SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2003.

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 INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

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

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN RULE 12 B-2 OF THE EXCHANGE ACT). YES NO [X]

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 NOVEMBER 4, 2003, AN AGGREGATE OF 10,068,674 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF $.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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PART I. FINANCIAL INFORMATION

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED	
	SEPTEMBER 28, 2003	SEPTEMBER 29, 2002
REVENUES:		
Food and supply sales	$ 13,498	$ 13,530
Franchise revenue	1,451	1,302
Restaurant sales	406	467
Other income	21	62
	15,376	15,361
COSTS AND EXPENSES:		
Cost of sales	12,597	12,405
Franchise expenses	814	709
General and administrative expenses	1,041	1,558
Interest expense	160	229
	14,612	14,901
INCOME BEFORE INCOME TAXES	764	460
Provision for income taxes	260	157
NET INCOME	$ 504	$ 303
BASIC EARNINGS PER COMMON SHARE	$ 0.05	$ 0.03
DILUTED EARNINGS PER COMMON SHARE	$ 0.05	$ 0.03

DIVIDENDS DECLARED PER COMMON SHARE	$ -	$ -
WEIGHTED AVERAGE COMMON SHARES	10,059	10,058
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES	10,086	10,058

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	THREE MONTHS ENDED	
	SEPTEMBER 28, 2003	SEPTEMBER 29, 2002
Net Income	$ 504	$ 303
Interest rate swap gain (loss) - (net of tax (expense) benefit of ($63) and $143, respectively)	122	(277)
Comprehensive Income	$ 626	$ 26

See accompanying Notes to Condensed Consolidated Financial Statements.

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

ASSETS	SEPTEMBER 28, 2003	JUNE 29, 2003
(UNAUDITED)		
CURRENT ASSETS		
Cash and cash equivalents	$ 187	$ 399
Accounts receivable, less allowance for doubtful accounts of $668 and $722, respectively	4,278	3,730
Notes receivable, current portion, less allowance for doubtful accounts of $157 and $175, respectively	246	260
Inventories	1,608	1,511
Deferred taxes, net	343	585
Prepaid expenses and other	528	533
Total current assets	7,190	7,018
Property, plant and equipment, net	13,029	13,126
Property under capital leases, net	100	120
Deferred taxes, net	301	382
Long-term notes receivable, less allowance for doubtful accounts of $19 and $19, respectively	16	41
Deposits and other	92	109
	$ 20,728	$ 20,796
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 1,666	$ 1,217
Accrued expenses	2,121	1,950
Current portion of long-term debt	1,135	1,448
Current portion of capital lease obligations	83	109
Total current liabilities	5,005	4,724
LONG-TERM LIABILITIES		
Long-term debt	8,842	9,643
Long-term capital lease obligations	30	33
Other long-term liabilities	796	989
	14,673	15,389
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock, $.01 par value; authorized 26,000,000 shares;		

issued 14,966,319 and 14,956,319 shares, respectively; outstanding 10,068,674 and 10,058,674 shares, respectively.	150	150
Additional paid-in capital	7,845	7,825
Loans to officers, less allowance for doubtful accounts. . . .	(567)	(569)
Retained earnings.	18,639	18,135
Accumulated other comprehensive loss	(528)	(650)
Treasury stock at cost,		
Shares in treasury: 4,897,645 and 4,897,645, respectively. .	(19,484)	(19,484)
Total shareholders' equity	6,055	5,407
	$ 20,728	$ 20,796

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED	
	SEPTEMBER 28, 2003	SEPTEMBER 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 504	$ 303
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization.	266	408
Provision for bad debt	15	50
Utilization of deferred taxes.	323	157
Changes in assets and liabilities:		
Notes and accounts receivable.	(565)	74
Inventories.	(56)	(67)
Accounts payable - trade	449	232
Accrued expenses	171	(267)
Prepaid expenses and other	(52)	486
CASH PROVIDED BY OPERATING ACTIVITIES.	1,055	1,376
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(146)	(156)
CASH USED FOR INVESTING ACTIVITIES	(146)	(156)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term bank debt and capital lease obligations, net	(1,143)	(1,788)
Officer loan payment	2	-
Proceeds from exercise of stock options.	20	-
CASH USED FOR FINANCING ACTIVITIES	(1,121)	(1,788)
Net decrease in cash and cash equivalents.	(212)	(568)
Cash and cash equivalents, beginning of period	399	770
Cash and cash equivalents, end of period	$ 187	$ 202

See accompanying Notes to Condensed Consolidated Financial Statements.

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 28, 2003	THREE MONTHS ENDED SEPTEMBER 29, 2002
CASH PAYMENTS FOR:		
Interest	$ 166	$ 211

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(1) The accompanying condensed consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the notes to the Company's audited condensed consolidated financial statements in its Form 10-K for the fiscal year ended June 29, 2003. Certain prior year amounts have been reclassified to conform with current year presentation.

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

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

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

	THREE MONTHS ENDED SEPTEMBER 28, 2003	THREE MONTHS ENDED SEPTEMBER 29, 2002
Net income, as reported	$ 504	$ 303
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	(7)
Pro forma net income	$ 504	$ 296
Earnings per share		
Basic-as reported	$ 0.05	$ 0.03
Basic-pro forma	$ 0.05	$ 0.03
Diluted-as reported	$ 0.05	$ 0.03
Diluted-pro forma	$ 0.05	$ 0.03

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

(2)

The Company entered into an agreement effective December 29, 2002 with its current lender to provide a $7.0 million revolving credit line that will expire December 31, 2004, replacing a $9.5 million line that was due to expire December 31, 2003. The $7.0 million revolving credit line will reduce quarterly by $500,000 beginning March 31, 2003 through December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin from 1.0% to 0.5% or, at the Company's option, at the LIBOR rate plus 1.25% to 1.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.375% to 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. As of September 28, 2003 and September 29, 2002, the variable interest rates were 2.62% and 3.57%, respectively, using a LIBOR rate basis. Amounts outstanding under the revolving credit line as of September 28, 2003 and September 28, 2002 were $1.8 million and $5.2 million, respectively.

The Company entered into a term note effective March 31, 2000 with its current lender. The $5,000,000 term note had outstanding balances of $729,000 and $2.0 million at September 28, 2003 and September 29, 2002, respectively. The term note requires monthly principal payments of $104,000 with the balance maturing on March 31, 2004. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, at the LIBOR rate plus 1.5%. As of September 28, 2003 and September 29, 2002, the variable interest rates were 2.63% and 3.31%, respectively.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to $8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. This term loan will amortize over a term of twenty years, with principal payments of $34,000 due monthly. Interest on this term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of September 28, 2003 and September 29, 2002, the variable interest rates were 2.61% and 3.34%, respectively. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate by utilizing an interest rate swap agreement as discussed below. The $8.125 million term loan had an outstanding balance of $7.4 million at September 28, 2003 and $7.9 million at September 29, 2002.

(3) The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of $8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the term loan. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that for cash flow hedges, which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At September 28, 2003 there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will continue to be highly effective at achieving offsetting changes in cash flows.

(4) On April 30, 1998, Mid-South Pizza Development, Inc., an area developer of the Company ("Mid-South") entered into a promissory note whereby, among other things, Mid-South borrowed $1,330,000 from a third party lender (the "Loan"). The proceeds of the Loan, less transaction costs, were used by Mid-South to purchase area developer rights from the Company for certain counties in Kentucky and Tennessee. As of September 28, 2003 the outstanding principal balance of this loan was approximately $628,000 and matures on May 17, 2006. As part of the terms and conditions of the Loan, the Company was required to guarantee the obligations of Mid-South under the Loan. In the event such guarantee ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property. In the event the personal guarantees and security interest pledged do not sufficiently fulfill the obligation, the Company would assume the obligation. As of this date, the obligation could be fully offset by the assumption of the area development rights which are currently pledged to Mid-South's third party lender.

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

could materially affect our financial position and results of operations.

(6) In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," which addresses the consolidation of business enterprises (variable interest entities), to which the usual condition of consolidation, a controlling financial interest, does not apply. As defined in FIN 46, variable interests are contractual, ownership or other interests in an entity that change with changes in the entity's net asset value. Variable interests in an entity may arise from financial instruments, service contracts, guarantees, leases or other arrangements with the variable interest entity. An entity that will absorb a majority of the variable interest entity's expected losses or expected residual returns, as defined in FIN 46, is considered the primary beneficiary of the variable interest entity. The primary beneficiary must include the variable interest entity's assets, liabilities and results of operations in its condensed consolidated financial statements. FIN 46 is immediately effective for all variable interest entities created after January 31, 2003. Effective October 9, 2003 the FASB issued FASB Staff Position (FSP) FIN 46-6 which defers the effective date for applying the provisions of FIN 46 for interests held by public entities in variable interest entities or potential variable interest entities created before February 1, 2003. For variable interest entities created prior to this date, the provisions of FIN 46 must be applied no later than the beginning of the Company's second quarter of fiscal 2004.

The Company currently has contracts, guarantees and other arrangements with other entities to develop and operate Pizza Inn stores. The Company is currently evaluating the classification of its franchisees and, as a result, has not completed its assessment of whether or not the adoption of FIN 46 will have a material impact on its condensed consolidated financial statements.

On May 31, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that those instruments be classified as liabilities (or assets in certain circumstances) in statements of financial position. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments: 1) Mandatorily redeemable shares are required to be redeemed at a specified or determinable date or upon an event certain to occur; 2) Put options and forward purchase contracts, which involves financial instruments embodying an obligation that the issuer must or could choose to settle by issuing a variable number of its shares or other equity instruments based solely on something other than the issuer's own equity shares; and 3) Certain obligations that can be settled with shares, the monetary value of which is (i) fixed, tied solely or predominantly to a variable such as a market index, or (ii) varies inversely with the value of the issuers' shares. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities-all of whose shares are mandatorily redeemable. SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003. The adoption of SFAS No. 150 did not have a significant impact on the Company's condensed consolidated financial statements.

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

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
THREE MONTHS ENDED SEPTEMBER 28, 2003			
BASIC EPS			
Income Available to Common Shareholders . . .	$ 504	10,059	$ 0.05
Effect of Dilutive Securities - Stock Options		27	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 504	10,086	$ 0.05
THREE MONTHS ENDED SEPTEMBER 29, 2002			
BASIC EPS			
Income Available to Common Shareholders . . .	$ 303	10,058	$ 0.03
Effect of Dilutive Securities - Stock Options		-	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 303	10,058	$ 0.03

(8) Summarized in the following tables are net sales and operating revenues, operating profit, and geographic information (revenues) for the Company's reportable segments for the three months period ended September 28, 2003 and September 29, 2002 (in thousands).

	SEPTEMBER 28, 2003	SEPTEMBER 29, 2002
NET SALES AND OPERATING REVENUES:		
Food and Equipment Distribution . .	$ 13,498	$ 13,530
Franchise and Other	1,857	1,769
Intersegment revenues	147	175
Combined.	15,502	15,474
Other revenues.	21	62
Less intersegment revenues.	(147)	(175)
Consolidated revenues	$ 15,376	$ 15,361
OPERATING PROFIT:		
Food and Equipment Distribution (1)	$ 694	$ 744
Franchise and Other (1)	657	600
Intersegment profit	41	54
Combined.	1,392	1,398
Other profit.	21	62
Less intersegment profit.	(41)	(54)
Corporate administration and other.	(608)	(946)
Income before taxes	$ 764	$ 460
GEOGRAPHIC INFORMATION (REVENUES):		
United States	$ 14,941	$ 15,168
Foreign countries	435	193
Consolidated total.	$ 15,376	$ 15,361

(1) Does not include full allocation of corporate administration

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Territory sales are the fees paid by selected experienced restaurant operators to the Company for the right to develop Pizza Inn restaurants in specific geographical territories. When the Company has no continuing substantive obligations of performance to the area developer or master licensee regarding the fee, the Company recognizes the fee to the extent of cash received. If continuing obligations exist, fees are recognized ratably during the performance of those obligations.

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

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

Notes receivable primarily consist of notes from franchisees for the purchase of area development and master license territories, trade receivables and equipment purchases. These notes generally have terms ranging from one to five years and interest rates of 6% to 12%. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, customer creditworthiness, and current economic trends.

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

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

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 28, 2003 COMPARED TO THE QUARTER ENDED SEPTEMBER 29, 2002.

Diluted earnings per share for the quarter were $0.05 versus $0.03 for the same period last year. Net income for the quarter increased 66% to $504,000 from $303,000 for the same quarter last year. The previous year's quarter included pre-tax severance-related charges of approximately $415,000 (after-tax affect of approximately $274,000), in connection with the departure of the Company's former Chief Executive Officer.

Food and supply sales by the Company's Norco division include food and paper products, equipment, marketing material, and other distribution revenues. Food and supply sales for the quarter decreased $32,000 to $13,498,000 from $13,530,000 compared to the same period last year. Lower retail sales were partially offset by higher cheese prices and higher equipment sales.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, increased 11% or $149,000 for the quarter compared to the same period last year. This increase is primarily due to higher international royalties, which resulted from the collection of previously unrecorded past due royalties. The increase was partially offset by lower domestic royalties due to lower retail sales.

Restaurant sales, which consist of revenue generated by Company-owned training stores decreased 13% or $61,000 for the quarter, compared to the same period of the prior year. This is a result of lower comparable sales at the two Company-owned stores.

Other income consists primarily of interest income, third party commissions, and non-recurring revenue items. Other income decreased 66% or $41,000 due to lower commissions and lower interest income.

Cost of sales increased 2% or $192,000 for the quarter. Cost of sales, as a percentage of sales, increased to 91% from 89% for the same quarter last year. The increase is due primarily to higher cheese prices as compared to the same period last year.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs increased 15% or $105,000 for the quarter compared to the same period last year primarily due to taxes on foreign royalties and marketing expenses.

General and administrative expenses decreased 33% or $517,000 for the quarter compared to the same period last year. This is primarily the result of severance-related charges of approximately $415,000, in connection with the departure of the Company's former Chief Executive Officer in the prior year.

Interest expense decreased 30% or $69,000 for the quarter compared to the same period of the prior year due to lower debt balances and lower interest rates.

Provision for income taxes increased 66% or $103,000 in the current year due to higher income as described above. The effective tax rate was 34% for both quarters.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities are generally the result of net income, deferred taxes, depreciation and amortization, and changes in working capital. In the first quarter of fiscal 2004, the company generated cash flows of $1,055,000 from operating activities as compared to $1,376,000 in fiscal 2003. Cash provided by operations was utilized primarily to pay down debt.

Cash flows from investing activities primarily reflect the Company's capital expenditure strategy. In the first quarter of fiscal 2004, the Company used cash of $146,000 for investing activities as compared to $156,000 in fiscal 2003. The cash flow during fiscal 2004 consisted primarily of costs associated with a future Company-owned store.

Cash flows from financing activities generally reflect changes in the Company's borrowings during the period, treasury stock transactions, and exercise of stock options. Net cash used for financing activities was $1,121,000 in the first quarter of fiscal 2004 as compared to cash used for financing activities of $1,788,000 in fiscal 2003.

Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the deferred tax asset, net of a valuation allowance of $154,000 primarily related to the potential expiration of certain foreign tax credit carryforwards. Additionally, management believes that taxable income based on the Company's existing franchise base should be more than sufficient to enable the Company to realize its net deferred tax asset without reliance on material, non-routine income.

The Company entered into an agreement effective December 29, 2002 with its current lender to provide a $7.0 million revolving credit line that will expire December 31, 2004, replacing a $9.5 million line that was due to expire December 31, 2003. The $7.0 million revolving credit line will reduce quarterly by $500,000 beginning March 31, 2003 through December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin from 1.0% to 0.5% or, at the Company's option, at the LIBOR rate plus 1.25% to 1.75%. The interest rate margin is based on the Company's performance under certain financial ratio tests. A 0.375% to 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. As of September 28, 2003 and September 29, 2002, the variable interest rates were 2.62% and 3.57%, respectively, using a LIBOR rate basis. Amounts outstanding under the revolving credit line as of September 28, 2003 and September 29, 2002 were $1.8 million and $5.2 million, respectively.

The Company entered into a term note effective March 31, 2000 with its current lender. The $5,000,000 term note had outstanding balances of $729,000 and $2.0 million at September 28, 2003 and September 29, 2002, respectively. The term note requires monthly principal payments of $104,000 with the balance maturing on March 31, 2004. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, at the LIBOR rate plus 1.5%. As of September 28, 2003 and September 29, 2002, the variable interest rates were 2.63% and 3.31%, respectively.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to $8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. This term loan will amortize over a term of twenty years, with principal payments of $34,000 due monthly. Interest on this term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of September 28, 2003 and September 29, 2002, the variable interest rates were 2.61% and 3.34%, respectively. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate by utilizing an interest rate swap agreement as discussed below. The $8.125 million term loan had an outstanding balance of $7.4 million at September 28, 2003 and $7.9 million at September 29, 2002.

The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of $8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the term loan. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that for cash flow hedges, which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At September 28, 2003 there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will continue to be highly effective at achieving offsetting changes in cash flows.

On April 30, 1998, Mid-South Pizza Development, Inc., an area developer of the Company ("Mid-South") entered into a promissory note whereby, among other things, Mid-South borrowed $1,330,000 from a third party lender (the "Loan"). The proceeds of the Loan, less transaction costs, were used by Mid-South to purchase area developer rights from the Company for certain counties in Kentucky and Tennessee. As of September 28, 2003 the outstanding principal balance of this loan was approximately $628,000 and matures on May 17, 2006. As part of the terms and conditions of the Loan, the Company was required to guarantee the obligations of Mid-South under the Loan. In the event such guarantee ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property. In the event the personal guarantees and security interest pledged do not sufficiently fulfill the obligation, the Company would assume the obligation. As of this date, the obligation could be fully offset by the assumption of the area development rights which are currently pledged to Mid-South's third party lender.

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following chart summarizes all of the Company's material obligations and commitments to make future payments under contracts such as debt and lease agreements as of September 28, 2003 (in thousands):

	Total .	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt.	$ 9,977	$1,135	$ 2,613	$6,229	$ -
Operating lease obligations	3,667	1,128	1,806	608	125
Capital lease obligations (1) . . .	113	83	30	-	-
Total contractual cash obligations.	$13,757	$2,346	$ 4,449	$6,837	$125

(1) Does not include amount representing interest.

FORWARD-LOOKING STATEMENT

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At September 28, 2003 the Company has approximately $10 million of variable rate debt obligations outstanding with a weighted average interest rate of 2.61%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at September 28, 2003, would change interest expense by approximately $7,000 for the three months ended September 28, 2003. As discussed previously, the Company has entered into an interest rate swap designed to manage the interest rate risk relating to $7.4 million of the variable rate debt.

ITEM 4. CONTROLS AND PROCEDURES

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

b) Changes in internal controls. As discussed in the Form 10-K filed on September 25, 2003, the Company completed a project to review its deferred tax asset and liability balances and determined a prior period adjustment, which related to fiscal years ended 1997 and earlier, was necessary. The Company has established controls to prepare and reconcile the tax balance sheet to the deferred tax assets and liabilities on a quarterly basis. There were no other significant changes to our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their evaluation by our Chief Executive Officer and our Chief Financial Officer.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

None

ITEM 5. OTHER INFORMATION

On October 27, 2003, the Company received a letter from Newcastle Partners, L.P. stating its intent to nominate Steven J. Pully, Barry M. Barron, Sr., and Robert B. Page to the Board of Directors of the Company at the Company's upcoming annual shareholders meeting and to solicit proxies from shareholders with respect to the election of its nominees. Newcastle also indicated in the letter its intention to submit shareholder proposals for consideration at the annual meeting to repeal certain amendments to the Company's by-laws approved on December 18, 2002 and to approve reimbursement of Newcastle's expenses incurred in connection with the solicitation of proxies. Newcastle also indicated in the letter its intention to file a preliminary proxy statement with the Securities and Exchange Commission and to solicit proxies in support of the election of its nominees and approval of the shareholder proposals at the annual meeting. On November 7, 2003, the Company received a subsequent letter from Newcastle stating that it intends to substitute Ramon D. Phillips for Robert B. Page as one of its nominees for election at the annual meeting. On November 11, 2004, the Company received a subsequent letter from Newcastle stating that it intends to substitute Robert B. Page for Barry M. Barron, Sr. as one of its nominees for election at the annual meeting.

The Board of Directors would like to avoid the cost and disruption that a proxy contest would cause the Company and therefore has postponed the annual shareholders meeting until January 21, 2004, in order to permit the Board of Directors and Newcastle additional time to discuss the nominees to be proposed by the Board of Directors at the annual meeting and to evaluate additional information regarding whether the election of the two new directors proposed by Newcastle could cause a "Change of Control" as defined in the employment agreements between the Company and each of Ronald W. Parker, B. Keith Clark, Ward T. Olgreen and Shawn M. Preator. Whether or not a Change of Control is deemed to have occurred is a function of whether or not two existing directors, Messrs. Schwarz and Pully, and a nominee director, Mr. Phillips, currently an advisory director, are incumbent directors, as that term is defined in the employment agreements. If a Change of Control were to occur and any or all of these executive officers were to terminate their employment for any reason (including the voluntary termination of employment by such officer) as provided in the employment agreements within twelve months after such Change of Control, the Company would be required to make a lump sum payment to such officer which would have a material adverse effect on the Company's financial position and results of operations.

The Board has additionally set a new record date for the annual shareholders meeting of November 26, 2003.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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

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

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

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

(b) Form 8-K

On September 4, 2003 the Company filed a report on Form 8-K, reporting a press release with respect to earnings for the fourth quarter ended June 29, 2003.

One September 26, 2003 the Company filed a report on Form 8-K, reporting a press release with respect to a prior period adjustment relating to its deferred tax liability balances as reported on the Company's Form 10-K dated June 29, 2003.

On October 14, 2003 the Company filed a report on Form 8-K, reporting a press release with respect to changes in the Registrant's Certifying Accountant.

SIGNATURES

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

PIZZA INN, INC.
Registrant

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

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

Dated: November 12, 2003

EXHIBIT 31.1

CERTIFICATION

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

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

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

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

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

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

b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures as of the end of the period covered by this quarterly report; and

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

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

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

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

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

November 12, 2003

By: /s/Ronald W. Parker

Ronald W. Parker
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

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

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

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

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

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

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

b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures as of the end of the period covered by this quarterly report; and

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

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

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

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

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

November 12, 2003

By: /s/Shawn M. Preator

Shawn M. Preator
Chief Financial Officer
Principal Accounting Officer

Exhibit 32.1

Exhibit 32.1

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

In connection with the Quarterly Report of Pizza Inn, Inc. ("the Company") on Form 10-Q for the three months ended September 28, 2003 as filed with Securities and Exchange Commission on the date hereof ("the Report"), I, Ronald W. Parker, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. I have reviewed this quarterly report on Form 10-Q of the Company;

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

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

A signed original of this written statement required by Section 906 has been provided to Pizza Inn, Inc. and will be retained by Pizza Inn, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

November 12, 2003

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

Exhibit 32.2

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

In connection with the Quarterly Report of Pizza Inn, Inc. ("the Company") on Form 10-Q for the three months ended September 28, 2003 as filed with Securities and Exchange Commission on the date hereof ("the Report"), I, Shawn M. Preator, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. I have reviewed this quarterly report on Form 10-Q of the Company;

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

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

A signed original of this written statement required by Section 906 has been provided to Pizza Inn, Inc. and will be retained by Pizza Inn, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

November 12, 2003

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