UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended MARCH 2, 2002.

OR

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

For the transition period from _____ to _____

Commission File No. 1-7832

PIER 1 IMPORTS, INC.
(Exact name of Company as specified in its charter)

DELAWARE	75-1729843
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
301 COMMERCE STREET, SUITE 600 FORT WORTH, TEXAS	76102
(Address of principal executive offices)	(Zip Code)

Company's telephone number, including area code: (817) 252-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, $1 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Company (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 for such shorter period that the Company 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of May 28, 2002, the approximate aggregate market value of voting stock held by non-affiliates of the Registrant was $1,875,400,000 using the closing sales price on this day of $20.70. It is assumed for purposes of this computation an affiliate includes all persons registered as Registrant insiders with the Securities and Exchange Commission.

As of May 28, 2002, 93,651,706 shares of the Registrant's Common Stock, $1.00 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated herein by reference:

(1) Registrant's Annual Report to Shareholders for the fiscal year ended March 2, 2002 in Parts I and II hereof and;

(2) Registrant's Proxy Statement for the 2002 Annual Meeting in Part III hereof.

PART I

Item 1. Business.

(a) General Development of Business.

Throughout this document, references to the "Company" include Pier 1 Imports, Inc. and its consolidated subsidiaries. References to "Pier 1" relate to the Company's retail locations operating under the name Pier 1 Imports. References to "The Pier" relate to the Company's retail locations in the United Kingdom operating under the name The Pier. References to "Cargo" relate to the Company's retail locations operating under the names Cargo, "Cargo Furniture & Home" and "Cargokids!".

From fiscal 1997 through fiscal 2002, the Company expanded its specialty retail operations from 720 to 974 worldwide retail stores. In fiscal 2002, the Company continued to execute its expansion plan in North America by opening a net 84 new Pier 1 stores. Subject to changes in the retail environment, availability of suitable store sites, lease renewal negotiations and availability of adequate financing, Pier 1 plans to open approximately 115 to 120 new stores and close approximately 30 stores in North America in fiscal 2003. Almost all of the stores expected to close in fiscal 2003 are anticipated to be replaced with a more favorable location within the same market.

Set forth below is a list by city of Pier 1 stores opened in North America in fiscal 2002:

Abbotsford, BC	Harvey, LA	Petoskey, MI
Aiken, SC	Heath, OH	Pittsburgh, PA (2 locations)
Bloomingdale, IL	Hendersonville, NC	Rehoboth Beach, DE
Bolingbrook, IL	Holmdel, NJ	Richmond, BC
Braintree, MA	Homestead, PA	Rocky Point, NY
Broomfield, CO	Indiana, PA	Rogers, AR
Burlington, ON	Indianapolis, IN (2 locations)	Rosemere, QC
Burlington, WA	Jefferson City, MO	Roseville, CA
California, MD	Kamloops, BC	Rossford, OH
Cedar Hill, TX	Kerrville, TX	Rotterdam, NY
Christiansburg, VA	Kingston, ON	Salisbury, NC
Clarksburg, WV	La Jolla, CA	San Antonio, TX
Cookeville, TN	Lake Ozark, MO	Selma, TX
Covington, WA	Las Vegas, NV	Shrewsbury, MA
Dallas, TX	Leominster, MA	South Elgin, IL
Daphne, AL	Lisbon, CT	St. Cloud, MN
Dekalb, IL	Lithonia, GA	St. Clairsville, OH
Decatur, AL	Littleton, CO	St. George, UT
Deer Park, IL	Louisville, KY	St. Louis, MO
Dubois, PA	Lynchburg, VA	Surprise, AZ
Durham, NC	Marshfield, WI	Surrey, BC
Edmonton, AB	McMinnville, OR	Tampa, FL
El Cerrito, CA	Miami, FL	Tracy, CA
Elk Grove, CA	Midlothian, VA	Watchung, NJ
Encino, CA	Milford, CT	Wausau, WI
Everett, MA	Monaca, PA	Webster, NY
Flemington, NJ	Montreal, QC (3 locations)	Wellington, FL
Folsom, CA	Morehead City, NC	West Hartford, CT
Fullerton, CA	Naples, FL	Westport, CT

Glastonbury, CT	Oro Valley, AZ	Wichita, KS
Glen Allen, VA	Oshkosh, WI	Williamsville, NY
Glen Mills, PA	Paoli, PA	Winnipeg, MB
Goldsboro, NC	Pasadena, TX	Woodcliff Lake, NJ
Greenville, SC		

Presently, Pier 1 maintains regional distribution center facilities in or near Baltimore, Maryland; Chicago, Illinois; Columbus, Ohio; Fort Worth, Texas; Ontario, California and Savannah, Georgia.

The Pier, a subsidiary of the Company located in the United Kingdom, operates 23 retail stores offering decorative home furnishings and related items in a setting similar to Pier 1 stores. Additionally, The Pier has established an online store at pier.co.uk. The Pier does not expect to open any new stores in fiscal 2003; however, the Company will be reviewing specific opportunities for new stores throughout the year. Also, upgrades are expected to several existing locations in the U.K. during fiscal 2003. The Pier operates two distribution facilities near London, England.

The Company has an arrangement to supply Sears de Mexico S.A. ("Sears Mexico") with Pier 1 merchandise to be sold in a "store within a store" format in certain Sears Mexico stores. In fiscal 1998, the Company amended its agreement with Sears Mexico to an arrangement that substantially insulates the Company from currency fluctuations in the

value of the Mexican peso, which had reduced its profitability in the past. In fiscal 2002, Sears Mexico opened three new stores offering Pier 1 merchandise. As of March 2, 2002, Pier 1 merchandise was offered in 16 Sears Mexico stores. Expansion plans for fiscal 2003 include one new store, one relocated store and one remodeled store in Mexico.

The Company has a product distribution agreement with Sears Roebuck de Puerto Rico, Inc. ("Sears Puerto Rico") which allows Sears Puerto Rico to market and sell Pier 1 merchandise in a "store within a store" format in certain Sears Puerto Rico stores. Sears Puerto Rico operates a total of ten stores, and as of March 2, 2002, seven of these stores offered Pier 1 merchandise. The Company has no immediate plans for further expansion in Puerto Rico but would consider future sites.

In fiscal 1996, a wholly-owned subsidiary of the Company entered into a franchise agreement with Akatsuki Printing Co., Ltd. and Skylark Co., Ltd. (collectively "Akatsuki") to develop Pier 1 retail stores in Japan. Early in fiscal 2002, Akatsuki informed the Company that it would not seek to renew its current franchise agreement. Prior to the close of fiscal year 2002, the remaining nine stores were closed and the franchise agreement with Akatsuki expired without any additional costs or further obligations required of the Company.

The Company owns a credit card bank in Omaha, Nebraska, operating under the name Pier 1 National Bank (the "Bank"). The Bank holds the credit card accounts for both the Pier 1 proprietary credit card and Cargo's new proprietary credit card initiated in September 2001. As of March 2, 2002, the Company, through the Bank, had over 5,100,000 proprietary cardholders with approximately 1,205,000 active accounts (accounts with a purchase within the previous 12 months). Sales on the Company's proprietary credit card accounted for 28.9% of total U.S. store sales in fiscal 2002. The Company continues to expand its proprietary credit card business by attracting new accounts with a discounted first-time purchase, periodic deferred payment options and enhanced customer loyalty through targeted promotions.

Pier 1 has an e-commerce website at pier1.com. More than 1,500 merchandise items are offered for sale to customers, along with gift cards, an online clearance store and a Bridal & Gift Registry program. Pier 1's web site allows customers to shop online, make changes or additions to gift registries and easily return internet purchases to their neighborhood Pier 1 store. This website is also being utilized as a marketing channel to reach new customers.

In February 2001, the Company acquired certain assets and assumed certain liabilities of Cargo Furniture, Inc. and formed New Cargo Furniture, Inc. Cargo is an 18-store retailer and wholesaler of youth and casual lifestyle furniture, gifts and home decor. Cargo utilizes a website at cargohome.com to attract customers and provide information regarding placing orders and store locations. The Company will begin its expansion plans for Cargo in fiscal 2003 by opening eight to twelve new stores.

(b) Financial Information about Industry Segments.

In fiscal 2002, the Company operated in one business segment consisting of the retail sale of imported decorative home furnishings, gifts and related items.

Financial information with respect to the Company's business is found in the Company's Consolidated Financial Statements, which are incorporated by reference into Item 8 herein.

(c) Narrative Description of Business.

The specialty retail operations of the Company consist of three chains of retail stores operating under the names "Pier 1 Imports", "The Pier", and "Cargo" selling a wide variety of furniture, decorative home furnishings, dining and kitchen goods, bath and bedding accessories and other specialty items for the home.

On March 2, 2002, the Company operated 866 Pier 1 stores in 48 states of the United States and 44 Pier 1 stores in five Canadian provinces, and supported eight franchised stores in eight states of the U.S. Additionally, the Company operated 23 stores in the United Kingdom under the name The Pier and 18 Cargo stores located in five states of the United States. The Company supplies merchandise and licenses the Pier 1 Imports name to Sears Mexico and Sears Puerto Rico, which sell Pier 1 merchandise in a "store within a store" format in 16 Sears Mexico stores and in seven Sears Puerto Rico stores. Company-operated Pier 1 stores in the United States and Canada average approximately 7,500 square feet of retail selling space. The stores are generally freestanding units located near shopping centers or malls in all major U.S. metropolitan areas and many of the primary smaller markets. In fiscal 2002, net sales of the Company totaled $1,548.6 million. Pier 1 stores generally have their highest sales volumes during November and December as a result of the holiday selling season.

Pier 1's growth strategy is to expand its North American store base to more than 1,500 locations. Immediate plans to achieve this expansion include, for fiscal 2003, the opening of 115 to 120 new stores while closing approximately 30 stores, the majority of which will be relocated to more favorable locations within the same markets. In the next few years, the Company expects Cargo to begin to expand nationally as a value-oriented retailer of home furnishings for children and families. The Company plans to grow Cargo to a 200- to 300-store concept over the next ten years. The Company currently has no plans to expand outside of the United States, Canada and Mexico.

Pier 1 offers a diverse selection of products consisting of nearly 5,000 items imported from over 40 countries around the world. While the broad categories of Pier 1's merchandise remain constant, individual items within these product groupings change frequently in order to meet the demands of customers. The principal categories of merchandise include the following:

FURNITURE - This product group consists of furniture, furniture pads and pillows to be used on patios and in living, dining, kitchen and bedroom areas, and in sun rooms. The product group constituted approximately 39% of Pier 1's total North American retail sales in fiscal year 2002, 40% in fiscal 2001 and 38% in fiscal 2000. These goods are imported from a variety of countries such as Italy, Malaysia, Brazil, Mexico, China, the Philippines and Indonesia, and are also obtained from domestic sources. The furniture is made of metal or handcrafted natural materials, including rattan, pine, beech, rubberwood and selected hardwoods with either natural, stained or painted finishes. Pier 1 also sells upholstered furniture.

DECORATIVE ACCESSORIES - This product group constituted the broadest category of merchandise in Pier 1's sales mix and contributed approximately 23% to Pier 1's total North American retail sales in fiscal year 2002, and 22% in fiscal years 2001 and 2000. These items are imported from approximately 40 countries and include brass, marble and wood items, as well as lamps, vases, dried and silk flowers, baskets, wall decorations and numerous other decorative items. A majority of these products are handcrafted from natural materials.

HOUSEWARES - This product group is imported mainly from the Far East and Europe and includes ceramics, dinnerware and other functional and decorative items. These goods accounted for approximately 12% of Pier 1's total North American retail sales in fiscal years 2002, 2001 and 2000.

BED & BATH - This product group is imported mainly from India, the United Kingdom, Italy, Thailand and China, and is also obtained from domestic sources. The group includes bath and fragrance products, candles and bedding. These goods accounted for approximately 18% of Pier 1's total North American retail sales in fiscal year 2002, 17% in fiscal 2001 and 18% in fiscal 2000.

SEASONAL - This product group consists of merchandise for celebrating holidays and spring/summer entertaining and is imported mainly from Europe, Canada, Taiwan, China and India. These items accounted for approximately 8% of Pier 1's total North American retail sales in fiscal year 2002, 9% in fiscal 2001 and 10% in fiscal year 2000.

Pier 1 merchandise largely consists of items that require a significant degree of handcraftsmanship and are mostly imported directly from foreign suppliers. For the most part, the imported merchandise is handcrafted in cottage industries and small factories. Pier 1 is not dependent on any particular supplier and has enjoyed long-standing relationships with many vendors. In selecting the source of a product, Pier 1 considers quality, dependability of delivery and cost. During fiscal 2002, Pier 1 sold merchandise imported from over 40 different countries with 35% of its sales from merchandise produced in China, 11% from merchandise produced in India and 29% from merchandise produced in Indonesia, Thailand, Brazil, Italy, the Philippines and Mexico. The remaining 25% of sales was from merchandise produced in various Asian, European, Central American, South American and African countries or was obtained from U.S. manufacturers.

Pier 1 operates six regional distribution centers located in or near Baltimore, Maryland; Chicago, Illinois; Columbus, Ohio; Fort Worth, Texas; Ontario, California and Savannah, Georgia and leases additional space from time to time. Imported merchandise and a portion of domestic purchases are delivered to the distribution centers, unpacked and made available for shipment to the various stores in each center's region. Due to the time delays involved in procuring merchandise from foreign suppliers, Pier 1 maintains a substantial inventory to assure a sufficient supply of products in its stores.

The Company is in the highly competitive specialty retail business and primarily competes with small specialty sections of large department stores, home furnishing stores, small specialty import stores and discount stores. Management believes that its stores compete on the basis of price, merchandise assortment, visual presentation of its merchandise and customer service. The Company also believes its Pier 1 stores enjoy a competitive edge over competing retailers due to greater name recognition, established vendor relationships and the extent and variety of the merchandise offered. While other retail stores change their items less frequently, Pier 1 differentiates itself by offering an array of unique and frequently changing products. The Company believes that its Cargo operations give it the opportunity to address the underserved children's furniture and accessories market.

As a retailer of imported merchandise, the Company is subject to certain risks that typically do not affect retailers of domestically produced merchandise. The Company typically orders merchandise from four to twelve months in advance of delivery and pays for the merchandise at the time it is loaded for transport to designated U.S. and international destinations. Fluctuations in foreign currency exchange rates, restrictions on the convertibility of the dollar and other currencies, duties, taxes and other charges on imports, dock strikes, import quota systems and other restrictions generally placed on foreign trade can affect the price, delivery and availability of ordered merchandise. The inability to import products from certain countries or the imposition of significant tariffs could also have a material adverse effect on the results of operations of the Company. Freight costs contribute a substantial amount to the cost of imported merchandise.

The United States and more than 100 other countries culminated seven years of negotiations with an agreement which became effective January 1, 1995 to reduce, over time, tariff and non-tariff barriers to world trade in goods and services and established the World Trade Organization to replace the General Agreement on Tariffs and Trade. The World Trade Organization provides a framework for international trade matters and includes a process for the resolution of trade disputes among the member countries. In recent years, the dispute resolution process of the World Trade Organization has been utilized to resolve disputes regarding market access between the European Union, the United States and other countries. In some instances these trade disputes have led to the threat by countries of sanctions against each other, which have included import prohibitions and increases in duty rates on imported items. The Company considers any agreement that reduces tariff and non-tariff barriers in international trade beneficial to its business in the United States and around the world.

The 1988 Omnibus Trade and Competitiveness Act was signed into law amending the Trade Act of 1974. This legislation was enacted partly in response to a perceived decline in U.S. global competitiveness and the continuing presence of unfair trade practices that limit U.S. exporters' access to foreign markets. Under the law, the office of the U.S. Trade Representative may investigate unfair trade practices of countries around the world. These investigations may lead to sanctions, which could take the form of quotas or increased duties on imports into the U.S.

The U.S. Trade Representative is required to take action within 30 days (subject to being postponed for 180 days) after the conclusion of its investigation of countries alleged to have committed unfair trade practices. Upon a determination that a country has committed an unfair trade practice, the U.S. Trade Representative may designate the subject country a priority foreign country and impose sanctions in the form of quotas or increased duties. On previous occasions, the U.S. Trade Representative has identified certain countries which supply merchandise to the Company as priority foreign countries. These designations, however, were rescinded after the U.S. Trade Representative and the countries reached agreements regarding the basis for the designations.

The United States employs other measures besides this trade legislation to implement its international trade policies and objectives. For example, the United States may withdraw most favored nation status from a country, resulting in higher import duties on products from that country. Any type of sanction on imports is likely to increase the Company's import costs or limit the availability of products purchased from sanctioned countries. In that case, the Company will seek similar products from other countries.

The Company, through certain of its wholly-owned subsidiaries, owns three federally registered service marks under which its Pier 1 Imports stores do business and one federally registered service mark under which its Cargo stores do business. These registrations are numbered 948,076 and 1,620,518 for the mark PIER 1 IMPORTS, 1,104,059 for the mark PIER 1 and 1,348,743 for the mark CARGO. Additionally, certain subsidiaries of the Company have registered and have applications pending for the registration of Pier 1 and Cargo trademarks and service marks in the United States and in numerous foreign countries.

On March 2, 2002, Pier 1 employed approximately 17,100 associates in North America, of which approximately 8,000 were full-time employees and 9,100 were part-time employees.

The Company maintains a wholly-owned foreign subsidiary incorporated under the laws of Hong Kong to manage certain merchandise procurement, export and financial service functions. Also, a wholly-owned foreign subsidiary incorporated under the laws of Bermuda owns the right to license and to franchise the Company's trademarks and service marks outside the United States, Canada and Puerto Rico.

Certain statements contained in Item 1, Item 7 and elsewhere in this report may constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. The Company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission and in material delivered to the Company's shareholders. Forward-looking statements provide current expectations of future events based on certain assumptions. These statements encompass information that does not directly relate to any historical or current fact and often may be identified with words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects" and other similar expressions. Management's expectations and assumptions regarding planned store openings, financing of Company obligations from operations and other future results are subject to risks, uncertainties and other factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Risks and uncertainties that may affect Company operations and performance include, among others, the effects of terrorist attacks or other acts of war, weather conditions that may affect sales, volatility of fuel and utility costs, the general strength of the economy and levels of consumer spending, consumer confidence, the availability of new sites for expansion along with sufficient labor to facilitate growth, the strength of new home construction and sales of existing homes, the ability of the Company to import merchandise from foreign countries without significantly restrictive tariffs, duties or quotas and the ability of the Company to ship items from foreign countries at reasonable rates in a timely fashion. The foregoing risks and uncertainties are in addition to others discussed elsewhere in this report. The Company assumes no obligation to update or otherwise revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied will not be realized.

Item 2. Properties.

The Company leases approximately 203,000 square feet of office space for its Pier 1 corporate office and leases approximately 13,000 square feet of additional office space for its Cargo subsidiary. Both corporate office facilities are located in Fort Worth, Texas. The Company is planning construction of a new corporate office for the relocation of both corporate offices. The new facility is expected to be completed in the fourth quarter of fiscal 2005.

The Company leases the majority of its retail stores, its warehouses and other office space. At March 2, 2002, the present value of the Company's minimum future operating lease commitments discounted at 10% totaled approximately $752 million. The Company currently owns and leases distribution space of approximately four million square feet. The Company also acquires temporary distribution space from time to time through short-term leases.

The following table shows the distribution of Pier 1's North American stores by state and province as of March 2, 2002:

United States

Alabama	14	Kentucky	10	North Dakota	3
Alaska	1	Louisiana	14	Ohio	37
Arizona	16	Maryland	19	Oklahoma	5
Arkansas	7	Massachusetts	22	Oregon	11
California	91	Michigan	29	Pennsylvania	37
Colorado	19	Minnesota	16	Rhode Island	5
Connecticut	19	Mississippi	6	South Carolina	14
Delaware	4	Missouri	16	South Dakota	2
Florida	62	Montana	5	Tennessee	18
Georgia	26	Nebraska	4	Texas	66
Hawaii	2	Nevada	5	Utah	8
Idaho	3	New Hampshire	5	Virginia	29
Illinois	42	New Jersey	21	Washington	21
Indiana	20	New Mexico	5	West Virginia	5
Iowa	7	New York	41	Wisconsin	17
Kansas	8	North Carolina	28	Wyoming	1

Canada

Alberta	5	Manitoba	1	Quebec	8
British Columbia	7	Ontario	23		

The Pier's retail operations consist of 19 stores in England, three stores in Scotland, and one store in Wales. At the end of fiscal 2002, Cargo had two stores in Georgia, one store in Kansas, two stores in Missouri, four stores in Virginia and nine stores in Texas.

As of March 2, 2002, Pier 1 owned or leased the following warehouse properties in or near the following cities:

Location	Approx. Sq. Ft.	Owned/Leased Facility
Baltimore, Maryland	796,000 sq. ft.	Leased
Chicago, Illinois	514,000 sq. ft	Owned
Columbus, Ohio	527,000 sq. ft.	Leased
Fort Worth, Texas	566,000 sq. ft.	Owned
Ontario, California	747,000 sq. ft.	Leased
Savannah, Georgia	548,000 sq. ft.	Owned/Leased

The Company also leases approximately 98,000 square feet of warehouse space in the United Kingdom for The Pier's operations and approximately 123,000 square feet of warehouse space in the United States for Cargo's operations. The Company is currently leasing additional space under short-term agreements. In support of its long-range growth plan, the Company is expanding its distribution facilities. The Company will be building a new distribution center to replace its owned property along with the two locations it currently leases in Savannah. The new facility is expected to be approximately 770,000 square feet, with projected occupancy in the first quarter of calendar year 2004.

Item 3. Legal Proceedings.

The Company is subject to various claims, lawsuits, investigations, and pending actions against the Company and its subsidiaries incident to the operation of their businesses. Liability, if any, associated with these matters is not determinable at March 2, 2002; however, the Company considers them to be either ordinary and routine in nature or immaterial in amount. While a certain number of the lawsuits involve substantial amounts, management, after consultation with counsel, does not currently expect such litigation will have a material adverse effect on the Company's financial

position, results of operations or liquidity. The Company intends to vigorously defend itself against the claims asserted in these lawsuits.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of the Company's security holders during the fourth quarter of the Company's 2002 fiscal year.

Executive Officers of the Company

MARVIN J. GIROUARD, age 62, has served as Chairman and Chief Executive Officer of the Company since March 1999 and has been a member of the Executive Committee since December 1998. He has been a Director of the Company since August 1988. From June 1998 to February 1999, Mr. Girouard served as President and Chief Executive Officer of the Company and from August 1988 to June 1998 he served as President and Chief Operating Officer of the Company. From May 1985 until August 1988, he served as the Company's Senior Vice President of Merchandising.

CHARLES H. TURNER, age 45, has recently been promoted to Executive Vice President of Finance and has served as Chief Financial Officer and Treasurer of the Company since August 1999. He served as Senior Vice President of Finance of the Company from August 1999 to April 2002. He served as Senior Vice President of Stores of the Company from August 1994 to August 1999, and served as Controller and Principal Accounting Officer of the Company from January 1992 to August 1994.

ROBERT A. ARLAUSKAS, age 47, has recently been promoted to Executive Vice President of Stores of the Company. He served as Senior Vice President of Stores of the Company from September 1999 to April 2002. He served as Vice President of West Zone Operations of Pier 1 Imports (U.S.), Inc. from August 1995 to September 1999, and served as Director of West Zone Operations of Pier 1 Imports (U.S.), Inc. from June 1993 to August 1995.

JAY R. JACOBS, age 47, has recently been promoted to Executive Vice President of Merchandising of the Company. He served as Senior Vice President of Merchandising of the Company from May 1995 to April 2002. He served as Vice President of Divisional Merchandising of Pier 1 Imports (U.S.), Inc. from May 1993 to May 1995, and served as Director of Divisional Merchandising of Pier 1 Imports (U.S.), Inc. from July 1991 to May 1993.

J. RODNEY LAWRENCE, age 56, has recently been promoted to Executive Vice President of Legal Affairs and has served as Secretary of the Company since November 1985. He served as Senior Vice President of Legal Affairs of the Company from June 1992 to April 2002, and served as Vice President of Legal Affairs of the Company from November 1985 to June 1992.

PHIL E. SCHNEIDER, age 50, has recently been promoted to Executive Vice President of Marketing of the Company. He served as Senior Vice President of Marketing of the Company from May 1993 to April 2002, and served as Vice President of Advertising of Pier 1 Imports (U.S.), Inc. from January 1988 to May 1993.

DAVID A. WALKER, age 51, has recently been promoted to Executive Vice President of Logistics and Allocations of the Company. He served as Senior Vice President of Logistics and Allocations of the Company from September 1999 to April 2002. He served as Vice President of Planning and Allocations of Pier 1 Imports (U.S.), Inc. from January 1994 to September 1999, and served as Director of Merchandise Services of Pier 1 Imports (U.S.), Inc. from October 1989 to January 1994.

E. MITCHELL WEATHERLY, age 54, has been promoted to Executive Vice President of Human Resources of the Company. He served as Senior Vice President of Human Resources of the Company from June 1992 to April 2002, and served as Vice President of Human Resources of the Company from June 1989 to June 1992 and of Pier 1 Imports (U.S.), Inc. from August 1985 to June 1992.

The officers of the Company are appointed by the Board of Directors, hold office until their successors are elected and qualified and/or until their earlier death, resignation or removal.

None of the above executive officers has any family relationship with any other of such officers or with any director of the Company. None of such officers was selected pursuant to any arrangement or understanding between him and any other person.

PART II

Item 5. Market for the Company's Common Equity and Related Stockholder Matters.

Information required by this Item is incorporated by reference to the section entitled "Market Price and Dividend Information" set forth in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 2002.

The Company's common stock is traded on the New York Stock Exchange. As of May 2002, there were approximately 40,000 shareholders of record of the Company's common stock.

During fiscal 2002, the Company repurchased over four million shares of its outstanding common stock. In April 2002, the Board of Directors authorized the repurchase of up to $150 million of the Company's common stock. This authorization replaced the previously authorized 2.8 million shares that were remaining for repurchase at the end of fiscal 2002. Future repurchases of common stock will be made through open market or private transactions from time to time depending on prevailing market conditions, the Company's available cash and the Company's consideration of any loan covenant restrictions and its credit ratings.

Certain of the Company's existing loan agreements require the Company to maintain specified financial ratios and limit certain investments and distributions to shareholders, including cash dividends, loans to shareholders and repurchases of the Company's common stock. During fiscal 2002, the Company paid cash dividends totaling approximately $15.1 million, or $.16 per share. The Company's Board of Directors currently expects to continue to pay cash dividends in fiscal 2003, but intends to retain most of its future earnings for the expansion of the Company's business. The Company paid a cash dividend of $.05 per share on May 22, 2002. The Company's dividend policy will depend upon the earnings, financial condition and capital needs of the Company and other factors deemed relevant by the Company's Board of Directors.

Item 6. Selected Financial Data.

Information required by this Item is incorporated by reference to the section entitled "Financial Summary" set forth in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 2002.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information required by this Item is incorporated by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 2002.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Information required by this Item is incorporated by reference to the section entitled "Market Risk Disclosures" set forth in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 2002.

Item 8. Financial Statements and Supplementary Data.

Information required by this Item is incorporated by reference to the material in the Company's consolidated financial statements described below and notes thereto set forth in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 2002:

Consolidated Statements of Operations for the Years Ended March 2, 2002, March 3, 2001 and February 26, 2000

Consolidated Balance Sheets at March 2, 2002 and March 3, 2001

Consolidated Statements of Cash Flows for the Years Ended March 2, 2002, March 3, 2001 and February 26, 2000

Consolidated Statements of Shareholders' Equity for the Years Ended March 2, 2002, March 3, 2001 and February 26, 2000

Notes to Consolidated Financial Statements

Report of Independent Auditors

The unaudited quarterly information required by this Item is incorporated by reference to the section entitled "Market Price and Dividend Information" set forth in the Company's Annual Report to Shareholders for the fiscal year ended March 2, 2002 and March 3, 2001.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Company.

Information regarding directors of the Company required by this Item is incorporated by reference to the section entitled "Election of Directors - Nominees for Directors" set forth in the Company's Proxy Statement for its 2002 Annual Meeting of Shareholders.

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 required by this Item is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" set forth in the Company's Proxy Statement for its 2002 Annual Meeting of Shareholders.

No director or nominee for director of the Company has any family relationship with any other director or nominee or with any executive officer of the Company.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the section entitled "Executive Compensation" and the section entitled "Election of Directors - Board Meetings, Committees and Fees" set forth in the Company's Proxy Statement for its 2002 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item is incorporated herein by reference to the section entitled "Election of Directors - Security Ownership of Management" and the section entitled "Executive Compensation - Equity Compensation Plan Information" set forth in the Company's Proxy Statement for its 2002 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) List of consolidated financial statements, schedules and exhibits filed as part of this report.

1. Financial Statements

Consolidated Statements of Operations for the Years Ended March 2, 2002, March 3, 2001 and February 26, 2000

Consolidated Balance Sheets at March 2, 2002 and March 3, 2001

Consolidated Statements of Cash Flows for the Years Ended March 2, 2002, March 3, 2001 and February 26, 2000

Consolidated Statements of Shareholders' Equity for the Years Ended March 2, 2002, March 3, 2001 and February 26, 2000

Notes to Consolidated Financial Statements

Report of Independent Auditors

2. Financial Statement Schedules

Schedules have been omitted because they are not required or are not applicable or because the information required to be set forth therein either is not material or is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index.

(b) Reports on Form 8-K.

On February 12, 2002, the Company filed a Current Report on Form 8-K, in compliance with fair disclosure regulations.

SIGNATURES

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

Date: May 30, 2002 PIER 1 IMPORTS, INC.

By: /s/ Marvin J. Girouard
Marvin J. Girouard, Chairman
and Chief Executive Officer

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

Signature	Title	Date
/s/ Marvin J. Girouard Marvin J. Girouard	Chairman and Chief Executive Officer	May 30, 2002
/s/ Charles H. Turner Charles H. Turner	Executive Vice President, Chief Financial Officer and Treasurer	May 30, 2002
/s/ Susan E. Barley Susan E. Barley	Principal Accounting Officer	May 30, 2002
/s/ John H. Burgoyne John H. Burgoyne	Director	May 30, 2002
/s/ James D. Carreker James D. Carreker	Director	May 30, 2002
/s/ Dr. Michael R. Ferrari Dr. Michael R. Ferrari	Director	May 30, 2002
/s/ James M. Hoak, Jr. James M. Hoak, Jr.	Director	May 30, 2002
/s/ Karen W. Katz Karen W. Katz	Director	May 30, 2002
/s/ Tom M. Thomas Tom M. Thomas	Director	May 30, 2002

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3(i)	Certificate of Incorporation and Amendments thereto incorporated herein by reference to Exhibit 3(i) to Registrant's Form 10-Q for the quarter ended May 30, 1998.
3(ii)	Bylaws of the Company, Restated as of December 7, 1994, incorporated herein by reference to Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended November 26, 1994.
4.1	Rights Agreement dated December 9, 1994, between the Company and First Interstate Bank, N.A., as rights agent, incorporated herein by reference to Exhibit 4 to the Company's Registration Statement on Form 8-A, Reg. No. 1-7832, filed December 20, 1994.
10.1*	Form of Indemnity Agreement between the Company and the directors and executive officers of the Company, incorporated herein by reference to Exhibit 10(l) to the Company's Form 10-K for the fiscal year ended February 29, 1992.
10.2*	The Company's Supplemental Executive Retirement Plan effective May 1, 1986, as amended and restated as of January 1, 1996, incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-K for the fiscal year ended March 1, 1997.
10.2.1*	Amendments to the Company's Supplemental Executive Retirement Plan, incorporated herein by reference to Exhibit 10.2.1 to the Company's Form 10-K for the fiscal year ended March 3, 2001.
10.3*	The Company's Supplemental Retirement Plan effective September 28, 1995, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 1, 1996.
10.4*	The Company's Benefit Restoration Plan as Amended and Restated effective July 1, 1995, incorporated herein by reference to Exhibit 10.5.1 to the Company's Form 10-Q for the quarter ended May 27, 1995.
10.5*	The Company's Restricted Stock Plan effective March 5, 1990, incorporated herein by reference to Exhibit 10(p) to the Company's Form 10-K for the fiscal year ended March 3, 1990.
10.6*	The Company's Management Restricted Stock Plan, effective June 24, 1993, incorporated herein by reference to Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended February 25, 1995.
10.7*	The Company's 1989 Employee Stock Option Plan, effective June 29, 1989, incorporated herein by reference to Exhibit 10(q) to the Company's Form 10-K for the fiscal year ended March 3, 1990; as amended by Amendment No. 1 to the 1989 Employee Stock Option Plan, incorporated herein by reference to the Company's Form 10-Q for the quarter ended June 1, 1996.
10.8*	The Company's 1989 Non-Employee Director Stock Option Plan, effective June 29, 1989, incorporated herein by reference to Exhibit 10(r) to the Company's Form 10-K for the fiscal year ended March 3, 1990.
10.9*	Form of Post-Employment Consulting Agreement between the Company and its executive officers, incorporated herein by reference to Exhibit 10(r) to the Company's Form 10-K for the fiscal year ended February 29, 1992.

10.10*	The Company's Management Medical and Tax Benefit Plans, incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended February 26, 1994.
10.11.1	Pooling and Servicing Agreement, dated February 12, 1997, among Pier 1 Imports (U.S.), Inc., Pier 1 Funding, Inc. and Texas Commerce Bank National Association, as Trustee, incorporated herein by reference to Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended March 1, 1997.
10.11.2	Amendments Nos. 1, 2 and 3 to the Pooling and Servicing Agreement, incorporated herein by reference to Exhibit 10.13.2 to the Company's Form 10-K for the fiscal year ended February 28, 1998.
10.11.3	Amendment No. 4 to the Pooling and Servicing Agreement, incorporated herein by reference to Exhibit 10.11.3 to the Company's Form 10-K for the fiscal year ended March 3, 2001.
10.11.4	Amendment No. 5 to the Pooling and Services Agreement dated as of February 12, 1997 by and among Pier 1 Funding, L.L.C., Pier 1 Imports (U.S.), Inc., as servicer, and Wells Fargo Bank Minnesota, National Association as trustee, incorporated herein by reference to Exhibit 10.11.4 to the Company's Form 10-Q for the quarter ended September 1, 2001.
10.12*	Form of Deferred Compensation Agreement, between the Company and senior executive officers, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended November 29, 1997.
10.13*	Senior Management Annual Bonus Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended May 31, 1997.
10.14.1	Revolving Credit Agreement, dated November 12, 1998, among the Company, certain of its subsidiaries, NationsBank, N.A., Bank One, Texas, N.A., and Wells Fargo Bank (Texas), National Association, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended November 28, 1998.
10.14.2	First Amendment to the Revolving Credit Agreement, dated December 30, 1999, incorporated herein by reference to Exhibit 10.14.2 to the Company's Form 10-K for the fiscal year ended February 26, 2000.
10.15*	The Company's 1999 Stock Option Plan, effective June 24, 1999, incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended August 28, 1999.
10.16*	Forms of Director and Employee Stock Option Agreements, incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended August 28, 1999.
10.17	Certificate Purchase Agreement among Pier 1 Funding, L.L.C., Pier 1 Imports (U.S.), Inc., the purchasers named therein and Morgan Guaranty Trust Company of New York, as administrative agent, incorporated herein by reference to Exhibit 10.17 to the Company's Form 10-Q for the quarter ended September 1, 2001.

10.18	Repurchase Agreements relating to the cancellation of Series 1997-1 Class A Certificates, incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-Q for the quarter ended September 1, 2001.
13	Annual Report to Shareholders for the fiscal year ended March 2, 2002.
21	Roster of Subsidiaries of the Company.
23	Consent of Independent Auditors.

*Management Contracts and Compensatory Plans

EXHIBIT 13

FINANCIAL SUMMARY
($ in millions except per share amounts)

	4-Year Compound Annual Growth Rate	Year Ended 2002	2001(1)	2000	1999	1998
SUMMARY OF OPERATIONS:						
Net sales	9.5%	$ 1,548.6	1,411.5	1,231.1	1,138.6	1,075.4
Gross profit	8.9%	$ 649.8	594.5	512.5	500.4	461.5
Selling, general and administrative expenses	9.1%	$ 448.1	399.8	349.4	334.6	315.8
Depreciation and amortization	15.7%	$ 42.8	43.2	40.0	31.1	23.9
Operating income	6.9%	$ 158.8	151.5	123.2	134.7	121.7
Nonoperating (income) and expenses, net (2)		$ (0.2)	1.3	4.6	5.0	(2.3)
Income before income taxes	6.4%	$ 159.0	150.2	118.6	129.6	124.0
Net income	6.5%	$ 100.2	94.7	74.7	80.4	78.0
PER SHARE AMOUNTS (ADJUSTED FOR STOCK SPLITS AND DIVIDENDS):						
Basic earnings	8.3%	$ 1.06	.98	.78	.82	.77
Diluted earnings	9.6%	$ 1.04	.97	.75	.77	.72
Cash dividends declared	15.5%	$ .16	.15	.12	.12	.09
Shareholders' equity	12.4%	$ 6.20	5.52	4.60	4.12	3.89
OTHER FINANCIAL DATA:						
Working capital (3)	9.0%	$ 396.8	333.0	239.3	252.1	280.8
Current ratio (3)	(3.2)%	2.9	3.3	2.4	2.9	3.3
Total assets	7.2%	$ 862.7	735.7	670.7	654.0	653.4
Long-term debt (3)	(31.4)%	$ 25.4	25.0	25.0	96.0	114.9
Shareholders' equity	10.5%	$ 585.7	531.9	440.7	403.9	392.7
Weighted average diluted shares outstanding (millions)		96.2	98.0	103.3	108.9	112.9
Effective tax rate		37.0%	37.0	37.0	38.0	37.1
Return on average shareholders' equity		17.9%	19.5	17.7	20.2	21.8
Return on average total assets	12.5%	13.5	11.3	12.3	12.8	
Pre-tax return on sales		10.3%	10.6	9.6	11.4	11.5

(1) Fiscal 2001 consisted of a 53-week year. All other fiscal years presented reflect 52-week years.

(2) Nonoperating (income) and expenses, net, were comprised of interest expense and interest and investment income in each fiscal year presented, and in addition, included net recoveries associated with trading activities in fiscal 1998.

(3) The reduction in fiscal 2000 working capital, current ratio and long-term debt was the result of the Company's call of its outstanding 5 3/4% convertible subordinated notes. The notes were primarily converted into shares of the Company's common stock in March 2000. Excluding the reclassification of the 5 3/4% notes from long-term to short-term, working capital would have been $278.5 million with a current ratio of 3.0 to 1 at fiscal 2000 year-end.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pier 1 Imports, Inc. and its consolidated subsidiaries (the "Company") is one of North America's largest specialty retailers of unique decorative home furnishings, gifts and related items, with over 950 stores in 48 states, Canada, Puerto Rico, the United Kingdom and Mexico as of fiscal 2002 year-end. The Company directly imports merchandise from over 40 countries around the world and designs offerings that are proprietary to Pier 1 Imports. During fiscal 2002, the Company reported record sales of $1,548.6 million and record net income of $100.2 million, or $1.04 per diluted share. In February 2001, the Company acquired certain assets and assumed certain liabilities of Cargo Furniture, Inc. and formed New Cargo Furniture, Inc. ("Cargo"). Cargo, an 18-store retailer and wholesaler of casual lifestyle furniture, gifts and home decor, had no impact on the Company's fiscal 2001 operations due to the timing of the acquisition, but is reflected in the Company's fiscal 2002 and 2001 year-end balance sheets and fiscal 2002 results of operations.

FISCAL YEARS ENDED MARCH 2, 2002 AND MARCH 3, 2001

During the 52-week period of fiscal 2002, net sales increased $137.1 million, or 9.7%, to $1,548.6 million. Net sales for the 53-week period of fiscal 2001 were $1,411.5 million. Same-store sales for fiscal 2002 improved 4.5% over the prior year, excluding the 53rd week of sales in fiscal 2001. Despite a slow start in sales growth during the first half of the fiscal year, the Company began to see improvements in customer traffic, average ticket and customer conversion in the third quarter. These sales trends began after the events of September 11th when consumers shifted their spending away from travel and entertainment and began making purchases for their homes. In addition to this change in consumer behavior, the Company believes that its value-oriented merchandising efforts and the success of its marketing campaign contributed to the sales increases experienced during fiscal 2002.

The Company's accelerated new store growth plans in North America also contributed to sales growth during fiscal 2002. The Company opened 104 and closed 20 North American Pier 1 stores during the fiscal year. The North American Pier 1 store count totaled 910 at the end of fiscal 2002 compared to 826 a year ago. Including Cargo and all other worldwide locations, the Company's store count totaled 974 at the end of fiscal year 2002 compared to 899 at the end of fiscal year 2001. Prior to the close of fiscal year 2002, the franchise agreement with Akatsuki Printing Co., Ltd. and Skylark Co., Ltd. expired without any additional costs or further obligations to the Company. As a result, the Company no longer has stores in Japan.

A summary reconciliation of the Company's stores open at the beginning of fiscal 2002, 2001 and 2000 to the number open at the end of each period follows:

	PIER 1 NORTH AMERICAN	INTERNATIONAL(1)	CARGO(2)	TOTAL
Open at February 27, 1999	752	54	--	806
Openings (3)	63	5	--	68
Closings (3)	(30)	(10)	--	(40)
Open at February 26, 2000	785	49	--	834
Openings (3)	65	3	--	68
Closings (3)	(24)	--	--	(24)
Acquisition (February 2001)	--	--	21	21
Open at March 3, 2001	826	52	21	899
Openings (3)	104	3	3	110
Closings (3)	(20)	(9)	(6)	(35)
Open at March 2, 2002	910	46	18	974

(1) International stores were located in Puerto Rico, the United Kingdom, Mexico and Japan for fiscal 2000 and 2001. All Japan locations were closed by fiscal 2002 year-end.

(2) The Company's results of operations for fiscal 2001 were not affected by the acquisition of Cargo.

(3) Openings and closings include stores which were relocated.

Sales on the Company's proprietary credit card for fiscal 2002 were $412.5 million compared to $377.0 million last year and accounted for 28.9% of U.S. store sales for both fiscal periods. Proprietary credit card customers spent an average of $153 per transaction, which was comparable to last year. The Company continues to encourage sales on its proprietary credit card by opening new accounts, including accounts on Cargo's new proprietary credit card, and developing customer loyalty through marketing promotions specifically targeted to cardholders, including deferred payment options on larger purchases. Although the proprietary credit card generates income, it primarily serves as a marketing and communication tool for the Company's most loyal customers.

Gross profit, after related buying and store occupancy costs, expressed as a percentage of sales, was 42.0% for fiscal 2002 compared to 42.1% a year ago. Merchandise margins for fiscal year 2002 remained unchanged at 54.2% of sales when compared to last fiscal year. Although the first half of fiscal 2002 was more promotional as a result of soft economic conditions, the second half of fiscal 2002 yielded sales with a more favorable blend of regular-priced merchandise and promotional items and merchandise margins rebounded accordingly. Store occupancy costs were 12.3% of sales in fiscal 2002 versus 12.1% of sales last fiscal year. This increase was primarily attributable to the effect of leveraging occupancy costs over an additional week of sales in fiscal year 2001 versus fiscal year 2002. This increase was also the result of additional store rental expense due to the sale and subsequent leaseback of six store properties previously owned by the Company. These sale-leaseback transactions also resulted, although to a lesser extent, in a reduction of depreciation expense, which is not classified as a component of store occupancy costs.

As a percentage of sales, selling, general and administrative expenses, including marketing, increased 60 basis points to 28.9% of sales for fiscal year 2002 from 28.3% of sales a year ago. Expenses that normally increase proportionately with sales and number of stores, such as store payroll, equipment rental, supplies and marketing expenses, were well controlled and declined 50 basis points to 19.7% of sales. Store payroll decreased 20 basis points as a percentage of sales, which was largely the result of a decrease in store bonuses that are awarded based on sales gains over the prior year. Marketing as a percentage of sales decreased 10 basis points, to 4.5% of sales, due to lower television advertising rates negotiated by the Company. All other selling, general and administrative expenses increased 110 basis points to 9.3% of sales for the fiscal year. These increases were largely the result of increases in non-store payroll, medical, workers' compensation, and general insurance expenses, and the impact of Cargo's expenditures this year

with no corresponding expense last year. The increases in non-store payroll resulted primarily from an enhancement to the field management structure in the first quarter of fiscal 2002 to provide for future growth.

Depreciation and amortization expense for fiscal 2002 was $42.8 million, or 2.8% of sales, compared to $43.2 million, or 3.1% of sales, last fiscal year. The decrease was primarily the result of store point of sale equipment, which became fully depreciated in March 2001, along with the sale of eight store properties previously owned, six of which were subsequently leased back by the Company.

Operating income improved to $158.8 million, or 10.3% of sales, in fiscal 2002 from $151.5 million, or 10.7% of sales, in fiscal 2001.

Interest income increased $0.6 million, or 10 basis points as a percentage of sales, to $2.5 million due to considerably higher average cash and investment balances during the current fiscal year compared to last fiscal year, partially offset by a decrease in interest rates. Interest expense was $2.3 million in fiscal year 2002 compared to $3.1 million in fiscal year 2001, a 10 basis point reduction. The decline in interest expense was due to lower average interest rates on a relatively fixed long-term debt balance along with no borrowings under the Company's revolving credit facility during fiscal 2002 compared to several months of outstanding balances on the revolver during fiscal 2001.

The Company's effective tax rate remained constant at 37% of income before income taxes for both fiscal 2002 and 2001.

Fiscal 2002 net income totaled $100.2 million, representing 6.5% of sales, or $1.04 per share on a diluted basis. In fiscal 2001, net income was 6.7% of sales and totaled $94.7 million, or $.97 per share on a diluted basis.

FISCAL YEARS ENDED MARCH 3, 2001 AND FEBRUARY 26, 2000

During fiscal 2001, the Company recorded net sales of $1,411.5 million, an increase of $180.4 million, or 14.7%, over net sales of $1,231.1 million for the prior fiscal year. Fiscal 2001 consisted of a 53-week year, while fiscal 2000 and 1999 were 52-week years. Same-store sales for fiscal 2001 improved 7.8%, excluding the 53rd week of sales. The Company believes that its new advertising campaign, proprietary credit card and other promotions, and continued focus on a value pricing initiative, which began in fiscal 2000, resulted in higher customer traffic, average purchases per customer and conversion ratios during fiscal 2001.

The Company's continued efforts to expand by opening new stores also contributed to sales growth during fiscal 2001. The Company opened 65 new stores and closed 24 stores in North America during fiscal 2001, bringing the Pier 1 North American store count up to 826 at year-end. With the addition of Cargo, the store count worldwide, including North America, Puerto Rico, the United Kingdom, Mexico and Japan, totaled 899 at the end of fiscal 2001 compared to 834 at the end of fiscal 2000. A summary reconciliation of the Company's stores open at the beginning of fiscal 2001, 2000 and 1999 to the number open at the end of each period follows:

	PIER 1 NORTH AMERICAN	INTERNATIONAL(1)	CARGO(2)	TOTAL
Open at February 28, 1998	719	45	--	764
Openings (3)	63	11	--	74
Closings (3)	(30)	(2)	--	(32)
Open at February 27, 1999	752	54	--	806
Openings (3)	63	5	--	68
Closings (3)	(30)	(10)	--	(40)
Open at February 26, 2000	785	49	--	834
Openings (3)	65	3	--	68
Closings (3)	(24)	--	--	(24)
Acquisition (February 2001)	--	--	21	21
Open at March 3, 2001	826	52	21	899

(1) International stores were located in Puerto Rico, the United Kingdom, Mexico and Japan.

(2) The Company's results of operations for fiscal 2001 were not affected by the acquisition of Cargo.

(3) Openings and closings include stores which were relocated.

Increased use of the Company's proprietary credit card added to the Company's sales growth during fiscal 2001. Sales on the proprietary credit card were $377.0 million and accounted for 28.9% of U.S. store sales during fiscal 2001, an increase of $76.5 million over proprietary credit card sales in the prior year of $300.5 million, which represented 26.3% of U.S. store sales during that year. Proprietary credit card customers spent an average of $152 per transaction in fiscal 2001 compared to $142 per transaction in fiscal 2000. The Company attributed the growth in sales on the card to continued efforts to open new accounts, deferred payment options offered to cardholders during furniture promotions, and enhanced customer loyalty through targeted promotions.

Gross profit, after related buying and store occupancy costs, expressed as a percentage of sales, increased 50 basis points in fiscal 2001 to 42.1% from 41.6% in fiscal 2000. Merchandise margins, as a percentage of sales, declined from 54.6% in fiscal 2000 to 54.2% in fiscal 2001, a decrease of 40 basis points. The decrease was a result of management's concerted decision to continue to give value back to customers by offering unique merchandise at affordable prices. In addition, the effect of a full year of price reductions taken as a result of the value pricing initiative started in May 1999 which continued throughout fiscal 2000 created downward pressure on fiscal 2001 merchandise margins. This decline was also due in part to higher freight rates during the first half of fiscal 2001 as compared to the same period in fiscal 2000. The decreases in merchandise margins were more than offset by the leveraging of relatively fixed rental costs over a higher sales base, which included an additional week of sales in fiscal 2001. Store occupancy costs improved 90 basis points as a percentage of sales from 13.0% in fiscal 2000 to 12.1% in fiscal 2001.

As a percentage of sales, selling, general and administrative expenses, including marketing, improved 10 basis points to 28.3% in fiscal 2001 from 28.4% in fiscal 2000. In total dollars, selling, general and administrative expenses for fiscal 2001 increased $50.4 million over the prior fiscal year. Expenses that normally increase proportionately with sales and number of stores, such as marketing, store payroll, supplies and equipment rental, increased by $34.3 million, but as a percentage of sales declined nearly 20 basis points to 20.2% this fiscal year. Marketing as a percentage of sales decreased 20 basis points as a result of reduced spending on newspaper and magazine advertisements, along with leveraging marketing expenditures over a higher sales base. As a percentage of sales, the decrease in marketing expenses was offset by a 10 basis point increase in store payroll when comparing the two fiscal years. This increase was largely attributable to store bonuses awarded based on sales gains. All other selling, general and administrative expenses increased by $16.0 million, and increased 10 basis points as a percentage of sales. This increase was primarily due to an increase in information technology and other non-store salaries, partially offset by effective management of other administrative expenses and a reduction in net credit card costs.

Depreciation and amortization increased by $3.2 million to $43.2 million in fiscal 2001 primarily because of the Company's increased capital expenditures throughout fiscal 2001 and 2000, especially expenditures on technology-related assets which tend to have relatively short useful lives.

In fiscal 2001, operating income for the year improved to $151.5 million or 10.7% of sales, from $123.2 million or 10.0% of sales in fiscal 2000, an increase of 23.0% or $28.3 million.

Interest income decreased slightly to $1.9 million in fiscal 2001 from $2.3 million in fiscal 2000 due to lower average cash balances during the current fiscal year. Interest expense was $3.1 million in fiscal 2001 compared to $6.9 million in fiscal 2000, a decline of $3.8 million. The decrease in interest expense was primarily due to the repurchase of $28.6 million of the Company's 5 3/4% convertible subordinated notes during fiscal 2000 and the retirement of the remaining $39.2 million of these notes during the first quarter of fiscal 2001. See Note 5 of the Notes to Consolidated Financial Statements.

The Company's effective tax rate remained constant at 37% of income before income taxes for both fiscal 2001 and 2000.

Net income in fiscal 2001 was $94.7 million, or $.97 per share on a diluted basis, an increase of $20.0 million, or 26.7%, as compared to fiscal 2000's net income of $74.7 million, or $.75 per share on a diluted basis. Net income, as a percentage of sales, improved from 6.1% in fiscal 2000 to 6.7% in fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended fiscal year 2002 with $235.6 million of cash compared to $46.8 million a year ago. Total cash generated from operations was $244.3 million compared to $107.5 million last year. Net income, adjusted for non-cash and non-operating related items, was $147.0 million and served as the Company's primary source of operating cash for the fiscal year. The Company's reduction in inventory levels provided cash of $34.8 million compared to a use of cash in the prior fiscal year of $39.1 million. The Company's ability to better manage inventory levels resulted in higher inventory turns and lower overall inventories this year compared to last year, with only a slight decline in average inventory per store. After a successful January clearance event, inventory levels were well positioned at the end of fiscal 2002 enabling a smooth transition into the spring selling season. Increases in accounts payable and accrued liabilities provided cash of $66.0 million. These increases were primarily the result of an increase in merchandise-related accounts payable, increased sales of the Company's gift cards and increases in federal and state income taxes payable resulting from a change in the timing of tax payments.

During fiscal 2002, the Company spent a net of $10.5 million on investing activities. Capital expenditures were $57.9 million, a majority of which was used for new and existing store development and investments in the Company's information systems. The Company opened a record 104 new Pier 1 stores in North America, as well as three international stores, and relocated three existing Cargo stores, which together accounted for $27.9 million of the total amount expended for capital purchases. The Company remodeled five stores in fiscal 2002 at a cost of $5.1 million. Continuing with its commitment to invest in current store locations, the Company spent an additional $4.5 million to improve floor plans and upgrade fixtures on existing stores. The Company also spent $16.7 million on computer software and other system enhancements, including a new financial system, warehouse management system and customer relations management system. Proceeds from disposition of properties totaled $16.7 million, which included $12.6 million in proceeds from the sale-leaseback of six Company-owned properties throughout fiscal 2002. See Note 9 of the Notes to Consolidated Financial Statements for additional discussion of the sale-leaseback transactions.

As of March 2, 2002, the Company's beneficial interest in securitized receivables decreased $30.8 million from the balance at fiscal 2001 year-end. During the third quarter of fiscal 2002, the Company completed a new credit card securitization transaction through the Pier 1 Imports Credit Card Master Trust (the "Master

Trust"). The Master Trust is not consolidated by the Company as it is a qualifying special-purpose entity under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Master Trust issued $100 million in trust certificates to a third party, which bear interest at a floating rate equal to the rate on commercial paper issued by the third party. As of the end of fiscal year 2002, this rate was 1.81%. In conjunction with this transaction, the Master Trust retired $50 million in previously issued certificates, which bore interest at a fixed rate of 6.74% and were scheduled to mature in May 2002. After the retirement of these certificates, the new transaction provided the Company with net proceeds of approximately $49 million. The sale of the additional $50 million of retained interest contributed to this decrease in beneficial interest in securitized receivables, but was partially offset by increases subsequent to the sale of the retained interest due to increased sales on the Company's proprietary credit card. The Company has continued to experience payment rates comparable to last fiscal year on its proprietary credit card receivables. See Note 2 of the Notes to Consolidated Financial Statements.

During fiscal 2002, the Company paid $44.1 million to repurchase 4,020,500 common shares under the Board of Directors-approved stock buyback program at an average price of $10.98, including fees. Subsequent to the end of fiscal 2002, the Company announced that its Board of Directors authorized share repurchases of up to $150 million of the Company's common stock. This authorization replaced the previously authorized 2.8 million shares that were remaining for repurchase at the end of fiscal 2002. These repurchases will be made in open market or private transactions over the next two to three years depending on prevailing market conditions, the Company's available cash, loan covenant restrictions and consideration of its corporate credit ratings. During the year, the Company continued to pay dividends and $15.1 million of cash was expended for dividend payments during fiscal 2002. Also, subsequent to the end of the fiscal year, the Company declared an increased quarterly cash dividend of $.05 per share payable on May 22, 2002 to shareholders of record on May 8, 2002. The Company expects to continue to pay cash dividends in fiscal 2003, but to retain most of its future earnings for expansion of the Company's business. Other financing activities, primarily the exercise of stock options, provided cash of $14.2 million during fiscal 2002.

At fiscal 2002 year-end, the Company's sources of working capital were cash flow from operations, sales of proprietary credit card receivables and bank lines of credit. The bank facilities include a $125 million credit facility, which expires in November 2003, all of which was available at fiscal 2002 year-end. The Company had no borrowings on this facility during fiscal 2002. Additionally, the Company has a $120 million short-term line of credit, which is primarily used to issue merchandise letters of credit. At fiscal 2002 year-end, approximately $64.6 million had been utilized, leaving $55.4 million available. The Company also has $28.7 million in credit lines used to issue other special-purpose letters of credit, all of which were fully utilized at fiscal 2002 year-end. Of the $28.7 million in special-purpose letters of credit, $25.6 million related to the Company's industrial revenue bonds. See Note 5 of the Notes to Consolidated Financial Statements. Most of the Company's loan agreements require the Company to maintain certain financial ratios and limit certain investments and distributions to shareholders, including cash dividends and repurchases of common stock. The Company's current ratio was 2.9 to 1 at fiscal 2002 year-end compared to 3.3 to 1 at fiscal 2001 year-end.

A summary of the Company's other commercial commitments as of March 2, 2002 is listed below (in thousands):

		Amount of Commitment Expiration Per Period	
	Total Amounts Committed	Less Than 1 Year	1 to 3 Years
Merchandise letters of credit	$ 64,640	$ 64,640	$ --
Standby letters of credit	28,740	3,175	25,565
Total other commercial commitments	$ 93,380	$ 67,815	$25,565

A summary of the Company's contractual cash commitments as of March 2, 2002 is listed below (in thousands):

Fiscal Year	Long-term Debt	Operating Leases
2003	$ 356	$ 162,315
2004	356	158,525
2005	--	145,608
2006	--	132,855
2007	--	118,102
Thereafter	25,000	426,946
Total contractual cash commitments	$ 25,712	$ 1,144,351

The present value of total existing minimum operating lease commitments discounted at 10% was $751.9 million at fiscal 2002 year-end. The Company plans to continue to fund these commitments from operating cash flow.

The Company's securitization transaction accounts for a significant source of its funding, with a face amount of outstanding debt securities (the Class A Certificates) assumed by third parties of $100 million. The Company does not provide recourse to third party investors that purchase the debt securities issued by the Master Trust. However, should the performance of the underlying credit card receivables held by the Master Trust deteriorate to a level that the Company's retained subordinated interests were insufficient to collateralize the Class A Certificates, the Master Trust would be contractually required to begin repayment of the Class A Certificates thereby limiting the amount of receivables that could be sold to the Master Trust and limiting the securitization as a source of funding. However, this repayment would only be required to the extent that the Master Trust was out of compliance with its required performance measures. The performance measures that could trigger this repayment, such as payment rate, returns and fraud, portfolio yield, and minimum transferor's interest, would have to decline significantly to result in such an early amortization event. In addition, if the Company was required to consolidate the Master Trust due to a change in accounting rules, the Company's operations for fiscal 2002 would not have been materially different than its reported results and both its assets and liabilities would have increased by approximately $100 million as of March 2, 2002.

The Company plans to open approximately 115 to 120 new Pier 1 stores during fiscal year 2003 and plans to close approximately 30 stores as their leases expire or otherwise end. A majority of the store closings are planned relocations within the same markets. In addition, the Company will begin its expansion plans for

Cargo and will open eight to ten locations during fiscal 2003. New store buildings and land will be financed primarily through operating leases. Total capital expenditures for fiscal 2003 are expected to be approximately $85 million. Of this amount, the Company expects to spend approximately $43 million on store development, $15 million on the replacement of its Savannah distribution facility, net of estimated proceeds from the disposal of the current facility, $15 million on information systems and $12 million on the land and other costs related to construction of the Company's new headquarters.

In summary, the Company's primary uses of cash in fiscal 2002 were to fund operating expenses, provide for new and existing store development and repurchase common stock of the Company. Historically, the Company has financed its operations primarily from internally generated funds and borrowings under the Company's credit facilities. The Company believes that the funds provided from operations, available lines of credit and sales of its proprietary credit card receivables will be sufficient to finance working capital and capital expenditure requirements throughout fiscal year 2003.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States requires the use of estimates that affect the reported value of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the Company's conclusions. The Company continually evaluates the information used to make these estimates as the business and the economic environment changes. Actual results may differ from these estimates under different assumptions or conditions. The use of estimates is pervasive throughout the consolidated financial statements, but the accounting policies and estimates considered most critical are as follows:

BENEFICIAL INTEREST IN SECURITIZED RECEIVABLES - In February 1997, the Company sold all of its proprietary credit card receivables to a special-purpose wholly-owned subsidiary, Pier 1 Funding, Inc., predecessor to Pier 1 Funding, LLC ("Funding"), which transferred the receivables to the Pier 1 Imports Credit Card Master Trust (the "Master Trust"). The Master Trust is not consolidated by the Company as it meets the requirements of a qualifying special-purpose entity under SFAS No. 140. The Master Trust issues beneficial interests that represent undivided interests in the assets of the Master Trust consisting of the transferred receivables and all cash flows from collections of such receivables. The beneficial interests include certain interests retained by Funding, which are represented by Class B Certificates, and the residual interest in the Master Trust (the excess of the principal amount of receivables held in the Master Trust over the portion represented by the certificates sold to investors and the Class B Certificates). Gain or loss on the sale of receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. The beneficial interest in the Master Trust is accounted for as an available-for-sale security. The Company estimates the fair value of its beneficial interest in the Master Trust, both upon initial securitization and thereafter, based on the present value of future expected cash flows estimated using management's best estimates of key assumptions including credit losses and timeliness of payments. Although not anticipated by the Company, a significant deterioration in the financial condition of the Company's credit card holders, interest rates, or other economic conditions could result in other than temporary losses on the beneficial interest in future periods.

INVENTORIES - The Company's inventory is comprised of finished merchandise and is stated at the lower of average cost or market; cost is determined on a weighted average method. Calculations of the carrying value of inventory are made on an item-by-item basis. The Company reviews its inventory levels in order to identify slow-moving merchandise and uses merchandise markdowns to clear such merchandise. Reserves are established to reduce the value of such slow-moving merchandise. The Company records inventory shrink expense based upon known inventory losses plus unknown losses estimated by reviewing historical experience of the results of its physical inventories. Although inventory shrink rates have not fluctuated significantly in recent years, should actual inventory shrink rates differ from the Company's estimates,

revisions to the inventory shrink expense may be required. Most inventory purchases and commitments are made in U.S. dollars.

INCOME TAXES - The Company records income tax expense using the liability method for taxes. The Company is subject to income tax in many jurisdictions, including the United States, various states and localities, and foreign countries. The process of determining tax expense by jurisdiction involves the calculation of actual current tax expense, together with the assessment of deferred tax expense resulting from differing treatment of items for tax and financial accounting purposes. Deferred tax assets and liabilities are recorded in the Company's consolidated balance sheets.

In accordance with Accounting Principles Board ("APB") Opinion No. 23, deferred federal income taxes, net of applicable foreign tax credits, are not provided on the undistributed earnings of foreign subsidiaries to the extent the Company intends to permanently reinvest such earnings abroad. The Company intends these earnings to be indefinitely reinvested in international operations. If future events require that certain assets associated with these earnings be repatriated to the United States, an additional tax provision will be required. Determination of the amount of additional taxes that would be payable if such earnings were not considered indefinitely reinvested is not practical due to the complexities in tax laws and the assumptions that would have to be made.

REVENUE RECOGNITION - The Company recognizes revenue upon customer receipt or delivery for retail sales, including sales under deferred payment promotions on its proprietary credit card. Credit card receivable deferrals are for approximately 90 days and have historically resulted in no significant increases in bad debt losses arising from such receivables. Revenue from gift cards, gift certificates and merchandise credits is deferred until redemption. The Company records an allowance for estimated merchandise returns based on historical experience and other known factors. Should actual returns differ from the Company's estimates and current provision for merchandise returns, revisions to the estimated merchandise returns may be required.

SAME-STORE SALES - Stores included in the same-store sales calculation are those stores opened prior to the beginning of the preceding fiscal year and that are still open. Also included are stores that are relocated during the year within a specified distance serving the same market, where there is not a significant change in store size and where there is not a significant overlap between the opening of one store and the closing of the existing store. Stores that are expanded or renovated are excluded from the same-store sales calculation during the period they are closed for such remodeling. When these stores re-open for business, they are included in the same-store sales calculation in the first full month after the re-opening if there is no significant change in store size. If there is a significant change in store size, the store continues to be excluded from the calculation until it meets the Company's established definition of a same-store. Sales over the internet are included, but clearance stores are omitted from the same-store sales calculation. Also, Cargo was not included in the operations of the Company for fiscal 2001 and was not included in the same-store sales calculation for fiscal 2002.

MARKET RISK DISCLOSURES

Market risks relating to the Company's operations result primarily from changes in foreign exchange rates and interest rates. The Company has only limited involvement with derivative financial instruments, does not use them for trading purposes, and is not a party to any leveraged derivatives.

The Company periodically enters into forward foreign currency exchange contracts to hedge some of its foreign currency exposure. The Company uses such contracts to hedge exposures to changes in foreign currency exchange rates, primarily the EMU euro and British pounds, associated with purchases denominated in foreign currencies. The Company also uses contracts to hedge its exposure associated with repatriation of funds from its Canadian operations. Changes in the fair value of the derivatives are included in the Company's consolidated statements of operations. Forward contracts, which hedge merchandise purchases, generally have maturities not exceeding six months, and contracts which hedge the repatriation of

Canadian funds have maturities not exceeding eighteen months. At March 2, 2002, the notional amount of the Company's forward foreign currency exchange contracts and contracts to hedge its exposure associated with the repatriation of Canadian funds totaled approximately $3.9 and $12.2 million, respectively.

The Company manages its exposure to changes in interest rates by optimizing the use of variable and fixed rate debt. The Company had $25.0 million of variable rate borrowings at March 2, 2002. A hypothetical 10% adverse change in interest rates would have a negligible impact on the Company's earnings and cash flows.

Collectively, the Company's exposure to these market risk factors was not significant and did not materially change from March 3, 2001.

IMPACT OF INFLATION AND CHANGING PRICES

Inflation has not had a significant impact on the operations of the Company during the preceding three years.

IMPACT OF NEW ACCOUNTING STANDARDS

In the first quarter of fiscal 2002, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended by SFAS No. 137 and SFAS No. 138. This statement establishes accounting and reporting guidelines for derivatives and requires the Company to record all derivatives as assets or liabilities on the balance sheet at fair value. The Company's use of derivatives is primarily limited to forward foreign currency exchange contracts, which the Company uses to mitigate exposures to changes in foreign currency exchange rates. The Company also uses contracts which hedge the repatriation of Canadian funds. Upon adoption of SFAS No. 133, the Company did not designate such derivatives as hedging instruments; thus, the changes in the fair value of the derivatives have been included in the consolidated statements of operations. Prior to adoption, the Company deferred all gains and losses on its derivative contracts and recognized such gains and losses as an adjustment to the transaction price. The adoption of SFAS No. 133 has not had a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

The Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" in the first quarter of fiscal 2002. This statement established new conditions for a securitization to be accounted for as a sale of receivables, changed the requirements for an entity to be a qualifying special-purpose entity, and modified the conditions for determining whether a transferor has relinquished control over transferred assets. SFAS No. 140 also requires additional disclosures related to securitized financial assets and retained interests in securitized financial assets. See Note 2 of the Notes to Consolidated Financial Statements. Prior to adoption, the Company made the necessary amendments to its securitization agreements and continues to receive sale treatment for its securitized proprietary credit card receivables. The implementation of SFAS No. 140 did not have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," which supersedes APB Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." Statement No. 141 eliminates the pooling-of-interests method of accounting for business combinations and requires all such transactions to be accounted for under the purchase method. This statement also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In June 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supersedes APB Opinion No. 17, "Intangible Assets." This statement addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested on an annual basis for impairment. The Company is required to adopt SFAS No. 142 for its fiscal year beginning March 3, 2002. The Company has analyzed the implementation requirements and does not anticipate that the adoption of SFAS No. 142 will have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Statement No. 144 retains the fundamental provisions of SFAS No. 121 with additional guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale be classified as "held and used" until it is disposed of, and establishes more restrictive criteria to classify an asset as "held for sale." SFAS No. 144 also supersedes APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" regarding the disposal of a segment of a business and would extend the reporting of a discontinued operation to a "component of an entity" and requires the operating losses thereon to be recognized in the period in which they occur. The Company is required to adopt SFAS No. 144 for its fiscal year beginning March 3, 2002. The Company has analyzed the implementation requirements and does not anticipate that the adoption of SFAS No. 144 will have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this annual report, other than historical information, may constitute "forward-looking statements" that are subject to certain risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The Company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission and in material delivered to the Company's shareholders. Forward-looking statements provide current expectations of future events based on certain assumptions. These statements encompass information that does not directly relate to any historical or current fact and often may be identified with words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects" and other similar expressions. Management's expectations and assumptions regarding planned store openings, financing of Company obligations from operations and other future results are subject to risks, uncertainties and other factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Risks and uncertainties that may affect Company operations and performance include, among others, the effects of terrorist attacks or other acts of war, weather conditions that may affect sales, the general strength of the economy and levels of consumer spending, the availability of new sites for expansion along with sufficient labor to facilitate growth, the strength of new home construction and sales of existing homes, the ability of the Company to import merchandise from foreign countries without significantly restrictive tariffs, duties or quotas and the ability of the Company to ship items from foreign countries at reasonable rates in timely fashion. The foregoing risks and uncertainties are in addition to others discussed elsewhere in this annual report. The Company assumes no obligation to update or otherwise revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied will not be realized.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Pier 1 Imports, Inc.

We have audited the accompanying consolidated balance sheets of Pier 1 Imports, Inc. as of March 2, 2002 and March 3, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 2, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pier 1 Imports, Inc. at March 2, 2002 and March 3, 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 2, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Fort Worth, Texas
April 8, 2002

REPORT OF MANAGEMENT

To our shareholders:

Management is responsible for the preparation and the integrity of the accompanying consolidated financial statements and related notes, which have been prepared in accordance with accounting principles generally accepted in the United States and include amounts based upon our estimates and judgments, as required. The consolidated financial statements have been audited by Ernst & Young LLP, independent certified public accountants. The accompanying independent auditors' report expresses an independent professional opinion on the fairness of presentation of management's financial statements.

The Company maintains a system of internal controls over financial reporting. We believe this system provides reasonable assurance that transactions are executed in accordance with management authorization and that such transactions are properly recorded and reported in the financial statements, that assets are properly safeguarded and accounted for, and that records are maintained so as to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States. The Company also has instituted policies and guidelines, which require employees to maintain a high level of ethical standards.

In addition, the Board of Directors exercises its oversight role with respect to the Company's internal control systems primarily through its Audit Committee. The Audit Committee consists solely of outside directors and meets periodically with management, the Company's internal auditors and the Company's independent auditors to review internal accounting controls, audit results, financial reporting, and accounting principles and practices. The Company's independent and internal auditors have full and free access to the Audit Committee with and without management's presence. Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of and for the year ended March 2, 2002 provide reasonable assurance that the consolidated financial statements are reliable.

/s/ Marvin J. Girouard
Marvin J. Girouard
Chairman of the Board
and Chief Executive Officer

/s/ Charles H. Turner
Charles H. Turner
Executive Vice President,
Chief Financial Officer and Treasurer

PIER 1 IMPORTS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share amounts)

	Year Ended		
	2002	2001	2000
Net sales	$ 1,548,556	$ 1,411,498	$ 1,231,095
Operating costs and expenses:			
Cost of sales (including buying and store occupancy costs)	898,795	817,043	718,547
Selling, general and administrative expenses	448,127	399,755	349,394
Depreciation and amortization	42,821	43,184	39,973
	1,389,743	1,259,982	1,107,914
Operating income	158,813	151,516	123,181
Nonoperating (income) and expenses:			
Interest and investment income	(2,484)	(1,854)	(2,349)
Interest expense	2,300	3,130	6,918
	(184)	1,276	4,569
Income before income taxes	158,997	150,240	118,612
Provision for income taxes	58,788	55,590	43,887
Net income	$ 100,209	$ 94,650	$ 74,725
Earnings per share:			
Basic	$ 1.06	$ .98	$ .78
Diluted	$ 1.04	$ .97	$ .75
Dividends declared per share:	$ .16	$ .15	$ .12
Average shares outstanding during period:			
Basic	94,414	96,306	95,766
Diluted	96,185	97,952	103,297

The accompanying notes are an integral part of these financial statements.

PIER 1 IMPORTS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except share amounts)

	2002	2001
ASSETS		
Current assets:		
Cash, including temporary investments of $213,488 and $31,142, respectively	$ 235,609	$ 46,841
Beneficial interest in securitized receivables	44,620	75,403
Other accounts receivable, net of allowance for doubtful accounts of $275 and $295, respectively	6,205	8,370
Inventories	275,433	310,704
Prepaid expenses and other current assets	43,286	35,748
Total current assets	605,153	477,066
Properties, net	209,954	212,066
Other noncurrent assets	47,565	46,578
	$ 862,672	$ 735,710
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 356	$ --
Accounts payable and accrued liabilities	208,040	144,110
Total current liabilities	208,396	144,110
Long-term debt	25,356	25,000
Other noncurrent liabilities	43,264	34,721
Shareholders' equity:		
Common stock, $1.00 par, 500,000,000 shares authorized, 100,779,000 issued	100,779	100,779
Paid-in capital	140,190	139,424
Retained earnings	429,910	344,809
Cumulative other comprehensive income	(4,702)	(3,115)
Less - 7,362,000 and 4,619,000 common shares in treasury, at cost, respectively	(80,521)	(49,933)
Less - unearned compensation	--	(85)
	585,656	531,879
Commitments and contingencies	--	--
	$ 862,672	$ 735,710

The accompanying notes are an integral part of these financial statements.

PIER 1 IMPORTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands except share amounts)

	Year Ended 2002	2001	2000
Cash flow from operating activities:			
Net income	$ 100,209	$ 94,650	$ 74,725
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	42,821	43,184	39,973
Loss on disposal of fixed assets	4,205	6,514	5,828
Deferred compensation	3,697	2,072	1,543
Deferred taxes	(2,238)	735	1,724
Other	(1,707)	(184)	1,938
Change in cash from:			
Inventories	34,804	(39,127)	(10,133)
Other accounts receivable and other current assets	(2,983)	(5,847)	586
Accounts payable and accrued expenses	66,048	6,280	8,962
Other noncurrent assets	(32)	(378)	(2,382)
Other noncurrent liabilities	(500)	(390)	(911)
Net cash provided by operating activities	244,324	107,509	121,853
Cash flow from investing activities:			
Capital expenditures	(57,925)	(42,745)	(48,219)
Proceeds from disposition of properties	16,682	353	19,425
Net cost from disposition of Sunbelt Nursery Group, Inc. properties	--	--	(439)
Acquisitions, net of cash acquired	--	(3,917)	--
Beneficial interest in securitized receivables	30,783	(21,583)	(12,820)
Net cash used in investing activities	(10,460)	(67,892)	(42,053)
Cash flow from financing activities:			
Cash dividends	(15,134)	(14,494)	(11,504)
Purchases of treasury stock	(44,137)	(34,270)	(31,806)
Proceeds from stock options exercised, stock purchase plan and other, net	13,463	5,627	4,148
Borrowings under long-term debt	712	82,500	4,035
Repayments of long-term debt	--	(82,515)	(36,242)
Net cash used in financing activities	(45,096)	(43,152)	(71,369)
Change in cash and cash equivalents	188,768	(3,535)	8,431
Cash and cash equivalents at beginning of year	46,841	50,376	41,945
Cash and cash equivalents at end of year	$ 235,609	$ 46,841	$ 50,376
Supplemental cash flow information:			
Interest paid	$ 2,493	$ 3,171	$ 7,137
Income taxes paid	$ 35,951	$ 58,302	$ 40,883

During fiscal 2001, the Company issued 4,764,450 shares of its common stock upon the conversion of $39,164,000 principal amount of 5 3/4% convertible subordinated notes.

The accompanying notes are an integral part of these financial statements.

PIER 1 IMPORTS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands except per share amounts)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income	Treasury Stock
Balance February 27, 1999	97,672	$ 100,779	$ 159,631	$ 201,457	$ (1,850)	$ (54,654)
Comprehensive income:						
Net income	--	--	--	74,725	--	--
Other comprehensive income, net of tax:						
Currency translation adjustments	--	--	--	--	314	--
Comprehensive income						
Purchases of treasury stock	(4,393)	--	--	--	--	(31,806)
Restricted stock forfeits and amortization	(83)	--	709	--	--	(1,392)
Exercise of stock options, stock purchase plan and other	625	--	(4,629)	--	--	9,184
Cash dividends ($.12 per share)	--	--	--	(11,504)	--	--

Balance February 26, 2000	93,821	100,779	155,711	264,678	(1,536)	(78,668)
Comprehensive income:						
Net income	--	--	--	94,650	--	--
Other comprehensive income, net of tax:						
Currency translation adjustments	--	--	--	--	(1,579)	--
Comprehensive income						
Purchases of treasury stock	(3,269)	--	--	--	--	(34,270)
Restricted stock amortization	--	--	--	--	--	--
Exercise of stock options, stock purchase plan and other	825	--	(1,774)	(25)	--	9,119
Cash dividends ($.15 per share)	--	--	--	(14,494)	--	--
Conversion of 5 3/4% convertible debt	4,764	--	(14,513)	--	--	53,886
Balance March 3, 2001	96,141	100,779	139,424	344,809	(3,115)	(49,933)
Comprehensive income:						
Net income	--	--	--	100,209	--	--
Other comprehensive income, net of tax:						
Currency translation adjustments	--	--	--	--	(1,587)	--
Comprehensive income						
Purchases of treasury stock	(4,021)	--	--	--	--	(44,137)
Restricted stock amortization	--	--	--	--	--	--
Exercise of stock options, stock purchase plan and other	1,269	--	766	26	--	13,549
Cash dividends ($.16 per share)	--	--	--	(15,134)	--	--
Balance March 2, 2002	93,389	$ 100,779	$ 140,190	$ 429,910	$ (4,702)	$ (80,521)

	Unearned Compensation	Total Shareholders' Equity
Balance February 27, 1999	$ (1,469)	$ 403,894
Comprehensive income:		
Net income	--	74,725
Other comprehensive income, net of tax:		
Currency translation adjustments	--	314
Comprehensive income		75,039
Purchases of treasury stock	--	(31,806)
Restricted stock forfeits and amortization	1,168	485
Exercise of stock options, stock purchase plan and other	--	4,555
Cash dividends ($.12 per share)	--	(11,504)
Balance February 26, 2000	(301)	440,663
Comprehensive income:		
Net income	--	94,650
Other comprehensive income, net of tax:		
Currency translation adjustments	--	(1,579)
Comprehensive income		93,071
Purchases of treasury stock	--	(34,270)
Restricted stock amortization	216	216
Exercise of stock options, stock purchase plan and other	--	7,320
Cash dividends ($.15 per share)	--	(14,494)
Conversion of 5 3/4% convertible debt	--	39,373
Balance March 3, 2001	(85)	531,879
Comprehensive income:		
Net income	--	100,209
Other comprehensive income, net of tax:		
Currency translation adjustments	--	(1,587)
Comprehensive income		98,622
Purchases of treasury stock	--	(44,137)
Restricted stock amortization	85	85
Exercise of stock options, stock purchase plan and other	--	14,341
Cash dividends ($.16 per share)	--	(15,134)
Balance March 2, 2002	$ --	$ 585,656

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - Pier 1 Imports, Inc. is one of North America's largest specialty retailers of imported decorative home furnishings, gifts and related items, with retail stores located in the United States, Canada, Puerto Rico, the United Kingdom and Mexico. Concentrations of risk with respect to sourcing the Company's inventory purchases are limited due to the large number of vendors or suppliers and their geographic dispersion around the world. The Company sells merchandise imported from over 40 different countries, with 35% of its sales derived from merchandise produced in China, 11% derived from merchandise produced in India and 29% derived from merchandise produced in Indonesia, Thailand, Brazil, Italy, the Philippines and Mexico. The remaining 25% of sales was from merchandise produced in various Asian, European, Central American, South American and African countries or was obtained from U.S. manufacturers.

BASIS OF CONSOLIDATION - The consolidated financial statements of Pier 1 Imports, Inc. and its consolidated subsidiaries (the "Company") include the accounts of all subsidiary companies except Pier 1 Funding, LLC, which is a non-consolidated, bankruptcy remote, securitization subsidiary. See Note 2 of the Notes to Consolidated Financial Statements. Material intercompany transactions and balances have been eliminated.

ACQUISITIONS - The Company completed its acquisition of certain assets and assumption of certain liabilities of Cargo Furniture, Inc. and formed New Cargo Furniture, Inc. ("Cargo") for $3,931,000, including cash acquired, on February 21, 2001. These assets and liabilities were included in the Company's consolidated balance sheet as of March 3, 2001; however, this acquisition had no effect on the Company's fiscal 2001 operations. Cargo is a retailer and wholesaler of casual lifestyle furniture, gifts and home decor with a focus on children's furniture. This acquisition was accounted for under the purchase method of accounting, and ultimately resulted in goodwill of $4,386,000, which has been amortized using the straight-line method over 20 years through fiscal 2002, at which time amortization ceases due to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142. The pro forma effect on the Company's results of operations, as if the acquisition had been completed at the beginning of fiscal 2001, was not significant. Cargo's operations for fiscal 2002 are fully consolidated with the Company's results.

USE OF ESTIMATES - Preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain reclassifications have been made in the prior years' consolidated financial statements to conform to the fiscal 2002 presentation.

FISCAL PERIODS - The Company utilizes 5-4-4 (week) quarterly accounting periods with the fiscal year ending on the Saturday nearest the last day of February. Fiscal 2002 and 2000 consisted of 52-week years and fiscal 2001 was a 53-week year. Fiscal 2002 ended March 2, 2002, fiscal 2001 ended March 3, 2001 and fiscal 2000 ended February 26, 2000.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. The effect of foreign currency exchange rate fluctuations on cash is not material.

TRANSLATION OF FOREIGN CURRENCIES - Assets and liabilities of foreign operations are translated into U.S. dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the year. Translation adjustments arising from differences in exchange rates from period to period are included as a separate component of shareholders' equity and are included in comprehensive income.

FINANCIAL INSTRUMENTS - The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. There were no significant assets or liabilities with a fair value different from the recorded value as of March 2, 2002 and March 3, 2001.

Risk management instruments: The Company may utilize various financial instruments to manage interest rate and market risk associated with its on- and off-balance sheet commitments.

The Company hedges certain commitments denominated in foreign currencies through the purchase of forward contracts. The forward contracts are purchased only to cover specific commitments to buy merchandise for resale. The Company also uses contracts to hedge its exposure associated with the repatriation of funds from its Canadian operations. At March 2, 2002, the notional amount of the Company's forward foreign currency exchange contracts and contracts to hedge its exposure associated with repatriation of Canadian funds totaled approximately $3.9 million and $12.2 million, respectively. For financial accounting purposes, the Company has not designated such contracts as hedges. Thus, changes in the fair value of both of these forward contracts are included in the Company's consolidated statements of operations.

The Company enters into forward foreign currency exchange contracts with major financial institutions and continually monitors its positions with, and the credit quality of, these counterparties to such financial instruments. The Company does not expect non-performance by any of the counterparties, and any losses incurred in the event of non-performance would not be material.

BENEFICIAL INTEREST IN SECURITIZED RECEIVABLES - In February 1997, the Company sold all of its proprietary credit card receivables to a special-purpose wholly-owned subsidiary, Pier 1 Funding, Inc., predecessor to Pier 1 Funding, LLC ("Funding"), which transferred the receivables to the Pier 1 Imports Credit Card Master Trust (the "Master Trust"). The Master Trust is not consolidated by the Company as it meets the requirements of a qualifying special-purpose entity under SFAS No. 140. The Master Trust issues beneficial interests that represent undivided interests in the assets of the Master Trust consisting of the transferred receivables and all cash flows from collections of such receivables. The beneficial interests include certain interests retained by Funding, which are represented by Class B Certificates, and the residual interest in the Master Trust (the excess of the principal amount of receivables held in the Master Trust over the portion represented by the certificates sold to investors and the Class B Certificates).

Gain or loss on the sale of receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. A servicing asset or liability was not recognized in the Company's credit card securitizations (and thus was not considered in the gain or loss computation) since the Company received adequate compensation relative to current market servicing prices to service the receivables sold. Initial transaction costs for credit card securitizations were deferred and are being amortized over the expected life of the securitization.

The beneficial interest in the Master Trust is accounted for as an available-for-sale security. The Company estimates fair value of its beneficial interest in the Master Trust, both upon initial securitization and thereafter, based on the present value of future expected cash flows estimated using management's best estimates of key assumptions including credit losses and timeliness of payments. As of March 2, 2002, the Company's assumptions included credit losses of 5% of the outstanding balance and expected payment within a six-month period using a discount rate of 15% to calculate the present value of the future cash flows. A sensitivity analysis was performed assuming a hypothetical 20% adverse change in both interest rates and credit losses which had an immaterial impact on the fair value of the Company's beneficial interest.

INVENTORIES - Inventories are comprised of finished merchandise and are stated at the lower of average cost or market; cost is determined on a weighted average method.

PROPERTIES, MAINTENANCE AND REPAIRS - Buildings, equipment, furniture and fixtures, and leasehold interests and improvements are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated remaining useful lives of the assets, generally thirty years for buildings

and three to seven years for equipment, furniture and fixtures. Amortization of improvements to leased properties is based upon the shorter of the remaining primary lease term or the estimated useful lives of such assets. Depreciation costs were $41,047,000, $41,882,000 and $38,672,000 in fiscal 2002, 2001 and 2000, respectively.

Expenditures for maintenance, repairs and renewals, which do not materially prolong the original useful lives of the assets, are charged to expense as incurred. In the case of disposals, assets and the related depreciation are removed from the accounts and the net amount, less proceeds from disposal, is credited or charged to income.

REVENUE RECOGNITION - Revenue is recognized upon customer receipt or delivery for retail sales, including sales under deferred payment promotions on the Company's proprietary credit card. An allowance has been established to provide for estimated merchandise returns. Revenue from gift cards, gift certificates and merchandise credits is deferred until redemption.

ADVERTISING COSTS - Advertising costs are expensed the first time the advertising takes place. Advertising costs were $64,414,000, $59,721,000 and $54,970,000 in fiscal 2002, 2001 and 2000, respectively. Prepaid advertising at the end of fiscal years 2002 and 2001 was $2,303,000 and $2,086,000, respectively, consisting primarily of production costs for advertisements not yet run.

INCOME TAXES - The Company records income tax expense using the liability method for taxes. Under this method, deferred tax assets and liabilities are recognized based on differences between financial statement and tax bases of assets and liabilities using presently enacted tax rates. Deferred federal income taxes, net of applicable foreign tax credits, are not provided on the undistributed earnings of foreign subsidiaries to the extent the Company intends to permanently reinvest such earnings abroad.

STOCK-BASED COMPENSATION - The Company grants stock options and restricted stock for a fixed number of shares to employees with stock option exercise prices equal to the fair market value of the shares on the date of grant. The Company accounts for stock option grants and restricted stock grants in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense for the stock option grants.

EARNINGS PER SHARE - Basic earnings per share amounts were determined by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share amounts were similarly computed, but included the effect, when dilutive, of the Company's weighted average number of stock options outstanding and the average number of common shares that would be issuable upon conversion of the Company's convertible securities. To determine diluted earnings per share, interest and amortization of debt issue costs related to the subordinated notes, net of any applicable taxes, have been added back to net income to reflect assumed conversions.

The following earnings per share calculations reflect the effect of the Company's conversion of its 5 3/4% convertible subordinated notes, which were primarily converted, without interest, on or before March 23, 2000. Earnings per share amounts are calculated as follows (in thousands except per share amounts):

	2002	2001	2000
Net income	$ 100,209	$ 94,650	$ 74,725
Plus interest and debt issue costs, net of tax, on the assumed conversion of the 5 3/4% subordinated notes	--	--	2,237
Diluted net income	$ 100,209	$ 94,650	$ 76,962
Average shares outstanding:			
Basic	94,414	96,306	95,766
Plus assumed exercise of stock options	1,771	1,325	644
Plus assumed conversion of the 5 3/4% subordinated notes	--	321	6,887
Diluted	96,185	97,952	103,297
Earnings per share:			
Basic	$ 1.06	$ .98	$ .78
Diluted	$ 1.04	$ .97	$ .75

Stock options for which the exercise price was greater than the average market price of common shares were not included in the computation of diluted earnings per share as the effect would be antidilutive. At the end of fiscal years 2002, 2001 and 2000, there were 433,800, 1,078,200 and 1,157,025, respectively, stock options outstanding with exercise prices greater than the average market price of the Company's common shares.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS - In the first quarter of fiscal 2002, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended by SFAS No. 137 and SFAS No. 138. This statement establishes accounting and reporting guidelines for derivatives and requires the Company to record all derivatives as assets or liabilities on the balance sheet at fair value. The Company's use of derivatives is primarily limited to forward foreign currency exchange contracts, which the Company uses to mitigate exposures to changes in foreign currency exchange rates. The Company also uses contracts which hedge the repatriation of Canadian funds. Upon adoption of SFAS No. 133, the Company did not designate such derivatives as hedging instruments; thus, the changes in the fair value of the derivatives have been included in the consolidated statement of operations. Prior to adoption, the Company deferred all gains and losses on its derivative contracts and recognized such gains and losses as an adjustment to the transaction price. The adoption of SFAS No. 133 has not had a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

The Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" in the first quarter of fiscal 2002. This statement established new conditions for a securitization to be accounted for as a sale of receivables, changed the requirements for an entity to be a qualifying special-purpose entity, and modified the conditions for determining whether a transferor has relinquished control over transferred assets. SFAS No. 140 also requires additional disclosures related to securitized financial assets and retained interests in securitized financial assets. See

Note 2 of the Notes to Consolidated Financial Statements. Prior to adoption, the Company made the necessary amendments to its securitization agreements and continues to receive sale treatment for its securitized proprietary credit card receivables. The implementation of SFAS No. 140 did not have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," which supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." Statement No. 141 eliminates the pooling-of-interests method of accounting for business combinations and requires all such transactions to be accounted for under the purchase method. This statement also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In June 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supersedes APB Opinion No. 17, "Intangible Assets." This statement addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested on an annual basis for impairment. The Company is required to adopt SFAS No. 142 for its fiscal year beginning March 3, 2002. The Company has analyzed the implementation requirements and does not anticipate that the adoption of SFAS No. 142 will have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Statement No. 144 retains the fundamental provisions of SFAS No. 121 with additional guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale be classified as "held and used" until it is disposed of, and establishes more restrictive criteria to classify an asset as "held for sale." SFAS No. 144 also supersedes APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" regarding the disposal of a segment of a business and would extend the reporting of a discontinued operation to a "component of an entity" and requires the operating losses thereon to be recognized in the period in which they occur. The Company is required to adopt SFAS No. 144 for its fiscal year beginning March 3, 2002. The Company has analyzed the implementation requirements and does not anticipate that the adoption of SFAS No. 144 will have a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

NOTE 2 - PROPRIETARY CREDIT CARD INFORMATION

The proprietary credit card receivables, securitized as discussed below, arise primarily under open-end revolving credit accounts issued by the Company's subsidiary, Pier 1 National Bank, to finance purchases of merchandise and services offered by the Company. These accounts have various billing and payment structures, including varying minimum payment levels. The Company has an agreement with a third party to provide certain credit card processing and related credit services, while the Company maintains control over credit policy decisions and customer service standards.

As of fiscal 2002 year-end, the Company had approximately 5,178,000 proprietary cardholders and approximately 1,205,000 customer credit accounts considered active (accounts with a purchase within the previous 12 months). The Company's proprietary credit card sales accounted for 28.9% of total U.S. store sales in fiscal 2002. Net proprietary credit card income is included in selling, general and administrative expenses on the Company's statements of operations. The Company has sold virtually all of its proprietary credit card receivables. The following information presents a summary of the Company's proprietary credit card results for each of the last three fiscal years on a managed basis (in thousands):

	2002	2001	2000
Income:			
Finance charge income, net of debt service costs	$ 24,124	$ 21,759	$ 16,780
Insurance and other income	231	253	287
	24,355	22,012	17,067
Costs:			
Processing fees	14,197	13,608	10,763
Bad debts	6,977	5,285	4,664
	21,174	18,893	15,427
Net proprietary credit card income	$ 3,181	$ 3,119	$ 1,640
Proprietary credit card sales	$412,469	$377,045	$300,462
Costs as a percent of proprietary credit card sales	5.13%	5.01%	5.13%
Gross proprietary credit card receivables at year-end	$140,713	$122,876	$100,095
Proprietary credit card sales as a percent of total U.S. store sales	28.9%	28.9%	26.3%

In February 1997, the Company securitized its entire portfolio of proprietary credit card receivables (the "Receivables"). The Company sold all existing Receivables to a special-purpose wholly-owned subsidiary, Pier 1 Funding, Inc., predecessor to Pier 1 Funding, LLC ("Funding"), which transferred the Receivables to the Pier 1 Imports Credit Card Master Trust (the "Master Trust"). The Master Trust issues beneficial interests that represent undivided interests in the assets of the Master Trust consisting of the Receivables and all cash flows from collections of the Receivables. On a daily basis, the Company sells to Funding and Funding transfers to the Master Trust all newly generated Receivables, except those failing certain eligibility criteria, and receives as the purchase price payments of cash (funded from previously undistributed principal collections from the Receivables in the Master Trust) and retains residual interests in the Master Trust. Cash flows received from the Master Trust for each of the last three fiscal years are as follows (in thousands):

	2002	2001	2000
Proceeds from collections reinvested in revolving securitizations	$366,228	$347,404	$303,340
Proceeds from new securitizations	$ 49,226	$ --	$ --
Servicing fees received	$ 2,381	$ 2,189	$ 1,820
Cash flows received on retained interests	$172,473	$199,619	$147,314

Gains or losses resulting from the sales of the Company's proprietary credit card receivables were not material in any of the periods presented. The Company's exposure to deterioration in the performance of the receivables is limited to its retained beneficial interest in the Master Trust. As such, the Company has no corporate obligation to reimburse Funding, the Master Trust or purchasers of any certificates issued by the Master Trust for credit losses from the Receivables.

Funding was capitalized by the Company as a special-purpose wholly-owned subsidiary that is subject to certain covenants and restrictions, including a restriction from engaging in any business or activity unrelated to acquiring and selling interests in receivables. The Master Trust is not consolidated with the Company.

In the initial sale of the Receivables, the Company sold all of its Receivables and received cash and beneficial interests in the Master Trust. The Master Trust sold to third parties $50.0 million of Series 1997-1 Class A Certificates, which bore interest at 6.74% and were scheduled to mature in May 2002. Funding retained $14.1 million of Series 1997-1 Class B Certificates, which were subordinated to the Class A Certificates. Funding also retained the residual interest in the Master Trust.

In September 2001, the Master Trust negotiated the purchase of all of the Series 1997-1 Class A Certificates from their holders. Subsequently the Master Trust retired both the Series 1997-1 Class A and Class B Certificates in connection with the issuance of $100 million in 2001-1 Class A Certificates to a third party. The 2001-1 Class A Certificates bear interest at a floating rate equal to the rate on commercial paper issued by the third party. As of March 2, 2002, this rate was 1.81%. Funding continued to retain the residual interest in the Master Trust and $9.3 million in 2001-1 Class B Certificates, which are subordinated to the 2001-1 Class A Certificates. As a result of this securitization transaction, the Company effectively sold a portion of its beneficial interest for net proceeds of $49.2 million. As of March 2, 2002 and March 3, 2001, the Company had $44.6 million and $75.4 million, respectively, in beneficial interests (comprised primarily of principal and interest related to the underlying Receivables) in the Master Trust.

Under generally accepted accounting principles, if the structure of the securitization meets certain requirements, these transactions are accounted for as sales of receivables. As the Company's securitizations met such requirements as discussed above, they were accounted for as sales. Gains or losses from sales of these receivables were not material during fiscal 2002, 2001 and 2000. The Company expects no material impact on net income in future years as a result of the sales of receivables, although the precise amounts will be dependent on a number of factors such as interest rates and levels of securitization.

NOTE 3 - PROPERTIES

Properties are summarized as follows at March 2, 2002 and March 3, 2001 (in thousands):

	2002	2001
Land	$ 16,458	$ 22,353
Buildings	51,747	59,716
Equipment, furniture and fixtures	238,454	207,956
Leasehold interests and improvements	183,676	171,021
	490,335	461,046
Less accumulated depreciation and amortization	280,381	248,980
Properties, net	$209,954	$212,066

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES/OTHER NONCURRENT LIABILITIES

The following is a summary of accounts payable and accrued liabilities and other noncurrent liabilities at March 2, 2002 and March 3, 2001 (in thousands):

	2002	2001
Trade accounts payable	$ 78,961	$ 52,637
Accrued payroll and other employee-related liabilities	36,999	33,685
Accrued taxes, other than income	16,815	15,576
Gift cards, gift certificates and merchandise credits outstanding	29,288	18,989
Accrued income taxes payable	29,738	7,786
Other	16,239	15,437
Accounts payable and accrued liabilities	$208,040	$144,110
Accrued average rent	$ 19,230	$ 17,590
Other	24,034	17,131
Other noncurrent liabilities	$ 43,264	$ 34,721

NOTE 5 - LONG-TERM DEBT AND AVAILABLE CREDIT

Long-term debt is summarized as follows at March 2, 2002 and March 3, 2001 (in thousands):

	2002	2001
Industrial revenue bonds	$25,000	$25,000
Other	712	--
	25,712	25,000
Less - portion due within one year	356	--
Long-term debt	$25,356	$25,000

In fiscal 1987, the Company entered into industrial revenue development bond loan agreements aggregating $25 million. Proceeds were used to construct three warehouse distribution facilities. The loan agreements and related tax-exempt bonds mature in the year 2026. The Company's interest rates on the loans are based on the bond interest rates, which are market driven, reset weekly and are similar to other tax-exempt municipal debt issues. The Company's weighted average interest rates were 3.8% and 5.7% for fiscal 2002 and 2001, respectively.

In September 1996, the Company issued $86.3 million principal amount of 5 3/4% convertible subordinated notes due October 1, 2003. The notes were convertible at any time prior to maturity, unless previously redeemed or repurchased, into shares of common stock of the Company at a conversion price of $8.22 per share, adjusted for stock splits. The Company had the option to redeem the notes, in whole or in part, on or after October 2, 1999, at a redemption price (expressed as a percentage of principal amount) of 103% of par value which was scheduled to decline annually to 100% of par value at the maturity date. Interest on the notes was payable semiannually on April 1 and October 1 of each year. In February 2000, the Company announced its intention to call the remaining $39.2 million outstanding principal amount of these notes for redemption on March 23, 2000. The notes were convertible into common stock of the Company at any time prior to the close of business on March 22, 2000, at a conversion price of $8.22 per share. During March 2000, the Company converted $39,164,000 of the notes into 4,764,450 shares of the Company's common stock and redeemed $15,000 of the notes for cash at a redemption price of 103% of par value. The conversion and redemption of these notes during fiscal 2001 reduced the Company's debt by $39.2 million and increased its capitalization by $39.4 million. Accordingly, these notes are not detailed in the above schedule as the notes were fully redeemed at fiscal 2001 year-end.

In November 2001, the Company executed a note payable in the original principal amount of Pound Sterling500,000. The note bears interest at 4.0% per annum and has a maturity date of April 2003. Interest is payable in semiannual installments and principle is payable in two installments, June 2002 and April 2003. At March 2, 2002, this note was valued at $712,000.

Long-term debt matures as follows (in thousands):

Fiscal Year	Long-term Debt
2003	$ 356

2004	356
2005	--
2006	--
2007	--
Thereafter	25,000
Total long-term debt	$ 25,712

The Company has a $125 million unsecured credit facility available, which expires in November 2003. The interest rate on borrowings against this facility is determined based upon a spread from LIBOR that varies depending upon either the Company's senior debt rating or leverage ratio. All of the $125 million revolving credit facility was available at fiscal 2002 year-end. The Company had no borrowings under this facility during fiscal 2002. The weighted average interest rate on borrowings outstanding for fiscal 2001 was 7.2%.

The Company has a $120 million short-term line of credit, which is primarily used to issue merchandise letters of credit. At fiscal 2002 year-end, approximately $64.6 million had been utilized for letters of credit, leaving $55.4 million available. The Company also has $28.7 million in credit lines used to issue other special-purpose letters of credit, all of which were fully utilized at fiscal 2002 year-end. Of the $28.7 million in special-purpose letters of credit, $25.6 million related to the Company's industrial revenue bonds.

Most of the Company's loan agreements require that the Company maintain certain financial ratios and limit specific payments and equity distributions including cash dividends, loans to shareholders and repurchases of common stock. The Company is in compliance with all debt covenants.

NOTE 6 - EMPLOYEE BENEFIT PLANS

The Company offers a qualified, defined contribution employee retirement plan to all its full- and part-time personnel who are at least 18 years old and have been employed for a minimum of six months. Employees contributing 1% to 5% of their compensation receive a matching Company contribution of up to 3%. Company contributions to the plan were $1,734,000, $1,790,000 and $1,753,000 in fiscal 2002, 2001 and 2000, respectively.

In addition, a non-qualified retirement savings plan is available for the purpose of providing deferred compensation for certain employees whose benefits under the qualified plan are limited under Section 401(k) of the Internal Revenue Code. The Company's expense for this non-qualified plan was not significant for fiscal 2002, 2001 and 2000.

The Company maintains supplemental retirement plans (the "Plans") for certain of its executive officers. The Plans provide that upon death, disability or reaching retirement age, a participant will receive benefits based on highest compensation and years of service. The Company recorded expenses related to the Plans of $2,488,000, $1,850,000 and $1,409,000 in fiscal 2002, 2001 and 2000, respectively.

Measurement of plan assets and obligations for the Plans are calculated as of each fiscal year-end. The discount rates used to determine the actuarial present value of projected benefit obligations under such plans were 7.25% and 7.50% as of March 2, 2002 and March 3, 2001, respectively. The assumed weighted average rate increase in future compensation levels under such plans was 5.0% as of both March 2, 2002 and March 3, 2001. The following provides a reconciliation of benefit obligations and funded status of the Plans as of March 2, 2002 and March 3, 2001 (in thousands):

	2002	2001
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	$ 12,962	$ 8,944
Service cost	569	434
Interest cost	1,055	779
Actuarial loss	1,278	--
Plan amendments	--	2,805
Projected benefit obligation, end of year	$ 15,864	$ 12,962
Reconciliation of funded status:		
Funded status	$(15,864)	$(12,962)
Unrecognized net loss	1,338	60
Unrecognized net transitional obligation	--	2
Unrecognized prior service cost	7,086	7,948
Accrued pension cost	(7,440)	(4,952)
Additional minimum liability	(3,980)	(5,663)
Accrued benefit liability	$(11,420)	$(10,615)
Amounts recognized in the balance sheets:		
Accrued benefit liability	$(11,420)	$(10,615)
Intangible asset	3,980	5,663
Net amount recognized	$ (7,440)	$ (4,952)

Net periodic benefit cost included the following actuarially determined components during fiscal 2002, 2001 and 2000 (in thousands):

	2002	2001	2000
Service cost	$ 569	$ 434	$ 459
Interest cost	1,055	779	543
Amortization of unrecognized prior service cost	862	635	374
Amortization of net obligation at transition	2	2	2
Recognized net actuarial loss	--	--	31
	$2,488	$1,850	$1,409

NOTE 7 - MATTERS CONCERNING SHAREHOLDERS' EQUITY

STOCK PURCHASE PLAN - Substantially all employees and directors are eligible to participate in the Pier 1 Imports, Inc. Stock Purchase Plan under which the Company's common stock is purchased on behalf of employees at market prices through regular payroll deductions. Each employee participant may contribute up

to 10% of the eligible portions of compensation and directors may contribute part or all of their directors' fees. The Company contributes from 10% to 100% of the participants' contributions, depending upon length of participation and date of entry into the plan. Company contributions to the plan were $985,000, $921,000 and $954,000 in fiscal years 2002, 2001 and 2000, respectively.

RESTRICTED STOCK GRANT PLANS - In fiscal 1998, the Company issued 238,500 shares of its common stock to key officers pursuant to a Management Restricted Stock Plan, which provides for the issuance of up to 415,600 shares. The fiscal 1998 restricted stock grant vested over a four-year period of continued employment. The fair value at the date of grant of these restricted stock shares was expensed over the aforementioned vesting period. The fair value at the date of grant of the restricted shares granted in fiscal 1998 was $3,000,000. Shares not vested were returned to the plan if employment was terminated for any reason. To date, 107,184 shares have been returned to the plan.

In fiscal 1991, the Company issued 726,804 shares of its common stock to key officers pursuant to a Restricted Stock Grant Plan, which provided for the issuance of up to 1,037,214 shares. These shares vested, and the fair value at the date of grant was expensed, over a ten-year period of continued employment. Unvested shares are returned to the plan upon employment termination. As of March 2, 2002, 407,742 shares have been returned to the plan. In fiscal 2000, the Restricted Stock Grant Plan was terminated by the Board of Directors and is no longer available for issuance of common stock to key officers. The final vesting period was March 2000.

Total compensation expense for both of the restricted stock grant plans was $85,000, $216,000 and $485,000 for fiscal 2002, 2001 and 2000, respectively.

STOCK OPTION PLANS - In June 1999, the Company adopted the Pier 1 Imports, Inc. 1999 Stock Plan (the "Plan"). The Plan will ultimately replace the Company's two previous stock option plans, which were the 1989 Employee Stock Option Plan (the "Employee Plan") and the 1989 Non-Employee Director Stock Option Plan (the "Director Plan").

The Plan provides for the granting of options to directors and employees with an exercise price not less than the fair market value of the common stock on the date of the grant. Options may be either Incentive Stock Options authorized under Section 422 of the Internal Revenue Code or non-qualified options, which do not qualify as Incentive Stock Options. Current director compensation provides for non-qualified options covering 6,000 shares to be granted once each year to each non-employee director. Additionally, the Plan authorizes a Director Deferred Stock Program. As the program is currently implemented by the Board of Directors, each director must defer a minimum of 50% and may defer up to 100% of the director's cash fees into a deferred stock account. The amount deferred receives a 50% matching contribution from the Company. The Plan provides that a maximum of 7,000,000 shares of common stock may be issued under the Plan, of which not more than 250,000 may be issued in exchange for deferred stock units. Options issued to non-director employees vest equally over a period of four years while directors' options are fully vested at the date of issuance. Additionally, employee options will fully vest upon retirement or, under certain conditions, a change in control of the Company. As of March 2, 2002 and March 3, 2001, respectively, there were 1,026,978 and 3,520,887 shares available for grant under the Plan, of which 171,673 and 200,381 may be used for deferred stock issuance. Additionally, outstanding options covering 894,200 and 429,600 shares were exercisable and 78,327 and 49,619 shares were issuable in exchange for deferred stock units at fiscal years ended 2002 and 2001, respectively. The Plan will expire in June 2009, and the Board of Directors may at any time suspend or terminate the Plan or amend the Plan, subject to certain limitations.

Under the Employee Plan, options may be granted to qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code or as non-qualified options. Most options issued under the Employee Plan vest over a period of four to five years. As of March 2, 2002 and March 3, 2001, outstanding options covering 2,303,198 and 2,318,042 shares were exercisable and 932,684 and 878,059 shares were available for grant, respectively. The Employee Plan expires in June 2004. The Director Plan expired in fiscal 2000. As of March 2, 2002 and March 3, 2001, outstanding options covering 48,264 and 61,764 shares, respectively, were exercisable under the Director Plan. Due to the expiration of the Director Plan during fiscal 2000, no shares are available for future grants. Both plans were subject to adjustments for stock dividends and certain other changes to the Company's capitalization.

A summary of stock option transactions related to the stock option plans during the three fiscal years ended March 2, 2002 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value at Date of Grant	Exercisable Shares	
				Number of Shares	Weighted Average Exercise Price
Outstanding at February 27, 1999	4,597,830	$ 9.20		1,810,819	$ 6.66
Options granted	2,379,500	6.20	$ 3.18		
Options exercised	(134,936)	4.63			
Options cancelled or expired	(793,187)	10.63			
Outstanding at February 26, 2000	6,049,207	7.94		2,214,717	7.28
Options granted	1,589,000	10.49	5.31		
Options exercised	(569,326)	5.38			
Options cancelled or expired	(351,900)	8.47			
Outstanding at March 3, 2001	6,716,981	8.73		2,809,406	8.07
Options granted	2,711,500	8.32	4.59		
Options exercised	(937,619)	7.06			
Options cancelled or expired	(314,125)	9.90			
Outstanding at March 2, 2002	8,176,737	8.74		3,245,662	8.81

For shares outstanding at March 2, 2002:

Ranges of Exercise Prices	Total Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Shares Currently Exercisable	Weighted Average Exercise Price - Exercisable Shares
$2.85 - $ 8.19	2,732,912	$ 5.96	5.82	1,794,112	$ 5.89
$8.26 - $ 8.50	3,026,475	8.29	9.15	289,600	8.49
$9.08 - $18.50	2,417,350	12.45	7.51	1,161,950	13.39

The Company accounts for its stock options using the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, but is required to disclose the pro forma effect on net income and earnings per share as if the options were accounted for using a fair value-based method of accounting. The fair values for options issued in fiscal 2002, 2001 and 2000 have been estimated as of the date of grant using the Black-Scholes or a similar option pricing model with the following weighted average assumptions for 2002, 2001 and 2000, respectively: risk-free interest rates of 3.75%, 5.68% and 5.79%, expected stock price volatility of 60.25%, 55.86% and 51.50%, expected dividend yields of 0.8%, 1.0% and 1.0% and weighted average expected lives of six years from date of grant to date of exercise for all options. For purposes of computing pro forma net income and earnings per share, the fair value of the stock options is amortized on a straight-line basis as compensation expense over the vesting periods of the options. The pro forma effects on net income and earnings per share are as follows (in thousands except per share amounts):

	2002	2001	2000

Pro forma net income	$ 95,863	$ 91,573	$ 72,317
Pro forma basic earnings per share	$ 1.02	$ .95	$ .76
Pro forma diluted earnings per share	$ 1.00	$ .93	$ .72

Option valuation models are used in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and the average life of options. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. In addition, the pro forma net income and earnings per share amounts shown above for fiscal 2002, 2001 and 2000 do not include the effect of any grants made prior to fiscal 1996.

SHARE PURCHASE RIGHTS PLAN - On December 9, 1994, the Board of Directors adopted a Share Purchase Rights Plan and declared a dividend of one common stock purchase right (a "Right") payable on each outstanding share of the Company's common stock on December 21, 1994, and authorized the issuance of Rights for subsequently issued shares of common stock. The Rights, which will expire on December 21, 2004, are initially not exercisable, and until becoming exercisable will trade only with the associated common stock. After the Rights become exercisable, each Right entitles the holder to purchase at a specified exercise price one share of common stock. The Rights will become exercisable after the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons have acquired beneficial ownership of 15% or more of the outstanding common stock or (ii) ten business days (or such later date as determined by the Board of Directors) following the commencement of, or announcement of an intention to make, a tender or exchange offer the consummation of which would result in beneficial ownership by a person or group of 15% or more of the outstanding common stock. If the Company were acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power were sold, proper provision would be made so that each Right would entitle its holder to purchase, upon the exercise of the Right at the then current exercise price (currently the exercise price is $14.81), that number of shares of common stock of the acquiring company having a market value of twice the exercise price of the Right. If any person or group were to acquire beneficial ownership of 15% or more of the Company's outstanding common stock, each Right would entitle its holder (other than such acquiring person whose Rights would become void) to purchase, upon the exercise of the Right at the then current exercise price, that number of shares of the Company's common stock having a market value on the date of such 15% acquisition of twice the exercise price of the Right. The Board of Directors may at its option, at any time after such 15% acquisition but prior to the acquisition of more than 50% of the Company's outstanding common stock, exchange all or part of the then outstanding and exercisable Rights (other than those held by such acquiring person whose Rights would become void) for common stock at an exchange rate per Right of one-half the number of shares of common stock receivable upon exercise of a Right. The Board of Directors may, at any time prior to such 15% acquisition, redeem all the Rights at a redemption price of $.01 per Right.

SHARES RESERVED FOR FUTURE ISSUANCES - As of March 2, 2002, the Company had approximately 114,416,000 shares reserved for future issuances under the stock plans and the share purchase rights plan.

NOTE 8 - INCOME TAXES

The provision for income taxes for each of the last three fiscal years consists of (in thousands):

	2002	2001	2000
Federal:			
Current	$ 56,207	$ 50,455	$ 39,463
Deferred	(2,110)	583	355
State:			
Current	3,909	3,368	1,890
Deferred	(128)	152	1,370
Foreign:			
Current	910	1,032	809
	$ 58,788	$ 55,590	$ 43,887

Deferred tax assets and liabilities at March 2, 2002 and March 3, 2001 are comprised of the following (in thousands):

	2002	2001
Deferred tax assets:		
Inventory	$ 2,166	$ 1,727
Deferred compensation	9,129	7,292
Accrued average rent	8,476	7,784
Losses on a foreign subsidiary	3,948	3,301
Self insurance reserves	2,408	910
Fixed assets, net	--	795
Other	2,470	2,326
	28,597	24,135
Valuation allowance	(3,948)	(3,301)
Total deferred tax assets	24,649	20,834
Deferred tax liabilities:		
Fixed assets, net	(1,577)	--
Total deferred tax liabilities	(1,577)	--
Net deferred tax assets	$ 23,072	$ 20,834

The Company has settled and closed all Internal Revenue Service ("IRS") examinations of the Company's tax returns for all years through fiscal 1999. An IRS audit of fiscal years 2000 and 2001 is expected to begin in the first quarter of fiscal year 2003. For financial reporting purposes, a valuation allowance exists at March 2, 2002 to offset the deferred tax asset relating to the losses of a foreign subsidiary.

Undistributed earnings of the Company's non-U.S. subsidiaries amounted to approximately $22.6 million at March 2, 2002. These earnings are considered to be indefinitely reinvested and, accordingly, no additional U.S. income taxes or non-U.S. withholding taxes have been provided. Determination of the amount of additional taxes that would be payable if such earnings were not considered indefinitely reinvested is not practical.

The difference between income taxes at the statutory federal income tax rate of 35% in fiscal 2002, 2001 and 2000, and income tax reported in the consolidated statements of operations is as follows (in thousands):

	2002	2001	2000
Tax at statutory federal income tax rate	$ 55,649	$ 52,584	$ 41,514
State income taxes, net of federal benefit	3,387	3,200	2,526
Work opportunity tax credit, foreign tax credit and R&E credit	(202)	(207)	(283)
Net foreign income taxed at lower rates	(101)	(1,048)	(960)
Other, net	55	1,061	1,090
	$ 58,788	$ 55,590	$ 43,887

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEASES - The Company leases certain property consisting principally of retail stores, warehouses and material handling and office equipment under leases expiring through the year 2021. Most retail store locations are leased for initial terms of 10 to 15 years with varying renewal options and rent escalation clauses. Certain leases provide for additional rental payments based on a percentage of sales in excess of a specified base. The Company's lease obligations are considered operating leases, and all payments are reflected in the accompanying consolidated statements of operations.

During fiscal 2002, the Company sold certain store properties for $12.6 million. These stores were leased back from unaffiliated third parties for periods of approximately ten years. The resulting leases are being accounted for as operating leases. The Company deferred gains of $5.1 million in fiscal 2002 on these sale-leaseback transactions; the gains are being amortized over the initial lives of the leases. Future minimum lease commitments of these operating leases are included in the summary below of the Company's operating leases. The Company had no sale-leaseback transactions in fiscal 2001.

At March 2, 2002, the Company had the following minimum lease commitments in the years indicated (in thousands):

Fiscal year	Operating Leases
2003	$ 162,315

2004	158,525
2005	145,608
2006	132,855
2007	118,102
Thereafter	426,946
Total lease commitments	$ 1,144,351
Present value of total operating lease commitments at 10%	$ 751,919

Rental expense incurred was $159,461,000, $144,035,000 and $131,835,000, including contingent rentals of $921,000, $979,000 and $794,000, based upon a percentage of sales, and net of sublease incomes totaling $1,191,000, $2,650,000 and $2,141,000 in fiscal 2002, 2001 and 2000, respectively.

LEGAL MATTERS - There are various claims, lawsuits, investigations and pending actions against the Company and its subsidiaries incident to the operations of its business. Liability, if any, associated with these matters is not determinable at March 2, 2002; however, the Company considers them to be ordinary and routine in nature. The Company maintains liability insurance against most of these claims. While certain of the lawsuits involve substantial amounts, it is the opinion of management, after consultation with counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

NOTE 10 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for the years ended March 2, 2002 and March 3, 2001 are set forth below (in thousands except per share amounts):

	Three Months Ended			
Fiscal 2002	6/2/2001	9/1/2001	12/1/2001	3/2/2002
Net sales	$ 325,387	357,248	387,360	478,561
Gross profit	$ 134,914	137,539	165,408	211,900
Net income	$ 12,345	13,802	25,046	49,016
Basic earnings per share	$ .13	.15	.27	.53
Diluted earnings per share	$ .13	.14	.26	.51

	Three Months Ended			
Fiscal 2001	5/27/2000	8/26/2000	11/25/2000	3/3/2001
Net sales	$ 299,528	337,991	343,493	430,486
Gross profit	$ 126,646	135,616	147,160	185,033
Net income	$ 16,877	17,715	23,569	36,489
Basic earnings per share	$ .17	.18	.25	.38
Diluted earnings per share	$ .17	.18	.24	.38

MARKET PRICE AND DIVIDEND INFORMATION

The Company's common stock is traded on the New York Stock Exchange. The following tables show the high and low closing sale prices on such Exchange, as reported in the consolidated transaction reporting system, and the dividends paid per share, for each quarter of fiscal 2002 and 2001.

Fiscal 2002	Market Price High	Market Price Low	Cash Dividends per Share(1)
First quarter	$ 14.5500	$ 11.1000	$ .04
Second quarter	12.6500	10.3000	.04
Third quarter	14.7000	8.1300	.04
Fourth quarter	20.2400	14.5000	.04

Fiscal 2001	Market Price High	Market Price Low	Cash Dividends per Share(1)
First quarter	$ 11.8750	$ 7.8750	$ .03
Second quarter	12.7500	8.5000	.04
Third quarter	14.0000	10.4375	.04
Fourth quarter	13.8750	8.1875	.04

(1) For restrictions on the payments of dividends, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

EXHIBIT 21

ROSTER OF SUBSIDIARIES OF THE COMPANY

- Pier 1 Assets, Inc., a Delaware corporation
    - New Cargo Furniture, Inc., a Delaware corporation
    - Pier 1 Licensing, Inc., a Delaware corporation
        - Pier 1 Imports (U.S.), Inc., a Delaware corporation
            - Pier 1 Funding, LLC, a Delaware limited liability company
            - Pier 1 Value Services, LLC, a Virginia limited liability company
            - Pier Lease, Inc., a Delaware corporation
            - Pier-SNG, Inc., a Delaware corporation
            - PIR Trading, Inc., a Delaware corporation
                - Pier International Limited, a Hong Kong private company
                - Pier Alliance Ltd., a Bermuda company
                - The Pier Retail Group Limited, a United Kingdom company
                    - The Pier (Retail) Limited, a United Kingdom company
                        - Pier Direct Limited, a United Kingdom company
            - Pier-FTW, Inc., a Delaware corporation
            - Pacific Industrial Properties, Inc., a Texas corporation
            - Pier Group, Inc., a Delaware corporation
        - Pier 1 Holdings, Inc., a Delaware corporation
            - Pier 1 Services Company, a Delaware business trust
    - Pier 1 National Bank, a national banking association

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Pier 1 Imports, Inc. of our report dated April 8, 2002, included in the 2002 Annual Report to Shareholders of Pier 1 Imports, Inc.

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-34100, No. 333-88323, No. 333-13491 and No. 33-32166) and in the Registration Statements on Form S-3 (No. 33-49356 and No. 333-61155) of our report dated April 8, 2002, with respect to the consolidated financial statements of Pier 1 Imports, Inc. incorporated by reference in the Annual Report (Form 10-K) for the year ended March 2, 2002.

/s/ Ernst & Young LLP

Fort Worth, Texas
May 28, 2002