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 DECEMBER 26, 2004.

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

COMMISSION FILE NUMBER 0-12919

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

MISSOURI	47-0654575
(STATE OR OTHER JURISDICTION OF 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]

AT JANUARY 31, 2005, AN AGGREGATE OF 10,084,494 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF $.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
REVENUES:	DECEMBER 26, 2004	DECEMBER 28, 2003	DECEMBER 26, 2004	DECEMBER 28, 2003
Food and supply sales.	$ 12,301	$ 13,032	$ 25,123	$ 26,530
Franchise revenue.	1,225	1,264	2,565	2,715
Restaurant sales	243	376	498	782
Other income	35	97	39	118
	13,804	14,769	28,225	30,145
COSTS AND EXPENSES:				
Cost of sales.	11,721	12,074	23,914	24,671
Franchise expenses	701	728	1,330	1,542
General and administrative expenses.	1,165	762	2,187	1,803
Interest expense	138	160	274	320
	13,725	13,724	27,705	28,336
INCOME BEFORE INCOME TAXES	79	1,045	520	1,809
Provision for income taxes	28	487	184	747
NET INCOME	$ 51	$ 558	$ 336	$ 1,062
BASIC EARNINGS PER COMMON SHARE.	$ 0.01	$ 0.06	$ 0.03	$ 0.11
DILUTED EARNINGS PER COMMON SHARE.	$ 0.01	$ 0.06	$ 0.03	$ 0.11
WEIGHTED AVERAGE COMMON SHARES	10,104	10,071	10,119	10,065
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES	10,141	10,123	10,155	10,104

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 26, ... 2004	DECEMBER 28, 2003	DECEMBER 26, 2004	DECEMBER 28, 2003

Net Income	$ 51	$ 558	$ 336	$ 1,062
Interest rate swap loss - (net of tax benefit of $34 and $31 and $14 and $94, respectively)	(67)	(60)	(28)	(183)
Comprehensive Income (Loss)	$ (16)	$ 498	$ 308	$ 879

See accompanying Notes to Consolidated Financial Statements.

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

ASSETS	DECEMBER 26, 2004	JUNE 27, 2004
	(UNAUDITED)	
CURRENT ASSETS		
Cash and cash equivalents	$ 190	$ 617
Accounts receivable, less allowance for doubtful accounts of $357 and $310, respectively	3,270	3,113
Accounts receivable - related parties	885	912
Notes receivable, current portion, less allowance for doubtful accounts of $18 and $59, respectively	24	50
Notes receivable - related parties	54	54
Inventories	1,915	1,713
Deferred taxes, net	199	183
Prepaid expenses and other	388	415
Total current assets	6,925	7,057
Property, plant and equipment, net	12,624	12,756
Property under capital leases, net	15	18
Deferred taxes, net	123	105
Long-term notes receivable, less allowance for doubtful accounts of $0 and $3, respectively	-	-
Re-acquired development territory	720	866
Deposits and other	85	104
	$ 20,492	$ 20,906
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 1,402	$ 1,246
Accrued expenses	1,763	2,109
Current portion of long-term debt	1,376	406
Current portion of capital lease obligations	10	10
Total current liabilities	4,551	3,771
LONG-TERM LIABILITIES		
Long-term debt	6,534	7,937
Long-term capital lease obligations	18	23
Other long-term liabilities	415	458
	11,518	12,189
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock, $.01 par value; authorized 26,000,000 shares; issued 15,036,319 and 15,031,319 shares, respectively; outstanding 10,099,239 and 10,133,674 shares, respectively	150	150
Additional paid-in capital	7,985	7,975
Retained earnings	20,714	20,378
Accumulated other comprehensive loss	(274)	(302)
Treasury stock at cost, Shares in treasury: 4,937,080 and 4,897,645, respectively	(19,601)	(19,484)
Total shareholders' equity	8,974	8,717
	$ 20,492	$ 20,906

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	SIX MONTHS ENDED	
	DECEMBER 26, 2004	DECEMBER 28, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.	$ 336	$ 1,062
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	579	523
Non cash settlement of accounts receivable.	-	(281)
Recovery for bad debt, net.	30	(249)
Utilization of deferred taxes	(52)	547
Changes in assets and liabilities:		
Notes and accounts receivable	(134)	(344)
Inventories	(202)	50
Accounts payable - trade.	156	272
Accrued expenses.	(342)	973
Prepaid expenses and other.	101	75
CASH PROVIDED BY OPERATING ACTIVITIES	472	2,628
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets.	-	26
Acquisition of area development territory	-	(682)
Capital expenditures.	(354)	(331)
CASH USED FOR INVESTING ACTIVITIES.	(354)	(987)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term bank debt and capital lease obligations	(438)	(1,878)
Officer loan payment.	-	7
Stock buy back.	(117)	-
Proceeds from exercise of stock options	10	30
CASH USED FOR FINANCING ACTIVITIES.	(545)	(1,841)
Net decrease in cash and cash equivalents	(427)	(200)
Cash and cash equivalents, beginning of period.	617	399
Cash and cash equivalents, end of period.	$ 190	$ 199

See accompanying Notes to Consolidated Financial Statements.

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

	SIX MONTHS ENDED	
	DECEMBER 26, 2004	DECEMBER 28, 2003
CASH PAYMENTS FOR:		
Interest	$ 273	$ 328
Income taxes	250	-
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Non-cash settlement of accounts receivable	$ -	$ 281

See accompanying Notes to Consolidated Financial Statements.

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

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

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

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

	SIX MONTHS ENDED	
	DECEMBER 26, 2004	DECEMBER 28, 2003
Net income, as reported.	$ 336	$ 1,062
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.	-	(1)
Pro forma net income	$ 336	$ 1,061
Earnings per share		
Basic-as reported.	$ 0.03	$ 0.11
Basic-pro forma.	$ 0.03	$ 0.11
Diluted-as reported.	$ 0.03	$ 0.11
Diluted-pro forma.	$ 0.03	$ 0.11

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

(2)

The Company entered into an agreement effective March 28, 2004 (the "Revolving Credit Agreement") with Wells Fargo to provide a $4.0 million revolving credit line that will expire October 1, 2005, replacing a $7.0 million line that was due to expire December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime or, at the Company's option, at the LIBOR rate plus 1.25%. A 0.375% annual commitment fee is payable on any unused portion of the revolving credit line. As of December 26, 2004 and December 28, 2003, the variable interest rates were 5.0% and 2.64%, using a prime and LIBOR rate basis, respectively. Amounts outstanding under the revolving credit line as of December 26, 2004 and December 28, 2003 were $970,000 and $1.5 million, respectively.

The Company entered into an agreement effective December 28, 2000, as amended (the "Term Loan Agreement"), with Wells Fargo to provide up to $8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal payments of $34,000 due monthly. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of December 26, 2004 and December 28, 2003, the LIBOR variable interest rates used were 3.91% and 2.65%, 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 $6.9 million at December 26, 2004 and $7.3 million at December 28, 2003.

On December 16, 2004, Wells Fargo notified the Company that, pursuant to the terms of the Revolving Credit Agreement and the Term Loan Agreement (collectively, the "Loan Agreements"), Wells Fargo's lending obligations under such agreements were automatically terminated as a result of a Change of Control (as defined in the Loan Agreements) resulting from Ronald W. Parker ceasing to be the Chief Executive Officer of the Company. In a written notice dated December 21, 2004, Wells Fargo agreed, notwithstanding the foregoing Change of Control, to reinstate the Company's ability to obtain revolving credit advances under the Revolving Credit Agreement subject to certain conditions described in the notice, including, without limitation, limiting the aggregate amount of all revolving credit advances and letter of credit liabilities at any time outstanding to not exceed $1.2 million. Additionally, in the December 21, 2004 notice, Wells Fargo reserved the right to terminate its agreement to continue to extend revolving credit advances at any time upon prior written notice to the Company. The terms of the Loan Agreements require the Company, upon the occurrence of a Change of Control, to notify Wells Fargo and to offer to accelerate payment of all then outstanding loan balances, including revolving credit advances and the term loan. On December 27, 2004, the Company provided such notice. Wells Fargo advised the Company in a letter dated February 8, 2005 that it declined to accept the Company's offer of acceleration subject to the execution of a letter agreement (the "Letter Agreement") and an amendment to the Loan Agreements. On February 9, 2005, the Company and Wells Fargo entered into the Letter Agreement. Pursuant to the Letter Agreement, the Company expects to enter into an amendment to the Loan Agreements, effective December 26, 2004, to provide a $3.0 million revolving credit line that will expire December 23, 2005, replacing a $4.0 million revolving credit line that was due to expire October 1, 2005. The amendment provides, among other terms, for modifications to certain financial covenants and the interest rates on each loan. Interest is provided for at a rate equal to prime plus 0.50%, or, at the Company's option, at the LIBOR rate plus 2.75%. Additionally, the interest rate on the Company's term loan is provided for under the amendment at prime rate or the LIBOR rate plus 2.25%, at the Company's option. In connection with discussions regarding the amendment to the Loan Agreements, Wells Fargo notified the Company on February 4, 2005 that Wells Fargo had not been given proper notice of the Company's purchase of shares of its common stock, and that as a result an Event of Default existed under the Loan Agreement. Such Event of Default is to be waived by Wells Fargo upon execution of the amendment to the Loan Agreement.

(3) The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of $8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. The swap's notional amount amortizes over a term of twenty years to parallel the terms of the term loan. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", requires that for cash flow hedges which hedge the exposure to variable cash flow of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At December 26, 2004 there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will continue to be highly effective at achieving offsetting changes in cash flows.

(4) On January 18, 2002, the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. alleging that the Company sent or caused to be sent unsolicited facsimile advertisements. The Company has vigorously defended its position in this litigation. In July 2004 the court preliminarily approved

a settlement agreement among all parties and certified the matter as a class action for settlement purposes only. Under the settlement agreement the Company would pay an amount that will not materially affect the Company's financial performance. At a hearing on September 13, 2004 the court entered its final order and judgment approving the settlement agreement and certifying the settlement class. Pursuant to the settlement agreement the Company paid $90,000 in full and final settlement of all actual and potential claims of the members and potential members of the certified settlement class. The final order dismissed with prejudice all pending and potential claims against the Company.

(5) On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary, and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004, Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the board of directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement ("Clark Agreement"). As a result of the alleged change of control under the Clark Agreement, Clark claims that he was entitled to terminate the Clark Agreement within twelve (12) months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages, and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. On January 18, 2005, Mr. Clark filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement if a termination occurs following a change of control plus a bonus payment for 2003 of approximately $12,500. The arbitration hearing has been scheduled to begin on May 10, 2005.

The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under the Clark Agreement or that he is entitled to terminate the Clark Agreement for "good reason". On May 4, 2004, the board of directors obtained a written legal opinion that the "change of control" provision in the Clark Agreement was not triggered by the results of the February 11, 2004 annual meeting. Due to the nature of the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty, the Company believes that its claims against Mr. Clark are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Clark for the severance payment of approximately $762,000, the $12,500 bonus payment, and costs and fees. No accrual for any amount has been made as of December 26, 2004. The executive compensation agreements of each of Ward T. Olgreen and Shawn M. Preator contain similar provisions regarding a "change of control" and the amounts potentially payable to each of them if a "change of control" is deemed to have occurred under the agreements that is asserted by February 10, 2005 are as follows: $630,000 to Mr. Olgreen and $597,000 to Mr. Preator.

(6) On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

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

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company believes that its claims against Mr.

Parker are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses. The Company maintains that it does not owe Mr. Parker severance payments or any other compensation, but it believes that it has sufficient assets available to make any payments required by an adverse determination. No accrual has been made for this amount as of December 26, 2004.

(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 DECEMBER 26, 2004			
BASIC EPS			
Income Available to Common Shareholders . . .	$ 51	10,104	$ 0.01
Effect of Dilutive Securities - Stock Options		37	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 51	10,141	$ 0.01
THREE MONTHS ENDED DECEMBER 28, 2003			
BASIC EPS			
Income Available to Common Shareholders . . .	$ 558	10,071	$ 0.06
Effect of Dilutive Securities - Stock Options		52	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 558	10,123	$ 0.06
SIX MONTHS ENDED DECEMBER 26, 2004			
BASIC EPS			
Income Available to Common Shareholders	$ 336	10,119	$ 0.03
Effect of Dilutive Securities - Stock Options		36	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 336	10,155	$ 0.03
SIX MONTHS ENDED DECEMBER 28, 2003			
BASIC EPS			
Income Available to Common Shareholders	$ 1,062	10,065	$ 0.11
Effect of Dilutive Securities - Stock Options		39	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	$ 1,062	10,104	$ 0.11

(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 and six months periods ended December 26, 2004 and December 28, 2003 (in thousands).

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 26,	DECEMBER 28,	DECEMBER 26,	DECEMBER 28,
	2004	2003	2004	2003
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution . .	$ 12,301	$ 13,032	$ 25,123	$ 26,530
Franchise and Other	1,468	1,640	3,063	3,497
Intersegment revenues	84	216	169	363
Combined.	13,853	14,888	28,355	30,390
Other revenues.	35	97	39	118
Less intersegment revenues.	(84)	(216)	(169)	(363)
Consolidated revenues	$ 13,804	$ 14,769	$ 28,225	$ 30,145
OPERATING PROFIT:				
Food and Equipment Distribution (1)	198	590	504	1,284
Franchise and Other (1)	494	584	1,184	1,241
Intersegment profit	24	49	46	91
Combined.	716	1,223	1,734	2,616
Other profit or loss.	35	97	39	118
Less intersegment profit.	(24)	(49)	(46)	(91)
Corporate administration and other.	(648)	(226)	(1,207)	(834)
Income before taxes	$ 79	$ 1,045	$ 520	$ 1,809
GEOGRAPHIC INFORMATION (REVENUES):				
United States	$ 13,610	$ 14,487	$ 27,573	$ 29,428
Foreign countries	194	282	652	717
Consolidated total.	$ 13,804	$ 14,769	$ 28,225	$ 30,145

(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. The Company recognizes the fee to the extent its obligations are fulfilled and of cash received.

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

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

Notes receivable primarily consist of notes from franchisees for trade receivables, franchise fees and equipment purchases. These notes generally have terms ranging from one to five years and interest rates of 6% to 12%. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable and is based upon an analysis of the Company's prior collection experience, 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 AND SIX MONTHS ENDED DECEMBER 26, 2004 COMPARED TO THE QUARTER AND SIX MONTHS ENDED DECEMBER 28, 2003.

Earnings per share for the quarter were $0.01 versus $0.06 for the same period last year. Net income was $51,000 versus $558,000, on revenues of $13,804,000 versus $14,769,000 in the previous year. For the six month period, earnings per share were $0.03 versus $0.11 last year. Net income was $336,000 compared to $1,062,000 on revenues of $28,225,000 versus $30,145,000 last year.

Food and supply sales by the Company's Norco division include food and paper products, equipment, marketing material, and other distribution revenues. Food and supply sales for the quarter decreased 6%, or $731,000 to $12,301,000 from $13,032,000 compared to the same period last year. For the six month period, food and supply sales decreased 5%, or $1,407,000, to $25,123,000 from $26,530,000. The decrease in revenues is primarily due to reduced prices on certain key ingredients and lower overall chainwide retail sales.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased 3% or $39,000 for the quarter compared to the same period last year and decreased 6% or $150,000 for the six month period. The decrease for the quarter is due to lower royalties due to lower retail sales. The decrease for the six month period is due primarily to higher international royalties in the prior year, which resulted from the collection of previously unrecorded past due royalties, and 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 35% or $133,000 for the quarter, compared to the same period of the prior year. For the six month period, restaurant sales decreased 36% or $284,000. The decrease is the result of the sale of one buffet unit replaced by a smaller Delco unit and lower comparable sales at the other Company-owned store.

Other income consists primarily of interest income, third party commissions, and non-recurring revenue items. Other income decreased 64% or $62,000 for the quarter, compared to the same period of the prior year. For the six months period, other income decreased 67% or $79,000. These decreases are due primarily to lower vendor incentives. In addition, the prior year included proceeds from the sale of used equipment.

Cost of sales, as a percentage of total costs, decreased 3% or $353,000 for the quarter and decreased 3% or $757,000 for the six month period. Cost of sales, as a percentage of sales for the quarter and the six month period, increased to 93% from 90% for the same periods last year. The monetary decrease was primarily due to lower payroll and related expenses, which were partially offset by product cost inflation of approximately 5%. The increase as a percentage of sales is the result of lower sales prices as mentioned above.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs decreased 4% or $27,000 for the quarter and decreased 14% or $212,000 for the six months period compared to the same period last year.

These decreases are primarily the result of lower payroll and related expenses in both periods partially offset by higher product research expenses.

General and administrative expenses increased 53% or $403,000 for the quarter and 21% or $384,000 for the six months, compared to the same periods last year. The previous year's quarter included the reversal of $264,000 in bad debt expense. In addition, legal and professional fees increased $188,000 for ongoing litigation and arbitration compared to the same quarter last year.

Interest expense decreased 14% or $22,000 for the quarter and 14% or $46,000 for the six months, compared to the same periods of the prior year due to lower debt balances.

Provision for income taxes decreased 94% or $459,000 for the quarter, and 75% or $563,000 for the six months compared to the same periods in the prior year. The effective tax rate was 40% for the current quarter, 34% for the comparable period in the previous year, 38% for the six month period, and 34% for the comparable period in the previous year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities are generally the result of net income, deferred taxes, depreciation and amortization, and changes in working capital. In the first six months of fiscal 2005, the Company generated cash flows of $472,000 from operating activities as compared to $2,628,000 in fiscal 2004. Cash provided by operations was utilized primarily to pay down debt and to make capital expenditures.

Cash flows from investing activities primarily reflect the Company's capital expenditure strategy. In the first six months of fiscal 2005, the Company used cash of $354,000 for investing activities as compared to $987,000 in fiscal 2004. The cash used during fiscal 2005 consisted primarily of costs associated with development of a new Company-owned store, and included approximately $117,000 for repurchases of approximately 39,000 shares of the Company's common stock pursuant to a repurchase plan authorized by the board of directors.

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 $545,000 in the first six months of fiscal 2005 as compared to cash used for financing activities of $1,841,000 in fiscal 2004.

Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize the deferred tax asset, net of a valuation allowance of $137,000 primarily related to the potential expiration of certain foreign tax credit carryforwards. Additionally, management believes that taxable income based on the Company's existing franchise base should be more than sufficient to enable the Company to realize its net deferred tax asset without reliance on material, non-routine income. The Company's prior net operating loss carryforwards and alternative minimum tax carryforwards have now been fully utilized and the Company began making estimated quarterly tax payments in January 2004.

The Company entered into an agreement effective March 28, 2004 (the "Revolving Credit Agreement") with Wells Fargo to provide a $4.0 million revolving credit line that will expire October 1, 2005, replacing a $7.0 million line that was due to expire December 31, 2004. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime or, at the Company's option, at the LIBOR rate plus 1.25%. A 0.375% annual commitment fee is payable on any unused portion of the revolving credit line. As of December 26, 2004 and December 28, 2003, the variable interest rates were 5.0% and 2.64%, using a prime and LIBOR rate basis, respectively. Amounts outstanding under the revolving credit line as of December 26, 2004 and December 28, 2003 were $970,000 and $1.5 million, respectively.

The Company entered into an agreement effective December 28, 2000, as amended (the "Term Loan Agreement"), with Wells Fargo to provide up to $8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal payments of $34,000 due monthly. Interest on the term loan is also payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.75% or, at the Company's option, to the LIBOR rate plus 1.5%. As of December 26, 2004 and December 28, 2003, the LIBOR variable interest rates used were 3.91% and 2.65%, 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 $6.9 million at December 26, 2004 and $7.3 million at December 28, 2003.

On December 16, 2004, Wells Fargo notified the Company that, pursuant to the terms of the Revolving Credit Agreement and the Term Loan Agreement (collectively, the "Loan Agreements"), Wells Fargo's lending obligations under such agreements were automatically terminated as a result of a Change of Control (as defined in the Loan Agreements) resulting from Ronald W. Parker ceasing to be the Chief Executive Officer of the Company. In a written notice dated December 21, 2004, Wells Fargo agreed, notwithstanding the foregoing Change of Control, to reinstate the Company's ability to obtain revolving credit advances under the Revolving Credit Agreement subject to certain conditions described in the notice, including, without limitation, limiting the aggregate amount of all revolving credit advances and letter of credit liabilities at any time outstanding to not exceed $1.2 million. Additionally, in the December 21, 2004 notice, Wells Fargo reserved the right to terminate its agreement to continue to extend revolving credit advances at any time upon prior written notice to the Company. The terms of the Loan Agreements require the Company, upon the occurrence of a Change of Control, to notify Wells Fargo and to offer to accelerate payment of all then outstanding loan balances, including revolving credit advances and the term loan. On December 27, 2004, the Company provided such notice. Wells Fargo advised the Company in a letter dated February 8, 2005 that it declined to accept the Company's offer of acceleration subject to the execution of a letter agreement (the "Letter Agreement") and an amendment to the Loan Agreements. On February 9, 2005, the Company and Wells Fargo entered into the Letter Agreement. Pursuant to the Letter Agreement, the Company expects to enter into an amendment to the Loan Agreements, effective December 26, 2004, to provide a $3.0 million revolving credit line that will expire December 23, 2005, replacing a $4.0 million revolving credit line that was due to expire October 1, 2005. The amendment provides, among other terms, for modifications to certain financial covenants and the interest rates on each loan. Interest is provided for at a rate equal to prime plus 0.50%, or, at the Company's option, at the LIBOR rate plus 2.75%. Additionally, the interest rate on the Company's term loan is provided for under the amendment at prime rate or the LIBOR rate plus 2.25%, at the Company's option. In connection with discussions regarding the amendment to the Loan Agreements, Wells Fargo notified the Company on February 4, 2005 that Wells Fargo had not been given proper notice of the Company's purchase of shares of its common stock, and that as a result an Event of Default existed under the Loan Agreement. Such Event of Default is to be waived by Wells Fargo upon execution of the amendment to the Loan Agreement.

On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary, and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004, Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the board of directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement ("Clark Agreement"). As a result of the alleged change of control under the Clark Agreement, Clark claims that he was entitled to terminate the Clark Agreement within twelve (12) months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages, and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. On January 18, 2005, Mr. Clark filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement if a termination occurs following a change of control plus a bonus payment for 2003 of approximately $12,500. The arbitration hearing has been scheduled to begin on May 10, 2005.

The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under the Clark Agreement or that he is entitled to terminate the Clark Agreement for "good reason". On May 4, 2004, the board of directors obtained a written legal opinion that the "change of control" provision in the Clark Agreement was not triggered by the results of the February 11, 2004 annual meeting. Due to the nature of the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty, the Company believes that its claims against Mr. Clark are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Clark for the severance payment of approximately $762,000, the $12,500 bonus payment, and costs and fees. No accrual for any amount has been made as of December 26, 2004. The executive compensation agreements of each of Ward T. Olgreen and Shawn M. Preator contain similar provisions regarding a "change of control" and the amounts potentially payable to each of them if a "change of control" is deemed to have occurred under the agreements that is asserted by February 10, 2005 are as follows: $630,000 to Mr. Olgreen and $597,000 to Mr. Preator.

On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement by Mr. Parker. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

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

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company believes that its claims against Mr. Parker are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses. The Company maintains that it does not owe Mr. Parker severance payments or any other compensation, but it believes that it has sufficient assets available to make any payments required by an adverse determination. No accrual has been made for this amount as of December 26, 2004.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

	Total	Fiscal Year 2005	Fiscal Years 2006 - 2007	Fiscal Years 2008 - 2009	After Fiscal Year 2009
Bank debt	$ 7,910	$ 1,406	$ 812	$ 5,692	$ -
Operating lease obligations	2,262	956	1,051	215	40
Capital lease obligations (1) . . .	28	10	18	-	-
Total contractual cash obligations.	$ 10,200	$ 2,372	$ 1,881	$ 5,907	$40

(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.

Because of the risks and uncertainties related to these factors and the forward-looking statements, readers are cautioned not to place undue reliance on the forward-looking statements. There can be no assurance that any events or results described in any forward-looking statement will actually occur or be achieved. We undertake no obligation to publicly revise the forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the risk factors described above and in other documents filed by the Company with the Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At December 26, 2004 the Company has approximately $7.0 million of variable rate debt obligations outstanding with a weighted average interest rate of 3.23%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at December 26, 2004, would change interest expense by approximately $6,000 for the six months ended December 26, 2004. As discussed previously, the Company has entered into an interest rate swap designed to manage the interest rate risk relating to $7.0 million of the variable rate debt.

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ITEM 4. CONTROLS AND PROCEDURES
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The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
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On January 18, 2002, the Company was served with a lawsuit filed by Blakely-Witt & Associates, Inc. alleging that the Company sent or caused to be sent unsolicited facsimile advertisements. The Company has vigorously defended its position in this litigation. In July 2004 the court preliminarily approved a settlement agreement among all parties and certified the matter as a class action for settlement purposes only. Under the settlement agreement the Company would pay an amount that will not materially affect the Company's financial performance. At a hearing on September 13, 2004 the court entered its final order and judgment approving the settlement agreement and certifying the settlement class. Pursuant to the settlement agreement the Company paid $90,000 in full and final settlement of all actual and potential claims of the members and potential members of the certified settlement class. The final order dismissed with prejudice all pending and potential claims against the Company.

On June 15, 2004, B. Keith Clark provided the Company with notice of his intent to resign as Senior Vice President - Corporate Development, Secretary, and General Counsel of the Company effective as of July 7, 2004. By letter dated June 24, 2004 Mr. Clark notified the Company that he reserved his right to assert that the election of Ramon D. Phillips and Robert B. Page to the board of directors of the Company at the February 11, 2004 annual meeting of shareholders constituted a "change of control" of the Company under his executive compensation agreement ("Clark Agreement"). As a result of the alleged change of control under the Clark Agreement, Clark claims that he was entitled to terminate the Clark Agreement within twelve (12) months of February 11, 2004 for "good reason" (as defined in the Clark Agreement) and is entitled to severance. On August 6, 2004, the Company instituted an arbitration proceeding against Mr. Clark with the American Arbitration Association in Dallas, Texas pursuant to the Clark Agreement seeking declaratory relief that Mr. Clark is not entitled to severance payments or any other further compensation from the Company. On January 18, 2005, the Company amended its claims against Mr. Clark to include claims for compensatory damages, consequential damages, and disgorgement of compensation paid to Mr. Clark under the Clark Agreement. On January 18, 2005, Mr. Clark filed claims against the Company for breach of the Clark Agreement, seeking the severance payment provided for in the Clark Agreement if a termination occurs following a change of control plus a bonus payment for 2003 of approximately $12,500. The arbitration hearing has been scheduled to begin on May 10, 2005.

The Company disagrees with Mr. Clark's claim that a "change of control" has occurred under the Clark Agreement or that he is entitled to terminate the Clark Agreement for "good reason". On May 4, 2004, the board of directors obtained a written legal opinion that the "change of control" provision in the Clark Agreement was not triggered by the results of the February 11, 2004 annual meeting. Due to the nature of the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty, the Company believes that its claims against Mr. Clark are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Clark for the severance payment of approximately $762,000, the $12,500 bonus payment, and costs and fees. No accrual for any amount has been made as of December 26, 2004. The executive compensation agreements of each of Ward T. Olgreen and Shawn M. Preator contain similar provisions regarding a "change of control" and the amounts potentially payable to each of them if a "change of control" is deemed to have occurred under the agreements that is asserted by February 10, 2005 are as follows: $630,000 to Mr. Olgreen and $597,000 to Mr. Preator.

On October 5, 2004 the Company filed a lawsuit against the law firm Akin, Gump, Strauss, Hauer & Feld, and J. Kenneth Menges, one of the firm's partners. Akin Gump served as the Company's principal outside lawyers from 1997 through May 2004, when the Company terminated the relationship. The petition alleges that during the course of representation of the Company, the firm and Mr.

Menges, as the partner in charge of the firm's services for the Company, breached certain fiduciary responsibilities to the Company by giving advice and taking action to further the personal interests of certain of the Company's executive officers to the detriment of the Company and its shareholders. Specifically, the petition alleges that the firm and Mr. Menges assisted in the creation and implementation of so-called "golden parachute" agreements, which, in the opinion of the Company's current counsel, provided for potential severance payments to those executives in amounts greatly disproportionate to the Company's ability to pay, and that, if paid, could expose the Company to significant financial liability which could have a material adverse effect on the Company's financial position. This matter is in its preliminary stages, and the Company is unable to provide any meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. However, the Company believes that its claims against Akin Gump and Mr. Menges are well founded and intends to vigorously pursue all relief to which it may be entitled. On January 25, 2005, Akin Gump filed a motion with the court asking for this matter to be abated pending a determination in the Clark and Paker arbitrations. No hearing date has been set for the motion.

On December 11, 2004, the Board of Directors of the Company terminated the Executive Compensation Agreement dated December 16, 2002 between the Company and its then Chief Executive Officer, Ronald W. Parker ("Parker Agreement"). Mr. Parker's employment was terminated following ten days written notice to Mr. Parker of the Company's intent to discharge him for cause as a result of violations of the Parker Agreement by Mr. Parker. Written notice of termination was communicated to Mr. Parker on December 13, 2004. The nature of the cause alleged was set forth in the notice of intent to discharge and based upon Section 2.01(c) of the Parker Agreement, which provides for discharge for "any intentional act of fraud against the Company, any of its subsidiaries or any of their employees or properties, which is not cured, or with respect to which Executive is not diligently pursuing a cure, within ten (10) business days of the Company giving notice to Executive to do so." Mr. Parker was provided with an opportunity to cure as provided in the Parker Agreement as well as the opportunity to be heard by the Board of Directors prior to the termination.

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

Due to the preliminary stages of the arbitration proceeding and the general uncertainty surrounding the outcome of this type of legal proceeding, it is not possible for the Company to provide any certain or meaningful analysis, projections, or expectations at this time regarding the outcome of this matter. Although the ultimate outcome of the arbitration proceeding cannot be projected with certainty at this time, the Company believes that its claims against Mr. Parker are well founded and intends to vigorously pursue all relief to which it may be entitled. An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses. The Company maintains that it does not owe Mr. Parker severance payments or any other compensation, but it believes that it has sufficient assets available to make any payments required by an adverse determination. No accrual has been made for this amount as of December 26, 2004.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND THE USE OF PROCEEDS

The Company made the following share repurchases during the second quarter of fiscal 2005:

	Total Number	Maximum		
	Of Shares	Number Of		
	Purchased As Part	Shares That May		
	Average	Of Publicly	Yet Be Purchased	
	Total Number Of	Price Paid	Announced Plans	Under The Plans
Period	Shares Purchased	Per Share	Or Programs	Or Programs
Month #1 September 27, 2004 - October 31, 2004 . .	30,035	$ 3.00	-	1,075,804
Month #2 November 1, 2004 - November 28, 2004. .	-	-	-	1,075,804

Month #3 November 29, 2004 -. December 26, 2004	9,400	$ 2.90	9,400	1,066,404
Total.	39,435	$ 2.98	9,400	1,066,404

1) On October 25, 2004, the Company purchased 30,035 shares of its common stock pursuant to a private purchase agreement. In October 2004, the board of directors of the Company authorized the Company to purchase up to 1,000,000 shares of its common stock other than through a publicly announced plan or program, including, without limitation, through private purchase agreements, open-market transactions, and other transactions.

2) The Company purchased 1,550 shares of its common stock on December 16, 2004, 1,550 shares on December 17, 2,100 shares on December 21, 2,100 shares on December 22, and 2,100 shares on December 23 as part of plan approved by the board of directors of the Company on August 15, 2001 and publicly announced on August 16, 2001. The Company was approved to purchased up to 1,000,000 shares of its own common stock as part of the plan. There are 900,000 shares that may yet be purchased as part of this plan. This plan has no expiration date.

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

NONE

ITEM 5. OTHER INFORMATION

In connection with discussions regarding the amendment to the Loan Agreement, Wells Fargo notified the Company on February 4, 2005 that Wells Fargo had not been given proper notice of the Company's purchase of shares of its common stock, and that as a result an Event of Default existed under the Loan Agreement. Such Event of Default is to be waived by Wells Fargo upon execution of the amendment to the Loan Agreement, which is contemplated by a letter agreement between the Company and Wells Fargo dated February 9, 2005.

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ITEM 6. EXHIBITS
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10.1 Letter Agreement dated February 9, 2005 between Pizza Inn, Inc. and Wells Fargo Bank, National Association.

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.

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/Robert B. Page
Robert B. Page
Chief Executive Officer

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

Dated: February 9, 2005

February 8, 2005

CERTIFIED MAIL;
- ---------------
RECEIPT NO.
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Pizza Inn, Inc.
3551 Plano Parkway
The Colony, Texas 75056
Attn: Mark Schwarz

Re: Third Amended and Restated Loan Agreement (as amended by that certain First Amendment to Third Amended and Restated Loan Agreement dated as of March 28, 2004, the "LOAN AGREEMENT") dated as of January 22, 2003 by and between Pizza Inn, Inc. ("BORROWER") and Wells Fargo Bank, National Association (successor to Wells Fargo Bank (Texas), National Association, herein "BANK"). All terms used herein and not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

Ladies and Gentlemen:

Reference is made to that certain letter dated December 27, 2004, sent by you to Bank notifying Bank of a Change of Control resulting from Ronald Parker ceasing to be the Chief Executive Officer of Borrower (the "PARKER CHANGE OF CONTROL") and, in accordance with Section 10.12 of the Loan Agreement, offering
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to accelerate payment of the obligations (the "NOTICE AND OFFER").

In addition, you are hereby notified that an Event of Default currently exists under the Loan Agreement. As disclosed in the most recent draft 10Q statement of Borrower received by Bank, Bank is aware that Borrower repurchased certain of its capital stock for a purchase price of approximately $117,000. Section 11.4
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of the Loan Agreement prohibits Borrower's repurchase of its capital stock without Bank's consent (the "CURRENT DEFAULT").

Without waiving any Default or Event of Default now existing or hereafter arising under the Loan Agreement and the other Loan Documents, other than the Current Default, or any of Bank's rights and remedies under the Loan Agreement and the other Loan Documents resulting therefrom, Bank agrees (a) not to accelerate payment of the Obligations based on the Notice and Offer and (b) to waive the Current Default, subject to the following conditions precedent:

1. Borrower acknowledges the terms of this letter by executing it in the space indicated below.
2. On or before the close of business on February 11, 2005, Borrower enters into a Second Amendment to Third Amended and Restated Loan Agreement and such other documents, instruments, promissory notes and agreements Bank deems necessary in connection therewith (the "SECOND AMENDMENT") pursuant to which the Loan Agreement is amended in accordance with the terms set forth below and such other terms, covenants and agreements which are in form and substance satisfactory to Bank;
a. The Revolving Credit Commitment shall be reduced to $3,000,000;
b. The definition of "Termination Date" shall be modified to December 23, 2005;
c. The interest rate for the Real Estate Loan shall be modified to LIBOR + 2.25%;
d. The interest rate for the Revolving Credit Loan shall be modified to LIBOR + 2.75% or Prime + 0.50%;
e. The Commitment Fee set forth in Section 2.7 of the Loan Agreement shall
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be terminated;
f. The definition of "Change of Control" and the Change of Control provisions in the Loan Agreement shall be modified;
g. Borrower shall be prohibited from making non-financed capital expenditures in excess of $500,000 in the aggregate during any given fiscal year without Bank's consent;
h. Included with existing reporting requirements, Borrower shall be required to deliver an aged listing of accounts receivable, accounts payable and a reconciliation of accounts, and, at any time requested by Bank, a listing of all account debtors that includes names, addresses and phone numbers of the account debtors;
i. The Tangible Net Worth covenant contained in Section 12.2 of the Loan
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Agreement shall be deleted;
j. A new financial covenant shall be added that requires Borrower to maintain total liabilities less subordinated debt divided by Tangible Net Worth of not more than 1.50 to 1.00; and
k. A new covenant shall be added that prohibits the outstanding principal and interest amount of the Revolving Credit Loan plus all Letter of Credit Liabilities to exceed 80% of Eligible Accounts (as defined in EXHIBIT A attached hereto);
3. No Event of Default, other than the Current Default, shall have occurred and be continuing, or would result from the Second Amendment; and
4. All of the representations and warranties contained in the Loan Agreement and in the other Loan Documents shall be true and correct on and as of the date of the Second Amendment.

Failure by you to execute the Second Amendment and such other documents, instruments, promissory notes and agreements Bank deems necessary in connection therewith on or before February 11, 2005, shall constitute an Event of Default under the Loan Agreement. This letter shall constitute a Loan Document.

Notwithstanding Bank's agreement (a) not to accelerate payment of the Obligations based on the Notice and Offer and (b) to waive the Current Default, subject to the foregoing conditions, you are hereby notified that Bank requires strict compliance with the terms and conditions of the Loan Documents. The execution by Bank of this letter, or any other act or omission by Bank, or its officers in connection herewith, shall not be deemed a waiver by Bank of any Default or Event of Default, other than the Current Default, which may exist or which may occur in the future under the Loan Agreement or any other Loan Document, or any future Default or Event of Default of the same provision waived under the Current Default (collectively "OTHER VIOLATIONS"). No waiver of any provision of the Loan Agreement or any other Loan Document shall be effective unless the same shall be in writing and signed by Bank, and then such waiver or consent shall be effective only in the specific instance to which it relates and for the purpose for which it is given. Similarly, nothing contained in this letter shall directly or indirectly in any way whatsoever either (i) impair, prejudice or otherwise adversely affect Bank's right at any time to exercise any right, privilege or remedy in connection with the Loan Agreement or any other Loan Document with respect to any Other Violations, (ii) amend or alter any provision of the Loan Agreement or any other Loan Document, or (iii) constitute any course of dealing or other basis for altering any obligation of Borrower or any right, privilege or remedy of Bank under the Loan Agreement or any other Loan Document. Nothing in this letter shall be construed to be a consent or waiver by Bank of any Other Violations. The rights provided for in the Loan Agreement and the other Loan Documents are cumulative and not intended to be exclusive of any other right given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

This letter 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. The parties agree that this letter may be executed and delivered via facsimile and any such facsimile copy of any such document shall be considered to have the same binding legal effect as an original copy and each party hereby agrees that it shall not raise the use of a facsimile copy as a defense to this letter and forever waives any such defense. Furthermore, at the request of any party, a party executing and delivering this letter by facsimile copy shall re-execute an original copy in replacement.

Bank intends this letter to supercede and replace, in its entirety, correspondence dated February 4, 2005, issued by Bank to Borrower.

Should you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Ralph Hamm III
Name: Ralph Hamm III
Title: Vice President

AGREED AND ACCEPTED TO
THIS 9th DAY OF FEBRUARY, 2005 BY:

PIZZA INN, INC.

By: /s/ Robert B. Page
Name: Robert B. Page
Title: Chief Executive Officer

EXHIBIT A

"Eligible Accounts" means, at any time, all accounts receivable of the Borrower created in the ordinary course of business that are acceptable to Bank and satisfy the following conditions:

1. The account complies with all applicable laws, rules, and regulations, including, without limitation, usury laws, the Federal Truth in Lending Act, and Regulation Z of the Board of Governors of the Federal Reserve System;
2. The account has not been outstanding for more than 90 days past the original date of invoice;
3. The account does not represent a commission and the account was created in connection with (i) the sale of goods by the Borrower in the ordinary course of business and such sale has been consummated and such goods have been shipped and delivered and received by the account debtor, or (ii) the performance of services by the Borrower in the ordinary course of business and such services have been completed and accepted by the account debtor;
4. The account arises from an enforceable contract, the performance of which has been completed by the Borrower;
5. The account does not arise from the sale of any good that is on a bill-and-hold, guaranteed sale, sale-or-return, sale on approval, consignment, or any other repurchase or return basis;
6. The Borrower has good and indefeasible title to the account and the account is not subject to any Lien except Liens in favor of Bank;
7. The account does not arise out of a contract with or order from, an account debtor that, by its terms, prohibits or makes void or unenforceable the grant of a security interest by the Borrower to Bank in and to such account;
8. The account is not subject to any setoff, counterclaim, defense, dispute, recoupment, or adjustment other than normal discounts for prompt payment;
9. The account debtor is not insolvent or the subject of any bankruptcy or insolvency proceeding and has not made an assignment for the benefit of creditors, suspended normal business operations, dissolved, liquidated, terminated its existence, ceased to pay its debts as they become due, or suffered a receiver or trustee to be appointed for any of its assets or affairs;
10. The account is not evidenced by chattel paper or an instrument;
11. No default exists under the account by any party thereto;
12. The account debtor has not returned or refused to retain, or otherwise notified the Borrower of any dispute concerning, or claimed nonconformity of, any of the goods from the sale of which the account arose;
13. The account is not owed by an Affiliate, employee, officer, director or shareholder of the Borrower, except certain trade accounts arising in the ordinary course of business from director owned franchises that would otherwise be Eligible Accounts;
14. The account is payable in Dollars by the account debtor;
15. The account is not owed by an account debtor whose accounts Bank in its sole discretion has chosen to exclude from Eligible Accounts;
16. The account shall be ineligible if (a) the account debtor is domiciled in any country other than the United States of America and (b) the aggregate amount of accounts owed by account debtors domiciled outside the United States of America is in excess of $500,000, to the extent of such excess;
17. The account shall be ineligible if more than twenty percent (20%) of the aggregate balances then outstanding on accounts owed by such account debtor and its Affiliates to the Borrower are more than 90 days past the dates of their original invoices;
18. The account shall be ineligible if the account debtor is the United States of America or any department, agency, or instrumentality thereof, and the Federal Assignment of Claims Act of 1940, as amended, shall not have been complied with; and
19. The Account is otherwise acceptable in the sole discretion of Bank; provided that Bank shall have the right to create and adjust eligibility standards and related reserves from time to time in its good faith credit judgment.

The amount of the Eligible Accounts owed by an account debtor to the Borrower shall be reduced by the amount of all "contra accounts" and other obligations owed by the Borrower to such account debtor.

EXHIBIT 31.1

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

I, Robert B. Page, certify that:

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

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

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

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

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

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/Robert B. Page

Robert B. Page
Chief Executive Officer
Director

Date: February 9, 2005

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EXHIBIT 31.2

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

I, Shawn M. Preator, certify that:

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

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

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

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

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

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/Shawn M. Preator

Shawn M. Preator
Chief Financial Officer

Date: February 9, 2005

EXHIBIT 32.1
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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

The Quarterly Report on Form 10-Q for the quarter ended December 26, 2004 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

By: /s/Robert B. Page

Robert B. Page
Chief Executive Officer
Director

Date: February 9, 2005

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

EXHIBIT 32.2
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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

The Quarterly Report on Form 10-Q for the quarter ended December 26, 2004 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

By: /s/Shawn M. Preator

Shawn M. Preator
Chief Financial Officer

Date: February 9, 2005

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