

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

## FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 24, 2001.

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 as specified in its charter)

MISSOURI 47-0654575

(State or jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

5050 QUORUM DRIVE

SUITE 500

DALLAS, TEXAS 75254

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (972) 701-9955

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE \$.01 EACH

(Title of Class)

At September 10, 2001, there were 10,107,788 shares of the registrant's Common Stock outstanding, and the aggregate Market value of registrant's Common Stock held by non-affiliates was \$20,720,965, based upon the average of the bid and ask prices.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 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

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed pursuant to Section 14(a) of the Securities Exchange Act of 1934 in connection with the registrant's annual meeting of shareholders in December 2001, have been incorporated by reference in Part III of this report.

## PART I

## ITEM 1 - BUSINESS

## GENERAL

Pizza Inn, Inc. (the "Company"), a Missouri corporation incorporated in 1983, is the successor to a Texas company of the same name which was incorporated in 1961. The Company is the franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn" .

On September 10, 2001, the Pizza Inn system consisted of 447 units, including two Company operated units, a third which the Company is currently in the process of relocating, and 444 franchised units. The Company-operated units are used for product testing and franchisee training, in addition to serving customers. The domestic units are comprised of 242 full service units, 44 delivery/carry-out units, 12 self serve buffet units, and 88 Express units. The international units are comprised of 20 full service units, 28 delivery/carry-out units and 13 Express units. Pizza Inn units are currently located in 20 states and 12 foreign countries. Domestic units are located predominantly in the southern half of the United States, with Texas, North Carolina and Arkansas accounting for approximately 31%, 17% and 9% of the total, respectively. Norco Distributing Company ("Norco"), a division of the Company, distributes food products, equipment, and other supplies to units in the United States and, to the extent feasible, in other countries.

## PIZZA INN RESTAURANTS

Full service restaurants ("Full Service") offer dine-in and carry-out service and, in most cases, also offer delivery service. These restaurants serve pizza on three different crusts (The Original Thin Crust, New York Pan, and Italian Crust), with standard toppings and special combinations of toppings. They also offer pasta, salad, sandwiches, desserts and beverages, including beer and wine in some locations. They are generally located in free standing buildings in close proximity to offices, shopping centers and residential areas. The current standard Full Service units are between 3,000 and 5,000 square feet in size and seat 130 to 185 customers. The interior decor is designed to promote a contemporary, family style atmosphere.

Restaurants that offer delivery and carry-out service only ("Delcos") are growing in popularity and number. Delcos typically are located in shopping centers or other in-line arrangements, occupy approximately 1,000 square feet, and offer limited or no seating. Delcos generally offer the same menu as Full-Service units, except for buffet. The decor of these units is designed to be bright and highly visible, featuring neon, lighted displays and awnings.

The Self Serve Buffet restaurant ("Self Serve") offers items from the full dine-in menu, and features delivery and carryout and a self-serve buffet and beverage station. The Self Serve can be free-standing or located in a strip center. Slightly larger than a Delco, it ranges in size from 2,400 to 2,600 square feet and seats between 60 to 70 customers.

A fourth version, Pizza Inn Express Serve units ("Express"), are typically located in a convenience store, college campus, airport terminal or other commercial facility. They have limited or no seating and offer quick carry-out service of a limited menu of pizza and other foods and beverages. An Express unit typically occupies approximately 300 to 400 square feet and is operated by the same person who owns the commercial facility or who is licensed at one or more locations within the facility.

## FRANCHISING

The Pizza Inn concept was first franchised in 1963. Since that time, industry franchising concepts and development strategies have changed, thus present franchise relationships are evidenced by a variety of contractual forms. Common to those forms are provisions which: (i) provide an initial franchise term of 20 years and a renewal term, (ii) require the franchisee to follow the Pizza Inn system of restaurant operation and management, (iii) require the franchisee to pay a franchise fee and continuing royalties, and (iv) prohibit the development of one unit within a specified distance from another.

The Company's current form of franchise agreement provides for: (i) a franchise fee of \$20,000 for a Full Service unit, \$15,000 for a Self Serve, \$7,500 for a Delco and \$3,500 for an Express unit, (ii) an initial franchise term of 20 years for a Full Service or Self Serve unit, 10 years for a Delco, plus a renewal term of 10 years in both cases, and an initial term of five years for an Express unit plus a renewal term of five years, (iii) contributions equal to 1% of gross sales to the Pizza Inn Advertising Plan or to the Company, discussed below, (iv) royalties equal to 4% of gross sales for a Full Service, Self Serve or Delco and 6% of gross sales for an Express unit and (v) required advertising expenditures of at least 5% of gross sales for a Full Service, Self Serve and a Delco and 2% for an Express unit.

The Company has adopted a franchising strategy which has three major components: continued development within existing Pizza Inn market areas, development of new domestic territories, and continued growth in the international arena. As a cornerstone of this approach, the Company offers, to certain experienced restaurant operators, area developer rights in both new and existing domestic markets. An area developer pays a negotiated fee to purchase the right to operate or develop, along with the Company, Pizza Inn restaurants within a defined territory, typically for a term of 20 years plus renewal options for 10 years. The area developer agrees to a new store development schedule and assists the Company in local franchise service and quality control. In return, half of the franchise fees and royalties earned on all units within the territory are retained by the area developer during the term of the agreement. Similarly, the Company offers master franchise rights to develop Pizza Inn restaurants in certain foreign countries, with negotiated fees, development schedules and ongoing royalties.

As with developers, a master licensee for a foreign country pays a negotiated fee to purchase the right to develop and operate Pizza Inn restaurants within a defined foreign territory, typically for a term of 20 years plus renewal options for 10 years. The master licensee agrees to a new store development schedule and the Company trains the master licensee to monitor and assist franchisees in their territory with local franchise service and quality control, with support from the Company. In return, the master licensee typically retains half the franchise fees and approximately half the royalties on all units within the territory during the term of the agreement. While all Pizza Inn restaurants opened in an area of a developer's territory enter into franchise agreements with the Company, a master licensee may open restaurants owned and operated by the master licensee, or they may open sub-franchised restaurants owned and operated by third parties through agreement with the master licensee.

## FOOD AND SUPPLY DISTRIBUTION

The Company's Norco division offers substantially all of the food and paper products, equipment and other supplies necessary to operate a Pizza Inn restaurant. Franchisees are required to purchase from Norco certain food products which are proprietary to the Pizza Inn system. In addition, the vast majority of franchisees also purchase other supplies from Norco.

Norco operates its central distribution facility six days per week, and it delivers to all domestic units on a weekly basis, utilizing a fleet of refrigerated tractor-trailer units operated by Company drivers and independent owner-operators. Norco also ships products and equipment to its international franchisees. The food, equipment, and other supplies distributed by Norco are generally available from several qualified sources, and the Company is not dependent upon any one supplier or limited group of suppliers. The Company contracts with established food processors for the production of its proprietary products. The Company does not anticipate any difficulty in obtaining supplies in the foreseeable future.

## ADVERTISING

The Pizza Inn Advertising Plan ("PIAP") is a non-profit corporation that creates and produces print advertisements, television and radio commercials, and in-store promotional materials along with related advertising services for use by its members. Each operator of a Full Service, Self Serve or Delco unit, including the Company, is entitled to membership in PIAP. Nearly all of the Company's existing franchise agreements for Full Service, Self Serve and Delco units require the franchisees to become members of PIAP. Members contribute 1% of their gross sales. PIAP is managed by a Board of Trustees, comprised of franchisee representatives who are elected by the members each year. The Company does not have any ownership interest in PIAP. The Company provides certain administrative, marketing and other services to PIAP and is paid by PIAP for such services. On September 10, 2001, the Company-operated stores and substantially all of its franchisees were members of PIAP. Operators of Express units do not participate in PIAP; however, they contribute up to 1% of their gross sales directly to the Company to help fund Express unit marketing

materials and similar expenditures. Express units may also voluntarily contribute up to 2% of their gross sales to the Royalty Rebate Advertising Program ("RRAP").

Groups of franchisees in some of the Pizza Inn system's market areas have formed local advertising cooperatives. These cooperatives, which may be formed voluntarily or may be required by the Company under the franchise agreements, establish contributions to be made by their members and direct the expenditure of these contributions on local media advertising using materials developed by PIAP and the Company.

The Company and its franchisees conduct independent marketing efforts in addition to their participation in PIAP and local cooperatives.

#### TRADEMARKS AND QUALITY CONTROL

The Company owns various trademarks, including the name "Pizza Inn", which are used in connection with the restaurants and have been registered with the United States Patent and Trademark Office. The duration of such trademarks is unlimited, subject to continued use. In addition, the Company has obtained trademark registrations in several foreign countries and has applied for registration in others. The Company believes that it holds the necessary rights for protection of the trademarks essential to its business.

The Company requires all units to satisfy certain quality standards governing the products and services offered through use of the Company's trademarks. The Company maintains a staff of field representatives, whose primary responsibilities include periodic visits to provide advice in operational and marketing activities and to evaluate and enforce compliance with the Company's quality standards.

#### TRAINING

The Company offers numerous training programs for the benefit of franchisees and their restaurant crew managers. The training programs, taught by experienced Company employees, focus on food preparation, service, cost control, sanitation, safety, local store marketing, personnel management, and other aspects of restaurant operation. The training programs include group classes, supervised work in Company operated units, and special field seminars. Training programs are offered free of charge to franchisees, who pay their own travel and lodging expenses. Restaurant managers train their staff through on-the-job training, utilizing video tapes and printed materials produced by the Company.

#### WORKING CAPITAL PRACTICES

The Company's Norco division maintains a sufficient inventory of food and other consumable supplies which it distributes to Pizza Inn units typically on a weekly basis. The Company's accounts receivable and notes receivable consist primarily of receivables from food and supply sales, equipment sales, and accrued franchise royalties.

#### GOVERNMENT REGULATION

The Company is subject to registration and disclosure requirements and other restrictions under federal and state franchise laws. The Company's Norco division is subject to various federal and state regulations, including those regarding transportation of goods, food labeling, safety, sanitation, distribution, and vehicle licensing.

The development and operation of Pizza Inn units are subject to federal, state and local regulations, including those pertaining to zoning, public health, and alcoholic beverages, where applicable. Many restaurant employees are paid at rates related to the minimum wage established by federal and state law. Increases in the federal minimum wage can result in higher labor costs for the Company operated units, as well as its franchisees, which may be partially offset by price increases or operational and equipment efficiencies.

#### EMPLOYEES

On September 10, 2001, the Company had approximately 211 employees, including 61 in the Company's corporate office, 80 at its Norco division, and 19 full-time and 51 part-time employees at the Company operated restaurants. None of the Company's employees are currently covered by collective bargaining agreements. The Company believes that its employee relations are excellent.

#### COMPETITION

The restaurant business is highly competitive. The Company and its franchisees compete with other national and regional pizza chains, independent pizza restaurants, and other restaurants which serve moderately priced foods. The Company believes that Pizza Inn units compete primarily on the basis of the quality, value and price of their food, the consistency and level of service, and the location, attractiveness and cleanliness of their restaurant facilities. Because of the importance of brand awareness, the Company has increased its development emphasis on individual market penetration and local cooperative advertising by franchisees.

The Company's Norco division competes with both national and local distributors of food, equipment and other restaurant supplies. The distribution industry is very competitive. The Company believes that the principal competitive factors in the distribution industry are product quality, customer service and price. Norco is the sole authorized supplier of certain proprietary products which are required to be used by all Pizza Inn units.

In the sale of franchises, the Company competes with franchisors of other

restaurant concepts and franchisors of a variety of other products and services. The Company believes that the principal competitive factors affecting the sale of franchises are product quality and value, consumer acceptance, franchisor experience and support, and the quality relationship maintained between the franchisor and its franchisees.

#### SEASONALITY

Historically, sales at Pizza Inn restaurants have been somewhat higher during the warmer months and somewhat lower during the colder months of the year. The Company believes that the increasing popularity of delivery service and expansion into the high impulse purchase markets of Express units should lessen the seasonal impact on future chainwide sales.

ITEM 2 - PROPERTIES

The Company leases 20,677 square feet in Dallas, Texas for its corporate office and 76,700 square feet in Grand Prairie, Texas for its Norco warehouse and office facilities. The leases expire in April 2003 and October 2001, respectively. The Company also leases 2,736 square feet in Addison, Texas for its training facility and test kitchen with a term expiring in December 2001.

The Company's current lease for its distribution facility expires in October 2001, at which time the Company plans to relocate Norco operations to its new distribution facility as described below.

In December 2000 the Company purchased approximately 11 acres of land in The Colony, Texas for the relocation of its corporate office, training center and distribution facility. Construction is underway on a 100,000 square foot distribution facility and a 40,000 square foot facility to house the Company's corporate office and training center. Occupancy is scheduled for November 2001.

Each of the Company operated Pizza Inn restaurants (all located in Texas) are leased. The Company operated units range in size from approximately 2,500 to 3,600 square feet and incur annual minimum rent between \$12.50 and \$20.00 per square foot. Some of the leases require payment of additional rent based upon a percentage of gross sales and require the Company to pay for repairs, insurance and real estate taxes. The leases are renewable and will expire in 2005 and 2007.

ITEM 3 - LEGAL PROCEEDINGS

Certain pending legal proceedings exist against the Company which the Company believes are not material or have arisen in the ordinary course of its business.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's fiscal year 2001.

## PART II

## ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On September 10, 2001, there were 2,446 stockholders of record of the Company's Common Stock.

The Company's Common Stock is listed on the Small-Cap Market of the National Association of Securities Dealers Automated Quotation ("NASDAQ") system under the symbol "PZZI". The following table shows the highest and lowest actual trade executed price per share of the Common Stock during each quarterly period within the two most recent fiscal years, as reported by the National Association of Securities Dealers. Such prices reflect inter-dealer quotations, without adjustment for any retail markup, markdown or commission.

	Actual Trade Executed Price	
	High	Low
	-----	-----
2001		
First Quarter Ended 9/24/2000 .	4	2 15/16
Second Quarter Ended 12/24/2000	3 3/8	1 5/8
Third Quarter Ended 3/25/2001 .	2 7/8	1 7/16
Fourth Quarter Ended 6/24/2001.	2 1/4	1 5/8
2000		
First Quarter Ended 9/26/1999 .	4	2 5/16
Second Quarter Ended 12/26/1999	4 1/4	3 1/4
Third Quarter Ended 3/26/2000 .	4 1/8	2 7/8
Fourth Quarter Ended 6/25/2000.	3 3/4	3 1/8

During the first two quarters of fiscal 2001 the Board of Directors of the Company declared quarterly cash dividends of \$0.06 per share. For the year ended June 24, 2001 cash dividends paid were approximately \$1.2 million or \$0.12 per share. Any determination to pay cash dividends in the future will be at the discretion of the Company's Board of Directors and will be dependent upon the Company's results of operations, financial condition, capital requirements, contractual restrictions and other factors deemed relevant.

ITEM 6 - SELECTED FINANCIAL DATA

The following table contains certain selected financial data for the Company for each of the last five fiscal years through June 24 2001, and should be read in conjunction with the financial statements and schedules in Item 8 of this report. Earnings per share data for all periods presented have been restated to reflect the computation of earnings per share in accordance with SFAS 128.

	Year Ended				
	June 24, 2001	June 25, 2000	June 27, 1999	June 28, 1998	June 29, 1997
(In thousands, except per share amounts)					
SELECTED INCOME STATEMENT DATA:					
Total revenues . . . . .	\$ 63,827	\$ 66,304	\$ 66,294	\$ 68,640	\$ 69,123
Income before taxes . . . . .	3,921	4,389	4,096	7,023	6,860
Net income . . . . .	2,480	2,884	2,752	4,880	4,528
Basic earnings per common share . . . . .	0.23	.25	.24	.38	.35
Diluted earnings per common share . . . . .	0.23	.25	.23	.36	.33
Dividends declared per common share . . . . .	0.12	.24 (2)	.18(1)	.24	-
SELECTED BALANCE SHEET DATA:					
Total assets . . . . .	19,872	17,691	18,586	21,773	24,310
Long-term debt and capital lease obligations . . . . .	11,161	10,655	6,944	5,454	7,789

- (1) On June 28, 1999 the Company's Board of Directors declared a quarterly dividend of \$.06 per share on the Company's common stock, payable to shareholders of record on July 9, 1999.
- (2) On June 26, 2000 the Company's Board of Directors declared a quarterly dividend of \$.06 per share on the Company's common stock, payable to shareholders of record on July 7, 2000.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FISCAL 2001 COMPARED TO FISCAL 2000

Diluted earnings per share decreased 8% to \$0.23 from \$0.25 in the prior year. Net income decreased 14% to \$2,480,000 from \$2,884,000 in the prior year, on revenues of \$63.8 million in the current year and \$66.3 million in the prior year. Pre-tax income decreased 11% to \$3,921,000 from \$4,389,000. The Company considers pre-tax income to be the best measure of its performance due to the significant benefit of its net operating loss carryforwards. These carryforwards, which total \$2.8 million at June 24, 2001, reduce the income taxes paid by the Company from the 34% statutory rate to the minimum tax rate of approximately 2%.

Food and supply sales by the Company's distribution division decreased 4% to \$55.7 million from \$58.0 million in the prior year as a result of fewer stores, softer retail sales, and slightly lower cheese prices. International food and supply sales decreased \$554,000 from the prior year due to lower sales and store closings caused primarily by poor economic and social conditions in international markets. Domestic and international equipment sales decreased 12.6%, or \$213,000 from the prior year due to fewer store openings.

Franchise revenue, which includes royalties, license fees and income from area development and foreign master license (collectively, "Territory") sales, decreased 6% or \$326,000 in fiscal 2001. Royalty revenue decreased 5% or \$294,000 compared to last year, mainly resulting from a decrease in domestic and international chainwide sales.

Restaurant sales, which consist of revenue generated by Company-owned stores, for the year decreased less than 1% or \$6,000 compared to the same period of the prior year.

Other income consists of primarily interest income and non-recurring revenue items. Other income increased 69% or \$153,000 due to higher vendor incentives in the current year, the sale of promotional items, and increased interest income.

Cost of sales decreased 4% to \$52.8 million from \$55.3 million in the prior year. As a percentage of sales, cost of sales decreased to 90.9% from 91.5% compared to the prior year. Cost of sales decreased primarily due to lower food and supply sales as noted above, which was partially offset by higher vehicle costs, depreciation and amortization, and rent expense.

Franchise expenses include selling, general and administrative expenses (primarily wages and travel expenses) directly related to the sale and service of franchises and Territories. These costs increased 9% or \$185,000 compared to last year. This was primarily due to lower marketing expenses in the prior



year.

General and administrative expenses increased 5% or \$188,000 in fiscal 2001. This is a result of computer system modifications that were capitalized in the prior year, and lower legal fees in the prior year.

Interest expense increased 11% or \$86,000 in the current year. Lower interest rates and capitalized interest on funds used in construction of the new corporate office and distribution facility were partially offset by higher debt levels in the current year.

During fiscal 2001, the Company opened for business a total of 35 new Pizza Inn franchise units, including 27 domestic and 8 international units. Domestically, 58 units, including 25 Express units, were closed by franchisees or terminated by the Company typically because of unsatisfactory standards of operation or performance. Similarly 23 international units were closed, of which 11 were kiosk units.

#### FISCAL 2000 COMPARED TO FISCAL 1999

Diluted earnings per share increased 9% to \$0.25 from \$0.23 in the prior year. Net income increased 5% to \$2,884,000 from \$2,752,000 in the prior year, on revenues of \$66.3 million in each year. Pre-tax income increased 7% to \$4,389,000 from \$4,096,000. The Company considers pre-tax income to be the best measure of its performance due to the significant benefit of its net operating loss carryforwards. These carryforwards, which total \$6.6 million at June 25, 2000, reduce the income taxes paid by the Company from the 34% statutory rate to the minimum tax rate of approximately 2%.

Food and supply sales of \$58 million for the year decreased slightly as compared to the same period last year due to higher overall cheese prices in the prior year. Excluding the change in cheese prices, food and supply sales increased approximately \$2,000,000 reflecting greater chainwide sales.

Franchise revenue, which includes royalties, license fees and income from area development and foreign master license (collectively, "Territory") sales, increased 1% or \$80,000 in fiscal 2000. Royalty revenue increased \$191,000 or 4% compared to last year, mainly resulting from an increase in domestic chainwide sales. These increases were offset by \$106,000 less of area development territory sales in fiscal 2000.

Restaurant sales, which consist of revenue generated by Company-owned stores, for the year increased 3% or \$65,000 compared to the same period of the prior year. Comparable store sales growth at Company-owned stores increased 5% for the year, which offset the closing of one Delco unit in August 1998.

Other income consists of primarily interest income and non-recurring revenue items. Other income decreased 22% or \$64,000 due to higher vendor incentives in the prior year, partially offset by increased interest income in the current year.

Cost of sales decreased slightly compared to the same period last year. As a percentage of sales, cost of sales remained the same for both years at 91.5%. Lower cheese prices in fiscal 2000 were offset by higher chainwide sales, as noted above. These higher chainwide sales required additional distribution miles resulting in higher fuel costs, compounded even further by higher fuel prices.

Franchise expenses include selling, general and administrative expenses (primarily wages and travel expenses), directly related to the sale and service of franchises and Territories. These costs decreased 27% or \$738,000 compared to last year. This was primarily due to lower marketing expenses and an increase in allocation of corporate services expenses to the distribution center resulting in a corresponding decrease in franchise expenses.

General and administrative expenses increased 7% or \$251,000 in fiscal 2000. This is a result of higher insurance costs, higher franchise and property taxes, and payroll costs that were capitalized as software development costs as required by current accounting pronouncements in the prior year. These increases were partially offset by lower legal and contract services expenses.

Interest expense increased 43% or \$226,000 in the current year as a result of higher debt levels, capital lease interest expense on new computer equipment, and higher interest rates.

During fiscal 2000, the Company opened for business a total of 42 new Pizza Inn franchise units, including 26 domestic and 16 international units. Domestically, 27 units were closed by franchisees or terminated by the Company typically because of unsatisfactory standards of operation or performance. Similarly, 34 Kmart express units and 5 international units were closed.

#### FINANCIAL CONDITION

Cash and cash equivalents increased \$56,000 in fiscal 2001. The Company used the cash flow generated from operations plus the proceeds from increased net bank borrowings of \$1.1 million to fund \$4.7 million of capital expenditures consisting primarily of land and construction costs for the new corporate office and distribution center, and \$1.3 million to reacquire 541,122 shares of its own common stock at prevailing prices on the open market. The Company also used \$1.2 million to pay cash dividends on its common stock in fiscal 2001.

At June 24, 2001 the net deferred tax asset balance was \$3.1 million. This balance includes \$2.8 million of net operating loss carryforwards and other temporary differences. At June 24, 2001, the Company has a valuation allowance of \$38,000 for credit carryforwards that may expire before they can be utilized. The Company believes that it is more likely than not that these credits will not be realized.

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 \$38,000 related to the potential expiration of certain tax credit carryforwards. Future taxable income at the same level as fiscal 2001 would be sufficient for full realization of the net operating loss carryforwards included in the net tax asset. Additionally, management believes that taxable income based on recent growth trends of the Company's franchise base should be more than sufficient to enable the Company to realize its deferred tax asset without reliance on material, non-routine income.

While the Company expects to realize substantial benefit from the utilization of its net operating loss carryforwards (which currently total \$2.8 million and expire in 2005 and 2006) to reduce its federal tax liability, current accounting standards dictate that this benefit can not be reflected in the Company's results of operations. In accordance with SFAS 109, the carryforwards, when utilized, are reflected as a reduction of the deferred tax asset rather than a reduction of income tax expense. This has caused the Company to reflect an amount for federal income tax expense on its statements of operations at an effective corporate rate of 37%, 34%, and 32% for fiscal years 2001, 2000 and 1999, respectively. However, the actual amount of taxes paid at the alternative minimum tax rate of approximately 2% is significantly less than the corporate rate reflected on the Company's statement of operations. Historically, the differences between pre-tax earnings for financial reporting purposes and taxable income for tax purposes have consisted of temporary differences arising from the timing of depreciation, deductions for accrued expenses and deferred revenues, as well as permanent differences as a result of the exercise of stock options deducted for income tax purposes but not for financial reporting purposes.

Under the Internal Revenue Code, the utilization of net operating losses and credit carryforwards could be limited if certain changes in ownership of the Company's common stock were to occur.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$6,420,000 in fiscal 2001 and was used primarily, in conjunction with additional borrowings, to fund capital expenditures, to reacquire the Company's common stock, and to pay dividends on its common stock.

The Company increased its bank borrowings by \$1.1 million to \$12.2 million at June 24, 2001 from \$11.1 million at June 25, 2000.

During fiscal 2001 the Company purchased 541,122 shares of its own common stock on the open market for a total price of \$1.3 million. This brings the total number of shares in treasury to 4,635,481 as of June 24, 2001.

Capital expenditures of \$4,713,000 during fiscal 2001 consist primarily of land and construction costs for the new corporate office and distribution center.

The Company's future requirements for cash relate primarily to capital expenditures, including the completion of the new corporate office and distribution center, the periodic purchase of its own common stock, and repayment of debt. The Company currently considers its common stock to be undervalued and plans to continue purchasing its own shares on the open market during fiscal year 2002. For the period June 25, 2001 through September 10, 2001 the Company has purchased 212,000 shares for a total amount of \$467,762. In addition to the the corporate office and distribution center, anticipated capital expenditures include information system upgrades and miscellaneous equipment. During fiscal 2001, the Board of Directors of the Company paid cash dividends on the Company's common stock of approximately \$1.2 million or \$0.12 per share.

The Company entered into an agreement effective December 28, 2000 with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan will convert to a term loan upon completion of the construction phase and the then unpaid principal balance will mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal and interest payments due monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .50% prior to loan conversion and .75% following loan conversion, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate after the conversion date. As of June 24, 2001, the Company had borrowed \$916,000 for the construction in progress of its new headquarters.

The Company's primary sources of cash are sales from the distribution division, royalties, license fees and Territory sales. Existing area development and master license agreements contain development commitments that should result in future chainwide growth. Related growth in distribution sales and royalties are expected to provide adequate working capital to supply the needs described above. The signing of any new area development or master license agreements, which cannot be predicted with certainty, would also provide significant infusions of cash.

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 June 24, 2001 the Company had approximately \$12.2 million of variable rate debt obligations outstanding with a weighted average interest rate of 7.19%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at June 24, 2001 would change interest expense by approximately \$88,000.

#### ECONOMIC FACTORS

The costs of operations, including labor, supplies, utilities, financing and rental costs, to the Company and its franchisees, can be significantly affected by inflation and other economic factors. Increases in any such costs would result in higher costs to the Company and its franchisees, which may be partially offset by price increases and increased efficiencies in operations. The Company's revenues are also affected by local economic trends where units are concentrated. The Company intends to pursue franchise development in new markets in the United States and other countries, which would mitigate the impact of local economic factors.

#### 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 the report, the words "anticipate," "believe," "estimate," "expect," "intend" and other 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.

PIZZA INN, INC.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements and Schedules:

FINANCIAL STATEMENTS	PAGE NO.
Report of Independent Accountants.	14
Consolidated Statements of Operations for the years ended June 24, 2001, June 25, 2000, and June 27, 1999.	15
Consolidated Statements of Comprehensive Income for the years ended June 24, 2001, June 25, 2000, and June 27, 1999.	15
Consolidated Balance Sheets at June 24, 2001 and June 25, 2000	16
Consolidated Statements of Shareholders' Equity for the years ended June 24, 2001, June 25, 2000, and June 27, 1999.	17
Consolidated Statements of Cash Flows for the years ended June 24, 2001, June 25, 2000, and June 27, 1999.	18
Notes to Consolidated Financial Statements.	20

FINANCIAL STATEMENT SCHEDULES

Schedule II - Consolidated Valuation and Qualifying Accounts 33

All other schedules are omitted because they are not applicable, not required or because the required information is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
and Shareholders of Pizza Inn, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Pizza Inn, Inc. and its subsidiaries at June 24, 2001 and June 25, 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 24, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Dallas, Texas  
September 6, 2001

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

	YEAR ENDED		
	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
<b>REVENUES:</b>			
Food and supply sales . . . . .	\$ 55,732	\$ 58,030	\$ 58,101
Franchise revenue . . . . .	5,373	5,699	5,619
Restaurant sales . . . . .	2,346	2,352	2,287
Other income . . . . .	376	223	287
	-----	-----	-----
	63,827	66,304	66,294
	-----	-----	-----
<b>COSTS AND EXPENSES:</b>			
Cost of sales . . . . .	52,802	55,255	55,265
Franchise expenses . . . . .	2,188	2,003	2,741
General and administrative expenses . . . . .	3,870	3,682	3,431
Provision for bad debt . . . . .	210	225	237
Interest expense . . . . .	836	750	524
	-----	-----	-----
	59,906	61,915	62,198
	-----	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	3,921	4,389	4,096
Provision for income taxes . . . . .	1,441	1,505	1,344
	-----	-----	-----
NET INCOME . . . . .	\$ 2,480	\$ 2,884	\$ 2,752
	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE . . . . .	0.23	0.25	0.24
	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE . . . . .	0.23	0.25	0.23
	=====	=====	=====
DIVIDENDS DECLARED PER COMMON SHARE . . . . .	0.12	0.24	0.18
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES . . . . .	10,635	11,316	11,678
	=====	=====	=====
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . . . . .	10,639	11,441	12,154
	=====	=====	=====

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(IN THOUSANDS)

	YEAR ENDED		
	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
Net Income . . . . .	\$ 2,480	\$ 2,884	\$ 2,752
Interest rate swap loss (net of tax of \$38) . . . . .	(73)	-	-
	-----	-----	-----
Comprehensive Income . . . . .	\$ 2,407	\$ 2,884	\$ 2,752
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

ASSETS	YEAR ENDED	
	JUNE 24, 2001	JUNE 25, 2000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 540	\$ 484
Accounts receivable, less allowance for doubtful		

accounts of \$729 and \$776, respectively . . . . .	4,839	4,681
Notes receivable, current portion, less allowance for doubtful accounts of \$263 and \$260, respectively. . . . .	958	810
Inventories . . . . .	2,063	2,910
Deferred taxes, net . . . . .	1,285	1,117
Prepaid expenses and other. . . . .	578	566
	-----	-----
Total current assets. . . . .	10,263	10,568
Property, plant and equipment, net. . . . .	6,594	1,650
Property under capital leases, net. . . . .	576	1,165
Deferred taxes, net . . . . .	1,897	3,312
Long-term notes receivable, less allowance for doubtful accounts of \$9 and \$66, respectively . . .	9	262
Deposits and other. . . . .	533	734
	-----	-----
	\$ 19,872	\$ 17,691
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade. . . . .	\$ 3,245	\$ 2,251
Accrued expenses. . . . .	2,000	1,797
Current portion of long-term debt . . . . .	1,250	1,250
Current portion of capital lease obligations. . . . .	486	534
	-----	-----
Total current liabilities . . . . .	6,981	5,832
LONG-TERM LIABILITIES		
Long-term debt. . . . .	10,934	9,842
Long-term capital lease obligations . . . . .	227	813
Other long-term liabilities . . . . .	865	715
	-----	-----
	19,007	17,202
	-----	-----
COMMITMENTS AND CONTINGENCIES (See Note I)		
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,955,119 and 14,954,789 shares, respectively; outstanding 10,319,638 and 10,645,380 shares, respectively. . .	150	150
Additional paid-in capital. . . . .	7,823	7,708
Loans to officers . . . . .	(2,325)	(2,250)
Retained earnings . . . . .	14,201	13,163
Accumulated other comprehensive loss. . . . .	(73)	-
Treasury stock at cost Shares in treasury: 4,635,481 and 4,309,409, respectively . . .	(18,911)	(18,282)
	-----	-----
Total shareholders' equity. . . . .	865	489
	-----	-----
	\$ 19,872	\$ 17,691
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

PIZZA INN, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(IN THOUSANDS)

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	LOANS TO OFFICERS	RETAINED EARNINGS	ACCUM. OTHER COMP. LOSS	TREASURY STOCK AT COST	TOTAL
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, JUNE 28, 1998. . . . .	12,528	\$ 149	\$ 7,036	\$ -	\$ 13,715	\$ -	\$ (9,983)	\$10,917
Stock options exercised . . . . .	17	-	52	-	-	-	-	52
Tax benefits associated with stock options. . . . .	-	-	233	-	-	-	-	233
Dividends paid. . . . .	-	-	-	-	(2,092)	-	-	(2,092)
Acquisition of treasury stock (see Note K) . . . . .	(1,137)	-	-	-	-	-	(5,803)	(5,803)
Net income. . . . .	-	-	-	-	2,752	-	-	2,752
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, JUNE 27, 1999. . . . .	11,408	\$ 149	\$ 7,321	\$ -	\$ 14,375	\$ -	\$ (15,786)	\$ 6,059
	-----	-----	-----	-----	-----	-----	-----	-----
Stock options exercised . . . . .	47	1	83	-	(1)	-	61	144
Loans to officers for exercise of stock options . . . . .	900	-	-	(2,250)	(1,296)	-	3,546	-
Tax benefits associated with stock options. . . . .	-	-	303	-	-	-	-	303
Employee incentive options. . . . .	-	-	1	-	-	-	-	1
Dividends paid. . . . .	-	-	-	-	(2,799)	-	-	(2,799)
Acquisition of treasury stock (see Note K) . . . . .	(1,710)	-	-	-	-	-	(6,103)	(6,103)

Net income . . . . .	-	-	-	-	2,884	-	-	2,884
BALANCE, JUNE 25, 2000. . . . .	10,645	\$ 150	\$ 7,708	\$ (2,250)	\$ 13,163	\$ -	\$(18,282)	\$ 489
Stock options exercised . . . . .	215	-	37	-	(199)	-	700	538
Loans to officers for exercise of stock options.	-	-	-	(240)	-	-	-	(240)
Principal repayment of loans by officers . . . . .	-	-	-	165	-	-	-	165
Tax benefits associated with stock options. . . . .	-	-	77	-	-	-	-	77
Employee incentive options. . . . .	1	-	1	-	-	-	-	1
Dividends paid. . . . .	-	-	-	-	(1,243)	-	-	(1,243)
Acquisition of treasury stock (see Note K) . . . . .	(541)	-	-	-	-	-	(1,329)	(1,329)
Interest rate swap loss . . . . .	-	-	-	-	-	(73)	-	(73)
(net of tax \$38) . . . . .	-	-	-	-	-	-	-	-
Net income. . . . .	-	-	-	-	2,480	-	-	2,480
BALANCE, JUNE 24, 2001. . . . .	10,320	\$ 150	\$ 7,823	\$ (2,325)	\$ 14,201	\$ (73)	\$(18,911)	\$ 865

See accompanying Notes to Consolidated Financial Statements.

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

	YEAR ENDED		
	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income . . . . .	\$ 2,480	\$ 2,884	\$ 2,752
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization. . . . .	1,343	1,210	871
Provision for bad debt . . . . .	210	225	237
Income from transfer of Pizza Inn stock (see Note K)	-	-	(15)
Deferred income taxes. . . . .	1,247	1,127	1,149
Changes in assets and liabilities:			
Notes and accounts receivable. . . . .	(263)	(196)	1,179
Inventories. . . . .	847	(517)	(440)
Accounts payable - trade . . . . .	102	(390)	627
Accrued expenses . . . . .	102	111	(717)
Deferred franchise revenue . . . . .	(10)	(109)	5
Prepaid expenses and other . . . . .	362	233	193
CASH PROVIDED BY OPERATING ACTIVITIES. . . . .	6,420	4,578	5,841
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures . . . . .	(4,713)	(754)	(640)
CASH USED FOR INVESTING ACTIVITIES . . . . .	(4,713)	(754)	(640)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term bank debt and capital lease obligations. . . . .	(4,184)	(5,391)	(199)
Borrowings of long-term debt . . . . .	4,642	10,300	1,000
Dividends paid . . . . .	(1,243)	(2,799)	(2,092)
Proceeds from exercise of stock options. . . . .	298	144	52
Officer loan payment . . . . .	165	-	-
Purchases of treasury stock. . . . .	(1,329)	(6,103)	(5,788)
CASH USED FOR FINANCING ACTIVITIES . . . . .	(1,651)	(3,849)	(7,027)
Net increase (decrease) in cash and cash equivalents . . .	56	(25)	(1,826)
Cash and cash equivalents, beginning of period . . . . .	484	509	2,335
Cash and cash equivalents, end of period . . . . .	540	484	509

See accompanying Notes to Consolidated Financial Statements.



SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION  
(IN THOUSANDS)

	YEAR ENDED		
	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
<b>CASH PAYMENTS FOR:</b>			
Interest . . . . .	\$ 876	\$ 582	\$ 551
Income taxes . . . . .	65	75	20
<b>NONCASH FINANCING AND INVESTING</b>			
<b>ACTIVITIES:</b>			
Capital lease obligations incurred . . . . .	\$ -	\$ 158	\$ 992
Stock issued to officers in exchange for loans	303	2,507	-

PIZZA INN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF BUSINESS:

Pizza Inn, Inc. (the "Company"), a Missouri corporation incorporated in 1983, is the successor to a Texas company of the same name which was incorporated in 1961. The Company is the franchisor and food and supply distributor to a system of restaurants operating under the trade name "Pizza Inn" .

On June 24, 2001 the Pizza Inn system consisted of 446 locations, including three Company operated units and 443 franchised units. On June 24, 2001 the Company was franchised in 20 states and 12 foreign countries. Domestic units are located predominantly in the southern half of the United States, with Texas, North Carolina and Arkansas accounting for approximately 30%, 17%, and 9%, respectively, of the total. Norco Distributing Company ("Norco"), a division of the Company, distributes food products, equipment, and other supplies to units in the United States and, to the extent feasible, in other countries.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All appropriate intercompany balances and transactions have been eliminated. Certain prior year amounts have been reclassified to conform with current year presentation.

CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES:

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.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, including property under capital leases, are stated at cost less accumulated depreciation and amortization. Repairs and maintenance are charged to operations as incurred; major renewals and betterments are capitalized. Internal and external costs incurred to develop or purchase internal-use computer software during the application development stage, including upgrades and enhancements, are capitalized. Upon the sale or disposition of a fixed asset, the asset and the related accumulation depreciation or amortization are removed from the accounts and the gain or loss is included in operations. 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 year ended June 24, 2001, interest of \$102,000 was capitalized in connection with the construction of the Company's new headquarters, training center, and distribution facility.

Depreciation and amortization is computed on the straight-line method over the useful lives of the assets or, in the case of leasehold improvements, over the term of the lease, if shorter. The useful lives of the assets range from three to eight years. It is the Company's policy to periodically review the net realizable value of its long-lived assets when indicators exist through an assessment of the estimated future cash flows related to such assets. In the

event that assets are found to be carried at amounts which are in excess of estimated gross future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets. The Company believes no impairment of long-lived assets exists at June 24, 2001.

#### ACCOUNTS RECEIVABLE:

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.

#### NOTES RECEIVABLE:

Notes receivable primarily consist of notes from franchisees for the purchase of area development and master license territories and the refinancing of existing trade receivables. These notes generally have terms ranging from one to five years, with interest rates of 8% to 12%. The Company records a provision for doubtful receivables to allow for any amounts which may be unrecoverable.

#### INCOME TAXES:

Income taxes are accounted for using the asset and liability method pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement and carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. In addition, the Company recognizes future tax benefits to the extent that realization of such benefits are more likely than not.

#### DISTRIBUTION DIVISION OPERATIONS:

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:

Franchise revenue consists of income from license fees, royalties, and area development and foreign master license (collectively, "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. For the years ended June 24, 2001, June 25, 2000 and June 27, 1999, 96%, 96% and 93%, respectively, of franchise revenue was comprised of recurring royalties.

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. Territory fees recognized as income for the years ended June 24, 2001, June 25, 2000 and June 27, 1999 were \$0, \$0 and \$106,000, respectively.

#### DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of short-term investments, accounts and notes receivable, and debt approximate fair value. The fair value of the Company's interest rate swap is based on pricing models using current market rates.

#### USE OF MANAGEMENT ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and related revenues and expenses and disclosure of gain and loss contingencies at the date of the financial statements. Actual results could differ from those estimates.

#### FISCAL YEAR:

The Company's fiscal year ends on the last Sunday in June. Fiscal years ended June 24, 2001, June 25, 2000 and June 27, 1999 all contained 52 weeks.

#### NEW PRONOUNCEMENTS:

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company entered into an interest rate swap, designated as a cash flow hedge, to manage interest rate risk related to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. SFAS No. 133 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 June 24, 2001 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.

The Company has adopted Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements", which, among other guidance, clarifies certain conditions to be met in order to recognize revenue. SAB 101 was to be adopted no later than the fourth quarter of fiscal years beginning after December 15, 1999. The adoption of SAB 101 has resulted in no material effect on the Company's revenues recorded.

NOTE B - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment and property under capital leases consist of the following (in thousands):

	JUNE 24,		JUNE 25,
	2001		2000
Property, plant and equipment:			
Equipment, furniture and fixtures \$	4,932	\$	4,522
Land . . . . .	1,984		-
Construction in progress . . . . .	3,279		-
Leasehold improvements . . . . .	1,595		1,482
	-----		-----
	11,790		6,004
Less: accumulated depreciation .	(5,196)		(4,354)
	-----		-----
	6,594		1,650
	=====		=====
Property under capital leases:			
Real Estate . . . . . \$	118	\$	118
Equipment . . . . .	2,120		2,421
	-----		-----
	2,238		2,539
Less: accumulated amortization .	(1,662)		(1,374)
	-----		-----
	576		1,165
	=====		=====

Depreciation and amortization expense was \$1,343,000, \$1,210,000, and \$871,000 for the years ended June 24, 2001, June 25, 2000, and June 27, 1999, respectively.

NOTE C - ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	JUNE 24,		JUNE 25,
	2001		2000
Compensation . . . . . \$	889	\$	1,018
Legal and other professional fees	197		100
Deferred franchise revenue . . . .	111		71
Other . . . . .	803		608
	-----		-----
	2,000		1,797
	=====		=====

NOTE D - LONG-TERM DEBT:

In August 1997, the Company signed an agreement (the "Loan Agreement") with its current lender, Wells Fargo, to refinance its debt under a new revolving credit facility. The revolving credit note is collateralized by essentially all of the Company's assets. The Loan Agreement contains covenants which, among other things, require the Company to satisfy certain financial ratios and restrict additional debt.

In March 2000, the Company amended the agreement with its current lender to extend the term of its existing \$9.5 million revolving credit line through March 2002, to modify certain financial covenants, and to enter into a \$5,000,000 term note (described below). Amounts outstanding under the revolving credit line were \$7.7 million and \$6.3 million at fiscal year end 2001 and 2000, respectively.

Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime plus an interest rate margin from -1.0% to 0.0% or, at the Company's option, at the Eurodollar 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 June 24, 2001, the Company was in compliance with all of its debt covenants. A 0.375% to 0.5% annual commitment fee is payable on any unused portion of the revolving credit line. For the years ending June 24, 2001 and June 25, 2000, the Company's interest rates were 5.25% and 7.625%, respectively (using a Eurodollar rate basis).

The \$5,000,000 term note had an outstanding balance of \$3.5 million at June 24, 2001 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 Eurodollar rate plus 1.5%. At June 24, 2001, the Company's interest rate was 5.5 % (using a Eurodollar Rate Basis).

The Company entered into an agreement effective December 28, 2000 with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan will convert to a term loan upon completion of the construction phase and the then unpaid principal balance will mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal and interest payments due monthly. Interest is provided for at a rate equal to prime less an interest rate margin of 0.50% prior to loan conversion and 0.75% following loan conversion, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate after the conversion date. As of June 24, 2001, the Company had borrowed \$916,000 for the construction in progress of its new headquarters.

In accordance with the agreement at February 27, 2001, the Company entered into an interest rate swap on that date, 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 5.80% beginning November 1, 2001 and ending November 1, 2007. At June 24, 2001, the Company recorded its interest rate swap with a fair value of \$111,000 in other liabilities, with the offset recorded in the other comprehensive income component of stockholder's equity and in deferred income taxes. At June 24, 2001, 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.

PIBCO, Ltd., a wholly owned insurance subsidiary of the Company, in the normal course of operations, arranged for the issuance of a letter of credit for \$230,000 to reinsurers to secure loss reserves. At June 24, 2001 and June 25, 2000 this letter of credit was secured under the Company's revolving line of credit. Loss reserves for approximately the same amount have been recorded by PIBCO, Ltd. and are reflected as current liabilities in the Company's financial statements.

NOTE E - INCOME TAXES:

Income tax expense consists of the following (in thousands):

	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
	-----	-----	-----
Federal:			
Current . . . . .	\$ 156	\$ 378	\$ 195
Deferred . . . . .	1,285	1,127	1,149
	-----	-----	-----
Provision for income taxes	1,441	1,505	1,344
	=====	=====	=====

The effective federal income tax rate varied from the statutory rate for the years ended June 24, 2001, June 25, 2000 and June 27, 1999 as reflected below.

	JUNE 24, 2001		JUNE 25, 2000		JUNE 27, 1999	
	-----		-----		-----	
(in thousands)						
Federal income taxes based on 34% of book income . . . . .	\$ 1,333	\$	1,492	\$	1,393	
Permanent adjustments . . . . .	70		(46)		(290)	
Change in valuation allowance . .	16		(182)		(535)	
Expired credits . . . . .	22		241		776	
	-----		-----		-----	
	1,441		1,505		1,344	
	=====		=====		=====	

The tax effects of temporary differences which give rise to the net deferred tax assets (liabilities) consisted of the following (in thousands):

	JUNE 24, 2001		JUNE 25, 2000	
	-----		-----	
Reserve for bad debt . . . . .	\$ 381	\$	415	
Depreciable assets . . . . .	678		631	
Deferred fees . . . . .	79		55	
Other reserves . . . . .	46		94	
NOL carryforwards . . . . .	954		2,246	
Interest rate swap loss . . . . .	38		-	
Credit carryforwards . . . . .	1,044		1,010	
	-----		-----	
Gross deferred tax asset \$ . . . . .	3,220	\$	4,451	
Valuation allowance . . . . .	(38)		(22)	
	-----		-----	
Net deferred tax asset . . . . .	3,182		4,429	
	=====		=====	

As of June 24, 2001, the Company had \$2.8 million of net operating loss carryforwards that expire in 2005 and 2006. The Company also had \$241,000 of foreign tax credit carryforwards expiring between 2004 and 2006 and \$803,000 of minimum tax credits that can be carried forward indefinitely. The valuation allowance was established upon adoption of SFAS 109, since it is more likely than not that a portion of the credit carryforwards will expire before they can be utilized. In fiscal 2001, \$22,000 of general business credits expired before they could be utilized. The Company decreased the deferred tax asset by \$110,000 for foreign tax credits that are not expected to be utilized.

Under the Internal Revenue Code, the utilization of net operating loss and credit carryforwards could be limited if certain changes in ownership of the Company's Common Stock were to occur. The Company's Articles of Incorporation contain certain restrictions which are intended to reduce the likelihood that such changes in ownership would occur.

NOTE F - LEASES:

The real property occupied by the Company operated restaurants is leased for initial terms ranging from five to twenty-five years with renewal options ranging from three to fifteen years. Some of the lease agreements contain either provisions requiring additional rent if sales exceed specified amounts, or escalation clauses based on changes in the Consumer Price Index.

The Company leases 20,677 square feet in Dallas, Texas for its corporate office and 76,700 square feet in Grand Prairie, Texas for its Norco warehouse and office facilities. The leases expire in 2003 and October 2001, respectively. The Company also leases 2,736 square feet in Addison, Texas for its training facility with a term expiring in December 2001. Upon expiration of the current leases for the warehouse and training facility the Company plans to relocate these facilities to its new headquarters and distribution facility currently under construction in The Colony, Texas.

The Company's distribution division currently leases a significant portion of its transportation equipment under leases with terms from five to seven years under operating and capital leases. Some of the leases include fair market value purchase options at the end of the term.

Future minimum rental payments under non-cancelable leases with initial or remaining terms of one year or more at June 24, 2001 are as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
2002. . . . .	\$ 529	1,260
2003. . . . .	107	846
2004. . . . .	108	432
2005. . . . .	11	253
2006. . . . .	12	163
Thereafter. . . . .	13	239
	-----	-----
	780. .	\$ 3,193
		=====
Less amount representing interest . . . .	(67)	
	-----	
Present value of total obligations under capital leases. . . . .	713	
Less current portion. . . . .	(486)	
	-----	
Long-term capital lease obligations . . .	\$ 227	
	=====	

Rental expense consisted of the following (in thousands):

	YEAR ENDED JUNE 24, 2001	YEAR ENDED JUNE 25, 2000	YEAR ENDED JUNE 27, 1999
Minimum rentals. . .	\$ 1,566	\$ 1,438	\$ 1,339
Contingent rentals	19	15	13
Sublease rentals . .	(102)	(96)	(99)
	-----	-----	-----
	\$ 1,483	\$ 1,357	\$ 1,253
	=====	=====	=====

NOTE G - EMPLOYEE BENEFITS:

The Company has a tax advantaged savings plan which is designed to meet the requirements of Section 401(k) of the Internal Revenue Code (the "Code"). The current plan is a modified continuation of a similar savings plan established by the Company in 1985. Employees who have completed six months of service and are at least 21 years of age are eligible to participate in the plan. The plan provides that participating employees may elect to have between 1% and 15% of their compensation deferred and contributed to the plan. From January 1, 1998 through January 1, 1999, the Company contributed on behalf of each participating employee an amount equal to 100% of up to 6% of the employee's contribution. From January 1, 1999 through July 31, 2000, the Company contributed on behalf of each participating employee an amount equal to 100% of the first 3% and 50% of the next 3% of the employee's contribution. From August 1, 2000 through December 31, 2000, the Company contributed on behalf of each participating employee an amount equal to 50% of up to 6% of the employee's contribution. Effective January 1, 2001, the Company contributes on behalf of each participating employee an amount equal to 50% of up to 4% of the employee's contribution. Separate accounts are maintained with respect to contributions made on behalf of each participating employee. Employer matching contributions and earnings thereon are invested in Common Stock of the Company. The plan is subject to the provisions of the Employee Retirement Income Security Act, as amended, and is a profit sharing plan as defined in Section 401 of the Code. The Company is the administrator of the plan.

For the years ended June 24, 2001, June 25, 2000, and June 27, 1999, total matching contributions to the tax advantaged savings plan by the Company on behalf of participating employees were \$77,000, \$185,591, and \$205,922, respectively.

NOTE H - STOCK OPTIONS:

On September 1, 1992, the Company adopted the 1992 Stock Award Plan (the "1992 Plan"). All officers, employees and elected outside directors are eligible to participate. The Company's 1992 Plan is a combined nonqualified stock option and stock appreciation rights arrangement. A total of two million shares of Pizza Inn, Inc. Common Stock were originally authorized to be awarded under the 1992 Plan. A total of 973,073 options were actually granted under the 1992 Plan through December 1993. In January 1994, the 1993 Stock Award Plan ("the 1993 Plan") was approved by the Company's shareholders with a plan effective date of October 13, 1993. Officers and employees of the Company are eligible to receive stock options under the 1993 Plan. Options are granted at market value of the stock on the date of grant, are subject to various vesting periods ranging from six months to three years with exercise periods up to eight years, and may be designated as incentive options (permitting the participant to defer resulting federal income taxes). Originally, a total of two million shares of Common Stock were authorized to be issued under the 1993 Plan. In December 1996, 1997

and 1998, the Company's shareholders approved amendments to the 1993 plan increasing by 500,000 shares, in each year, the aggregate number of shares of common stock issuable under the plan. In December, 2000, the Company's Shareholders approved amendments to the 1993 plan increasing by 100,000 shares the aggregate number of shares of common stock issuable under the plan.

The 1993 Outside Directors Stock Award Plan (the "1993 Directors Plan") was also adopted by the Company effective as of October 13, 1993. Elected Directors who are not employed by the Company are eligible to receive stock options under the 1993 Directors Plan. Options for common stock equal to twice the number of shares of common stock acquired during the previous fiscal year are granted, up to 20,000 shares per year, to each outside director. Options are granted at market value of the stock on the first day of the fiscal year, which is also the date of grant, and various vesting periods ranging from one to four years with exercise periods up to nine years. A total of 200,000 shares of Company Common Stock are authorized to be issued pursuant to the 1993 Directors Plan.

A summary of stock option transactions under all of the Company's stock option plans and information about fixed-price stock options follows:

#### SUMMARY OF STOCK OPTION TRANSACTIONS

	June 24, 2001	June 25, 2000	June 27, 1999	Price	Shares	Price
	Weighted-Average Exercise Shares	Weighted-Average Exercise Price	Weighted-Average Exercise Shares			
Outstanding at beginning of year	2,123,306	\$ 3.91	3,247,972	\$ 3.50	2,675,366	\$ 3.27
Granted . . . . .	464,160	\$ 2.83	94,000	\$ 3.57	655,290	\$ 4.79
Exercised . . . . .	(215,000)	\$ 2.50	(947,913)	\$ 2.53	(17,084)	\$ 2.97
Canceled . . . . .	(162,433)	\$ 3.82	(270,753)	\$ 4.38	(65,600)	\$ 4.68
Outstanding at end of year . . .	<u>2,210,033</u>	<u>\$ 3.82</u>	<u>2,123,306</u>	<u>\$ 3.91</u>	<u>3,247,972</u>	<u>\$ 3.50</u>
Exercisable at end of year . . .	1,696,873	\$ 4.07	1,872,616	\$ 3.88	2,745,448	\$ 3.42
Weighted-average fair value of options granted during the year.		\$ 0.93		\$ 0.75		\$ 1.30

#### FIXED PRICE STOCK OPTIONS

The following table provides information on options outstanding and options exercisable at June 24, 2001:

Range of Exercise Prices	Weighted-Average Shares Outstanding at June 24, 2001	Options Outstanding		Options Exercisable	
		Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable at June 24, 2001	Weighted-Average Exercise Price
1.75 - 3.25 . .	274,100	5.37	\$ 2.21	61,100	\$ 2.93
3.33 - 4.25 . .	1,452,943	2.40	\$ 3.74	1,184,283	\$ 3.78
4.38 - 5.50 . .	482,990	2.93	\$ 4.97	451,490	\$ 4.97
1.75 - 5.50 . .	<u>2,210,033</u>	2.88	\$ 3.82	<u>1,696,873</u>	\$ 4.07

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 123, "Accounting for Stock-Based Compensation". The fair value of options granted in fiscal 1999, 2000 and 2001 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates ranging from 4.2% to 6.6%, expected volatility of 39.4% to 50.8%, expected dividend yield of 0% to 8.9% and expected lives of 2 to 6 years.

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):

	June 24, 2001		June 25, 2000		June 27, 1999			
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income . . . . .	\$ 2,480	\$ 2,288	\$ 2,884	\$ 2,872	\$ 2,752	\$ 2,291		
Basic earnings per share .	\$ 0.23	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.24	\$ 0.20		
Diluted earnings per share \$	0.23	0.22	0.25	0.25	0.23	0.19		

The effects of applying SFAS 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.

**NOTE I - COMMITMENTS AND CONTINGENCIES:**

The Company is subject to various claims and contingencies related to employment agreements, lawsuits, taxes, food product purchase contracts and other matters arising out of the normal course of business. Management believes that any liabilities arising from these claims and contingencies are either covered by insurance or would not have a material adverse effect on the Company's annual results of operations or financial condition.

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.

**NOTE J - RELATED PARTIES:**

One of the individuals nominated by the Company and elected to serve on its Board of Directors is a franchisee. This franchisee currently operates a total of 13 restaurants located in Arkansas. Purchases by this franchisee comprised 6% of the Company's total food and supply sales in fiscal 2001. Royalties and license fees and area development sales from this franchisee comprised 3% of the Company's total franchise revenues in fiscal 2001. As franchised units, his restaurants pay royalties to the Company and purchase a majority of their food and supplies from the Company's distribution division. As of June 24, 2001, his accounts and note payable to the Company were \$875,294.

The Company believes the above transactions were at the same prices and on the same terms available to non-related third parties.

In October 1999, the Company loaned \$2,506,754 to certain officers of the Company in the form of promissory notes due in June 2004 to acquire 900,000 shares of the Company's common stock through the exercise of vested stock options previously granted to them in 1995 by the Company. The notes bear interest at the same floating interest rate the Company pays on its revolving credit line with Wells Fargo and are collateralized by certain real property and existing Company stock owned by the officers. The notes are reflected as a reduction to stockholders' equity.

In July 2000, the Company loaned \$302,581 to an officer of the Company in the form of a promissory note due in June 2004 to acquire 200,000 shares of the Company's common stock through the exercise of vested stock options previously granted in 1995 by the Company. In October 2000, a \$164,647 principal payment was made on the note. The note bears interest at the same floating interest rate the Company pays on its revolving credit line with Wells Fargo and is collateralized by certain real property and existing Company stock owned by the officer. The note is reflected as a reduction to stockholders' equity.

**NOTE K - TREASURY STOCK:**

For the period of September 1995 through June 2001, the Company purchased 4,982,061 shares of its own Common Stock from time to time on the open market at a total cost of \$20.8 million. In April 1999, the Company received a gift of 4,945 shares from a vendor which was recorded at current market value in the



amount of \$15,000. The purchases of common shares described above were funded from working capital, and reduced the Company's outstanding shares by approximately 31%.

In June 1995, the Company adopted the par value method of accounting for treasury share purchases with the intent to retire the shares purchased. In December 1999, the Company changed its method of accounting for treasury shares purchased to the cost method because it is now the Company's intent to reissue a portion of the shares held in treasury. Accordingly, retained earnings and additional paid in capital as of June 27, 1999 and June 28, 1998 were adjusted by \$5,361,115 and \$431,166, and \$2,975,817 and \$211,940, respectively.

NOTE L - EARNINGS PER SHARE:

The Company computes and presents earnings per share (EPS) in accordance with SFAS 128, "Earnings Per Share". Basic EPS excludes the effect of potentially dilutive securities while diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised, converted or resulted in the issuance of common stock that then shared in the earnings of the entity.

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
YEAR ENDED JUNE 24, 2001			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 2,480	10,635	\$ 0.23
Effect of Dilutive Securities - Stock Options		4	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 2,480	10,639	\$ 0.23
YEAR ENDED JUNE 25, 2000			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 2,884	11,316	\$ 0.25
Effect of Dilutive Securities - Stock Options		125	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 2,884	11,441	\$ 0.25
YEAR ENDED JUNE 27, 1999			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 2,752	11,678	\$ 0.24
Effect of Dilutive Securities - Stock Options		476	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 2,752	12,154	\$ 0.23

Options to purchase 2,195,033 shares of common stock at exercise prices ranging from \$2.00 to \$5.50 per share were outstanding at June 24, 2001 but were not included in the computation of diluted EPS because the option's exercise price was greater than the average market price of the common shares. Options to purchase 1,194,773 and 2,002,106 shares of common stock during fiscal years 2000 and 1999, respectively, were excluded from the computation of EPS in those years because their inclusion would result in an anti-dilutive effect on EPS.

NOTE M - SEGMENT REPORTING:

The Company has two reportable operating segments as determined by management using the "management" approach as defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". (1) Food and Equipment Distribution, and (2) Franchise and Other. These segments are a result of differences in the nature of the products and services sold. Corporate administration costs, which include, but are not limited to, general accounting, human resources, legal and credit and collections, are partially allocated to the two operating segments. Other revenue consists of nonrecurring items.

The Food and Equipment Distribution segment sells and distributes proprietary and non-proprietary items to franchisees and to three company-owned and operated stores. Inter-segment revenues consist of sales to the company owned stores. Assets for this segment include tractor/trailers, equipment, furniture and fixtures.

The Franchise and Other segment includes income from royalties, license fees and area development and foreign master license sales. The Franchise segment

includes the three company-owned stores, which are used as prototype and training facilities. Assets for this segment include equipment, furniture and fixtures for the company stores.

Corporate administration and other assets include primarily the deferred tax asset, cash and short term investments, as well as furniture and fixtures located at the corporate office.

Summarized in the following tables are net sales and operating revenues, depreciation and amortization expense, interest expense, interest income, operating profit, capital expenditures, and assets for the Company's reportable segments for the years ended June 24, 2001, June 25, 2000, and June 27, 1999:

	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
	-----	-----	-----
(In thousands)			
<b>NET SALES AND OPERATING REVENUES:</b>			
Food and Equipment Distribution . . .	\$ 55,732	\$ 58,030	\$ 58,101
Franchise and Other . . . . .	7,719	8,051	7,906
Intersegment revenues . . . . .	861	828	847
	-----	-----	-----
Combined . . . . .	64,312	66,909	66,854
Other revenues . . . . .	376	223	287
Less intersegment revenues . . . . .	(861)	(828)	(847)
	-----	-----	-----
Consolidated revenues . . . . .	\$ 63,827	\$ 66,304	\$ 66,294
	=====	=====	=====
<b>DEPRECIATION AND AMORTIZATION:</b>			
Food and Equipment Distribution . . .	\$ 992	\$ 874	\$ 579
Franchise and Other . . . . .	227	120	129
	-----	-----	-----
Combined . . . . .	1,219	994	708
Corporate administration and other .	124	216	163
	-----	-----	-----
Depreciation and amortization . .	\$ 1,343	\$ 1,210	\$ 871
	=====	=====	=====
<b>INTEREST EXPENSE:</b>			
Food and Equipment Distribution . . .	\$ 533	\$ 495	\$ 344
Franchise and Other . . . . .	6	6	8
	-----	-----	-----
Combined . . . . .	539	501	352
Corporate administration and other .	297	249	172
	-----	-----	-----
Interest Expense . . . . .	\$ 836	\$ 750	\$ 524
	=====	=====	=====
<b>INTEREST INCOME:</b>			
Food and Equipment Distribution . . .	\$ 25	\$ 66	\$ 72
Franchise and Other . . . . .	-	-	-
	-----	-----	-----
Combined . . . . .	25	66	72
Corporate administration and other .	208	126	11
	-----	-----	-----
Interest Income . . . . .	\$ 233	\$ 192	\$ 83
	=====	=====	=====
<b>OPERATING PROFIT:</b>			
Food and Equipment Distribution (1)	\$ 3,190	\$ 2,709	\$ 3,071
Franchise and Other (1) . . . . .	2,685	3,790	2,813
Intersegment profit . . . . .	256	225	216
	-----	-----	-----
Combined . . . . .	6,131	6,724	6,100
Other revenue . . . . .	376	223	287
Less intersegment profit . . . . .	(256)	(225)	(216)
Corporate administration and other .	(2,330)	(2,333)	(2,075)
	-----	-----	-----
Income before taxes . . . . .	\$ 3,921	\$ 4,389	\$ 4,096
	=====	=====	=====

(1) Does not include full allocation of corporate administration

	JUNE 24, 2001	JUNE 25, 2000	JUNE 27, 1999
	-----	-----	-----
(In thousands)			
<b>CAPITAL EXPENDITURES:</b>			
Food and Equipment Distribution . . .	\$ 4,438	\$ 413	\$ 391
Franchise and Other . . . . .	227	138	66

Combined . . . . .	4,665	551	457
Corporate administration and other . . . . .	48	203	183
Consolidated capital expenditures.	\$ 4,713	\$ 754	\$ 640
ASSETS:			
Food and Equipment Distribution. . . . .	\$ 13,575	\$ 10,279	\$ 10,402
Franchise and Other. . . . .	1,193	1,361	999
Combined . . . . .	14,768	11,640	11,401
Corporate administration and other . . . . .	5,104	6,051	7,185
Consolidated assets. . . . .	\$ 19,872	\$ 17,691	\$ 18,586
GEOGRAPHIC INFORMATION (REVENUES):			
United States. . . . .	\$ 63,225	\$ 65,047	\$ 64,990
Foreign countries. . . . .	602	1,257	1,304
Consolidated total . . . . .	\$ 63,827	\$ 66,304	\$ 66,294

NOTE N - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

The following summarizes the unaudited quarterly results of operations for the fiscal years ended June 24, 2001 and June 25, 2000 (in thousands, except per share amounts):

	Quarter Ended			
	September 24, 2000	December 24, 2000	March 25, 2001	June 24, 2001
FISCAL YEAR 2001				
Revenues . . . . .	\$ 16,816	\$ 15,520	\$ 15,366	\$ 16,125
Gross Profit . . . . .	1,287	1,050	1,112	1,308
Net Income . . . . .	646	529	604	701
Basic earnings per share on net income . . . . .	0.06	0.05	0.06	0.06
Diluted earnings per share on net income . . . . .	0.06	0.05	0.06	0.06
	Quarter Ended			
	September 26, 1999	December 26, 1999	March 26, 2000	June 25, 2000
FISCAL YEAR 2000				
Revenues . . . . .	\$ 17,394	\$ 16,331	\$ 15,967	\$ 16,612
Gross Profit . . . . .	1,276	1,308	1,207	1,348
Net Income . . . . .	747	745	673	719
Basic earnings per share on net income . . . . .	0.07	0.06	0.06	0.07
Diluted earnings per share on net income . . . . .	0.07	0.06	0.06	0.07

SCHEDULE II

PIZZA INN, INC.  
CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS  
(In thousands)

	ADDITIONS				BALANCE AT END OF PERIOD
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COST AND EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS (1)	
YEAR ENDED JUNE 24, 2001					
Allowance for doubtful accounts and notes receivable . . . . .	\$ 1,102	\$ 210	\$ -	\$ (311)	\$ 1,001

YEAR ENDED JUNE 25, 2000						
Allowance for doubtful accounts and notes receivable	\$	1,032	\$	225	\$	(155)
						\$ 1,102
YEAR ENDED JUNE 27, 1999						
Allowance for doubtful accounts and notes receivable	\$	1,007	\$	237	\$	(212)
						\$ 1,032

(1) Write-off of receivables, net of recoveries.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no events to report under this item.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the Company's annual meeting of shareholders to be held in December 2001 (the "Proxy Statement"), and is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item is included in the Proxy Statement and is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is included in the Proxy Statement and is incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is included in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON 8-K

(a) 1. The financial statements filed as part of this report are listed in the Index to

Financial Statements and Schedules under Part II, Item 8 of this Form 10-K.

2. The financial statement schedules filed as part of this report are listed in the Index

to Financial Statements and Schedules under Part II, Item 8 of this Form 10-K.

3. Exhibits:

3.1 Restated Articles of Incorporation as filed on September 5, 1990 and amended on February 16, 1993 (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1993 and incorporated herein by reference).

3.2 Amended and Restated By-Laws as adopted by the Board of Directors on July 11, 2000.

4.1 Provisions regarding Common Stock in Article IV of the Restated Articles of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1999 and incorporated herein by reference).

4.2 Provisions regarding Redeemable Preferred Stock in Article V of the Restated Articles of Incorporation, as amended (filed as Exhibit 3.1 to this Report and incorporated herein by reference).

10.1 First Amendment to the Second Amendment and Restated Loan Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated December 28, 2000. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 24, 2000 and incorporated herein by reference).

10.2 Construction Loan Agreement between the Company and Wells Fargo Bank (Texas) N.A. dated December 28, 2000. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 24, 2000 and incorporated herein by reference).

10.3 Promissory Note between the Company and Wells Fargo Bank (Texas) N.A. dated December 28, 2000. (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 24, 2000 and incorporated herein by reference).

10.4 Second amended and Restated Loan Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated March 31, 2000 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2000 and incorporated herein by reference).

10.5 Stock Purchase Agreement between the Company and Kleinwort Benson Limited dated April 28, 1995 (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 1995 and incorporated herein by reference).

10.6 Redemption Agreement between the Company and Kleinwort Benson Limited dated June 24, 1994 (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference.)

10.7 Form of Executive Employment Contract. (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 24, 2000 and incorporated herein by reference).

10.8 Amended Employment Agreement between the Company and C. Jeffrey Rogers dated April 20, 2001 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 25, 2001 and incorporated herein by reference).\*

10.10 1993 Stock Award Plan of the Company (filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).\*

10.11 1993 Outside Directors Stock Award Plan of the Company (filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).\*

10.12 1992 Stock Award Plan of the Company (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended June 27, 1993 and incorporated herein by reference).\*

21.0 List of Subsidiaries of the Company (filed as Exhibit 21.0 to the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 1994 and incorporated herein by reference).

23.0 Consent of Independent Accountants.

\* Denotes a management contract or compensatory plan or arrangement filed pursuant to Item 14 (c) of this report.

(b) No reports were filed on Form 8-K during the fourth quarter of the Company's fiscal year 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 19, 2001 By: /s/ Shawn Preator  
Shawn Preator  
Vice President of Finance  
Treasurer  
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name and Position	Date
/s/Steve A. Ungerman ----- Steve A. Ungerman Director and Chairman of the Board	September 19, 2001 -----
/s/C. Jeffrey Rogers ----- C. Jeffrey Rogers Director, Vice Chairman and Chief Executive Officer (Principal Executive Officer)	September 19, 2001 -----
/s/Butler E. Powell ----- Butler E. Powell Director	September 19, 2001 -----
/s/Ramon D. Phillips ----- Ramon D. Phillips Director	September 19, 2001 -----
/s/F. Jay Taylor ----- F. Jay Taylor Director	September 19, 2001 -----
/s/Bobby L. Clairday ----- Bobby L. Clairday Director	September 19, 2001 -----
/s/Ronald W. Parker ----- Ronald W. Parker Director, President and Chief Operating Officer (Principal Financial Officer)	September 19, 2001 -----

CONSENT OF INDEPENDENT ACCOUNTANTS

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We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 33-56590, No. 33-71700, as amended by Post-Effective Amendments No. One and Two, and No. 33-77617) of PIZZA INN, INC. of our report dated SEPTEMBER 6, 2001 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Dallas, Texas  
September 19, 2001

