

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 23, 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 IN ITS CHARTER)

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

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

(972) 701-9955  
(REGISTRANT'S TELEPHONE NUMBER,  
INCLUDING AREA CODE)

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

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

AT NOVEMBER 2, 2001, AN AGGREGATE OF 10,061,238 SHARES OF THE REGISTRANT'S  
COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF  
COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL INFORMATION

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

	THREE MONTHS ENDED	
	SEPTEMBER 23, 2001	SEPTEMBER 24, 2000
REVENUES:		
<S>	<C>	<C>
Food and supply sales . . . . .	\$ 14,731	\$ 14,728
Franchise revenue . . . . .	1,380	1,401
Restaurant sales . . . . .	574	569
Other income . . . . .	155	118
	-----	-----
	16,840	16,816
	-----	-----
COSTS AND EXPENSES:		
Cost of sales . . . . .	14,283	13,925
Franchise expenses . . . . .	542	584
General and administrative expenses . . . . .	1,002	1,020
Interest expense . . . . .	119	255
	-----	-----
	15,946	15,784
	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	894	1,032
Provision for income taxes . . . . .	304	386
	-----	-----
NET INCOME . . . . .	\$ 590	\$ 646
	=====	=====
BASIC EARNINGS PER COMMON SHARE . . . . .	\$ 0.06	\$ 0.06
	=====	=====
DILUTED EARNINGS PER COMMON SHARE . . . . .	\$ 0.06	\$ 0.06
	=====	=====
DIVIDENDS DECLARED PER COMMON SHARE . . . . .	\$ -	\$ 0.06
	=====	=====
WEIGHTED AVERAGE COMMON SHARES . . . . .	10,187	10,733
	=====	=====
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . . . . .	10,199	10,743
	=====	=====

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (IN THOUSANDS)

	THREE MONTHS ENDED	
	SEPTEMBER 23, 2001	SEPTEMBER 24, 2000
Net Income . . . . .	\$ 590	\$ 646
Interest rate swap loss (net of tax of \$104) . . . . .	(203)	-
	-----	-----
Comprehensive Income . . . . .	\$ 387	\$ 646
	=====	=====

&lt;FN&gt;

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

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

ASSETS	SEPTEMBER 23, 2001	JUNE 24, 2001
<S>	<C> (UNAUDITED)	<C>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 436	\$ 540
Accounts receivable, less allowance for doubtful accounts of \$725 and \$729, respectively . . . . .	5,051	4,839
Notes receivable, current portion, less allowance for doubtful accounts of \$169 and \$263, respectively . . . . .	918	958
Inventories . . . . .	2,063	2,063
Deferred taxes, net . . . . .	1,285	1,285
Prepaid expenses and other . . . . .	482	578
	-----	-----
Total current assets . . . . .	10,235	10,263
Property, plant and equipment, net . . . . .	10,227	6,594
Property under capital leases, net . . . . .	514	576
Deferred taxes, net . . . . .	1,715	1,897
Long-term notes receivable, less allowance for doubtful accounts of \$8 and \$9, respectively . . . . .	1	9
Deposits and other . . . . .	467	533
	-----	-----
	\$ 23,159	\$ 19,872
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade . . . . .	\$ 4,284	\$ 3,245
Accrued expenses . . . . .	2,033	2,000
Current portion of long-term debt . . . . .	1,250	1,250
Current portion of capital lease obligations . . . . .	397	486
	-----	-----
Total current liabilities . . . . .	7,964	6,981
<b>LONG-TERM LIABILITIES</b>		
Long-term debt . . . . .	13,079	10,934
Long-term capital lease obligations . . . . .	199	227
Other long-term liabilities . . . . .	1,160	865
	-----	-----
	22,402	19,007
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,955,319 and 14,955,119 shares, respectively; outstanding 10,093,688 and 10,319,638 shares, respectively . . . . .	150	150
Additional paid-in capital . . . . .	7,824	7,823
Loans to officers . . . . .	(2,325)	(2,325)
Retained earnings . . . . .	14,791	14,201
Accumulated other comprehensive loss . . . . .	(276)	(73)
Treasury stock at cost Shares in treasury: 4,861,631 and 4,635,481 respectively . . . . .	(19,407)	(18,911)
	-----	-----
Total shareholders' equity . . . . .	757	865
	-----	-----
	\$ 23,159	\$ 19,872
	=====	=====

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

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

	THREE MONTHS ENDED	
	SEPTEMBER 23, 2001	SEPTEMBER 24, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income . . . . .	\$ 590	\$ 646
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization . . . . .	336	348
Provision for bad debt . . . . .	50	50
Utilization of pre-reorganization net operating loss carryforwards . . . . .	182	288
Changes in assets and liabilities:		
Notes and accounts receivable . . . . .	(214)	(318)
Inventories . . . . .	-	754
Accounts payable - trade . . . . .	(318)	(661)
Accrued expenses . . . . .	(170)	(80)
Prepaid expenses and other . . . . .	409	54
CASH PROVIDED BY OPERATING ACTIVITIES . . . . .	865	1,081
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures . . . . .	(2,501)	(51)
CASH USED FOR INVESTING ACTIVITIES . . . . .	(2,501)	(51)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term bank debt . . . . .	2,784	500
Repayments of long-term bank debt and capital lease obligations	(756)	(842)
Dividends paid . . . . .	-	(603)
Proceeds from exercise of stock options . . . . .	-	298
Purchases of treasury stock . . . . .	(496)	(439)
CASH USED FOR FINANCING ACTIVITIES . . . . .	1,532	(1,086)
Net decrease in cash and cash equivalents . . . . .	(104)	(56)
Cash and cash equivalents, beginning of period . . . . .	540	484
Cash and cash equivalents, end of period . . . . .	\$ 436	\$ 428

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

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

	THREE MONTHS ENDED	
	SEPTEMBER 23, 2001	SEPTEMBER 24, 2000
CASH PAYMENTS FOR:		
<S>	<C>	<C>
Interest . . . . .	\$ 203	\$ 274
Income taxes . . . . .	25	25

NONCASH FINANCING AND INVESTING  
ACTIVITIES:

Stock issued to officers in exchange for loans \$ - \$ 303

<FN>

</TABLE>

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

(1) The accompanying consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements in its Form 10-K for the fiscal year ended June 24, 2001. Certain prior year amounts have been reclassified to conform with current year presentation.

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

(2) The Company entered into an agreement effective March 31, 2000 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. 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.

The \$5,000,000 term note had an outstanding balance of \$3.2 million at September 23, 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%.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan 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 September 23, 2001, the Company had borrowed \$3.2 million for the construction in progress of its new headquarters. As of November 2, 2001 the Company had borrowed \$5.8 million for the construction in progress of its new headquarters.

(3) Effective February 27, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company entered into an interest rate swap on that date, 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. SFAS No. 133 requires that for cash flow hedges, which hedge the exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At September 23, 2001, the Company recorded its interest rate swap with a fair value of \$418,000 in other liabilities, with the offset recorded in the other comprehensive income component of stockholder's equity and in deferred income taxes. At September 23, 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.

(4) On April 30, 1998, Mid-South Pizza Development, Inc., an area developer of the Company ("Mid-South") entered into a promissory note whereby, among other things, Mid-South borrowed \$1,330,000 from a third party lender (the "Loan"). The proceeds of the Loan, less transaction costs, were used by Mid-South to purchase area developer rights from the Company for certain counties in Kentucky and Tennessee. As part of the terms and conditions of the Loan, the Company was required to guaranty the obligations of Mid-South under the Loan. In the event such guaranty ever required payment, the Company has personal guarantees from certain Mid-South principals and a security interest in certain personal property.

(5) The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying asset and will be amortized over the useful life of the asset. For the quarter ended September 23, 2001 interest of \$73,000 was capitalized in connection with the construction of the Company's new headquarters, training center, and distribution facility.

(6) 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).

<TABLE>  
<CAPTION>

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
<S>	<C>	<C>	<C>
THREE MONTHS ENDED SEPTEMBER 23, 2001			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 590	10,187	\$ 0.06
Effect of Dilutive Securities - Stock Options		12	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 590	10,199	\$ 0.06
	=====	=====	=====
THREE MONTHS ENDED SEPTEMBER 24, 2000			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 646	10,733	\$ 0.06
Effect of Dilutive Securities - Stock Option		10	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 646	10,743	\$ 0.06
	=====	=====	=====

</TABLE>

(2) Summarized in the following tables are net sales and operating revenues, operating profit (loss), and geographic information (revenues) for the Company's reportable segments for the three month periods ended September 23, 2001, and September 24, 2000.

<TABLE>  
<CAPTION>

	SEPTEMBER 23, 2001		SEPTEMBER 24, 2000
	-----		-----
<S>	<C>	<C>	<C>
	(In thousands)		
NET SALES AND OPERATING REVENUES:			
Food and Equipment Distribution . . .	\$ 14,731	\$	14,728
Franchise and Other . . . . .	1,954		1,970
Intersegment revenues . . . . .	224		206
	-----		-----
Combined . . . . .	16,909		16,904
Other revenues . . . . .	155		118
Less intersegment revenues . . . . .	(224)		(206)
	-----		-----
Consolidated revenues . . . . .	16,840		16,816
	=====		=====
OPERATING PROFIT:			
Food and Equipment Distribution (1) \$	483	\$	807
Franchise and Other (1) . . . . .	810		692
Intersegment profit . . . . .	59		61
	-----		-----
Combined . . . . .	1,352		1,560
Other profit or loss . . . . .	155		118
Less intersegment profit . . . . .	(59)		(61)
Corporate administration and other.	(554)		(585)
	-----		-----
Income before taxes . . . . .	894		1,032
	=====		=====
GEOGRAPHIC INFORMATION (REVENUES):			
United States . . . . .	\$ 16,727	\$	16,591
Foreign countries . . . . .	113		225
	-----		-----
Consolidated total . . . . .	16,840		16,816

<FN>

(1) Does not include full allocation of corporate administration  
</TABLE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
-----  
RESULTS OF OPERATIONS  
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Quarter ended September 23, 2001 compared to the quarter ended September 24, 2000.

Diluted earnings per share for the quarter were \$0.06 versus \$0.06 for the same period last year. Net income for the quarter decreased 9% to \$590,000 from \$646,000 for the same quarter last year.

Food and supply sales for the quarter of \$14.7 million were flat compared to the same period last year. Lower chainwide retail sales and lower equipment sales due to fewer unit openings were offset by higher cheese prices as compared to the same period last year.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased 1% or \$21,000 for the quarter compared to the same period last year. This decrease is primarily the result of lower domestic and international royalties, which were offset by higher foreign master license fees.

Restaurant sales, which consists of revenue generated by Company-owned training stores increased 1% or \$5,000 for the quarter, compared to the same period of the prior year. This is a result of higher comparable sales at the two full service units offset by the temporary closing of the delco unit during the first week of September.

Other income consists primarily of interest income and non-recurring revenue items. Other income increased 31% or \$37,000 due to higher vendor incentives, which were offset by lower interest income.

Cost of sales increased 3% or \$358,000 for the quarter. Cost of sales, as a percentage of sales, increased to 93% from 91% for the same quarter last year. The increase is due primarily to higher cheese prices as compared to the same period last year.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs decreased 7% or \$42,000 for the quarter compared to the same period last year primarily due to lower marketing expenses.

General and administrative expenses decreased 2% or \$18,000 for the quarter compared to the same period last year. This is a result of lower IT programming and consulting expenses as compared to the same quarter last year.

Interest expense decreased 53% or \$136,000 for the quarter compared to the same period of the prior year. Lower interest rates and capitalized interest on funds used in construction of the new corporate headquarters were partially offset by higher debt levels in the current quarter.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$865,000 during the first three months of fiscal 2002 and was utilized, in conjunction with additional borrowings, primarily to fund capital expenditures and to reacquire 226,100 shares of its own common stock for \$496,000.

Capital expenditures of \$2,501,000 during the first three months consist primarily of development and construction costs for the new corporate headquarters.

The Company continues to realize substantial benefit from the utilization of its net operating loss carryforwards (which currently total \$2.8 million and expire in 2005 and 2006) to reduce its federal tax liability from the 34% tax rate reflected on its statement of operations to an actual payment of approximately 2% of taxable income. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize its net deferred tax asset balance (\$3.0 million as of September 23, 2001) without reliance on material, non-routine income. Taxable income in future years at the current level would be sufficient for full realization of the net tax asset.

The Company entered into an agreement effective March 31, 2000 with its current lender to extend the term of its existing \$9.5 million revolving credit line through March 2002 and to modify certain financial covenants. In addition, the Company entered into a \$5,000,000 term note with monthly principal

payments of \$104,000 maturing on March 31, 2004. Interest on the term loan is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .75%, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company entered into an amendment to this agreement, effective December 28, 2000, modifying certain financial covenants, as a result of a new construction loan as noted below.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan 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 September 23, 2001, The Company had borrowed \$3.2 million for the construction in progress of its new headquarters. As of November 2, 2001 the Company had borrowed \$5.8 million for the construction in progress of its new headquarters.

Effective February 27, 2001, the Company entered into an interest rate swap 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. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

#### MARKET RISK

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

At September 23, 2001 the Company has approximately \$14.3 million of variable rate debt obligations outstanding with a weighted average interest rate of 5.10%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at September 23, 2001 would change interest expense by approximately \$17,000.

#### FORWARD-LOOKING STATEMENT

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

#### PART II. OTHER INFORMATION

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

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None

##### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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Exhibits:

10.1 First Letter Modification Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated October 19, 2001.

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



filed.

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

PIZZA INN, INC.  
Registrant

By: /s/Ronald W. Parker  
-----  
Ronald W. Parker  
President and  
Principal Financial Officer

By: /s/Shawn Preator  
-----  
Shawn Preator  
Vice President of Finance, and  
Principal Accounting Officer

Dated: November 6, 2001

October 19, 2001

Pizza Inn, Inc.,  
5050 Quorum Drive, Suite 500  
Dallas TX 75240

Attn: Ronald W. Parker

Ref: Pizza Inn, Inc. a Missouri corporation  
Plano Parkway South of State Highway 121, The Colony, Denton County, TX  
("Property")  
Wells Fargo Bank Loan No. 23510E

Dear Mr. Parker:

This First Letter Modification Agreement dated October 19, 2001 ("Agreement") is entered into by and between Wells Fargo Bank Texas, National Association ("Lender"), and Pizza Inn, Inc., a Missouri corporation ("Borrower").

On December 28, 2000, Lender made a loan to Borrower in the principal amount of EIGHT MILLION ONE HUNDRED TWENTY- FIVE THOUSAND AND NO/100THS DOLLARS (\$8,125,000.00) ("Loan"). Said Loan is secured by, among other things, a Construction Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Deed of Trust") dated December 28, 2000, executed by Borrower as "Grantor" for the benefit of Lender as "Beneficiary" and recorded on December 29, 2000, as Instrument No. 122934, in the Real Property Records of Denton County, Texas, encumbering real property described more particularly therein; and evidenced by a Promissory Note dated December 28, 2000 ("Note") and other documentation necessary to perfect the Loan and any amendments or modifications thereto (individually and collectively, the "Loan Documents").

Borrower has requested, and Lender has agreed to extend the Completion Date (as set forth in the Loan Documents) from November 1, 2001 to January 1, 2002.

Lender's willingness to extend the Completion Date of the Loan Documents is subject to the satisfaction of the following conditions precedent:

1. Borrower shall deliver to Lender an unmodified, executed original of this Agreement; and
2. All payments due and owing to Lender under the Loan Documents have been paid current as of the effective date of this Agreement.

October 19, 2001

Page 2

All other terms and conditions under each of the Loan Documents shall remain unmodified and of full force and effect. Upon satisfaction of the conditions precedent described above, the extension of the maturity date of the Note shall be in effect.

"Lender"

WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION

By:/s/Paula Kinnison

Title:Vice President

Borrower hereby acknowledges and agrees to the terms and conditions stated in

the foregoing Agreement.

"Borrower"

PIZZA INN, INC.,  
a Missouri corporation

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