formation or organizational documents.
6.4 NO VIOLATION. Borrower's execution, delivery, and performance under the

Loan Documents do not: (a) require any consent or approval not heretofore obtained under any partnership agreement, operating agreement, articles of incorporation, bylaws or other document; (b) violate any governmental requirement applicable to the Property and Improvements or any other statute, law, regulation or ordinance or any order or ruling of any court or governmental entity; (c) conflict with, or constitute a breach or default or permit the acceleration of obligations under any agreement, contract, lease, or other document by which the Borrower is or the Property and Improvements are bound or regulated; or (d) violate any statute, law, regulation or ordinance, or any order of any court or governmental entity.

6.5 COMPLIANCE WITH LAWS. Borrower has, and at all times shall have

obtained, (a) all permits, licenses, exemptions, and approvals necessary to construct, occupy, operate and market the Property and Improvements, and shall maintain compliance with all governmental requirements applicable to the Property and Improvements and (b) all other applicable statutes, laws, regulations and ordinances necessary for the transaction of its business, the failure of which would or could reasonably be expected to have a material adverse affect on the Property or Borrower's business.

6.6 LITIGATION. Except as disclosed to Lender in writing, Borrower has no

knowledge of any claims, actions, suits, or proceedings pending, or threatened, against Borrower or affecting the Property or Improvements that would, if adversely determined, have a material adverse affect on the Property or Borrower's ability to pay and perform its obligations herein.

6.7 FINANCIAL CONDITION. All financial statements and information

heretofore and hereafter delivered to Lender by Borrower, including, without

limitation, information relating to the financial condition of Borrower, the Property, the Improvements, the partners, joint venturers or members of Borrower, and/or any Guarantor, fairly and accurately represent the financial condition of the subject thereof and have been prepared (except as noted therein) in accordance with generally accepted accounting principles consistently applied as of the respective dates thereof. Borrower acknowledges and agrees that Lender may request and obtain additional information from third parties regarding any of the above, including, without limitation, credit reports.

6.8 NO MATERIAL ADVERSE CHANGE. There has been no material adverse change

in the financial condition of Borrower and/or Guarantor since the dates of the latest financial statements furnished to Lender and, except as otherwise disclosed to Lender in writing, Borrower has not entered into any material transaction which is not disclosed in such financial statements.

6.9 LOAN PROCEEDS AND ADEQUACY. The undisbursed Loan proceeds, together

with Borrower's Funds and all other sums, if any, to be provided by Borrower as shown in Exhibit C, are sufficient to construct the Improvements in accordance

with the terms and conditions of this Agreement.

6.10 ACCURACY. All reports, documents, instruments, information and forms

of evidence delivered by Borrower to Lender concerning the Loan or security for the Loan or required by the Loan Documents are accurate, correct and sufficiently complete to give Lender true and accurate knowledge of their subject matter, and do not contain any misrepresentation or omission.

6.11 TAX LIABILITY. Borrower has filed all required federal, state, county

and municipal tax returns and has paid all taxes and assessments owed and payable, and Borrower has no knowledge of any basis for any additional payment with respect to any such taxes and assessments.

6.12 UTILITIES. All utility services, including, without limitation, gas,

water, sewage, electrical and telephone, necessary for the development and occupancy of the Property and Improvements are available at or within the boundaries of the Property, or Borrower has taken all steps necessary to assure that all such services will be available upon completion of the Improvements.

6.13 COMPLIANCE. Borrower shall comply in all material respects with all

governmental requirements for the development of the Property and construction of the Improvements and will conform to and comply in all material respects with all governmental requirements and the Plans and Specifications.

6.14 AMERICANS WITH DISABILITIES ACT COMPLIANCE. The Improvements shall be

constructed and completed, and thereafter maintained, in strict accordance and full compliance with all of the requirements of the Americans with Disabilities Act, of July 26, 1990, Pub. L. No. 101-336, 104 Stat. 327, 42 U.S.C. 12101, et. seq., and with 23 Tex. Rev. Civ. Stat. Ann., art. 9102 ("Texas Architectural

Barriers Act"), as each may be amended from time to time. Borrower shall be responsible for all ADA and Texas Architectural Barriers Act compliance costs.

6.15 BUSINESS LOAN. The Loan is a business loan transaction in the stated amount solely for the purpose of carrying on the business of Borrower and none of the proceeds of the Loan will be used for the personal, family or agricultural purposes of the Borrower.

ARTICLE 7. HAZARDOUS MATERIALS

7.1 SPECIAL REPRESENTATIONS AND WARRANTIES. Without in any way limiting the other representations and warranties set forth in this Agreement, and after reasonable investigation and inquiry but subject to the findings in the environmental reports provided to Lender, Borrower hereby specially represents and warrants to the best of Borrower's knowledge as of the date of this Agreement as follows:

(a) HAZARDOUS MATERIALS. The Property and Improvements are not and have not been a site for the use, generation, manufacture, storage, treatment, release, threatened release, discharge, disposal, transportation or presence of any oil, flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, hazardous wastes, toxic or contaminated substances or similar materials, including, without limitation, any substances which are "hazardous substances," "hazardous wastes," "hazardous materials," "toxic substances," "wastes," "regulated substances," "industrial solid wastes," or "pollutants" under the Hazardous Materials Laws, as described below, and/or other applicable environmental laws, ordinances and regulations (collectively, the "Hazardous Materials"). "Hazardous Materials" shall not include commercially reasonable amounts of such materials used in the ordinary course of operation of the Property which are used and stored in accordance with all applicable Hazardous Materials Laws.

(b) HAZARDOUS MATERIALS LAWS. The Property and Improvements are in compliance with all laws, ordinances and regulations relating to Hazardous Materials ("Hazardous Materials Laws"), including, without limitation: the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Comprehensive Environment Response, Compensation and Liability Act of 1980, as amended (including the Superfund Amendments and Reauthorization Act of 1986, "CERCLA"), 42 U.S.C. Section 9601 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601 et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651, the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; and all comparable state and local laws, laws of other jurisdictions or orders and regulations (including, without limitation, the Texas Water Code, the Texas Health & Safety Code and the Texas Solid Waste Disposal Act).

(c) HAZARDOUS MATERIALS CLAIMS. There are no claims or actions ("Hazardous Materials Claims") pending or threatened against Borrower, the Property or Improvements by any governmental entity or agency or by any other person or entity relating to Hazardous Materials or pursuant to the Hazardous Materials Laws.

7.2 HAZARDOUS MATERIALS COVENANTS. Borrower agrees as follows:

(a) NO HAZARDOUS ACTIVITIES. Borrower shall not cause or permit the Property or Improvements to be used as a site for the use, generation, manufacture, storage, treatment, release, discharge, disposal, transportation or presence of any Hazardous Materials.

(b) COMPLIANCE. Borrower shall comply and cause the Property and Improvements to comply with all Hazardous Materials Laws.

(c) NOTICES. Borrower shall immediately notify Lender in writing of: (i) the discovery of any Hazardous Materials on, under or about the Property and Improvements; (ii) any knowledge by Borrower that the Property and Improvements do not comply with any Hazardous Materials Laws; and (iii) any Hazardous Materials Claims.

(d) REMEDIAL ACTION. In response to the presence of any Hazardous Materials on, under or about the Property or Improvements, Borrower shall immediately take, at Borrower's sole expense, all remedial action required by any Hazardous Materials Laws or any judgment, consent decree, settlement or compromise in respect to any Hazardous Materials Claims.

7.3 INSPECTION BY LENDER. Upon reasonable prior notice to Borrower, Lender, its employees and agents, may from time to time (whether before or after the commencement of a nonjudicial or judicial foreclosure proceeding) enter and

inspect the Property and Improvements for the purpose of determining the existence, location, nature and magnitude of any past or present release or threatened release of any Hazardous Materials into, onto, beneath or from the Property and Improvements.

7.4 HAZARDOUS MATERIALS INDEMNITY. BORROWER HEREBY AGREES TO DEFEND,

INDEMNIFY AND HOLD HARMLESS LENDER, ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY AND ALL LOSSES, DAMAGES, LIABILITIES, CLAIMS, ACTIONS, JUDGMENTS, COURT COSTS AND LEGAL OR OTHER EXPENSES (INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES AND EXPENSES) WHICH LENDER MAY INCUR AS A DIRECT OR INDIRECT CONSEQUENCE OF THE USE, GENERATION, MANUFACTURE, STORAGE, DISPOSAL, THREATENED DISPOSAL, TRANSPORTATION OR PRESENCE OF HAZARDOUS MATERIALS IN, ON, UNDER OR ABOUT THE PROPERTY OR IMPROVEMENTS. BORROWER SHALL IMMEDIATELY PAY TO LENDER UPON DEMAND ANY AMOUNTS OWING UNDER THIS INDEMNITY, TOGETHER WITH INTEREST FROM THE DATE THE INDEBTEDNESS ARISES UNTIL PAID AT THE RATE OF INTEREST APPLICABLE TO THE PRINCIPAL BALANCE OF THE NOTE. BORROWER'S DUTY AND OBLIGATIONS TO DEFEND, INDEMNIFY AND HOLD HARMLESS LENDER SHALL SURVIVE: (I) THE CANCELLATION OF THE NOTE AND THE RELEASE OR PARTIAL RELEASE OF THE DEED OF TRUST; (II) ANY JUDICIAL OR NON-JUDICIAL FORECLOSURE UNDER THE DEED OF TRUST, OR TRANSFER OF THE PROPERTY IN LIEU THEREOF; AND (III) THE SATISFACTION OF ALL OF BORROWER'S OBLIGATIONS UNDER THE LOAN DOCUMENTS. THE FOREGOING INDEMNIFICATION OBLIGATION AND OTHER OBLIGATIONS OF BORROWER CONTAINED IN THIS SECTION 7.2 SHALL NOT BE APPLICABLE TO NOR SHALL BORROWER BE RESPONSIBLE FOR THE PRESENCE OF HAZARDOUS MATERIALS OR VIOLATION OF ANY HAZARDOUS MATERIALS LAWS FIRST OCCURRING AFTER ANY FORECLOSURE, DEED IN LIEU OF FORECLOSURE, LENDER'S APPOINTMENT OF A RECEIVER OR ANY OTHER ACTION WHICH RESULTS IN THE DISPOSSESSION OF BORROWER FROM THE PROPERTY PURSUANT TO THE LOAN DOCUMENTS.

ARTICLE 8. SET ASIDE LETTERS

8.1 SET ASIDE LETTERS. If, at Borrower's request, Lender issues any letter

or letters ("Set Aside Letter") to any governmental agency ("Obligee") or bonding company ("Surety") whereby Lender agrees to allocate Loan proceeds for the construction of off-site, common area, or other improvements required by any governmental agency or for which bonds may be required ("Bonded Work") in connection with the development of the Property, Borrower represents, warrants, covenants and agrees as follows:

(a) The sum which Borrower requests Lender to allocate for the Bonded Work shall be sufficient to pay for the construction and completion cost of the Bonded Work in accordance with any agreement between Borrower and Obligee and a copy of such agreement shall be furnished to Lender by Borrower prior to and as a condition precedent to the issuance by Lender of any Set Aside Letter;

(b) Lender is irrevocably and unconditionally authorized to disburse to the Obligee or Surety all or any portion of said allocated Loan proceeds upon a demand of such Surety or Obligee made in accordance with the terms and conditions of the Set Aside Letter;

(c) Any disbursements or payments which Lender makes or may be obligated to make under any Set Aside Letter, whether made directly to the Surety, Obligee, or to others for completion of all or part of the Bonded Work, shall be deemed a disbursement under this Agreement to or for the benefit or account of Borrower;

(d) BORROWER SHALL DEFEND, INDEMNIFY AND HOLD HARMLESS LENDER FROM ANY CLAIM, DEMAND, CAUSE OF ACTION, DAMAGE, LOSS OR LIABILITY, INCLUDING, WITHOUT LIMITATION, ANY COURT COSTS AND ATTORNEYS' FEES AND EXPENSES, WHICH LENDER MAY SUFFER OR INCUR AS A DIRECT OR INDIRECT CONSEQUENCE OF ITS ISSUANCE OF OR COMPLIANCE WITH ANY REQUESTED SET ASIDE LETTER. BORROWER SHALL PAY ANY INDEBTEDNESS ARISING UNDER THIS INDEMNITY TO LENDER IMMEDIATELY UPON DEMAND OF LENDER. BORROWER'S DUTY TO DEFEND, INDEMNIFY AND HOLD HARMLESS LENDER HEREUNDER SHALL SURVIVE THE RELEASE AND CANCELLATION OF THE NOTE AND THE FULL OR PARTIAL RELEASE OF THE DEED OF TRUST OR OTHER LOAN DOCUMENTS;

(e) Lender shall have no obligation to release any collateral or security under the Loan Documents unless and until Lender has received a full and final written release of its obligations under each Set Aside Letter; and

ARTICLE 9. COVENANTS OF BORROWER

9.1 EXPENSES. Borrower shall immediately pay Lender upon demand all costs

and expenses incurred by Lender in connection with: (a) the preparation of this Agreement, all other Loan Documents contemplated hereby; (b) the administration of this Agreement, the other Loan Documents and for the term of the Loan; and (c) the enforcement or satisfaction by Lender of any of Borrower's obligations under this Agreement, the other Loan Documents. For all purposes of this Agreement, Lender's costs and expenses shall include, without limitation, all appraisal fees, cost engineering and inspection fees, reasonable legal fees and expenses, accounting fees, environmental consultant fees, auditor fees, and the cost to Lender of any title insurance premiums, title surveys, release and notary fees. Borrower recognizes and agrees that formal written appraisals of the Property and Improvements by a licensed independent appraiser may be required by Lender's internal procedures and/or federal regulatory reporting requirements on an annual and/or specialized basis and that Lender may, at its option, require inspection of the Property and Improvements by an independent supervising architect and/or cost engineering specialist: (i) prior to each advance; (ii) at least once each month during the course of construction even though no disbursement is to be made for that month; (iii) upon completion of the Improvements; and (iv) at least semi-annually thereafter. If any of the services described above are provided by an employee of Lender, Lender's costs and expenses for such services shall be calculated in accordance with Lender's standard charge for such services.

9.2 ERISA COMPLIANCE. Borrower shall at all times comply with the

provisions of ERISA with respect to any retirement or other employee benefit

plan to which it is a party as employer.
9.3 LEASING. Borrower shall use commercially reasonable efforts to maintain

all leasable space in the Property leased at no less than fair market rental rates.

9.4 APPROVAL OF LEASES. All leases of all or any material part of the

Property and Improvements shall: (a) be upon terms and with tenants approved by Lender prior to Borrower's execution of any such lease; and (b) include estoppel, subordination, attornment and mortgagee protection provisions satisfactory to Lender. All standard lease forms and any material deviation from any form, shall be approved by Lender prior to execution of any lease using such form.

9.5 INTENTIONALLY OMITTED.

9.6 SUBDIVISION MAPS. Except for the final plat previously submitted to,

and approved by, Lender, prior to recording any final map, plat, parcel map, lot line adjustment or other subdivision map of any kind covering any portion of the Property (collectively, "Subdivision Map"), Borrower shall submit such Subdivision Map to Lender for Lender's review and approval, which approval shall not be unreasonably withheld. Within ten (10) Business Days after Lender's receipt of such Subdivision Map, Lender shall provide Borrower written notice if Lender disapproves of said Subdivision Map. Lender shall be deemed to have approved the Subdivision Map if such notice is not provided to Borrower. Within five (5) Business Days after Lender's request, Borrower shall execute, acknowledge and deliver to Lender such amendments to the Loan Documents as Lender may reasonably require to reflect the change in the legal description of the Property resulting from the recordation of any Subdivision Map. In connection with and promptly after the recordation of any amendment or other modification to the Deed of Trust recorded in connection with such amendments, Borrower shall deliver to Lender, at Borrower's sole expense, a title endorsement to the Title Policy in form and substance satisfactory to Lender insuring the continued first priority lien of the Deed of Trust. Subject to the execution and delivery by Borrower of any documents required under this Section, Lender shall, if required by applicable law, sign any Subdivision Map approved, or deemed to be approved, by Lender pursuant to this Section.

9.7 OPINION OF LEGAL COUNSEL. At closing, Borrower shall provide, at

Borrower's expense, an opinion of legal counsel in form and content satisfactory to Lender and its counsel.

9.8 FURTHER ASSURANCES. Upon Lender's request and at Borrower's sole cost

and expense, Borrower shall execute, acknowledge and deliver any other instruments and perform any other acts necessary, desirable or proper, as determined by Lender, to carry out the purposes of this Agreement and the other Loan Documents or to perfect and preserve any liens created by the Loan Documents.

9.9 ASSIGNMENT. Without the prior written consent of Lender, Borrower shall

not assign Borrower's interest under any of the Loan Documents, or in any monies due or to become due thereunder, and any assignment without such consent shall be void. In this regard, Borrower acknowledges that Lender would not make this Loan except in reliance on Borrower's expertise, reputation, prior experience in developing and constructing commercial real property, Lender's knowledge of Borrower, and Lender's understanding that this Agreement is more in the nature of an agreement involving personal services than a standard loan where Lender would rely on security which already exists.

9.10 MANAGEMENT OF PROPERTY. Other than the Development Agreement with

Billingsly Development Corporation previously submitted to Lender, without the prior written consent of Lender, Borrower shall not enter into any agreement providing for the management, leasing or operation of the Property or Improvements.

ARTICLE 10. REPORTING COVENANTS

10.1 FINANCIAL INFORMATION. Borrower shall deliver to Lender, all such

financial information and reports as are required to be delivered pursuant to the Master Loan Agreement.

10.2 BOOKS AND RECORDS. Borrower shall maintain or cause to be maintained

complete books of account and other records for the Property and Improvements and for disbursement and use of the proceeds of the Loan and Borrower's Funds, and the same shall be available for inspection and copying by Lender upon reasonable prior notice.

ARTICLE 11. DEFAULTS AND REMEDIES

11.1 DEFAULT. The occurrence of any one or more of the following shall

constitute an event of default ("Default") under this Agreement and the other Loan Documents:

(a) MONETARY. (i) Borrower's failure to pay when due any principal,

interest or fees, or any part thereof under the Note, and such failure continues for one (1) Business Day after notice thereof by Lender; or (ii) Borrower's failure to pay any other sums payable under the Note or any of the other Loan Documents or Borrower's failure to deposit any Borrower's Funds as and when required under this Agreement and any such failure continues for five (5) Business Days after notice thereof; or

(b) PERFORMANCE OF AGREEMENT OBLIGATIONS. Borrower's failure to perform any

obligation in addition to those in Section 11.1(a) above under this Agreement or the Loan Documents and such failure continues for a period of twenty-five days after notice thereof to Borrower by Lender, provided that if cure cannot be completed in such period so long as cure is being diligently prosecuted, the cure period shall be extended to a maximum of no more than ninety (90) days following the occurrence of the default; or

(c) **DEFAULT UNDER MASTER LOAN AGREEMENT.** The occurrence of an "Event of Default" as defined in the Master Loan Agreement; or

(d) **CONSTRUCTION; USE.** (i) There is any material deviation in the work of

construction from the Plans and Specifications or governmental requirements or the appearance or use of defective workmanship or materials in constructing the Improvements, and Borrower fails to remedy the same to Lender's satisfaction within ten (10) days of Lender's written demand to do so; or (ii) there is a cessation of construction of the Improvements prior to completion for a continuous period of more than fifteen (15) days (except as caused by an event of force majeure for which a longer delay may be permitted under Article 4); or (iii) the construction, sale or leasing of any of the Improvements in accordance with the Loan Documents is prohibited, enjoined or delayed for a continuous period of more than thirty (30) days; or (iv) utilities or other public services necessary for the full occupancy and utilization of the Property and Improvements are curtailed for a continuous period of more than thirty (30) days; or

(e) **LIENS, ATTACHMENT; CONDEMNATION.** (i) The recording of any lien

affidavit against the Property or Improvements or the giving to Borrower of any notice of unpaid claims for work, material or specially fabricated items or of a contractual retainage claim relating to the Property or Improvements and the continuance of such lien claim or notice without discharge, satisfaction or provision for payment being made by Borrower in a manner satisfactory to Lender within twenty (20) days after such recording or receipt by Borrower of such notice or within ten (10) calendar days of Lender's written demand to cure same, whichever occurs first; or (ii) the condemnation, seizure or appropriation of, or occurrence of an uninsured casualty with respect to any material portion of the Property or Improvements; or (iii) the sequestration or attachment of, or any levy or execution upon any of the Property or Improvements, any other collateral provided by Borrower under any of the Loan Documents, any monies in the Account or in the Borrower's Funds Account, or any substantial portion of the other assets of Borrower, which sequestration, attachment, levy or execution is not released, expunged or dismissed prior to the earlier of forty-five (45) days or the sale of the assets affected thereby; or

(f) **REPRESENTATIONS AND WARRANTIES.** (i) The failure of any representation

or warranty of Borrower in any of the Loan Documents and the continuation of such failure for more than ten (10) days after written notice to Borrower from Lender requesting that Borrower cure such failure; or (ii) any material adverse change in the financial condition of Borrower or any other person or entity in any manner obligated to Lender under the Loan Documents from the financial condition represented to Lender as of the Effective Date, the failure of which would or could reasonably be expected to have a material adverse affect on the Property or Borrower's business; or

(g) **VOLUNTARY BANKRUPTCY; INSOLVENCY; DISSOLUTION.** (i) The filing of a

petition by Borrower for relief under the Bankruptcy Code, or under any other present or future state or federal law regarding bankruptcy, reorganization or other debtor relief law; (ii) the filing of any pleading or an answer by Borrower in any involuntary proceeding under the Bankruptcy Code or other debtor relief law which admits the jurisdiction of the court or the petition's material allegations regarding Borrower's insolvency; (iii) a general assignment by Borrower for the benefit of creditors; or (iv) Borrower applying for, or the appointment of, a receiver, trustee, custodian or liquidator of Borrower or any of its property; or

(h) **INVOLUNTARY BANKRUPTCY.** The failure of Borrower to effect a full

dismissal of any involuntary petition under the Bankruptcy Code or under any other debtor relief law that is filed against Borrower or in any way restrains or limits Borrower or Lender regarding the Loan, the Property or the Improvements, prior to the earlier of the entry of any court order granting relief sought in such involuntary petition, or forty-five (45) days after the date of filing of such involuntary petition; or

(i) **LOSS OF PRIORITY.** The failure at any time of the Deed of Trust to be a

valid first lien upon the Property and Improvements or any portion thereof, other than as a result of any release or partial release of the Deed of Trust with respect to all or any portion of the Property and Improvements pursuant to the terms and conditions of this Agreement; or

(j) **HAZARDOUS MATERIALS.** The discovery of any significant Hazardous

Materials in, on or about the Property or Improvements subsequent to the Effective Date. Any such Hazardous Materials shall be "significant" for this purpose if said Hazardous Materials, in Lender's sole discretion, have a materially adverse impact on the value of the Property and Improvements; or Notwithstanding the foregoing, the occurrence of an Event of Default described in Section 11.1(e)(ii) by reason of a condemnation shall not automatically cause

a default under the Master Loan Agreement so long as either the Loan is fully paid to Lender or, if Lender shall agree in its sole discretion, the Property is restored to a condition of sufficient use and value to serve as security for the

Loan.
11.2 ACCELERATION UPON DEFAULT; REMEDIES. Upon the occurrence and during

continuance of any Default specified in this Article 11, Lender may, at its sole option, declare all sums owing to Lender under the Note, this Agreement and the other Loan Documents immediately due and payable. Upon such acceleration, Lender may, in addition to all other remedies permitted under this Agreement and the other Loan Documents and at law or equity, apply any sums in the Account and Borrower's Funds Account to the sums owing under the Loan Documents and any and all obligations of Lender to fund further disbursements under the Loan shall terminate.

11.3 DISBURSEMENTS TO THIRD PARTIES. Upon the occurrence and during

continuance of a Default occasioned by Borrower's failure to pay money to a third party as required by this Agreement, Lender may but shall not be obligated to make such payment from the Loan proceeds, Borrower's Funds, or other funds of Lender. If such payment is made from proceeds of the Loan or from Borrower's Funds, Borrower shall immediately deposit with Lender, upon written demand, an amount equal to such payment. If such payment is made from funds of Lender, Borrower shall immediately repay such funds upon written demand of Lender. In either case, the Default with respect to which any such payment has been made by Lender shall not be deemed cured until such deposit or repayment (as the case may be) has been made by Borrower to Lender.

11.4 LENDER'S COMPLETION OF CONSTRUCTION. Upon the occurrence and during

continuance of a Default, Lender may, upon five (5) days prior written notice to Borrower, and with or without legal process, take possession of the Property and Improvements, remove Borrower and all agents, employees and contractors of Borrower from the Property and Improvements, complete the work of construction and market, operate and sell or lease the Property and/or Improvements. For this purpose, Borrower irrevocably appoints Lender as its attorney-in-fact, which agency is coupled with an interest. As attorney-in-fact, Lender may, in Borrower's name, take or omit to take any action Lender may deem appropriate, including, without limitation, exercising Borrower's rights under the Loan Documents and all contracts concerning the Property and/or Improvements.

11.5 LENDER'S CESSATION OF CONSTRUCTION. If Lender determines at any time

that the Improvements are not being constructed in accordance with the Plans and Specifications and all governmental requirements in all material respects, Lender may immediately cause all construction to cease on any of the Improvements affected by the condition of nonconformance. Borrower shall thereafter not allow any construction work, other than corrective work, to be performed on any of the Improvements affected by the condition of nonconformance until such time as Lender notifies Borrower in writing that the nonconforming condition has been corrected.

11.6 REPAYMENT OF FUNDS ADVANCED. Any funds expended by Lender in the

exercise of its rights or remedies under this Agreement and the other Loan Documents shall be payable to Lender upon demand, together with interest at the rate applicable to the principal balance of the Note from the date the funds were expended.

11.7 RIGHTS CUMULATIVE, NO WAIVER. All Lender's rights and remedies

provided in this Agreement and the other Loan Documents, together with those granted by law or at equity, are cumulative and may be exercised by Lender at any time. Lender's exercise of any right or remedy shall not constitute a cure of any Default unless all sums then due and payable to Lender under the Loan Documents are repaid and Borrower has cured all other Defaults. No waiver shall be implied from any failure of Lender to take, or any delay by Lender in taking, action concerning any Default or failure of condition under the Loan Documents, or from any previous waiver of any similar or unrelated Default or failure of condition. Any waiver or approval under any of the Loan Documents must be in writing and shall be limited to its specific terms.

ARTICLE 12. MISCELLANEOUS PROVISIONS

12.1 INDEMNITY. BORROWER HEREBY AGREES TO DEFEND, INDEMNIFY AND HOLD

HARMLESS LENDER, ITS DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY AND ALL LOSSES, DAMAGES, LIABILITIES, CLAIMS, ACTIONS, JUDGMENTS, COURT COSTS AND LEGAL OR OTHER EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES AND EXPENSES) WHICH LENDER MAY INCUR AS A DIRECT OR INDIRECT CONSEQUENCE OF: (A) THE PURPOSE TO WHICH BORROWER APPLIES THE LOAN PROCEEDS; (B) THE FAILURE OF BORROWER TO PERFORM ANY OBLIGATIONS AS AND WHEN REQUIRED BY THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS AFTER EXPIRATION OF APPLICABLE CURE PERIODS; (C) ANY FAILURE AT ANY TIME OF ANY OF BORROWER'S REPRESENTATIONS OR WARRANTIES TO BE TRUE AND CORRECT IN ANY MATERIAL RESPECT; OR (D) ANY ACT OR OMISSION BY BORROWER, CONSTITUENT PARTNER OR MEMBER OF BORROWER, ANY CONTRACTOR, SUBCONTRACTOR OR MATERIAL SUPPLIER, ENGINEER, ARCHITECT OR OTHER PERSON OR ENTITY WITH RESPECT TO ANY OF THE PROPERTY OR IMPROVEMENTS. BORROWER SHALL IMMEDIATELY PAY TO LENDER UPON DEMAND ANY AMOUNTS OWING UNDER THIS INDEMNITY, TOGETHER WITH INTEREST FROM THE DATE THE INDEBTEDNESS ARISES UNTIL PAID AT THE RATE OF INTEREST APPLICABLE TO THE PRINCIPAL BALANCE OF THE NOTE. BORROWER'S DUTY AND OBLIGATIONS TO DEFEND, INDEMNIFY AND HOLD HARMLESS LENDER SHALL SURVIVE CANCELLATION OF THE NOTE AND THE RELEASE OR PARTIAL RELEASE OF THE DEED OF TRUST. The foregoing indemnification obligation shall not apply to any matter first occurring after any foreclosure, deed in lieu of foreclosure, Lender's appointment of a receiver or any other action which results in the dispossession of Borrower from the Property pursuant to the Loan Documents.

12.2 FORM OF DOCUMENTS. The form and substance of all documents,

instruments, and forms of evidence to be delivered to Lender under the terms of

this Agreement and any of the other Loan Documents shall be subject to Lender's approval and shall not be modified, superseded or terminated in any respect without Lender's prior written approval.

12.3 NO THIRD PARTIES BENEFITED. No person other than Lender and Borrower

and their permitted successors and assigns shall have any right of action under any of the Loan Documents.

12.4 NOTICES. All notices, demands, or other communications under this

Agreement and the other Loan Documents shall be in writing and shall be delivered to the appropriate party at the address set forth on the signature page of this Agreement and as specified in Exhibit D (subject to change from

time to time by written notice to all other parties to this Agreement). All communications shall be deemed served upon delivery of same, or if mailed, upon the first to occur of receipt or the expiration of three (3) days after the deposit in the United States Postal Service mail, postage prepaid and addressed to the address of Borrower or Lender at the address specified; provided,

however, that non-receipt of any communication as the result of any change of address of which the sending party was not notified or as the result of a refusal to accept delivery shall be deemed receipt of such communication.

12.5 ATTORNEY-IN-FACT. Borrower hereby irrevocably appoints and authorizes

Lender, as Borrower's attorney-in-fact, which agency is coupled with an interest, to execute and/or record in Lender's or Borrower's name any notices, instruments or documents that Lender deems appropriate to protect Lender's interest under any of the Loan Documents.

12.6 ACTIONS. Upon and during the continuance of a Default, Borrower agrees

that Lender, in exercising the rights, duties or liabilities of Lender or Borrower under the Loan Documents, may commence, appear in or defend any action or proceeding purporting to affect the Property, the Improvements, or the Loan Documents and Borrower shall immediately reimburse Lender upon demand for all such expenses so incurred or paid by Lender, including, without limitation, reasonable attorneys' fees and expenses and court costs.

12.7 RIGHT OF CONTEST. Borrower may contest in good faith any claim, tax,

demand, levy or assessment by any person other than Lender which would constitute a Default if: (a) Borrower pursues the contest diligently, in a manner which Lender determines is not prejudicial to Lender, and does not impair the rights of Lender under any of the Loan Documents; and (b) Borrower deposits with Lender any funds or other forms of assurance which Lender in good faith determines from time to time appropriate to protect Lender from the consequences of the contest being unsuccessful. Borrower's compliance with this Section shall operate to prevent such claim, demand, levy or assessment from becoming a Default.

12.8 RELATIONSHIP OF PARTIES. The relationship of Borrower and Lender under

the Loan Documents is, and shall at all times remain, solely that of borrower and lender, and Lender neither undertakes nor assumes any responsibility or duty to Borrower or to any third party with respect to the Property or Improvements, except as expressly provided in this Agreement and the other Loan Documents.

12.9 DELAY OUTSIDE LENDER'S CONTROL. Lender shall not be liable in any way

to Borrower or any third party for Lender's failure to perform or delay in performing under the Loan Documents (and Lender may suspend or terminate all or any portion of Lender's obligations under the Loan Documents) if such failure to perform or delay in performing results directly or indirectly from, or is based upon, the action, inaction, or purported action, of any governmental or local authority, or because of war, rebellion, insurrection, strike, lock-out, boycott or blockade (whether presently in effect, announced or in the sole judgment of Lender deemed probable), or from any Act of God or other cause or event beyond Lender's control.

12.10 ATTORNEYS' FEES AND EXPENSES; ENFORCEMENT. If any attorney is engaged

by Lender to enforce or defend any provision of this Agreement, any of the other Loan Documents, or as a consequence of any Default under the Loan Documents, with or without the filing of any legal action or proceeding, Borrower shall immediately pay to Lender, upon demand, the amount of all reasonable attorneys' fees and expenses and all costs incurred by Lender in connection therewith, together with interest thereon from the date of such demand until paid at the rate of interest applicable to the principal balance of the Note as specified therein.

12.11 IMMEDIATELY AVAILABLE FUNDS. Unless otherwise expressly provided for

in this Agreement, all amounts payable by Borrower to Lender shall be payable only in United States currency, immediately available funds.

12.12 LENDER'S CONSENT. Wherever in this Agreement there is a requirement

for Lender's consent and/or a document to be provided or an action taken "to the satisfaction of Lender", it is understood by such phrase that Lender shall exercise its consent, right or judgment in a reasonable manner given the specific facts and circumstance applicable at the time.

12.13 LOAN SALES AND PARTICIPATIONS; DISCLOSURE OF INFORMATION. Borrower

agrees that Lender may elect, at any time, to sell, assign or grant participations in all or any portion of its rights and obligations under the Loan Documents, and that any such sale, assignment or participation may be to one or more financial institutions, private investors, and/or other entities, at Lender's sole discretion ("Participant"). Borrower further agrees that Lender may disseminate to any such actual or potential purchaser(s), assignee(s) or participant(s) all documents and information (including, without limitation, all financial information) which has been or is hereafter provided to or known to Lender with respect to: (a) the Property and Improvements and their operation; (b) any party connected with the Loan (including, without limitation, the Borrower; and/or (c) any lending relationship other than the Loan which Lender may have with any party connected with the Loan. In the event of any such sale, assignment or participation, Lender and the parties to such transaction shall share in the rights and obligations of Lender as set forth in the Loan Documents only as and to the extent they agree among themselves. In connection with any such sale, assignment or participation, Borrower further agrees that the Loan Documents shall be sufficient evidence of the obligations of Borrower to each purchaser, assignee, or participant. The indemnity obligations of Borrower under the Loan Documents shall also apply with respect to any purchaser, assignee or participant.

(a) SALE OF PARTICIPATIONS. Notwithstanding any other provision of this

Agreement to the contrary, Lender shall not sell, transfer, or assign the Loan or the Loan Documents, nor grant any participations therein, to any entity other than a subsidiary, parent or affiliate of Lender.

(b) SALE OF PARTICIPATIONS. Notwithstanding any other provision of this

Agreement to the contrary, Lender shall not sell, transfer, assign or grant participations in the Loan or the Loan Documents unless Lender remains the principal or "lead" lender therefor.

12.14 INTENTIONALLY OMITTED.

12.15 SIGNS. At Lender's cost, Lender may place on the Property at a

location designated by Borrower or Contractor, in compliance with deed restrictions, reasonable signs standard to construction loan transactions stating that construction financing is being provided by Lender and any other lenders or participants in the Loan.

12.16 LENDER'S AGENTS. Lender may designate an agent or independent

contractor to exercise any of Lender's rights under this Agreement and any of the other Loan Documents. Any reference to Lender in any of the Loan Documents shall include Lender's agents, employees or independent contractors. Borrower shall pay the costs of such agent or independent contractor either directly to such person or to Lender in reimbursement of such costs, as applicable.

12.17 TAX SERVICE. Lender is authorized to secure, at Borrower's expense, a

tax service contract with a third party vendor which shall provide tax information on the Property and Improvements satisfactory to Lender.

12.18 WAIVER OF RIGHT TO TRIAL BY JURY. EACH PARTY TO THIS AGREEMENT HEREBY

EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY PRESENT OR FUTURE MODIFICATION THEREOF OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THE LOAN DOCUMENTS (AS NOW OR HEREAFTER MODIFIED) OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION IS NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF ANY RIGHT THEY MIGHT OTHERWISE HAVE TO TRIAL BY JURY.

12.19 SEVERABILITY. If any provision or obligation under this Agreement and

the other Loan Documents shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that provision shall be deemed severed from the Loan Documents and the validity, legality and enforceability of the remaining provisions or obligations shall remain in full force as though the invalid, illegal, or unenforceable provision had never been a part of the Loan Documents, provided, however, that if the rate of interest or

any other amount payable under the Note or this Agreement or any other Loan Document, or the right of collectibility therefor, are declared to be or become invalid, illegal or unenforceable, Lender's obligations to make advances under the Loan Documents shall not be enforceable by Borrower.

12.20 HEIRS, SUCCESSORS AND ASSIGNS. Except as otherwise expressly provided

under the terms and conditions of this Agreement, the terms of the Loan Documents shall bind and inure to the benefit of the heirs, successors and assigns of the parties.

12.21 TIME. Time is of the essence of each and every term of this

Agreement.

12.22 HEADINGS. All article, section or other headings appearing in this

Agreement and any of the other Loan Documents are for convenience of reference only and shall be disregarded in construing this Agreement and any of the other Loan Documents.

12.23 GOVERNING LAW. This Agreement shall be governed by, and construed and

enforced in accordance with the laws of the State of Texas, except to the extent preempted by federal laws. Borrower and all persons and entities in any manner obligated to Lender under the Loan Documents consent to the jurisdiction of any federal or state court within the State of Texas having proper venue and also consent to service of process by any means authorized by Texas or federal law.

12.24 INTEREST PROVISIONS.

(a) Savings Clause. It is expressly stipulated and agreed to be the intent

of Borrower and Lender at all times to comply strictly with the applicable Texas law governing the maximum rate or amount of interest payable on the Note or the Related Indebtedness (or applicable United States federal law to the extent that it permits Lender to contract for, charge, take, reserve or receive a greater amount of interest than under Texas law). If the applicable law is ever judicially interpreted so as to render usurious any amount (i) contracted for, charged, taken, reserved or received pursuant to the Note, any of the other Loan Documents or any other communication or writing by or between Borrower and Lender related to the transaction or transactions that are the subject matter of the Loan Documents, (ii) contracted for, charged or received by reason of Lender's exercise of the option to accelerate the maturity of the Note and/or the Related Indebtedness, or (iii) Borrower will have paid or Lender will have received by reason of any voluntary prepayment by Borrower of the Note and/or the Related Indebtedness, then it is Borrower's and Lender's express intent that all amounts charged in excess of the Maximum Lawful Rate shall be automatically canceled, ab initio, and all amounts in excess of the Maximum Lawful Rate

theretofore collected by Lender shall be credited on the principal balance of the Note and/or the Related Indebtedness (or, if the Note and all Related Indebtedness have been or would thereby be paid in full, refunded to Borrower), and the provisions of the Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder and thereunder; provided, however, if the Note has been paid in full before the end of the stated term of the Note, then Borrower and Lender agree that Lender shall, with reasonable promptness after Lender discovers or is advised by Borrower that interest was received in an amount in excess of the Maximum Lawful Rate, either refund such excess interest to Borrower and/or credit such excess interest against the Note and/or any Related Indebtedness then owing by Borrower to Lender. Borrower hereby agrees that as a condition precedent to any claim seeking usury penalties against Lender, Borrower will provide written notice to Lender, advising Lender in reasonable detail of the nature and amount of the violation, and Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrower or crediting such excess interest against the Note and/or the Related Indebtedness then owing by Borrower to Lender. All sums contracted for, charged or received by Lender for the use, forbearance or detention of any debt evidenced by the Note and/or the Related Indebtedness shall, to the extent permitted by applicable law, be amortized or spread, using the actuarial method, throughout the stated term of the Note and/or the Related Indebtedness (including any and all renewal and extension periods) until payment in full so that the rate or amount of interest on account of the Note and/or the Related Indebtedness does not exceed the Maximum Lawful Rate from time to time in effect and applicable to the Note and/or the Related Indebtedness for so long as debt is outstanding. In no event shall the provisions of Chapter 346 of the Texas Finance Code (which regulates certain revolving credit loan accounts and revolving triparty accounts) apply to the Note and/or the Related Indebtedness. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

(b) Definitions. As used herein, the term "Maximum Lawful Rate" shall mean

the maximum lawful rate of interest which may be contracted for, charged, taken, received or reserved by Lender in accordance with the applicable laws of the State of Texas (or applicable United States federal law to the extent that it permits Lender to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law), taking into account all Charges (as herein defined) made in connection with the transaction evidenced by the Note and the other Loan Documents. As used herein, the term "Charges" shall mean all

fees, charges and/or any other things of value, if any, contracted for, charged, received, taken or reserved by Lender in connection with the transactions relating to the Note and the other Loan Documents, which are treated as interest under applicable law. As used herein, the term "Related Indebtedness" shall

mean any and all debt paid or payable by Borrower to Lender pursuant to the Loan Documents or any other communication or writing by or between Borrower and Lender related to the transaction or transactions that are the subject matter of the Loan Documents, except such debt which has been paid or is payable by Borrower to Lender under the Note.

(c) Ceiling Election. To the extent that Lender is relying on Chapter 303

of the Texas Finance Code to determine the Maximum Lawful Rate payable on the Note and/or the Related Indebtedness, Lender will utilize the weekly ceiling from time to time in effect as provided in such Chapter 303, as amended. To the

extent United States federal law permits Lender to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law, Lender will rely on United States federal law instead of such Chapter 303 for the purpose of determining the Maximum Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lender may, at its option and from time to time, utilize any other method of establishing the Maximum Lawful Rate under such Chapter 303 or under other applicable law by giving notice, if required, to Borrower as provided by applicable law now or hereafter in effect.

12.25 JOINT AND SEVERAL LIABILITY. The liability of all persons and

entities obligated in any manner under this Agreement and any of the Loan Documents shall be joint and several.

12.26 COUNTERPARTS. To facilitate execution, this instrument may be

executed in as many counterparts as may be convenient or required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all persons required to bind any party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this instrument to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

12.27 INTEGRATION; INTERPRETATION. THIS LOAN AGREEMENT AND THE OTHER LOAN

DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. THIS INSTRUMENT MAY BE AMENDED ONLY BY AN INSTRUMENT IN WRITING EXECUTED BY THE PARTIES HERETO. ANY REFERENCE IN ANY OF THE LOAN DOCUMENTS TO THE PROPERTY OR IMPROVEMENTS SHALL INCLUDE ALL OR ANY PART OF THE PROPERTY OR IMPROVEMENTS. ANY REFERENCE TO THE LOAN DOCUMENTS INCLUDES ANY AMENDMENTS, RENEWALS OR EXTENSIONS NOW OR HEREAFTER APPROVED BY LENDER IN WRITING.

12.28 ARBITRATION.

(a) ARBITRATION. Upon the demand of any party, any dispute shall be

resolved by binding arbitration (except as set forth in Paragraph 12.28(e) below) in accordance with the terms of this Agreement. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, this Agreement and each other document, contract and instrument required hereby or now or hereafter delivered to Lender in connection herewith, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the foregoing documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the foregoing documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) GOVERNING RULES. Arbitration proceedings shall be administered by the

American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the foregoing documents. The arbitration shall be conducted in Dallas, Texas. If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under Section 91 of Title 12 of the United States Code or any similar applicable state law.

(c) NO WAIVER; PROVISIONAL REMEDIES, SELF-HELP AND FORECLOSURE. No

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

(d) ARBITRATOR QUALIFICATIONS AND POWERS; AWARDS. Arbitrators must be

active members of the Texas State Bar with expertise in the substantive law applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the State of Texas, (ii) may grant any

remedy or relief that a court of the State of Texas could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Texas Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees and expenses). By submission to a single arbitrator, each party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) JUDICIAL REVIEW. Notwithstanding anything herein to the contrary, in

any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (i) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (ii) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the State of Texas, and (iii) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (1) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (2) whether the conclusions of law are erroneous under the substantive law of the State of Texas. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the State of Texas.

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

arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulation, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the foregoing documents or the subject matter of the Dispute shall control. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement. This arbitration provision shall survive termination, amendment or expiration of any of the foregoing documents or any relationship between the parties.

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement as of the date appearing on the first page of this Agreement.

"LENDER"

WELLS FARGO BANK TEXAS,
NATIONAL ASSOCIATION

By:/s/ Austin D. Nettle
Name: Austin D. Nettle
Title: Vice President

Lender's Address:
WELLS FARGO BANK TEXAS,
NATIONAL ASSOCIATION
1445 Ross Avenue
Dallas, TX 75265

Attention: Austin Nettle

"BORROWER"

PIZZA INN, INC.,
a Missouri corporation

By:/s/Ronald. W. Parker
Name: Ronald W. Parker
Title:President

Borrower's Address:

5050 Quorum, Suite 500
Dallas, TX 75240

NOTICE OF INDEMNIFICATION:

BORROWER HEREBY ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT CONTAINS CERTAIN INDEMNIFICATION PROVISIONS PURSUANT TO SECTIONS 7.4, 8.1(D) AND 12.1 HEREOF.

Attention: Ronald Parker

EXHIBIT A - DESCRIPTION OF PROPERTY

Exhibit A to CONSTRUCTION LOAN AGREEMENT between PIZZA, INN, INC., a Missouri

corporation, as "Borrower", and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as

"Lender", dated as of December 28, 2000.

All that certain real property located in the County of Denton, State of Texas,
described as follows:

BEING a 10.983 acre tract of land situated in the T.A. West Survey, Abstract No.
1344 and being part of a 135.0201 acre tract of land recorded in Volume 2548,
Page 775 Deed Records of Denton County, Texas and being more particularly
described by metes and bounds as follows:

COMMENCING at a point for the northwest corner of aforementioned 135.0201 acre
tract at the south line of Plano Parkway (a 100 foot Right-of-Way);

THENCE along the south line of Plano Parkway and a curve to the right for a
central angle of 29 degrees 23 minutes 46 seconds, a radius of 950.00 feet and a
chord bearing of South 75 degrees 44 minutes 17 seconds East, 482.08 feet;

THENCE along said curve to the right and the south line of Plano Parkway for an
arc distance of 487.41 feet to a inch iron rod found for the point of
beginning;

THENCE along the south line of Plano Parkway and a curve to the right for a
central angle of 10 degrees 45 minutes 50 seconds, a radius of 950.00 feet and a
chord bearing of South 55 degrees 39 minutes 29 seconds East, 178.21 feet;

THENCE along said curve to the right of the south line of Plano Parkway for an
arc distance of 178.47 feet to a inch iron rod set for a reverse curve to the
left with a central angle of 15 degrees 22 minutes 41 seconds a radius of
1050.00 feet and a chord bearing of South 57 degrees 57 minutes 56 seconds East,
280.97 feet;

THENCE along said curve to the left and the south line of Plano Parkway for an
arc distance of 281.82 feet to a inch iron rod set for corner;

THENCE South 00 degrees 23 minutes 40 seconds East, a distance of 931.31 feet to
a inch iron rod set for corner;

THENCE South 89 degrees 22 minutes 46 seconds West, a distance of 450.00 feet to
a inch iron rod set for corner;

THENCE North 00 degrees 23 minutes 40 seconds West, a distance of 1067.26 feet
to a inch iron rod found for corner;

THENCE North 28 degrees 57 minutes 36 seconds East, a distance of 135.43 feet to
the POINT OF BEGINNING and CONTAINING 10.983 acres of land.

EXHIBIT B - DOCUMENTS

Exhibit B to CONSTRUCTION LOAN AGREEMENT between PIZZA INN, INC., a Missouri

corporation, as "Borrower", and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as

"Lender", dated as of December 28, 2000 ("Agreement").

1. Loan Documents. The documents listed below, numbered 1.1 through 1.8,

inclusive, and amendments, modifications and supplements thereto which have received the prior written consent of Lender, together with any documents executed in the future that are approved by Lender and that recite that they are "Loan Documents" for purposes of this Agreement are collectively referred to herein as the Loan Documents.

1.1 This Agreement.

1.2 The Promissory Note of even date herewith in the original principal amount of the Loan made by Borrower payable to the order of Lender.

1.3 The Construction Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith executed by Borrower, as Grantor, to Danny Oliver, as Trustee, for the benefit of Lender, as Beneficiary.

1.4 State of Texas Uniform Commercial Code - Financing Statement - Form UCC-1 executed by Borrower as Debtor and Lender as Secured Party.

1.5 Corporate Borrowing Resolution of even date herewith.

1.6 Assignment of Construction Agreements of even date herewith executed by Borrower and Contractor in favor of Lender:

1.7 Assignment of Architectural Agreements and Plans and Specifications of even date herewith executed by Borrower, Architect and Engineer in favor of Lender.

1.8 Assignment of Development Agreement.

EXHIBIT C - FINANCIAL REQUIREMENT ANALYSIS

Exhibit C to CONSTRUCTION LOAN AGREEMENT between PIZZA INN, INC., a Missouri

corporation, as "Borrower", and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as

"Lender", dated as of December 28, 2000.

The Financial Requirement Analysis set forth herein represents an analysis of the total costs necessary in Borrower's estimation to perform Borrower's obligations under the Loan Documents. Column A, "Total Costs", sets forth Borrower's representation of the maximum costs for each Item specified in Column A. Column B, "Costs Paid By Borrower", sets forth Borrower's representation of costs that Borrower has paid or has caused to be paid from other sources of funds for each Item specified in Column B. Column C, "Costs To Be Paid By Borrower", sets forth Borrower's representation of costs that Borrower will pay or will cause to be paid from other sources of funds for each Item specified in Column C. Column D, "Disbursement Budget", sets forth the portion of the Loan and Borrower's Funds which has been allocated for each Item specified in Column D and will be disbursed pursuant to the terms, covenants, conditions and provisions of Exhibit D of this Agreement and the Loan Documents. Unless

specified otherwise, all reference to Columns or Items in this Agreement refer to Columns or Items in this Exhibit C.

BORROWER	(A) TOTAL COSTS	(B) COSTS PAID BY BORROWER	(C) COSTS TO BE PAID BY BORROWER	(D) DISBURSEMENT BUDGET (A) (B)
1. . . . Land Costs	\$ 1,872,392	\$ 1,872,392		0 \$ 0
2. . . . Construction Costs Of Improvements	8,217,685		0 \$	92,685 \$8,125,000
3. . . . Tenant Improvement (\$/square foot)	0		0	0 \$ 0
4. . . . Site Work Costs	467,492		0	467,492 \$ 0
5. . . . Offsite Costs	0		0	0 \$ 0
6. . . . Architect & Engineering	256,200		112,700	143,500 \$ 0
7. . . . Government Fees (permits, bonds, etc.)	30,034		0	30,034 \$ 0
8. . . . Operating costs during construction (job supervision, utilities, etc.)	0		0	0 \$ 0
9. . . . Contingency (% of #'s 2-5)	188,000		0	188,000 \$ 0
10 . . . Other:				
a. Landscaping	200,000		0	200,000 \$ 0
b.	0		0	0 \$ 0
c.	0		0	0 \$ 0
11 . . . TOTAL HARD COSTS (Lines 2 - 10)	\$ 9,359,411	\$ 112,700	\$	1,121,711 \$8,125,000
12 . . . Interest during Loan (mo)	388,194		0	388,194 \$ 0
13 . . . Taxes during Loan	30,392		0	30,392 \$ 0
14 . . . Insurance During Loan	0		0	0 \$ 0
15 . . . Lender Loan Fee	0		0	0 \$ 0
16 . . . Permanent Loan Fee	0		0	0 \$ 0
17 . . . Title\Recording\Escrow	0		0	0 \$ 0
18 . . . Legal Fees	5,000		0	5,000 \$ 0
19 . . . Promotion & Advertising	5,000		0	5,000 \$ 0
20 . . . Commission Expense	0		0	0 \$ 0
21 . . . Organization Expenses (Developer Overhead)	267,456		38,000	229,456 \$ 0
22 . . . Contingency (Soft Costs)	0		0	0 \$ 0
23 . . . Other:				
a.	0		0	0 \$ 0
b.	0		0	0 \$ 0
24 . . . TOTAL SOFT COSTS (Lines 12 -23)	\$ 696,042	\$ 38,000	\$	658,042 \$ 0
25 . . . CUMULATIVE TOTALS (Lines 1, 11, 24)	\$ 11,927,845	\$ 2,023,092	\$	1,779,753 \$8,125,000

EXHIBIT D - DISBURSEMENT PLAN

Exhibit D to CONSTRUCTION LOAN AGREEMENT between PIZZA INN, INC., a Missouri

corporation, as "Borrower", and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as

"Lender", dated as of December 28, 2000.

Timing of Disbursement. Unless another provision of this Agreement specifies

otherwise, on or about the tenth (10th) day of each month, or at such other times as Lender may approve or determine more appropriate, Borrower shall submit to:

1. Wells Fargo Bank, National Association
Disbursement and Operations Center
2120 East Park Place, Suite 100
El Segundo, CA 90245
Attention: DISBURSEMENT REPRESENTATIVE HERE
Wells Fargo Bank, National Association
Disbursement and Operations Center
2120 East Park Place, Suite 100
El Segundo, CA 90245
Attention: DISBURSEMENT REPRESENTATIVE HERE

a written itemized statement, signed by Borrower ("Application for Payment") setting forth:

1.1 a description of the work performed, material supplied and/or costs incurred or due for which disbursement is requested with respect to any line item ("Item") shown in Column D ("Disbursement Budget") of the Financial Requirement Analysis attached as Exhibit C to this Agreement; and

1.2 the total amount incurred, expended and/or due for each requested Item less prior disbursements.

1.3 Each Application for Payment by Borrower shall constitute a representation and warranty by Borrower that Borrower is in compliance with all the conditions precedent to a disbursement specified in this Agreement.

2. Lender's Right to Condition Disbursements. Lender shall have the right

to condition any disbursement upon Lender's receipt and approval of the following:

2.1 the Application for Payment and an itemized requisition for payment of Item 2 shown in the Disbursement Budget ("Hard Costs");

2.2 bills, invoices, documents of title, vouchers, statements, payroll records, receipts and any other documents evidencing the total amount expended, incurred or due for any requested Items;

2.3 evidence of Borrower's use of a lien release, joint check and voucher system acceptable to Lender for payments or disbursements to any contractor, subcontractor, materialman, supplier or lien claimant;

2.4 architect's, inspector's and/or engineer's periodic certifications of the construction that has been completed and its conformance to the Plans and Specifications and governmental requirements based upon any such architect's, inspector's and/or engineer's periodic physical inspections of the Property and Improvements;

2.5 waivers and releases of any mechanics' lien, equitable lien claim or other lien claim rights;

2.6 evidence of Borrower's compliance with the provisions of the Articles and Sections of this Agreement entitled CONSTRUCTION and

AUTHORITY/ENFORCEABILITY;

2.7 a written release executed by any surety to whom Lender has issued or will issue a set-aside letter and/or any public entity or agency which is a beneficiary under any instrument of credit or standby letter of credit which Lender has issued or will issue with respect to the Loan;

2.8 valid, recorded Affidavit of Commencement and Affidavit of Completion for the Improvements or any portions of the Improvements for which an Affidavit of Commencement and Affidavit of Completion may be recorded under applicable law and within the applicable time as herein provided;

2.9 Certificate of Substantial Completion from the Architect and Engineer, if any, prior to the final retention disbursement of Hard Costs, as applicable;

2.10 any other document, requirement, evidence or information that Lender may request under any provision of the Loan Documents;

2.11 evidence that any goods, materials, supplies, fixtures or other work in process for which disbursement is requested have been incorporated into the Improvements.

2.12 in the event any Application for Payment includes the cost of materials stored at a location other than the Property ("Offsite Materials"), such Application for Payment shall include each of the following: (a) evidence that the Offsite Materials have been purchased by Borrower, have been segregated from other materials in the facility and have been appropriately marked to indicate Borrower's ownership thereof and Lender's security interest therein; and (b) evidence that the Offsite Materials are insured as required by this Agreement; and (c) at Lender's request, a security agreement, financing statement and/or

subordination agreement in form and substance satisfactory to Lender executed by the supplier of the Offsite Materials, and/or such other persons as Lender determines may have an interest in or claim to the Offsite Materials, together with such other additional documentation and evidence as Lender may reasonably require to assure itself that it has a perfected first priority lien on the Offsite Materials.

2.13 in the event that any Application for Payment includes the cost of materials stored on the Property ("Onsite Materials"), such Application for Payment shall include each of the following: (a) evidence that the Onsite Materials have been purchased by Borrower; (b) evidence that the Onsite Materials are insured as required hereunder; and (c) evidence that the Onsite Materials are stored in an area on the Property for which adequate security is provided against theft and vandalism.

2.14 Lender shall have received a Down-Date Endorsement or other title report dated within five (5) days of the requested disbursement from the Title Company showing no state of facts objectionable to Lender (including, without limitation, a showing that title to the Property is vested in Borrower and that no claim for mechanics' or materialmen's liens has been filed against the Property or Improvements).

Borrower acknowledges that this approval process may result in disbursement delays and Borrower hereby consents to all such delays.

3. Periodic Disbursement of Construction Costs. As construction progresses,

the Disbursement Budget shall be periodically disbursed into the Account or to or for the benefit or account of the Borrower for the Construction Costs up to ninety percent (90%) of the maximum amount allocated for such Item less prior disbursements. The remaining ten percent (10%) ("Retention") shall be disbursed into the Account or to or for the benefit or account of the Borrower upon the later to occur of (i) thirty (30) days after the filing of the Affidavit of Completion herein contemplated if same is filed within ten (10) days after completion of construction of the Improvements in accordance with the Plans and Specifications and governmental requirements, or (ii) if such Affidavit of Completion is not filed within ten (10) days after completion of construction of the Improvements in accordance with the Plans and Specifications and governmental requirements, then upon the date that such Affidavit of Completion has been filed and Lender has received the following endorsements to the Title Policy in form and content satisfactory to Lender: a Down-Date Endorsement pursuant to Procedural Rule P-9b(4) and other endorsements amending the mechanic's and materialmen's lien coverage and, if applicable, deleting the pending disbursements clause pursuant to Procedural Rule P-8b(2).

EXHIBIT E - AFFIDAVIT OF COMMENCEMENT

Exhibit E to CONSTRUCTION LOAN AGREEMENT between PIZZA INN, INC., a Missouri

corporation, as "Borrower", and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as

"Lender", dated as of _____, 2000. BEFORE ME, the undersigned authority, on this day personally appeared _____, the _____ of PIZZA INN, INC., a Missouri corporation ("Owner") and _____, the _____ of _____

("Contractor"), known to me to be the persons (collectively, "Affiants") whose names are subscribed below, and who, being by me first duly sworn, did each on his or her oath state as follows:

2. Owner. The name and address of Owner are:

Pizza Inn, Inc. 5050 Quorum, Suite 500 Dallas, Texas 75240

4. Contractor. The name and address of Contractor are:

5. Original Contractors. The name and address of each original contractor

(other than Contractor) with Owner, presently known, after diligent inquiry, to the Affiants, Owner or Contractor, that is furnishing, or will furnish, labor, service, or materials (including specifically fabricated materials), for the construction of the Improvements, and the nature of such labor, service or materials (including specifically fabricated materials), are as stated on Exhibit "B" attached hereto and incorporated herein by reference for all purposes.

6. Property. Owner is the owner of the real property (the "Land") situated in Denton County, Texas, more particularly described as follows: See Exhibit "A" attached hereto and incorporated herein by reference for all purposes.

7. Commencement Date. Work, as contemplated by Texas Property Code 53.124(c)(4), on the Improvements actually commenced on _____, 20__ at approximately _____ o'clock __.m.

8. Improvements. The improvements ("Improvements"), which are being, or will be, constructed on the Land are generally described as single-family detached residences, constructed on the lot(s) or parcel(s) constituting all or a portion of the Land.

9. Affidavit. This Affidavit of Commencement has been jointly made by Owner and Contractor by and through an authorized representative of each, the same being the Affiants, and may be recorded by any person with the County Clerk of the county in which the Land is located, whereupon it shall be deemed to have been jointly filed by Owner and Contractor. DATED this ___ day of _____, 2000.

AFFIANTS: - - - - -

Print Name: _____, who is an authorized representative of Owner

Print Name: _____, who is an authorized representative of Contractor STATE OF TEXAS

COUNTY OF _____ SUBSCRIBED AND SWORN BEFORE ME by _____ on this the _____ day of _____, 2000.

[S E A L] My Commission Expires: _____ Notary Public - State of Texas

Printed Name of Notary Public

STATE OF TEXAS

COUNTY OF _____ SUBSCRIBED AND SWORN BEFORE ME by _____ on this the _____

_____ day of _____, 2000.

[S E A L]

My Commission Expires: Notary Public - State of Texas

Printed Name of Notary Public

EXHIBIT F - AFFIDAVIT OF COMPLETION

Exhibit F to CONSTRUCTION LOAN AGREEMENT between PIZZA INN, INC., a Missouri

corporation, as "Borrower", and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as

"Lender", dated as of _____, 2000.

BEFORE ME, the undersigned authority, on this day personally appeared _____ ("Affiant"), the _____ of PIZZA INN, INC. ("Owner"), known to me to be the person whose name is subscribed below, and who, being by me first duly sworn, did on his oath state as follows:

1. Owner. The name and address of Owner are:

Pizza Inn, Inc.
5050 Quorum, Suite 500
Dallas, Texas 75240

2. Contractor. The name and address of Contractor are:

3. Improvements. Certain improvements ("Improvements") were furnished under an original contract ("Contract") between Owner and Contractor, which Improvements are generally described on Exhibit "B" attached hereto and incorporated herein by reference for all purposes.

4. Real Property. Owner is the owner of the real property ("Real Property") situated in Denton County, Texas, on which the Improvements were constructed and are located, which Real Property is more particularly described as follows:

See Exhibit "A" attached hereto and incorporated herein by reference for all purposes.

5. Completion. The Improvements under the Contract between Owner and Contractor have been completed within the meaning of Texas Property Code 53.106(e), and the date of such completion was _____, 19__ ("Date of Completion").

6. Affiant. The Affiant is an authorized representative of Owner and has been duly authorized to execute this Affidavit of Completion and cause it to be recorded with the County Clerk of the county in which the Real Property is situated.

NOTICE: A CLAIMANT MAY NOT HAVE A LIEN ON RETAINED FUNDS UNLESS THE CLAIMANT FILES THE AFFIDAVIT CLAIMING A LIEN NOT LATER THAN THE 30TH DAY AFTER THE DATE OF COMPLETION.

DATED as of the ____ day of _____, 2000.

AFFIANT:

Print Name: _____,
who is an authorized representative of Owner
STATE OF TEXAS

COUNTY OF _____
SUBSCRIBED AND SWORN BEFORE ME by _____ on this the
____ day of _____, 2000.

[S E A L]
My Commission Expires: Notary Public - State of Texas

Printed Name of Notary Public

DALLAS_1\3422749\1
01/15/2001 - 4814-129
DALLAS_1\3422749\1
01/15/2001 - 4814-129

PROMISSORY NOTE

\$8,125,000.00 Dallas, Texas

December 28, 2000

FOR VALUE RECEIVED, the undersigned PIZZA INN, INC., a Missouri corporation ("Borrower"), promise(s) to pay to the order of WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION ("Lender"), at the Disbursement and Operations Center in El Segundo, California, or at such other place as may be designated in writing by Lender, the principal sum of EIGHT MILLION ONE HUNDRED TWENTY-FIVE THOUSAND AND NO/100THS DOLLARS (\$8,125,000.00) or so much thereof as may from time to time be owing hereunder by reason of advances by Lender to or for the benefit or account of Borrower, with interest thereon, per annum, at the Applicable Rate calculated in accordance with the terms and provisions of the Fixed Rate Agreement attached hereto as Exhibit A and a Fixed Rate Notice described on Exhibit B attached

hereto (based on a 360-day year and charged on the basis of actual days elapsed). All sums owing hereunder are payable in lawful money of the United States of America, in immediately available funds.

All terms used herein with initial capital letters and not defined shall have the meanings specified in the Fixed Rate Agreement attached hereto as Exhibit A.

Accrued and unpaid interest on this Note ("Note") shall be payable as follows:

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

If the Loan Conversion occurs, the outstanding principal balance of this Note shall be payable in monthly installments on each Monthly Payment Date occurring after the effective date of the Loan Conversion in an amount sufficient to amortize the then unpaid principal at the Applicable Rate hereunder on a straight line basis over an amortization term of twenty (20) years.

The outstanding principal balance of this Note, together with all accrued and unpaid interest, shall be due and payable in full on the Maturity Date.

This Note is secured by, among other things, that certain Construction Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Deed of Trust") dated of even date herewith, executed by Borrower, as grantor, to a trustee for the benefit of Lender.

In order to assure timely payment to Lender of accrued interest, principal, fees and late charges due and owing under the loan evidenced by this Note, Borrower hereby irrevocably authorizes Lender to directly debit Borrower's demand deposit account with Lender for payment when due of all such amounts payable to Lender. Borrower represents and warrants to Lender that Borrower is the legal owner of said account. Written confirmation of the amount and purpose of any such direct debit shall be given to Borrower by Lender not less frequently than monthly. In the event any direct debit hereunder is returned for insufficient funds, Borrower shall pay Lender upon demand, in immediately available funds, all amounts and expenses due and owing to Lender.

If a Default (as defined in the Loan Agreement) occurs, THEN Lender may, at its

sole option, declare all sums owing under this Note immediately due and payable; provided, however, that if any of the Loan Documents or the Master Agreement

provide for automatic acceleration of payment of sums owing hereunder, all sums

owing hereunder shall be automatically due and payable in accordance with the terms of that document.

If any attorney is engaged by Lender to enforce or defend any provision of this Note or the Loan Documents, or as a consequence of any Default, with or without the filing of any legal action or proceeding, then Borrower shall pay to Lender immediately upon demand all reasonable attorneys' fees and all costs incurred by Lender in connection therewith, together with interest thereon from the date of such demand until paid at the rate of interest applicable to the principal balance owing hereunder as if such unpaid attorneys' fees and costs had been added to the principal.

No previous waiver and no failure or delay by Lender in acting with respect to the terms of this Note or the Loan Documents shall constitute a waiver of any breach, default, or failure of condition under this Note or the Loan Documents. A waiver of any term of this Note or the Loan Documents must be made in writing and shall be limited to the express written terms of such waiver. In the event of any inconsistencies between the terms of this Note and the terms of any other Loan Documents, the terms of this Note shall prevail.

If this Note is executed by more than one person or entity as Borrower, the obligations of each such person or entity shall be joint and several. No person or entity shall be a mere accommodation maker, but each shall be primarily and directly liable hereunder. If Borrower is a partnership, each general partner of Borrower shall be jointly and severally liable hereunder, and each such general partner hereby waives any requirement of law that in the event of a default hereunder Lender exhaust any assets of Borrower before proceedings against such general partner's assets. Except as otherwise provided in any Loan Document, Borrower, and any endorsers and guarantors hereof, severally waive: presentment; demand; notice of dishonor; notice of default or delinquency; notice of intention to accelerate; notice of acceleration; notice of protest and nonpayment; notice of costs, expenses or losses and interest thereon; notice of late charges; and diligence in taking any action to collect any sums owing under this Note or in proceeding against any of the rights or interests in or to

properties securing payment of this Note. Borrower, and any endorsers or guarantors hereof, agree that the time for any payments hereunder may be extended from time to time without notice and consent, to the acceptance of further collateral, and/or the release of any existing collateral for the payment of this Note, all without in any manner affecting their liability under or with respect to this Note. No extension of time for the payment of this Note or any installment hereof shall affect the liability of Borrower under this Note or any endorser or guarantor hereof even though Borrower or such endorser or guarantor is not a party to such agreement.

Time is of the essence with respect to every provision hereof. This Note shall be construed and enforced in accordance with the laws of the State of Texas, except to the extent that federal laws preempt the laws of the State of Texas, and all persons and entities in any manner obligated under this Note consent to the jurisdiction of any federal or state court within the State of Texas having proper venue and also consent to service of process by any means authorized by Texas or federal law. This Note is performable in Dallas County, Texas. It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply with applicable Texas law governing the maximum rate or amount of interest payable on this Note or the indebtedness ("Indebtedness") evidenced hereby or evidenced or secured by the other Loan Documents (or applicable United States Federal law to the extent that it permits Lender to contract for, charge, take, reserve, or receive a greater amount of interest than under Texas law) and that this section shall control every other covenant and agreement in this Note. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the Indebtedness, or Lender's exercise of the option to accelerate the maturity of this Note, or any prepayment by Borrower results in Borrower having paid or Lender having received any interest in excess of that permitted by applicable law, then it is Borrower's and Lender's express intent that all excess amounts theretofore collected by Lender shall be credited on the principal balance of this Note and all other Indebtedness (or, if this Note and all other Indebtedness have been or would thereby be paid in full, refunded to Borrower), and the provisions of this Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new documents, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder; provided, however, if this Note has been paid in full before the end of the stated term of this Note, then Borrower and Lender agree that Lender shall, with reasonable promptness after Lender discovers or is advised by Borrower that interest was received in an amount in excess of the Maximum Lawful Rate, either refund such excess interest to Borrower or credit such excess interest against any other Indebtedness then owing by Borrower to Lender. Borrower hereby agrees that as a condition precedent to any claim seeking usury penalties against Lender, that Borrower will provide written notice to Lender, advising Lender in reasonable detail of the nature and amount of the violation, and Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrower or crediting such excess interest against any other indebtedness then owing by Borrower to Lender. All sums contracted for, charged or received by Lender for the use, forbearance or detention of the Indebtedness shall, to the extent permitted by applicable law, be amortized or spread, using the actuarial method, throughout the stated term of the Indebtedness until payment in full so that the rate or amount of interest on account of the Indebtedness does not exceed the Maximum Lawful Rate from time to time in effect and applicable to the Indebtedness for so long as the Indebtedness is outstanding. In no event shall the provisions of Chapter 346 of the Texas Finance Code (which regulates certain revolving credit loan accounts and revolving triparty accounts) apply to the Indebtedness. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

As used herein, the term "Maximum Lawful Rate" shall mean the maximum lawful rate of interest which may be contracted for, charged, taken, received or reserved by Lender in accordance with the applicable laws of the State of Texas (or applicable United States Federal law to the extent that it permits Lender to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law), taking into account all Charges (as herein defined) made in connection with the transaction evidenced by this Note and the other Loan Documents. As used herein, the term "Charges" shall mean all fees and charges, if any, contracted for, charged, received, taken or reserved by Lender in connection with the transactions relating to this Note and the other Loan Documents or the Indebtedness, which are treated as interest under applicable law. To the extent that Lender is relying on Chapter 303 of the Texas Finance Code, as amended, to determine the Maximum Lawful Rate payable on the Indebtedness, Lender will utilize the weekly ceiling from time to time in effect as provided in Chapter 303, as amended. To the extent United States Federal law permits Lender to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law, Lender will rely on United States Federal law instead of such Chapter 303, as amended, for the purpose of determining the Maximum Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lender may, at its option and from time to time, implement any other method of computing the Maximum Lawful Rate under such Chapter 303, as amended, or under other applicable law by giving notice, if required, to Borrower as provided by applicable law now or hereafter in effect. Borrower and Lender hereby agree that any and all suits alleging the contracting for, charging or receiving of usurious interest shall lie in Dallas

County, Texas, and each irrevocably waive the right to venue in any other county.

Notwithstanding anything in this Note to the contrary, if at any time (i) interest at the Applicable Rate, and (ii) the Charges computed over the full term of this Note, exceed the Maximum Lawful Rate, then the rate of interest payable hereunder, together with all Charges, shall be limited to the Maximum Lawful Rate; provided, however, that any subsequent reduction in the Applicable

Rate shall not cause a reduction of the rate of interest payable hereunder below the Maximum Lawful Rate until the total amount of interest earned hereunder, together with all Charges, equals the total amount of interest which would have accrued at the Applicable Rate if such interest rate had at all times been in effect. Changes in the Applicable Rate resulting from a change in the Prime Rate shall be subject to the provisions of this paragraph.

All notices or other communications required or permitted to be given pursuant to this Note shall be given to the Borrower or Lender at the address and in the manner provided for in the Loan Agreement.

THIS NOTE AND ALL THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT OF BORROWER AND LENDER AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF BORROWER AND LENDER. THERE ARE NO ORAL AGREEMENTS BETWEEN BORROWER AND LENDER. The provisions of this Note and the other Loan Documents may be amended or revised only by an instrument in writing signed by the Borrower and Lender. Addendum to Promissory Note and Exhibit A are attached hereto and incorporated

herein by reference.

"BORROWER"

PIZZA INN, INC.,
a Missouri corporation
By: /s/Ronald W. Parker
Name: Ronald W. Parker
Title: President

ADDENDUM TO PROMISSORY NOTE

THIS ADDENDUM is attached to and made a part of that certain promissory note executed by PIZZA INN, INC., a Missouri corporation ("Borrower") and payable to the order of WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, ("Lender"), dated as of December 28, 2000, in the principal amount of EIGHT MILLION ONE HUNDRED TWENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$8,125,000.00) ("Note"). The following arbitration provision is hereby incorporated into the Note:

A R B I T R A T I O N

1. ARBITRATION. Upon the demand of any party, any dispute shall be resolved

by binding arbitration (except as set forth in Paragraph 5 below) in accordance with the terms of this Note. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, this Note and each other document, contract and instrument required hereby or now or hereafter delivered to Lender in connection herewith (collectively, the "Loan Documents"), or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

2. GOVERNING RULES. Arbitration proceedings shall be administered by the

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

3. NO WAIVER; PROVISIONAL REMEDIES, SELF-HELP AND FORECLOSURE. No provision

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

4. ARBITRATOR QUALIFICATIONS AND POWERS; AWARDS. Arbitrators must be active

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

5. JUDICIAL REVIEW. Notwithstanding anything herein to the contrary, in any

arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (i) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (ii) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the State of Texas, and (iii) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (1) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (2) whether the conclusions of law are erroneous under the substantive law of the State of Texas. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the State of Texas.

6. MISCELLANEOUS. To the maximum extent practicable, the AAA, the

arbitrators and the parties shall take all action required to conclude any

arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business, by applicable law or regulation, or to the extent necessary to exercise any judicial review rights set forth herein. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the Dispute shall control. If any provision of this Note shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Note. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

EXHIBIT A

FIXED RATE AGREEMENT

Exhibit A to Promissory Note ("Note"), dated December 28, 2000, made by PIZZA

INN, INC., a Missouri corporation, as Borrower, to the order of WELLS FARGO BANK

TEXAS, NATIONAL ASSOCIATION, as Lender.

R E C I T A L S

Borrower has requested and Lender has agreed to provide a fixed rate option as a basis for calculating the applicable rate of interest on amounts owing under this Note. Borrower acknowledges the following: (i) it understands the process of exercising the fixed rate option as provided herein; (ii) amounts owing under this Note may bear interest at different rates and for different time periods; and (iii) absent the terms and conditions hereof, it would be extremely difficult to calculate Lender's additional costs, expenses, and damages in the event of a Default or prepayment by Borrower hereunder. Given the above, Borrower agrees that the provisions herein (including, without limitation, the Fixed Rate Price Adjustment defined below) provide for a reasonable and fair method for Lender to recover its additional costs, expenses and damages in the event of a Default or prepayment by Borrower.

1. RATES AND TERMS DEFINED. Various rates and terms not otherwise defined

herein are defined and described as follows:

"Additional Costs" has the meaning specified in paragraph 4 below.

"Adjusted Eurodollar Rate" means, for any Eurodollar Advance for any Interest

Period, the rate per annum (rounded upwards, if necessary, to the nearest 1/16

of 1%) determined by Lender to be equal to the quotient of (a) the Eurodollar Rate for such Eurodollar Advance for such Interest Period divided by (b) 1 minus the Reserve Requirement for such Eurodollar Advance for such Interest Period.

"Advance" means any advance of funds by Lender pursuant to the Loan Agreement.

"Advance Request Form" means, a certificate, in form and substance acceptable to

Lender, properly completed and signed by the Borrower requesting an Advance.
"Applicable Lending Office" means, for each Type of Advance, the lending office

of the Lender or such other office of Lender as Lender may from time to time specify to the Borrower as the office by which its Advances of such Type are to be made and maintained.

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

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

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

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

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

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

are carried out in the London interbank market.

"Continue," "Continuation," and "Continued" shall refer to the continuation

pursuant to a Eurodollar Advance as a Eurodollar Advance from one Interest

Period to the next Interest Period.

"Convert," "Conversion," and "Converted" shall refer to a conversion pursuant to

one Type of Advance into another Type of Advance.

"Default Rate" means the lesser of (i) the Maximum Lawful Rate or (ii) the sum

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

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

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

on the basis of the rates referred to in the definition of "Adjusted Eurodollar Rate".

"Eurodollar Rate" means, for any Eurodollar Advance for any Interest Period, the

rate per annum quoted by the Reference Bank at approximately 11:00 A.M. London time (or as soon thereafter as practicable) two (2) Business Days prior to the first day of such Interest Period for the offering by the Reference Bank to leading banks in the London interbank market of Dollar deposits in immediately available funds having a term comparable to such Interest Period and in an amount comparable to the principal amount of the Eurodollar Advance to be made by the Reference Bank to which such Interest Period relates.

"Eurodollar Rate Margin" means one and one-half percent (1.50%).

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

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

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

Advances, on the date such Eurodollar Advances are made or Converted from

Advances of another Type or, in the case of each subsequent, successive Interest

Period applicable to a Eurodollar Advance, the last day of the next preceding Interest Period with respect to such Advance, and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Borrower may select, except that each such Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (a) each Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day or, if such succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day; (b) any Interest Period which would otherwise extend beyond the Maturity Date shall end on the Maturity Date; and (d) no more than three (3) Interest Periods shall be in effect at the same time.

"Loan Agreement" is that certain Construction Loan Agreement dated of even date

with this Note between Borrower and Lender.

"Loan Conversion" the conversion of the Loan from the Construction Loan to the

Mini-Perm Loan all in accordance with the terms of the Loan Agreement.

"Loan Documents" are the documents defined as such in the Loan Agreement.

"Master Agreement" has the meaning specified in the Loan Agreement.

"Maturity Date" means (a) at all times prior to Loan Conversion, January 1, 2002, and (b) if Loan Conversion occurs on or before January 1, 2002, then December 28, 2007.

"Monthly Payment Date" means the seventh (7th) day of each calendar month.

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

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

"Prime Rate Margin" means a deduction of (a) one-half of one percent (-0.50%) prior to Loan Conversion and (b) three-fourths of one percent (-.75%) following Loan Conversion.

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

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

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

"Reserve Requirement" means, for any Eurodollar Advance for any Interest Period, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding one billion Dollars against "Eurocurrency Liabilities" as such term is used in Regulation D. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (i) any category of liabilities which includes deposits by reference to which the Adjusted Eurodollar Rate is to be determined, or (ii) any category of extensions of credit or other assets which include Eurodollar Advances.

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

Terms used with initial capital letters and not otherwise defined shall have the meanings specified in the Loan Agreement.

2. APPLICABLE RATE. The unpaid principal amount of this Note shall bear

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

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

During such time as a Default exists under the Loan Agreement or any of the Loan Documents; or from and after the date on which all sums owing under this Note become due and payable by acceleration or otherwise; or from and after the date on which the property encumbered by the Deed of Trust or any portion thereof or

interest therein, is sold, transferred, mortgaged, assigned, or encumbered, whether voluntarily or involuntarily, or by operation of law or otherwise, without Lender's prior written consent (whether or not the sums owing under this Note become due and payable by acceleration); or from and after the Maturity Date; then at the option of Lender, the interest rate applicable to the then outstanding principal balance of this Note shall be the lesser of the Default Rate or the Maximum Lawful Rate.

3. CONVERSIONS AND CONTINUATIONS. The Borrower shall have the right from

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

4. ADDITIONAL COSTS.

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

Regulatory Change which:

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

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

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

Lender will notify the Borrower of any event occurring after the date hereof which will entitle the Lender to compensation pursuant to this paragraph as promptly as practicable after it obtains knowledge thereof and determines to request such compensation (provided that any claim by the Lender for compensation pursuant to this paragraph shall be made within ninety (90) days after the initial occurrence of the event giving rise to such claim), and will designate a different Applicable Lending Office for the Advances affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of the Lender, violate any law, rule, or regulation or be in any way disadvantageous to the Lender, provided that the Lender shall have no obligation to so designate an Applicable Lending Office located in the United States of America. Lender will furnish the Borrower with a certificate setting forth the basis and the amount of each request of the Lender for compensation under this paragraph. If the Lender requests compensation from the Borrower under this paragraph, the Borrower may, by notice to the Lender suspend the obligation of the Lender to make or Continue making, or Convert Advances into, Advances of the Type with respect to which such compensation is requested until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of paragraph 7 below shall be applicable).

(b) Without limiting the effect of the foregoing provisions of this paragraph 4, in the event that, by reason of any Regulatory Change, the Lender either (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of the Lender which includes deposits by reference to which the interest rate on Eurodollar Advances is determined as provided in this Note or a category of extensions of credit or other assets of the Lender which includes Eurodollar Advances or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if the Lender so elects by notice to the Borrower, the obligation of the Lender to make or Continue making, or Convert Advances into, Advances of such Type hereunder shall be suspended until such Regulatory Change ceases to be in effect (in which case the provisions of paragraph 7 below shall be applicable).

(c) Determinations and allocations by the Lender for purposes of this paragraph 4 of the effect of any Regulatory Change on its costs of maintaining its obligations to make Advances or of making or maintaining Advances or on

amounts receivable by it in respect of Advances, and of the additional amounts required to compensate the Lender in respect of any Additional Costs, shall be conclusive, provided that such determinations and allocations are made in good faith and on a reasonable basis and without duplication of the Reserve Requirement.

5. LIMITATION ON TYPES OF ADVANCES. Anything herein to the contrary

notwithstanding, if with respect to any Eurodollar Advances for any Interest Period therefor, the Lender determines (which determination shall be conclusive if made in good faith) that quotations of interest rates for the relevant deposits referred to in the definition of "Eurodollar Rate" are not being provided in the relative amounts or for the relative maturities for purposes of determining the rate of interest for such Advances as provided in this Note, then the Lender shall give the Borrower prompt notice thereof specifying the relevant amounts or periods, and so long as such condition remains in effect, the Lender shall be under no obligation to make additional Eurodollar Advances or to Convert Prime Rate Advances into Eurodollar Advances and the Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Advances, either prepay such Eurodollar Advances or Convert such Eurodollar Advances into Prime Rate Advances in accordance with the terms of this Note. The Lender shall be deemed to have acted in good faith under this paragraph if the Lender is giving notice to its customers generally of the occurrence of either of the conditions specified in this paragraph.

6. ILLEGALITY. Notwithstanding any other provision of this Note, in the

event that it becomes unlawful for the Lender or its Applicable Lending Office to (a) honor its obligation to make Eurodollar Advances hereunder or (b) maintain Eurodollar Advances hereunder, then the Lender shall promptly notify the Borrower thereof and the Lender's obligation to make or maintain Eurodollar Advances and to Convert Prime Rate Advances into Eurodollar Advances hereunder shall be suspended until such time as the Lender may again make and maintain Eurodollar Advances (in which case the provisions of paragraph 7 below shall be applicable).

7. TREATMENT OF AFFECTED ADVANCES. If the Eurodollar Advances of the Lender

(such Eurodollar Advances being hereinafter called "Affected Advances") are to

be Converted pursuant to paragraphs 4 or 6 hereof, the Lender's Affected Advances shall be automatically Converted into Prime Rate Advances on the last day(s) of the then current Interest Period(s) for the Affected Advances (or, in the case of a Conversion required by paragraphs 4 or 6 hereof, on such earlier date as the Lender may specify to the Borrower), and, unless and until the Lender gives notice as provided below that the circumstances specified in paragraphs 4 or 6 hereof which gave rise to such Conversion no longer exist:

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

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

8. COMPENSATION. The Borrower shall pay to the Lender, upon the request of

the Lender, which request shall be made within one hundred eighty (180) days after the occurrence of any event specified in subsection (a) or (b) below, such

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

(a) Any payment, prepayment or Conversion of a Eurodollar Advance for any reason on a date other than the last day of an Interest Period for such Eurodollar Advance; or

(b) Any failure by the Borrower for any reason to borrow, Convert, or prepay a Eurodollar Advance on the date for such borrowing, Conversion, or prepayment, specified in the relevant notice of borrowing, prepayment, or Conversion under this Agreement.

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

9. CAPITAL ADEQUACY. If, after the date hereof, the Lender shall have

determined in good faith that the adoption or implementation of any applicable law, rule, or regulation regarding capital adequacy (including, without limitation, any law, rule, or regulation implementing the Basle Accord), or any change therein, or any change in the interpretation or administration thereof by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or compliance by the Lender (or its parent) with any guideline, request, or directive regarding capital adequacy (whether or not having the force of law) of any central bank or other Governmental Authority (including, without limitation, any guideline or other requirement implementing the Basle Accord), has or would have the effect of reducing the rate of return

on the Lender's (or its parent's) capital as a consequence of its obligations hereunder or the transactions contemplated hereby to a level below that which the Lender (or its parent) could have achieved but for such adoption, implementation, change or compliance (taking into consideration the Lender's policies with respect to capital adequacy) by an amount deemed by the Lender to be material, then from time to time, within ten (10) Business Days after demand by the Lender, the Borrower shall pay to the Lender such additional amount or amounts as will compensate the Lender (or its parent) for such reduction; provided that any claim by the Lender for compensation pursuant to this paragraph shall be made within ninety (90) days after the initial occurrence of the event giving rise to such claim. A certificate of the Lender claiming compensation under this paragraph and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive, provided that the determination thereof is made in good faith and on a reasonable basis. In determining such amount or amounts, the Lender may use any reasonable averaging and attribution methods.

10. **BORROWING PROCEDURE.** The Borrower shall give Lender notice by means of -----

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

11. **MISCELLANEOUS.** As used in this Exhibit, the plural shall mean the -----

singular and the singular shall mean the plural as the context requires. Addresses for the Fixed Rate Notice shall be the same as those for notices under the Loan Agreement executed in connection with this Note. This Agreement is executed concurrently with and as part of this Note referred to and described first above.

"BORROWER"

PIZZA INN, INC.,
a Missouri corporation

By: /s/Ronald W. Parker
Name: Ronald W. Parker
Title: President

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EXECUTIVE COMPENSATION AGREEMENT

THIS EXECUTIVE COMPENSATION AGREEMENT ("Agreement"), dated as of _____, by and between _____ (hereinafter referred to as "Executive") and Pizza Inn, Inc. (hereinafter referred to as the "Company").

W I T N E S S E T H:

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

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

ARTICLE I

COMPENSATION

1.01 During the period of employment of Executive by the Company, the Board of Directors of the Company (the "Board") or the Compensation Committee or Stock Award Plan Committee thereof shall determine, based on the recommendations of the Company's Chief Executive Officer from time to time, the compensation of Executive, including salary, bonus, grants of stock options, and other benefits; provided, however, that Executive shall receive an annual salary, bonus and all other benefits not less than his then current annual salary, bonus and all other benefits, except stock options, including such increases as the Board or the Compensation Committee approve from time to time.

ARTICLE II

TERMINATION OF EMPLOYMENT

TERMINATION BY THE COMPANY FOR CAUSE

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

(a) Executive willfully engages in an act of dishonesty (including, but not limited to, conviction of a felony) which act in and of itself materially injures or damages the Company; or

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

TERMINATION BY EXECUTIVE IN WINDOW PERIOD

2.02 Executive's employment may be terminated by Executive with or without any reason at any time within six months after a Change of Control (the "Window Period") by giving the Company at least ten days prior written notice of such termination. "Change of Control" shall mean any of the following: (a) all or substantially all of the assets of the Company are sold, leased, exchanged or otherwise transferred to any person or entity or group of persons or entities acting in concert as a partnership, limited partnership, syndicate or other group (a "Group of Persons") other than a person or entity or Group of Persons at least 50% of the combined voting power of which is held by Executive; or (b) the Company is merged or consolidated with or into another corporation with the effect that the then existing stockholders of the Company hold less than 50% of the combined voting power of the then outstanding securities of the surviving corporation of such merger or the corporation resulting from such consolidation ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors; or (c) a person or entity or Group of Persons (other than (i) the Company or (ii) an employee benefit plan sponsored by the Company) shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of securities of the Company representing 50% or more of the combined voting power of the then outstanding securities of the Company

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

TERMINATION BY EXECUTIVE FOR GOOD REASON

2.03 Executive may terminate his employment for good reason within twelve months following a Change of Control (the "Good Reason Period"). For purposes of this Agreement, "good reason" shall mean, without the Executive's express written consent, that, following a Change of Control, (i) Executive is required to relocate, (ii) Executive is assigned a diminished position or diminished responsibilities with the Company, or (iii) Executive's annual base salary or benefits, as the same may be increased from time to time, are reduced.

NOTICE AND DATE OF TERMINATION

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

ARTICLE III

OBLIGATIONS OF THE COMPANY UPON TERMINATION

WINDOW PERIOD; OTHER THAN FOR CAUSE

3.01 If the Company terminates Executive's employment other than for Cause or Executive terminates employment during the Window Period or Executive terminates his employment for good reason during the Good Reason period, the Company shall pay to Executive in a lump sum in cash within thirty (30) days after the Date of Termination an amount equal to: _____ multiplied by the Executive's Base Amount as defined in Section 280G of the Internal Revenue Code, as amended.

OUTSIDE THE WINDOW PERIOD; FOR CAUSE

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

NOT A PENALTY OR FORFEITURE

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

TAX LIMITATION

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

3.04(b) For purposes of determining the amount of the gross-up payment, Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year that the payment is to be made, and state and local income taxes at the highest marginal rate of taxation

in the state and locality of the executive's residence on the date of termination or the date that excise tax is withheld by the Company, net of the maximum reduction in federal income taxes that could be obtained by deducting such state and local taxes.

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

ARTICLE IV

TERM

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

ARTICLE V

NONCOMPETE, ETC.

TRADE SECRETS AND NONCOMPETITION

5.01(a) Trade Secrets. During his employment by the Company and at all _____

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

5.01(b) Non-Competition. In the event that Executive receives payment _____

from the Company pursuant to Paragraph 3.01 of this Agreement, Executive shall not become employed by, consult with or otherwise assist in any manner any company (or any affiliate thereof) the primary business of which involves or relates to the sale of pizza in the continental United States for a period of years equal to the number by which Executive's annual salary and bonus is multiplied pursuant to Paragraph 3.01(a).

5.01(c) Remedies. Executive acknowledges that the restrictions _____

contained in the foregoing Paragraphs 5.01(a) and (b) (the "Restrictions"), in view of the nature of the business in which the Company and its affiliates and subsidiaries are engaged, are reasonable and necessary in order to protect the legitimate interests of the Company and its affiliates and subsidiaries, and that any violation thereof would result in irreparable injury to the Company, and Executive therefore further acknowledges that, in the event Executive violates, or threatens to violate, any such Restrictions, the Company and its affiliates and subsidiaries shall be entitled to obtain from any court of competent jurisdiction, without the posting of any bond or other security, preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies in law or equity to which the Company or any affiliate or subsidiary of the Company may be entitled.

5.01(d) Invalid Provisions. If any Restriction, or any part thereof, _____

is determined in any judicial or administrative proceeding to be invalid or unenforceable, the remainder of the Restrictions shall not thereby be affected and shall be given full effect, without regard to the invalid provisions.

5.01(e) Judicial Reformation. If the period of time or the area _____

specified in the Restrictions should be adjudged unreasonable in any judicial or

administrative proceeding, then the court or administrative body shall have the power to reduce the period of time or the area covered and, in its reduced form, such provision shall then be enforceable and shall be enforced.

5.01(f) Tolling. If Executive violates any of the Restrictions,

the restrictive period shall not run in favor of Executive from the time of the commencement of any such violation until such time as such violation shall be cured by Executive to the satisfaction of the Company.

PROPRIETARY INFORMATION

5.02(a) Disclosure of Information. It is recognized that Executive

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

5.02(b) Return of Information. All advertising, sales and other

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

ARTICLE VI

TITLE AND AUTHORITY

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

ARTICLE VII

ARBITRATION

7.01 Any controversy or claim arising out of or relating to this Agreement or the breach thereof of Executive's employment relationship with the Company shall be settled by arbitration in the City of Dallas in accordance with the laws of the State of Texas by three arbitrators, one of whom shall be appointed by the Company, one by Executive, and the third of whom shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States Court of Appeals for the Fifth Circuit. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Article VII. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction.

ARTICLE VIII

MISCELLANEOUS

NOTICES

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

If to Company: Pizza Inn, Inc.
5050 Quorum Drive
Suite 500
Dallas, Texas 75240
Attn: Chairman of the Board

If to Executive: _____

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

INCLUSION OF ENTIRE AGREEMENT HEREIN

8.02 This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Executive by the Company upon a Change of Control and contains all of the covenants and agreements between the parties with respect thereto. This Agreement does not deal with compensation or any other employment terms of Executive prior to a Change of Control, except as specifically provided herein for termination and in Section 1.01, and does not impact additional benefits to which Executive may be entitled upon termination pursuant to Company benefit plans or by other written or oral agreement.

LAW GOVERNING AGREEMENT

8.03 This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and all obligations shall be performable in Dallas County, Texas.

WAIVERS

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

AMENDMENTS

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

SEVERABILITY AND LIMITATION

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

HEADINGS

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

SURVIVAL

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

EXECUTED as of the date and year first above written.

PIZZA INN, INC.

By: _____
Name: _____
Title: _____

Executive

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