

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 DECEMBER 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.)

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

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

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

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

AT FEBRUARY 1, 2002, AN AGGREGATE OF 10,057,874 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

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PART 1. FINANCIAL INFORMATION

1. Financial Statements

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 23, 2001	DECEMBER 24, 2000	DECEMBER 23, 2001	DECEMBER 2000
24, REVENUES:				
<S>	<C>	<C>	<C>	<C>
Food and supply sales. . . . .	\$ 13,637	\$ 13,502	\$ 28,368	\$
28,230				
Franchise revenue. . . . .	1,316	1,338	2,696	
2,739				
Restaurant sales . . . . .	517	582	1,091	
1,151				
Other income . . . . .	119	98	274	
216				
	15,589	15,520	32,429	
32,336				
COSTS AND EXPENSES:				
Cost of sales. . . . .	12,903	12,710	27,186	
26,635				
Franchise expenses . . . . .	525	597	1,067	
1,181				
General and administrative expenses. . . . .	1,146	1,163	2,148	
2,183				
Interest expense . . . . .	156	248	275	
503				
	14,730	14,718	30,676	
30,502				
INCOME BEFORE INCOME TAXES . . . . .	859	802	1,753	
1,834				
Provision for income taxes . . . . .	292	273	596	
659				
NET INCOME . . . . .	\$ 567	\$ 529	\$ 1,157	\$
1,175				
BASIC EARNINGS PER COMMON SHARE. . . . .	\$ 0.06	\$ 0.05	\$ 0.11	\$
0.11				
DILUTED EARNINGS PER COMMON SHARE. . . . .	\$ 0.06	\$ 0.05	\$ 0.11	\$
0.11				
DIVIDENDS DECLARED PER COMMON SHARE. . . . .	\$ -	\$ 0.06	\$ -	\$
0.12				

WEIGHTED AVERAGE COMMON SHARES . . . . .	10,067	10,723	10,127
10,729	=====	=====	=====
=====			
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . . . . .	10,068	10,725	10,134
10,735	=====	=====	=====
=====			

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

ENDED	THREE MONTHS ENDED . . . . .		SIX MONTHS	
	DECEMBER 23, . . . . .	DECEMBER 24, . . . . .	DECEMBER 23, . . . . .	DECEMBER 24, . . . . .
	2001	2000	2001	2000
	-----	-----	-----	-----
Net Income . . . . .	\$ 567	\$ 529	\$ 1,157	\$ 1,175
Interest rate swap gain (loss) (net of tax of (\$48) and \$57, respectively) . . . . .	93	-	(110)	-
-----	-----	-----	-----	-----
Comprehensive Income . . . . .	\$ 660	\$ 529	\$ 1,047	\$ 1,175
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	DECEMBER 23, 2001	JUNE 24, 2001
	-----	-----
	<C>	<C>
ASSETS		
<S>		
(UNAUDITED)		
CURRENT ASSETS		
Cash and cash equivalents . . . . .	\$ 264	\$ 540
Accounts receivable, less allowance for doubtful accounts of \$724 and \$729, respectively . . . . .	5,216	4,839
Notes receivable, current portion, less allowance for doubtful accounts of \$177 and \$263, respectively . . . . .	861	958
Inventories . . . . .	2,102	2,063
Deferred taxes, net . . . . .	1,223	1,285
Prepaid expenses and other . . . . .	495	578
	-----	-----
Total current assets . . . . .	10,161	10,263
Property, plant and equipment, net . . . . .	13,717	6,594
Property under capital leases, net . . . . .	395	576
Deferred taxes, net . . . . .	1,455	1,897
Long-term notes receivable, less allowance for doubtful accounts of \$5 and \$9, respectively . . . . .	-	9
Deposits and other . . . . .	416	533
	-----	-----
	\$ 26,144	\$ 19,872
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade . . . . .	\$ 3,520	\$ 3,245
Accrued expenses . . . . .	1,957	2,000
Current portion of long-term debt . . . . .	1,250	1,250
Current portion of capital lease obligations . . . . .	355	486
	-----	-----
Total current liabilities . . . . .	7,082	6,981

LONG-TERM LIABILITIES		
Long-term debt . . . . .	16,517	10,934
Long-term capital lease obligations. . . . .	193	227
Other long-term liabilities. . . . .	1,012	865
	-----	-----
	24,804	19,007
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,955,469 and 14,955,119 shares, respectively outstanding 10,057,838 and 10,319,638 shares, respectively.		
	150	150
Additional paid-in capital . . . . .	7,824	7,823
Loans to officers. . . . .	(2,325)	(2,325)
Retained earnings. . . . .	15,358	14,201
Accumulated other comprehensive loss . . . . .	(183)	(73)
Treasury stock at cost		
Shares in treasury: 4,897,631 and 4,635,481 respectively . .	(19,484)	(18,911)
	-----	-----
Total shareholders' equity . . . . .	1,340	865
	-----	-----
	\$ 26,144	\$ 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)

	SIX MONTHS ENDED	
	DECEMBER 23, 2001	DECEMBER 24, 2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S> Net income. . . . .	\$ 1,157	\$ 1,175
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization . . . . .	635	676
Provision for bad debt. . . . .	100	125
Utilization of pre-reorganization net operating loss carryforwards . . . . .	504	544
Changes in assets and liabilities:		
Notes and accounts receivable . . . . .	(371)	(541)
Inventories . . . . .	(39)	471
Accounts payable - trade. . . . .	(314)	13
Accrued expenses. . . . .	(153)	119
Prepaid expenses and other. . . . .	246	311
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES . . . . .	1,765	2,893
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures. . . . .	(6,842)	(2,067)
	-----	-----
CASH USED FOR INVESTING ACTIVITIES. . . . .	(6,842)	(2,067)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term bank debt . . . . .	6,634	2,235
Repayments of long-term bank debt and capital lease obligations	(1,260)	(1,787)
Dividends paid. . . . .	-	(1,243)
Proceeds from exercise of stock options . . . . .	-	298
Officer loan payment. . . . .	-	165
Purchases of treasury stock . . . . .	(573)	(575)
	-----	-----
CASH USED FOR FINANCING ACTIVITIES. . . . .	4,801	(907)
	-----	-----
Net decrease in cash and cash equivalents . . . . .	(276)	(81)
Cash and cash equivalents, beginning of period. . . . .	540	484

Cash and cash equivalents, end of period. . . . .	\$	264	\$	403
---	----	-----	----	-----

<FN>

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

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<CAPTION>

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

	SIX MONTHS ENDED	
	DECEMBER 23, 2001	DECEMBER 24, 2000
CASH PAYMENTS FOR:		
<S>	<C>	<C>
Interest . . . . .	\$ 445	\$ 525
Income taxes . . . . .	50	25
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Stock issued to officers in exchange for loans \$	-	\$ 303
Capital lease obligations incurred . . . . .	156	-

<FN>

See accompanying Notes to Consolidated Financial Statements.

</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 December 21, 2001 with its current lender to extend the term of its existing \$9.5 million revolving credit line through December 31, 2003, and to modify certain financial covenants. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime plus an interest rate margin from -1.0% to 0.0% or, at the Company's option, at the LIBOR rate plus 1.25% to 2.25%. The interest rate margin is based on the Company's performance under certain financial ratio tests. As of December 23, 2001, the revolving credit line had an outstanding balance of \$8.0 million.

The Company entered into a term note effective March 31, 2000 with its current lender. The \$5,000,000 term note had an outstanding balance of \$2.9 million at December 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 LIBOR rate plus 1.5%.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. 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 .75% or, at the Company's option, to the LIBOR rate plus 1.5%. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate after the conversion date. As of December 23, 2001, the Company had borrowed \$6.8 million for the construction in progress of its new headquarters. As of February 1, 2002 the Company had borrowed \$8.125 million for 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, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The Company entered into an agreement effective December 11, 2001 to modify the termination date and the fixed pay rate of the interest rate swap. The swap agreement has a notional principal amount of \$8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. 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 December 23, 2001, the Company recorded its interest rate swap with a fair value of \$278,000 in other liabilities, with the offset recorded in the other comprehensive income component of stockholder's equity and in deferred income taxes. At December 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 six months ended December 23, 2001 interest of \$179,000 was capitalized in connection with the construction of the Company's new headquarters, training center, and distribution facility.

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

(7) At December 23, 2001 interest payments on the Company's note receivable from an officer of the Company were past due, therefore, the note receivable was technically in default. The Company intends to enforce this obligation under the relevant terms of the Promissory Note and the Pledge Agreement. The Company acknowledges that the current collateral on this note receivable may not be sufficient in the event of nonpayment of the note and can, to the extent legally permissible, utilize future amounts owed to the officer as an offset for the amounts due under this obligation. The Company believes that the note receivable, including accrued but unpaid interest, is recoverable through the terms and remedies specified in the Pledge Agreement. The note receivable is reflected as reduction to stockholders' equity.

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

<TABLE>  
<CAPTION>

INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
-----	-----	-----

<u>&lt;S&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
THREE MONTHS ENDED DECEMBER 23, 2001			
BASIC EPS			
Income Available to Common Shareholders	\$ 567	10,067	\$ 0.06
Effect of Dilutive Securities - Stock Options		1	
DILUTED EPS		-----	
Income Available to Common Shareholders & Assumed Conversions	\$ 567	10,068	\$ 0.06
	=====	=====	=====
THREE MONTHS ENDED DECEMBER 24, 2000			
BASIC EPS			
Income Available to Common Shareholders	\$ 529	10,723	\$ 0.05
Effect of Dilutive Securities - Stock Options		2	
DILUTED EPS		-----	
Income Available to Common Shareholders & Assumed Conversions	\$ 529	10,725	\$ 0.05
	=====	=====	=====
SIX MONTHS ENDED DECEMBER 23, 2001			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,157	10,127	\$ 0.11
Effect of Dilutive Securities - Stock Options		7	
DILUTED EPS		-----	
Income Available to Common Shareholders & Assumed Conversions	\$ 1,157	10,134	\$ 0.11
	=====	=====	=====
SIX MONTHS ENDED DECEMBER 24, 2000			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,175	10,729	\$ 0.11
Effect of Dilutive Securities - Stock Options		6	
DILUTED EPS		-----	
Income Available to Common Shareholders & Assumed Conversions	\$ 1,175	10,735	\$ 0.11
	=====	=====	=====

</TABLE>

(9) Summarized in the following tables are net sales and operating revenues, operating profit (loss), and geographic information (revenues) for the Company's reportable segments for the three months and six months ended December 23, 2001, and December 24, 2000.

<TABLE>  
<CAPTION>

<u>&lt;S&gt;</u>	<u>THREE MONTHS ENDED</u>		<u>SIX MONTHS ENDED</u>	
	<u>DECEMBER 23,</u>	<u>DECEMBER 24,</u>	<u>DECEMBER 23,</u>	<u>DECEMBER 24,</u>
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
(In thousands) . . . . .	(In thousands)			
NET SALES AND OPERATING REVENUES:				
Food and Equipment Distribution . . . . .	\$ 13,637	\$ 13,502	\$ 28,368	\$ 28,230
Franchise and Other . . . . .	1,833	1,920	3,787	3,890
Intersegment revenues . . . . .	192	213	416	419
	-----	-----	-----	-----
Combined . . . . .	15,662	15,635	32,571	32,539
Other revenues . . . . .	119	98	274	216
Less intersegment revenues . . . . .	(192)	(213)	(416)	(419)
	-----	-----	-----	-----
Consolidated revenues . . . . .	\$ 15,589	\$ 15,520	\$ 32,429	\$ 32,336
	=====	=====	=====	=====
OPERATING PROFIT:				
Food and Equipment Distribution (1) \$	690	\$ 756	\$ 1,173	\$ 1,563
Franchise and Other (1) . . . . .	830	629	1,640	1,321
Intersegment profit . . . . .	50	66	109	127
	-----	-----	-----	-----
Combined . . . . .	1,570	1,451	2,922	3,011
Other profit or loss . . . . .	119	98	274	216
Less intersegment profit . . . . .	(50)	(66)	(109)	(127)
Corporate administration and other.	(780)	(681)	(1,334)	(1,266)

Income before taxes . . . . .	\$ 859	\$ 802	\$ 1,753	\$ 1,834
GEOGRAPHIC INFORMATION (REVENUES):				
United States . . . . .	\$ 15,446	\$ 15,382	\$ 32,173	\$ 31,973
Foreign countries . . . . .	143	138	256	363
Consolidated total. . . . .	\$ 15,589	\$ 15,520	\$ 32,429	\$ 32,336

<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  
 -----

Quarter and six months ended December 23, 2001 compared to the quarter and six months ended December 24, 2000.

Diluted earnings per share for the second quarter of the current fiscal year were \$0.06 versus \$0.05 for the same period last year. For the six months ended December 23, 2001, diluted earnings per share were \$0.11 versus \$0.11 for the same period last year. Net income for the quarter increased 7% to \$567,000 from \$529,000 for the same quarter last year. For the six months ended December 23, 2001, net income decreased 2% to \$1,157,000 from \$1,175,000 compared to the same period last year.

Food and supply sales for the quarter increased 1% to \$13,637,000 from \$13,502,000 compared to the same period last year. For the six month period, food and supply sales increased slightly to \$28,368,000 from \$28,230,000 for 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 2% or \$22,000 for the quarter and 2% or \$43,000 for the six month period, compared to the same periods last year. These decreases are the result of lower royalties in the first and second quarters of the current year which were offset by higher franchise fees in the current year.

Restaurant sales, which consists of revenue generated by Company-owned training stores, decreased 11% or \$65,000 for the quarter compared to the same period of the prior year. For the six month period, restaurant sales decreased 5% or \$60,000. Higher comparable sales at the two full service units were 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 for the quarter increased 21% or \$21,000 and 27% or \$58,000 year to date compared to the prior year. This is the result of increased vendor incentives, which were offset by lower interest income.

Cost of sales increased 2% or \$193,000 for the quarter and increased 2% or \$551,000 for the six month period. As a percentage of sales for the quarter, cost of sales increased to 91% from 90% compared to the same period of the prior year. For the six months, cost of sales, as a percentage of sales, increased to 92% from 91%. Higher rent costs were partially offset by lower fuel costs.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs decreased 12% or \$72,000 for the quarter and 10% or \$114,000 for the six month period compared to the same periods last year. This decrease was primarily due to lower marketing costs.

General and administrative expenses decreased 1% or \$17,000 for the quarter and decreased 2% or \$35,000 for the first six months, compared to the same periods last year. This is primarily a result of lower bad debt expense and lower insurance costs, which were partially offset by higher property taxes and moving expenses.

Interest expense decreased 37% or \$92,000 for the quarter and 45% or \$228,000 for the first six months, compared to the same period of the prior year. Capitalized interest on funds used in construction of the new corporate headquarters and lower interest rates were partially offset by higher debt levels in the current year.



## LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$1,765,000 during the first six months of fiscal 2002 and was utilized, in conjunction with additional borrowings and a portion of its cash balance, primarily to fund capital expenditures and to reacquire 262,100 shares of its own common stock for \$572,724.

Capital expenditures of \$6,842,000 during the first six months included the new Corporate headquarters construction and equipment, vehicles, and the remodeling of one Company store.

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 (\$2.7 million as of December 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 December 21, 2001 with its current lender to extend the term of its existing \$9.5 million revolving credit line through December 31, 2003, and to modify certain financial covenants. Interest on the revolving credit line is payable monthly. Interest is provided for at a rate equal to prime plus an interest rate margin from -1.0% to 0.0% or, at the Company's option, at the LIBOR rate plus 1.25% to 2.25%. The interest rate margin is based on the Company's performance under certain financial ratio tests. As of December 23, 2001, the revolving credit line had an outstanding balance of \$8.0 million.

The Company entered into a term note effective March 31, 2000 with its current lender. The \$5,000,000 term note had an outstanding balance of \$2.9 million at December 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 LIBOR rate plus 1.5%.

The Company entered into an agreement effective December 28, 2000, as amended, with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan converted to a term loan effective January 31, 2002 with the unpaid principal balance to mature on December 28, 2007. 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 .75% or, at the Company's option, to the LIBOR rate plus 1.5%. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate after the conversion date. As of December 23, 2001, the Company had borrowed \$6.8 million for the construction in progress of its new headquarters. As of February 1, 2002 the Company had borrowed \$8.125 million for the construction in progress of its new headquarters.

The Company entered into an interest rate swap effective February 27, 2001, as amended, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of \$8.125 million with a fixed pay rate of 5.84% which began November 1, 2001 and will end November 19, 2007. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

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

## MARKET RISK

The Company has market risk exposure arising from changes in interest

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

At December 23, 2001 the Company has approximately \$17.8 million of variable rate debt obligations outstanding with a weighted average interest rate of 4.90%. A hypothetical 10% change in the effective interest rate for these borrowings, assuming debt levels at December 23, 2001 would change interest expense by approximately \$36,000.

#### 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 1. LEGAL PROCEEDINGS

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

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

At the Annual Meeting of Shareholders on December 19, 2001, the Company's shareholders elected all three nominees to the Board of Directors. The results of the voting were as follows:

NOMINEE	FOR	VOTES WITHHELD
C. Jeffery Rogers	8,166,112	372,029
F. Jay Taylor	8,233,665	394,477
Steve A. Ungerman	8,235,410	302,731

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

###### Exhibits:

10.1 Second Amendment to the Second Amended and Restated Loan Agreement between the Company and Wells Fargo Bank (Texas), N.A. dated January 31, 2002, but effective December 23, 2001.

10.2 Promissory Note between the Company and Wells Fargo Bank (Texas), N.A. dated January 31, 2002.

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 M. Preator  
-----

Shawn M. Preator  
Vice President  
Principal Accounting Officer

Dated: February 5, 2002

- - - - -

SECOND AMENDMENT TO THE SECOND AMENDED

AND RESTATED LOAN AGREEMENT AND RELATED LOAN DOCUMENTS

This SECOND AMENDMENT TO THE SECOND AMENDED AND RESTATED LOAN AGREEMENT AND RELATED LOAN DOCUMENTS (the "AMENDMENT"), dated as of January 31, 2002, but effective as of December 23, 2001 (the "EFFECTIVE DATE"), is by and between PIZZA INN, INC., a Missouri corporation ("BORROWER"), and WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, a national banking association (successor by consolidation to Wells Fargo Bank (Texas), National Association) (the "BANK").

RECITALS:

A. The Borrower and the Bank entered into that certain Second Amended and Restated Loan Agreement dated as of March 31, 2000 (the "AMENDED AND RESTATED LOAN AGREEMENT") and, pursuant to Article IV of the Amended and Restated Loan Agreement, that certain Construction Loan Agreement dated as of December 28, 2000, (the "CONSTRUCTION LOAN AGREEMENT"), together with a Promissory Note dated December 28, 2000 in the principal amount of Eight Million One Hundred Twenty-Five Thousand and no/100 Dollars (\$8,125,000.00) (the "CONSTRUCTION NOTE") and a Fixed Rate Agreement (the "FIXED RATE AGREEMENT") attached thereto as Exhibit A. The Construction Loan Agreement, Construction Note and Fixed Rate Agreement are hereinafter referred to as the "CONSTRUCTION LOAN DOCUMENTS."

B. In connection with the Amended and Restated Loan Agreement, Barko Realty, Inc., a Texas corporation, R-Check, Inc., a Texas corporation, and Pizza Inn of Delaware, Inc., a Delaware corporation (collectively, the "GUARANTORS"), executed that certain Second Amended and Restated Guaranty dated as of March 31, 2000 in favor of the Bank (as the same may be amended, restated or modified from time to time, the "GUARANTY").

C. The Borrower and the Bank amended the Amended and Restated Loan Agreement pursuant to that certain First Amendment to Second Amended and Restated Loan Agreement dated as of December 28, 2000 (the "FIRST AMENDMENT"). The Amended and Restated Loan Agreement, as amended by the First Amendment, is hereinafter referred to as the "LOAN AGREEMENT."

D. The Borrower and the Bank now desire to amend the Loan Agreement and the Construction Loan Documents as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

DEFINITIONS

Section 1.1 DEFINITIONS.

Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Loan Documents as amended hereby.

ARTICLE II.

AMENDMENTS TO LOAN AGREEMENT

Section 2.1 DELETION OF DEFINITIONS. Effective as of the Effective Date, the following definitions in Section 1.1 of the Loan Agreement are hereby deleted in their entirety:

"ADJUSTED EURODOLLAR RATE"

"EURODOLLAR RATE"

"EURODOLLAR RATE MARGIN"

"RESERVE REQUIREMENT"

Section 2.2 ADDITION OF DEFINITIONS. Effective as of the Effective Date, the

following definitions shall be inserted in their proper alphabetical order to Section 1.1 of the Loan Agreement:

"BASE LIBOR" means, for any Eurodollar Advance for any Interest Period, the

rate per annum for United States dollar deposits quoted by the Reference Bank as the Inter-Bank Market Offered Rate on the date that is two Business Days prior to the Interest Period, with the understanding that such rate is quoted by the Reference Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of an Interest Period for delivery of funds on such date for a period of time approximately equal to the number of days in such Interest Period, and in an amount approximately equal to the principal amount to which such Interest Period applies. Borrower understands and agrees that the Reference Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as the Reference Bank, in its sole discretion, deems appropriate including, without limitation, the rate offered for United States dollar deposits on the London Inter-Bank Market.

"LIBOR" means, for any Eurodollar Advance for any Interest Period, the rate per

annum determined pursuant to the following formula: (a) Base LIBOR applicable to such Eurodollar Advance for such Interest Period, divided by (b) one hundred percent (100%) minus the LIBOR Reserve Percentage for such Eurodollar Advance for such Interest Period.

"LIBOR RATE MARGIN" means, (a) with respect to the Term Loan, one and one-half

percent (1.50%) and (b) with respect to the Revolving Credit Loans, at such time and from time to time as the relevant Funded Debt Ratio is in one of the following ranges, the percentage per annum set forth opposite such Funded Debt Ratio:

FUNDED DEBT RATIO	PERCENTAGE FOR REVOLVING CREDIT LOANS
Less than 2.0 to 1.0	1.25%
2.0 to 1.0 or greater and less than 2.5 to 1.0	1.50%
2.5 to 1.0 or greater and less than 3.0 to 1.0	1.75%
3.0 to 1.0 or greater and less than 3.25 to 1.0	2.00%
3.25 to 1.0 or greater	2.25%

The Borrower shall give written notice to the Bank of any changes in the Funded Debt Ratio as of the end of any fiscal quarter which results in a change to the LIBOR Rate Margin concurrently with its delivery of the items required under Section 10.1(c) hereof, and any change to the LIBOR Rate Margin shall be effective with respect to any Interest Period commencing after the Bank has received such information.

"LIBOR RESERVE PERCENTAGE" means, for any Eurodollar Advance for any

Interest Period, the reserve percentage prescribed by the Board of Governors of the Federal Reserve system (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D), adjusted by the Bank for expected changes in such reserve percentage during the applicable Interest Period.

Section 2.3 REFERENCES TO DELETED DEFINITIONS. Effective as of the Effective

Date:

- (a) All references to "Adjusted Eurodollar Rate" in the Loan Agreement shall be deemed to be references to "LIBOR";
- (b) All references to "Eurodollar Rate" in the Loan Agreement shall be deemed to be references to "Base LIBOR";
- (c) All references to "Eurodollar Rate Margin" in the Loan Agreement shall be deemed to be references to "LIBOR Rate Margin"; and
- (d) All references to "Reserve Requirement" in the Loan Agreement shall be deemed to be references to "LIBOR Reserve Percentage."

Section 2.4 AMENDMENT TO DEFINITIONS.

Effective as of the Effective Date, the following definitions in Section 1.1 of the Loan Agreement are hereby amended and restated in their entirety to read as follows:

"COMMITMENT FEE RATE" means, at such times and from time to time as the

relevant Funded Debt Ratio is in one of the following ranges, the percentage per annum set forth opposite such Funded Debt Ratio:

FUNDED DEBT RATIO	COMMITMENT FEE RATE
-------------------	---------------------

Less than 2.0 to 1.0	0.375%
-----	-----
2.0 to 1.0 or greater and less than 2.5 to 1.0	0.375%
-----	-----
2.5 to 1.0 or greater and less than 3.0 to 1.0	0.375%
-----	-----
3.0 to 1.0 or greater and less than 3.25 to 1.0	0.50%
-----	-----
3.25 to 1.0 or greater	0.50%
-----	-----

"EBITDA" means, for the preceeding 12 month period, Consolidated Net Income  
 -----  
 calculated before federal income taxes, plus (a) depreciation and amortization  
 ---  
 and interest expenses, plus (b) terminated rent expenses prior to and ending on  
 ----

November 30, 2001, to include (i) rent expense, including, without limitation, base rent, CAM charges and repairs and maintenance, and (ii) associated rent expenses incurred in connection with the Norco distribution warehouse located at 920 Avenue R, Suite 100, Grand Prairie, Texas 75050, the Borrower's corporate headquarters located at 5050 Quorum Dive, Suite 500, Dallas, Texas 75240, and the Borrower's training center located at 4819 Keller Springs, Addison, Texas 75248, minus (c) any extraordinary gains or losses of the Borrower during the  
 -----  
 period in question.

"EURODOLLAR ADVANCES" means Advances the interest rates on which are determined  
 -----  
 on the basis on the rates referred to in the definition of LIBOR in this Section 1.1.

"FIXED CHARGE COVERAGE RATIOFIXED CHARGE COVERAGE RATIO" means, at any time,  
 -----  
 the quotient determined by dividing (a) the sum of (i) EBITDA for the preceding twelve (12) calendar months, minus (ii) treasury stock purchases made by the Borrower for the preceding twelve (12) calendar months, minus (iii) dividends paid by the Borrower during the preceding twelve (12) calendar months, by (b) the sum of (i) all scheduled payments on all Long Term Debt of the Borrower and the Subsidiaries and all scheduled payments under Capital Lease Obligations of the Borrower and the Subsidiaries to be paid during the next twelve (12) calendar months, plus (ii) interest expenses and tax expenses (to the extent paid in cash) of the Borrower and the Subsidiaries for the preceding twelve (12) calendar months.

"FUNDED DEBT RATIO" means, at any time, the quotient determined by dividing (a)  
 -----  
 the sum of all Debt for borrowed money, Capital Lease Obligations and purchase money Debt of the Borrower and the Subsidiaries, by (b) EBITDA for the preceding twelve (12) complete fiscal months.

"PRIME RATE MARGIN" means, (a) with respect to the Term Loan, a deduction of  
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 three-fourths of one percent (-0.75%) and (b) with respect to the Revolving Credit Loans, at any time, the following percentage determined by reference to the Funded Debt Ratio then existing:

FUNDED DEBT RATIO	PERCENTAGE FOR REVOLVING CREDIT LOANS
-----	-----
Less than 2.0 to 1.0	-1.00
-----	-----
2.0 to 1.0 or greater and less than 2.5 to 1.0	-0.75%
-----	-----
2.5 to 1.0 or greater and less than 3.0 to 1.0	-0.50%
-----	-----
3.0 to 1.0 or greater and less than 3.25 to 1.0	-0.25%
-----	-----
3.25 to 1.0 or greater	0.00%
-----	-----

"REVOLVING CREDIT NOTE" means the Fifth Amended and Restated Revolving Credit  
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 Note executed by the Borrower and payable to the order of the Bank in the  
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 aggregate principal amount of the Revolving Credit Commitment, in substantially  
 -  
 the form of Exhibit A hereto, together with all amendments, modifications and  
 -----  
 renewals thereof.

"TERMINATION DATE" means 10:00 A.M. Dallas, Texas time on December 31, 2003, or  
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 such earlier date and time on which the Revolving Credit Commitment terminates as provided in this Agreement; provided, however, if such date is not a Business Day, the "Termination Date" shall be the first Business Day following such date.

Section 2.5 AMENDMENT OF EXHIBIT A. Effective as of the Effective Date, Exhibit

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A to the Loan Agreement is deleted and a new Exhibit A, attached as Exhibit A to this Amendment, is inserted in its place.

Section 2.6 AMENDMENT TO SECTION 11.4.

Effective as of the Effective Date, Section 11.4 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

(b) Restricted Payments. The Borrower will not declare or pay any dividends or make any other payment or distribution (whether in cash, property, or obligations) on account of its capital stock, or redeem, purchase, retire, or otherwise acquire any of its capital stock, or permit any of its Subsidiaries to purchase or otherwise acquire any capital stock of the Borrower or another Subsidiary, or set apart any money for a sinking or other analogous fund for any dividend or other distribution on its capital stock or for any redemption, purchase, retirement, or other acquisition of any of its capital stock; provided that the foregoing restrictions do not prohibit (a) dividend payments on any class of capital stock payable solely in shares of capital stock of the Borrower; (b) payments of dividends from any Subsidiary to the Borrower; (c) payments in lieu of taxes to the Borrower or a Subsidiary pursuant to a tax sharing agreement; (d) any exchange of stock not involving any cash consideration pursuant to a stock option plan for employees or directors of the Borrower; and (e) any other redemption, purchase, retirement or the acquisition of the Borrower's capital stock or payment of cash dividends upon obtaining the prior written approval of the Bank, it being understood that, based on performance, the Borrower may request the Bank to consider granting its approval of restricted payments on a quarterly basis, or at such other time as deemed necessary.

Section 2.7 AMENDMENT TO SECTION 12.2.

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Effective as of the Effective Date, Section 12.2 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

Section 12.2. Funded Debt Ratio. The Borrower will maintain, as of the end of each fiscal quarter, a Funded Debt Ratio of not greater than (a) 3.25 to 1.00 for the three (3) fiscal quarters ending on or around December 31, 2001, March 31, 2002, and June 30, 2002, respectively, (b) 3.00 to 1.00 for the next three (3) consecutive fiscal quarters ending on or around September 30, 2002, December 31, 2002 and March 31, 2003, respectively, and (c) 2.75 to 1.00 for the fiscal year ending on or around June 30, 2003, and at all times thereafter.

ARTICLE III.

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AMENDMENTS TO CONSTRUCTION LOAN DOCUMENTS

Section 3.1 AMENDMENTS TO CONSTRUCTION LOAN AGREEMENT

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(a) Amendment to Definitions.

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Effective as of the Effective Date, the following definition in Section 1.1 of the Construction Loan Agreement is hereby amended and restated in its entirety to read as follows:

"LOAN CONVERSION" - The conversion of the Loan from the Construction Loan to the Mini-Perm Loan all in accordance with the provisions of Section 2.4 hereof. The effective date of the Loan Conversion shall be the first (1st) day of the calendar month following the satisfaction of the Loan Conversion requirements set forth in Section 2.4, which effective date shall not be later than February 1, 2002.

(b) Amendment to Section 2.4

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Effective as of the Effective Date, the last sentence of Section 2.4 of the Construction Loan Agreement is hereby amended and restated in its entirety to read as follows:

To the extent Loan Conversion has not occurred by February 1, 2002, then Borrower shall not thereafter be eligible for Loan Conversion.

(c) Amendment to Section 2.5. Effective as of the Effective Date, Section

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2.5 of the Construction Loan Agreement is hereby amended and restated in its entirety to read as follows:

Section 2.5. Maturity Date. The Maturity Date of the Loan means (a) at all times prior to Loan Conversion, February 1, 2002, and (b) if Loan Conversion occurs on or before February 1, 2002, then December 28, 2007; subject to the right of acceleration provided herein and elsewhere in the Loan Documents, at which time all sums due and owing under this Agreement and the other Loan Documents shall be repaid in full. All payments due to Lender under this Agreement, whether at the Maturity Date or otherwise, shall be paid in immediately available funds.

(a) DELETION OF DEFINITIONS. Effective as of the Effective Date,

the following definitions in Section 1 of the Fixed Rate Agreement are hereby deleted in their entirety:

"ADJUSTED EURODOLLAR RATE"

"EURODOLLAR RATE"

"EURODOLLAR RATE MARGIN"

"RESERVE REQUIREMENT"

(b) ADDITION OF DEFINITIONS. Effective as of the Effective Date, the

following definitions shall be inserted in their proper alphabetical order to Section 1 of the Fixed Rate Agreement:

"BASE LIBOR" means, for any Eurodollar Advance for any Interest Period, the

rate per annum for United States dollar deposits quoted by the Reference Bank as the Inter-Bank Market Offered Rate on the date that is two Business Days prior to the Interest Period, with the understanding that such rate is quoted by the Reference Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of an Interest Period for delivery of funds on such date for a period of time approximately equal to the number of days in such Interest Period, and in an amount approximately equal to the principal amount to which such Interest Period applies. Borrower understands and agrees that the Reference Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as the Reference Bank, in its sole discretion, deems appropriate including, without limitation, the rate offered for United States dollar deposits on the London Inter-Bank Market.

"LIBOR" means, for any Eurodollar Advance for any Interest Period, the rate per

annum and determined pursuant to the following formula: (a) Base LIBOR applicable to such Eurodollar Advance for such Interest Period, divided by (b) one hundred percent (100%) minus the LIBOR Reserve Percentage for such Eurodollar Advance for such Interest Period.

"LIBOR RATE MARGIN" means one and one-half percent (1.50%).

"LIBOR RESERVE PERCENTAGE" means, for any Eurodollar Advance for any Interest Period, the reserve percentage prescribed by the Board of Governors of the Federal Reserve system (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D), adjusted by the Bank for expected changes in such reserve percentage during the applicable Interest Period.

(c) REFERENCES TO DELETED DEFINITIONS. Effective as of the

Effective Date:

- (i) All references to "Adjusted Eurodollar Rate" in the Fixed Rate Agreement shall be deemed to be references to "LIBOR";
(ii) All references to "Eurodollar Rate" in the Fixed Rate Agreement shall be deemed to be references to "Base LIBOR";
(iii) All references to "Eurodollar Rate Margin" in the Fixed Rate Agreement shall be deemed to be references to "LIBOR Rate Margin"; and
(iv) All references to "Reserve Requirement" in the Fixed Rate Agreement shall be deemed to be references to "LIBOR Reserve Percentage."

(d) AMENDMENT TO DEFINITIONS. Effective as of the Effective Date,

the following definitions in Section 1 of the Fixed Rate Agreement are hereby amended and restated in their entirety to read as follows:

"EURODOLLAR ADVANCES" means Advances the interest rates on which are

determined on the basis of the rates referenced to in the definition of LIBOR.

"MATURITY DATE" means (a) at all times prior to Loan Conversion, February 1, 2002, and (b) if Loan Conversion occurs on or before February 1, 2002, then December 28, 2007.

ARTICLE IV.

CONDITIONS PRECEDENT

Section 4.1 CONDITIONS. The effectiveness of this Amendment is subject to the

satisfaction of the following conditions precedent on or prior to February 15, 2002 (where applicable):

- (a) The Bank shall have received all of the following, in form and substance satisfactory to the Bank:



(1) Resolutions. Resolutions of the Board of Directors of the Borrower and  
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each Guarantor certified by its Secretary or an Assistant Secretary which  
authorize the execution, delivery, and performance by the Borrower and each  
Guarantor of this Amendment and the other Loan Documents to which the Borrower  
or such Guarantor is or is to be a party hereunder;

(2) Incumbency Certificate. A certificate of incumbency certified by the  
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Secretary or an Assistant Secretary of the Borrower and each Guarantor  
-----

certifying the names of the officers of the Borrower and each Guarantor  
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authorized to sign this Amendment and each of the other Loan Documents to which  
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the Borrower or such Guarantor is or is to be a party hereunder (including the  
certificates contemplated herein), together with specimen signatures of such  
officers;

(3) Articles of Incorporation. A certificate certified by the Secretary or  
-----

an Assistant Secretary of the Borrower and each Guarantor certifying that the  
articles of incorporation of the Borrower and each Guarantor have not been  
amended or modified since March 31, 2000 and are still in full force and effect;

(4) Bylaws. A certificate certified by the Secretary or an Assistant  
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Secretary of the Borrower and each Guarantor certifying that the bylaws of the  
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Borrower and each Guarantor have not been amended or modified since March 31,  
2000 and are still in full force and effect; and

(5) Governmental Certificates. Certificates of the appropriate government  
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officials of the state of incorporation of the Borrower and each Guarantor as to  
the existence and good standing of the Borrower and each Guarantor, each dated  
no earlier than ten (10) days prior to the date hereof.

(b) Borrower shall have executed and delivered to the Bank the Revolving  
Credit Note in the form attached hereto as Exhibit A.  
-----

(c) The representations and warranties contained herein and in all other  
Loan Documents, as amended hereby, shall be true and correct as of the date  
hereof as if made on the date hereof.

(d) No Event of Default shall have occurred and be continuing and no event  
or condition shall have occurred that with the giving of notice or lapse of time  
or both would be an Event of Default.

(e) All corporate proceedings taken in connection with the transactions  
contemplated by this Amendment and all documents, instruments, and other legal  
matters incident thereto shall be satisfactory to the Bank and its legal  
counsel, Vinson & Elkins L.L.P.

ARTICLE V.  
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RATIFICATIONS, REPRESENTATIONS AND WARRANTIES

Section 5.1 RATIFICATIONS.  
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The terms and provisions set forth in this Amendment shall modify and  
supersede all inconsistent terms and provisions set forth in the Loan Agreement  
or the Construction Loan Documents, as applicable (each, a "MODIFIED DOCUMENT"  
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and collectively, the "MODIFIED DOCUMENTS"), and except as expressly modified  
-----

and superseded by this Amendment, the terms and provisions of the Modified  
Documents are ratified and confirmed and shall continue in full force and  
effect. The Borrower and the Bank agree that the Modified Documents as amended  
hereby shall continue to be legal, valid, binding and enforceable in accordance  
with their terms.

Section 5.2 REPRESENTATIONS AND WARRANTIES.  
-----

The Borrower hereby represents and warrants to the Bank that (i) the  
execution, delivery and performance of this Amendment and any and all other Loan  
Documents executed and/or delivered in connection herewith have been authorized  
by all requisite corporate action on the part of the Borrower and will not  
violate the articles of incorporation or bylaws of the Borrower, (ii) the  
representations and warranties contained in the Modified Documents, as amended  
hereby, and any other Loan Document are true and correct on and as of the date  
hereof as though made on and as of the date hereof, (iii) no Event of Default  
has occurred and is continuing and no event or condition has occurred that with  
the giving of notice or lapse of time or both would be an Event of Default, and  
(iv) Borrower is in material compliance with all covenants and agreements  
contained in the Modified Documents as amended hereby.

ARTICLE VI.  
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MISCELLANEOUS

Section 6.1 SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

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All representations and warranties made in this Amendment or any other Loan Document including any Loan Document furnished in connection with this Amendment shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by the Bank or any closing shall affect the representations and warranties or the right of the Bank to rely upon them.

Section 6.2 REFERENCE TO AGREEMENT.  
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Each of the Loan Documents, including the Modified Documents and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement as amended hereby, are hereby amended so that any reference in such Loan Documents to the Modified Documents shall mean a reference to the Modified Documents as amended hereby.

Section 6.3 EXPENSES OF BANK.  
-----

As provided in the Loan Agreement, the Borrower agrees to pay on demand all costs and expenses incurred by the Bank in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of the Bank's legal counsel in connection therewith, and all costs and expenses incurred by the Bank in connection with the enforcement or preservation of any rights under the Loan Agreement, as amended hereby, or any other Loan Document, including without limitation the costs and fees of the Bank's legal counsel.

Section 6.4 SEVERABILITY.  
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Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 6.5 APPLICABLE LAW.  
-----

This Amendment and all other Loan Documents executed pursuant hereto shall be deemed to have been made and to be performable in Dallas, Dallas County, Texas and shall be governed by and construed in accordance with the laws of the State of Texas.

Section 6.6 SUCCESSORS AND ASSIGNS.  
-----

This Amendment is binding upon and shall inure to the benefit of the Bank and the Borrower and their respective successors and assigns, except the Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Bank.

Section 6.7 COUNTERPARTS.  
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This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 6.8 EFFECT OF WAIVER.  
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No consent or waiver, express or implied, by the Bank to or for any breach of or deviation from any covenant, condition or duty by the Borrower or any of the Guarantors shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 6.9 HEADINGS.  
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The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.10 ENTIRE AGREEMENT.  
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THIS AMENDMENT AND ALL OTHER INSTRUMENTS, DOCUMENTS AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENT AMONG THE PARTIES HERETO.

[Remainder of Page Intentionally Left Blank]

Executed as of the date first written above.

Borrower:

PIZZA INN, INC.

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

BANK:

WELLS FARGO BANK TEXAS,  
NATIONAL ASSOCIATION

By: /s/ Austin D. Nettle  
Austin D. Nettle  
Vice President

Each of the Guarantors hereby consents and agrees to this Amendment and agrees that the Guaranty shall remain in full force and effect and shall continue to be the legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with its terms.

Guarantors:

BARKO REALTY, INC.  
R-CHECK, INC.  
PIZZA INN OF DELAWARE, INC.

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

EXHIBIT A  
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FORM OF REVOLVING CREDIT NOTE  
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## FIFTH AMENDED AND RESTATED REVOLVING CREDIT NOTE

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\$9,500,000.00      Dallas, Texas      January 31, 2002  
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FOR VALUE RECEIVED, the undersigned, PIZZA INN, INC., a Missouri corporation (the "BORROWER"), hereby promises to pay to the order of WELLS FARGO BANK (TEXAS), NATIONAL ASSOCIATION, a national banking association formerly known as First Interstate Bank of Texas, N.A. (the "BANK"), at its office located at 1445 Ross Avenue, Dallas, Texas 75265, on or before December 31, 2003, in lawful money of the United States of America and in immediately available funds, the principal sum of Nine Million Five Hundred Thousand and No/100 Dollars (\$9,500,000.00) or such lesser amount as shall equal the aggregate unpaid principal amount of the Existing Loans and any additional Advances made by the Bank to the Borrower under Article II of the Loan Agreement referred to below, and to pay interest on the amount of each such Advance, at such office, in like money and funds, for the period commencing on the date of such Advance until such Advance shall be paid in full, at the rates per annum and on the dates provided in the Loan Agreement.

The Borrower hereby authorizes the Bank to endorse on the Schedule annexed to this Fifth Amended and Restated Revolving Credit Note (this "NOTE") the amount and Type of Advances made to the Borrower by the Bank and all Continuations, Conversions, and payments of principal in respect of such Advances, which endorsements shall, in the absence of manifest error, be conclusive as to the outstanding principal amount of all such Advances; provided, however, that the failure to make such notation with respect to any such Advance or payment shall not limit or otherwise affect the obligations of the Borrower under the Loan Agreement or this Note.

This Note is the Revolving Credit Note referred to in the Second Amended and Restated Loan Agreement dated as of March 31, 2000, between the Borrower and the Bank (as the same may be amended, modified, or supplemented from time to time, being referred to herein as the "LOAN AGREEMENT"), and evidences the Existing Loans and all additional Advances made by the Bank thereunder. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Note upon the happening of certain stated events and also for prepayments of Advances prior to the maturity of this Note upon the terms and conditions specified in the Loan Agreement. Capitalized terms used in this Note and not otherwise defined herein have the respective meanings assigned to them in the Loan Agreement.

Notwithstanding anything to the contrary contained herein, no provision of this Note shall require the payment or permit the collection of interest in excess of the Maximum Rate. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided, in this Note or otherwise in connection with this loan transaction, the provisions of the paragraph shall govern and prevail, and neither the Borrower nor the sureties, guarantors, successors or assigns of the Borrower shall be obligated to pay the excess amount of such interest, or any other excess sum paid for the use, forbearance or detention of sums loaned pursuant hereto. If for any reason interest in excess of the Maximum Rate shall be deemed charged, required or permitted by any court of competent jurisdiction, any such excess shall be applied as a payment and reduction of the principal of indebtedness evidenced by this Note; and, if the principal amount hereof has been paid in full, any remaining excess shall forthwith be paid to the Borrower. In determining whether or not the interest paid or payable exceeds the Maximum Rate, the Borrower and the Bank shall, to the extent permitted by applicable law, (i) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the indebtedness evidenced by this Note so that the interest for the entire term does not exceed the Maximum Rate.

This Note shall be governed by and construed in accordance with the laws of the State of Texas and the applicable laws of the United States of America. This Note is performable in Dallas County, Texas.

This Note is given in renewal, extension and modification of, but not extinguishment or novation of, the indebtedness evidenced by that certain Fourth Amended and Restated Revolving Credit Note dated as of March 31, 2000 in the original principal amount of \$9,500,000 executed by the Borrower and payable to the order of the Bank, which in turn was given in renewal, extension and modification of, but not in extinguishment or novation of, the indebtedness evidenced by that certain Third Amended and Restated Revolving Credit Note dated as of August 31, 1999 in the original principal amount of \$9,500,000 executed by the Borrower and payable to the order of the Bank, which in turn was given in renewal, extension and modification of, but not in extinguishment or novation of, the indebtedness evidenced by that certain Second Amended and Restated Revolving Credit Note dated as of September 14, 1998 in the original principal amount of \$9,500,000 executed by the Borrower and payable to the order of the Bank, which in turn was given in renewal, extension and modification of, but not extinguishment or novation of, the indebtedness evidenced by that certain Amended and Restated Revolving Credit Note dated as of August 28, 1997 in the original principal amount of \$9,500,000 executed by the Borrower and payable to the order of the Bank.

The Borrower and each surety, guarantor, endorser, and other party ever liable for payment of any sums of money payable on this Note jointly and severally waive notice, presentment, demand for payment, protest, notice of protest and non-payment or dishonor, notice of acceleration, notice of intent to accelerate, notice of intent to demand, diligence in collecting, grace, and all other formalities of any kind, and consent to all extensions without notice for any period or periods of time and partial payments, before or after maturity, and any impairment of any collateral securing this Note, all without prejudice to the holder. The holder shall similarly have the right to deal in any way, at any time, with one or more of the foregoing parties without notice to any other party, and to grant any such party any extensions of time for payment of any of said indebtedness, or to release or substitute part of all of the collateral securing this Note, or to grant any other indulgences or forebearances whatsoever, without notice to any other party and without in any way affecting the personal liability of any party hereunder.

PIZZA INN, INC.  
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By: /s/ Ronald W. Parker  
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Ronald W. Parker  
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President  
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