

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 24, 2002.

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

COMMISSION FILE NUMBER 0-12919

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

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

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

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

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT 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 NO

AT MAY 3, 2002, AN AGGREGATE OF 10,058,124 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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PART 1. FINANCIAL INFORMATION

1. Financial Statements

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 24, 2002	MARCH 25, 2001	MARCH 24, 2002	MARCH 25, 2001
REVENUES:				
Food and supply sales	\$ 13,292	\$ 13,723	\$ 42,475	\$ 42,457
Franchise revenue	1,361	1,311	4,057	4,052
Restaurant sales	507	609	1,598	1,760
Other income	126	99	450	416
	-----	-----	-----	-----
	15,286	15,742	48,580	48,685
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Cost of sales	12,626	13,033	40,396	40,046
Franchise expenses	660	655	2,008	2,065
General and administrative expenses	994	942	3,142	3,125
Interest expense	282	197	557	700
	-----	-----	-----	-----
	14,562	14,827	46,103	45,936
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	724	915	2,477	2,749
Provision for income taxes	246	311	842	970
	-----	-----	-----	-----
NET INCOME	\$ 478	\$ 604	\$ 1,635	\$ 1,779
	=====	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE	\$ 0.05	\$ 0.06	\$ 0.16	\$ 0.17
	=====	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE	\$ 0.05	\$ 0.06	\$ 0.16	\$ 0.17
	=====	=====	=====	=====
DIVIDENDS DECLARED PER COMMON SHARE	\$ -	\$ -	\$ -	\$ 0.12
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES	10,058	10,609	10,104	10,689
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES	10,058	10,610	10,108	10,693
	=====	=====	=====	=====

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 24, 2002	MARCH 25, 2001	MARCH 24, 2002	MARCH 25, 2001
Net Income	\$ 478	\$ 604	\$ 1,635	\$ 1,779
Interest rate swap gain (loss) - (net of tax expense (benefit) of \$25, (\$54) and (\$32), (\$54), respectively)	49	(104)	(61)	(104)
	-----	-----	-----	-----
Comprehensive Income	\$ 527	\$ 500	\$ 1,574	\$ 1,675
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	MARCH 24, 2002	JUNE 24, 2001
ASSETS	-----	-----
(UNAUDITED)		
CURRENT ASSETS		
Cash and cash equivalents	\$ 246	\$ 540
Accounts receivable, less allowance for doubtful accounts of \$722 and \$729, respectively	4,607	4,839
Notes receivable, current portion, less allowance for doubtful accounts of \$107 and \$263, respectively	767	958
Inventories	1,870	2,063
Deferred taxes, net	1,297	1,285
Prepaid expenses and other	746	578
	-----	-----
Total current assets	9,533	10,263
Property, plant and equipment, net	13,800	6,594
Property under capital leases, net	292	576
Deferred taxes, net	993	1,897
Long-term notes receivable, less allowance for doubtful accounts of \$5 and \$9, respectively	257	9
Deposits and other	358	533
	-----	-----
	\$ 25,233	\$ 19,872
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 1,497	\$ 3,245
Accrued expenses	2,016	2,000
Current portion of long-term debt	1,656	1,250
Current portion of capital lease obligations	301	486
	-----	-----
Total current liabilities	5,470	6,981
LONG-TERM LIABILITIES		
Long-term debt	16,805	10,934
Long-term capital lease obligations	156	227
Other long-term liabilities	935	865
	-----	-----
	23,366	19,007
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,955,619 and 14,955,119 shares, respectively outstanding 10,057,974 and 10,319,638 shares, respectively	150	150
Additional paid-in capital	7,824	7,823
Loans to officers	(2,325)	(2,325)
Retained earnings	15,836	14,201
Accumulated other comprehensive loss	(134)	(73)
Treasury stock at cost		
Shares in treasury: 4,897,645 and 4,635,481 respectively	(19,484)	(18,911)
	-----	-----
Total shareholders' equity	1,867	865
	-----	-----
	\$ 25,233	\$ 19,872
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

NINE MONTHS ENDED

MARCH 24, 2002	MARCH 25, 2001
-----	-----

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$	1,635	\$	1,779
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization		1,064		1,002
Provision for bad debt		135		160
Utilization of pre-reorganization net operating loss carryforwards		892		784
Changes in assets and liabilities:				
Notes and accounts receivable		40		(455)
Inventories		193		1,127
Accounts payable - trade		(855)		(555)
Accrued expenses		(45)		565
Prepaid expenses and other		(70)		171
		-----		-----
CASH PROVIDED BY OPERATING ACTIVITIES		2,989		4,578
		-----		-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures		(8,711)		(2,482)
Proceeds from sale of assets		24		-
		-----		-----
CASH USED FOR INVESTING ACTIVITIES		(8,687)		(2,482)
		-----		-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term bank debt		7,909		3,035
Repayments of long-term bank debt and capital lease obligations		(1,932)		(3,670)
Dividends paid		-		(1,243)
Proceeds from exercise of stock options		-		298
Officer loan payment		-		165
Purchases of treasury stock		(573)		(791)
		-----		-----
CASH PROVIDED (USED) BY FINANCING ACTIVITIES		5,404		(2,206)
		-----		-----
Net decrease in cash and cash equivalents		(294)		(110)
Cash and cash equivalents, beginning of period		540		484
		-----		-----
Cash and cash equivalents, end of period	\$	246	\$	374
		-----		-----

See accompanying Notes to Consolidated Financial Statements.

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

	NINE MONTHS ENDED	
	MARCH 24, 2002	MARCH 25, 2001
	-----	-----
CASH PAYMENTS FOR:		
Interest	\$ 723	\$ 736
Income taxes	53	25
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Stock issued to officers in exchange for loans \$	-	\$ 303
Capital lease obligations incurred	156	-

See accompanying Notes to Consolidated Financial Statements.

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

(1) The accompanying consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with the notes to the Company's audited

consolidated financial statements in its Form 10-K for the fiscal year ended June 24, 2001. Certain prior year amounts have been reclassified to conform with current year presentation.

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

(2) The Company entered into an agreement effective December 21, 2001 with its current lender to extend the term of its existing \$9.5 million revolving credit line through December 31, 2003, and to modify certain financial covenants. 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 0.0% or, at the Company's option, at the LIBOR rate plus 1.25% to 2.25%. The interest rate margin is based on the Company's performance under certain financial ratio tests. As of March 24, 2002, the revolving credit line had an outstanding balance of \$7.8 million.

The Company entered into a term note effective March 31, 2000 with its current lender. The \$5,000,000 term note had an outstanding balance of \$2.6 million at March 24, 2002 and 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%.

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 and interest payments due 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%. 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 \$8.057 million at March 24, 2002.

(3) Effective February 27, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company entered into an interest rate swap on that date, 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 Company entered into an agreement effective December 11, 2001 to modify the termination date and the fixed pay rate of the interest rate swap. 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. SFAS No. 133 requires that for cash flow hedges, which hedge the exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At March 24, 2002, the Company recorded its interest rate swap with a fair value of \$203,000 in other liabilities, with the offset recorded in the other comprehensive income component of stockholder's equity and in deferred income taxes. At March 24, 2002, there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will 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 part of the terms and conditions of the Loan, the Company was required to guaranty the obligations of Mid-South under the Loan. In the event such guaranty ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property.

(5) The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying asset and will be amortized over the useful life of the asset. For the three months ended March 24, 2002 no interest was capitalized and for the nine months ended March 24, 2002 interest of \$179,000 was capitalized in connection with the construction of the Company's new headquarters, training center, and distribution facility. For the three and nine months ended March 25, 2001 total interest of \$43,000 was capitalized in connection with the construction of the Company's new headquarters, training center, and distribution facility.

(6) 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.

(7) At May 7, 2002 interest payments on the Company's note receivable from an officer of the Company were past due, therefore, the note receivable was technically in default. The Company intends to enforce this obligation under the relevant terms of the Promissory Note and the Pledge Agreement. The Company acknowledges that the current collateral on this note receivable may not be sufficient in the event of nonpayment of the note and can, to the extent legally permissible, utilize future amounts owed to the officer as an offset for the amounts due under this obligation. The Company believes that the note receivable, including accrued but unpaid interest, is recoverable through the terms and remedies specified in the Pledge Agreement. The note receivable is reflected as reduction to stockholders' equity.

(8)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 MARCH 24, 2002			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 478	10,058	\$ 0.05
Effect of Dilutive Securities - Stock Options		-	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 478	10,058	\$ 0.05
	=====	=====	=====
THREE MONTHS ENDED MARCH 25, 2001			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 604	10,609	\$ 0.06
Effect of Dilutive Securities - Stock Options		1	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 604	10,610	\$ 0.06
	=====	=====	=====
NINE MONTHS ENDED MARCH 24, 2002			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,635	10,104	\$ 0.16
Effect of Dilutive Securities - Stock Options		4	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,635	10,108	\$ 0.16
	=====	=====	=====
NINE MONTHS ENDED MARCH 25, 2001			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,779	10,689	\$ 0.17
Effect of Dilutive Securities - Stock Options		4	

DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,779	10,693	\$ 0.17
	=====	=====	=====

(9) Summarized in the following tables are net sales and operating revenues, operating profit (loss), and geographic information (revenues) for the Company's reportable segments for the three months and nine months ended March 24, 2002, and March 25, 2001.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 24, 2002	MARCH 25, 2001	MARCH 24, 2002	MARCH 25, 2001
(In thousands)		(In thousands)		
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution	\$ 13,292	\$ 13,723	\$ 42,475	\$ 42,457
Franchise and Other	1,868	1,920	5,655	5,812
Intersegment revenues	181	224	589	635
Combined	15,341	15,867	48,719	48,904
Other revenues	126	99	450	416
Less intersegment revenues	(181)	(224)	(589)	(635)
Consolidated revenues	\$ 15,286	\$ 15,742	\$ 48,580	\$ 48,685
OPERATING PROFIT:				
Food and Equipment Distribution (1)	\$ 648	\$ 797	\$ 2,053	\$ 2,504
Franchise and Other (1)	757	661	2,117	2,008
Intersegment profit	56	68	167	196
Combined	1,461	1,526	4,337	4,708
Other profit or loss	126	99	450	416
Less intersegment profit	(56)	(68)	(167)	(196)
Corporate administration and other	(807)	(642)	(2,143)	(2,179)
Income before taxes	\$ 724	\$ 915	\$ 2,477	\$ 2,749
GEOGRAPHIC INFORMATION (REVENUES):				
United States	\$ 15,129	\$ 15,678	\$ 48,201	\$ 48,424
Foreign countries	157	64	379	261
Consolidated total	\$ 15,286	\$ 15,742	\$ 48,580	\$ 48,685

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

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

Quarter and nine months ended March 24, 2002 compared to the quarter and nine months ended March 25, 2001.

Diluted earnings per share for the third quarter of the current fiscal year were \$0.05 versus \$0.06 for the same period last year. For the nine months ended March 24, 2002, diluted earnings per share were \$0.16 versus \$0.17 for the same period last year. Net income for the quarter decreased 21% to \$478,000 from \$604,000 for the same quarter last year. For the nine months ended March 24, 2002, net income decreased 8% to \$1,635,000 from \$1,779,000 compared to the same period last year.

Food and supply sales for the quarter decreased 3% to \$13,292,000 from \$13,723,000 compared to the same period last year. This decrease is the result of lower chainwide sales which is partially offset by higher cheese prices. For the nine month period, food and supply sales increased slightly to \$42,475,000 from \$42,457,000 for the same period last year. During the first nine months, lower chainwide sales were offset by higher cheese prices.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, increased 4% or \$50,000 for the quarter and \$5,000 for the nine month period, compared to the same periods last year. These increases are primarily the result of higher international area development fees.

Restaurant sales, which consists of revenue generated by Company-owned training stores, decreased 17% or \$102,000 for the quarter compared to the same period of the prior year. For the nine month period, restaurant sales decreased

9% or \$162,000. The temporary closing of the delco unit during the first week of September 2001 was partially offset by higher comparable sales at the two full service units.

Other income consists primarily of interest income and non-recurring revenue items. Other income for the quarter increased 27% or \$27,000 and 8% or \$34,000 year to date compared to the prior year. This is the result of increased vendor incentives, which were offset by lower interest income.

Cost of sales decreased 3% or \$407,000 for the quarter and increased 1% or \$350,000 for the nine month period. As a percentage of sales for the quarter, cost of sales remained at 91% compared to the same period of the prior year. For the nine months, cost of sales, as a percentage of sales, increased to 92% from 91%. Higher rent expense in the first five months of the fiscal year were partially offset by lower fuel costs.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs increased 1% or \$5,000 for the quarter and decreased 3% or \$57,000 for the nine month period compared to the same periods last year.

General and administrative expenses increased 6% or \$52,000 for the quarter and increased 1% or \$17,000 for the first nine months, compared to the same periods last year. This is primarily a result of increased building expenses associated with the Company's relocation to its new corporate headquarters, including the continuation of lease expenses at the Company's previous headquarters facility.

Interest expense increased 43% or \$85,000 for the quarter compared to the same period last year due to higher debt levels, which were partially offset by lower interest rates. Interest expense decreased 20% or \$143,000 for the first nine months, compared to the same period last year due to lower interest rates and capitalized interest on funds used in construction of the new corporate headquarters, which were partially offset by higher average debt levels.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$2,989,000 during the first nine months of fiscal 2002 and was utilized, in conjunction with additional borrowings and a portion of its cash balance, primarily to fund capital expenditures and to reacquire 262,100 shares of its own common stock for \$572,724.

Capital expenditures of \$8,711,000 during the first nine months consist primarily of development and construction costs for the new corporate headquarters.

The Company continues to realize substantial benefit from the utilization of its net operating loss carry forwards (which currently total \$2.8 million and expire in 2005 and 2006) to reduce its federal tax liability from the 34% tax rate reflected on its statement of operations to no actual cash payment. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize its net deferred tax asset balance (\$2.3 million as of March 24, 2002) without reliance on material, non-routine income. Taxable income in future years at the current level would be sufficient for full realization of the net tax asset.

The Company entered into an agreement effective December 21, 2001 with its current lender to extend the term of its existing \$9.5 million revolving credit line through December 31, 2003, and to modify certain financial covenants. 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 0.0% or, at the Company's option, at the LIBOR rate plus 1.25% to 2.25%. The interest rate margin is based on the Company's performance under certain financial ratio tests. As of March 24, 2002, the revolving credit line had an outstanding balance of \$7.8 million.

The Company entered into a term note effective March 31, 2000 with its current lender. The \$5,000,000 term note had an outstanding balance of \$2.6 million at March 24, 2002 and 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%.

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 and interest payments due 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%. 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 \$8.057 million at March 24, 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. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

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.

At May 7, 2002 interest payments on the Company's note receivable from an officer of the Company were past due; therefore, the note receivable was technically in default. The Company intends to enforce this obligation under the relevant terms of the Promissory Note and the Pledge Agreement. The Company acknowledges that the current collateral on this note receivable may not be sufficient in the event of nonpayment of the note and can, to the extent legally permissible, utilize future amounts owed to the officer as an offset for the amounts due under this obligation. The Company believes that the note receivable, including accrued but unpaid interest, is recoverable through the terms and remedies specified in the Pledge Agreement. The note receivable is reflected as reduction to stockholders' equity.

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 part of the terms and conditions of the Loan, the Company was required to guaranty the obligations of Mid-South under the Loan. In the event such guaranty ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following chart summarizes all of The Company's material obligations and commitments to make future payments under contracts such as debt and lease agreements as of March 24, 2002 (in thousands):

	Less Than 1		1-3	4-5	After 5
	Total	Year	Years	Years	Years
	-----	-----	-----	-----	-----
Long-term debt	\$18,461	\$1,656	\$ 9,967	\$ 812	\$6,026
Operating lease obligations (1)	4,856	1,387	2,062	1,258	149
Capital lease obligations (2)	397	314	54	25	4
	-----	-----	-----	-----	-----
Total contractual cash obligations.	\$23,714	\$3,357	\$12,083	\$2,095	\$6,179
	=====	=====	=====	=====	=====

(1)Includes a lease dated March 21, 2002 the Company entered into for new tractors. Per the terms of the lease the obligations begin upon receipt of the tractors which is estimated to be October 2002. The above table reflects the obligations beginning at that time.

(2) Does not include amount representing interest.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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.

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.

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 and trade receivables. These notes generally have terms ranging from one to five years and interest rates of 6.5% to 11.5%. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable.

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 net operating losses and 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 has net deferred tax assets totaling \$2.3 million related primarily to net operating loss carryforwards at March 24, 2002.

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 March 24, 2002 the Company has approximately \$18.5 million of variable rate debt obligations outstanding with a weighted average interest rate of 4.51%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at March 24, 2002 would change interest expense by approximately \$54,000 for the nine months.

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.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

There are no exhibits with this report. No reports on Form 8-k were filed in the quarter for which this report is filed.

SIGNATURES

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

PIZZA INN, INC.
Registrant

By: /s/Ronald W. Parker

Ronald W. Parker
President and
Principal Financial Officer

By: /s/Shawn M. Preator

Shawn M. Preator
Vice President
Principal Accounting Officer

Dated: May 7, 2002